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## SENATE BILL NO. 70

Offered January 8, 2014

Prefiled December 19, 2013

A *BILL to amend and reenact §§ 38.2-1611.1 and 38.2-1705 of the Code of Virginia, relating to insurance guaranty associations; refunds of surplus funds with respect to insolvency.*

Patron—Alexander

Referred to Committee on Commerce and Labor

**Be it enacted by the General Assembly of Virginia:**

**1. That §§ 38.2-1611.1 and 38.2-1705 of the Code of Virginia are amended and reenacted as follows:**

**§ 38.2-1611.1. Tax write-offs of certificates of contribution.**

A. A member insurer shall have at its option the right to show a certificate of contribution as an asset in the form approved by the Commission pursuant to subdivision 3a of subsection A of § 38.2-1606 at the original face amount for the calendar year of issuance. Such amount may be amortized as follows:

1. Certificates of contribution issued prior to January 1, 1998, shall be amortized in each succeeding calendar year through December 31, 1997, at an amount not to exceed 0.05 of one percent of the member's direct gross premium income for the classes of insurance in the account for which the member insurer is assessed. As used herein, the definition of direct gross premium income shall be the same as that specified in § 58.1-2500. If the amount of the certificate has not been fully amortized by the contributing insurer by December 31, 1997, the unamortized balance of the certificate amount shall be amortized, at the option of the contributing insurer, either (i) in the same manner as the certificate was amortized prior to January 1, 1998; however, if not amortized in full prior to calendar year 2010, the unamortized balance of the certificate shall be amortized in full during calendar year 2010, or (ii) over the 10 successive calendar years commencing January 1, 1998, in amounts each equal to 10 percent of such unamortized balance. A contributing insurer whose certificate has not been fully amortized by December 31, 1997, shall notify the Commission in writing of the amortization schedule option it has selected on or before March 1, 1998; however, if a contributing insurer fails to notify the Commission by such date, the insurer shall be deemed to have selected the option described in clause (i) of the preceding sentence.

2. Certificates of contribution issued on or after January 1, 1998, shall be amortized over the 10 calendar years following the year the contribution was paid in amounts each equal to 10 percent of the amount of the contribution.

B. The insurer may offset the amount of the certificate amortized in a calendar year as provided in subsection A. This amount shall be deducted from the premium tax liability incurred on business transacted in this Commonwealth for that year. However, the Association shall diligently pursue all rights available to it to recover its expenditures made in the fulfillment of its responsibilities under this chapter. In the event the Commission determines after a hearing that the Association is not diligently pursuing available measures of recovery, the Commission shall notify the Department of Taxation and participating insurers will not be able to offset amounts amortized during the period that the Commission determines that the Association has not been diligently pursuing available measures of recovery.

C. Any sums that have been (i) amortized by contributing insurers and offset against premium taxes as provided in subsection B and (ii) subsequently refunded pursuant to subdivision A 3 of § 38.2-1606 or subdivision B 6 of § 38.2-1606 shall be paid to the Department of Taxation and deposited with the State Treasurer for credit to the general fund of this Commonwealth.

D. The amount of any credit against premium taxes provided for in this section for an insurer shall be reduced by the amount of reduction in federal income taxes for any deduction claimed by the insurer for an assessment paid pursuant to this chapter.

**§ 38.2-1705. Assessments.**

A. For the purpose of providing the funds necessary to carry out the powers and duties of the Association, the board of directors shall assess the member insurers, separately for each account, at such time and for any amounts as the board finds necessary. Assessments shall be due not less than 30 days after prior written notice has been given to the member insurers. Late payments shall accrue interest from the due date compounded quarterly, based upon the average 90 day treasury bill rate for the most recently completed calendar quarter as published in the Federal Reserve Bulletin and shall be subject to

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59 a minimum charge of \$50.

60 B. There shall be two classes of assessments, as follows:

61 1. Class A assessments shall be authorized and called for the purpose of meeting administrative and  
62 legal costs and other expenses. Class A assessments may be authorized and called whether or not related  
63 to a particular impaired or insolvent insurer.

64 2. Class B assessments shall be authorized and called to the extent necessary to carry out the powers  
65 and duties of the Association under § 38.2-1704 with regard to an impaired or an insolvent insurer.

66 C. 1. The amount of any Class A assessment shall be determined by the board and may be  
67 authorized and called for current member insurers on a pro-rata or nonpro-rata basis. If pro rata, the  
68 board may provide that it be credited against future Class B assessments. The total of all nonpro-rata  
69 assessments shall not exceed \$500 per member insurer in any one calendar year. The amount of a Class  
70 B assessment shall be allocated for assessment purposes among the accounts pursuant to an allocation  
71 formula which may be based on the premiums or reserves of the impaired or insolvent insurer or any  
72 other standard deemed by the board in its sole discretion as being fair and reasonable under the  
73 circumstances.

74 2. Class B assessments against member insurers for each account and subaccount shall be in the  
75 proportion that the premiums received on business in this Commonwealth by each assessed member  
76 insurer on policies or contracts covered by each account and subaccount for the three most recent  
77 calendar years for which information is available preceding the year in which the insurer became  
78 insolvent or, in the case of an assessment with respect to an impaired insurer, the three most recent  
79 calendar years for which information is available preceding the year in which the insurer became  
80 impaired, bear to such premiums received on business in this Commonwealth for those calendar years  
81 by all assessed member insurers.

82 3. Assessments for funds to meet the requirements of the Association with respect to an impaired or  
83 insolvent insurer shall not be authorized or called until necessary to implement the purposes of this  
84 chapter. Classification of assessments under subsection B and computation of assessments under this  
85 subsection shall be made with a reasonable degree of accuracy, recognizing that exact determinations  
86 may not always be possible. The Association shall notify each member insurer of its anticipated pro-rata  
87 share of an authorized assessment not yet called within 180 days after the assessment is authorized.

88 D. The Association may abate or defer, in whole or in part, the assessment of a member insurer if,  
89 in the opinion of the board, payment of the assessment would endanger the ability of the member  
90 insurer to fulfill its contractual obligations. In the event an assessment against a member insurer is  
91 abated or deferred in whole or in part, the amount by which the assessment is abated or deferred may  
92 be assessed against the other member insurers in a manner consistent with the basis for assessments set  
93 forth in this section. Once the conditions that caused a deferral have been removed or rectified, the  
94 member insurer shall pay all assessments that were deferred pursuant to a repayment plan approved by  
95 the Association.

96 E. 1. a. Subject to the provisions of subdivision E 1 b, the total of all assessments authorized by the  
97 Association with respect to a member insurer for each subaccount of the life insurance and annuity  
98 account and for the accident and sickness insurance account shall not in any one calendar year exceed  
99 two percent of that member insurer's average annual premiums received in the Commonwealth on the  
100 policies and contracts covered by the subaccount or account during the three calendar years preceding  
101 the year in which the insurer became an impaired or insolvent insurer.

102 b. If two or more assessments are authorized in one calendar year with respect to insurers that  
103 become impaired or insolvent in different calendar years, the average annual premiums for purposes of  
104 the aggregate assessment percentage limitation referenced in subdivision E 1 a shall be equal and limited  
105 to the higher of the three-year average annual premiums for the applicable subaccount or account as  
106 calculated pursuant to this section.

107 c. If the maximum assessment, together with the other assets of the Association in an account, does  
108 not provide in one year in that account an amount sufficient to carry out the responsibilities of the  
109 Association, the necessary additional funds shall be assessed as soon thereafter as permitted by this  
110 chapter.

111 2. The board may provide in the plan of operation a method of allocating funds among claims,  
112 whether relating to one or more impaired or insolvent insurers, when the maximum assessment will be  
113 insufficient to cover anticipated claims.

114 3. If the maximum assessment for a subaccount of the life and annuity account in one year does not  
115 provide an amount sufficient to carry out the responsibilities of the Association, then pursuant to  
116 subdivision C 2, the board shall access the other subaccounts of the life and annuity account for the  
117 necessary additional amount, subject to the maximum stated in subdivision E 1.

118 F. If the Board of Directors of the Association determines that it has surplus funds on hand with  
119 respect to an insolvency, the Association shall, in accordance with the process set forth in the certificate  
120 of contribution for adjusting or cancelling the unamortized portion of the member insurer's certificate of

contribution in the event of a reimbursement of assessment payments, use such surplus funds to reimburse member insurers for assessment costs not otherwise amortized and offset pursuant to § 38.2-1709 and pay the remaining surplus to the ~~Commission~~ *Department of Taxation*, for deposit with the State Treasurer for credit to the general fund of the Commonwealth. Within 90 days of making payment of surplus funds to the ~~Commission~~ *Department of Taxation* for deposit with the State Treasurer, the Association shall notify its member insurers of such payment. If any member insurer contends that it is entitled to any portion of the surplus refunded to the Commonwealth in order to recover assessment costs not otherwise amortized and offset pursuant to § 38.2-1709, then the member insurer may present evidence of such entitlement to the ~~Commission~~ *Department of Taxation*. If the ~~Commission~~ *Department of Taxation* determines that the member insurer is entitled to a portion of the surplus funds in order to recover assessment costs not otherwise amortized and offset pursuant to § 38.2-1709, then the State Treasurer shall pay to the member insurer the sum that the ~~Commission~~ *Department of Taxation* determines that the member insurer is entitled to receive. A reasonable amount may be retained in any account to provide funds for the continuing expenses of the Association and for future losses and claims. For purposes of this subsection, "surplus funds" includes funds that the Association obtains by way of distributions or recoveries from receivers and third parties as reimbursement for its costs in connection with insolvencies and impairments in excess of reasonable amounts retained in an account to provide funds for the continuing expenses of the Association and for future losses and claims.

G. It shall be proper for any member insurer, in determining its premium rates and policy owner dividends as to any kind of insurance within the scope of this chapter, to consider the amount reasonably necessary to meet its assessment obligations under this chapter.

H. The Association shall issue to each insurer paying an assessment under this chapter, other than a Class A assessment, a certificate of contribution, in a form prescribed by the Commission, for the amount of the assessment so paid excluding interest penalties. All outstanding certificates shall be of equal dignity and priority without reference to amounts or dates of issue. A certificate of contribution may be shown by the insurer in its financial statement as an asset in such form and for such amount, if any, and period of time as the Commission may approve.

I. 1. A member insurer that wishes to protest all or part of an assessment shall pay when due the full amount of the assessment as set forth in the notice provided by the Association. The payment shall be available to meet Association obligations during the pendency of the protest or any subsequent appeal. Payment shall be accompanied by a statement in writing that the payment is made under protest and setting forth a brief statement of the grounds for the protest.

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

3. Within 30 days after a final decision has been made, the Association shall notify the protesting member insurer in writing of that final decision. Within 60 days of receipt of notice of the final decision, the protesting member insurer may appeal that final action to the Commission.

4. In the alternative to rendering a final decision with respect to a protest based on a question regarding the assessment base, the Association may refer the protest to the Commission for a final decision, with or without a recommendation from the Association.

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

J. The Association may request information of member insurers in order to aid in the exercise of its power under this section and member insurers shall promptly comply with a request.