

CHAPTER 61B

LIFE AND HEALTH GUARANTY ASSOCIATION

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61B.19 PURPOSE; SCOPE; LIMITATION OF COVERAGE; LIMITATION OF BENEFITS; CONSTRUCTION.

[For text of subd 1, see M.S.2000]

Subd. 2. **Scope.** (a) Sections 61B.18 to 61B.32 provide coverage for the policies and contracts specified in paragraph (b) to:

(1) persons who are owners of or certificate holders under these policies or contracts, or, (i) in the case of unallocated annuity contracts, to the persons who are participants in a covered retirement plan, or (ii) in the case of structured settlement annuities, to persons who are payees in respect of their liability claims (or beneficiaries of such payees who are deceased) and who:

(A) are residents; or

(B) are not residents, but only under all of the following conditions: the insurers that issued the policies or contracts are domiciled in the state of Minnesota; those insurers never held a license or certificate of authority in the states in which those persons reside; those states have associations similar to the association created by sections 61B.18 to 61B.32; and those persons are not eligible for coverage by those associations; and

(2) persons who, regardless of where they reside, except for nonresident certificate holders under group policies or contracts, are the beneficiaries, assignees, or payees of the persons covered under clause (1).

(b) Sections 61B.18 to 61B.32 provide coverage to the persons specified in paragraph (a) for direct, nongroup life, health, annuity, and supplemental policies or contracts, for subscriber contracts issued by a nonprofit health service plan corporation operating under chapter 62C, for certificates under direct group policies and contracts, and for unallocated annuity contracts issued by member insurers, except as limited by sections 61B.18 to 61B.32. Except as expressly excluded under subdivision 3, annuity contracts and certificates under group annuity contracts include, but are not limited to, guaranteed investment contracts, deposit administration contracts, unallocated funding agreements, allocated funding agreements, structured settlement annuities, annuities issued to or in connection with government lotteries, and any immediate or deferred annuity contracts. Covered unallocated annuity contracts include those that fund a qualified defined contribution retirement plan under sections 401, 403(b), and 457 of the Internal Revenue Code of 1986, as amended through December 31, 1992.

Subd. 3. **Limitation of coverage.** Sections 61B.18 to 61B.32 do not provide coverage for:

(1) a portion of a policy or contract not guaranteed by the insurer, or under which the investment risk is borne by the policy or contract holder;

(2) a policy or contract of reinsurance, unless assumption certificates have been issued and the insured has consented to the assumption as provided under section 60A.09, subdivision 4a;

(3) a policy or contract issued by an assessment benefit association operating under section 61A.39, or a fraternal benefit society operating under chapter 64B;

(4) any obligation to nonresident participants of a covered retirement plan or to the plan sponsor, employer, trustee, or other party who owns the contract; in these

cases, the association is obligated under this chapter only to participants in a covered plan who are residents of the state of Minnesota on the date of impairment or insolvency;

(5) a structured settlement annuity in situations where a liability insurer remains liable to the payee;

(6) a portion of an unallocated annuity contract which is not issued to or in connection with a specific employee, union, or association of natural persons benefit plan or a governmental lottery, including but not limited to, a contract issued to, or purchased at the direction of, any governmental bonding authority, such as a municipal guaranteed investment contract;

(7) a portion of a policy or contract issued to a plan or program of an employer, association, or similar entity to provide life, health, or annuity benefits to its employees or members to the extent that the plan or program is self-funded or uninsured, including benefits payable by an employer, association, or similar entity under:

(i) a multiple employer welfare arrangement as defined in the Employee Retirement Income Security Act of 1974, United States Code, title 29, section 1002(40)(A), as amended;

(ii) a minimum premium group insurance plan;

(iii) a stop-loss group insurance plan; or

(iv) an administrative services only contract;

(8) any policy or contract issued by an insurer at a time when it was not licensed or did not have a certificate of authority to issue the policy or contract in this state;

(9) an unallocated annuity contract issued to or in connection with a benefit plan protected under the federal Pension Benefit Guaranty Corporation, regardless of whether the federal Pension Benefit Guaranty Corporation has yet become liable to make any payments with respect to the benefit plan;

(10) a portion of a policy or contract to the extent that it provides for (i) dividends or experience rating credits except to the extent the dividends or experience rating credits have actually become due and payable or have been credited to the policy or contract before the date of impairment or insolvency, (ii) voting rights, or (iii) payment of any fees or allowances to any person, including the policy or contract holder, in connection with the service to, or administration of, the policy or contract;

(11) a contractual agreement that establishes the member insurer's obligations to provide a book value accounting guaranty for defined contribution benefit plan participants by reference to a portfolio of assets that is owned by the benefit plan or its trustee, which in each case is not an affiliate of the member insurer;

(12) a portion of a policy or contract to the extent that the rate of interest on which it is based, or the interest rate, crediting rate, or similar factor determined by use of an index or other external reference stated in the policy or contract, employed in calculating returns or changes in value:

(i) averaged over the period of four years prior to the date on which the member insurer becomes an impaired or insolvent insurer under sections 61B.18 to 61B.32, whichever is earlier, exceeds the rate of interest determined by subtracting two percentage points from Moody's Corporate Bond Yield Average averaged for that same four-year period or for the lesser period if the policy or contract was issued less than four years before the member insurer becomes an impaired or insolvent insurer under sections 61B.18 to 61B.32, whichever is earlier; and

(ii) on and after the date on which the member insurer becomes an impaired or insolvent insurer under this chapter, whichever is earlier, exceeds the rate of interest determined by subtracting three percentage points from Moody's Corporate Bond Yield Average as most recently available;

(13) a portion of a policy or contract to the extent it provides for interest or other changes in value to be determined by the use of an index or other external reference stated in the policy or contract, but which have not been credited to the policy or contract, or as to which the policy or contract owner's rights are subject to forfeiture, as

of the date the member insurer becomes an impaired or insolvent insurer under sections 61B.18 to 61B.32, whichever is earlier. If a policy's or contract's interest or changes in value are credited less frequently than annually, then for purposes of determining the values that have been credited and not subject to forfeiture under this clause, the interest or changes in value determined by using the procedures defined in the policy or contract will be credited as if the contractual date of crediting interest or changing values was the date of impairment or insolvency, whichever is earlier, and will not be subject to forfeiture; and

(14) a portion of a policy or contract to the extent that the assessments required by section 61B.24 with respect to the policy or contract are preempted by federal or state law.

Subd. 4. Limitation of benefits. The benefits for which the association may become liable shall in no event exceed the lesser of:

(1) the contractual obligations for which the insurer is liable or would have been liable if it were not an impaired or insolvent insurer; or

(2) subject to the limitation in clause (5), with respect to any one life, regardless of the number of policies or contracts:

(i) \$300,000 in life insurance death benefits, but not more than \$100,000 in net cash surrender and net cash withdrawal values for life insurance;

(ii) \$300,000 in health insurance benefits, including any net cash surrender and net cash withdrawal values;

(iii) \$100,000 in annuity net cash surrender and net cash withdrawal values;

(iv) \$300,000 in present value of annuity benefits for structured settlement annuities or for annuities in regard to which periodic annuity benefits, for a period of not less than the annuitant's lifetime or for a period certain of not less than ten years, have begun to be paid, on or before the date of impairment or insolvency; or

(3) subject to the limitations in clauses (5) and (6), with respect to each individual resident participating in a retirement plan, except a defined benefit plan, established under section 401, 403(b), or 457 of the Internal Revenue Code of 1986, as amended through December 31, 1992, covered by an unallocated annuity contract, or the beneficiaries of each such individual if deceased, in the aggregate, \$100,000 in net cash surrender and net cash withdrawal values;

(4) where no coverage limit has been specified for a covered policy or benefit, the coverage limit shall be \$300,000 in present value;

(5) in no event shall the association be liable to expend more than \$300,000 in the aggregate with respect to any one life under clause (2), items (i), (ii), (iii), (iv), and clause (4), and any one individual under clause (3);

(6) in no event shall the association be liable to expend more than \$7,500,000 with respect to all unallocated annuities of a retirement plan, except a defined benefit plan, established under section 401, 403(b), or 457 of the Internal Revenue Code of 1986, as amended through December 31, 1992. If total claims from a plan exceed \$7,500,000, the \$7,500,000 shall be prorated among the claimants;

(7) for purposes of applying clause (2)(ii) and clause (5), with respect only to health insurance benefits, the term "any one life" applies to each individual covered by a health insurance policy;

(8) where covered contractual obligations are equal to or less than the limits stated in this subdivision, the association will pay the difference between the covered contractual obligations and the amount credited by the estate of the insolvent or impaired insurer, if that amount has been determined or, if it has not, the covered contractual limit, subject to the association's right of subrogation;

(9) where covered contractual obligations exceed the limits stated in this subdivision, the amount payable by the association will be determined as though the covered contractual obligations were equal to those limits. In making the determination, the estate shall be deemed to have credited the covered person the same amount as the

estate would credit a covered person with contractual obligations equal to those limits; or

(10) the following illustrates how the principles stated in clauses (8) and (9) apply. The example illustrated concerns hypothetical claims subject to the limit stated in clause (2)(iii). The principles stated in clauses (8) and (9), and illustrated in this clause, apply to claims subject to any limits stated in this subdivision.

CONTRACTUAL OBLIGATIONS OF:

	\$50,000	Guaranty Association
	Estate	
0% recovery from estate	\$ 0	\$ 50,000
25% recovery from estate	\$ 12,500	\$ 37,500
50% recovery from estate	\$ 25,000	\$ 25,000
75% recovery from estate	\$ 37,500	\$ 12,500
	\$100,000	Guaranty Association
	Estate	
0% recovery from estate	\$ 0	\$100,000
25% recovery from estate	\$ 25,000	\$ 75,000
50% recovery from estate	\$ 50,000	\$ 50,000
75% recovery from estate	\$ 75,000	\$ 25,000
	\$200,000	Guaranty Association
	Estate	
0% recovery from estate	\$ 0	\$100,000
25% recovery from estate	\$ 50,000	\$ 75,000
50% recovery from estate	\$100,000	\$ 50,000
75% recovery from estate	\$150,000	\$ 25,000

For purposes of this subdivision, the commissioner shall determine the discount rate to be used in determining the present value of annuity benefits.

Subd. 5. **Limited liability.** The liability of the association is strictly limited by the express terms of the covered policies and contracts and by the provisions of sections 61B.18 to 61B.32 and is not affected by the contents of any brochures, illustrations, advertisements, or oral statements by agents, brokers, or others used or made in connection with their sale. This limitation on liability does not prevent an insured from proving liability that is greater than the express terms of the covered policy or contract. The insured must bring an action to claim the greater liability no later than one year after entry of an order of rehabilitation, conservation, or liquidation. The association is not liable for any extra-contractual claims, such as claims relating to bad faith in payment of claims and claims relating to marketing practices, exemplary, or punitive damages. The association is not liable for attorney fees or interest other than as provided for by the terms of the policies or contracts, subject to the other limits of sections 61B.18 to 61B.32.

[For text of subs 6 and 7, see M.S.2000]

History: 2001 c 142 s 1-4

61B.20 DEFINITIONS.

Subdivision 1. **Application.** The definitions in this section apply to sections 61B.18 to 61B.32.

[For text of subs 2 to 13, see M.S.2000]

Subd. 13a. **Moody's Corporate Bond Yield Average.** "Moody's Corporate Bond Yield Average" means the Monthly Average Corporates as published by Moody's Investors Service, Inc., or any successor thereto.

Subd. 14. **Person.** "Person" means an individual, corporation, partnership, unincorporated association, limited liability company, governmental body or entity, or voluntary organization.

Subd. 15. **Premiums.** "Premiums" means amounts or considerations by whatever name called received on covered policies or contracts less premiums, considerations, and deposits returned, and less dividends and experience credits on those covered policies or contracts to the extent not guaranteed in advance. The term does not include amounts received for policies or contracts or for the portions of policies or contracts for which coverage is not provided under section 61B.19, subdivision 3, except that assessable premium shall not be reduced on account of section 61B.19, subdivision 4, relating to limitations with respect to any one life, any one individual, and any one contract holder. Premiums subject to assessment under section 61B.24, include all amounts received on any unallocated annuity contract issued to a contract holder resident in this state if the contract is not otherwise excluded from coverage under section 61B.19, subdivision 3; provided that "premiums" shall not include any premiums in excess of the liability limit on any unallocated annuity contract specified in section 61B.19, subdivision 4.

Subd. 16. **Resident.** "Resident" means a person who resides in Minnesota at the time a member insurer is initially determined by the commissioner or a court to be an impaired or insolvent insurer and to whom a contractual obligation is owed. A person may be a resident of only one state, which in the case of a person other than a natural person is its principal place of business, and which, in the case of a trust, is the principal place of business of the settlor or entity which established the trust. Citizens of the United States who are either (i) residents of foreign countries, or (ii) residents of United States possessions, territories, or protectorates that do not have an association similar to the association created by sections 61B.19 to 61B.32, are considered residents of this state if the insurer that issued the covered policies or contracts was domiciled in this state.

Subd. 16a. **State.** "State" means a state, the District of Columbia, Puerto Rico, and a United States possession, territory, or protectorate.

Subd. 16b. **Structured settlement annuity.** "Structured settlement annuity" means an annuity purchased in order to fund periodic payments for a plaintiff or other claimant in payment for or with respect to personal injury suffered by the plaintiff or other claimant.

Subd. 17. **Supplemental contract.** "Supplemental contract" means a written agreement entered into for the distribution of policy or contract proceeds.

Subd. 18. **Unallocated annuity contract.** "Unallocated annuity contract" means an annuity contract, funding agreement, or group annuity certificate that is not issued to and owned by an individual, except to the extent of annuity benefits guaranteed to an individual by an insurer under the contract or certificate.

History: 2001 c 142 s 5-13

61B.22 BOARD OF DIRECTORS.

[For text of subs 1 and 2, see M.S.2000]

Subd. 3. **Committees and meetings.** Except as otherwise required under the plan of operation:

(a) The board of directors may designate three or more directors as an executive committee, which, to the extent determined by unanimous affirmative action of the entire board, has and shall exercise the authority of the board in the management of the business of the association. This executive committee shall act only in the interval between meetings of the board, and is subject at all times to the control and direction of the board.

(b) The board of directors may create additional committees, which have and shall exercise the specific authority and responsibility as determined by the unanimous affirmative action of the entire board.

(c) Any action that may be taken at a meeting of the board of directors or of a lawfully constituted executive committee may be taken without a meeting if authorized by a writing or writings signed by all the directors or by all of the members of the committee, as the case may be. This action is effective on the date on which the last signature is placed on the writing or writings, or on an earlier effective date established in the writing or writings.

(d) Members of the board of directors or of a lawfully constituted executive committee may participate in a meeting of the board or committee by means of conference telephone or similar communications equipment through which all persons participating in the meeting can hear each other. Participation in a meeting as provided in this paragraph constitutes presence in person at the meeting:

[For text of subd 4, see M.S.2000]

History: 2001 c 142 s 14

61B.23 POWERS AND DUTIES OF THE ASSOCIATION.

[For text of subs 1 and 2, see M.S.2000]

Subd. 3. **Insolvent insurer.** If a member insurer is an insolvent insurer then, subject to any conditions imposed by the association and approved by the commissioner, the association shall, in its discretion:

(1) guaranty, assume, or reinsure, or cause to be guaranteed, assumed, or reinsured, the policies or contracts of the insolvent insurer;

(2) assure payment of the contractual obligations of the insolvent insurer which are due and owing;

(3) provide money, pledges, guarantees, or other means as are reasonably necessary to discharge its duties; or

(4) provide benefits and coverages in accordance with subdivision 4.

Subd. 4. **Payments; alternative policies.** When proceeding under subdivision 2, paragraph (a), clause (2), or subdivision 3, clause (4), the association shall, with respect to life and health insurance policies and annuities:

(a) Assure payment of benefits for premiums identical to the premiums and benefits, except for terms of conversion and renewability, that would have been payable under the policies of the impaired or insolvent insurer, for claims incurred:

(1) with respect to group policies, not later than the earlier of the next renewal date under those policies or contracts or 45 days, but in no event less than 30 days, after the date on which the association becomes obligated with respect to those policies; or

(2) with respect to individual policies, not later than the earlier of the next renewal date, if any, under those policies or one year, but in no event less than 30 days, from the date on which the association becomes obligated with respect to those policies.

(b) Make diligent efforts to provide all known insureds or annuitants for individual policies or group policyowners with respect to group policies 30 days' notice of the termination pursuant to paragraph (a) of the benefits provided.

(c) With respect to individual policies, make available to each known insured or annuitant, or owner if other than the insured or annuitant, and with respect to an individual formerly insured or formerly an annuitant under a group policy who is not eligible for replacement group coverage, make available substitute coverage on an individual basis in accordance with paragraph (d), if the insureds or annuitants had a right under law or the terminated policy or annuity to convert coverage to individual coverage or to continue an individual policy or annuity in force until a specified age or for a specified time, during which the insurer had no right unilaterally to make changes in any provision of the policy or annuity or had a right only to make changes in premium by class.

(d)(1) In providing the substitute coverage required under paragraph (c), the association may offer either to reissue the terminated coverage or to issue an alternative policy.

(2) Alternative or reissued policies must be offered without requiring evidence of insurability, and must not provide for any waiting period or exclusion that would not have applied under the terminated policy.

(3) The association may reinsure any alternative or reissued policy.

(e)(1) Alternative policies adopted by the association are subject to the approval of the commissioner. The association may adopt alternative policies of various types for future issuance without regard to any particular impairment or insolvency.

(2) Alternative policies must contain at least the minimum statutory provisions required in this state and provide benefits that are not unreasonable in relation to the premium charged. The association shall set the premium in accordance with a table of rates which it shall adopt. The premium must reflect the amount of insurance to be provided and the age and class of risk of each insured, but must not reflect any changes in the health of the insured after the original policy was last underwritten.

(3) Any alternative policy issued by the association must provide coverage of a type similar to that of the policy issued by the impaired or insolvent insurer, as determined by the association.

(f) If the association elects to reissue terminated coverage at a premium rate different from that charged under the terminated policy, the premium must be set by the association in accordance with the amount of insurance provided and the age and class of risk, subject to approval of the commissioner or by a court of competent jurisdiction.

(g) The association's obligations with respect to coverage under any policy of the impaired or insolvent insurer or under any reissued or alternative policy ceases on the date the coverage or policy is replaced by another similar policy by the policyholder,

the insurer, or the association and the preexisting condition limitations have been satisfied.

(h) When proceeding under this subdivision with respect to any policy carrying guaranteed minimum interest rates, the association shall assure the payment or crediting of a rate of interest consistent with section 61B.19, subdivision 3, clause (12).

Subd. 4a. **Board discretion.** The board of directors of the association has discretion and may exercise reasonable business judgment to determine the means by which the association is to provide the benefits of sections 61B.18 to 61B.32 in an economical and efficient manner.

Subd. 4b. **Benefits provided under a plan.** Where the association has arranged or offered to provide the benefits of sections 61B.18 to 61B.32 to a covered person under a plan or arrangement that fulfills the association's obligations under sections 61B.18 to 61B.32, the person is not entitled to benefits from the association in addition to or other than those provided under the plan or arrangement.

Subd. 4c. **Coverage of policies with indexed interest or similar provisions.** In carrying out its duties in connection with guaranteeing, assuming, or reinsuring policies or contracts under sections 61B.18 to 61B.32, the association may, subject to approval of the receivership court, issue substitute coverage for a policy or contract that provides an interest rate, crediting rate, or similar factor determined by use of an index, or other external reference stated in the policy or contract employed in calculating returns or changes in value by issuing an alternative policy or contract in accordance with the following provisions:

(1) in lieu of the index or other external reference provided for in the original policy or contract, the alternative policy or contract provides for (i) a fixed interest rate or (ii) payment of dividends with minimum guarantees or (iii) a different method for calculating interest or changes in value;

(2) there is no requirement for evidence of insurability, waiting period or other exclusion that would not have applied under the replaced policy or contract; and

(3) the alternative policy or contract is substantially similar to the replaced policy or contract in all other material terms.

[For text of subs 5 to 8, see M.S.2000]

Subd. 8a. **Deposits in this state for insolvent or impaired insurer.** A deposit in this state, held pursuant to law or required by the commissioner for the benefit of creditors, including policy owners, not turned over to the domiciliary liquidator upon the entry of a final order of liquidation or order approving a rehabilitation plan of an insurer domiciled in this state or in a reciprocal state, pursuant to section 60B.54, shall be promptly paid to the association. The association is entitled to retain a portion of any amount so paid to it equal to the percentage determined by dividing the aggregate amount of policy owners claims related to that insolvency for which the association has provided statutory benefits by the aggregate amount of all policy owners' claims in this state related to that insolvency. The association shall remit to the domiciliary receiver the amount so paid to the association and not retained pursuant to this subdivision. Any amount retained by the association shall be treated as a distribution of estate assets pursuant to section 60B.46 or similar provision of the state of domicile of the impaired or insolvent insurer.

[For text of subs 9 and 10, see M.S.2000]

Subd. 11. **Standing in court.** The association has standing to appear or intervene before any court or agency in this state with jurisdiction over an impaired or insolvent insurer concerning which the association is or may become obligated under sections 61B.18 to 61B.32 or with jurisdiction over any person or property against whom the association may have rights through subrogation or otherwise. This standing extends to all matters germane to the powers and duties of the association, including proposals for reinsuring, modifying, or guaranteeing the policies or contracts of the impaired or insolvent insurer and the determination of the policies or contracts and contractual

obligations. The association may appear or intervene before a court or agency in another state with jurisdiction over an impaired or insolvent insurer for which the association is or may become obligated or with jurisdiction over any person or property against whom the association may have rights through subrogation or otherwise, provided, however, in the case of any such appearance or intervention, the association shall not submit for adjudication its obligations to provide coverage under the Minnesota Life and Health Insurance Guaranty Association Act without the prior approval of the commissioner.

Subd. 12. Assignments; subrogation rights. (a) A person receiving benefits under sections 61B.18 to 61B.32 shall be considered to have assigned the rights under, and any causes of action against any person for losses arising under, resulting from or otherwise relating to, the covered policy or contract to the association to the extent of the benefits received because of sections 61B.18 to 61B.32, whether the benefits are payments of or on account of contractual obligations, continuation of coverage, or provision of substitute or alternative coverages. The association may require an assignment to it of those rights and causes of action by a payee, policy or contract owner, beneficiary, insured, or annuitant as a condition precedent to the receipt of rights or benefits conferred by sections 61B.18 to 61B.32 upon that person. The assignment and subrogation rights of the association include any rights that a person may have as a beneficiary of a plan covered under the Employee Retirement Income Security Act of 1974, United States Code, title 29, section 1003, as amended.

(b) The subrogation rights of the association under this subdivision against the assets of the impaired or insolvent insurer have the same priority as those of a person entitled to receive benefits under sections 61B.18 to 61B.32.

(c) In addition to paragraphs (a) and (b), the association has all common law rights of subrogation and other equitable or legal remedies that would have been available to the impaired or insolvent insurer or person receiving benefits under sections 61B.18 to 61B.32 including without limitation, in the case of a structured settlement annuity, any rights of the owner, beneficiary or payee of the annuity, to the extent of benefits received pursuant to sections 61B.18 to 61B.32, against a person originally or by succession responsible for the losses arising from the personal injury relating to the annuity or payment thereof, excepting any such person responsible solely by reason of serving as an assignee in respect of a qualified assignment under section 130 of the Internal Revenue Code of 1986, as amended.

(d) If the preceding provisions of this subdivision are invalid or ineffective with respect to any person or claim for any reason, the amount payable by the association with respect to the related covered obligations shall be reduced by the amount realized by any other person with respect to the person or claim that is attributable to the policies or portion thereof covered by the association.

(e) If the association has provided benefits with respect to a covered obligation and a person recovers amounts as to which the association has rights as described in the preceding paragraphs of this subdivision, the person shall pay to the association the portion of the recovery attributable to the policies or portion thereof covered by the association.

Subd. 13. Permissive powers. The association may:

(1) enter into contracts as are necessary or proper to carry out the provisions and purposes of sections 61B.18 to 61B.32;

(2) sue or be sued, including taking any legal actions necessary or proper to recover any unpaid assessments under section 61B.26 to settle claims or potential claims against it;

(3) borrow money to effect the purposes of sections 61B.18 to 61B.32 and any notes or other evidence of indebtedness of the association not in default are legal investments for domestic insurers and may be carried as admitted assets;

(4) employ or retain persons as are necessary or appropriate to handle the financial transactions of the association, and to perform other functions as the association considers necessary or proper under sections 61B.18 to 61B.32;

(5) enter into arbitration or take legal action as may be necessary or appropriate to avoid or recover payment of improper claims;

(6) exercise, for the purposes of sections 61B.18 to 61B.32 and to the extent approved by the commissioner, the powers of a domestic life or health insurer, but in no case may the association issue insurance policies or annuity contracts other than those issued to perform its obligations under sections 61B.18 to 61B.32;

(7) join an organization of one or more other state associations of similar purposes, to further the purposes and administer the powers and duties of the association;

(8) negotiate and contract with any liquidator, rehabilitator, conservator, or ancillary receiver to carry out the powers and duties of the association;

(9) participate in the organization of and/or own stock in an entity which exists or was formed for the purpose of assuming liability for contracts or policies issued by impaired or insolvent insurers; and

(10) request information from a person seeking coverage from the association in order to aid the association in determining its obligations under sections 61B.18 to 61B.32 with respect to the person, and the person shall promptly comply with the request.

Subd. 14. Association election to succeed to rights of insolvent or impaired insurer under indemnity reinsurance contracts. (a) At any time within one year after the date on which the association becomes responsible for the obligations of a member insurer the coverage date, the association may elect to succeed to the rights and obligations of the member insurer, that accrue on or after the coverage date and that relate to contracts covered in whole or in part by the association, under any one or more indemnity reinsurance agreements entered into by the member insurer as a ceding insurer and selected by the association. However, the association may not exercise an election with respect to a reinsurance agreement if the receiver, rehabilitator, or liquidator of the member insurer has previously and expressly disaffirmed the reinsurance agreement. The election shall be effected by a notice to the receiver, rehabilitator, or liquidator, and to the affected reinsurers. If the association makes an election, clauses (1) through (4) apply with respect to the agreements selected by the association:

(1) the association is responsible for all unpaid premiums due under the agreements for periods both before and after the coverage date, and is responsible for the performance of all other obligations to be performed after the coverage date, in each case that relates to contracts covered in whole or in part by the association and the association may charge contracts covered in part by the association, through reasonable allocation methods, the costs for reinsurance in excess of the obligations of the association;

(2) the association is entitled to any amounts payable by the reinsurer under the agreements with respect to losses or events that occur in periods after the coverage date and that relate to contracts covered by the association in whole or in part, provided that, upon receipt of any such amounts, the association is obliged to pay to the beneficiary under the policy or contract on account of which the amounts were paid a portion of the amount equal to the excess of:

(i) the amount received by the association, over

(ii) the benefits paid by the association on account of the policy or contract less the retention of the impaired or insolvent member insurer applicable to the loss or event;

(3) within 30 days following the association's election, the association and each indemnity reinsurer shall calculate the net balance due to or from the association under each reinsurance agreement as of the date of the association's election, giving full credit to all items paid by either the member insurer or its receiver, rehabilitator, or liquidator or the indemnity reinsurer during the period between the coverage date and the date of the association's election and (i) either the association or indemnity reinsurer shall pay the net balance due the other within five days of the completion of

the aforementioned calculation and (ii) if the receiver, rehabilitator, or liquidator has received any amounts due the association pursuant to paragraph (a), the receiver, rehabilitator, or liquidator shall remit the same to the association as promptly as practicable; and

(4) if the association, within 60 days of the election, pays the premiums due for periods both before and after the coverage date that relate to contracts covered by the association in whole or in part, the reinsurer shall not be entitled to terminate the reinsurance agreements insofar as the agreements relate to contracts covered by the association in whole or in part and shall not be entitled to set off any unpaid premium due for periods prior to the coverage date against amounts due the association.

(b) In the event the association transfers its obligations to another insurer, and if the association and the other insurer agree, the other insurer shall succeed to the rights and obligations of the association under paragraph (a) effective as of the date agreed upon by the association and the other insurer and regardless of whether the association has made the election referred to in paragraph (a) provided that:

(1) the indemnity reinsurance agreements shall automatically terminate for new reinsurance unless the indemnity reinsurer and the other insurer agree to the contrary;

(2) the obligations described in the proviso to paragraph (a), clause (2), shall no longer apply on and after the date the indemnity reinsurance agreement is transferred to the third party insurer; and

(3) paragraph (b) does not apply if the association has previously expressly determined in writing that it will not exercise the election referred to in paragraph (a).

(c) The provisions of this subdivision shall supersede the provisions of any law of this state or of any affected reinsurance agreement that provides for or requires any payment of reinsurance proceeds, on account of losses or events that occur in periods after the coverage date, to the receiver, liquidator, or rehabilitator of the insolvent member insurer. The receiver, rehabilitator, or liquidator shall remain entitled to any amounts payable by the reinsurer under the reinsurance agreement with respect to losses or events that occur in periods prior to the coverage date subject to applicable setoff provisions.

(d) Except as otherwise expressly provided in this subdivision, nothing in this subdivision alters or modifies the terms and conditions of the indemnity reinsurance agreements of the insolvent member insurer. Nothing in this subdivision abrogates or limits any rights of any reinsurer to claim that it is entitled to rescind a reinsurance agreement. Nothing in this subdivision gives a policyowner or beneficiary an independent cause of action against an indemnity reinsurer that is not otherwise set forth in the indemnity reinsurance agreement.

Subd. 15. **Venue; appeal bond.** Except as otherwise provided in section 61B.24, subdivision 10, or 61B.26, paragraph (c), venue in a suit against the association arising under sections 62B.18 to 62B.32 shall be in Ramsey county. The association shall not be required to give an appeal bond in an appeal that relates to a cause of action arising under sections 61B.18 to 61B.32.

History: 2001 c 142 s 15-25

61B.24 ASSESSMENTS.

[For text of subs 1 to 3, see M.S.2000]

Subd. 4. **Abatement or deferment.** The association may abate or defer, in whole or in part, the assessment of a member insurer if, in the opinion of the board, payment of the assessment would endanger the ability of the member insurer to fulfill its contractual obligations. In the event an assessment against a member insurer is abated, or deferred in whole or in part, the amount by which the assessment is abated or deferred may be assessed against the other member insurers in a manner consistent with the basis for assessments as provided in this section. Once the conditions which caused a deferral have been removed or rectified, the member insurer shall pay all

assessments that were deferred pursuant to a repayment plan approved by the association.

Subd. 5. **Maximum assessment.** (a) The total of all assessments upon a member insurer for each subaccount of the life and annuity account and for the health account shall not in any one calendar year exceed two percent of that member insurer's average annual premiums as calculated in subdivision 3, paragraph (c), on policies or contracts covered by that account or subaccount. If two or more assessments are made with respect to insurers that become impaired or insolvent in different calendar years, average annual premiums for purposes of the assessment percentage limitation are based upon the higher of the three-year averages calculated under subdivision 3, paragraph (c). If an impaired insurer becomes insolvent, the date of impairment must be used to determine the assessment. If the maximum assessment for any subaccount of the life and annuity account in any one calendar year will not provide an amount sufficient to carry out the responsibilities of the association, then pursuant to subdivision 3, the board of directors shall assess based on the other subaccounts of the life and annuity account for the necessary additional amount, subject to the maximum of two percent stated above for each subaccount.

(b) If the maximum assessment for an account, together with the other assets of the association in that account, does not provide in any one calendar year in that account an amount sufficient to carry out the responsibilities of the association, the necessary additional funds must be assessed as soon as permitted by sections 61B.18 to 61B.32.

(c) The board may adopt general principles in the plan of operation for allocating funds among claims, whether relating to one or more impaired or insolvent insurers, when the maximum assessment will be insufficient to cover anticipated claims.

(d) If assessments under this section are inadequate to pay all obligations of the impaired insurer that are or become due and owing, then the association shall prepare a plan approved by the commissioner for prioritization of payments. If the association adopts general principles in the plan of operations, the association shall use the general principles in preparing the plan required under this paragraph. No formerly impaired or insolvent insurer may be reinstated until all payments of or on account of the insurer's contractual obligations by the guaranty association, along with all expenses thereof and interest on all such payments and expenses, shall have been repaid to the guaranty association or a plan of repayment by the insurer shall have been approved by the commissioner.

[For text of subds 6 to 9, see M.S.2000]

Subd. 10. **Procedure for protests regarding assessments.** (a) A member insurer that wishes to protest all or part of an assessment shall pay when due the full amount of the assessment as set forth in the notice provided by the association. The payment is available to meet association obligations during the pendency of the protest or any subsequent appeal. Payment must be accompanied by a statement in writing that the payment is made under protest and setting forth a brief statement of the grounds for the protest.

(b) Within 60 days following the payment of an assessment under protest by a member insurer, the association shall notify the member insurer in writing of its determination with respect to the protest unless the association notifies the member insurer that additional time is required to resolve the issues raised by the protest.

(c) Within 30 days after a final decision has been made, the association shall notify the protesting member insurer in writing of that final decision. Within 60 days of receipt of notice of the final decision, the protesting member insurer may appeal that final action to the commissioner.

(d) In the alternative to rendering a final decision with respect to a protest based on a question regarding the assessment base, the association may refer the protest to the commissioner for a final decision, with or without a recommendation from the association.

(e) If the protest or appeal on the assessment is upheld, the amount paid in error or excess shall be returned to the member company. Interest on a refund due a protesting member shall be paid at the rate actually earned by the association.

Subd. 11: **Member insurers' duty to provide information to association.** The association may request information of member insurers in order to aid in the exercise of its power under this section and member insurers shall promptly comply with a request.

History: 2001 c 142 s 26-29

61B.26 DUTIES AND POWERS OF THE COMMISSIONER.

(a) In addition to other duties and powers in sections 61B.18 to 61B.32, the commissioner shall:

(1) notify the board of directors of the existence of an impaired or insolvent insurer within three days after a determination of impairment or insolvency is made or the commissioner receives notice of impairment or insolvency;

(2) upon request of the board of directors, provide the association with a statement of the premiums in this and any other appropriate states for each member insurer;

(3) when an impairment is declared and the amount of the impairment is determined, serve a demand upon the impaired insurer to make good the impairment within a reasonable time; notice to the impaired insurer shall constitute notice to its shareholders, if any; the failure of the insurer to promptly comply with the commissioner's demand shall not excuse the association from the performance of its powers and duties under sections 61B.18 to 61B.32; and

(4) in a liquidation, conservation, or rehabilitation proceeding involving a domestic insurer, be appointed as the liquidator, conservator, or rehabilitator.

(b) The commissioner may suspend or revoke, after notice and hearing, the certificate of authority to transact insurance in this state of any member insurer which fails to pay an assessment when due or fails to comply with the plan of operation. As an alternative, the commissioner may levy a forfeiture on any member insurer which fails to pay an assessment when due. A forfeiture shall not exceed five percent of the unpaid assessment per month, but no forfeiture shall be less than \$100 per month.

(c) A final action of the board of directors or the association may be appealed to the commissioner if the appeal is taken within 60 days of the aggrieved party's receipt of notice of the final action being appealed. Any final action or order of the commissioner is subject to judicial review in a court of competent jurisdiction, in the manner provided by chapter 14. A determination or decision by the commissioner under sections 61B.18 to 61B.32 is not subject to the contested case or rulemaking provisions of chapter 14.

(d) The liquidator, rehabilitator, or conservator of an impaired insurer may notify all interested persons of the effect of sections 61B.18 to 61B.32.

(e) For the purposes of sections 61B.18 to 61B.32, the commissioner may delegate any of the powers conferred by law.

(f) Nonperformance of any of the acts specified in this section or failure to meet the specific time limits does not affect the association, its members, or any other person as to the person's duties and obligations.

History: 2001 c 142 s 30

61B.27 PREVENTION OF INSOLVENCIES.

(a) To aid in the detection and prevention of insurer insolvencies or impairments the commissioner shall notify the commissioners of insurance of all the other states, territories of the United States, and the District of Columbia when the commissioner takes one of the following actions against a member insurer:

(i) revocation of license; or

(ii) suspension of license.

The notice must be mailed to all commissioners within 30 days following the action.

(b) If the commissioner deems it appropriate, the commissioner may:

(1) Report to the board of directors when the commissioner has taken any of the actions specified in paragraph (a) or has received a report from another commissioner indicating that an action specified in paragraph (a) has been taken in another state. The report to the board of directors must contain all significant details of the action taken or the report received from another commissioner.

(2) Report to the board of directors when the commissioner has reasonable cause to believe from an examination, whether completed or in process, of a member company that the company may be an impaired or insolvent insurer.

(3) Furnish to the board of directors the national association of insurance commissioners insurance regulatory information system ratios and listings of companies not included in the ratios developed by the national association of insurance commissioners, and the board may use the information in carrying out its duties and responsibilities under this section. The report and the information contained in it must be kept confidential by the board of directors until it has been made public by the commissioner or other lawful authority. Nothing in this provision supersedes other requirements of law.

(4) Notify the board if the commissioner makes a formal order requiring the company to restrict its premium writing, obtain additional contributions to surplus, withdraw from this state, reinsure all or any part of its business, or increase capital, surplus, or any other account for the security of policyholders or creditors.

(c) The commissioner may seek the advice and recommendations of the board of directors concerning any matter affecting the commissioner's duties and responsibilities regarding the financial condition of member insurers and of companies seeking admission to transact insurance business in this state.

(d) The board of directors may, upon majority vote, make reports and recommendations to the commissioner upon matters germane to the solvency, liquidation, rehabilitation, or conservation of any member insurer or germane to the solvency of a company seeking to do an insurance business in this state. Those reports and recommendations shall not be considered public documents.

(e) The board of directors, upon majority vote, may notify the commissioner of information indicating that a member insurer may be an impaired or insolvent insurer.

(f) The board of directors may, upon majority vote, make recommendations to the commissioner for the detection and prevention of insurer insolvencies.

(g) The board of directors may, at the conclusion of an insurer insolvency in which the association was obligated to pay covered claims, prepare a report to the commissioner containing the information it may have in its possession bearing on the history and causes of the insolvency. The board shall cooperate with the boards of directors of guaranty associations in other states in preparing a report on the history and causes of insolvency of a particular insurer, and may adopt by reference any report prepared by those other associations.

(h) Nonperformance by the commissioner of any of the acts specified in this section or failure to meet the specified time limits does not affect the association, its members, or any other person as to the person's duties and obligations.

Nothing in this section supersedes other requirements of law.

History: 2001 c 142 s 31

61B.28 MISCELLANEOUS PROVISIONS.

Subdivision 1. **Records.** Records must be kept of all negotiations and meetings of the board of directors to discuss the activities of the association in carrying out its powers and duties under section 61B.23. Records of the association with respect to an impaired or insolvent insurer shall be made public only upon the termination of a

liquidation, rehabilitation, or conservation proceeding involving the impaired or insolvent insurer, upon the termination of the impairment or insolvency of the insurer, or upon the order of a court of competent jurisdiction. Nothing in this subdivision limits the duty of the association to report its activities under section 61B.27.

[For text of subd 2, see M.S.2000]

Subd. 3. Association as creditor. For the purpose of carrying out its obligations under sections 61B.18 to 61B.32, the association is considered to be a creditor of the impaired or insolvent insurer to the extent of assets attributable to covered policies, reduced by amounts which the association recovers from the assets of the impaired or insolvent insurer as subrogee under section 61B.23, subdivision 12. Recoveries by the association as subrogee under section 61B.23, subdivision 12, from assets other than from assets of the impaired or insolvent insurer shall not reduce or act as an offset to the association's claim as creditor of the impaired or insolvent insurer. Assets of the impaired or insolvent insurer attributable to covered policies must be used to continue all covered policies and pay all contractual obligations of the impaired or insolvent insurer as required by sections 61B.18 to 61B.32. Assets attributable to covered policies, as used in this subdivision, are that proportion of the assets which the reserves that should have been established for those policies bear to the reserves that should have been established for all policies of insurance written by the impaired or insolvent insurer.

Subd. 3a. Association access to insolvent insurer's assets. As a creditor of the impaired or insolvent insurer as established in subdivision 3 of this section and consistent with section 60B.46, the association and other similar associations is entitled to receive a disbursement of assets out of the marshalled assets, from time to time as the assets become available to reimburse it, as a credit against contractual obligations under sections 61B.18 to 61B.32. If the liquidator has not, within 120 days of a final determination of insolvency of an insurer by the receivership court, made an application to the court for the approval of a proposal to disburse assets out of marshalled assets to guaranty associations having obligations because of the insolvency, then the association shall be entitled to make application to the receivership court for approval of its own proposal to disburse these assets.

[For text of subs 4 to 10, see M.S.2000]

History: 2001 c 142 s 32-34

61B.29 EXAMINATION OF THE ASSOCIATION; ANNUAL REPORT.

The association is subject to examination and regulation by the commissioner. The board of directors shall submit to the commissioner before May 1 each year, a financial report in a form approved by the commissioner and a report of its activities during the association's preceding fiscal year. Upon request of a member insurer, the association must provide the member insurer with a copy of the report.

History: 2001 c 142 s 35