

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

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HOUSE BILL 1590

Short Title: Amend Insurance Finance/Fees.

(Public)

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Sponsors: Representatives Dockham; and Hardaway.

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Referred to: Insurance, if favorable, Finance.

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May 28, 1998

A BILL TO BE ENTITLED

1 AN ACT TO REPEAL POLICY FORM FILING FEES AND HEALTH  
2 MAINTENANCE ORGANIZATION ANNUAL REPORT FEES; TO INCREASE  
3 CERTAIN COMPANY LICENSE RENEWAL FEES COLLECTED BY THE  
4 DEPARTMENT OF INSURANCE; AND TO MAKE NECESSARY CHANGES IN  
5 INSURER FINANCE LAWS.  
6

7 The General Assembly of North Carolina enacts:

8 Section 1. G.S. 58-6-5 reads as rewritten:

9 **"§ 58-6-5. Schedule of fees and charges.**

10 (a) The Commissioner shall collect and pay into the State treasury fees and  
11 charges as follows:

- 12 (1) For filing and examining an insurance company application for  
13 ~~admission, licensing or for filing and examining a workers' compensation~~  
14 ~~self-insurer's application for licensing, a nonrefundable~~ fee of two  
15 hundred fifty dollars (\$250.00), to be submitted with such filing; ~~for filing~~  
16 ~~and auditing annual statement, one hundred dollars (\$100.00); for filing any~~  
17 ~~other papers required by law, twenty five dollars (\$25.00); for each certificate~~  
18 ~~of examination, condition, or qualification of company or association, fifteen~~  
19 ~~dollars (\$15.00); for each seal when required, ten dollars (\$10.00); for a list of~~  
20 ~~licensed insurance companies, ten dollars (\$10.00).~~ the filing.

- 1           (2)    Repealed by Session Laws 1977, c. 376, s. 2.
- 2           (3)    ~~The Commissioner shall receive for copy~~ For a copy of any record or  
3           paper in his office the Commissioner's office, a charge of fifty cents  
4           (50¢) per copy sheet and ten dollars (\$10.00) for certifying same, or any  
5           fact or data from the records of his office and for the examination and  
6           approval of charters of companies, twenty five dollars (\$25.00). sheet.
- 7           (4)    ~~He shall collect all~~ All other fees and charges due and payable into the  
8           State treasury ~~General Fund~~ by any company, association, order, or  
9           individual under his Department. this Chapter.
- 10          (5)    ~~The Commissioner shall charge and insurers shall pay, as a prerequisite~~  
11          to receipt and review by the Commissioner of filings of policy forms or  
12          rates, a fee of twenty dollars (\$20.00) per policy form filed and  
13          submitted for approval; a fee of twenty dollars (\$20.00) for each  
14          property or casualty rate filing submitted; and a fee of twenty dollars  
15          (\$20.00) for each life, accident, or health rate filing submitted. Payment  
16          of the fee shall be made at the time the form or rate filing is submitted.  
17          All fees are nonrefundable. If an insurer fails to pay the proper fee at the  
18          time of submittal, the Commissioner shall not be required to review the  
19          form or rate filed until the insurer remits the proper fee; and any  
20          statutory time periods relating to the filing shall be tolled until the  
21          insurer remits the proper fee. As used in this subdivision,  
22          "insurer" includes an entity subject to Articles 65 through 67 of this  
23          Chapter; any rating organization, advisory organization, joint  
24          underwriting association, or joint reinsurance organization subject to  
25          Articles 1 through 64 of this Chapter; and the North Carolina Rate  
26          Bureau and the North Carolina Motor Vehicle Reinsurance Facility. As  
27          used in this subdivision, "policy form" includes an application form, a  
28          declarations page, a policy jacket, a policy or contract of insurance, or  
29          an endorsement, rider, or any amendment to a policy form that has  
30          already been approved by the Commissioner; provided that an initial  
31          policy filing made by an insurer shall constitute one policy form.
- 32          (6)    One hundred dollars (\$100.00) per day late charge for any company that  
33          fails to file the financial statements required by G.S. 58-2-165 by the  
34          required filing date or that fails to make those filings within any  
35          extended filing period approved by the Commissioner.
- 36          (7)    One hundred dollars (\$100.00) for filing and examining an application  
37          for a third-party administrator license issuance or renewal under G.S.  
38          58-47-215, to be submitted with the filing.
- 39          (b)    All fees and charges collected by the Commissioner under this Chapter are  
40          nonrefundable."
- 41                Section 2. G.S. 58-6-7 reads as rewritten:  
42          "**§ 58-6-7. Annual license fees for insurance companies.**

(a) ~~As a condition precedent to doing~~ In order to do business in this State, an insurance company ~~must~~ shall apply for and obtain a license from the Commissioner of ~~Insurance~~ by March 1 of each year. The license shall become effective the following July 1 and shall remain in effect for one year. Except as provided in ~~subsections (b) and (e)~~ subsection (b) of this section, the insurance company shall pay an annual fee for the license as follows:

|   |                                |
|---|--------------------------------|
| For each domestic farmer's mutual assessment fire insurance company                                     | \$ 25.00                       |
| For each fraternal order  | 100.00                         |
| For each of all other insurance companies, except mutual burial associations taxed under G.S. 105-121.1 | <del>500.00</del> <u>1,500</u> |

The fees levied in this subsection ~~shall be~~ are in addition to those specified in G.S. 58-6-5.

(b) When the paid-in capital stock ~~and/or surplus or surplus~~, or both of an insurance company ~~company~~, other than a farmer's mutual assessment company or a fraternal ~~order~~ order, does not exceed one hundred thousand dollars (\$100,000), the fee levied in this section shall be ~~one-half~~ one-half the amount above-specified.

~~(e) Upon payment of the fee specified above and the fees and taxes elsewhere specified each insurance company, exchange, bureau, or agency, shall be entitled to do the types of business specified in Chapter 58, of the General Statutes of North Carolina as amended, to the extent authorized therein, except that: Insurance companies authorized to do either the types of business specified for (i) life insurance companies, or (ii) for fire and marine companies, or (iii) for casualty and fidelity and surety companies, in G.S. 58-7-75, which shall also do the types of business authorized in one or both of the other of the above classifications shall in addition to the fees above specified pay one hundred dollars (\$100.00) for each such additional classification of business done.~~

(d) Any rating bureau established by action of the General Assembly of North Carolina shall be exempt from the fees ~~above levied~~ levied in this section."

Section 3. G.S. 58-22-70 reads as rewritten:

**"§ 58-22-70. Registration and renewal fees.**

Every risk retention group and purchasing group that registers with the Commissioner under this Article shall pay the following fees:

|                                   |                                |
|-----------------------------------|--------------------------------|
| Risk retention group registration | \$250.00                       |
| Purchasing group registration     | 50.00                          |
| Risk retention group renewal      | <del>500.00</del> <u>1,500</u> |
| Purchasing group renewal          | 50.00                          |

Registration fees ~~are nonrefundable~~, shall not be ~~prorated~~, prorated and must be submitted with the application for registration. Renewal fees ~~are nonrefundable~~, shall not be ~~prorated~~, prorated and shall be paid on or before January 1 of each year."

Section 4. G.S. 58-27-10 reads as rewritten:

**"§ 58-27-10. Licenses.**

1 Any domestic land mortgage company, or title insurance company, wishing to do  
2 business under the provisions of this Article upon making written application and  
3 submitting proof satisfactory to the Commissioner that its business, capital and other  
4 qualifications comply with the provisions of this Article, upon paying to the  
5 Commissioner, the sum of five hundred dollars (\$500.00) as a license fee and all other  
6 fees assessed against ~~such~~the company may be licensed to do business in this State under  
7 the provisions of this Article until the first day of the following July, and may have its  
8 license renewed for each year thereafter so long as it complies with the provisions of this  
9 Article and ~~such~~ rules adopted by the Commissioner. For each ~~such~~ renewal ~~such~~ renewal,  
10 the company shall pay to the Commissioner the sum of ~~five hundred dollars (\$500.00)~~, one  
11 thousand five hundred dollars (\$1,500) and all other fees assessed against ~~such~~the  
12 company and ~~such~~the renewal shall continue in force and effect until a new license ~~be~~is  
13 issued or specifically refused, unless revoked for good cause. The Commissioner, or any  
14 person appointed by ~~him~~, the Commissioner, shall have the power and authority to make ~~such~~  
15 may adopt rules and regulations and examinations not inconsistent with the provisions of  
16 this Article, ~~as may be in his discretion~~ Article that are necessary or proper to enforce the  
17 provisions ~~hereof and of this Article and to~~ secure compliance with the terms of this  
18 Article. For any examination made hereunder the Commissioner shall charge the land  
19 mortgage companies or title insurance companies examined with the actual expense of  
20 ~~such~~the examination."

21 Section 5. G.S. 58-65-55 reads as rewritten:

22 "**§ 58-65-55. Issuance of certificate.**

23 Before issuing any ~~such~~ license or ~~certificate~~ certificate, the Commissioner may ~~make~~  
24 ~~such an~~ conduct any examination or investigation as ~~he~~ the Commissioner deems  
25 expedient. The Commissioner shall issue a certificate of authority or license upon the  
26 payment of an annual fee of ~~five hundred dollars (\$500.00)~~ one thousand five hundred  
27 dollars (\$1,500) and upon being satisfied ~~on the following points:~~ that:

- 28 (1) The applicant is established as a bona fide nonprofit hospital service  
29 corporation as defined by this Article and Article 66 of this Chapter.
- 30 (2) The rates charged and benefits to be provided are fair and reasonable.
- 31 (3) The amounts provided as working capital of the corporation are  
32 repayable only out of earned income in excess of amounts paid and  
33 payable for operating expenses and ~~hospital and medical and/or dental for~~  
34 hospital, medical, and dental expenses and ~~such~~ any reserve ~~as the~~  
35 Department deems adequate, as provided hereinafter.
- 36 (4) That the amount of money actually available for working capital ~~be~~is  
37 sufficient to carry all acquisition costs and operating expenses for a  
38 reasonable period of time from the date of the issuance of the  
39 certificate."

40 Section 6. G.S. 58-64-30(b) reads as rewritten:

41 "(b) The annual disclosure statement required to be filed with the Commissioner  
42 under this section shall be accompanied by an annual filing fee of ~~one hundred dollars~~  
43 (\$100.00)-one hundred seventy-five dollars (\$175.00)."

1 Section 7. G.S. 58-67-160 reads as rewritten:

2 "**§ 58-67-160. Fees.**

3 Every health maintenance organization subject to this Article shall pay to the  
4 Commissioner ~~the following fees: a fee of two hundred fifty dollars (\$250.00) for filing an~~  
5 application for a license and a fee of one thousand five hundred dollars (\$1,500) for each  
6 license renewal.

7 (1) ~~For filing an application for a certificate of authority, two hundred fifty~~  
8 ~~dollars (\$250.00); for each renewal thereof, five hundred dollars~~  
9 ~~(\$500.00);~~

10 (2) ~~For filing each annual report, one hundred dollars (\$100.00)."~~

11 Section 8. G.S. 58-7-130 reads as rewritten:

12 "**§ 58-7-130. ~~Payment of dividends impairing financial soundness of company or~~**  
13 **Detrimental to policyholders. Dividends and distributions to stockholders.**

14 (a) Each domestic insurance company in North Carolina shall be restricted by the  
15 Commissioner from the payment of any dividends or other distributions to its  
16 stockholders whenever the Commissioner determines from examination of ~~such the~~  
17 company's financial condition that the payment of future dividends or other distributions  
18 would cause a hazardous financial condition, impair the financial soundness of the  
19 ~~company company~~, or be detrimental to its ~~policyholders, and such policyholders.~~ Those  
20 restrictions shall continue in force until such future date when the Commissioner may  
21 specifically permit permits the payment of dividends or other distributions to stockholders  
22 by the company through a written authorization. ~~Nothing contained in this section and no~~  
23 ~~action taken by the Commissioner shall in any way restrict the liability of stockholders under~~  
24 ~~G.S. 58-7-125.~~

25 (b) No domestic stock insurance company shall declare dividends to its  
26 stockholders except from the unassigned surplus of the company as reflected in the  
27 company's most recent financial statement filed with the Commissioner under G.S. 58-2-  
28 165.

29 (c) The Commissioner shall permit a transfer out of paid-in and contributed  
30 surplus to common or preferred capital stock when the Commissioner determines that the  
31 transfer is necessary. A transfer shall not be made without the Commissioner's prior  
32 approval.

33 (d) Nothing in this section and no action taken by the Commissioner pursuant to  
34 this section or otherwise shall restrict the liabilities of stockholders under G.S. 58-7-125.

35 (e) Dividends and other distributions paid to stockholders are subject to the  
36 requirements and limitations of G.S. 58-19-25(d) and G.S. 58-19-30(c)."

37 Section 9. G.S. 58-7-170(c) reads as rewritten:

38 "(c) ~~The cost of investments made by insurers in mortgage loans, authorized by~~  
39 ~~G.S. 58-7-179, with any one person shall not exceed the lesser of five percent (5%) of the~~  
40 ~~insurer's admitted assets or ten percent (10%) of the insurer's capital and surplus. An~~  
41 ~~insurer shall not invest in additional mortgage loans without the Commissioner's consent~~  
42 ~~if the admitted value of all mortgage loans held by the insurer exceeds an aggregate of~~  
43 ~~sixty percent (60%) of the admitted assets of the insurer, if (i) the admitted value of all~~

1 mortgage pass-through securities permitted by G.S. 58-7-173(17) does not exceed  
2 twenty five percent (25%) of the admitted assets of the insurer and (ii) the admitted value  
3 of other mortgage loans permitted by G.S. 58-7-179 does not exceed forty percent (40%)  
4 of the admitted assets of the insurer.

5 An insurer that, as of October 1, 1993, has mortgage investments that exceed the  
6 aggregate limitation specified in this subsection shall submit to the Commissioner no  
7 later than January 31, 1994, a plan to bring the amount of mortgage investments into  
8 compliance with the limitations by January 1, 2001.

9 The cost of investments made by an insurer in mortgage loans authorized by G.S. 58-  
10 7-179 with any one person, or in mortgage pass-through securities and derivatives of  
11 mortgage pass-through securities authorized by G.S. 58-7-173(1), (2), (8), or (17), and  
12 backed by a single collateral package, shall not exceed three percent (3%) of the insurer's  
13 admitted assets. An insurer shall not invest in additional mortgage loans or mortgage  
14 pass-through securities and derivatives of mortgage pass-through securities without the  
15 Commissioner's consent if the admitted value of all those investments held by the insurer  
16 exceeds an aggregate of sixty percent (60%) of the admitted assets of the insurer. Within  
17 the aggregate sixty percent (60%) limitation, the admitted value of all mortgage pass-  
18 through securities and derivatives of mortgage pass-through securities permitted by G.S.  
19 58-7-173(17) shall not exceed thirty-five percent (35%) of the admitted assets of the  
20 insurer. The admitted value of other mortgage loans permitted by G.S. 58-7-179 shall not  
21 exceed forty percent (40%) of the admitted assets of the insurer. Mortgage pass-through  
22 securities authorized by G.S. 58-7-173(1), (2), or (8) shall only be subject to the single  
23 collateral package limitation and the sixty percent (60%) aggregate limitation. No later  
24 than January 31, 1999, an insurer that has mortgage investments that exceed the  
25 limitations specified in this subsection shall submit to the Commissioner a plan to bring  
26 the amount of mortgage investments into compliance with the specified limitations by  
27 January 1, 2004."

28 Section 10. G.S. 58-7-185(a)(3) is repealed.

29 Section 11. G.S. 58-7-187(c) reads as rewritten:

30 "(c) ~~An insurer may acquire and hold real property for investment, subject to the~~  
31 ~~following conditions:~~ An insurer may acquire, improve, develop, manage, lease, mortgage,  
32 and dispose of real estate situated in any state of the United States or province of Canada  
33 subject to the following limitations and conditions:

34 (1) The amount shall not exceed in the aggregate the lesser of five percent  
35 (5%) of the insurer's admitted assets or fifteen percent (15%) of the  
36 insurer's capital and surplus.

37 (2) The amount in any one property shall not exceed one percent (1%) of  
38 the insurer's admitted assets.

39 (3) The amount in unimproved land shall not exceed one-half of one  
40 percent (0.5%) of the insurer's admitted assets.

41 (4) There shall be no time limit for the disposal of investment real estate.

42 An insurer may acquire, improve, develop, manage, lease, mortgage, or dispose of real  
43 estate pursuant to this section either directly or indirectly through limited partnership

1 interests, general partnership interests where all other partners in the general partnership  
2 are subsidiaries of the insurer, limited liability companies, joint ventures, stock of an  
3 investment subsidiary, trust certificates, or other similar instruments. The real estate shall  
4 be income-producing or to be improved or developed for investment purposes under an  
5 existing program, in which case the property shall be deemed to be income-producing.  
6 The real estate may be subject to mortgages, liens, or other encumbrances and, to the  
7 extent that the obligations secured by the mortgages, liens, or encumbrances are without  
8 recourse to the insurer, the amount thereof shall be deducted from the amount of the  
9 investment of the insurer in the real estate for purposes of determining compliance with  
10 this subsection and G.S. 58-7-187(d). As used in this subsection, 'investment subsidiary'  
11 means a subsidiary of an insurer engaged or organized to engage exclusively in real estate  
12 investments authorized in this subsection. This subsection does not apply to real estate to  
13 be used primarily for mining or development of oil or mineral resources."

14 Section 12. G.S. 58-7-200(c) reads as rewritten:

15 ~~"(c) No insurer shall make any direct or indirect loan to any of its directors,~~  
16 ~~officers, or controlling stockholders; nor shall the insurer make any loan to any other~~  
17 ~~person in which the officer, director, or stockholder is substantially interested; nor shall~~  
18 ~~any such director, officer, or stockholder directly or indirectly accept any such loan.~~  
19 Insurers shall not directly or indirectly invest in or lend funds to any of its directors,  
20 officers, stockholders, or any other person in which an officer, director, or stockholder is  
21 interested substantially. Directors, officers, and stockholders of insurers shall not directly  
22 or indirectly accept funds from insurers."

23 Section 13. G.S. 58-8-10 reads as rewritten:

24 **"§ 58-8-10. Policyholders are members of mutual companies.**

25 Every person insured by a mutual insurance company is a member while ~~his~~ that  
26 person's policy is in force, entitled to one vote for each policy ~~he~~ that person holds, and  
27 must be notified of the time and place of holding ~~its~~ the company's meetings by a written  
28 notice or by an imprint upon the back of each policy, receipt, or certificate of renewal, as  
29 follows:

30 The insured is hereby notified that by virtue of this policy ~~he~~ the insured is a  
31 member of the ..... insurance company, and that the annual meetings of the company  
32 are held at its home office on the ..... day of ....., in each year, at ..... o'clock.

33 The blanks shall be duly filled in print and are a sufficient notice. A corporation ~~which~~  
34 that becomes a member of ~~such a~~ a mutual insurance company may authorize any person to  
35 represent ~~it, the corporation;~~ and this representative has all the rights of an individual  
36 member. A person holding property in trust may insure it in ~~such a~~ a mutual insurance  
37 company, and as trustee assume the liability and be entitled to the rights of a ~~member,~~  
38 member; but is not personally liable upon the contract of insurance. Members may vote  
39 by proxies, dated and executed within three ~~months,~~ months after receipt, and returned  
40 and recorded on the books of the company three days or more before the meeting at  
41 which they are to be used; ~~but no person as proxy or otherwise may cast more than 20 votes.~~  
42 used."

1 Section 14. Article 10 of Chapter 58 of the General Statutes is amended by  
2 adding a new section to read:

3 **"§ 58-10-10. Conversion to stock insurer.**

4 (a) A domestic mutual insurer may convert to a domestic stock insurer under a  
5 plan that is approved in advance by the Commissioner.

6 (b) The Commissioner shall not approve the plan unless:

7 (1) It is fair and equitable to the insurer's policyholders.

8 (2) It is adopted by the insurer's board of directors in accordance with the  
9 insurer's bylaws and approved by a vote of not less than two-thirds of  
10 the insurer's members voting on it in person, by proxy, or by mail at a  
11 meeting called for the purpose of voting on the plan, pursuant to  
12 reasonable notice and procedure as approved by the Commissioner. If  
13 the company is a life insurer, the right to vote may be limited, as its  
14 bylaws provide, to members whose policies are other than term or group  
15 policies and have been in effect for more than one year.

16 (3) Each policyholder's equity in the insurer is determinable under a fair  
17 and reasonable formula approved by the Commissioner. The equity  
18 shall be based upon the insurer's entire statutory surplus after deducting  
19 certificates of contribution, guaranty capital certificates, and similar  
20 evidences of indebtedness included in an insurer's statutory surplus.

21 (4) The policyholders entitled to vote on the plan and participate in the  
22 purchase of stock or distribution of assets include all policyholders on  
23 the date the plan was adopted by the insurer's board of directors.

24 (5) The plan provides that each policyholder specified in subdivision (4) of  
25 this subsection receives a preemptive right (i) to acquire a proportionate  
26 part of all of the proposed capital stock of the insurer or of all of the  
27 stock of a corporation affiliated with the insurer within a designated  
28 reasonable period as the part is determinable under the plan of  
29 conversion; and (ii) to apply toward the purchase of the stock the  
30 amount of the policyholder's equity in the insurer under subdivision (3)  
31 of this subsection. The plan shall provide for an equitable distribution  
32 of fractional interests.

33 (6) The plan provides for payment to each policyholder of the  
34 policyholder's entire equity in the insurer. The payment shall be applied  
35 toward the purchase of stock to which the policyholder is entitled  
36 preemptively or to be made in cash, or both. The cash payment shall  
37 not exceed fifty percent (50%) of each policyholder's equity. The stock  
38 purchased, together with the cash payment, if any, shall constitute full  
39 payment and discharge of the policyholder's equity as an owner of the  
40 mutual insurer.

41 (7) Shares are to be offered to policyholders at a price not greater than that  
42 of shares to be subsequently offered to others.



1           (8)    The Commissioner finds that the insurer's management has not sought,  
2           through reduction of volume of new business written, through policy  
3           cancellations, or through any other means, (i) to reduce, limit, or affect  
4           the number or identity of the insurer's members entitled to participate in  
5           the plan or (ii) to secure for the individuals constituting management  
6           any unfair advantage through the plan.

7           (9)    The plan, when completed, provides that the insurer's capital and  
8           surplus are not less than the minimum required of a domestic stock  
9           insurer transacting the same kinds of insurance, are reasonable in  
10          relation to the insurer's outstanding liabilities, and are adequate to meet  
11          its financial needs.

12          (c)    With respect to an insurer with a guaranty capital, the conversion plan shall be  
13          approved by a vote of not less than two-thirds of the insurer's guaranty capital  
14          shareholders and policyholders as provided for in subdivision (b)(2) of this section. The  
15          plan may provide for the issuance of stock in exchange for outstanding guaranty capital  
16          shares at their redemption value subject to the conditions in subsection (b) of this section.

17          (d)    The Commissioner may schedule a public hearing on the proposed conversion  
18          plan.

19          (e)    At the mutual insurer's expense, the Commissioner may retain attorneys,  
20          actuaries, economists, accountants, and other experts who are not otherwise a part of the  
21          Commissioner's staff and who are reasonably necessary to assist the Commissioner in  
22          reviewing proposed conversion plans.

23          (f)    The corporate existence of the mutual company continues in the stock  
24          company created under this section. All assets, rights, franchises, and interests of the  
25          former mutual insurer in and to real or personal property are deemed to be transferred to,  
26          and vested in, the stock insurer, without any other deed or transfer. The stock insurer  
27          simultaneously assumes all of the obligations and liabilities of the former mutual insurer.

28          (g)    No director, officer, or employee of the insurer shall receive:

29               (1)   Any fee, commission, compensation, or other valuable consideration for  
30               aiding, promoting, or assisting in the conversion of the mutual insurer to  
31               a domestic stock insurer, other than compensation paid to any director,  
32               officer, or employee of the insurer in the ordinary course of business; or

33               (2)   Any distribution of the assets, surplus, or capital of the insurer as part of  
34               a conversion.

35          (h)    The Commissioner may adopt rules to carry out the provisions of this section."

36          Section 15. G.S. 58-65-95 reads as rewritten:

37          "**§ 58-65-95. Investments and reserves.**

38          (a)    Except as provided in subsection (e) of this section, no ~~no~~ corporation subject  
39          to this Article shall invest in any securities other than securities permitted by the laws of  
40          this State by Article 7 of this Chapter for the investment of assets of life insurance  
41          companies, banks, trust companies, executors, administrators and guardians. ~~assets.~~

42          (b)    Every ~~such~~ corporation after the first full year of doing business after the passage of  
43          this Article and Article 66 of this Chapter ~~subject to this Article~~ shall accumulate and

1 maintain, in addition to proper reserves for current administrative liabilities and whatever  
2 reserves are deemed to be adequate and proper by the Commissioner of Insurance for  
3 unpaid hospital and/or medical and/or hospital, medical, or dental bills, and unearned  
4 membership dues, a special contingent surplus or reserve at the following rates annually  
5 of its gross annual collections from membership dues, exclusive of receipts from cost  
6 plus plans, until ~~said the reserve shall equal equals~~ an amount that is three times its  
7 average monthly expenditures for hospital and/or medical and/or dental claims and  
8 administrative and selling expenses:

- |    |     |                     |    |
|----|-----|---------------------|----|
| 9  | (1) | First \$200,000     | 4% |
| 10 | (2) | Next \$200,000      | 2% |
| 11 | (3) | All above \$400,000 | 1% |

12 (c) Any ~~such~~ corporation subject to this Article may accumulate and maintain a  
13 contingent reserve in excess of the ~~reserve hereinabove provided for, reserve required in~~  
14 subsection (b) of this section, not to exceed an amount equal to six times the average  
15 monthly expenditures for hospital and/or medical and/or dental claims and administrative  
16 and selling expenses.

17 (d) ~~In the event If~~ the Commissioner of Insurance finds that special conditions exist  
18 warranting an increase or decrease in the reserves or schedule of reserves, ~~hereinabove~~  
19 ~~provided for, it may be modified by reserves in subsection (b) of this section, the~~  
20 ~~Commissioner of Insurance accordingly, may modify them accordingly. provided~~ Provided,  
21 however, when special conditions exist warranting an increase in ~~said the~~ schedule of  
22 reserves, ~~said the~~ schedule shall not be increased by the Commissioner of Insurance until a  
23 reasonable length of time ~~shall have has~~ elapsed after notice of ~~such the~~ increase.

24 (e) The cost of investments made by service corporations in mortgage loans  
25 authorized by G.S. 58-7-179, with any one person, shall not exceed the lesser of five  
26 percent (5%) of the service corporation's admitted assets of ten percent (10%) of the  
27 service corporation's capital and surplus. A service corporation shall not invest in  
28 additional mortgage loans without the Commissioner's consent if the admitted value of all  
29 additional mortgage loans held by the service corporation exceeds an aggregate of sixty  
30 percent (60%) of the admitted assets of the service corporation, if:

- |    |     |   |
|----|-----|---|
| 31 | (1) | <u>The admitted value of all mortgage pass-through securities permitted by</u><br>32 <u>G.S. 58-7-173(17) does not exceed twenty-five percent (25%) of the</u><br>33 <u>admitted assets of the service corporation; and</u> |
| 34 | (2) | <u>The admitted value of other mortgage loans permitted by G.S. 58-7-179</u><br>35 <u>does not exceed forty percent (40%) of the admitted assets of the service</u><br>36 <u>corporation.</u>                               |

37 No later than January 31, 1999, a service corporation that has mortgage investments that  
38 exceed the aggregate limitation specified in this subsection as of October 1, 1998, shall  
39 submit to the Commissioner a plan to bring the amount of mortgage investments into  
40 compliance with the limitations by January 1, 2002."

41 Section 16. This act becomes effective October 1, 1998, and applies to fees  
42 due and payable, reports required, and actions taken on or after that date.