

**SENATE BILL NO. 2251**

Introduced by

Senator Grindberg

1 A BILL for an Act to amend and reenact sections 26.1-38.1-01, 26.1-38.1-02, 26.1-38.1-03,  
2 26.1-38.1-05, 26.1-38.1-06; subsection 5 of section 26.1-38.1-07, subsection 3 of section  
3 26.1-38.1-08; sections 26.1-38.1-09, 26.1-38.1-10, 26.1-38.1-11, 26.1-38.1-12, and  
4 26.1-38.1-16 of the North Dakota Century Code, relating to the life and health insurance  
5 guaranty association and the related duties and powers of the insurance commissioner.

6 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

7 **SECTION 1. AMENDMENT.** Section 26.1-38.1-01 of the North Dakota Century Code  
8 is amended and reenacted as follows:

9 **26.1-38.1-01. Scope.**

- 10 1. This section provides coverage for the policies and contracts specified in  
11 subsection 2:
- 12 a. To persons, except for nonresident certificate holders under group policies or  
13 contracts, who, regardless of where they reside, are the beneficiaries,  
14 assignees, or payees of the persons covered under subdivision b; ~~and~~.
  - 15 b. To persons who are owners of or certificate holders under such policies or  
16 contracts; ~~or, in the case of other than unallocated annuity contracts, to the~~  
17 ~~persons who are contractholders;~~ and structured settlement annuities, and in  
18 each case who
    - 19 (1) Are residents; or
    - 20 (2) Are not residents, but only under all of the following conditions:
      - 21 (a) The ~~insurers~~ insurer that issued such policies or contracts ~~are~~ is  
22 domiciled in this state;
      - 23 (b) ~~Such insurers never held a license or certificate of authority in the~~  
24 ~~states in which such persons reside~~ The states in which the

- 1                    persons reside have associations similar to the association  
2                    created under this chapter;
- 3                    (c) ~~Such states have associations similar to the association created~~  
4                    ~~by this chapter; and~~
- 5                    (d) ~~Such~~ The persons are not eligible for coverage by such  
6                    ~~associations~~ an association in any other state due to the fact that  
7                    the insurer was not licensed in the state at the time specified in  
8                    the state's guaranty association law.
- 9                    c. For any unallocated annuity contract specified in subsection 2, subdivisions a  
10                    and b of this subsection do not apply, and this chapter, except as provided in  
11                    subdivisions e and f of this subsection, provides coverage to:
- 12                    (1) Persons who are the owners of the unallocated annuity contracts if the  
13                    contracts are issued to or in connection with a specific benefit plan, the  
14                    sponsor of which has its principal place of business in this state; and
- 15                    (2) Persons who are owners of unallocated annuity contracts issued to or  
16                    in connection with government lotteries if the owners are residents.
- 17                    d. For structured settlement annuities specified in subsection 2, subdivisions a  
18                    and b of this subsection do not apply, and this chapter, except as provided in  
19                    subdivisions e and f, provides coverage to a person who is a payee under a  
20                    structured settlement annuity or beneficiary of a payee if the payee is  
21                    deceased, if the payee:
- 22                    (1) Is a resident, regardless of where the contract owner resides; or
- 23                    (2) Is not a resident, and:
- 24                    (a) The contractowner of the structured settlement annuity is a  
25                    resident, or the contractowner of the structured settlement  
26                    annuity is not a resident but the insurer that issued the structured  
27                    settlement annuity is domiciled in this state and the state in which  
28                    the contractowner resides has an association similar to the  
29                    association created under this chapter; and

- 1                   (b) Neither the payee or beneficiary nor the contractowner is eligible  
2                   for coverage by the association of the state in which the payee or  
3                   contractowner resides.
- 4           e. This chapter does not provide coverage to:
- 5               (1) A person who is a payee or beneficiary of a contractowner resident of  
6               this state, if the payee or beneficiary is afforded any coverage by the  
7               association of another state; or
- 8               (2) A person covered under subdivision b, if any coverage is provided by  
9               the association of another state to the person.
- 10          f. This chapter provides coverage to a person who is a resident of this state  
11          and, in special circumstances, to a nonresident. In order to avoid duplicate  
12          coverage, if a person who would otherwise receive coverage under this  
13          chapter is provided coverage under the laws of any other state, the person  
14          may not be provided coverage under this chapter. In determining the  
15          application of the provisions of this subdivision in situations in which a person  
16          could be covered by the association of more than one state, whether as an  
17          owner, payee, beneficiary, or assignee, this chapter must be construed in  
18          conjunction with other state laws to result in coverage by only one  
19          association.
- 20          2. This chapter provides coverage to the persons specified in subsection 1 for direct,  
21          nongroup life, health, or annuity,~~and supplemental~~ policies or contracts, and  
22          supplemental contracts to any of these, for certificates under direct group policies  
23          and contracts, and for unallocated annuity contracts issued by member insurers,  
24          except as limited by this chapter. Annuity contracts and certificates under group  
25          annuity contracts include guaranteed investment contracts, deposit administration  
26          contracts, unallocated funding agreements, structured settlement ~~agreements,~~  
27          ~~lottery contracts~~ annuities, annuities issued to or in connection with government  
28          lotteries, and any immediate or deferred annuity contracts.
- 29          3. This chapter does not provide coverage for:

- 1 a. Any portion of a policy or contract not guaranteed by the insurer, or under  
2 which the risk is borne by the ~~policyholder~~ policyowner or ~~contractholder~~  
3 contractowner;
- 4 b. Any policy or contract of reinsurance, unless assumption certificates have  
5 been issued pursuant to the reinsurance policy or contract;
- 6 c. Any portion of a policy or contract to the extent that the rate of interest on  
7 which it is based:
- 8 (1) Averaged over the period of four years prior to the date on which the  
9 association becomes obligated with respect to such policy or contract,  
10 exceeds a rate of interest determined by subtracting two percentage  
11 points from Moody's corporate bond yield average averaged for that  
12 same four-year period or for such lesser period if the policy or contract  
13 was issued less than four years before the association became  
14 obligated; and
- 15 (2) On and after the date on which the association becomes obligated with  
16 respect to such policy or contract, exceeds the rate of interest  
17 determined by subtracting three percentage points from Moody's  
18 corporate bond yield average as most recently available;
- 19 d. ~~Any~~ A portion of a policy or contract issued to a plan or program of an  
20 employer, association, or similar entity ~~other person~~ to provide life, health, or  
21 annuity benefits to its employees ~~or~~, members, or others, to the extent that  
22 such plan or program is self-funded or uninsured including benefits payable  
23 by an employer association or ~~similar entity~~ other person under:
- 24 (1) A multiple employer welfare arrangement as defined in ~~section 514 of~~  
25 ~~the Employee Retirement Income Security Act of 1974, as amended~~  
26 29 U.S.C. section 1144;
- 27 (2) A minimum premium group insurance plan;
- 28 (3) A stop-loss group insurance plan; or
- 29 (4) An administrative services only contract;
- 30 e. Any portion of a policy or contract to the extent that it provides for dividends or  
31 experience rating credits, voting rights, or ~~provides that~~ payment of any fees

- 1 or allowances ~~be paid~~ to any person, including the ~~policyholder~~ policyowner  
2 or ~~contractholder~~ contractowner, in connection with the service to or  
3 administration of such policy or contract;
- 4 f. Any policy or contract issued in this state by a member insurer at a time when  
5 it was not licensed or did not have a certificate of authority to issue such  
6 policy or contract in this state;
- 7 g. Any unallocated annuity contract issued to ~~an employee~~ or in connection with  
8 a benefit plan protected under the federal pension benefit guaranty  
9 corporation regardless of whether the federal pension benefit guaranty  
10 corporation has yet become liable to make any payments with respect to the  
11 benefit plan; and
- 12 h. Any portion of any unallocated annuity contract which is not issued to, or in  
13 connection with, a specific employee, union, or association, ~~or~~ of natural  
14 persons benefit plan or a government lottery;
- 15 i. A portion of a policy or contract to the extent that the assessments required by  
16 section 26.1-38.1-06 with respect to the policy or contract are preempted by  
17 federal or state law;
- 18 j. An obligation that does not arise under the express written terms of the policy  
19 or contract issued by the insurer to the contractowner or policyowner,  
20 including:
- 21 (1) Claims based on marketing materials;  
22 (2) Claims based on side letters, riders, or other documents that were  
23 issued by the insurer without meeting applicable policy form filing or  
24 approval requirements;  
25 (3) Misrepresentations of or regarding policy benefits;  
26 (4) Extracontractual claims; or  
27 (5) A claim for penalties or consequential or incidental damages; and
- 28 k. A contractual agreement that establishes the member insurer's obligations to  
29 provide a book value accounting guaranty for defined contribution benefit plan  
30 participants by reference to a portfolio of assets that is owned by the benefit  
31 plan or its trustee, which in each case is not an affiliate of the member insurer.

- 1           4.    The benefits ~~for which that~~ the association may become ~~liable~~ obligated to cover  
2                    may in no event exceed the lesser of:
- 3                    a.    The contractual obligations for which the insurer is liable or would have been  
4                            liable if it were not an impaired or insolvent insurer;
- 5                    b.    With any respect to one life, regardless of the number of policies, or contracts:
- 6                            (1)   Three hundred thousand dollars in life insurance death benefits, but not  
7                                    more than one hundred thousand dollars in net cash surrender and net  
8                                    cash withdrawal values for life insurance;
- 9                            (2)   One hundred thousand dollars in health insurance benefits, including  
10                                   any net cash surrender and net cash withdrawal values; or
- 11                           (3)   One hundred thousand dollars in the present value of annuity benefits,  
12                                   including net cash surrender and net cash withdrawal values;
- 13                    c.    With respect to each individual participating in a government retirement  
14                           benefit plan established under section 401(k), 403(b), or 457 of the United  
15                           States Internal Revenue Code covered by an unallocated annuity contract or  
16                           the beneficiaries of each such individual if deceased, in the aggregate, one  
17                           hundred thousand dollars in present value annuity benefits, including net cash  
18                           surrender and net cash withdrawal values; ~~provided, however, that in no~~  
19                           event shall the association be liable to expend more than three hundred  
20                           thousand dollars in the aggregate with respect to any one individual under this  
21                           subdivision and subdivision b; or
- 22                    d.    With respect to ~~any one contractholder covered by an unallocated annuity~~  
23                           ~~contract not included in subdivision b, five million dollars in benefits,~~  
24                           ~~irrespective of the number of such contracts held by that contractholder. each~~  
25                           payee of a structured settlement annuity or beneficiary, or beneficiaries of the  
26                           payee if deceased, one hundred thousand dollars in present value annuity  
27                           benefits, in the aggregate, including net cash surrender and net cash  
28                           withdrawal values;
- 29                    e.    With respect to one contractowner provided coverage under subparagraph d  
30                           of paragraph 2 of subdivision b of subsection 1; or one plan sponsor whose  
31                           plans own directly or in trust one or more unallocated annuity contracts not

1                   included in subdivision c, five million dollars in benefits, irrespective of the  
2                   number of contracts with respect to the contractowner or plan sponsor.  
3                   However, in the case in which one or more unallocated annuity contracts are  
4                   covered contracts under this chapter and are owned by a trust or other entity  
5                   for the benefit of two or more plan sponsors, coverage must be afforded by  
6                   the association if the largest interest in the trust or entity owning the contracts  
7                   or contracts is held by a plan sponsor whose principal place of business is in  
8                   this state and in no event is the association obligated to cover more than five  
9                   million dollars in benefits with respect to all these unallocated contracts.

10           5. However, under subsection 4 in no event shall the association be obligated to  
11           cover more than an aggregate of three hundred thousand dollars in benefits with  
12           respect to any one life under subdivision b of subsection 4, or with respect to one  
13           owner of multiple nongroup policies of life insurance, whether the policyowner is an  
14           individual, firm, corporation, or other person, and whether the persons insured are  
15           officers, managers, employees, or other persons, more than five million dollars in  
16           benefits, regardless of the number of policies and contracts held by the owner.

17           6. The limitations set forth in subsection 4 are limitations on the benefits for which the  
18           association is obligated before taking into account either its subrogation and  
19           assignment rights or the extent to which those benefits could be provided out of the  
20           assets of the impaired or insolvent insurer attributable to covered policies. The  
21           costs of the association's obligations under this chapter may be met by the use of  
22           assets attributable to covered policies or reimbursed to the association pursuant to  
23           its subrogation and assignment rights.

24           7. In performing its obligations to provide coverage under this chapter, the association  
25           is not required to guarantee, assume, reinsure, or perform, or cause to be  
26           guaranteed, assumed, reinsured, or performed, the contractual obligations of the  
27           insolvent or impaired insurer under a covered policy or contract that do not  
28           materially affect the economic values or economic benefits of the covered policy or  
29           contract.

30           **SECTION 2. AMENDMENT.** Section 26.1-38.1-02 of the North Dakota Century Code  
31 is amended and reenacted as follows:

- 1           **26.1-38.1-02. Definitions.** As used in this chapter:
- 2           1. "Account" means either of the two accounts created under section 26.1-38.1-03.
- 3           2. "Association" means the North Dakota life and health insurance guaranty
- 4           association created under section 26.1-38.1-03.
- 5           3. "Authorized assessment" or the term "authorized" when used in the context of
- 6           assessments means a resolution by the board of directors has been passed under
- 7           which an assessment will be called immediately or in the future from member
- 8           insurers for a specified amount. An assessment is authorized when the resolution
- 9           is passed.
- 10          4. "Benefit plan" means a specific employee, union, or association of natural persons
- 11          benefit plan.
- 12          5. "Called assessment" or "called" when used in the context of assessments means
- 13          that a notice was issued by the association to member insurers requiring that an
- 14          authorized assessment be paid within the timeframe set forth within the notice. An
- 15          authorized assessment becomes a called assessment when notice is mailed by the
- 16          association to member insurers.
- 17          6. "Commissioner" means the insurance commissioner of insurance of this state.
- 18          4. 7. "Contractual obligation" means any obligation under a policy or contract or
- 19          certificate under a group policy or contract, or portion thereof for which coverage is
- 20          provided under section 26.1-38.1-01.
- 21          5. 8. "Covered policy" means any policy or contract ~~within the scope of or portion of a~~
- 22          policy or contract for which coverage is provided under this chapter under section
- 23          26.1-38.1-01.
- 24          9. "Extracontractual claims" include claims relating to bad faith in the payment of
- 25          claims, punitive or exemplary damages, or attorneys' fees and costs.
- 26          6. 10. "Impaired insurer" means a member insurer ~~which that~~, after July 1, 1989, is not an
- 27          insolvent insurer, and ~~is deemed by the commissioner to be potentially unable to~~
- 28          ~~fulfill its contractual obligations or~~ is placed under an order of rehabilitation or
- 29          conservation by a court of competent jurisdiction.



Fifty-sixth  
Legislative Assembly

- 1     ~~7.~~ 11. "Insolvent insurer" means a member insurer which, after July 1, 1989, is placed  
2                   under an order of liquidation by a court of competent jurisdiction with a finding of  
3                   insolvency.
- 4     ~~8.~~ 12. "Member insurer" means any insurer, including a nonprofit health service  
5                   corporation, licensed or which holds a certificate of authority to transact in this state  
6                   any kind of insurance for which coverage is provided under section 26.1-38.1-01,  
7                   and includes any insurer whose license or certificate of authority in this state may  
8                   have been suspended, revoked, not renewed or voluntarily withdrawn, but does not  
9                   include:
- 10                  a. A health maintenance organization;  
11                  b. A fraternal benefit society;  
12                  c. A mandatory state pooling plan;  
13                  d. A mutual assessment company or ~~any entity~~ other person that operates on an  
14                   assessment basis;  
15                  e. A nonprofit health service corporation that is participating in a reinsurance  
16                   plan that has been approved by the commissioner as an alternative to  
17                   participation in the state guaranty association;  
18                  f. An insurance exchange; or  
19                  g. Any entity similar to any of the above.
- 20     ~~9.~~ 13. "Moody's corporate bond yield average" means the monthly average corporates as  
21                   published by Moody's investors service, incorporated, or any successor thereto.
- 22     14. "Owner" of a policy or contract and "policyowner" and "contractowner" mean the  
23                   person who is identified as the legal owner under the terms of the policy or contract  
24                   or who is otherwise vested with legal title to the policy or contract through a valid  
25                   assignment completed in accordance with the terms of the policy or contract and  
26                   properly recorded as the owner on the books of the insurer. The terms owner,  
27                   contractowner, and policyowner do not include persons with a mere beneficial  
28                   interest in a policy or contract.
- 29     ~~10.~~ 15. "Person" means any individual, corporation, limited liability company, partnership,  
30                   association, governmental entity, or voluntary organization.
- 31     16. "Plan sponsor" means:

- 1           a. The employer in the case of a benefit plan established or maintained by a  
2           single employer;  
3           b. The employee organization in the case of a benefit plan established or  
4           maintained by an employee organization; or  
5           c. In the case of a benefit plan established or maintained by two or more  
6           employers or jointly by one or more employers and one or more employee  
7           organizations, the association, committee, joint board of trustees, or other  
8           similar group of representatives of the parties who establish or maintain the  
9           benefit plan.

10 44. 17. "Premiums" means amounts or considerations, by whatever named called,  
11 received in any calendar year on covered policies or contracts less returned  
12 premiums, considerations, and deposits ~~returned thereon~~, and less dividends and  
13 experience credits ~~thereon~~. "Premiums" do not include any amounts or  
14 considerations received for any policies or contracts or for the portions of any  
15 policies or contracts for which coverage is not provided under subsections 2 and 3  
16 of section 26.1-38.1-01 and except that assessable premium shall not be reduced  
17 on account of subdivision c of subsection 3 of section 26.1-38.1-01, relating to  
18 interest limitations, and subsection 3 of section 26.1-38.1-01, relating to limitations  
19 with respect to any one individual, any one participant, and any one ~~contractholder;~~  
20 ~~provided that "premiums" do~~ contractowner. "Premiums" do not include any  
21 premiums;

- 22           a. Premiums in excess of five million dollars on any unallocated annuity contract  
23 not issued under a governmental retirement plan established under section  
24 401(k), 403(b), or 457 of the United States Internal Revenue Code; or  
25           b. With respect to multiple nongroup policies of life insurance owned by one  
26 owner, whether the policyowner is an individual, firm, corporation, or other  
27 person, and whether the persons insured are officers, managers, employees,  
28 or other persons, premiums in excess of five million dollars with respect to  
29 these policies or contracts, regardless of the number of policies or contracts  
30 held by the owner.

- 1           18. "Principal place of business" of a plan sponsor or a person other than a natural  
2                    person means the single state in which the nature persons who establish policy for  
3                    the direction, control, and coordination of the operations of the entity as a whole  
4                    primarily exercise that function, determined by the association in its reasonable  
5                    judgment by considering the state in which the primary executive and  
6                    administrative headquarters of the entity is located; in which the principal office of  
7                    the chief executive officer of the entity is located; in which the board of directors or  
8                    similar governing person or persons of the entity conducts the majority of its  
9                    meetings; in which the executive or management committee of the board of  
10                   directors or similar governing person or persons of the entity conducts the majority  
11                   of its meetings; from which the management of the overall operations of the entity  
12                   is directed; and in the case of a benefit plan sponsored by affiliated companies  
13                   comprising a consolidated corporation, the state in which the holding company or  
14                   controlling affiliate has its principal place of business as determined using the  
15                   above factors. However, in the case of a plan sponsor, if more than fifty-percent of  
16                   the participants in the benefit plan are employed in a single state, that state is  
17                   deemed to be the principal place of business of the plan sponsor. The principal  
18                   place of business of a plan sponsor of a benefit plan described in subdivision c of  
19                   subsection 16 is deemed to be the principal place of business of the association,  
20                   committee, joint board of trustees, or other similar group of representatives of the  
21                   parties who establish or maintain the benefit plan that, in lieu of a specific or clear  
22                   designation of a principal place of business, is deemed to be the principal place of  
23                   business of the employer or employee organization that has the largest investment  
24                   in the benefit plan in question.
- 25           19. "Receivership court" means the court in the insolvent or impaired insurer's state  
26                    having jurisdiction over the conversation, rehabilitation, or liquidation of the insurer.
- 27   42. 20. "Resident" means any person to whom a contractual obligation is owed and who  
28                    resides in this state at the time a member insurer is determined to be an impaired  
29                    or insolvent insurer and to whom a contractual obligation is owed on the date of  
30                    entry of a court order that determines a member insurer to be an impaired insurer  
31                    or a court order that determines a member insurer to be an insolvent insurer,

1           whichever occurs first. A person may be a resident of only one state, which in the  
2           case of a person other than a natural person must be its principal place of  
3           business. Citizens of the United States who are residents of foreign countries, or  
4           residents of United States possessions, territories, or protectorates that do not  
5           have an association similar to the association created under this chapter, are  
6           deemed residents of the state of domicile of the insurer that issued the policies or  
7           contracts.

8           21. "State" means a state, the District of Columbia, Puerto Rico, and a United States  
9           possession, territory, or protectorate.

10          22. "Structured settlement annuity" means an annuity purchased in order to fund  
11          periodic payments for a plaintiff or other claimant in payment for or with respect to  
12          personal injury suffered by the plaintiff or other claimant.

13          ~~43.~~ 23. "Supplemental contract" means any written agreement entered into for the  
14          distribution of proceeds under a life, health, or annuity policy or contract proceeds.

15          ~~44.~~ 24. "Unallocated annuity contract" means any annuity contract or group annuity  
16          certificate which is not issued to and owned by an individual, except to the extent of  
17          any annuity benefits guaranteed to an individual by an insurer under such contract  
18          or certificate.

19           **SECTION 3. AMENDMENT.** Section 26.1-38.1-03 of the North Dakota Century Code  
20 is amended and reenacted as follows:

21           **26.1-38.1-03. Creation of the association.**

22           1. There is created a nonprofit legal entity to be known as the North Dakota life and  
23           health insurance guaranty association. All member insurers must be and remain  
24           members of the association as a condition of their authority to transact insurance in  
25           this state. The association shall perform its functions under the plan of operation  
26           established and approved under section 26.1-38.1-07 and shall exercise its powers  
27           through a board of directors established under section 26.1-38.1-04. For purposes  
28           of administration and assessment, the association shall maintain two accounts:

29           a. The life insurance and annuity account ~~which~~ that includes the following  
30           subaccounts:

31                   (1) Life insurance account;

- 1                   (2)    Annuity account, which includes annuity contracts owned by a  
2                                   governmental retirement plan or its trustee established under  
3                                   section 401, 403(b), or 457 of the United States Internal Revenue  
4                                   Code, but otherwise excludes unallocated annuities; and  
5                   (3)    Unallocated annuity account ~~which~~ that includes contracts ~~qualified~~  
6                                   owned by a governmental retirement benefit plan or its trustee  
7                                   established under section 401, 403(b), or 457 of the United States  
8                                   Internal Revenue Code.

9                   b.    The health insurance account.

- 10           2.    The association shall come under the immediate supervision of the commissioner  
11                   of insurance and is subject to the applicable provisions of the insurance laws of  
12                   this state. Meetings or records of the association may be opened to the public  
13                   upon majority vote of the board of directors of the association.

14           **SECTION 4. AMENDMENT.** Section 26.1-38.1-05 of the North Dakota Century Code  
15 is amended and reenacted as follows:

16           **26.1-38.1-05. Powers and duties of the association.**

- 17           1.    If a member insurer is an impaired ~~domestic~~ insurer, the association may, in its  
18                   discretion, and subject to any conditions imposed by the association that do not  
19                   impair the contractual obligations of the impaired insurer, and that are approved  
20                   by the commissioner, ~~and that are, except in cases of court ordered conservation~~  
21                   ~~or rehabilitation, also approved by the impaired insurer:~~  
22                   a.    Guarantee, assume, or reinsure, or cause to be guaranteed, assumed, or  
23                   reinsured, any or all of the policies or contracts of the impaired insurer; or  
24                   b.    Provide such moneys, pledges, loans, notes, guarantees, or other means as  
25                   are proper to effectuate subdivision a and assume payment of the contractual  
26                   obligations of the impaired insurer pending action under subdivision a; ~~or~~  
27                   ~~e.    Loan money to the impaired insurer.~~  
28           2.    ~~a.    If a member insurer is an impaired insurer, whether domestic, foreign or alien,~~  
29                   ~~and the insurer is not paying claims timely, then, subject to the preconditions~~  
30                   ~~specified in subdivision b, the association shall, in its discretion, either:~~

- 1                   (1) ~~Take any of the actions specified in subsection 1, subject to the~~  
2   ~~conditions therein; or~~
- 3                   (2) ~~Provide substitute benefits in lieu of the contractual obligations of the~~  
4   ~~impaired insurer solely for health claims, periodic annuity benefit~~  
5   ~~payments, death benefits, supplemental benefits, and cash withdrawals~~  
6   ~~for policy or contract owners who petition therefor under claims of~~  
7   ~~emergency or hardship in accordance with standards proposed by the~~  
8   ~~association and approved by the commissioner.~~
- 9                   b. ~~The association is subject to the requirements of subdivision a only if:~~
- 10                   (1) ~~The laws of the impaired insurer's state of domicile provide that until all~~  
11   ~~payments of or on account of the impaired insurer's contractual~~  
12   ~~obligations by all guaranty associations, along with all expenses thereof~~  
13   ~~and interest on all such payments and expenses, shall have been~~  
14   ~~repaid to the guaranty associations or a plan of repayment by the~~  
15   ~~impaired insurer shall have been approved by the guaranty~~  
16   ~~associations:~~
- 17   (a) ~~The delinquency proceeding shall not be dismissed;~~
- 18   (b) ~~Neither the impaired insurer nor its assets shall be returned to the~~  
19   ~~control of its shareholders or private management; and~~
- 20   (c) ~~It shall not be permitted to solicit or accept new business or have~~  
21   ~~any suspended or revoked license restored; and~~
- 22                   (2) ~~If the impaired insurer is a domestic insurer, it has been placed under~~  
23   ~~an order of rehabilitation by a court of competent jurisdiction in this~~  
24   ~~state; or~~
- 25                   (3) ~~If the impaired insurer is a foreign or alien insurer,~~
- 26   (a) ~~It has been prohibited from soliciting or accepting new business~~  
27   ~~in this state;~~
- 28   (b) ~~Its certificate of authority has been suspended or revoked in this~~  
29   ~~state;~~

- 1                                   ~~(e) A petition for rehabilitation or liquidation has been filed in a court~~  
2                                   ~~of competent jurisdiction in its state of domicile by the~~  
3                                   ~~commissioner of the state.~~
- 4           3. If a member insurer is an insolvent insurer, the association shall, in its discretion,  
5           either shall:
- 6           a. Provide the moneys, pledges, loans, notes, guarantees, or other means as  
7           are reasonably necessary to:
- 8                                   (1) Guarantee, assume, or reinsure, or cause to be guaranteed, assumed,  
9                                   or reinsured, the policies or contracts of the insolvent insurer; or  
10                                  (2) Assure payment of the contractual obligations of the insolvent insurer;  
11                                  and  
12                                  ~~(3) Provide such moneys, pledges, guarantees, or other means as are~~  
13                                  ~~reasonably necessary to discharge such duties; or~~
- 14           b. ~~With respect only to life and health insurance policies, provide~~ Provide  
15           benefits and coverage in accordance with ~~subsection 4.~~ the following  
16           provisions:
- 17           4. ~~When proceeding under paragraph 2 of subdivision a of subsection 2 or~~  
18           ~~subdivision b of subsection 3, the association shall, with respect to only life and~~  
19           ~~health insurance policies:~~
- 20           a. (1) ~~Assure~~ With respect to life and health insurance policies and annuities,  
21                                   assure payment of benefits for premiums identical to the premiums and  
22                                   benefits, except for terms of conversion and renewability, that would  
23                                   have been payable under the policies or contracts of the insolvent  
24                                   insurer, for claims incurred:
- 25                                  ~~(1)~~   (a) With respect to group policies and contracts, not later than the  
26                                   earlier of the next renewal date under such policies or contracts  
27                                   or forty-five days, but in no event less than thirty days, after the  
28                                   date on which the association becomes obligated with respect to  
29                                   such policies and contracts.
- 30                                  ~~(2)~~   (b) With respect to ~~individual~~ nongroup policies, contracts, and  
31                                   annuities, not later than the earlier of the next renewal date, if

1 any, under such policies or contracts or one year, but in no event  
2 less than thirty days, from the date on which the association  
3 becomes obligated with respect to such policies or contracts.

4 b- ~~(2)~~ Make diligent efforts to provide all known insureds or ~~group~~  
5 ~~policyholders~~ annuitants for nongroup policies and contracts, or group  
6 policyowners with respect to group policies and contracts, thirty days'  
7 notice of the termination of the benefits provided.

8 e- ~~(3)~~ With respect to ~~individual~~ nongroup life and health insurance policies  
9 and annuities covered by the association, make available to each  
10 known insured or annuitant, or owner if other than the insured or  
11 annuitant, and with respect to an individual formerly insured or formerly  
12 an annuitant under a group policy who is not eligible for replacement  
13 group coverage, ~~make available~~ substitute coverage on an individual  
14 basis in accordance with the provisions of ~~subdivision~~ paragraph 4, if  
15 the insureds or annuitants had a right under law or the terminated  
16 policy or annuity to convert coverage to individual coverage or to  
17 continue an individual policy or annuity in force until a specified age or  
18 for a specified time, during which the insurer had no right unilaterally to  
19 make changes in any provision of the policy or annuity or had a right  
20 only to make changes in premium by class.

21 ~~e-~~ ~~(a)~~ In providing the substitute coverage required under ~~subdivision~~  
22 this paragraph, the association may offer either to reissue the  
23 terminated coverage or to issue an alternative policy.

24 ~~(4)~~ ~~(b)~~ Alternative or reissued policies shall be offered without requiring  
25 evidence of insurability, and shall not provide for any waiting  
26 period or exclusion that would not have applied under the  
27 terminated policy.

28 ~~(2)~~ ~~(c)~~ The association may reinsure any alternative or reissued policy.

29 e- ~~(4)~~ Alternative policies adopted by the association shall be subject to the  
30 approval of the domiciliary insurance commissioner and the  
31 receivership court. The association may adopt alternative policies of



- 1 various types of future issuance without regard to any particular  
2 impairment or insolvency.
- 3 f. (5) Alternative policies must contain at least the minimum statutory  
4 provisions required in this state and provide benefits that are not  
5 unreasonable in relation to the premium charged. The association shall  
6 set the premium in accordance with a table of rates which it shall adopt.  
7 The premium must reflect the amount of insurance to be provided and  
8 the age and class of risk of each insured, but may not reflect any  
9 changes in the health of the insured after the original policy was last  
10 underwritten.
- 11 g. (6) Any alternative policy issued by the association shall provide coverage  
12 of a type similar to that of the policy issued by the impaired or insolvent  
13 insurer, as determined by the association.
- 14 h. (7) If the association elects to reissue terminated coverage at a premium  
15 rate different from that charged under the terminated policy, the  
16 premium must be set by the association in accordance with the amount  
17 of insurance provided and the age and class of risk, subject to approval  
18 of the ~~commissioner or by a court of competent jurisdiction~~ domiciliary  
19 insurance commissioner and the receivership court.
- 20 i. (8) The association's obligations with respect to coverage under any policy  
21 of the impaired or insolvent insurer or under any reissued or alternative  
22 policy shall cease on the date such coverage or policy is replaced by  
23 another similar policy by the ~~policyholder~~ policyowner, the insured, or  
24 the association.
- 25 ~~5.~~ 3. When proceeding under ~~subdivision b of subsection 2 or subsection 3~~ with respect  
26 to any policy or contract carrying guaranteed minimum interest rates, the  
27 association shall assure the payment or crediting of a rate of interest consistent  
28 with subdivision c of subsection 3 of section 26.1-38.1-01.
- 29 ~~6.~~ 4. Nonpayment of premiums within thirty-one days after the date required under the  
30 terms of any guaranteed, assumed, alternative, or reissued policy or contract of  
31 substitute coverage terminates the association's obligations under such policy or

1 coverage under this chapter with respect to such policy or coverage, except with  
2 respect to any claims incurred or any net cash surrender value which may be due  
3 in accordance with the provisions of this chapter.

4 ~~7.~~ 5. Premiums due for coverage after entry of an order of liquidation of an insolvent  
5 insurer belong to and are payable at the direction of the association, and the  
6 association is liable for unearned premiums due to policy or contractowners arising  
7 after the entry of such order.

8 ~~8.~~ 6. The protection provided by this chapter does not apply where any guaranty  
9 protection is provided to residents of this state by the laws of the domiciliary state  
10 or jurisdiction of the impaired or insolvent insurer other than this state.

11 ~~9.~~ 7. In carrying out its duties under ~~subsections~~ subsection 2 and 3, the association  
12 may, ~~subject to approval by the court:~~

13 a. ~~Impose~~ Subject to approval by a court in this state, impose permanent policy  
14 or contract liens in connection with any guarantee assumption or reinsurance  
15 agreement, if the association finds that the amounts which can be assessed  
16 under this chapter are less than the amounts needed to assure full and  
17 prompt performance of the association's duties under this chapter, or that the  
18 economic or financial conditions as they affect member insurers are  
19 sufficiently adverse to render the imposition of such permanent policy or  
20 contract liens, to be in the public interest.

21 b. ~~Impose~~ Subject to approval by a court in this state, impose temporary  
22 moratoriums or liens on payments of cash values and policy loans, or any  
23 other right to withdraw funds held in conjunction with policies or contracts, in  
24 addition to any contractual provisions for deferral or cash or policy loan value.  
25 In addition, in the event of a temporary moratorium or moratorium charge  
26 imposed by the receivership court on payment of cash values or policy loans,  
27 or on any other right to withdraw funds held in conjunction with policies or  
28 contracts, out of the assets of the impaired or insolvent insurer, the  
29 association may defer the payment of cash values, policy loans, or other  
30 rights by the association for the period of the moratorium or moratorium  
31 charge imposed by the receivership court, except for claims covered by the

1                   association to be paid in accordance with a hardship procedure established  
2                   by the liquidator or rehabilitator and approved by the receivership court.

3           8. A deposit in this state, held according to law or as required by the commissioner for  
4           the benefits of creditors, including policyowners, not turned over to the domiciliary  
5           liquidator upon the entry of a final order of liquidation or order approving a  
6           rehabilitation plan of an insurer domiciled in this state or in a reciprocal state, under  
7           section 26.1-06.1-50, must be paid promptly to the association. The association  
8           may retain a portion of any amount received equal to the percentage determined  
9           by dividing the aggregate amount of policyowners' claims related to that insolvency  
10           for which the association has provided statutory benefits by the aggregate amount  
11           of all policyowners' claims in this state related to that insolvency and shall remit to  
12           the domiciliary receiver the amount so paid to the association and retained  
13           pursuant to this subsection. Any amount paid to the association less the amount  
14           retained by it is treated as a distribution of estate assets pursuant to section  
15           26.1-06.1-43 or similar provision of the state of domicile of the impaired or  
16           insolvent insurer.

17   ~~40.~~ 9. If the association fails to act within a reasonable period of time with respect to an  
18           insolvent insurer, as provided in ~~subsections~~ subsection 2, 3, and 4, the  
19           commissioner shall have the powers and duties of the association under this  
20           chapter with respect to ~~impaired or~~ insolvent insurers.

21   ~~44.~~ 10. The association may render assistance and advice to the commissioner, upon  
22           request, concerning rehabilitation, payment of claims, continuance of coverage, or  
23           the performance of other contractual obligations of any impaired or insolvent  
24           insurer.

25   ~~42.~~ 11. The association shall have standing to appear or intervene before any court or  
26           agency in this state with jurisdiction over an impaired or insolvent insurer  
27           concerning which the association is or may become obligated under this chapter or  
28           with jurisdiction over any person or property against which the association may  
29           have rights through subrogation or otherwise. Such standing extends to all matters  
30           germane to the powers and duties of the association, including proposals for  
31           reinsuring, modifying, or guaranteeing the policies or contracts of the impaired or

1 insolvent insurer and the determination of the policies or contracts and contractual  
2 obligations. The association shall also have the right to appear or intervene before  
3 a court or agency in another state with jurisdiction over an impaired or insolvent  
4 insurer for which the association is or may become obligated or with jurisdiction  
5 over ~~a third party~~ any person or property against whom the association may have  
6 rights through subrogation ~~of the insurer's policyholders~~ or otherwise.

7 ~~43.~~ 12. Any person receiving benefits under this chapter must be deemed to have  
8 assigned the rights under, and any causes of action against any person for losses  
9 arising under, resulting from, or otherwise relating to, the covered policy or contract  
10 to the association to the extent of the benefits received because of this chapter,  
11 whether the benefits are payments of or on account of contractual obligations,  
12 continuation of coverage, or provision of substitute or alternative coverages. The  
13 association may require an assignment to it of such rights and causes of action by  
14 any payee, policy or contractowner, beneficiary, insured, or annuitant as a  
15 condition precedent to the receipt of any right or benefits conferred by this chapter  
16 upon such person.

17 ~~44.~~ 13. The subrogation rights of the association under this section have the same priority  
18 against the assets of the impaired or insolvent insurer as that possessed by the  
19 person entitled to receive benefits under this chapter.

20 ~~45.~~ 14. In addition to subsections ~~43~~ 12 and ~~44~~ 13, the association shall have all  
21 common-law rights of subrogation and other equitable or legal remedy ~~which that~~ that  
22 would have been available to the impaired or insolvent insurer or ~~holder~~ owner,  
23 beneficiary, or payee of a policy or contract with respect to such policy or contract,  
24 including, in the case of a structured settlement annuity, any rights of the owner,  
25 beneficiary, or payee of the annuity, to the extent of benefits received under this  
26 chapter, against a person originally or by succession responsible for the losses  
27 arising from or payment for the personal injury relating to the annuity.

28 15. If subsections 12, 13, and 14 are invalid or ineffective with respect to any person or  
29 claim for any reason, the amount payable by the association with respect to the  
30 related covered obligations must be reduced by the amount realized by any other  
31 person with respect to the person or claim that is attributable to the policies or

1           portion of the policies covered by the association. If the association has provided  
2           benefits with respect to a covered obligation and a person recovers amounts as to  
3           which the association has rights as described in the preceding paragraphs of this  
4           subsection, the person shall pay to the association the portion of the recovery  
5           attributable to the policies or portion of the policies covered by the association.

6           16. ~~The~~ In addition to any other rights and powers under this chapter, the association  
7           may:

- 8           a. Enter into such contracts as are necessary or proper to carry out the  
9           provisions and purposes of this chapter;
- 10          b. Sue or be sued, including taking any legal actions necessary or proper to  
11          recover any unpaid assessments under section 26.1-38.1-06 and to settle  
12          claims or potential claims against it;
- 13          c. Borrow money to effect the purposes of this chapter; any notes or other  
14          evidence of indebtedness of the association not in default shall be legal  
15          investments for domestic insurers and may be carried as admitted assets;
- 16          d. Employ or retain such persons as are necessary or appropriate to handle the  
17          financial transactions of the association, and to perform such other functions  
18          as become necessary or proper under this chapter;
- 19          e. Take such legal action as may be necessary or appropriate to avoid or  
20          recover payment of improper claims; ~~and~~
- 21          f. Exercise, for the purposes of this chapter and to the extent approved by the  
22          commissioner, the power of a domestic life or health insurer, but in no case  
23          may the association issue insurance policies or annuity contracts other than  
24          those issued to perform its obligations under this chapter;
- 25          g. Organize itself as a corporation or in other legal form permitted by the laws of  
26          this state;
- 27          h. Request information from a person seeking coverage from the association in  
28          order to aid the association in determining its obligations under this chapter  
29          with respect to the person, and the person promptly shall comply with the  
30          request; and

- 1            i. Take other necessary or appropriate action to discharge its duties and  
2            obligations under this chapter or to exercise its powers under this chapter.
- 3        17. The association may join an organization of one or more state associations of  
4        similar purposes, to further the purposes and administer the powers and duties of  
5        the association.
- 6        18. At any time within one year after the date on which the association becomes  
7        responsible for the obligations of a member insurer, the association may elect to  
8        succeed to the rights and obligations of the member insurer which accrue on or  
9        after this coverage date and which relate to contracts covered in whole or in part by  
10       the association under any indemnity reinsurance agreement entered by the  
11       member insurer as a ceding insurer and selected by the association. However, the  
12       association may not exercise an election with respect to a reinsurance agreement  
13       if the receiver, rehabilitator, or liquidator of the member insurer previously and  
14       expressly has disaffirmed the reinsurance agreement. The election is effected by a  
15       notice to the receiver, rehabilitator, or liquidator and to the affected reinsurers. If  
16       the association makes an election, subdivisions a through d apply with respect to  
17       the agreements selected by the association.
- 18       a. The association is responsible for all unpaid premiums due under the  
19       agreements, for periods both before and after the coverage date, and is  
20       responsible for the performance of all other obligations to be performed after  
21       the coverage date, in each case which relate to contracts covered, in whole or  
22       in part, by the association. The association may charge contracts covered in  
23       part by the association, through reasonable allocation methods, the costs for  
24       reinsurance in excess of the obligations of the association.
- 25       b. The association is entitled to any amounts payable by the reinsurer under the  
26       agreements with respect to losses or events that occur in periods after the  
27       coverage date and that relate to contracts covered by the association, in  
28       whole or in part, provided that, upon receipt of any of these amounts, the  
29       association is obliged to pay to the beneficiary under the policy or contract on  
30       account of which the amounts were paid a portion of the amount equal to the  
31       excess of the amount received by the association, over the benefits paid by

- 1           the association on account of the policy or contract less the retention of the  
2           impaired or insolvent member insurer applicable to the loss or event.
- 3           c. Within thirty days following the association's election, the association and each  
4           indemnity reinsurer shall calculate the net balance due to or from the  
5           association under each reinsurance agreement as of the date of the  
6           association's election, giving full credit to every item paid by the member  
7           insurer or its receiver, rehabilitator, or liquidator, or the indemnity reinsurer  
8           during the period between the coverage date and the date of the association's  
9           election. The association or indemnity reinsurer shall pay the net balance due  
10           the other within five days of the completion of the aforementioned calculation.  
11           If the receiver, rehabilitator, or liquidator received any amounts due the  
12           association pursuant to subdivision b, the receiver, rehabilitator, or liquidator  
13           shall remit the amounts to the association as promptly as practicable.
- 14           d. If the association, within sixty days of the election, pays the premiums due for  
15           periods both before and after the coverage date that relate to contracts  
16           covered by the association, in whole or in part, the reinsurer may not  
17           terminate the reinsurance agreements, to the extent the agreements relate to  
18           contracts covered by the association, in whole or in part, and may not set off  
19           any unpaid premium due for periods before the coverage date against  
20           amounts due the association.
- 21           18. If the association transfers its obligations to another insurer, and if the association  
22           and the other insurer agree, the other insurer shall succeed to the rights and  
23           obligations of the association under subsection 17 effective as of the date agreed  
24           by the association and the other insurer and regardless of whether the association  
25           made the election, provided that:
- 26           a. The indemnity reinsurance agreements automatically terminate for new  
27           reinsurance unless the indemnity reinsurer and the other insurer agree to the  
28           contrary;
- 29           b. The obligations described in the proviso to subdivision b of subsection 17 no  
30           longer apply on and after the date the indemnity reinsurance agreement is  
31           transferred to the third-party insurer; and

- 1           c. Subsection 18 does not apply if the association previously expressly  
2                   determined in writing that it will not exercise the election referred to in  
3                   subsection 17.
- 4       19. Subsections 17 and 18 supersede the provisions of any law of this state or of any  
5           affected reinsurance agreement that provides for or requires any payment of  
6           reinsurance proceeds, on account of losses or events that occur in periods after  
7           the coverage date, to the receiver, liquidator, or rehabilitator of the insolvent  
8           member insurer. The receiver, rehabilitator, or liquidator remains entitled to any  
9           amounts payable by the reinsurer under the reinsurance agreement with respect to  
10           losses or events that occur in periods before the coverage date, subject to  
11           applicable setoff provisions.
- 12       20. Except as otherwise expressly provided in this section, this section does not alter  
13           or modify the terms and conditions of the indemnity reinsurance agreements of the  
14           insolvent member insurer. This section does not abrogate or limit any rights of any  
15           reinsurer to claim that it is entitled to rescind a reinsurance agreement. This  
16           section does not give a policyowner or beneficiary an independent claim for relief  
17           against an indemnity reinsurer which is not otherwise set forth in the indemnity  
18           reinsurance agreement.
- 19       21. The board of directors of the association has discretion and may exercise  
20           reasonable business judgment to determine the means by which the association is  
21           to provide the benefits of this chapter in an economical and efficient manner.
- 22       22. If the association arranged or offered to provide the benefits of this chapter to a  
23           covered person under a plan or arrangement that fulfills the association's  
24           obligations under this chapter, the person is not entitled to benefits from the  
25           association in addition to or other than those provided under the plan or  
26           arrangement.
- 27       23. The association is not required to give an appeal bond in an appeal that relates to  
28           a cause of action arising under this chapter.

29           **SECTION 5. AMENDMENT.** Section 26.1-38.1-06 of the North Dakota Century Code  
30 is amended and reenacted as follows:

31           **26.1-38.1-06. Assessments.**



- 1           1. For the purpose of providing the funds necessary to carry out the powers and  
2           duties of the association, the board of directors shall assess the member insurers,  
3           separately for each account, at such time and for such amounts as the board finds  
4           necessary. Assessments must be due not less than thirty days after prior written  
5           notice to the member insurers and must accrue interest at eighteen percent per  
6           annum on and after the due date.
- 7           2. There must be two classes of assessment, as follows:
  - 8           a. Class A assessments must be ~~made~~ authorized and called for the purpose of  
9           meeting administrative and legal costs and other expenses ~~and examinations~~  
10           ~~conducted under the authority of section 26.1-38.1-09~~. Class A assessments  
11           may be ~~made~~ authorized and called whether or not related to a particular  
12           impaired or insolvent insurer.
  - 13           b. Class B assessments must be ~~made~~ authorized and called to the extent  
14           necessary to carry out the powers and duties of the association with regard to  
15           an impaired or insolvent insurer.
- 16           3. The amount of any class A assessment must be determined by the board and may  
17           be ~~made~~ authorized and called on a pro rata or non-pro rata basis. If pro rata, the  
18           board may provide that it be credited against future class B assessments. ~~A~~ The  
19           total of all non-pro rata assessment assessments may not exceed one hundred  
20           fifty dollars per member insurer in any one calendar year.
- 21           4. The amount of any class B assessment must be allocated for assessment  
22           purposes among the accounts pursuant to an allocation formula which may be  
23           based on the premiums or reserves of the impaired or insolvent insurer or any  
24           other standard deemed by the board in its sole discretion as being fair and  
25           reasonable under the circumstances.
- 26           5. Class B assessments against member insurers for each account and subaccount  
27           must be in the proportion that the premiums received on business in this state by  
28           each assessed member insurer on policies or contracts covered by each account  
29           for the three most recent calendar years for which information is available  
30           preceding the year in which the insurer became ~~impaired or insolvent~~ or, as in the  
31           case may be of an assessment with respect to an impaired insurer, the three most

1           recent calendar years for which information is available preceding the year in which  
2           the insurer became impaired, bears to such premiums received on business in this  
3           state for such calendar years by all assessed member insurers.

4           6. Assessments for funds to meet the requirements of the association with respect to  
5           an impaired or insolvent insurer may not be ~~made~~ authorized or called until  
6           necessary to implement the purposes of this chapter. Classification of  
7           assessments under subsection 2 and computation of assessments under this  
8           ~~subsection~~ section must be made with a reasonable degree of accuracy,  
9           recognizing that exact determinations may not always be possible. The  
10          association shall notify each member insurer of its anticipated pro rata share of an  
11          authorized assessment not yet called within one hundred eighty days after the  
12          assessment is authorized.

13          7. The association may abate or defer, in whole or in part, the assessment of a  
14          member insurer if, in the opinion of the board, payment of the assessment would  
15          endanger the ability of the member insurer to fulfill its contractual obligations. In  
16          the event an assessment against a member insurer is abated, or deferred in whole  
17          or in part, the amount by which such assessment is abated or deferred may be  
18          assessed against the other member insurers in a manner consistent with the basis  
19          for assessments set forth in this section. Once the conditions that caused a  
20          deferral are removed or rectified, the member insurer shall pay all assessments  
21          that were deferred pursuant to a repayment plan approved by the association.

22          8. a. ~~The~~ Subject to subdivision b, the total of all assessments upon authorized by  
23          the association with respect to a member insurer for each subaccount of the  
24          life insurance and annuity account and for each subaccount thereunder may  
25          the health account may not in any one calendar year exceed two percent and  
26          for the health account may not in any one calendar year exceed two percent  
27          of such insurer's average of that member insurer's average annual premiums  
28          received in this state on the policies and contracts covered by the subaccount  
29          or account during the three calendar years preceding the year in which the  
30          insurer became an impaired or insolvent insurer. ~~If the maximum~~  
31          ~~assessment, together with the other assets of the association in any account,~~

- 1 ~~does not provide in any one year in either account an amount sufficient to~~  
2 ~~carry out the responsibilities of the association, the necessary additional funds~~  
3 ~~must be assessed as soon thereafter as permitted by this chapter.~~
- 4 b. If two or more assessments are authorized in one calendar year with respect  
5 to insurers that become impaired or insolvent in different calendar years, the  
6 average annual premiums for purposes of the aggregate assessment  
7 percentage limitation referenced in subdivision a must be equal and limited to  
8 the higher of the three-year average annual premiums for the applicable  
9 subaccount or account as calculated pursuant to this section.
- 10 c. If the maximum assessment, together with the other assets of the association  
11 in an account, does not provide in one year in either account an amount  
12 sufficient to carry out the responsibilities of the association, the necessary  
13 additional funds must be assessed as soon after as permitted under this  
14 chapter.
- 15 9. The board may provide in the plan of operation a method of allocating funds  
16 among claims, whether relating to one or more impaired or insolvent insurers,  
17 when the maximum assessment will be insufficient to cover anticipated claims.
- 18 10. If ~~a one percent~~ the maximum assessment for any subaccount of the life and  
19 annuity account in any one year does not provide an amount sufficient to carry out  
20 the responsibilities of the association, then pursuant to subsection ~~4 7~~, the board  
21 shall assess ~~at~~ the other subaccounts of the life and annuity account for the  
22 necessary additional amount, subject to the maximum stated in subsection 8.
- 23 11. The board may, by an equitable method as established in the plan of operation,  
24 refund to member insurers, in proportion to the contribution of each insurer to that  
25 account, the amount by which the assets of the account exceed the amount the  
26 board finds is necessary to carry out during the coming year the obligations of the  
27 association with regard to that account, including assets accruing from assignment,  
28 subrogation, net realized gains and income from investments. A reasonable  
29 amount may be retained in any account to provide funds for the continuing  
30 expenses of the association and for future ~~losses~~ claims.

- 1           12. It is proper for any member insurer, in determining its premium rates and  
2                   policyowner dividends as to any kind of insurance within the scope of this chapter,  
3                   to consider the amount reasonably necessary to meet its assessment obligations  
4                   under this chapter.
- 5           13. The association shall issue to each insurer paying an assessment under this  
6                   chapter, other than a class A assessment, a certificate of contribution, in a form  
7                   prescribed by the commissioner, for the amount of the assessment so paid. All  
8                   outstanding certificates must be of equal dignity and priority without reference to  
9                   amounts or dates of issue. A certificate of contribution may be shown by the  
10                  insurer in its financial statement as an asset in such form and for such amount, if  
11                  any, and period of time as the commissioner may approve.
- 12          14. a. A member insurer that wishes to protest all or part of an assessment shall pay  
13                  when due the full amount of the assessment as set forth in the notice provided  
14                  by the association. The payment must be available to meet association  
15                  obligations during the pendency of the protest or any subsequent appeal.  
16                  Payment must be accompanied by a statement in writing that the payment is  
17                  made under protest and must set forth a brief statement of the grounds for the  
18                  protest.
- 19          b. Within sixty days following the payment of an assessment under protest by a  
20                  member insurer, the association shall notify the member insurer in writing of  
21                  its determination with respect to the protest unless the association notifies the  
22                  member insurer that additional time is required to resolve the issues raised by  
23                  the protest.
- 24          c. Within thirty days after a final decision was made, the association shall notify  
25                  the protesting member insurer in writing of that final decision. Within sixty  
26                  days of receipt of notice of the final decision, the protesting member insurer  
27                  may appeal that final action to the commissioner.
- 28          d. In the alternative to rendering a final decision with respect to a protest based  
29                  on a question regarding the assessment base, the association may refer  
30                  protests to the commissioner for a final decision, with or without a  
31                  recommendation from the association.

1           e. If the protest or appeal on the assessment is upheld, the amount paid in error  
2           or excess must be returned to the member insurer.

3       15. The association may request information of member insurers in order to aid in the  
4       exercise of its power under this section and member insurers shall comply  
5       promptly with a request.

6           **SECTION 6. AMENDMENT.** Subsection 5 of section 26.1-38.1-07 of the North Dakota  
7 Century Code is amended and reenacted as follows:

8           5. The plan of operation may provide that any or all powers and duties of the  
9           association, except those under subdivision c of subsection ~~45~~ 16 of section  
10          26.1-38.1-05 and section 26.1-38.1-06, are delegated to a corporation, limited  
11          liability company, association, or other organization which performs or will perform  
12          functions similar to those of this association, or its equivalent, in two or more  
13          states. Such a corporation, limited liability company, association, or organization  
14          must be reimbursed for any payments made on behalf of the association and must  
15          be paid for its performance of any function of the association. A delegation under  
16          this subsection shall take effect only with the approval of both the board of  
17          directors and the commissioner, and may be made only to a corporation, limited  
18          liability company, association, or organization which extends protection not  
19          substantially less favorable and effective than that provided by this chapter.

20          **SECTION 7. AMENDMENT.** Subsection 3 of section 26.1-38.1-08 of the North Dakota  
21 Century Code is amended and reenacted as follows:

22          3. Any final action of the board of directors or the association may be appealed to the  
23          commissioner by any member insurer if such appeal is taken within sixty days of  
24          the member's receipt of notice of the final action being appealed. ~~If a member~~  
25          ~~company is appealing an assessment, the amount assessed must be paid to the~~  
26          ~~association and available to meet association obligations during the pendency of~~  
27          ~~an appeal. If the appeal on the assessment is upheld, the amount paid in error or~~  
28          ~~excess must be returned to the member company.~~ Any final action or order of the  
29          commissioner is subject to judicial review in a court of competent jurisdiction in  
30          accordance with the laws of this state which apply to the action or orders of the  
31          commissioner.

1           **SECTION 8. AMENDMENT.** Section 26.1-38.1-09 of the North Dakota Century Code  
2 is amended and reenacted as follows:

3           **26.1-38.1-09. Prevention of insolvencies.**

4           1. To aid in the detection and prevention of insurer insolvencies or impairments, it is  
5 the duty of the commissioner:

6           ~~4.~~ a. To notify the commissioners of all the other states, territories of the United  
7 States, and the District of Columbia when the commissioner takes any of the  
8 following actions against a member insurer:

9           ~~a.~~ (1) Revokes its license;

10           ~~b.~~ (2) Suspends its license; or

11           ~~e.~~ (3) Makes any formal order that such company restrict its premium writing,  
12 obtain additional contributions to surplus, withdraw from the state,  
13 reinsure all or any part of its business, or increase capital, surplus, or  
14 any other account for the security of ~~policyholders~~ policyowners or  
15 creditors.

16           (4) Such notice must be mailed to all commissioners within thirty days  
17 following the action taken or the date on which such action occurs.

18           ~~2.~~ b. To report to the board of directors when the commissioner has taken any of  
19 the actions set forth in ~~subsection 1~~ subdivision a or has received a report  
20 from any other commissioner indicating that any such action has been taken  
21 in another state. Such report to the board of directors must contain all  
22 significant details of the action taken or the report received from another  
23 commissioner.

24           ~~3.~~ c. To report to the board of directors when the commissioner has reasonable  
25 cause to believe from any examination, whether completed or in process, of  
26 any member ~~company~~ insurer that such ~~company~~ insurer may be an impaired  
27 or insolvent insurer.

28           ~~4.~~ d. To furnish to the board of directors the national association of insurance  
29 commissioners insurance regulation information system ratios and listings of  
30 companies not included in the ratios developed by the national association of  
31 insurance commissioners and the board may use the information contained

1                   therein in carrying out its duties and responsibilities under this section. Such  
2                   report and the information contained therein must be kept confidential by the  
3                   board of directors until such time as made public by the commissioner or  
4                   other lawful authority.

5       ~~5.~~ 2. The commissioner may seek the advice and recommendations of the board of  
6                   directors concerning any matter affecting the commissioner's duties and  
7                   responsibilities regarding the financial condition of member insurers and  
8                   companies seeking admission to transact insurance business in this state.

9       ~~6.~~ 3. The board of directors may, upon majority vote, make reports and  
10                  recommendations to the commissioner upon any matter germane to the solvency,  
11                  liquidation, rehabilitation, or conservation of any member insurer or germane to the  
12                  solvency of any company seeking to do an insurance business in this state. Such  
13                  reports and recommendations may not be considered public documents.

14       ~~7.~~ 4. ~~It is the duty of the~~ The board of directors, upon majority vote, ~~to~~ may notify the  
15                  commissioner of any information indicating any member insurer may be an  
16                  impaired or insolvent insurer.

17       ~~8.~~ ~~The board of directors may, upon majority vote, request that the commissioner~~  
18                  ~~order an examination of any member insurer which the board in good faith believes~~  
19                  ~~may be an impaired or insolvent insurer. Within thirty days of the receipt of such~~  
20                  ~~request, the commissioner shall begin such examination. The examination may be~~  
21                  ~~conducted as a national association of insurance commissioners examination or~~  
22                  ~~may be conducted by such persons as the commissioner designates. The cost of~~  
23                  ~~such examination must be paid by the association and the examination report must~~  
24                  ~~be treated as are other examination reports. In no event may such examination~~  
25                  ~~report be released to the board of directors prior to its release to the public, but this~~  
26                  ~~does not preclude the commissioner from complying with subsection 1.~~  
27                  ~~The commissioner shall notify the board of directors when the examination is~~  
28                  ~~completed. The request for an examination must be kept on file by the~~  
29                  ~~commissioner but it may not be open to public inspection prior to the release of the~~  
30                  ~~examination report to the public.~~

- 1       9- 5. The board of directors ~~may~~, upon majority vote, may make recommendations to  
2           the commissioner for the detection and prevention of insurer insolvencies.
- 3       10- ~~The board of directors shall, at the conclusion of any insurer insolvency in which~~  
4           ~~the association was obligated to pay covered claims, prepare a report to the~~  
5           ~~commissioner containing such information as it may have in its possession bearing~~  
6           ~~on the history and causes of such insolvency. The board shall cooperate with the~~  
7           ~~boards of directors of guaranty associations in other states in preparing a report on~~  
8           ~~the history and causes of insolvency of a particular insurer and may adopt by~~  
9           ~~reference any report prepared by such other associations.~~

10           **SECTION 9. AMENDMENT.** Section 26.1-38.1-10 of the North Dakota Century Code  
11 is amended and reenacted as follows:

12           **26.1-38.1-10. Credits for assessments paid.**

- 13           1. A member insurer may offset against its premium tax liability to this state an  
14           assessment described in ~~subsection 13~~ of section 26.1-38.1-06 to the extent of  
15           twenty percent of the amount of such assessment for each of the five calendar  
16           years following the year in which such assessment was paid. In the event a  
17           member insurer should cease doing business, all uncredited assessments may be  
18           credited against its premiums tax liability for the year it ceases doing business.
- 19           2. Any sums which are acquired by refund, pursuant to ~~subsection 14~~ of section  
20           26.1-38.1-06, from the association by member insurers, and which have  
21           theretofore been offset against premium taxes as provided in subsection 1, must  
22           be paid by such insurers to this state in such manner as the tax authorities may  
23           require. The association shall notify the commissioner that such refunds have  
24           been made.

25           **SECTION 10. AMENDMENT.** Section 26.1-38.1-11 of the North Dakota Century Code  
26 is amended and reenacted as follows:

27           **26.1-38.1-11. Miscellaneous provisions.**

- 28           1. ~~Nothing in this~~ This chapter ~~may be construed to~~ does not reduce the liability for  
29           unpaid assessments of the insured of an impaired or insolvent insurer operating  
30           under a plan with assessment liability.



- 1           2.   Records must be kept of all ~~negotiations and meetings in which the association or~~  
2            ~~its representatives are involved~~ meetings of the board of directors to discuss the  
3           activities of the association in carrying out its powers and duties under section  
4           26.1-38.1-05. ~~Records of such negotiations or meetings may be made public only~~  
5           ~~upon~~ The records of the association with respect to an impaired or insolvent  
6           insurer may not be disclosed before the termination of a liquidation, rehabilitation,  
7           or conservation proceeding involving the impaired or insolvent insurer, upon the  
8           termination of the impairment or insolvency of the insurer, or upon the order of a  
9           court of competent jurisdiction. Nothing in this subsection limits the duty of the  
10          association to render a report of its activities under section 26.1-38.1-12.
- 11          3.   For the purpose of carrying out its obligations under this chapter, the association  
12          must be deemed to be a creditor of the impaired or insolvent insurer to the extent  
13          of assets attributable to covered policies reduced by any amounts to which the  
14          association is entitled as subrogee pursuant to subsections 12, 13, and 14, ~~and 15~~  
15          of section 26.1-38.1-05. Assets of the impaired or insolvent insurer attributable to  
16          covered policies must be used to continue as covered policies and pay all  
17          contractual obligations of the impaired or insolvent insurer as required by this  
18          chapter. Assets attributable to covered policies, as used in this subsection, are  
19          that proportion of the assets which the reserves that should have been established  
20          for such policies bear to the reserves that should have been established for all  
21          policies of insurance written by the impaired or insolvent insurer.
- 22          4.   As a creditor of the impaired or insolvent insurer as established in subsection 3  
23          and consistent with chapter 26.1-06, the association and other similar associations  
24          are entitled to receive a disbursement of assets out of the marshaled assets, from  
25          time to time as the assets become available to reimburse it, as a credit against  
26          contractual obligations under this chapter. If the liquidator, within one hundred  
27          twenty days of a final determination of insolvency of an insurer by the receivership  
28          court, does not apply to the court for the approval of a proposal to disburse assets  
29          out of marshaled assets to guaranty associations having obligations because of the  
30          insolvency, the association is entitled to apply to the receivership court for approval  
31          of its own proposal to disburse these assets.

- 1           5. Prior to the termination of any liquidation, rehabilitation, or conservation  
2           proceeding, the court may take into consideration the contributions of the  
3           respective parties, including the association, the shareholders, any policyowners of  
4           the insolvent insurer, and any other party with a bona fide interest, in making an  
5           equitable distribution of the ownership rights of such insolvent insurer. In making  
6           such a determination, consideration must be given to the welfare of the  
7           ~~policyholders~~ policyowners of the continuing or successor insurer.
- 8       ~~5-~~ 6. No distribution to stockholders, if any, of an impaired or insolvent insurer may be  
9           made until and unless the total amount of valid claims of the association with  
10          interest thereon for funds expended in carrying out its powers and duties under  
11          section 26.1-38.1-05 with respect to such insurer have been fully recovered by the  
12          association.
- 13       ~~6-~~ 7. If an order for liquidation or rehabilitation of an insurer domiciled in this state has  
14          been entered, the receiver appointed under ~~such~~ the order has the right to recover  
15          on behalf of the insurer, from any affiliate that controlled its capital stock, the  
16          amount of distributions, other than stock dividends paid by the insurer on its capital  
17          stock, made at any time during the five years preceding the petition for liquidation  
18          or rehabilitation subject to the limitations of subsections 7, 8, and 9.
- 19       ~~7-~~ 8. No such distribution ~~shall be~~ is recoverable if the insurer shows that when paid the  
20          distribution was lawful and reasonable, and that the insurer did not know and could  
21          not reasonably have known that the distribution might adversely affect the ability of  
22          the insurer to fulfill its contractual obligations.
- 23       ~~8-~~ 9. Any person who was an affiliate that controlled the insurer at the time the  
24          distributions were paid is liable up to the amount of distributions the person  
25          received. Any person who was an affiliate that controlled the insurer at the time  
26          the distributions were declared is liable up to the amount of distributions the person  
27          would have received if ~~they~~ payment had been ~~paid~~ made immediately. If two or  
28          more persons are liable with respect to the same distributions, they are jointly and  
29          severally liable.

1     9- 10. The maximum amount recoverable under this subsection is the amount needed in  
2                   excess of all other available assets of the insolvent insurer to pay the contractual  
3                   obligations of the insolvent insurer.

4     40- 11. If any person liable under subsection ~~7~~ 8 is insolvent, all its affiliates that controlled  
5                   it at the time the distribution was paid, are jointly and severally liable for any  
6                   resulting deficiency in the amount recovered from the insolvent affiliate.

7             **SECTION 11. AMENDMENT.** Section 26.1-38.1-12 of the North Dakota Century Code  
8 is amended and reenacted as follows:

9             **26.1-38.1-12. Examination of the association - Annual report.** The association is  
10 subject to examination and regulation by the commissioner. The board of directors shall submit  
11 to the commissioner each year, not later than one hundred twenty days after the association's  
12 fiscal year, a financial report in a form approved by the commissioner and a report of its  
13 activities during the preceding fiscal year. Upon the request of a member insurer, the  
14 association shall provide the member insurer with a copy of the report.

15            **SECTION 12. AMENDMENT.** Section 26.1-38.1-16 of the North Dakota Century Code  
16 is amended and reenacted as follows:

17            **26.1-38.1-16. Prohibited advertisement of Insurance Guaranty Association Act in**  
18 **insurance sales - Notice to ~~policyholders~~ policyowners.**

19            1. No person, including an insurer, agent, or affiliate of an insurer may make, publish,  
20                   disseminate, circulate, or place before the public, or cause directly or indirectly, to  
21                   be made, published, disseminated, circulated, or placed before the public, in any  
22                   newspaper, magazine, or other publication, or in the form of a notice, circular,  
23                   pamphlet, letter, or poster, or over any radio station or television station, or in any  
24                   other way, any advertisement, announcement or statement, written or oral, which  
25                   uses the existence of the insurance guaranty association of this state for the  
26                   purpose of sales, solicitation, or inducement to purchase any form of insurance  
27                   covered by ~~the North Dakota Life and Health Insurance Guaranty Association Act~~  
28                   chapter 26.1-38.1. Provided, however, that this section does not apply to the North  
29                   Dakota life and health insurance guaranty association or any other entity ~~which~~  
30                   that does not sell or solicit insurance.

- 1           2. ~~Within one hundred eighty days after July 1, 1989~~ Before January 1, 1990, the  
2           association shall prepare a summary document describing the general purposes  
3           and current limitations of the chapter and complying with subsection 3. This  
4           document should be submitted to the commissioner for approval. Sixty days after  
5           receiving ~~such~~ approval, no insurer may deliver a policy or contract ~~described in~~  
6           ~~subsection 2 of section 26.1-38.1-04~~ to a ~~policyholder or contractholder~~ policy or  
7           contractowners unless the summary document is delivered to the ~~policyholder or~~  
8           ~~contractholder~~ policy or contractowner to or at the time of delivery of the policy or  
9           contract ~~except if subsection 4 applies~~. The document should also be available  
10          upon request by a ~~policyholder~~ policyowner. The distribution, delivery, or contents  
11          or interpretation of this document does not mean that either the policy or contract  
12          or the ~~holder~~ owner thereof would be covered in the event of the impairment or  
13          insolvency of a member insurer. The document must be revised by the association  
14          as amendments to the chapter may require. Failure to receive this document does  
15          not give the ~~policyholder~~ policyowner, ~~contractholder~~ contractowner, certificate  
16          holder, or insured any greater rights than those stated in this chapter.
- 17          3. The document prepared under subsection 2 must contain a clear and conspicuous  
18          disclaimer on its face. The commissioner shall ~~adopt a rule establishing~~ establish  
19          the form and content of the disclaimer. The disclaimer must:
- 20           a. State the name and address of the life and health insurance guaranty  
21           association and insurance department;
- 22           b. Prominently warn the ~~policyholder~~ policyowner or ~~contractholder~~  
23           contractowner that the North Dakota life and health guaranty association may  
24           not cover the policy, or, if coverage is available, it will be subject to substantial  
25           limitations and exclusions and be conditioned on continued residence in this  
26           state;
- 27           c. State the types of policies for which guaranty funds will provide coverage;
- 28           d. State that the insurer and its agents are prohibited by law from using the  
29           existence of the North Dakota life and health guaranty association for the  
30           purpose of sales, solicitation, or inducement to purchase any form of  
31           insurance;

- 1           ~~e.~~ e.   Emphasize that the ~~policyholder~~ policyowner or ~~contractholder~~ contractowner  
2                                    should not rely on coverage under the North Dakota life and health guaranty  
3                                    association when selecting an insurer; ~~and~~  
4           f.   Explain rights available and procedures for filing a complaint to allege a  
5                                    violation of any provisions of this chapter; and  
6           ~~e.~~ g.   Provide other information as directed by the commissioner, including sources  
7                                    for information about the financial condition of insurers provided the  
8                                    information is not proprietary and is subject to disclosure under the state's  
9                                    public records law.
- 10          4.   ~~No insurer or agent may deliver a policy or contract described in subsection 2 of~~  
11                                    ~~section 26.1-38.1-01 and excluded under subdivision a of subsection 3 of section~~  
12                                    ~~26.1-38.1-01 from coverage under this chapter unless the insurer or agent, prior to~~  
13                                    ~~or at the time of delivery, gives the policyholder or contractholder a separate~~  
14                                    ~~written notice which clearly and conspicuously discloses that the policy or contract~~  
15                                    ~~is not covered by the North Dakota life and health guaranty association. The~~  
16                                    ~~commissioner shall by rule specify the form and content of the notice. A member~~  
17                                    insurer shall return evidence of compliance with subsection 2 for so long as the  
18                                    policy or contract for which the notice is given remains in effect.