

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1997

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SENATE BILL 975
House Committee Substitute Favorable 7/2/97

Short Title: Workers' Compensation Self-Insurance.

(Public)

Sponsors:

Referred to:

April 21, 1997

A BILL TO BE ENTITLED

AN ACT TO REWRITE THE LAWS CONCERNING EMPLOYER AND EMPLOYER
GROUP WORKERS' COMPENSATION SELF-INSURANCE AND CODIFY
RELATED ADMINISTRATIVE RULES AND TO PROVIDE FOR GUIDELINES
FOR PERSONS AND ENTITIES THAT ADMINISTER OR SERVICE WORKERS'
COMPENSATION BUSINESS FOR SELF-INSURED EMPLOYERS AND
EMPLOYER GROUPS.

The General Assembly of North Carolina enacts:

Section 1. The heading of Article 47 of Chapter 58 of the General Statutes
reads as rewritten:

~~"NORTH CAROLINA HEALTH CARE EXCESS LIABILITY FUND.~~
WORKERS' COMPENSATION SELF-INSURANCE.

Section 2. G.S. 58-47-1, 58-47-5, 58-47-10, 58-47-15, 58-47-20, 58-47-25,
58-47-30, 58-47-35, 58-47-40, 58-47-45, and 58-47-50 are repealed.

Section 3. Article 47 of Chapter 58 of the General Statutes is amended by
adding the following:

"PART 1. EMPLOYER GROUPS.

"§ 58-47-60. Definitions.

As used in this Part:

- 1 (1) 'Act' means the Workers' Compensation Act in Article 1 of Chapter 97
2 of the General Statutes, as amended.
- 3 (2) 'Affiliate' has the same meaning as in G.S. 58-19-5(1).
- 4 (3) 'Annual statement filing' means the most recent annual filing made with
5 the Commissioner under G.S. 58-2-165.
- 6 (4) 'Board' means the board of trustees or other governing body of a group.
- 7 (5) 'Books and records' means all files, documents, and databases in a paper
8 form, electronic medium, or both.
- 9 (6) 'Control' means "control" as defined in G.S. 58-19-5(2).
- 10 (7) 'GAAP financial statement' means a financial statement as defined by
11 generally accepted accounting principles.
- 12 (8) 'Group' means two or more employers who agree to pool their workers'
13 compensation liabilities under the Act and are licensed under this Part.
- 14 (9) 'Hazardous financial condition' means that, based on its present or
15 reasonably anticipated financial condition, a person is insolvent or,
16 although not financially impaired or insolvent, is unlikely to be able to
17 meet obligations for known claims and reasonably anticipated claims or
18 to pay other obligations in the normal course of business.
- 19 (10) 'Member' means an employer that participates in a group.
- 20 (11) 'Qualified actuary' means a member in good standing of the Casualty
21 Actuarial Society or a member in good standing of the American
22 Academy of Actuaries, who has been approved as qualified for signing
23 casualty loss reserve opinions by the Casualty Practice Council of the
24 American Academy of Actuaries, and is in compliance with G.S. 58-2-
25 171.
- 26 (12) 'Rate' means the cost of insurance per exposure unit, whether expressed
27 as a single number or as a prospective loss cost with an adjustment to
28 account for the treatment of expenses, profit, and variations in loss
29 experience, before any application of individual risk variations based on
30 loss or expense considerations, and does not include minimum
31 premiums.
- 32 (13) 'Service company' means an entity that has contracted with an employer
33 or group for the purpose of providing any services related to claims
34 adjustment, loss control, or both.
- 35 (14) 'Third-party administrator' or 'TPA' means a person engaged by a board
36 to execute the policies established by the board and to provide day-to-
37 day management of the group. 'Third-party administrator' or 'TPA'
38 does not mean:
- 39 a. An employer acting on behalf of its employees or the employees
40 of one or more of its affiliates.
- 41 b. An insurer that is licensed under this Chapter or that is acting as
42 an insurer with respect to a policy lawfully issued and delivered

1 by it and under the laws of a state in which the insurer is licensed
2 to write insurance.

3 c. An agent or broker who is licensed by the Commissioner under
4 Article 33 of this Chapter whose activities are limited exclusively
5 to the sale of insurance.

6 d. An adjuster licensed by the Commissioner under Article 33 of
7 this Chapter whose activities are limited to adjustment of claims.

8 e. An individual who is an officer, a member, or an employee of a
9 board.

10 (15) 'Underwriting' means the process of selecting risks and classifying them
11 according to their degrees of insurability so that the appropriate rates
12 may be assigned. The process also includes rejection of those risks that
13 do not qualify.

14 **"§ 58-47-65. Licensing; qualification for approval.**

15 (a) No group shall self-insure its workers' compensation liabilities under the Act
16 unless it is licensed by the Commissioner under this Part.

17 (b) An applicant for a license shall file with the Commissioner the information
18 required by subsection (f) of this section on a form prescribed by the Commissioner at
19 least 90 days before the proposed licensing date. The applicant shall furnish to the
20 Commissioner satisfactory proof of the proposed group's financial ability, through its
21 members, to comply with the Act. No application is complete until the Commissioner
22 has received all required information.

23 (c) The group shall comprise two or more employers who are members of and are
24 sponsored by a single bona fide trade or professional association. The association shall
25 (i) comprise members engaged in the same or substantially similar business or profession
26 within the State, (ii) have been incorporated in North Carolina, (iii) have been in
27 existence for at least five years before the date of application to the Commissioner to
28 form a group, and (iv) submit a written determination from the Internal Revenue Service
29 that it is exempt from taxation under 26 U.S.C. § 501(c). This subsection does not apply
30 to a group that was organized and approved under North Carolina law before July 1,
31 1995.

32 (d) Only an applicant whose members' employee base is actuarially sufficient in
33 numbers and provides an actuarially appropriate spreading of risk may apply for a
34 license. The Commissioner shall consider (i) the financial strength and liquidity of the
35 applicant relative to its ability to comply with the Act, (ii) the applicant's criteria and
36 procedures regarding the review and monitoring of members' financial strength, (iii)
37 reliability of the financial information, (iv) workers' compensation loss history, (v)
38 underwriting guidelines, (vi) claims administration, (vii) excess insurance or reinsurance,
39 and (viii) access to excess insurance or reinsurance.

40 (e) Before issuing a license to any applicant, the Commissioner shall require, in
41 addition to the other requirements provided by law, that the applicant file an affidavit
42 signed by the association's board members that it has not violated any of the applicable

1 provisions of this Part or the Act during the last 12 months, and that it accepts the
2 provisions of this Part and the Act in return for the license.

3 (f) The license application shall comprise the following information:

4 (1) Biographical affidavits providing the education, prior occupation,
5 business experience, and other supplementary information submitted for
6 each promoter, incorporator, director, trustee, proposed management
7 personnel, and other persons similarly situated.

8 (2) A forecast for a five-year period based on the initial capitalization of the
9 proposed group and its plan of operation. The forecast shall be prepared
10 by a certified public accountant, a qualified actuary, or both, be in
11 sufficient detail for a complete analysis to be performed, and be
12 accompanied by a list of the assumptions utilized in making the
13 forecast.

14 (3) An individual application, under G.S. 58-47-125, of each member
15 applying for coverage in the proposed group on the inception date of the
16 proposed group, with a current GAAP financial statement of the
17 member. The financial statements are confidential, but the
18 Commissioner may use them in any judicial or administrative
19 proceeding.

20 (4) A breakdown of all forecasted administrative expenses for the proposed
21 group's fiscal year in a dollar amount and as a percentage of the
22 estimated annual premium.

23 (5) The proposed group's procedures for evaluating the current and
24 continuing financial strength of members.

25 (6) Evidence of the coverage required by G.S. 58-47-95.

26 (7) Demonstration provided by the board, satisfactory to the Commissioner,
27 that the proposed group's member employee base is actuarially
28 sufficient in numbers and provides an actuarially appropriate spreading
29 of risk.

30 (8) An assessment plan under G.S. 58-47-135(a).

31 (9) A listing of the estimated premium to be developed for each member
32 individually and in total for the proposed group. Payroll data for each
33 of the three preceding years shall be furnished by risk classification.

34 (10) An executed agreement by each member showing the member's
35 obligation to pay to the proposed group not less than twenty-five percent
36 (25%) of the member's estimated annual premium not later than the first
37 day of coverage afforded by the proposed group.

38 (11) Composition of the initial board.

39 (12) An indemnity agreement on a form prescribed by the Commissioner.

40 (13) Proof, satisfactory to the Commissioner, that either the applicant has
41 within its own organization ample facilities and competent personnel to
42 service its program for underwriting, claims, and industrial safety
43 engineering, or that the applicant will contract for any of these services.

1 If the applicant is to perform any servicing, biographical affidavits of
2 those persons who will be responsible for or performing servicing shall
3 be included with the information in subdivision (1) of this subsection.

4 If a group contracts with a service company or TPA to administer and
5 adjust claims, the group shall provide proof of compliance with the
6 other provisions of this Part.

7 (14) A letter stipulating the applicant's acceptance of membership in the
8 North Carolina Self-Insurance Guaranty Association under Article 4 of
9 Chapter 97 of the General Statutes.

10 (15) Any other specific information the Commissioner considers relevant to
11 the organization of the proposed group.

12 (g) Every applicant shall execute and file with the Commissioner an agreement, as
13 part of the application, in which the applicant agrees to deposit with the Commissioner
14 cash or securities acceptable to the Commissioner.

15 **"§ 58-47-70. License denial; termination; revocation; restrictions.**

16 (a) If the Commissioner denies a license, the Commissioner shall inform the
17 applicant of the reasons for the denial. The Commissioner may issue a license to an
18 applicant that remedies the reasons for a denial within 60 days after the Commissioner's
19 notice. The Commissioner may grant additional time to an applicant to remedy any
20 deficiencies in its application. A request for an extension of time shall be made in
21 writing by the applicant within 30 days after the Commissioner's notice. If the applicant
22 fails to remedy the reasons for the denial, the application shall be withdrawn or denied.

23 (b) A group shall not terminate its license or cease the writing of renewal business
24 without obtaining prior written approval from the Commissioner. The Commissioner
25 shall not grant the request of any group to terminate its license unless the group has
26 closed or reinsured all of its incurred workers' compensation obligations and has settled
27 all of its other legal obligations, including known and unknown claims and associated
28 expenses.

29 (c) No group shall transfer its workers' compensation obligations under an
30 assumption reinsurance agreement without complying with Part 2 of Article 10 of this
31 Chapter.

32 (d) Every group is subject to Article 19 of this Chapter. No group shall merge
33 with another group unless both groups are engaged in the same or a similar type of
34 business.

35 **"§ 58-47-75. Reporting and records.**

36 (a) As used in this section:

37 (1) 'Audited financial report' has the same meaning as in the NAIC Model
38 Rule Requiring Annual Audited Financial Reports, as specified in G.S.
39 58-2-205.

40 (2) 'Duplicate record' means a counterpart produced by the same impression
41 as the original record, or from the same matrix, or by mechanical or
42 electronic rerecording or by chemical reproduction, or by equivalent

- 1 techniques, such as imaging or image processing, that accurately
2 reproduce the original record.
- 3 (3) 'Original record' means the writing or recording itself or any counterpart
4 intended to have the same effect by a person executing or issuing it, in
5 the normal and ordinary course of business, or data stored in a computer
6 or similar device, the printout or other output readable by sight, shown
7 to reflect the data accurately. An 'original' of a photograph includes the
8 negative or any print from the negative.
- 9 (b) Each group shall file with the Commissioner the following:
- 10 (1) A statement in accordance with G.S. 58-2-165.
- 11 (2) An audited financial report.
- 12 (3) Annual payroll information within 90 days after the close of its fiscal
13 year. The report shall summarize the payroll by annual amount paid and
14 by classifications using the rules, classifications, and rates set forth in
15 the most recently approved Workers' Compensation and Employers'
16 Liability Insurance Manual governing audits of payrolls and
17 adjustments of premiums. Each group shall maintain true and accurate
18 payroll records. The payroll records shall be maintained to allow for
19 verification of the completeness and accuracy of the annual payroll
20 report.
- 21 (c) Each group shall make its financial statement and audited financial report
22 available to its members upon request.
- 23 (d) All records shall be maintained by the group for the years during which an
24 examination under G.S. 58-2-131 has not yet been completed.
- 25 (e) All records that are required to be maintained by this section shall be either
26 original or duplicate records.
- 27 (f) If only duplicate records are maintained, the following requirements apply:
- 28 (1) The data shall be accessible to the Commissioner in legible form, and
29 legible, reproduced copies shall be available.
- 30 (2) Before the destruction of any original records, the group in possession
31 of the original records shall:
- 32 a. Verify that the records stored consist of all information contained
33 in the original records, and that the original records can be
34 reconstructed therefrom in a form acceptable to the
35 Commissioner; and
- 36 b. Implement disaster preparedness or disaster recovery procedures
37 that include provisions for the maintenance of duplicate records
38 at an off-site location.
- 39 (3) Adequate controls shall be established with respect to the transfer and
40 maintenance of data.
- 41 (g) Each group shall maintain its records under G.S. 58-7-50, G.S. 58-7-55, and
42 the Act.

1 (h) All books of original entry and corporate records shall be retained by the group
2 or its successor for a period of 15 years after the group ceases to exist.

3 **"§ 58-47-80. Assets and invested assets.**

4 Funds shall be held and invested by the board under G.S. 58-7-160, 58-7-162, 58-7-
5 163, 58-7-165, 58-7-167, 58-7-168, 58-7-170, 58-7-172, 58-7-173, 58-7-177, 58-7-178,
6 58-7-179, 58-7-180, 58-7-183, 58-7-185, 58-7-187, 58-7-188, 58-7-192, 58-7-193, 58-7-
7 195, 58-7-197, and 58-7-200.

8 **"§ 58-47-85. Surplus requirements.**

9 Every group shall maintain minimum surplus under one of the options in subdivision
10 (1), (2), or (3) of this section:

11 (1) Maintain minimum surplus in accordance with Article 12 of this
12 Chapter. A group organized and authorized before the effective date of
13 this section shall comply with this section under the following schedule:

- 14 a. Forty percent (40%) of the surplus, in accordance with Article
15 12, by January 1, 1999.
16 b. Fifty-five percent (55%) of the surplus, in accordance with
17 Article 12, by January 1, 2000.
18 c. Seventy percent (70%) of the surplus, in accordance with Article
19 12, by January 1, 2001.
20 d. Eighty-five percent (85%) of the surplus, in accordance with
21 Article 12, by January 1, 2002.
22 e. One hundred percent (100%) of the surplus, in accordance with
23 Article 12, by January 1, 2003.

24 The Commissioner shall not approve any dividend request that results in
25 a surplus that is less than one hundred percent (100%) of the minimum
26 surplus required by Article 12 of this Chapter.

27 (2) Maintain minimum surplus at an amount equal to ten percent (10%) of
28 the group's total undiscounted outstanding claim liability, according to
29 the group's annual statement filing, or such other amount as the
30 Commissioner prescribes based on, but not limited to, the financial
31 condition of the group and the risk retained by the group. In addition,
32 the group shall:

- 33 a. Maintain specific excess insurance or reinsurance that provides
34 the coverage limits in G.S. 58-47-95(a). The group shall retain
35 no specific risk greater than five percent (5%) of the group's total
36 annual earned premium according to the group's annual statement
37 filing.
38 b. Maintain aggregate excess insurance or reinsurance with a
39 coverage limit being the greater of two million dollars
40 (\$2,000,000) or twenty percent (20%) of the group's annual
41 earned premium, according to the group's annual statement filing.
42 The aggregate excess attachment point shall be one hundred ten
43 percent (110%) of the annual earned premium, according to the

1 group's annual statement filing. The required attachment point
2 shall be reduced by each point, or fraction of a point, that a
3 group's expense ratio exceeds thirty percent (30%). Conversely,
4 the required attachment point may be increased by each point, or
5 fraction of a point, that a group's expense ratio is less than thirty
6 percent (30%), but in no event shall the attachment point be
7 greater than one hundred fifteen percent (115%) of the annual
8 earned premium.

9 c. Adopt a policy whereby every member:

- 10 1. Pays a deposit to the group of twenty-five percent (25%)
11 of the member's estimated annual earned premium, or
12 another amount that the Commissioner prescribes based
13 on, but not limited to, the financial condition of the group
14 and the risk retained by the group; or
- 15 2. Once every year files with the group the member's most
16 recent year-end balance sheet, compiled by an
17 independent certified public accountant. The balance
18 sheet shall demonstrate that the member's financial
19 position does not show a deficit equity and is appropriate
20 for membership in the group. At the request of the
21 Commissioner, the group shall make these filings
22 available for review. These filings shall be kept
23 confidential; provided that the Commissioner may use that
24 information in any judicial or administrative proceeding.

25 (3) Maintain minimum surplus at an amount equal to three hundred
26 thousand dollars (\$300,000). The group shall immediately assess its
27 members if, at any time, the group's surplus is less than the minimum
28 surplus amount. In addition, the group shall maintain:

- 29 a. Specific excess insurance or reinsurance that provides coverage
30 limits pursuant to G.S. 58-47-95(a). The group shall retain no
31 specific risk greater than five percent (5%) of the group's total
32 annual earned premium according to the group's annual statement
33 filing.
- 34 b. Aggregate excess insurance or reinsurance with a coverage limit
35 being the greater of two million dollars (\$2,000,000) or twenty
36 percent (20%) of the group's annual earned premium, according
37 to the group's annual statement filing. The aggregate excess
38 attachment point shall be one hundred ten percent (110%) of the
39 annual earned premium, according to the group's annual
40 statement filing. The required attachment point shall be reduced
41 by each point, or fraction of a point, that a group's expense ratio
42 exceeds thirty percent (30%). Conversely, the required
43 attachment point may be increased by each point, or fraction of a

1 point, that a group's expense ratio is less than thirty percent
2 (30%), but in no event shall the attachment point be greater than
3 one hundred fifteen percent (115%) of the annual earned
4 premium.

5 The Commissioner may require different levels, or waive the requirement, of specific and
6 aggregate excess loss coverage consistent with the market availability of excess loss
7 coverage, the group's claims experience, and the group's financial condition.

8 **"§ 58-47-90. Deposits.**

9 (a) Each group shall deposit with the Commissioner an amount equal to ten
10 percent (10%) of the group's total annual earned premium, according to the group's
11 annual statement filing, but not less than six hundred thousand dollars (\$600,000), or
12 another amount that the Commissioner prescribes based on, but not limited to, the
13 financial condition of the group and the risk retained by the group.

14 (b) G.S. 58-5-1, 58-5-20, 58-5-25, 58-5-30, 58-5-35, 58-5-40, 58-5-63, 58-5-75,
15 58-5-80, 58-5-90(a) and (c), 58-5-95, 58-5-110, 58-5-115, and 58-5-120 apply to groups.

16 (c) A group organized and authorized before January 1, 1998, has until January 1,
17 2001, to comply with subsection (b) of this section. However, a dividend request shall
18 not be approved by the Commissioner until the group has replaced its surety bonds with
19 the deposit required by subsection (b) of this section.

20 (d) No judgment creditor, other than a claimant entitled to benefits under the Act,
21 may levy upon any deposits made under this section.

22 (e) Surety bonds shall be in a form prescribed by the Commissioner and issued by
23 an insurer authorized by the Commissioner to write surety business in North Carolina.

24 (f) Any surety bond may be exchanged or replaced with another surety bond that
25 meets the requirements of this section if 90 days' advance written notice is provided to
26 the Commissioner. An endorsement to a surety bond shall be filed with the
27 Commissioner within 30 days after its effective date.

28 (g) If a group ceases to self-insure, dissolves, or transfers its workers'
29 compensation obligations under an assumption reinsurance agreement, the Commissioner
30 shall not release any deposits until the group has fully discharged all of its obligations
31 under the Act.

32 **"§ 58-47-95. Excess insurance and reinsurance.**

33 (a) Each group, on or before its effective date of operation and on a continuing
34 basis thereafter, shall maintain specific and aggregate excess loss coverage through an
35 insurance policy or reinsurance contract. Groups shall maintain limits and retentions
36 commensurate with their exposures. A group's retention shall be the lowest retention
37 suitable for groups with similar exposures and annual premium. The Commissioner may
38 require different levels, or waive the requirement, of specific and aggregate excess loss
39 coverage consistent with the market availability of excess loss coverage, the group's
40 claims experience, and the group's financial condition.

41 (b) Any excess insurance policy or reinsurance contract under this section shall be
42 issued by a licensed insurance company, an approved surplus lines insurance company, or
43 an accredited reinsurer, and shall:

1 (1) Provide for at least 30 days' written notice of cancellation by certified
2 mail, return receipt requested, to the group and to the Commissioner.

3 (2) Be renewable automatically at its expiration, except upon 30 days'
4 written notice of nonrenewal by certified mail, return receipt requested,
5 to the group and to the Commissioner.

6 (c) Every group shall provide to the Commissioner evidence of its excess
7 insurance or reinsurance coverage, and any amendments, within 30 days after their
8 effective dates. Every group shall, at the request of the Commissioner, furnish copies of
9 any excess insurance policies or reinsurance contracts and any amendments.

10 **"§ 58-47-100. Examinations.**

11 G.S. 58-2-131, 58-2-132, and 58-2-133 apply to groups.

12 **"§ 58-47-105. Dividends and other distributions.**

13 (a) Group dividends and other distributions shall be made in accordance with G.S.
14 58-7-130, 58-8-25(b), and 58-19-30. A group shall be in compliance with this Part
15 before payment of dividends or other distributions to its members. No group shall pay
16 dividends or other distributions to its members until two years after the group's licensing
17 date.

18 (b) Payment of dividends to the members of any group shall not be contingent
19 upon the maintenance or continuance of membership in the group.

20 **"§ 58-47-110. Premium rates.**

21 (a) As used in this section:

22 (1) 'Bureau' means the North Carolina Rate Bureau in Article 36 of this
23 Chapter.

24 (2) 'Expenses' means that portion of a premium rate attributable to
25 acquisition, field supervision, collection expenses, and general
26 expenses, as determined by the group.

27 (3) 'Multiplier' means a group's determination of the expenses, other than
28 loss expense and loss adjustment expense, associated with writing
29 workers' compensation and employers' liability insurance, which shall
30 be expressed as a single nonintegral number to be applied equally and
31 uniformly to the prospective loss costs approved by the Commissioner
32 in making rates for each classification of risks utilized by that group.

33 (4) 'Prospective loss costs' means that portion of a rate that does not include
34 provisions for expenses (other than loss adjustment expenses) or profit
35 and that is based on historical aggregate losses and loss adjustment
36 expenses adjusted through development to their ultimate value and
37 forecasted through trending to a future point in time.

38 (5) 'Supplementary rating information' means any manual or plan of rates,
39 classification, rating schedule, minimum premium, policy fee, rating
40 rule, rate-related underwriting rule, experience rating plan, statistical
41 plan, and any other similar information needed to determine the
42 applicable rate in effect or to be in effect.

1 **(b)** Rates and the effective date shall be submitted by the group to the
2 Commissioner for prior approval in the form of a rate filing. The rate filing:

- 3 **(1)** Shall be on a form prescribed by the Commissioner and shall be
4 supported by competent analysis, prepared by an actuary who is a
5 member in good standing of the Casualty Actuarial Society or the
6 American Academy of Actuaries, demonstrating that the resulting rates
7 meet the standards of not being excessive, inadequate, or unfairly
8 discriminatory;
- 9 **(2)** Shall have the final rates and the effective date determined
10 independently and individually by the group;
- 11 **(3)** Shall have manual rates that are the combination of the prospective loss
12 costs and the multiplier;
- 13 **(4)** Shall file any other information that the group considers relevant and
14 shall provide any other information requested by the Commissioner;
- 15 **(5)** Shall be considered complete when the required information and all
16 additional information requested by the Commissioner is received by
17 the Commissioner. When a filing is not accompanied by the
18 information required under this section, the Commissioner shall inform
19 the group within 30 days after the initial filing that the filing is
20 incomplete and shall note the deficiencies. If information required by a
21 rate filing or requested by the Commissioner is not maintained or cannot
22 be provided, the group shall certify that to the Commissioner;
- 23 **(6)** May include deviations to the prospective loss cost based on the group's
24 anticipated experience. Sufficient documentation supporting the
25 deviations and the impact of the deviation shall be included in the rate
26 filing. Expense loads, whether variable, fixed, or a combination of
27 variable and fixed, may vary by individual classification or grouping.
28 Each filing that varies the expense load by class shall specify the
29 expense factor applicable to each class and shall include information
30 supporting the justification for the variation;
- 31 **(7)** Shall include any proposed use of a premium-sized discount program, a
32 schedule rating program, a small deductible credit program or an
33 expense constant or minimum premium, and the use shall be supported
34 in the rate filing; and
- 35 **(8)** Shall be deemed approved, unless disapproved by the Commissioner in
36 writing, within 60 days after the rate filing is made in its entirety. A
37 group is not required to refile rates previously approved until two years
38 after the effective date of this Part.

39 **(c)** At the time of the rate filing, a group may request to have its approved
40 multiplier remain in effect and continue to use either the prospective loss cost filing in
41 effect at the time of the rate filing or the prospective loss cost filing in effect at the time
42 of the filing, along with all other subsequent prospective loss cost filings, as approved.

1 (d) To the extent that a group's manual rates are determined solely by applying its
2 multiplier, as presented and approved in the rate filing, to the prospective loss costs
3 contained in the Bureau's reference filing and printed in the Bureau's rating manual, the
4 group need not develop or file its final rate pages with the Commissioner. If a group
5 chooses to print and distribute final rate pages for its own use, based solely upon the
6 application of its filed prospective loss costs, the group need not file those pages with the
7 Commissioner. If the Bureau does not print the prospective loss costs in its manual, the
8 group shall submit its rates to the Commissioner.

9 (e) If a new filing of rules, relativities, and supplementary rating information is
10 filed by the Bureau and approved:

11 (1) The group shall not file anything with the Commissioner if the group
12 decides to use the revisions as filed, with the effective date as filed
13 together with the prospective loss multiplier on file with the
14 Commissioner.

15 (2) The group shall notify the Commissioner of its effective date before the
16 Bureau filing's effective date if the group decides to use the revisions as
17 filed but with a different effective date.

18 (3) The group shall notify the Commissioner before the Bureau filing's
19 effective date if the group decides not to use the revision or revisions.

20 (4) The group shall file the modification with the Commissioner, for
21 approval, specifying the basis for the modification and the group's
22 proposed effective date if different from the Bureau filing's effective
23 date, if the group decides to use the revision with deviations.

24 (f) Every group shall adhere to the uniform classification plan and experience
25 rating plan filed by the Bureau.

26 (g) Groups shall maintain data in accordance with the uniform statistical plan
27 approved by the Commissioner.

28 (h) Each group shall submit annually a rate certification, signed by an actuary who
29 is a member in good standing of the Casualty Actuarial Society or the American
30 Academy of Actuaries, which states that the group's prospective rates are not excessive,
31 inadequate, or unfairly discriminatory. The certification is to accompany the group's rate
32 filing. If a rate filing is not required, the actuarial rate certification is to be submitted by
33 the end of the calendar year.

34 **"§ 58-47-115. Premium payment requirements.**

35 Groups shall collect members' premiums for each policy period in a manner so that at
36 no time the sum of a member's premium payments is less than the total estimated earned
37 premium for that member.

38 **"§ 58-47-120. Board; composition, powers, duties, and prohibitions.**

39 (a) Each group shall be governed by a board or other governing body comprising
40 no fewer than three persons, elected for stated terms of office, and subject to the
41 Commissioner's approval. All board members shall be residents of this State or members
42 of the group. At least two-thirds of the board shall comprise employees, officers, or
43 directors of members; provided that the Commissioner may waive this requirement for

1 good cause. The group's TPA, service company, or any owner, officer, employee, or
2 agent of, or any other person affiliated with, the TPA or service company shall not serve
3 as a board member. The board shall ensure that all claims are paid promptly and take all
4 necessary precautions to safeguard the assets of the group.

5 (b) The board shall be responsible for the following:

6 (1) Maintaining minutes of its meetings and making the minutes available
7 to the Commissioner.

8 (2) Providing for the execution of its policies, including providing for day-
9 to-day management of the group and delineating in the minutes of its
10 meetings the areas of authority it delegates.

11 (3) Designating a chair to facilitate communication between the group and
12 the Commissioner.

13 (4) Adopting a policy of reimbursement from the assets of the group for
14 out-of-pocket expenses incurred as board members, if so desired.

15 (c) The board shall not:

16 (1) Be compensated by the group, TPA, or service company except for out-
17 of-pocket expenses incurred as board members.

18 (2) Extend credit to members for payment of a premium, except under
19 payment requirements set forth in this Part.

20 (3) Borrow any money from the group or in the name of the group, except
21 in the ordinary course of business, without first informing the
22 Commissioner of the nature and purpose of the loan and obtaining the
23 Commissioner's approval.

24 (d) The board shall adopt bylaws to govern the operation of the group. The
25 bylaws shall comply with the provisions of this section and shall include:

26 (1) The method for selecting the board members, including terms of office.

27 (2) The method for amending the bylaws and the plans of operation and
28 assessment.

29 (3) The method for establishing and maintaining the group.

30 (4) The procedures and requirements for dissolving the group.

31 (e) Each group shall file a copy of its bylaws with the Commissioner. Any
32 changes to the bylaws shall be filed with the Commissioner no later than 30 days before
33 their effective dates. The Commissioner may order the group to rescind or revoke any
34 bylaw if it violates this section or any other applicable law or administrative rule.

35 (f) The board shall adopt and administer a plan of operation to assure the fair,
36 reasonable, and equitable administration of the group. All members shall comply with
37 the plan. The plan shall comply with this section and include:

38 (1) Procedures for administering the assets of the group.

39 (2) A plan of assessment.

40 (3) Loss control services to be provided to the members.

41 (4) Rules for payment and collection of premium.

42 (5) Basis for dividends.

43 (6) Reimbursement of board members.

- 1 (7) Intervals for meetings of the board, which shall be held at least
2 semiannually.
- 3 (8) Procedures for the maintenance of records of all transactions of the
4 group.
- 5 (9) Procedures for the selection of the board members.
- 6 (10) Additional provisions necessary or proper for the execution of the
7 powers and duties of the group.
- 8 (11) Qualifications for group membership, including underwriting guidelines
9 and procedures to identify members that are in hazardous financial
10 conditions.
- 11 (g) The plan and any amendments become effective upon approval in writing by
12 the Commissioner.
- 13 (h) Each year the board shall review:
- 14 (1) The performance evaluation of the TPA or service company, if
15 applicable.
- 16 (2) Loss control services.
- 17 (3) Investment policies.
- 18 (4) Delinquent debts.
- 19 (5) Membership cancellation procedures.
- 20 (6) Admission of new members.
- 21 (7) Claims administration and reporting.
- 22 (8) Payroll audits and findings.
- 23 (9) Excess insurance or reinsurance coverage.

24 The board's findings from its review shall be documented in the board's minutes.

- 25 (i) G.S. 58-7-140 applies to board members.

26 **"§ 58-47-125. Admission and termination of group members.**

27 (a) Prospective group members shall submit applications for membership to the
28 board. The board, a designated employee of the group, or TPA shall approve an
29 application for membership under the bylaws of the group. Members shall have bona
30 fide offices in this State and members' employees shall be primarily engaged in business
31 activities within this State. Members shall receive certificates of coverage from the board
32 on a form acceptable to the Commissioner.

33 (b) The group shall make available to the Commissioner properly executed
34 applications and indemnity agreements for all members, on forms prescribed by the
35 Commissioner. If the applications and indemnity agreements are not executed properly
36 and maintained, the Commissioner may order the group to cease writing all new business
37 until all of the agreements are executed properly and obtained.

38 (c) Members may elect to terminate their participation in a group and may be
39 canceled by the group under G.S. 97-99 and the bylaws of the group.

40 **"§ 58-47-130. Disclosure.**

41 Every group through its board, TPA, service company, agents, or other
42 representatives shall require, before accepting an application, each applicant for
43 membership to acknowledge in writing that the applicant has received the following:

- 1 (1) A document disclosing that the members are jointly and severally liable
2 for the obligations of the group.
- 3 (2) A copy of the group's plan of assessment.
- 4 (3) The amount of specific and aggregate stop loss or excess insurance or
5 reinsurance carried by the group, the amount and kind of risk retained
6 by the group, and the name and rating of the insurer providing stop loss,
7 excess insurance, or reinsurance.

8 **"§ 58-47-135. Assessment plan and indemnity agreement.**

9 (a) Each group shall establish an assessment plan that provides for a reasonable
10 and equitable mechanism for assessing its members. The plan and any amendments shall
11 be approved by the Commissioner. The plan shall include descriptions of the
12 circumstances that initiate an assessment, basis, and allocation to members of the amount
13 being assessed, and collection of the assessment.

14 (b) The board shall notify the Commissioner of an assessment no fewer than 60
15 days before an assessment.

16 (c) The Commissioner shall impose an assessment on members if the board or
17 third-party administrator fails to take action to correct a hazardous financial condition.

18 (d) Every group shall file an indemnity agreement on a form prescribed by the
19 Commissioner, which jointly and severally binds the members of the group to comply
20 with the provisions of the act and pay obligations imposed by the Act.

21 **"§ 58-47-140. Other provisions of this Chapter.**

22 G.S. 58-1-10, 58-2-45, 58-2-50, 58-2-70, 58-2-100, 58-2-105, 58-2-155, 58-2-161,
23 58-2-180, 58-2-185, 58-2-190, 58-2-200, 58-3-71, 58-3-81, 58-3-100, 58-3-120, 58-3-
24 125, 58-6-25, 58-7-21, 58-7-26, 58-7-30, 58-7-33, and Articles 13, 19, 30, 33, 34, and 63
25 of this Chapter apply to groups.

26 **"PART 2. THIRD-PARTY ADMINISTRATORS AND SERVICE COMPANIES**
27 **FOR INDIVIDUAL AND GROUP SELF-INSURERS.**

28 **"§ 58-47-150. Definitions.**

29 As used in this Part:

- 30 (1) 'Books and records' means all files, documents, and databases in a paper
31 form, electronic medium, or both.
- 32 (2) 'Self-insurer' means a group of employers licensed by the Commissioner
33 under Part 1 of this Article or a single employer licensed by the
34 Commissioner under Article 5 of Chapter 97 of the General Statutes to
35 retain its liability under the Workers' Compensation Act and to pay
36 directly the compensation in the amount and manner and when due as
37 provided for in the Act.
- 38 (3) 'Service company' means an entity that has contracted with a self-insurer
39 for the purpose of providing any services related to claims adjustment,
40 loss control, or both.
- 41 (4) 'Third-party administrator' or 'TPA' means a person engaged by a self-
42 insurer to execute the policies established by the self-insurer and to

1 provide day-to-day management of the self-insurer. 'Third-Party
2 Administrator' and 'TPA' does not mean:

3 a. A self-insurer acting on behalf of its employees or the employees
4 of one or more of its affiliates.

5 b. An insurer that is licensed under this Chapter or that is acting as
6 an insurer with respect to a policy lawfully issued and delivered
7 by it and under the laws of a state in which the insurer is licensed
8 to write insurance.

9 c. An agent or broker who is licensed by the Commissioner under
10 Article 33 of this Chapter whose activities are limited exclusively
11 to the sale of insurance.

12 d. An adjuster licensed by the Commissioner under Article 33 of
13 this Chapter whose activities are limited to adjustment of claims.

14 e. An individual who is an officer, a member, or an employee of a
15 board.

16 (5) 'Underwriting' means the process of selecting risks and classifying them
17 according to their degrees of insurability so that the appropriate rates
18 may be assigned. The process also includes rejection of those risks that
19 do not qualify.

20 **"§ 58-47-155. TPAs and service companies; authority; qualifications.**

21 (a) No person shall act as, offer to act as, or hold himself or herself out as a TPA
22 or a service company with respect to risks located in this State for a self-insurer unless
23 that person complies with this Article.

24 (b) A TPA or service company shall post with the self-insurer a fidelity bond or
25 other appropriate coverage, issued by an authorized insurer, in a form acceptable to the
26 Commissioner, in an amount commensurate with the risk, and with the governing board
27 of the self-insurer as obligee or beneficiary.

28 (c) A TPA or service company shall maintain errors and omissions coverage or
29 other appropriate liability insurance in a form acceptable to the Commissioner and in an
30 amount commensurate with the risk. The governing body of the self-insurer shall be
31 obligee or beneficiary of the coverage or insurance.

32 (d) If the Commissioner determines that a TPA or service company or any other
33 person has not materially complied with this Article or with any rule adopted or order
34 issued under this Article, after notice and opportunity to be heard, the Commissioner may
35 order for each separate violation a civil penalty under G.S. 58-2-70(d).

36 (e) If the Commissioner finds that because of a material noncompliance that a self-
37 insurer has suffered any loss or damage, the Commissioner may maintain a civil action
38 brought by or on behalf of the self-insurer and its covered members or persons and
39 creditors for recovery of compensatory damages for the benefit of the self-insurer and its
40 covered members or persons and creditors, or for other appropriate relief.

41 (f) Nothing in this Article affects the Commissioner's right to impose any other
42 penalties provided for in this Chapter or limits or restricts the rights of covered members
43 or persons, claimants, and creditors.

1 (g) If an order of rehabilitation or liquidation of the self-insurer has been entered
2 under Article 30 of this Chapter, and the receiver appointed under that order determines
3 that the TPA or service company or any other person has not materially complied with
4 this Article or any rule adopted or order issued under this Article, and the self-insurer
5 suffered any loss or damage from the noncompliance, the receiver may maintain a civil
6 action for recovery of damages or other appropriate sanctions for the benefit of the self-
7 insurer.

8 **"§ 58-47-160. Written agreement; composition; restrictions.**

9 (a) No person may act as a TPA or service company without a written agreement
10 between the TPA or service company and the self-insurer. The written agreement shall
11 be retained by the self-insurer and the TPA or service company for the duration of the
12 agreement and for five years thereafter. The agreement shall contain all provisions
13 required by this Article, to the extent those requirements apply to the functions performed
14 by the TPA or service company.

15 (b) Groups shall file with the Commissioner the written agreement, and any
16 amendments to the agreement, within 30 days after execution. Single employers shall
17 furnish the Commissioner, upon request, the written agreement and any amendments to
18 the agreement. The information required by this section, including any trade secrets,
19 shall be kept confidential; provided that the Commissioner may use that information in
20 any judicial or administrative proceeding instituted against the TPA or service company.

21 (c) The written agreement shall set forth the duties and powers of the TPA or
22 service company and the self-insurer. The Commissioner shall disapprove any such
23 written agreement that:

24 (1) Subjects the self-insurer to excessive charges for expenses or
25 commission.

26 (2) Vests in the TPA or service company any control over the management
27 of the affairs of the self-insurer to the exclusion of the governing board
28 of the self-insurer.

29 (3) Is entered into with any TPA or service company if the person acting as
30 the TPA or service company, or any of the officers or directors of the
31 TPA or service company, is of known bad character or has been
32 affiliated directly or indirectly through ownership, control, management,
33 reinsurance transactions, or other insurance or business relationships
34 with any person known to have been involved in the improper
35 manipulation of assets, accounts, or reinsurance.

36 (4) Is determined by the Commissioner to contain provisions that are not
37 fair and reasonable to the self-insurer.

38 (d) The self-insurer, TPA, or service company may, by written notice, terminate
39 the agreement as provided in the agreement. The self-insurer may suspend the
40 underwriting authority of the TPA during the pendency of any dispute regarding the
41 cause for termination of the agreement. The self-insurer shall fulfill any lawful
42 obligations with respect to policies affected by the agreement, regardless of any dispute
43 between the self-insurer and the TPA or service company.

1 (e) The contract may not be assigned in whole or part by the TPA or service
2 company without prior approval by the governing board of the self-insurer and the
3 Commissioner.

4 **"§ 58-47-165. Books and records.**

5 (a) Every TPA or service company shall maintain and make available to the self-
6 insurer complete books and records of all transactions performed on behalf of the self-
7 insurer. The books and records shall be maintained by the self-insurer, TPA, or service
8 company in accordance with G.S. 58-47-180.

9 (b) The Commissioner shall have access to books and records maintained by a
10 TPA or service company for the purposes of examination, audit, or inspection. The
11 Commissioner shall keep confidential any trade secrets contained in those books and
12 records, including the identity and addresses of the covered members of a self-insurer,
13 except that the Commissioner may use the information in any judicial or administrative
14 proceeding instituted against the TPA or service company.

15 (c) The Commissioner may use the TPA or service company as an intermediary in
16 the Commissioner's dealings with the self-insurer if the Commissioner determines that
17 this will result in a more rapid and accurate flow of information from the self-insurer and
18 will aid in the self-insurer's compliance with this Article and the Workers' Compensation
19 Act.

20 (d) The self-insurer shall own the books and records generated by the TPA or
21 service company pertaining to the self-insurer's business.

22 (e) The self-insurer shall have access to and rights to duplicate all books and
23 records related to its business.

24 (f) If the self-insurer and the TPA or service company cancel their agreement,
25 notwithstanding the provisions of subsection (a) of this section, the TPA or service
26 company, shall transfer all books and records to the new TPA, service company, or the
27 self-insurer in a form acceptable to the Commissioner. The new TPA or service company
28 shall acknowledge, in writing, that it is responsible for retaining the books and records of
29 the previous TPA, service company, or the self-insurer as required in subsection (a) of
30 this section.

31 **"§ 58-47-170. Payments to TPA or service company.**

32 If a self-insurer uses the services of a TPA, the payment to the TPA of any premiums
33 or charges for insurance by or on behalf of the insured party is considered payment to the
34 self-insurer. The payment of return premiums or claim payments forwarded by the self-
35 insurer to the TPA or service company is not considered payment to the insured party or
36 claimant until the payments are received by the insured party or claimant. This section
37 does not limit any right of the self-insurer against the TPA or service company resulting
38 from the failure of the TPA or service company to make payments to the self-insurer,
39 insured parties, or claimants.

40 **"§ 58-47-175. Approval of advertising.**

41 A TPA or service company may use only the advertising pertaining to or affecting the
42 business underwritten by a self-insurer that has been approved in writing by the self-
43 insurer before its use.

1 **"§ 58-47-180. Premium collection and payment of claims.**

2 (a) The TPA or service company, at a minimum, shall:

3 (1) Periodically render an accounting to the self-insurer detailing all
4 transactions performed by the TPA or service company pertaining to the
5 business underwritten, premium or other charges collected, and claims
6 paid by the self-insurer, when applicable.

7 (2) Deposit all receipts directly into an account maintained in the name of
8 the self-insurer.

9 (3) Pay claims on drafts or checks of and authorized by the self-insurer.

10 (4) Not withdraw from the self-insurer's account except for authority
11 limited to pay claims and refund premiums.

12 (5) Remit return premium, directly from the self-insurer's account, to the
13 person entitled to the return premium.

14 (b) Any check disbursement authority granted to the TPA or service company may
15 be terminated upon the self-insurer's written notice to the TPA or service company or
16 upon termination of the agreement. The self-insurer may suspend the check
17 disbursement authority during the pendency of any dispute regarding the cause for
18 termination.

19 **"§ 58-47-185. Notices; disclosure.**

20 (a) When the services of a TPA are used, the TPA shall provide a written notice
21 approved by the self-insurer to covered members advising them of the identity of, and
22 relationship among, the TPA, the member, and the self-insurer.

23 (b) When a TPA collects funds, the reason for collection of each item shall be
24 identified to the member and each item shall be shown separately from any premium.
25 Additional charges may not be made for services to the extent the services have been paid
26 for by the self-insurer.

27 (c) The TPA shall disclose to the self-insurer all charges, fees, and commissions
28 received from all services in connection with the provision of administrative services for
29 the self-insurer, including any fees or commissions paid by self-insurers for obtaining
30 reinsurance.

31 (d) The TPA or service company shall disclose to the self-insurer the nature of
32 other business in which it is involved.

33 **"§ 58-47-190. Compensation.**

34 A TPA or service company shall not enter into any agreement or understanding with a
35 self-insurer that makes the amount of the TPA's or service company's commissions, fees,
36 or charges contingent upon savings affected in the adjustment, settlement, and payment
37 of losses covered by the self-insurer's obligations. This section does not prohibit a TPA
38 or service company from receiving performance-based compensation for providing
39 medical services through a physician-based network or auditing services and does not
40 prevent the compensation of a TPA or service company from being based on premiums
41 or charges collected or the number of claims paid or processed.

42 **"§ 58-47-195. Examinations.**

1 TPAs and service companies may be examined under G.S. 58-2-131, 58-2-132, and
2 58-2-133.

3 **"§ 58-47-200. Unfair trade practices.**

4 TPAs and service companies are subject to Article 63 of this Chapter.

5 **"§ 58-47-205. Other requirements.**

6 (a) A TPA or service company, or any owner, officer, employee, or agent of a
7 TPA or service company, or any other person affiliated with or related to the TPA or
8 service company shall not serve as a trustee of a self-insurer.

9 (b) Each TPA or service company shall make available for inspection by the
10 Commissioner copies of all contracts with persons using the services of the TPA."

11 Section 4. Chapter 97 of the General Statutes is amended by adding a new
12 Article to read:

13 **"ARTICLE 5.**

14 **"INDIVIDUAL EMPLOYERS.**

15 **"§ 97-165. Definitions.**

16 As used in this Article:

- 17 (1) 'Act' means the Workers' Compensation Act established in Article 1 of
18 this Chapter.
- 19 (2) 'Certified audit' means an audit on which a certified public accountant
20 expresses his or her professional opinion that the accompanying
21 statements fairly present the financial position of the self-insurer, in
22 conformity with generally accepted accounting principles as considered
23 necessary by the auditor under the circumstances.
- 24 (3) 'Certified public accountant' or 'CPA' means a CPA who is in good
25 standing with the American Institute of Certified Public Accountants
26 and in all states in which the CPA is licensed to practice. A CPA shall
27 be recognized as independent as long as the CPA conforms to the
28 standards of the profession, as contained in the Code of Professional
29 Ethics of the American Institute of Certified Public Accountants and
30 Rules and Regulations and Code of Ethics and Rules of Professional
31 Conduct of the North Carolina State Board of Certified Public
32 Accountant Examiners, or similar code. The Commissioner may hold a
33 hearing to determine whether a CPA is independent and, considering the
34 evidence presented, may rule that the CPA is not independent for
35 purposes of expressing an opinion on the GAAP financial statement and
36 require the individual to replace the CPA with another whose
37 relationship with the individual is independent within the meaning of
38 this definition.
- 39 (4) 'Commissioner' means the Commissioner of Insurance.
- 40 (5) 'Corporate surety' means an insurance company authorized by the
41 Commissioner to write surety business in this State.
- 42 (6) 'GAAP financial statement' means a financial statement as defined by
43 generally accepted accounting principles.

- 1 (7) 'Hazardous financial condition' means that, based on its present or
2 reasonably anticipated financial condition, a self-insurer is insolvent or,
3 although not yet financially impaired or insolvent, is unlikely to be able
4 to meet obligations with respect to known claims and reasonably
5 anticipated claims or to pay other obligations in the normal course of
6 business.
- 7 (8) 'Management' means those persons who are authorized to direct or
8 control the operations of a self-insurer.
- 9 (9) 'Qualified actuary' means a member in good standing of the Casualty
10 Actuarial Society or a member in good standing of the American
11 Academy of Actuaries, who has been approved as qualified for signing
12 casualty loss reserve opinions by the Casualty Practice Council of the
13 American Academy of Actuaries, and is in compliance with G.S. 58-2-
14 171.
- 15 (10) 'Self-insurer' means a single employer who retains liability under the
16 Act and is licensed under this Article.

17 **"§ 97-170. License applications; required information.**

18 (a) No employer shall self-insure its workers' compensation liabilities under the
19 Act unless it is licensed by the Commissioner under this Article.

20 (b) An applicant for a license as a self-insurer shall file with the Commissioner the
21 information required by subsection (d) of this section on a form prescribed by the
22 Commissioner at least 90 days before the proposed licensing date. No application is
23 complete until the Commissioner has received all required information.

24 (c) Only an applicant whose employee base is actuarially sufficient in numbers
25 and provides an actuarially appropriate spreading of risk and whose total fixed assets
26 amount to five hundred thousand dollars (\$500,000) or more may apply for a license. In
27 judging the applicant's financial strength and liquidity relative to its ability to comply
28 with the Act, the Commissioner shall consider the applicant's:

- 29 (1) Organizational structure and management;
30 (2) Financial strength;
31 (3) Source and reliability of financial information;
32 (4) Risks to be retained;
33 (5) Workers' compensation loss history;
34 (6) Number of employees;
35 (7) Claims administration;
36 (8) Excess insurance; and
37 (9) Access to excess insurance or reinsurance.

38 (d) The license application shall comprise the following information:

- 39 (1) Company name, organizational structure, location of principal office,
40 contact person, organization date, type of operations within this State,
41 management background, and addresses of all plants or offices in this
42 State.

- 1 (2) Certified audited GAAP financial statements prepared by a CPA for the
2 two most recent years. The financial statement formulation shall
3 facilitate application of ratio and trend analysis.
4 (3) Evidence of the insurance required by G.S. 97-190.
5 (4) Demonstration, satisfactory to the Commissioner, that the employee
6 base is actuarially sufficient in numbers and provides an actuarially
7 appropriate spreading of risk.
8 (5) For applicants with 20 or more full-time employees, a certificate or
9 other evidence of safety inspection, satisfactory to the Commissioner,
10 that certifies that all safety requirements of the Department of Labor
11 have been met.
12 (6) Summary of workers' compensation benefits paid for the last three
13 calendar years, as well as the total liability for all open claims within 30
14 days or some other period acceptable to the Commissioner not to exceed
15 90 days, before the filing of the application.
16 (7) Summary, by risk classification, of annual payroll and number of
17 employees within the State.
18 (8) Book value of fixed assets located within the State.
19 (9) Proof of compliance with the claims administration provisions of
20 Article 47 of Chapter 58 of the General Statutes.
21 (10) A letter of assent, stipulating the applicant's acceptance of membership
22 status in the North Carolina Self-Insurance Guaranty Association under
23 Article 4 of this Chapter.

24 (e) Every applicant shall execute and file with the Commissioner an agreement, as
25 part of the application, in which the applicant agrees to deposit with the Commissioner
26 cash, acceptable securities, or a surety bond issued by a corporate surety that will
27 guarantee the applicant's compliance with this Article and the Act pursuant to G.S. 97-
28 185.

29 **"§ 97-175. License.**

30 (a) After the review of the application and all supporting materials, the
31 Commissioner shall either grant or deny a license. If a license is denied, the
32 Commissioner shall notify the applicant of the denial and inform the applicant of the
33 deficiencies that constitute the basis for denial.

34 (b) If the deficiencies are resolved within 60 days after the Commissioner's notice
35 of denial, the applicant shall be granted a license. The applicant may be granted
36 additional time to remedy the deficiencies in its application. A request for an extension
37 of time shall be made in writing by the applicant within 30 days after notice of denial by
38 the Commissioner. If the requirements of this Article have not been met, the application
39 shall be withdrawn or denied.

40 **"§ 97-180. Reporting and records.**

41 (a) Every self-insurer shall submit, within 120 days after the end of its fiscal year,
42 a certified audited GAAP financial statement, prepared by a CPA, for that fiscal year.

1 The financial statement formulation shall facilitate the application of ratio and trend
2 analysis.

3 (b) Every self-insurer shall submit within 120 days after the end of its fiscal year a
4 certification from a qualified actuary setting forth the actuary's opinion relating to loss
5 and loss adjustment expense reserves for workers' compensation obligations for each
6 state in which the self-insurer does business. The certification shall show liabilities,
7 excess insurance carrier and other qualifying credits, if any, and net retained workers'
8 compensation liabilities. The qualified actuary shall present an annual report to the self-
9 insurer on the items within the scope of and supporting the certification, within 90 days
10 after the close of the self-insurer's fiscal year. Upon request, the report shall be submitted
11 to the Commissioner.

12 (c) Every self-insurer shall submit within 120 days after the end of its fiscal year a
13 report in the form of a sworn statement prescribed by the Commissioner, setting forth the
14 total workers' compensation benefits paid in the previous fiscal year, as well as the total
15 outstanding workers' compensation liabilities for each loss year, recorded at the close of
16 its fiscal year for the net retained liability.

17 (d) Every self-insurer shall submit within 120 days after the end of its fiscal year
18 annual payroll information. The report shall summarize payroll, by annual amount paid,
19 and the number of employees, by classification, using the rules, classifications, and rates
20 in the most recently approved Workers' Compensation and Employers' Liability
21 Insurance Manual governing the audits of payrolls and the adjustments of premiums.
22 Every self-insurer shall maintain true and accurate payroll records. These payroll records
23 shall be maintained to allow for verification of the completeness and accuracy of the
24 annual payroll report.

25 (e) Every self-insurer shall report promptly to the Commissioner changes in the
26 names and addresses of the businesses it self-insures or intends to self-insure, as well as
27 significant changes in the financial condition, including bankruptcy filings, and changes
28 in its business structure, including its divisions, subsidiaries, affiliates, and internal
29 organization. Any change shall be reported in writing to the Commissioner within 10
30 days after the effective date of the change.

31 **"§ 97-185. Deposits or surety bond.**

32 (a) Every self-insurer shall deposit with the Commissioner an amount equal to
33 twenty-five percent (25%) of the self-insurer's total undiscounted outstanding claim
34 liability per the most recent certification from a qualified actuary as required by G.S. 97-
35 180(b), but not less than five hundred thousand dollars (\$500,000), or such other amount
36 as the Commissioner prescribes based on, but not limited to, the financial condition of the
37 self-insurer and the risk retained by the self-insurer.

38 (b) A self-insurer organized and authorized before the effective date of this section
39 shall have 24 months from the effective date of this section to comply with this section.

40 (c) Deposits received, changes to existing deposits, or deposits exchanged after the
41 effective date of this section, shall comprise one or more of the following:

42 (1) Interest-bearing bonds of the United States of America.

1 (2) Interest-bearing bonds of the State of North Carolina, or of its cities or
2 counties.

3 (3) Certificates of deposit issued by any solvent bank domesticated in the
4 State of North Carolina that have a maturity of one year or greater.

5 (4) Surety bonds in a form acceptable to the Commissioner and issued by a
6 corporate surety.

7 (5) Any other investments that are approved by the Commissioner.

8 (d) All bonds or securities that are posted as a security deposit shall be valued
9 annually at market value. If market value is less than face value, the Commissioner may
10 require the self-insurer to post additional securities. In making this determination, the
11 Commissioner shall consider the self-insurer's financial condition, the amount by which
12 market value is less than face value, and the likelihood that the securities will be needed
13 to provide benefits.

14 (e) Securities deposited under this section shall be assigned to the Commissioner,
15 the Commissioner's successors, assigns, or trustees, on a form prescribed by the
16 Commissioner in a manner that renders the securities negotiable by the Commissioner. If
17 a self-insurer is deemed by the Commissioner to be in a hazardous financial condition,
18 the Commissioner may sell or collect, or both, such amounts that will yield sufficient
19 funds to meet the self-insurer's obligations under the Act. Interest accruing on any
20 negotiable security deposited under this Article shall be collected and transmitted to the
21 self-insurer if the self-insurer is not in a hazardous financial condition.

22 (f) No judgment creditor, other than a claimant entitled to benefits under the Act,
23 may levy upon any deposits made under this section.

24 (g) Securities held by the Commissioner under this section may be exchanged or
25 replaced by the self-insurer with other securities of like nature and amount as long as the
26 self-insurer is not in a hazardous financial condition. No release shall be effectuated until
27 replacement securities or bonds of an equal value have been substituted. Any surety
28 bond may be exchanged or replaced with another surety bond that meets the requirements
29 of this section if 90 days' advance written notice is given to the Commissioner. If a self-
30 insurer ceases to self-insure or desires to replace securities with an acceptable surety
31 bond or bonds, the self-insurer shall notify the Commissioner, and may recover all or a
32 portion of the securities deposited with the Commissioner upon posting instead an
33 acceptable special release bond issued by a corporate surety in an amount equal to the
34 total value of the securities. The special release bond shall cover all existing liabilities
35 under the Act plus an amount to cover future loss development and shall remain in force
36 until all obligations under the Act have been discharged fully.

37 (h) If a self-insurer ceases to self-insure, no deposits shall be released by the
38 Commissioner until the self-insurer has discharged fully all of the self-insurer's
39 obligations under the Act.

40 (i) An endorsement to a surety bond shall be filed with the Commissioner within
41 90 days after the effective date of the endorsement.

42 "**§ 97-190. Excess insurance.**"

1 (a) Every self-insurer, as a prerequisite for licensure under this Article, shall
2 maintain specific and aggregate excess loss coverage through an insurance policy. A
3 self-insurer shall maintain limits and retentions commensurate with its risk. A self-
4 insurer's retention shall be the lowest retention suitable for the self-insurer's exposures
5 and level of annual premium. The Commissioner may require different levels, or waive
6 the requirement, of specific and aggregate excess loss coverage consistent with the
7 market availability of excess loss coverage, the self-insurer's claims experience, and the
8 self-insurer's financial condition.

9 (b) An excess insurance policy required by this section shall be issued by either a
10 licensed insurance company or an approved surplus lines insurance company and shall:

11 (1) Provide for at least 30 days' written notice of cancellation by registered
12 or certified mail, return receipt requested, to the self-insurer and to the
13 Commissioner.

14 (2) Be renewable automatically at its expiration, except upon 30 days'
15 written notice of nonrenewal by certified mail, return receipt requested,
16 to the self-insurer and to the Commissioner.

17 (c) Every self-insurer shall provide to the Commissioner evidence of coverage and
18 any amendments within 30 days after their effective dates. Every self-insurer shall, at the
19 request of the Commissioner, furnish copies of its excess insurance policies and
20 amendments.

21 **"§ 97-195. Revocation of license.**

22 (a) The Commissioner summarily may revoke a license if there is satisfactory
23 evidence for the revocation. In determining whether to revoke a license summarily, the
24 Commissioner may consider any or all of the following:

25 (1) Determination of insolvency by a court of competent jurisdiction.

26 (2) Institution of bankruptcy proceedings.

27 (3) If the self-insurer is in a hazardous financial condition.

28 (b) The Commissioner, upon at least 45 days' notice, may revoke a license if there
29 is satisfactory evidence for the revocation. In determining whether to revoke a license
30 under this subsection, the Commissioner may consider any or all of the following:

31 (1) Whether the self-insurer has experienced a material loss or deteriorating
32 operating trends, or reported a deficit financial position.

33 (2) Whether any affiliate or subsidiary is insolvent, threatened with
34 insolvency, or delinquent in payment of its monetary or any other
35 obligation.

36 (3) Whether the self-insurer has failed to pay premium taxes pursuant to
37 Article 8B of Chapter 105 of the General Statutes.

38 (4) Whether the self-insurer has failed to pay an assessment under G.S. 97-
39 100.

40 (5) Contingent liabilities, pledges, or guaranties that either individually or
41 collectively involve a total amount that in the Commissioner's opinion
42 may affect a self-insurer's solvency.

- 1 (6) Whether the management of a self-insurer has failed to respond to the
2 Commissioner's inquiries about the condition of the self-insurer or has
3 furnished false and misleading information in response to an inquiry by
4 the Commissioner.
- 5 (7) Whether the management of a self-insurer has filed any false or
6 misleading sworn financial statement, has released a false or misleading
7 financial statement to a lending institution or to the general public, or
8 has made a false or misleading entry or omitted an entry of material
9 amount in the filed financial information.
- 10 (8) Whether the self-insurer has experienced or will experience in the
11 foreseeable future, cash flow or liquidity problems.
- 12 (9) Whether the self-insurer has not complied with the other provisions of
13 this Article or the Act.
- 14 (10) Whether the self-insurer has failed to make proper and timely payment
15 of claims as required by this Article.

16 (c) Any self-insurer subject to license revocation under subsection (a) or (b) of this
17 section may request an administrative hearing before the Commissioner to review that
18 order. If a hearing is requested, a notice of hearing shall be served, and the notice shall
19 state the time and place of hearing and the conduct, condition, or ground on which the
20 Commissioner based the order. Unless mutually agreed upon between the Commissioner
21 and the self-insurer, the hearing shall occur not less than 10 days nor more than 30 days
22 after notice is served and shall be either in Wake County or in some other place
23 designated by the Commissioner. The Commissioner shall hold all hearings under this
24 section privately unless the self-insurer requests a public hearing, in which case the
25 hearing shall be public. The request for a hearing shall not stay the effect of the order.

26 **"§ 97-200. Claims administration.**

27 (a) A self-insurer shall not utilize any claims adjuster unless the adjuster is
28 licensed under G.S. 58-33-25.

29 (b) Every self-insurer shall comply with the provisions of Article 47 of Chapter 58
30 of the General Statutes that are related to claims administration."

31 Section 5. G.S. 97-93 reads as rewritten:

32 **"§ 97-93. Employers required to carry insurance or prove financial ability to pay**
33 **for benefits; employers required to post notice; self-insured employers**
34 **regulated by Commissioner of Insurance.**

35 (a) Every employer subject to the provisions of this Article relative to the payment
36 of compensation shall either:

- 37 (1) Insure and keep insured his liability under this Article in any authorized
38 corporation, association, organization, or in any mutual insurance
39 association formed by a group of employers so authorized; or
- 40 (2) ~~Furnish to the Commissioner of Insurance satisfactory proof of the~~
41 ~~employer's financial ability, either alone or through membership in a~~
42 ~~group of two or more employers who are members of the same trade or~~
43 ~~professional association and who agree to pool their liabilities under this~~

1 Article, to directly pay the compensation in the amount and manner and
2 when due as provided for in this Article. The trade or professional
3 association must have been incorporated in North Carolina and in
4 existence at least five years prior to the date of application to the
5 Commissioner of Insurance to form a self-insurer's fund and shall
6 submit a written determination from the Internal Revenue Service that it
7 is exempt from taxation under 26 U.S.C. § 501(e).

8 A group organized and approved under this subdivision prior to July
9 1, 1995, is not required to consist of employers of the same trade or
10 professional association, have existed for five years, have been
11 incorporated in North Carolina, or furnish the determination of tax-
12 exempt status under 26 U.S.C. § 501(e).

13 (3) Obtain a license from the Commissioner of Insurance under Article 5 of
14 this Chapter or under Article 47 of Chapter 58 of the General Statutes.

15 (b) ~~In the case of subdivision (a)(2) of this section, the Commissioner of Insurance~~
16 ~~may require the deposit of an acceptable security, indemnity, or bond to secure the~~
17 ~~payment of compensation liabilities as they are incurred. Any individual employer or~~
18 ~~group of employers who furnish proof of financial ability under subdivision (a)(2) of this~~
19 ~~section shall be governed in all respects by this Article and by rules adopted by the~~
20 ~~Commissioner of Insurance.~~

21 (c) ~~Payment of dividends to the members of any group of employers who agree to~~
22 ~~pool their liabilities under subdivision (a)(2) of this section shall not be contingent upon~~
23 ~~the maintenance or continuance of membership in such pools.~~

24 (d) ~~Groups of two or more employers who agree to pool their liabilities under~~
25 ~~subdivision (a)(2) of this section are subject, in addition to the provisions cited in G.S.~~
26 ~~58-2-145(a), to G.S. 58-2-165, G.S. 58-3-81, 58-6-25, 58-7-50, 58-7-55, 58-7-140, 58-7-~~
27 ~~160, 58-7-162, 58-7-163, 58-7-165, 58-7-167, 58-7-168, 58-7-170, 58-7-172, 58-7-173,~~
28 ~~58-7-177, 58-7-179, 58-7-180, 58-7-183, 58-7-185, 58-7-187, 58-7-188, 58-7-192, 58-7-~~
29 ~~193, 58-7-195, 58-7-197, 58-7-200, and Articles 13, 19, 30, and 34 of Chapter 58 of the~~
30 ~~General Statutes.~~

31 (e) Every employer who is in compliance with the provisions of subsection (a) of
32 this section shall post in a conspicuous place in places of employment a notice stating
33 that employment by this employer is subject to the North Carolina Workers'
34 Compensation Act and stating whether the employer has a policy of insurance against
35 liability or qualifies as a self-insured employer. In the event the employer allows its
36 insurance to lapse or ceases to qualify as a self-insured employer, the employer shall,
37 within five working days of this occurrence, remove any notices indicating otherwise."

38 Section 6. G.S. 97-143 reads as rewritten:

39 "**§ 97-143. Use of deposits made by insolvent member self-insurers.**

40 After the Commissioner has notified the Association, under G.S. 97-136(a), that a
41 member is insolvent, the Commissioner shall assign and deliver to the Association, and
42 the Association is authorized to expend the deposit made by the insolvent member
43 pursuant to ~~G.S. 97-93(b), under G.S. 58-47-90 or G.S. 97-185,~~ to the extent the deposit is

1 needed by the Association to pay covered claims against ~~the premium taxes owed by the~~
2 insolvent member as required by this Article, and to the extent the deposit is needed to
3 pay expenses of the Association relating to covered claims against the insolvent member.
4 The Association shall account to the Commissioner and the insolvent member or its
5 successor for all deposits received from the Commissioner under this section."

6 Section 7. G.S. 58-2-145 and G.S. 97-96 are repealed.

7 Section 8. G.S. 97-130(6) reads as rewritten:

8 "(6) 'Member self-insurer' or 'member' means a self-insurer which is
9 authorized by the Commissioner to self-insure pursuant to G.S. ~~97-93,~~
10 ~~97-94 and 97-96.~~ 97-93 and G.S. 97-94."

11 Section 9. G.S. 97-131(b)(3) reads as rewritten:

12 "(3) In determining the membership of the Association pursuant to
13 subdivisions (1) and (2) of this subsection for any date after the
14 effective date of this Article, no employer or group of employers
15 claiming self-insurer status may be deemed to be a member of the
16 Association on any date after the effective date of this Article, unless
17 that employer or group of employers is at that time authorized as a self-
18 insurer by the Commissioner pursuant to G.S. ~~97-93, 97-94, and 97-96.~~
19 97-93 and G.S. 97-94."

20 Section 10. This act becomes effective December 1, 1997.