
THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1856

Session of
1993

INTRODUCED BY COLAFELLA, COLAIZZO, VEON, BUXTON, CLARK, NICKOL,
OLASZ, LAUB, DeLUCA, LAUGHLIN, BATTISTO, KASUNIC, JOSEPHS,
SATHER, JAROLIN, GEIST, MELIO, PETRONE, TRELLO, PRESTON,
PISTELLA, ROONEY, ADOLPH, TANGRETTI AND JAMES, JUNE 22, 1993

SENATOR HOLL, BANKING AND INSURANCE, IN SENATE, AS AMENDED,
NOVEMBER 15, 1994

AN ACT

1 Amending the act of May 17, 1921 (P.L.789, No.285), entitled, as
2 amended, "An act relating to insurance; establishing an
3 insurance department; and amending, revising, and
4 consolidating the law relating to the licensing,
5 qualification, regulation, examination, suspension, and
6 dissolution of insurance companies, Lloyds associations,
7 reciprocal and inter-insurance exchanges, and certain
8 societies and orders, the examination and regulation of fire
9 insurance rating bureaus, and the licensing and regulation of
10 insurance agents and brokers; the service of legal process
11 upon foreign insurance companies, associations or exchanges;
12 providing penalties, and repealing existing laws," further
13 providing for penalties for acting without certificate of
14 authority; providing for the licensing of insurance
15 administrators; and further providing for issuance of
16 certificate of qualification and for certain penalties.

17 The General Assembly of the Commonwealth of Pennsylvania
18 hereby enacts as follows:

19 Section 1. Section 209 of the act of May 17, 1921 (P.L.789,
20 No.285), known as The Insurance Department Act of 1921, amended
21 June 23, 1976 (P.L.414, No.95), is amended to read:

22 Section 209. Penalty for Acting Without Certificate of

1 Authority.--(a) Any insurance company, association, or exchange
2 doing an insurance business within this Commonwealth without a
3 certificate of authority as required by this act shall be
4 required to pay a civil penalty of not less than one thousand
5 dollars (\$1,000) nor more than ten thousand dollars (\$10,000)
6 for each offense, to be recovered on behalf of the Commonwealth.

7 (b) Any person negotiating or soliciting any policy of
8 insurance or suretyship in this Commonwealth, collecting or
9 forwarding premiums or delivering policies for any company,
10 association, or exchange to which a certificate of authority has
11 not been granted, shall be deemed to be the agent of the
12 company, association, or exchange, in any legal proceedings
13 brought against it. Such person shall be required to pay a civil
14 penalty of not less than one thousand dollars (\$1,000) nor more
15 than ten thousand dollars (\$10,000) for each offense to be
16 recovered on behalf of the Commonwealth.

17 [Before the Insurance Commissioner shall take any action, as
18 above set forth, he shall give written notice to the company,
19 association or exchange or person accused of violating the law,
20 stating the nature of such alleged violation, and fixing a time
21 and place, at least ten days thereafter, when a hearing of the
22 matter shall be held. After such hearing or failure of the
23 accused to appear at such hearing, the Insurance Commissioner
24 shall impose such penalty as he deems advisable.]

25 (c) Whenever the Insurance Commissioner has articulable
26 evidence that any person, insurance company, association or
27 exchange has or is doing an insurance business within this
28 Commonwealth without a certificate of authority as required by
29 this act, or has or is violating any order or requirement of the
30 Insurance Commissioner issued or promulgated pursuant to

1 authority expressly granted the Insurance Commissioner by this
2 section and that the interests of policyholders, creditors or
3 the public may be irreparably harmed by delay, the Insurance
4 Commissioner may issue a cease and desist order. Notice of the
5 cease and desist order and notice of hearing shall be served by
6 first class mail.

7 (d) Unless mutually agreed upon by the Insurance Department
8 and the insurance company, association, exchange or person, the
9 hearing shall be held not more than fifteen days after issuance
10 of the order. Any adjudication of the Insurance Commissioner
11 under this subsection shall be in accordance with and subject to
12 review and appeal in accordance with 2 Pa.C.S. Ch. 5 Subch. A
13 (relating to practice and procedure of Commonwealth agencies)
14 and Ch. 7 Subch. A (relating to judicial review of Commonwealth
15 agency action).

16 (e) Upon satisfactory evidence that any person, insurance
17 company, association or exchange has willfully violated a cease
18 and desist order issued under subsection (c), the Insurance
19 Commissioner may, in his discretion, impose a civil penalty of
20 not more than five thousand dollars (\$5,000) for each and every
21 act in violation of the cease and desist order.

22 Section 2. Sections 604(a) and 639(a) of the act, amended
23 July 11, 1992 (P.L.284, No.48), are amended to read:

24 Section 604. Issuance of Certificate of Qualification.--(a)
25 When the Insurance Department is satisfied that the applicant is
26 worthy of a certificate of qualification and has successfully
27 passed an examination and otherwise complied with this article,
28 it shall issue a certificate. The certificate shall state that
29 the agent has complied with this article and has been authorized
30 by the Insurance Department to transact business in specific

1 lines of authority in this Commonwealth. Once a certificate is
2 issued, the certificate holder is presumed worthy to secure
3 additional specific lines of authority under the certificate
4 unless the department files an action to suspend or revoke or
5 refuse to renew the certificate pursuant to section 639 of this
6 act.

7 * * *

8 Section 639. Penalties Imposed by Insurance Department.--(a)
9 Upon satisfactory evidence of the violation of sections 602,
10 605, 606, 608, 609, 622 and 631 through 638 by any agent of any
11 insurance entity or by any insurance broker or upon satisfactory
12 evidence of such conduct that would disqualify the agent or
13 broker from initial issuance of a certificate of qualification
14 under section 604 or 622, the department may pursue any one or
15 more of the following courses of action regardless of whether
16 the agent or broker was so authorized by the department:

17 (1) Suspend or revoke or refuse to [issue] renew the
18 certificate of qualification or license of the offending party
19 or parties.

20 (2) Impose a civil penalty of not more than one thousand
21 dollars (\$1,000.00) for each act in violation of any of the
22 provisions listed in this subsection.

23 * * *

24 Section 3. The act is amended by adding an article to read:

25 ARTICLE X.

26 INSURANCE ADMINISTRATOR LICENSURE.

27 Section 1001. Short Title.--This article shall be known and
28 may be cited as the "Insurance Administrator Licensure Act."

29 Section 1002. Definitions.--The following words and phrases
30 when used in this article shall have the meanings given to them

1 in this section unless the context clearly indicates otherwise:

2 "Administrator" means any person who collects charges or
3 premiums from or who adjusts or settles claims for residents of
4 this Commonwealth in connection with life or health coverage or
5 annuities. The term shall specifically include any person who
6 collects charges or premiums from or who adjusts or settles
7 claims for residents of this Commonwealth in connection with
8 life or health coverages or annuities provided by or through an
9 employe benefit plan, including, but not limited to, multiple
10 employer welfare arrangements and self-insured municipalities or
11 other political subdivisions. The term shall not include any of
12 the following:

13 (1) An employer on behalf of its employes or the employes of
14 one or more subsidiary or affiliated corporations of such
15 employer.

16 (2) A union on behalf of its members.

17 (3) An insurance company which is either licensed in this
18 Commonwealth or acting as an insurer with respect to a policy
19 lawfully issued and delivered by it and pursuant to the laws of
20 a state in which the insurer was authorized to do an insurance
21 business.

22 (4) Professional health services plan corporations organized
23 under 40 Pa.C.S. Ch. 63 (relating to professional health
24 services plan corporations) or hospital plan corporations
25 organized under Ch. 61 (relating to hospital plan corporations),
26 subject to any limitations imposed by Chs. 61 and 63.

27 (5) A life or health agent or broker licensed in this
28 Commonwealth, whose activities are limited exclusively to the
29 sale of insurance.

30 (6) A creditor on behalf of its debtors with respect to

1 insurance covering a debt between the creditor and its debtors.

2 (7) A trust, its trustees and employes acting thereunder
3 established in conformity with section 302 of the Labor
4 Management Relations Act, 1947 (61 Stat. 136, 29 U.S.C. 186).

5 (8) A trust exempt from taxation under section 501(a) of the
6 Internal Revenue Code of 1954 (68A Stat. 3, 26 U.S.C.), its
7 trustees, and employes acting thereunder, or a custodian, its
8 agents and employes acting pursuant to a custodian account which
9 meets the requirements of section 401(f) of the Internal Revenue
10 Code of 1954.

11 (9) A bank, credit union or other financial institution
12 which is subject to supervision or examination by Federal or
13 State banking authorities.

14 (10) A credit card issuing company which advances for its
15 credit cardholders and collects premiums or charges from its
16 credit cardholders who have authorized it to do so, provided
17 such company does not adjust or settle claims.

18 (11) A person who adjusts or settles claims in the normal
19 course of his practice or employment as an attorney-at-law and
20 who does not collect charges or premiums in connection with life
21 and health insurance coverage or annuities.

22 (12) A person licensed as an insurance agent and who has
23 been appointed by an insurer to act as a managing general agent
24 in this Commonwealth, whose activities are limited exclusively
25 to the scope of activities conveyed under that license.

26 "Benefit plan" means an insured or wholly or partially self-
27 funded coverage plan which, by means of direct payment,
28 reimbursement or other arrangement, provides partial or complete
29 coverage for services, including, but not limited to, medical,
30 surgical, chiropractic, physical therapy, speech pathology,

1 audiology, professional mental health, dental, hospital or
2 vision care or for drugs or other items reasonably related
3 thereto.

4 "Commissioner" means the Insurance Commissioner of the
5 Commonwealth.

6 "Department" means the Insurance Department of the
7 Commonwealth.

8 Section 1003. License Required; Application; Unlicensed
9 Activity.--On and after the effective date of this act, no
10 person shall act as or hold himself out to be an administrator
11 in this Commonwealth, other than an adjuster licensed in this
12 Commonwealth for the kinds of business for which he is acting as
13 an administrator, unless he shall hold a license as an
14 administrator issued by the department. The license shall be
15 renewable biennially. The license shall be issued by the
16 department to an administrator unless the department determines
17 that the administrator is not competent, trustworthy,
18 financially responsible or of good personal and business
19 reputation or has had a previous application for an insurance
20 license denied for cause within five years. All applications
21 shall be accompanied by a filing fee of one hundred dollars
22 (\$100). An applicant whose license is denied may request a
23 hearing pursuant to 2 Pa.C.S. (relating to administrative law
24 and procedure).

25 Section 1004. Financial Responsibility and Security
26 Requirements.--All administrators shall be required to maintain
27 an errors and omissions insurance policy and also to maintain
28 financial responsibility in the form of a fidelity bond or a
29 clean irrevocable and unconditional and ever-green letter of
30 credit or, as established by regulation, other form of security

1 acceptable to the department. Financial responsibility shall be
2 established and maintained each year in an amount equal to fifty
3 per centum of the average amount of funds entrusted to the
4 administrator by benefit plans for the preceding twelve months,
5 but not to exceed five hundred thousand dollars (\$500,000) for
6 any plans other than multiple employer welfare arrangements.

7 Section 1005. Written Agreement Necessary.--An administrator
8 must have a written agreement between the administrator and the
9 entity providing the benefit plan. The written agreement shall
10 be retained as part of the official records of the administrator
11 for the duration of the agreement and five years thereafter. The
12 written agreement shall comply with the requirements of this
13 act. Where an insurance policy is issued to a trustee or
14 trustees, a copy of the trust agreement and any amendments
15 thereto shall be furnished to the insurer by the administrator
16 and shall be retained as part of the official records of both
17 the benefit plan and the administrator for the duration of the
18 contract and five years thereafter.

19 Section 1006. Payment to Administrator.--The payment to the
20 administrator of any premiums or charges for benefit coverage by
21 or on behalf of those persons covered by the benefit plan shall
22 be deemed to have been received by the benefit plan, and the
23 payment of return premiums, charges or claims by the benefit
24 plan to the administrator shall not be deemed payment to the
25 person or claimant until the payments are received by the person
26 or claimant. Nothing in this section shall limit any right of a
27 benefit plan against the administrator resulting from its
28 failure to make payments to the benefit plan, those persons
29 covered by the benefit plan or claimants.

30 Section 1007. Maintenance of Information; Examination.--

1 Every administrator shall maintain, at its principal
2 administrative office for the duration of the written agreement
3 referred to in section 1005 and five years thereafter, adequate
4 books of all transactions and records of all transactions
5 between it, the benefit plan and persons covered under the
6 benefit plan. The commissioner shall have access to all books
7 and records which are the property of administrators required to
8 be maintained by this act for the purpose of examination, audit,
9 inspection and investigation. Books and records, the property of
10 bona fide employe benefit plans established by an employer or
11 employe organization, or both, may be available to the
12 department for audit, inspection, examination or investigation
13 at the option of the employer or employe organization. Nothing
14 in this subsection is intended to abridge or interfere with the
15 department's authority to review all records necessary to
16 determine jurisdiction over any entity that may be subject to
17 this or other insurance laws generally. Expenses incurred by the
18 department in examination of administrators shall be paid by the
19 administrator in the same manner, and in the same amounts,
20 pursuant to the examination provisions of this act and
21 applicable regulations. Trade secrets, including the identity
22 and addresses of policyholders and certificate holders, will be
23 treated as confidential by the department, except the department
24 may use that information in proceedings instituted against the
25 administrator. The entity providing the benefit plan shall
26 retain the right to continuing access to the books and records
27 of the administrator sufficient to permit the benefit plan to
28 fulfill all of its contractual obligations to the persons
29 covered under the benefit plan, subject to any restrictions in
30 the written agreement between the entity providing the benefit

1 plan and the administrator on the proprietary rights of the
2 parties in the books and records.

3 Section 1008. Approval of Advertising.--The administrator
4 may use only advertising or solicitation materials of persons
5 covered by a benefit plan as has been approved in advance by the
6 entity providing the benefit plan.

7 Section 1009. Premium Collection.--All charges or premiums
8 collected by an administrator on behalf of or for a benefit plan
9 and return charges or premiums received from a benefit plan
10 shall be held by the administrator in a fiduciary capacity. The
11 funds shall be immediately remitted to the person or persons
12 entitled thereto or shall be deposited promptly in one or more
13 appropriately identified bank accounts in banks that are members <—
14 of the Federal Reserve System OR OTHER FINANCIAL INSTITUTIONS <—

15 WHICH ARE SUBJECT TO SUPERVISION OR EXAMINATION BY FEDERAL OR
16 STATE BANKING REGULATORY AUTHORITIES. If charges or premiums so
17 deposited have been collected on behalf of or for more than one
18 benefit plan, the administrator shall maintain the accounts to
19 clearly record the deposits in and withdrawals from the account
20 on behalf of each benefit plan. The administrator shall promptly
21 obtain and keep copies of all such records and, upon request of
22 an entity providing a benefit plan, shall furnish the entity
23 providing a benefit plan with copies of records pertaining to
24 deposits and withdrawals on behalf of or for the benefit plan.
25 The administrator shall not pay any claim by withdrawals from
26 the fiduciary account. Withdrawals from the fiduciary account
27 shall be made, as provided in the written agreement between the
28 administrator and the entity providing a benefit plan, for:

29 (1) Remittance to a benefit plan entitled thereto.

30 (2) Deposit in an account maintained in the name of the

1 benefit plan.

2 (3) Transfer to and deposit in a claims-paying account.

3 (4) Payment to a benefit plan for remittance to an insurer
4 entitled thereto.

5 (5) Payment to the administrator of its commission, fees or
6 charges.

7 (6) Remittance of return premiums or charges to the person
8 or persons entitled thereto.

9 Section 1010. Claim Adjustment and Settlement.--With respect
10 to any contracts where an administrator adjusts or settles
11 claims, the compensation to the administrator with regard to the
12 contracts shall in no way be contingent upon claim experience.
13 This section shall not prevent the compensation of an
14 administrator from being based upon premiums or charges
15 collected or number of claims paid or processed.

16 Section 1011. Notification Required.--Where services of an
17 administrator are utilized, the administrator shall provide a
18 written notice approved by the entity providing the benefit plan
19 to persons covered by the benefit plan advising them of the
20 identity of and relationship among the administrator, the entity
21 providing the benefit plan and the insurer, if any. Where an
22 administrator collects funds, it must identify and state
23 separately in writing to the person paying any charge or premium
24 to the administrator for coverage the amount of any such charge
25 or premium specified by the benefit plan for the coverage.

26 Section 1012. Regulations; Applicability of Laws.--The
27 commissioner may promulgate rules and regulations to implement
28 and enforce the provisions of this article. The provisions of
29 the act of July 22, 1974 (P.L.589, No.205), known as the "Unfair
30 Insurance Practices Act," shall apply to administrators subject

1 to this article.

2 Section 1013. Penalties; Suspension and Revocation.--(a)
3 Failure to hold a license shall subject the administrator to a
4 civil penalty of not less than one thousand dollars (\$1,000) nor
5 more than five thousand dollars (\$5,000) for each instance of
6 unlicensed activity.

7 (b) After notice and hearing, the commissioner may do any
8 one or more of the following:

9 (1) Suspend, revoke or refuse to renew the license of an
10 administrator.

11 (2) Impose a civil penalty on an administrator of not more
12 than five thousand dollars (\$5,000) for each violation.

13 (3) Order restitution upon finding that the administrator
14 violated any of the requirements of this act or regulations or
15 the administrator is not competent, trustworthy, financially
16 responsible or of good personal and business reputation. All
17 proceedings shall be pursuant to 2 Pa.C.S. (relating to
18 administrative law and procedure).

19 Section 4. This act shall take effect in 60 days.