

191—41.11(514B) Net equity and deposit requirements.**41.11(1) Net equity requirements.**

a. Each LSO shall, at all times, have and maintain a tangible net equity at least equal to the greater of:

(1) \$100,000 at the inception of the first year of operation, \$200,000 at the inception of the second year of operation and thereafter; or

(2) Two percent of the organization's annual gross premium income, up to a maximum of the required capital and surplus of an accident and health insurer.

b. An LSO that has uncovered expenses in excess of \$500,000, as reported on the most recent annual financial statement filed with the commissioner, shall maintain tangible net equity equal to 25 percent of the uncovered expense in excess of \$500,000 in addition to the tangible net equity required by paragraph 41.11(1)“*a.*”

c. For the purpose of this rule, “net equity” shall mean the excess of total assets over total liabilities, excluding liabilities which have been subordinated in a manner acceptable to the commissioner; and “net equity” shall mean net equity reduced by the value assigned to intangible assets, including, but not limited to:

(1) Goodwill;

(2) Going-concern value;

(3) Organizational expense;

(4) Start-up costs;

(5) Obligations of officers, directors or affiliates, except short-term obligations of affiliates for goods or services arising in the normal course of business which are payable on the same terms as equivalent transactions with nonaffiliates and which are not past due;

(6) Long-term prepayments of deferred charges; and

(7) Nonreturnable deposits.

41.11(2) Deposits.

a. Each LSO shall deposit with the commissioner or with any organization or trustee meeting the requirements of rule 191—32.4(508) cash, securities or any combination of these that is acceptable to the commissioner having a fair market value equal to the minimum net worth of the LSO as determined by paragraph 41.11(1)“*a.*” The amount on deposit shall remain as an admitted asset of the organization in the determination of its net worth.

b. All income from deposits shall be an asset of the LSO. An LSO may withdraw a deposit or any part thereof, first having deposited, in lieu thereof, a deposit of cash, securities, or any combination of these in an amount and value equal to that to be withdrawn. Securities shall be approved by the commissioner before being substituted.

41.11(3) No LSO organized under the laws of another state shall, directly or indirectly, assume risks or provide the services of an LSO, as defined in Iowa Code section 514B.33, subsection (3), unless it first obtains licensure from the commissioner and complies with the requirements of rule 191—41.11(514B).

41.11(4) As deemed necessary by the division, each LSO that is a subsidiary of another person shall file with the division, in a form satisfactory to the division, a guarantee of the LSO's obligations issued by the ultimate controlling parent or such other person satisfactory to the division.

41.11(5) Each LSO shall, at the time of application, pay to the division a one-time, nonrefundable fee of \$10,000 to be used by the division to create a special fund solely for the payment of administrative expenses in connection with the insolvency of an LSO.