

Reprinted

FILED MAR 03 1989

SENATE FILE 332
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO SSB 104)

Passed Senate, Date 3-14-89 (p. 784) Passed House, Date 3/15/90 (p. 1127)
Vote: Ayes 46 Nays 4 Vote: Ayes 92 Nays 0
Approved April 6, 1990

A BILL FOR

1 An Act relating to legal expense insurance by regulating the sale
2 of contracts providing reimbursement for legal expenses in
3 consideration of a specified payment for a period of time,
4 establishing a premium tax, and providing penalties.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

SENATE FILE 332

S-3184

1 Amend Senate File 332 as follows:

2 1. Page 2, line 16, by striking the word "by" and
3 inserting the following: "through".

4 2. Page 2, line 19, by striking the word "by" and
5 inserting the following: "through".

6 3. Page 3, line 29, by striking the words "or
7 paralegal personnel".

8 4. Page 6, by striking lines 14 through 27.

9 5. Page 10, lines 2 and 3, by striking the words
10 "attorney general for reference to the supreme court"
11 and inserting the following: "Iowa state bar
12 association committee on professional ethics and
13 conduct pursuant to the provisions of supreme court
14 rule 118".

15 6. By renumbering as necessary.

By RICHARD RUNNING
DONALD DOYLE

S-3184 FILED MARCH 8, 1989

ADOPTED 3-14-89 (p. 784)

1 Section 1. NEW SECTION. 515F.1 PURPOSES.

2 This chapter shall be liberally interpreted in order to do
3 the following:

4 1. Encourage the development of effective and economically
5 sound methods for making legal services more readily
6 available.

7 2. Protect the interests of the users of legal services
8 and of the public of this state with a minimum of restriction
9 on experimentation with new forms of organization,
10 administration, or benefits.

11 3. Place the risk inherent in experimentation by new plans
12 on promoters rather than on the consumers.

13 4. Permit and encourage the provision of legal services
14 through persons other than professional insurers subject to
15 practical and reasonable financial and regulatory
16 requirements.

17 5. Permit and encourage fair and effective competition
18 among the various systems of financing legal services.

19 6. Maintain a high level of quality and conformity to
20 professional standards in the performance of legal services.

21 Sec. 2. NEW SECTION. 515F.2 DEFINITIONS.

22 As used in this chapter unless the context otherwise
23 requires:

24 1. "Commissioner" means the commissioner of insurance.

25 2. "Insurer" means any person who obtains a certificate of
26 authority under this chapter.

27 3. "Legal insurance" means the assumption of a contractual
28 obligation to provide specified legal services or
29 reimbursements for legal expenses in consideration of a
30 specified payment for an interval of time, regardless of
31 whether the payment is made by the beneficiaries individually
32 or by a third person for the beneficiaries, in such a manner
33 that the total cost incurred by assuming the obligation is to
34 be spread directly or indirectly among a group of persons.

35 "Contractual obligation" as used in this subsection includes

1 any arrangement giving rise to a reasonable expectation of an
2 enforceable right. "Legal insurance" does not include the
3 provision of or reimbursement for legal services incidental to
4 other insurance coverages.

5 The following are not considered insurance or legal
6 insurance under the insurance laws of this state:

7 a. A retainer contract made with an individual client with
8 the fee based on an estimate of the nature and amount of
9 services that will be provided to the specific client, or a
10 similar contract made with a group of clients involved in the
11 same or closely related legal matter, such as a class action.

12 b. A plan providing limited benefits on simple legal
13 matters on an informal basis, not involving a legally binding
14 promise, in the context of an employment, educational, or
15 similar relationship.

16 ~~3184~~ c. Legal services provided by unions or employee
17 associations to their members in matters relating to
18 employment or occupation.

19 ~~3184~~ d. Legal services provided by an agency of the federal or
20 state government or governmental subdivision to its employees.

21 Sec. 3. NEW SECTION. 515F.3 AUTHORIZATION REQUIRED.

22 1. A person shall not transact the business of legal
23 insurance in this state without first obtaining a certificate
24 of authority from one of the following sources:

25 a. Under this chapter.

26 b. Under the general laws pertaining to insurance.

27 2. A person may apply to the commissioner for and obtain a
28 certificate of authority to transact the business of legal
29 insurance in compliance with this chapter. This section does
30 not by itself enlarge the powers of any corporation given by
31 its articles of incorporation or charter, but does authorize a
32 corporation formed under the general business, insurance, or
33 general nonprofit corporation laws of this state to include in
34 its powers the authority to transact legal insurance.

35 3. An application shall be in a form prescribed by the

1 commissioner. If the applicant is not domiciled in this
2 state, the application must be accompanied by a power of
3 attorney duly executed by the applicant appointing the
4 commissioner, and the commissioner's duly authorized deputies,
5 as the true and lawful attorneys of the applicant in and for
6 this state, upon whom all lawful process in any legal action
7 or proceeding against the applicant on a cause of action
8 arising in this state may be served.

9 Sec. 4. NEW SECTION. 515F.4 CONDITIONS FOR ISSUING
10 CERTIFICATE OF AUTHORITY.

11 Upon receipt of an application for a certificate of
12 authority, the commissioner shall issue or deny a certificate
13 pursuant to this chapter within thirty days of the
14 application, which may be extended for an additional thirty
15 days by notice to the applicant prior to the expiration of the
16 first thirty days. A certificate of authority shall be issued
17 upon payment of the application fee prescribed in section
18 515F.18 of this chapter, if the commissioner is satisfied that
19 all of the following conditions are met:

20 1. The persons responsible for the conduct of the affairs
21 of the applicant are competent, trustworthy, and of good
22 reputation.

23 2. The applicant demonstrates the willingness and ability
24 to assure that the promised benefits can be provided. In
25 making this determination the commissioner shall consider so
26 far as applicable all of the following:

27 a. The adequacy of capital and surplus considered in
28 relation to the other items in this section.

304-29 b. Any agreement with lawyers or paralegal personnel for
30 the provision of legal services.

31 c. The financial soundness of the applicant's arrangements
32 for legal services and the schedule of rates proposed to be
33 used in connection with the arrangements for legal services.

34 d. Any agreement with another person authorized under this
35 chapter, an insurer licensed under the general insurance laws

1 to do business in this state, a reinsurer eligible under the
2 laws or rules of this state to provide reinsurance, or an
3 agency of the federal or state government for insuring the
4 payment of the cost of legal services or the provision for
5 automatic applicability of an alternative coverage if the
6 insurer is unable to perform its obligations.

7 e. Any surety bond or deposit of cash or securities as a
8 guarantee that the obligations will be duly performed.

9 f. If the applicant is licensed as an insurer under other
10 insurance laws of this state, whether the applicant has
11 complied with the requirements of those laws.

12 Sec. 5. NEW SECTION. 515F.5 REGULATION OF POLICY FORMS
13 AND RATES.

14 1. a. A contractual obligation for legal insurance shall
15 be evidenced by a policy or master policy. Legal insurance
16 may be written on an individual, group, blanket, or franchise
17 basis. Each person insured under a group policy must be
18 issued a certificate of coverage. A legal insurance policy or
19 certificate of any kind shall not be issued or delivered in
20 this state unless and until a copy of the policy or master
21 policy and certificate of coverage has been filed with and
22 approved by the commissioner.

23 b. The policy or master policy and certificate of coverage
24 must meet all of the following requirements:

25 (1) A policy or master policy must contain a detailed list
26 and description of the legal services promised or the legal
27 matters for which expenses are to be reimbursed and the amount
28 of reimbursement.

29 (2) A policy or certificate under a master policy must
30 indicate prominently the name of the insurer and the full
31 address of its principal place of business.

32 (3) A certificate issued under a group policy may
33 summarize the terms of the master contract but must contain a
34 full and clear statement of the benefits provided.

35 c. The commissioner may disapprove the form of a policy.

1 master policy, or certificate of coverage if the commissioner
2 finds that it fails any of the following:

3 (1) Does not meet the requirements of subsection "b".

4 (2) Is unfair, unfairly discriminatory, misleading,
5 obscure, or encourages misrepresentation or misunderstanding
6 of the contract, including cases where the form does any of
7 the following:

8 (a) Provides coverage or benefits that are too restricted
9 to achieve the purposes for which the policy is designed.

10 (b) Fails to attain a reasonable degree of readability,
11 simplicity, and conciseness.

12 (c) Is misleading, deceptive, or obscure because of its
13 physical aspects such as format, typography, style, color, or
14 organization.

15 (3) Provides coverage or benefits or contains other
16 provisions that would endanger the solvency of the insurer.

17 (4) Is contrary to law.

18 2. a. Rate filing and rate review procedures applicable
19 to this chapter shall be those set out in chapter 515A and
20 supporting rules.

21 b. The rates of a legal expense insurer must meet all of
22 the following requirements:

23 (1) The rates must be established and justified in
24 accordance with generally accepted insurance principles,
25 including but not limited to the experience or judgment of the
26 insurer making the rate filing or actuarial computations.

27 (2) The rates shall not be excessive, inadequate, or
28 unfairly discriminatory. Rates are not unfairly
29 discriminatory because they are averaged broadly among persons
30 insured under group, franchise, or blanket policies.

31 c. The commissioner may by written order, suspend, or
32 modify the requirements of filing for any risk, group, or
33 class of risk, the rates for which cannot practically be filed
34 before they are used.

35 3. If the commissioner determines that a form reviewed

1 under subsection 1 or a schedule of rates reviewed under
2 subsection 2 complies with the requirements of this section,
3 the commissioner shall approve the form or schedule within
4 thirty days, which may be extended for an additional thirty
5 days, by notice in writing to the person making the filing
6 prior to the expiration of the first thirty days. If the
7 commissioner disapproves a filing the commissioner shall
8 notify the person making the filing in writing specifying the
9 reasons for disapproval. A hearing shall be granted within
10 thirty days after a request in writing by any person aggrieved
11 by the decision of the commissioner. The commissioner may,
12 after notice and hearing, disapprove any rate that has been
13 previously approved.

14 4. A schedule of compensation paid either directly to
15 lawyers or beneficiaries as reimbursement of costs incurred
16 for covered legal services shall be filed with the
17 commissioner within thirty days after its use. The
18 commissioner may disapprove the use of any schedule in whole
19 or in part after a hearing if the commissioner finds the
20 compensation to be unreasonable in relation to the services
21 provided. In making this determination the commissioner shall
22 consider, to the extent appropriate, all of the following:
23 a. The usual customary fees charged by lawyers generally
24 in the area where the services are provided.
25 b. The services to be provided.
26 c. The extent to which participation in the plan
27 guarantees lawyers a steady flow of employment and income.

28 5. The commissioner may require the submission of any
29 information deemed by the commissioner to be relevant and
30 reasonably necessary to determine whether to approve or
31 disapprove a filing made pursuant to subsection 1, 2, or 4.

32 Sec. 6. NEW SECTION. 515F.6 SEPARATE ACCOUNTS.

33 Except for employee welfare benefit plans regulated under
34 the federal Employee Retirement Income Security Act, a person
35 transacting the business of legal insurance and any business

1 other than insurance shall transact legal insurance wholly
2 through a segregated account in accordance with all of the
3 following requirements:

4 1. The segregated account must satisfy the financial
5 requirements for issuance of a certificate of authority.

6 2. Except as provided in subsections 6 and 7, the income
7 and assets attributable to the segregated account shall always
8 remain identifiable within the account but unless the
9 commissioner so orders, the assets need not be kept physically
10 separate from other assets of the person. The income, gains,
11 and losses, whether or not realized, from assets attributable
12 to the segregated account shall be credited to or charged
13 against the account without regard to other income, gains, or
14 losses of the person.

15 3. Except as provided in subsection 4, assets attributable
16 to a segregated account shall not be chargeable with any
17 liabilities arising out of any other business of the person,
18 nor shall any assets not attributable to the account be
19 chargeable with any liabilities arising out of the account.

20 4. The segregated account shall be deemed an insurer
21 within the meaning of chapter 507C. Claims remaining unpaid
22 after completion of the liquidation under section 507C.42
23 shall be liens on the interests of shareholders, if any, in
24 all of the person's assets that are not liquidated.

25 5. Assets allocated to segregated accounts are the
26 property of the person, which is not and shall not hold itself
27 out to be a trustee of the assets.

28 6. A person may allocate a portion or part of a particular
29 asset to the segregated account.

30 7. The person may by an identifiable act transfer assets
31 to or from the segregated account if both of the following
32 conditions are satisfied:

33 a. The terms are fair and reasonable.

34 b. The books, accounts, and records of each party are
35 maintained so as to clearly and accurately disclose the

1 precise nature and details of the transaction.

2 Sec. 7. NEW SECTION. 515F.7 MANAGEMENT AND EXCLUSIVE
3 CONTRACTS.

4 1. An insurer shall not enter into any exclusive agency
5 contract or management contract, unless the contract is first
6 filed with the commissioner and not disapproved under this
7 section within thirty days after filing, or such reasonable
8 extended period as the commissioner may specify by notice
9 within the thirty days.

10 2. The commissioner shall disapprove a contract under
11 subsection 1 if the commissioner finds that any of the
12 following conditions exist:

13 a. The contract subjects the insurer to excessive charges.

14 b. The contract extends for an unreasonable period of
15 time.

16 c. The contract does not contain fair and adequate
17 standards of performance.

18 d. The persons empowered under the contract to manage the
19 insurer are not sufficiently trustworthy, competent,
20 experienced, or free from conflict of interest to manage the
21 insurer with due regard for the interests of its insureds,
22 creditors, or the public.

23 e. The contract contains provisions which impair the
24 interests of the insurer's insureds, creditors, or the public
25 in this state.

26 Sec. 8. NEW SECTION. 515F.8 ANNUAL REPORT.

27 An insurer shall annually, on or before the first day of
28 March, file with the commissioner a report verified by at
29 least two principal officers. The report shall be on forms
30 prescribed by the commissioner and shall include all of the
31 following:

32 1. A financial statement of the insurer's legal insurance
33 business including all of the following:

34 a. Its balance sheet.

35 b. Its receipts and disbursements for the preceding year.

1 2. Any material changes in the information submitted
2 pursuant to section 515F.4.

3 3. Information about the number of persons protected and
4 terminated as may be required by the commissioner.

5 4. Other information relating to the performance of the
6 insurer as is necessary to enable the commissioner to enforce
7 and administer this chapter.

8 Sec. 9. NEW SECTION. 515F.9 RESERVES.

9 An insurer must maintain the reserves necessary for the
10 sound operation of the business including unearned premium
11 reserves. The amount and manner of calculating these reserves
12 shall be determined by rule by the commissioner in accordance
13 with section 515F.17.

14 Sec. 10. NEW SECTION. 515F.10 INVESTMENT OF ASSETS.

15 The investable funds generated through the transaction of
16 the business of legal insurance by a person who is not
17 licensed to transact other lines of insurance shall be
18 invested in securities or other investments permitted by the
19 laws of this state for the investment of assets of life
20 insurance or in such other securities or investments as the
21 commissioner permits.

22 Sec. 11. NEW SECTION. 515F.11 TRADE PRACTICES.

23 Chapter 507B applies to persons transacting the business of
24 legal insurance except as the chapter is inconsistent with an
25 express provision of this chapter.

26 Sec. 12. NEW SECTION. 515F.12 LICENSING OF AGENTS.

27 The commissioner may, in accordance with section 515F.17
28 adopt reasonable rules to provide for the licensing of agents
29 transacting or selling legal expense insurance.

30 Sec. 13. NEW SECTION. 515F.13 EXAMINATIONS.

31 1. The commissioner shall make an examination of the
32 affairs of any insurer as often as deemed necessary for the
33 protection of the interest of the people of this state.

34 2. Section 507.8 shall apply to examinations conducted
35 pursuant to subsection 1.

1 Sec. 14. NEW SECTION. 515F.14 PROFESSIONAL ETHICS.

2 The commissioner shall report to the attorney general for
3 reference to the supreme court any information which the
4 commissioner considers to be of substance, relating to
5 possible violations of the code of professional
6 responsibility.

7 Sec. 15. NEW SECTION. 515F.15 REVOCATION OF CERTIFICATE
8 OF AUTHORITY.

9 The commissioner may suspend, revoke, or refuse to renew
10 any certificate of authority to a person transacting the
11 business of legal insurance pursuant to section 522.3.

12 Sec. 16. NEW SECTION. 515F.16 SUPERVISION,
13 REHABILITATION, AND LIQUIDATION.

14 Chapter 507C shall apply to a person transacting the
15 business of legal insurance under the provisions of this
16 chapter.

17 Sec. 17. NEW SECTION. 515F.17 ADOPTION OF RULES.

18 The commissioner may adopt pursuant to chapter 17A such
19 reasonable rules as are necessary or proper to carry out the
20 provisions of this chapter.

21 Sec. 18. NEW SECTION. 515F.18 FEES.

22 A person subject to this chapter shall pay to the
23 commissioner the fees required by sections 511.24 and 515.128.

24 Sec. 19. NEW SECTION. 515F.19 TAXATION.

25 Legal insurance premiums shall be taxable under the
26 provisions of section 432.1.

27 Sec. 20. NEW SECTION. 515F.20 PUBLIC DOCUMENTS.

28 An application, filing, or report required under this
29 chapter is a public document.

30 Sec. 21. NEW SECTION. 515F.21 UNAUTHORIZED INSURANCE.

31 Subject to the provisions of this chapter, chapter 507A
32 shall apply to a person transacting the business of legal
33 insurance.

34 Sec. 22. NEW SECTION. 515F.22 APPLICABILITY OF GENERAL
35 INSURANCE LAW TO INSURANCE COMPANIES.

1 The provisions of the state's general insurance laws apply
2 generally to legal insurance offered by an insurer licensed to
3 write other kinds of insurance; provided that legal insurance
4 sold by such an insurer under a certificate of authority
5 obtained under this chapter shall be regulated by the
6 provisions of sections 515F.1 through 515F.5, 515F.7, 515F.12,
7 515F.14, 515F.17, and 515F.19 instead of the corresponding
8 sections of the general insurance law.

9 Sec. 23. NEW SECTION. 515F.23 APPLICABILITY OF GENERAL
10 INSURANCE LAW TO ALL LEGAL INSURERS -- HEARINGS AND APPEALS.

11 1. An order or rule of the commissioner issued under this
12 chapter shall be subject to the provisions of the state's
13 general insurance laws and the provisions of the
14 administrative procedures Act, chapter 17A, relating to
15 hearings and appeals.

16 2. Except as otherwise provided in this chapter, the
17 provisions of the general insurance law shall not apply to
18 insurers authorized to transact the business of legal
19 insurance under this chapter.

20 Sec. 24. NEW SECTION. 515F.24 TRANSITION PROVISION.

21 A person transacting the business of legal insurance as of
22 the effective date of this Act shall submit an application for
23 a certificate of authority under section 515F.4 within ninety
24 days of the effective date of this Act and the applicant may
25 continue to operate until the commissioner acts upon the
26 application. If an application is denied under section
27 515F.4, the applicant shall be treated as a legal insurer
28 whose certificate of authority has been revoked.

29 EXPLANATION

30 This bill authorizes the division of insurance of the
31 department of commerce to regulate the business of legal
32 expense insurance.

33 Section 1 details the purposes for regulating legal expense
34 insurance.

35 Section 2 provides key definitions, including "legal

1 insurance" and what is not considered legal insurance. For
2 example, the typical legal retainer contract is not legal
3 expense insurance nor are legal services provided by a union
4 to its members.

5 Section 3 requires a legal expense insurer to obtain a
6 certificate of authority by application to the commissioner of
7 insurance.

8 Section 4 details the conditions for issuance of a
9 certificate of authority, including tests of financial
10 soundness.

11 Section 5 provides for the review and approval of policy
12 forms, rates, and schedules.

13 Section 6 requires a legal expense insurer to maintain
14 separate accounts for its legal expense business segregated
15 from any other business the insurer engages in.

16 Section 7 permits the commissioner to review and disapprove
17 exclusive agency or management contracts.

18 Section 8 requires a legal expense insurer to submit an
19 annual report on or before March 1.

20 Section 9 requires a legal expense insurer to maintain
21 minimum reserves to protect the financial solvency of the
22 insurer.

23 Section 10 permits a legal expense insurer to invest funds
24 generated in the same manner as life insurance companies or
25 otherwise as permitted by the commissioner.

26 Section 11 makes the insurance trade practices provisions
27 of chapter 507B applicable to persons engaged in legal expense
28 insurance.

29 Section 12 permits the commissioner to require licensing of
30 agents selling legal expense insurance.

31 Section 13 requires the commissioner to conduct an
32 examination of a legal expense insurer when necessary for the
33 protection of the public interest.

34 Section 14 requires the commissioner to report to the
35 attorney general and the supreme court any possible violations

1 of the lawyers' code of professional responsibility
2 encountered by the commissioner.

3 Section 15 authorizes the commissioner to suspend, revoke,
4 or refuse to renew a certificate of authority of a legal
5 expense insurer.

6 Section 16 subjects a legal expense insurer to the
7 rehabilitation and liquidation provisions of chapter 507C.

8 Section 17 grants the commissioner general authority to
9 adopt rules to implement this bill.

10 Section 18 sets fees for persons engaged in the legal
11 expense insurance business equal to those provided for under
12 sections 515.128 and 511.24.

13 Section 19 establishes the rate of taxation of legal
14 expense insurance premiums at two per centum.

15 Section 20 provides that applications, filings, and reports
16 made under the proposed chapter are public documents under the
17 state's public records law.

18 Section 21 makes chapter 507A penalties for transacting
19 unauthorized insurance applicable to unauthorized transactions
20 regarding legal expense insurance.

21 Section 22 provides that an insurance company already
22 licensed under the general insurance laws of this state may
23 engage in legal expense insurance subject to certain
24 conditions.

25 Section 23 applies the general insurance laws of the state
26 and administrative procedure laws to legal expense insurers
27 with regards to hearing and appeal procedures.

28 Section 24 regulates the issuance of a certificate of
29 authority to a legal expense insurer already transacting
30 business in the state upon the effective date of this Act.

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SENATE FILE 332
AS PASSED BY THE SENATE
FISCAL NOTE

A fiscal note for Senate File 332 as passed by Senate is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 332 sets up regulatory guidelines for the sale of legal expense insurance. The bill gives authority to regulate legal expense insurance to the Commissioner of Insurance of the Department of Commerce and makes premiums on such insurance subject to a 2% premium tax.

ASSUMPTIONS:

1. The tax collected on legal expense insurance premiums will be deposited in the Insurance Revolving fund.
2. Tax collected on legal expense insurance premiums will be sufficient to cover any regulatory costs incurred by the Insurance Division.

FISCAL IMPACT: The Insurance Division cannot accurately predict the level of legal expense insurance sales in Iowa because it is a new product. The Division does not anticipate adding additional staff to implement regulation.

Sources: (Department of Commerce, Insurance Division
National Association of Insurance Commissioners) (LSB 1215sv, MAS)

FILED MARCH 15, 1990

BY DENNIS PROUTY, FISCAL DIRECTOR

House Small Bus & Comm
Amended from 57105 in the House 2/6/90 (p. 351)

SENATE FILE 332
BY COMMITTEE ON COMMERCE

(SUCCESSOR TO SSB 104)

(AS AMENDED AND PASSED BY THE SENATE MARCH 14, 1989)

- ~~_____~~ - New Language by the Senate
- * - Language Stricken by the Senate

^{now 5554}
 Passed Senate, Date 3/23/90 (p. 1275) Passed House, Date 3/15/90 (p. 1127)
 Vote: Ayes 41 Nays 0 Vote: Ayes 92 Nays 0
 Approved April 6, 1990

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 2 of contracts providing reimbursement for legal expenses in
 3 consideration of a specified payment for a period of time,
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S.F. 332

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4 1. Encourage the development of effective and economically
5 sound methods for making legal services more readily
6 available.

7 2. Protect the interests of the users of legal services
8 and of the public of this state with a minimum of restriction
9 on experimentation with new forms of organization,
10 administration, or benefits.

11 3. Place the risk inherent in experimentation by new plans
12 on promoters rather than on the consumers.

13 4. Permit and encourage the provision of legal services
14 through persons other than professional insurers subject to
15 practical and reasonable financial and regulatory
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6 insurance under the insurance laws of this state:

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8 the fee based on an estimate of the nature and amount of
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10 similar contract made with a group of clients involved in the
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6 as the true and lawful attorneys of the applicant in and for
7 this state, upon whom all lawful process in any legal action
8 or proceeding against the applicant on a cause of action
9 arising in this state may be served.

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24 2. The applicant demonstrates the willingness and ability
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27 far as applicable all of the following:

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34 used in connection with the arrangements for legal services.

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1 chapter, an insurer licensed under the general insurance laws
2 to do business in this state, a reinsurer eligible under the
3 laws or rules of this state to provide reinsurance, or an
4 agency of the federal or state government for insuring the
5 payment of the cost of legal services or the provision for
6 automatic applicability of an alternative coverage if the
7 insurer is unable to perform its obligations.

8 e. Any surety bond or deposit of cash or securities as a
9 guarantee that the obligations will be duly performed.

10 f. If the applicant is licensed as an insurer under other
11 insurance laws of this state, whether the applicant has
12 complied with the requirements of those laws.

13 Sec. 5. NEW SECTION. 515F.5 REGULATION OF POLICY FORMS
14 AND RATES.

15 1. a. A contractual obligation for legal insurance shall
16 be evidenced by a policy or master policy. Legal insurance
17 may be written on an individual, group, blanket, or franchise
18 basis. Each person insured under a group policy must be
19 issued a certificate of coverage. A legal insurance policy or
20 certificate of any kind shall not be issued or delivered in
21 this state unless and until a copy of the policy or master
22 policy and certificate of coverage has been filed with and
23 approved by the commissioner.

24 b. The policy or master policy and certificate of coverage
25 must meet all of the following requirements:

26 (1) A policy or master policy must contain a detailed list
27 and description of the legal services promised or the legal
28 matters for which expenses are to be reimbursed and the amount
29 of reimbursement.

30 (2) A policy or certificate under a master policy must
31 indicate prominently the name of the insurer and the full
32 address of its principal place of business.

33 (3) A certificate issued under a group policy may
34 summarize the terms of the master contract but must contain a
35 full and clear statement of the benefits provided.

1 c. The commissioner may disapprove the form of a policy,
2 master policy, or certificate of coverage if the commissioner
3 finds that it fails any of the following:

4 (1) Does not meet the requirements of subsection "b".

5 (2) Is unfair, unfairly discriminatory, misleading,
6 obscure, or encourages misrepresentation or misunderstanding
7 of the contract, including cases where the form does any of
8 the following:

9 (a) Provides coverage or benefits that are too restricted
10 to achieve the purposes for which the policy is designed.

11 (b) Fails to attain a reasonable degree of readability,
12 simplicity, and conciseness.

13 (c) Is misleading, deceptive, or obscure because of its
14 physical aspects such as format, typography, style, color, or
15 organization.

16 (3) Provides coverage or benefits or contains other
17 provisions that would endanger the solvency of the insurer.

18 (4) Is contrary to law.

19 2. a. Rate filing and rate review procedures applicable
20 to this chapter shall be those set out in chapter 515A and
21 supporting rules.

22 b. The rates of a legal expense insurer must meet all of
23 the following requirements:

24 (1) The rates must be established and justified in
25 accordance with generally accepted insurance principles,
26 including but not limited to the experience or judgment of the
27 insurer making the rate filing or actuarial computations.

28 (2) The rates shall not be excessive, inadequate, or
29 unfairly discriminatory. Rates are not unfairly
30 discriminatory because they are averaged broadly among persons
31 insured under group, franchise, or blanket policies.

32 c. The commissioner may by written order, suspend, or
33 modify the requirements of filing for any risk, group, or
34 class of risk, the rates for which cannot practically be filed
35 before they are used.

1 3. If the commissioner determines that a form reviewed
2 under subsection 1 or a schedule of rates reviewed under
3 subsection 2 complies with the requirements of this section,
4 the commissioner shall approve the form or schedule within
5 thirty days, which may be extended for an additional thirty
6 days, by notice in writing to the person making the filing
7 prior to the expiration of the first thirty days. If the
8 commissioner disapproves a filing the commissioner shall
9 notify the person making the filing in writing specifying the
10 reasons for disapproval. A hearing shall be granted within
11 thirty days after a request in writing by any person aggrieved
12 by the decision of the commissioner. The commissioner may,
13 after notice and hearing, disapprove any rate that has been
14 previously approved.

* 15 4. The commissioner may require the submission of any
16 information deemed by the commissioner to be relevant and
17 reasonably necessary to determine whether to approve or
18 disapprove a filing made pursuant to subsection 1, 2, or 4.

19 Sec. 6. NEW SECTION. 515F.6 SEPARATE ACCOUNTS.

20 Except for employee welfare benefit plans regulated under
21 the federal Employee Retirement Income Security Act, a person
22 transacting the business of legal insurance and any business
23 other than insurance shall transact legal insurance wholly
24 through a segregated account in accordance with all of the
25 following requirements:

26 1. The segregated account must satisfy the financial
27 requirements for issuance of a certificate of authority.

28 2. Except as provided in subsections 6 and 7, the income
29 and assets attributable to the segregated account shall always
30 remain identifiable within the account but unless the
31 commissioner so orders, the assets need not be kept physically
32 separate from other assets of the person. The income, gains,
33 and losses, whether or not realized, from assets attributable
34 to the segregated account shall be credited to or charged
35 against the account without regard to other income, gains, or

1 losses of the person.

2 3. Except as provided in subsection 4, assets attributable
3 to a segregated account shall not be chargeable with any
4 liabilities arising out of any other business of the person,
5 nor shall any assets not attributable to the account be
6 chargeable with any liabilities arising out of the account.

7 4. The segregated account shall be deemed an insurer
8 within the meaning of chapter 507C. Claims remaining unpaid
9 after completion of the liquidation under section 507C.42
10 shall be liens on the interests of shareholders, if any, in
11 all of the person's assets that are not liquidated.

12 5. Assets allocated to segregated accounts are the
13 property of the person, which is not and shall not hold itself
14 out to be a trustee of the assets.

15 6. A person may allocate a portion or part of a particular
16 asset to the segregated account.

17 7. The person may by an identifiable act transfer assets
18 to or from the segregated account if both of the following
19 conditions are satisfied:

20 a. The terms are fair and reasonable.

21 b. The books, accounts, and records of each party are
22 maintained so as to clearly and accurately disclose the
23 precise nature and details of the transaction.

24 Sec. 7. NEW SECTION. 515F.7 MANAGEMENT AND EXCLUSIVE
25 CONTRACTS.

26 1. An insurer shall not enter into any exclusive agency
27 contract or management contract, unless the contract is first
28 filed with the commissioner and not disapproved under this
29 section within thirty days after filing, or such reasonable
30 extended period as the commissioner may specify by notice
31 within the thirty days.

32 2. The commissioner shall disapprove a contract under
33 subsection 1 if the commissioner finds that any of the
34 following conditions exist:

35 a. The contract subjects the insurer to excessive charges.

1 b. The contract extends for an unreasonable period of
2 time.

3 c. The contract does not contain fair and adequate
4 standards of performance.

5 d. The persons empowered under the contract to manage the
6 insurer are not sufficiently trustworthy, competent,
7 experienced, or free from conflict of interest to manage the
8 insurer with due regard for the interests of its insureds,
9 creditors, or the public.

10 e. The contract contains provisions which impair the
11 interests of the insurer's insureds, creditors, or the public
12 in this state.

13 Sec. 8. NEW SECTION. 515F.8 ANNUAL REPORT.

14 An insurer shall annually, on or before the first day of
15 March, file with the commissioner a report verified by at
16 least two principal officers. The report shall be on forms
17 prescribed by the commissioner and shall include all of the
18 following:

19 1. A financial statement of the insurer's legal insurance
20 business including all of the following:

21 a. Its balance sheet.

22 b. Its receipts and disbursements for the preceding year.

23 2. Any material changes in the information submitted
24 pursuant to section 515F.4.

25 3. Information about the number of persons protected and
26 terminated as may be required by the commissioner.

27 4. Other information relating to the performance of the
28 insurer as is necessary to enable the commissioner to enforce
29 and administer this chapter.

30 Sec. 9. NEW SECTION. 515F.9 RESERVES.

31 An insurer must maintain the reserves necessary for the
32 sound operation of the business including unearned premium
33 reserves. The amount and manner of calculating these reserves
34 shall be determined by rule by the commissioner in accordance
35 with section 515F.17.

1 Sec. 10. NEW SECTION. 515F.10 INVESTMENT OF ASSETS.

2 The investable funds generated through the transaction of
3 the business of legal insurance by a person who is not
4 licensed to transact other lines of insurance shall be
5 invested in securities or other investments permitted by the
6 laws of this state for the investment of assets of life
7 insurance or in such other securities or investments as the
8 commissioner permits.

9 Sec. 11. NEW SECTION. 515F.11 TRADE PRACTICES.

10 Chapter 507B applies to persons transacting the business of
11 legal insurance except as the chapter is inconsistent with an
12 express provision of this chapter.

13 Sec. 12. NEW SECTION. 515F.12 LICENSING OF AGENTS.

14 The commissioner may, in accordance with section 515F.17
15 adopt reasonable rules to provide for the licensing of agents
16 transacting or selling legal expense insurance.

17 Sec. 13. NEW SECTION. 515F.13 EXAMINATIONS.

18 1. The commissioner shall make an examination of the
19 affairs of any insurer as often as deemed necessary for the
20 protection of the interest of the people of this state.

21 2. Section 507.8 shall apply to examinations conducted
22 pursuant to subsection 1.

23 Sec. 14. NEW SECTION. 515F.14 PROFESSIONAL ETHICS.

24 The commissioner shall report to the Iowa state bar
25 association committee on professional ethics and conduct
26 pursuant to the provisions of supreme court rule 118 any
27 information which the commissioner considers to be of
28 substance, relating to possible violations of the code of
29 professional responsibility.

30 Sec. 15. NEW SECTION. 515F.15 REVOCATION OF CERTIFICATE
31 OF AUTHORITY.

32 The commissioner may suspend, revoke, or refuse to renew
33 any certificate of authority to a person transacting the
34 business of legal insurance pursuant to section 522.3.

35 Sec. 16. NEW SECTION. 515F.16 SUPERVISION,

1 REHABILITATION, AND LIQUIDATION.

2 Chapter 507C shall apply to a person transacting the
3 business of legal insurance under the provisions of this
4 chapter.

5 Sec. 17. NEW SECTION. 515F.17 ADOPTION OF RULES.

6 The commissioner may adopt pursuant to chapter 17A such
7 reasonable rules as are necessary or proper to carry out the
8 provisions of this chapter.

9 Sec. 18. NEW SECTION. 515F.18 FEES.

10 A person subject to this chapter shall pay to the
11 commissioner the fees required by sections 511.24 and 515.128.

12 Sec. 19. NEW SECTION. 515F.19 TAXATION.

13 Legal insurance premiums shall be taxable under the
14 provisions of section 432.1.

15 Sec. 20. NEW SECTION. 515F.20 PUBLIC DOCUMENTS.

16 An application, filing, or report required under this
17 chapter is a public document.

18 Sec. 21. NEW SECTION. 515F.21 UNAUTHORIZED INSURANCE.

19 Subject to the provisions of this chapter, chapter 507A
20 shall apply to a person transacting the business of legal
21 insurance.

22 Sec. 22. NEW SECTION. 515F.22 APPLICABILITY OF GENERAL
23 INSURANCE LAW TO INSURANCE COMPANIES.

24 The provisions of the state's general insurance laws apply
25 generally to legal insurance offered by an insurer licensed to
26 write other kinds of insurance; provided that legal insurance
27 sold by such an insurer under a certificate of authority
28 obtained under this chapter shall be regulated by the
29 provisions of sections 515F.1 through 515F.5, 515F.7, 515F.12,
30 515F.14, 515F.17, and 515F.19 instead of the corresponding
31 sections of the general insurance law.

32 Sec. 23. NEW SECTION. 515F.23 APPLICABILITY OF GENERAL
33 INSURANCE LAW TO ALL LEGAL INSURERS -- HEARINGS AND APPEALS.

34 1. An order or rule of the commissioner issued under this
35 chapter shall be subject to the provisions of the state's

1 general insurance laws and the provisions of the
2 administrative procedures Act, chapter 17A, relating to
3 hearings and appeals.

4 2. Except as otherwise provided in this chapter, the
5 provisions of the general insurance law shall not apply to
6 insurers authorized to transact the business of legal
7 insurance under this chapter.

8 Sec. 24. NEW SECTION. 515F.24 TRANSITION PROVISION.

9 A person transacting the business of legal insurance as of
10 the effective date of this Act shall submit an application for
11 a certificate of authority under section 515F.4 within ninety
12 days of the effective date of this Act and the applicant may
13 continue to operate until the commissioner acts upon the
14 application. If an application is denied under section
15 515F.4, the applicant shall be treated as a legal insurer
16 whose certificate of authority has been revoked.

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SENATE FILE 332

H-5600

1 Amend Senate File 332, as amended, passed, and
2 reprinted by the Senate, as follows:

3 1. Page 1, line 5, by inserting after the word
4 "legal" the following: "and medical".

5 2. Page 1, line 7, by inserting after the word
6 "legal" the following: "and medical".

7 3. Page 1, line 13, by inserting after the word
8 "legal" the following: "and medical".

9 4. Page 1, line 18, by inserting after the word
10 "legal" the following: "and medical".

11 5. Page 1, line 20, by inserting after the word
12 "legal" the following: "and medical".

13 6. Page 2, by inserting after line 21, the
14 following:

15 "_____. "Medical insurance" means the assumption of
16 a contractual obligation to provide specified medical
17 services or reimbursements for medical services in
18 consideration of a specified payment for an interval
19 of time, regardless of whether the payment is made by
20 the beneficiaries individually or by a third person
21 for the beneficiaries, in such a manner that the total
22 cost incurred by assuming the obligation is to be
23 spread directly or indirectly among a group of
24 persons. "Contractual obligation" as used in this
25 subsection includes any arrangement giving rise to a
26 reasonable expectation of an enforceable right.
27 "Medical insurance" does not include the provision of
28 or reimbursement for medical services incidental to
29 other insurance coverages."

30 7. Page 2, line 23, by inserting after the word
31 "legal" the following: "or medical".

32 8. Page 2, line 29, by inserting after the word
33 "legal" the following: "or medical".

34 9. Page 2, line 35, by inserting after the word
35 "legal" the following: "or medical".

36 10. Page 3, by inserting after line 31, the
37 following:

38 "_____. Any agreement with physicians or other
39 medical care providers for the provision of medical
40 services."

41 11. Page 3, line 33, by inserting after the word
42 "legal" the following: "or medical".

43 12. Page 3, line 34, by inserting after the word
44 "legal" the following: "or medical".

45 13. Page 4, line 5, by inserting after the word
46 "legal" the following: "or medical".

47 14. Page 4, line 15, by inserting after the word
48 "legal" the following: "or medical".

49 15. Page 4, line 16, by inserting after the word
50 "Legal" the following: "or medical".

H-5600

Page 2

- 1 16. Page 4, line 19, by inserting after the word
- 2 "legal" the following: "or medical".
- 3 17. Page 4, line 27, by inserting after the words
- 4 "of the legal" the following: "or medical".
- 5 18. Page 4, line 27, by inserting after the words
- 6 "or the legal" the following: "or medical".
- 7 19. Page 5, line 22, by inserting after the word
- 8 "legal" the following: "or medical".
- 9 20. Page 6, line 22, by inserting after the word
- 10 "legal" the following: "or medical".
- 11 21. Page 6, line 23, by inserting after the word
- 12 "legal" the following: "or medical".
- 13 22. Page 8, line 19, by inserting after the word
- 14 "legal" the following: "or medical".
- 15 23. Page 9, line 3, by inserting after the word
- 16 "legal" the following: "or medical".
- 17 24. Page 9, line 11, by inserting after the word
- 18 "legal" the following: "or medical".
- 19 25. Page 9, line 16, by inserting after the word
- 20 "legal" the following: "or medical".
- 21 26. Page 9, line 34, by inserting after the word
- 22 "legal" the following: "or medical".
- 23 27. Page 10, line 3, by inserting after the word
- 24 "legal" the following: "or medical".
- 25 28. Page 10, line 13, by inserting after the word
- 26 "Legal" the following: "or medical".
- 27 29. Page 10, line 20, by inserting after the word
- 28 "legal" the following: "or medical".
- 29 30. Page 10, line 25, by inserting after the word
- 30 "legal" the following: "or medical".
- 31 31. Page 10, line 26, by inserting after the word
- 32 "legal" the following: "or medical".
- 33 32. Page 10, line 33, by inserting after the word
- 34 "LEGAL" the following: "OR MEDICAL".
- 35 33. Page 11, line 6, by inserting after the word
- 36 "legal" the following: "or medical".
- 37 34. Page 11, line 9, by inserting after the word
- 38 "legal" the following: "or medical".
- 39 35. Page 11, line 15, by inserting after the word
- 40 "legal" the following: "or medical".
- 41 36. Title page, line 1, by inserting after the
- 42 word "legal" the following: "or medical".
- 43 37. Title page, line 2, by inserting after the
- 44 word "legal" the following: "or medical".

By HIBBARD of Madison

H-5600 FILED MARCH 12, 1990

Revised not germane 3/15 (p. 1127)

SENATE FILE 332

H-5105

- 1 Amend Senate File 332, as amended, passed, and
- 2 reprinted by the Senate as follows:
- 3 1. Page 2, line 18, by striking the words
- 4 "employment or occupation" and inserting the
- 5 following: "simple legal matters on an informal
- 6 basis".

By COMMITTEE ON SMALL BUSINESS
AND COMMERCE

H-5105 FILED FEBRUARY 8, 1990

Adopted 3/5 (p. 1124)

HOUSE AMENDMENT TO
SENATE FILE 332

S-5554

1 Amend Senate File 332, as amended, passed, and
2 reprinted by the Senate as follows:
3 1. Page 2, line 18, by striking the words
4 "employment or occupation" and inserting the
5 following: "simple legal matters on an informal
6 basis".

RECEIVED FROM THE HOUSE

S-5554 FILED MARCH 19, 1990
Senate concurred 3/23 (p.1275)

RUNNING, CH.
DELUHERY
JENSEN

SSB 104
Commerce

SENATE FILE 33.2
BY (PROPOSED DEPARTMENT OF
COMMERCE/INSURANCE
DIVISION BILL)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to legal expense insurance by regulating the sale
2 of contracts providing reimbursement for legal expenses in
3 consideration of a specified payment for a period of time,
4 establishing a premium tax, and providing penalties.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. NEW SECTION. 515F.1 PURPOSES.

2 This chapter shall be liberally interpreted in order to do
3 the following:

4 1. Encourage the development of effective and economically
5 sound methods for making legal services more readily
6 available.

7 2. Protect the interests of the users of legal services
8 and of the public of this state with a minimum of restriction
9 on experimentation with new forms of organization,
10 administration, or benefits.

11 3. Place the risk inherent in experimentation by new plans
12 on promoters rather than on the consumers.

13 4. Permit and encourage the provision of legal services
14 through persons other than professional insurers subject to
15 practical and reasonable financial and regulatory
16 requirements.

17 5. Permit and encourage fair and effective competition
18 among the various systems of financing legal services.

19 6. Maintain a high level of quality and conformity to
20 professional standards in the performance of legal services.

21 Sec. 2. NEW SECTION. 515F.2 DEFINITIONS.

22 As used in this chapter unless the context otherwise
23 requires:

24 1. "Commissioner" means the commissioner of insurance.

25 2. "Insurer" means any person who obtains a certificate of
26 authority under this chapter.

27 3. "Legal insurance" means the assumption of a contractual
28 obligation to provide specified legal services or
29 reimbursements for legal expenses in consideration of a
30 specified payment for an interval of time, regardless of
31 whether the payment is made by the beneficiaries individually
32 or by a third person for the beneficiaries, in such a manner
33 that the total cost incurred by assuming the obligation is to
34 be spread directly or indirectly among a group of persons.

35 "Contractual obligation" as used in this subsection includes

1 any arrangement giving rise to a reasonable expectation of an
2 enforceable right. "Legal insurance" does not include the
3 provision of or reimbursement for legal services incidental to
4 other insurance coverages.

5 The following are not considered insurance or legal
6 insurance under the insurance laws of this state:

7 a. A retainer contract made with an individual client with
8 the fee based on an estimate of the nature and amount of
9 services that will be provided to the specific client, or a
10 similar contract made with a group of clients involved in the
11 same or closely related legal matter, such as a class action.

12 b. A plan providing limited benefits on simple legal
13 matters on an informal basis, not involving a legally binding
14 promise, in the context of an employment, educational, or
15 similar relationship.

16 c. Legal services provided by unions or employee
17 associations to their members in matters relating to
18 employment or occupation.

19 d. Legal services provided by an agency of the federal or
20 state government or governmental subdivision to its employees.

21 Sec. 3. NEW SECTION. 515F.3 AUTHORIZATION REQUIRED.

22 1. A person shall not transact the business of legal
23 insurance in this state without first obtaining a certificate
24 of authority from one of the following sources:

25 a. Under this chapter.

26 b. Under the general laws pertaining to insurance.

27 2. A person may apply to the commissioner for and obtain a
28 certificate of authority to transact the business of legal
29 insurance in compliance with this chapter. This section does
30 not by itself enlarge the powers of any corporation given by
31 its articles of incorporation or charter, but does authorize a
32 corporation formed under the general business, insurance, or
33 general nonprofit corporation laws of this state to include in
34 its powers the authority to transact legal insurance.

35 3. An application shall be in a form prescribed by the

1 commissioner. If the applicant is not domiciled in this
2 state, the application must be accompanied by a power of
3 attorney duly executed by the applicant appointing the
4 commissioner, and the commissioner's duly authorized deputies,
5 as the true and lawful attorneys of the applicant in and for
6 this state, upon whom all lawful process in any legal action
7 or proceeding against the applicant on a cause of action
8 arising in this state may be served.

9 Sec. 4. NEW SECTION. 515F.4 CONDITIONS FOR ISSUING
10 CERTIFICATE OF AUTHORITY.

11 Upon receipt of an application for a certificate of
12 authority, the commissioner shall issue or deny a certificate
13 pursuant to this chapter within thirty days of the
14 application, which may be extended for an additional thirty
15 days by notice to the applicant prior to the expiration of the
16 first thirty days. A certificate of authority shall be issued
17 upon payment of the application fee prescribed in section
18 515F.18 of this chapter, if the commissioner is satisfied that
19 all of the following conditions are met:

- 20 1. The persons responsible for the conduct of the affairs
21 of the applicant are competent, trustworthy, and of good
22 reputation.
- 23 2. The applicant demonstrates the willingness and ability
24 to assure that the promised benefits can be provided. In
25 making this determination the commissioner shall consider so
26 far as applicable all of the following:
 - 27 a. The adequacy of capital and surplus considered in
28 relation to the other items in this section.
 - 29 b. Any agreement with lawyers or paralegal personnel for
30 the provision of legal services.
 - 31 c. The financial soundness of the applicant's arrangements
32 for legal services and the schedule of rates proposed to be
33 used in connection with the arrangements for legal services.
 - 34 d. Any agreement with another person authorized under this
35 chapter, an insurer licensed under the general insurance laws

1 to do business in this state, a reinsurer eligible under the
2 laws or rules of this state to provide reinsurance, or an
3 agency of the federal or state government for insuring the
4 payment of the cost of legal services or the provision for
5 automatic applicability of an alternative coverage if the
6 insurer is unable to perform its obligations.

7 e. Any surety bond or deposit of cash or securities as a
8 guarantee that the obligations will be duly performed.

9 f. If the applicant is licensed as an insurer under other
10 insurance laws of this state, whether the applicant has
11 complied with the requirements of those laws.

12 Sec. 5. NEW SECTION. 515F.5 REGULATION OF POLICY FORMS
13 AND RATES.

14 1. a. A contractual obligation for legal insurance shall
15 be evidenced by a policy or master policy. Legal insurance
16 may be written on an individual, group, blanket, or franchise
17 basis. Each person insured under a group policy must be
18 issued a certificate of coverage. A legal insurance policy or
19 certificate of any kind shall not be issued or delivered in
20 this state unless and until a copy of the policy or master
21 policy and certificate of coverage has been filed with and
22 approved by the commissioner.

23 b. The policy or master policy and certificate of coverage
24 must meet all of the following requirements:

25 (1) A policy or master policy must contain a detailed list
26 and description of the legal services promised or the legal
27 matters for which expenses are to be reimbursed and the amount
28 of reimbursement.

29 (2) A policy or certificate under a master policy must
30 indicate prominently the name of the insurer and the full
31 address of its principal place of business.

32 (3) A certificate issued under a group policy may
33 summarize the terms of the master contract but must contain a
34 full and clear statement of the benefits provided.

35 c. The commissioner may disapprove the form of a policy,

1 master policy, or certificate of coverage if the commissioner
2 finds that it fails any of the following:

3 (1) Does not meet the requirements of subsection "b".

4 (2) Is unfair, unfairly discriminatory, misleading,
5 obscure, or encourages misrepresentation or misunderstanding
6 of the contract, including cases where the form does any of
7 the following:

8 (a) Provides coverage or benefits that are too restricted
9 to achieve the purposes for which the policy is designed.

10 (b) Fails to attain a reasonable degree of readability,
11 simplicity, and conciseness.

12 (c) Is misleading, deceptive, or obscure because of its
13 physical aspects such as format, typography, style, color, or
14 organization.

15 (3) Provides coverage or benefits or contains other
16 provisions that would endanger the solvency of the insurer.

17 (4) Is contrary to law.

18 2. a. Rate filing and rate review procedures applicable
19 to this chapter shall be those set out in chapter 515A and
20 supporting rules.

21 b. The rates of a legal expense insurer must meet all of
22 the following requirements:

23 (1) The rates must be established and justified in
24 accordance with generally accepted insurance principles,
25 including but not limited to the experience or judgment of the
26 insurer making the rate filing or actuarial computations.

27 (2) The rates shall not be excessive, inadequate, or
28 unfairly discriminatory. Rates are not unfairly
29 discriminatory because they are averaged broadly among persons
30 insured under group, franchise, or blanket policies.

31 c. The commissioner may by written order, suspend, or
32 modify the requirements of filing for any risk, group, or
33 class of risk, the rates for which cannot practically be filed
34 before they are used.

35 3. If the commissioner determines that a form reviewed

1 under subsection 1 or a schedule of rates reviewed under
2 subsection 2 complies with the requirements of this section,
3 the commissioner shall approve the form or schedule within
4 thirty days, which may be extended for an additional thirty
5 days, by notice in writing to the person making the filing
6 prior to the expiration of the first thirty days. If the
7 commissioner disapproves a filing the commissioner shall
8 notify the person making the filing in writing specifying the
9 reasons for disapproval. A hearing shall be granted within
10 thirty days after a request in writing by any person aggrieved
11 by the decision of the commissioner. The commissioner may,
12 after notice and hearing, disapprove any rate that has been
13 previously approved.

14 4. A schedule of compensation paid either directly to
15 lawyers or beneficiaries as reimbursement of costs incurred
16 for covered legal services shall be filed with the
17 commissioner within thirty days after its use. The
18 commissioner may disapprove the use of any schedule in whole
19 or in part after a hearing if the commissioner finds the
20 compensation to be unreasonable in relation to the services
21 provided. In making this determination the commissioner shall
22 consider, to the extent appropriate, all of the following:

23 a. The usual customary fees charged by lawyers generally
24 in the area where the services are provided.

25 b. The services to be provided.

26 c. The extent to which participation in the plan
27 guarantees lawyers a steady flow of employment and income.

28 5. The commissioner may require the submission of any
29 information deemed by the commissioner to be relevant and
30 reasonably necessary to determine whether to approve or
31 disapprove a filing made pursuant to subsection 1, 2, or 4.

32 Sec. 6. NEW SECTION. 515F.6 SEPARATE ACCOUNTS.

33 Except for employee welfare benefit plans regulated under
34 the federal Employee Retirement Income Security Act, a person
35 transacting the business of legal insurance and any business

1 other than insurance shall transact legal insurance wholly
2 through a segregated account in accordance with all of the
3 following requirements:

4 1. The segregated account must satisfy the financial
5 requirements for issuance of a certificate of authority.

6 2. Except as provided in subsections 6 and 7, the income
7 and assets attributable to the segregated account shall always
8 remain identifiable within the account but unless the
9 commissioner so orders, the assets need not be kept physically
10 separate from other assets of the person. The income, gains,
11 and losses, whether or not realized, from assets attributable
12 to the segregated account shall be credited to or charged
13 against the account without regard to other income, gains, or
14 losses of the person.

15 3. Except as provided in subsection 4, assets attributable
16 to a segregated account shall not be chargeable with any
17 liabilities arising out of any other business of the person,
18 nor shall any assets not attributable to the account be
19 chargeable with any liabilities arising out of the account.

20 4. The segregated account shall be deemed an insurer
21 within the meaning of chapter 507C. Claims remaining unpaid
22 after completion of the liquidation under section 507C.42
23 shall be liens on the interests of shareholders, if any, in
24 all of the person's assets that are not liquidated.

25 5. Assets allocated to segregated accounts are the
26 property of the person, which is not and shall not hold itself
27 out to be a trustee of the assets.

28 6. A person may allocate a portion or part of a particular
29 asset to the segregated account.

30 7. The person may by an identifiable act transfer assets
31 to or from the segregated account if both of the following
32 conditions are satisfied:

33 a. The terms are fair and reasonable.

34 b. The books, accounts, and records of each party are
35 maintained so as to clearly and accurately disclose the

1 precise nature and details of the transaction.

2 Sec. 7. NEW SECTION. 515F.7 MANAGEMENT AND EXCLUSIVE
3 CONTRACTS.

4 1. An insurer shall not enter into any exclusive agency
5 contract or management contract, unless the contract is first
6 filed with the commissioner and not disapproved under this
7 section within thirty days after filing, or such reasonable
8 extended period as the commissioner may specify by notice
9 within the thirty days.

10 2. The commissioner shall disapprove a contract under
11 subsection 1 if the commissioner finds that any of the
12 following conditions exist:

13 a. The contract subjects the insurer to excessive charges.

14 b. The contract extends for an unreasonable period of
15 time.

16 c. The contract does not contain fair and adequate
17 standards of performance.

18 d. The persons empowered under the contract to manage the
19 insurer are not sufficiently trustworthy, competent,
20 experienced, or free from conflict of interest to manage the
21 insurer with due regard for the interests of its insureds,
22 creditors, or the public.

23 e. The contract contains provisions which impair the
24 interests of the insurer's insureds, creditors, or the public
25 in this state.

26 Sec. 8. NEW SECTION. 515F.8 ANNUAL REPORT.

27 An insurer shall annually, on or before the first day of
28 March, file with the commissioner a report verified by at
29 least two principal officers. The report shall be on forms
30 prescribed by the commissioner and shall include all of the
31 following:

32 1. A financial statement of the insurer's legal insurance
33 business including all of the following:

34 a. Its balance sheet.

35 b. Its receipts and disbursements for the preceding year.

1 2. Any material changes in the information submitted
2 pursuant to section 515F.4.

3 3. Information about the number of persons protected and
4 terminated as may be required by the commissioner.

5 4. Other information relating to the performance of the
6 insurer as is necessary to enable the commissioner to enforce
7 and administer this chapter.

8 Sec. 9. NEW SECTION. 515F.9 RESERVES.

9 An insurer must maintain the reserves necessary for the
10 sound operation of the business including unearned premium
11 reserves. The amount and manner of calculating these reserves
12 shall be determined by rule by the commissioner in accordance
13 with section 515F.17.

14 Sec. 10. NEW SECTION. 515F.10 INVESTMENT OF ASSETS.

15 The investable funds generated through the transaction of
16 the business of legal insurance by a person who is not
17 licensed to transact other lines of insurance shall be
18 invested in securities or other investments permitted by the
19 laws of this state for the investment of assets of life
20 insurance or in such other securities or investments as the
21 commissioner permits.

22 Sec. 11. NEW SECTION. 515F.11 TRADE PRACTICES.

23 Chapter 507B applies to persons transacting the business of
24 legal insurance except as the chapter is inconsistent with an
25 express provision of this chapter.

26 Sec. 12. NEW SECTION. 515F.12 LICENSING OF AGENTS.

27 The commissioner may, in accordance with section 515F.17
28 adopt reasonable rules to provide for the licensing of agents
29 transacting or selling legal expense insurance.

30 Sec. 13. NEW SECTION. 515F.13 EXAMINATIONS.

31 1. The commissioner shall make an examination of the
32 affairs of any insurer as often as deemed necessary for the
33 protection of the interest of the people of this state.

34 2. Section 507.8 shall apply to examinations conducted
35 pursuant to subsection 1.

1 Sec. 14. NEW SECTION. 515F.14 PROFESSIONAL ETHICS.

2 The commissioner shall report to the attorney general for
3 reference to the supreme court any information which the
4 commissioner considers to be of substance, relating to
5 possible violations of the code of professional
6 responsibility.

7 Sec. 15. NEW SECTION. 515F.15 REVOCATION OF CERTIFICATE
8 OF AUTHORITY.

9 The commissioner may suspend, revoke, or refuse to renew
10 any certificate of authority to a person transacting the
11 business of legal insurance pursuant to section 522.3.

12 Sec. 16. NEW SECTION. 515F.16 SUPERVISION,
13 REHABILITATION, AND LIQUIDATION.

14 Chapter 507C shall apply to a person transacting the
15 business of legal insurance under the provisions of this
16 chapter.

17 Sec. 17. NEW SECTION. 515F.17 ADOPTION OF RULES.

18 The commissioner may adopt pursuant to chapter 17A such
19 reasonable rules as are necessary or proper to carry out the
20 provisions of this chapter.

21 Sec. 18. NEW SECTION. 515F.18 FEES.

22 A person subject to this chapter shall pay to the
23 commissioner the fees required by sections 511.24 and 515.128.

24 Sec. 19. NEW SECTION. 515F.19 TAXATION.

25 Legal insurance premiums shall be taxable under the
26 provisions of section 432.1.

27 Sec. 20. NEW SECTION. 515F.20 PUBLIC DOCUMENTS.

28 An application, filing, or report required under this
29 chapter is a public document.

30 Sec. 21. NEW SECTION. 515F.21 UNAUTHORIZED INSURANCE.

31 Subject to the provisions of this chapter, chapter 507A
32 shall apply to a person transacting the business of legal
33 insurance.

34 Sec. 22. NEW SECTION. 515F.22 APPLICABILITY OF GENERAL
35 INSURANCE LAW TO INSURANCE COMPANIES.

1 The provisions of the state's general insurance laws apply
2 generally to legal insurance offered by an insurer licensed to
3 write other kinds of insurance; provided that legal insurance
4 sold by such an insurer under a certificate of authority
5 obtained under this chapter shall be regulated by the
6 provisions of sections 515F.1 through 515F.5, 515F.7, 515F.12,
7 515F.14, 515F.17, and 515F.19 instead of the corresponding
8 sections of the general insurance law.

9 Sec. 23. NEW SECTION. 515F.23 APPLICABILITY OF GENERAL
10 INSURANCE LAW TO ALL LEGAL INSURERS -- HEARINGS AND APPEALS.

11 1. An order or rule of the commissioner issued under this
12 chapter shall be subject to the provisions of the state's
13 general insurance laws and the provisions of the
14 administrative procedures Act, chapter 17A, relating to
15 hearings and appeals.

16 2. Except as otherwise provided in this chapter, the
17 provisions of the general insurance law shall not apply to
18 insurers authorized to transact the business of legal
19 insurance under this chapter.

20 Sec. 24. NEW SECTION. 515F.24 TRANSITION PROVISION.

21 A person transacting the business of legal insurance as of
22 the effective date of this Act shall submit an application for
23 a certificate of authority under section 515F.4 within ninety
24 days of the effective date of this Act and the applicant may
25 continue to operate until the commissioner acts upon the
26 application. If an application is denied under section
27 515F.4, the applicant shall be treated as a legal insurer
28 whose certificate of authority has been revoked.

29 EXPLANATION

30 This bill authorizes the division of insurance of the
31 department of commerce to regulate the business of legal
32 expense insurance.

33 Section 1 details the purposes for regulating legal expense
34 insurance.

35 Section 2 provides key definitions, including "legal

1 insurance" and what is not considered legal insurance. For
2 example, the typical legal retainer contract is not legal
3 expense insurance nor are legal services provided by a union
4 to its members.

5 Section 3 requires a legal expense insurer to obtain a
6 certificate of authority by application to the commissioner of
7 insurance.

8 Section 4 details the conditions for issuance of a
9 certificate of authority, including tests of financial
10 soundness.

11 Section 5 provides for the review and approval of policy
12 forms, rates, and schedules.

13 Section 6 requires a legal expense insurer to maintain
14 separate accounts for its legal expense business segregated
15 from any other business the insurer engages in.

16 Section 7 permits the commissioner to review and disapprove
17 exclusive agency or management contracts.

18 Section 8 requires a legal expense insurer to submit an
19 annual report on or before March 1.

20 Section 9 requires a legal expense insurer to maintain
21 minimum reserves to protect the financial solvency of the
22 insurer.

23 Section 10 permits a legal expense insurer to invest funds
24 generated in the same manner as life insurance companies or
25 otherwise as permitted by the commissioner.

26 Section 11 makes the insurance trade practices provisions
27 of chapter 507B applicable to persons engaged in legal expense
28 insurance.

29 Section 12 permits the commissioner to require licensing of
30 agents selling legal expense insurance.

31 Section 13 requires the commissioner to conduct an
32 examination of a legal expense insurer when necessary for the
33 protection of the public interest.

34 Section 14 requires the commissioner to report to the
35 attorney general and the supreme court any possible violations

1 of the lawyers' code of professional responsibility
2 encountered by the commissioner.

3 Section 15 authorizes the commissioner to suspend, revoke,
4 or refuse to renew a certificate of authority of a legal
5 expense insurer.

6 Section 16 subjects a legal expense insurer to the
7 rehabilitation and liquidation provisions of chapter 507C.

8 Section 17 grants the commissioner general authority to
9 adopt rules to implement this bill.

10 Section 18 sets fees for persons engaged in the legal
11 expense insurance business equal to those provided for under
12 sections 515.128 and 511.24.

13 Section 19 establishes the rate of taxation of legal
14 expense insurance premiums at two per centum.

15 Section 20 provides that applications, filings, and reports
16 made under the proposed chapter are public documents under the
17 state's public records law.

18 Section 21 makes chapter 507A penalties for transacting
19 unauthorized insurance applicable to unauthorized transactions
20 regarding legal expense insurance.

21 Section 22 provides that an insurance company already
22 licensed under the general insurance laws of this state may
23 engage in legal expense insurance subject to certain
24 conditions.

25 Section 23 applies the general insurance laws of the state
26 and administrative procedure laws to legal expense insurers
27 with regards to hearing and appeal procedures.

28 Section 24 regulates the issuance of a certificate of
29 authority to a legal expense insurer already transacting
30 business in the state upon the effective date of this Act.

31 BACKGROUND STATEMENT

32 SUBMITTED BY THE AGENCY

33 This bill gives the commissioner of insurance general
34 control over companies selling legal insurance. There has
35 been considerable growth in this market and there is currently

1 no regulatory oversight. This bill will subject sellers of
2 legal insurance to the same standards required of any other
3 insurer doing business in Iowa.

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SENATE FILE 332

AN ACT

RELATING TO LEGAL EXPENSE INSURANCE BY REGULATING THE SALE OF CONTRACTS PROVIDING REIMBURSEMENT FOR LEGAL EXPENSES IN CONSIDERATION OF A SPECIFIED PAYMENT FOR A PERIOD OF TIME, ESTABLISHING A PREMIUM TAX, AND PROVIDING PENALTIES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. NEW SECTION. 515F.1 PURPOSES.

This chapter shall be liberally interpreted in order to do the following:

1. Encourage the development of effective and economically sound methods for making legal services more readily available.
2. Protect the interests of the users of legal services and of the public of this state with a minimum of restriction on experimentation with new forms of organization, administration, or benefits.
3. Place the risk inherent in experimentation by new plans on promoters rather than on the consumers.
4. Permit and encourage the provision of legal services through persons other than professional insurers subject to practical and reasonable financial and regulatory requirements.
5. Permit and encourage fair and effective competition among the various systems of financing legal services.
6. Maintain a high level of quality and conformity to professional standards in the performance of legal services.

Sec. 2. NEW SECTION. 515F.2 DEFINITIONS.

As used in this chapter unless the context otherwise requires:

1. "Commissioner" means the commissioner of insurance.

2. "Insurer" means any person who obtains a certificate of authority under this chapter.

3. "Legal insurance" means the assumption of a contractual obligation to provide specified legal services or reimbursements for legal expenses in consideration of a specified payment for an interval of time, regardless of whether the payment is made by the beneficiaries individually or by a third person for the beneficiaries, in such a manner that the total cost incurred by assuming the obligation is to be spread directly or indirectly among a group of persons. "Contractual obligation" as used in this subsection includes any arrangement giving rise to a reasonable expectation of an enforceable right. "Legal insurance" does not include the provision of or reimbursement for legal services incidental to other insurance coverages.

The following are not considered insurance or legal insurance under the insurance laws of this state:

- a. A retainer contract made with an individual client with the fee based on an estimate of the nature and amount of services that will be provided to the specific client, or a similar contract made with a group of clients involved in the same or closely related legal matter, such as a class action.
- b. A plan providing limited benefits on simple legal matters on an informal basis, not involving a legally binding promise, in the context of an employment, educational, or similar relationship.
- c. Legal services provided through unions or employee associations to their members in matters relating to simple legal matters on an informal basis.
- d. Legal services provided through an agency of the federal or state government or governmental subdivision to its employees.

Sec. 3. NEW SECTION. 515F.3 AUTHORIZATION REQUIRED.

1. A person shall not transact the business of legal insurance in this state without first obtaining a certificate of authority from one of the following sources:

- a. Under this chapter.
- b. Under the general laws pertaining to insurance.

2. A person may apply to the commissioner for and obtain a certificate of authority to transact the business of legal insurance in compliance with this chapter. This section does not by itself enlarge the powers of any corporation given by its articles of incorporation or charter, but does authorize a corporation formed under the general business, insurance, or general nonprofit corporation laws of this state to include in its powers the authority to transact legal insurance.

3. An application shall be in a form prescribed by the commissioner. If the applicant is not domiciled in this state, the application must be accompanied by a power of attorney duly executed by the applicant appointing the commissioner, and the commissioner's duly authorized deputies, as the true and lawful attorneys of the applicant in and for this state, upon whom all lawful process in any legal action or proceeding against the applicant on a cause of action arising in this state may be served.

Sec. 4. NEW SECTION. 515F.4 CONDITIONS FOR ISSUING CERTIFICATE OF AUTHORITY.

Upon receipt of an application for a certificate of authority, the commissioner shall issue or deny a certificate pursuant to this chapter within thirty days of the application, which may be extended for an additional thirty days by notice to the applicant prior to the expiration of the first thirty days. A certificate of authority shall be issued upon payment of the application fee prescribed in section 515F.18 of this chapter, if the commissioner is satisfied that all of the following conditions are met:

1. The persons responsible for the conduct of the affairs of the applicant are competent, trustworthy, and of good reputation.

2. The applicant demonstrates the willingness and ability to assure that the promised benefits can be provided. In making this determination the commissioner shall consider so far as applicable all of the following:

- a. The adequacy of capital and surplus considered in relation to the other items in this section.
- b. Any agreement with lawyers for the provision of legal services.
- c. The financial soundness of the applicant's arrangements for legal services and the schedule of rates proposed to be used in connection with the arrangements for legal services.
- d. Any agreement with another person authorized under this chapter, an insurer licensed under the general insurance laws to do business in this state, a reinsurer eligible under the laws or rules of this state to provide reinsurance, or an agency of the federal or state government for insuring the payment of the cost of legal services or the provision for automatic applicability of an alternative coverage if the insurer is unable to perform its obligations.
- e. Any surety bond or deposit of cash or securities as a guarantee that the obligations will be duly performed.
- f. If the applicant is licensed as an insurer under other insurance laws of this state, whether the applicant has complied with the requirements of those laws.

Sec. 5. NEW SECTION. 515F.5 REGULATION OF POLICY FORMS AND RATES.

1. a. A contractual obligation for legal insurance shall be evidenced by a policy or master policy. Legal insurance may be written on an individual, group, blanket, or franchise basis. Each person insured under a group policy must be issued a certificate of coverage. A legal insurance policy or

certificate of any kind shall not be issued or delivered in this state unless and until a copy of the policy or master policy and certificate of coverage has been filed with and approved by the commissioner.

b. The policy or master policy and certificate of coverage must meet all of the following requirements:

(1) A policy or master policy must contain a detailed list and description of the legal services promised or the legal matters for which expenses are to be reimbursed and the amount of reimbursement.

(2) A policy or certificate under a master policy must indicate prominently the name of the insurer and the full address of its principal place of business.

(3) A certificate issued under a group policy may summarize the terms of the master contract but must contain a full and clear statement of the benefits provided.

c. The commissioner may disapprove the form of a policy, master policy, or certificate of coverage if the commissioner finds that it fails any of the following:

(1) Does not meet the requirements of subsection "b".

(2) Is unfair, unfairly discriminatory, misleading, obscure, or encourages misrepresentation or misunderstanding of the contract, including cases where the form does any of the following:

(a) Provides coverage or benefits that are too restricted to achieve the purposes for which the policy is designed.

(b) Fails to attain a reasonable degree of readability, simplicity, and conciseness.

(c) Is misleading, deceptive, or obscure because of its physical aspects such as format, typography, style, color, or organization.

(3) Provides coverage or benefits or contains other provisions that would endanger the solvency of the insurer.

(4) Is contrary to law.

2. a. Rate filing and rate review procedures applicable to this chapter shall be those set out in chapter 515A and supporting rules.

b. The rates of a legal expense insurer must meet all of the following requirements:

(1) The rates must be established and justified in accordance with generally accepted insurance principles, including but not limited to the experience or judgment of the insurer making the rate filing or actuarial computations.

(2) The rates shall not be excessive, inadequate, or unfairly discriminatory. Rates are not unfairly discriminatory because they are averaged broadly among persons insured under group, franchise, or blanket policies.

c. The commissioner may by written order, suspend, or modify the requirements of filing for any risk, group, or class of risk, the rates for which cannot practically be filed before they are used.

3. If the commissioner determines that a form reviewed under subsection 1 or a schedule of rates reviewed under subsection 2 complies with the requirements of this section, the commissioner shall approve the form or schedule within thirty days, which may be extended for an additional thirty days, by notice in writing to the person making the filing prior to the expiration of the first thirty days. If the commissioner disapproves a filing the commissioner shall notify the person making the filing in writing specifying the reasons for disapproval. A hearing shall be granted within thirty days after a request in writing by any person aggrieved by the decision of the commissioner. The commissioner may, after notice and hearing, disapprove any rate that has been previously approved.

4. The commissioner may require the submission of any information deemed by the commissioner to be relevant and reasonably necessary to determine whether to approve or disapprove a filing made pursuant to subsection 1, 2, or 4.

Sec. 6. NEW SECTION. 515F.6 SEPARATE ACCOUNTS.

Except for employee welfare benefit plans regulated under the federal Employee Retirement Income Security Act, a person transacting the business of legal insurance and any business other than insurance shall transact legal insurance wholly through a segregated account in accordance with all of the following requirements:

1. The segregated account must satisfy the financial requirements for issuance of a certificate of authority.
2. Except as provided in subsections 6 and 7, the income and assets attributable to the segregated account shall always remain identifiable within the account but unless the commissioner so orders, the assets need not be kept physically separate from other assets of the person. The income, gains, and losses, whether or not realized, from assets attributable to the segregated account shall be credited to or charged against the account without regard to other income, gains, or losses of the person.
3. Except as provided in subsection 4, assets attributable to a segregated account shall not be chargeable with any liabilities arising out of any other business of the person, nor shall any assets not attributable to the account be chargeable with any liabilities arising out of the account.
4. The segregated account shall be deemed an insurer within the meaning of chapter 507C. Claims remaining unpaid after completion of the liquidation under section 507C.42 shall be liens on the interests of shareholders, if any, in all of the person's assets that are not liquidated.
5. Assets allocated to segregated accounts are the property of the person, which is not and shall not hold itself out to be a trustee of the assets.
6. A person may allocate a portion or part of a particular asset to the segregated account.

7. The person may by an identifiable act transfer assets to or from the segregated account if both of the following conditions are satisfied:

- a. The terms are fair and reasonable.
- b. The books, accounts, and records of each party are maintained so as to clearly and accurately disclose the precise nature and details of the transaction.

Sec. 7. NEW SECTION. 515F.7 MANAGEMENT AND EXCLUSIVE CONTRACTS.

1. An insurer shall not enter into any exclusive agency contract or management contract, unless the contract is first filed with the commissioner and not disapproved under this section within thirty days after filing, or such reasonable extended period as the commissioner may specify by notice within the thirty days.
 2. The commissioner shall disapprove a contract under subsection 1 if the commissioner finds that any of the following conditions exist:
 - a. The contract subjects the insurer to excessive charges.
 - b. The contract extends for an unreasonable period of time.
 - c. The contract does not contain fair and adequate standards of performance.
 - d. The persons empowered under the contract to manage the insurer are not sufficiently trustworthy, competent, experienced, or free from conflict of interest to manage the insurer with due regard for the interests of its insureds, creditors, or the public.
 - e. The contract contains provisions which impair the interests of the insurer's insureds, creditors, or the public in this state.
- Sec. 8. NEW SECTION. 515F.8 ANNUAL REPORT.
- An insurer shall annually, on or before the first day of March, file with the commissioner a report verified by at

least two principal officers. The report shall be on forms prescribed by the commissioner and shall include all of the following:

1. A financial statement of the insurer's legal insurance business including all of the following:
 - a. Its balance sheet.
 - b. Its receipts and disbursements for the preceding year.
2. Any material changes in the information submitted pursuant to section 515F.4.
3. Information about the number of persons protected and terminated as may be required by the commissioner.
4. Other information relating to the performance of the insurer as is necessary to enable the commissioner to enforce and administer this chapter.

Sec. 9. NEW SECTION. 515F.9 RESERVES.

An insurer must maintain the reserves necessary for the sound operation of the business including unearned premium reserves. The amount and manner of calculating these reserves shall be determined by rule by the commissioner in accordance with section 515F.17.

Sec. 10. NEW SECTION. 515F.10 INVESTMENT OF ASSETS.

The investable funds generated through the transaction of the business of legal insurance by a person who is not licensed to transact other lines of insurance shall be invested in securities or other investments permitted by the laws of this state for the investment of assets of life insurance or in such other securities or investments as the commissioner permits.

Sec. 11. NEW SECTION. 515F.11 TRADE PRACTICES.

Chapter 507B applies to persons transacting the business of legal insurance except as the chapter is inconsistent with an express provision of this chapter.

Sec. 12. NEW SECTION. 515F.12 LICENSING OF AGENTS.

The commissioner may, in accordance with section 515F.17 adopt reasonable rules to provide for the licensing of agents transacting or selling legal expense insurance.

Sec. 13. NEW SECTION. 515F.13 EXAMINATIONS.

1. The commissioner shall make an examination of the affairs of any insurer as often as deemed necessary for the protection of the interest of the people of this state.
2. Section 507.8 shall apply to examinations conducted pursuant to subsection 1.

Sec. 14. NEW SECTION. 515F.14 PROFESSIONAL ETHICS.

The commissioner shall report to the Iowa state bar association committee on professional ethics and conduct pursuant to the provisions of supreme court rule 118 any information which the commissioner considers to be of substance, relating to possible violations of the code of professional responsibility.

Sec. 15. NEW SECTION. 515F.15 REVOCATION OF CERTIFICATE OF AUTHORITY.

The commissioner may suspend, revoke, or refuse to renew any certificate of authority to a person transacting the business of legal insurance pursuant to section 522.3.

Sec. 16. NEW SECTION. 515F.16 SUPERVISION, REHABILITATION, AND LIQUIDATION.

Chapter 507C shall apply to a person transacting the business of legal insurance under the provisions of this chapter.

Sec. 17. NEW SECTION. 515F.17 ADOPTION OF RULES.

The commissioner may adopt pursuant to chapter 17A such reasonable rules as are necessary or proper to carry out the provisions of this chapter.

Sec. 18. NEW SECTION. 515F.18 FEES.

A person subject to this chapter shall pay to the commissioner the fees required by sections 511.24 and 515.128.

Sec. 19. NEW SECTION. 515F.19 TAXATION.

Legal insurance premiums shall be taxable under the provisions of section 432.1.

Sec. 20. NEW SECTION. 515F.20 PUBLIC DOCUMENTS.

An application, filing, or report required under this chapter is a public document.

Sec. 21. NEW SECTION. 515F.21 UNAUTHORIZED INSURANCE.

Subject to the provisions of this chapter, chapter 507A shall apply to a person transacting the business of legal insurance.

Sec. 22. NEW SECTION. 515F.22 APPLICABILITY OF GENERAL INSURANCE LAW TO INSURANCE COMPANIES.

The provisions of the state's general insurance laws apply generally to legal insurance offered by an insurer licensed to write other kinds of insurance; provided that legal insurance sold by such an insurer under a certificate of authority obtained under this chapter shall be regulated by the provisions of sections 515F.1 through 515F.5, 515F.7, 515F.12, 515F.14, 515F.17, and 515F.19 instead of the corresponding sections of the general insurance law.

Sec. 23. NEW SECTION. 515F.23 APPLICABILITY OF GENERAL INSURANCE LAW TO ALL LEGAL INSURERS -- HEARINGS AND APPEALS.

1. An order or rule of the commissioner issued under this chapter shall be subject to the provisions of the state's general insurance laws and the provisions of the administrative procedures Act, chapter 17A, relating to hearings and appeals.

2. Except as otherwise provided in this chapter, the provisions of the general insurance law shall not apply to insurers authorized to transact the business of legal insurance under this chapter.

Sec. 24. NEW SECTION. 515F.24 TRANSITION PROVISION.

A person transacting the business of legal insurance as of the effective date of this Act shall submit an application for a certificate of authority under section 515F.4 within ninety

days of the effective date of this Act and the applicant may continue to operate until the commissioner acts upon the application. If an application is denied under section 515F.4, the applicant shall be treated as a legal insurer whose certificate of authority has been revoked.

JO ANN ZIMMERMAN
President of the Senate

DONALD D. AVENSON
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 332, Seventy-third General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved April 6, 1990

TERRY E. BRANSTAD
Governor