

State of Arizona
Senate
Fifty-first Legislature
First Regular Session
2013

CHAPTER 35
SENATE BILL 1177

AN ACT

AMENDING TITLE 20, CHAPTER 2, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 20-220.01; AMENDING SECTIONS 20-229, 20-311, 20-311.01 AND 20-311.02, ARIZONA REVISED STATUTES; REPEALING SECTION 20-311.03, ARIZONA REVISED STATUTES; AMENDING SECTIONS 20-407, 20-411, 20-481.19, 20-488, 20-648, 20-705, 20-706, 20-709, 20-1098.04, 20-1098.07, 20-1098.15, 20-1243.05, 20-2102 AND 20-2901, ARIZONA REVISED STATUTES; RELATING TO INSURANCE.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 20, chapter 2, article 1, Arizona Revised Statutes,
3 is amended by adding section 20-220.01, to read:

4 20-220.01. Hazardous financial condition; determination; order

5 A. THE DIRECTOR MAY CONSIDER THE FOLLOWING STANDARDS, EITHER SINGLY OR
6 A COMBINATION OF TWO OR MORE, IN DETERMINING WHETHER THE CONTINUED OPERATION
7 OF ANY INSURER TRANSACTING AN INSURANCE BUSINESS IN THIS STATE MAY BE DEEMED
8 TO BE HAZARDOUS TO ITS POLICYHOLDERS OR CREDITORS OR THE GENERAL PUBLIC:

9 1. ADVERSE FINDINGS REPORTED IN FINANCIAL CONDITION AND MARKET CONDUCT
10 EXAMINATION REPORTS, AUDIT REPORTS AND ACTUARIAL OPINIONS, REPORTS OR
11 SUMMARIES.

12 2. THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS INSURANCE
13 REGULATORY INFORMATION SYSTEM AND ITS OTHER FINANCIAL ANALYSIS SOLVENCY TOOLS
14 AND REPORTS.

15 3. WHETHER THE INSURER HAS MADE ADEQUATE PROVISION, ACCORDING TO
16 PRESENTLY ACCEPTED ACTUARIAL STANDARDS OF PRACTICE, FOR THE ANTICIPATED CASH
17 FLOWS REQUIRED BY THE CONTRACTUAL OBLIGATIONS AND RELATED EXPENSES OF THE
18 INSURER, WHEN CONSIDERED IN LIGHT OF THE ASSETS HELD BY THE INSURER WITH
19 RESPECT TO THE RESERVES AND RELATED ACTUARIAL ITEMS, INCLUDING INVESTMENT
20 EARNINGS ON THE ASSETS, AND THE CONSIDERATIONS ANTICIPATED TO BE RECEIVED AND
21 RETAINED UNDER THE POLICIES AND CONTRACTS.

22 4. THE ABILITY OF AN ASSUMING REINSURER TO PERFORM AND WHETHER THE
23 INSURER'S REINSURANCE PROGRAM PROVIDES SUFFICIENT PROTECTION FOR THE
24 INSURER'S REMAINING SURPLUS AFTER TAKING INTO ACCOUNT THE INSURER'S CASH FLOW
25 AND THE CLASSES OF BUSINESS WRITTEN AS WELL AS THE FINANCIAL CONDITION OF THE
26 ASSUMING REINSURER.

27 5. WHETHER THE INSURER'S OPERATING LOSS IN THE LAST TWELVE-MONTH
28 PERIOD OR ANY SHORTER PERIOD OF TIME, INCLUDING NET CAPITAL GAIN OR LOSS,
29 CHANGE IN NONADMITTED ASSETS AND CASH DIVIDENDS PAID TO SHAREHOLDERS, IS
30 GREATER THAN FIFTY PER CENT OF THE INSURER'S REMAINING SURPLUS AS REGARDS
31 POLICYHOLDERS IN EXCESS OF THE MINIMUM REQUIRED.

32 6. WHETHER THE INSURER'S OPERATING LOSS IN THE LAST TWELVE-MONTH
33 PERIOD OR ANY SHORTER PERIOD OF TIME, EXCLUDING NET CAPITAL GAINS, IS GREATER
34 THAN TWENTY PER CENT OF THE INSURER'S REMAINING SURPLUS AS REGARDS
35 POLICYHOLDERS IN EXCESS OF THE MINIMUM REQUIRED.

36 7. WHETHER A REINSURER, AN OBLIGOR OR ANY ENTITY WITHIN THE INSURER'S
37 INSURANCE HOLDING COMPANY SYSTEM IS INSOLVENT, THREATENED WITH INSOLVENCY OR
38 DELINQUENT IN PAYMENT OF ITS MONETARY OR OTHER OBLIGATIONS AND THAT, IN THE
39 DIRECTOR'S OPINION, MAY AFFECT THE INSURER'S SOLVENCY.

40 8. CONTINGENT LIABILITIES, PLEDGES OR GUARANTIES THAT EITHER
41 INDIVIDUALLY OR COLLECTIVELY INVOLVE A TOTAL AMOUNT THAT, IN THE DIRECTOR'S
42 OPINION, MAY AFFECT THE INSURER'S SOLVENCY.

43 9. WHETHER ANY AFFILIATE OR CONTROLLING PERSON OF AN INSURER IS
44 DELINQUENT IN THE TRANSMITTING TO OR PAYMENT OF NET PREMIUMS TO THE INSURER.

45 10. THE AGE AND COLLECTABILITY OF RECEIVABLES.

1 11. WHETHER THE MANAGEMENT OF AN INSURER, INCLUDING OFFICERS, DIRECTORS
2 OR OTHER PERSONS WHO DIRECTLY OR INDIRECTLY CONTROL THE OPERATION OF THE
3 INSURER, FAILS TO POSSESS AND DEMONSTRATE THE COMPETENCE, FITNESS AND
4 REPUTATION DEEMED NECESSARY TO SERVE THE INSURER IN THE POSITION.

5 12. WHETHER THE MANAGEMENT OF AN INSURER HAS FAILED TO RESPOND TO
6 INQUIRIES RELATIVE TO THE CONDITION OF THE INSURER OR HAS FURNISHED FALSE AND
7 MISLEADING INFORMATION CONCERNING AN INQUIRY.

8 13. WHETHER THE INSURER HAS FAILED TO MEET FINANCIAL AND HOLDING
9 COMPANY FILING REQUIREMENTS IN THE ABSENCE OF A REASON SATISFACTORY TO THE
10 DIRECTOR.

11 14. WHETHER THE MANAGEMENT OF AN INSURER EITHER HAS FILED ANY FALSE OR
12 MISLEADING SWORN FINANCIAL STATEMENT, HAS RELEASED FALSE OR MISLEADING
13 FINANCIAL STATEMENTS TO LENDING INSTITUTIONS OR TO THE GENERAL PUBLIC, HAS
14 MADE A FALSE OR MISLEADING ENTRY OR HAS OMITTED AN ENTRY OF MATERIAL AMOUNT
15 IN THE INSURER'S BOOKS.

16 15. WHETHER THE INSURER HAS GROWN SO RAPIDLY AND TO AN EXTENT THAT THE
17 INSURER LACKS ADEQUATE FINANCIAL AND ADMINISTRATIVE CAPACITY TO MEET ITS
18 OBLIGATIONS IN A TIMELY MANNER.

19 16. WHETHER THE INSURER HAS EXPERIENCED OR WILL EXPERIENCE IN THE
20 FORESEEABLE FUTURE CASH FLOW OR LIQUIDITY PROBLEMS.

21 17. WHETHER THE MANAGEMENT OF AN INSURER HAS ESTABLISHED RESERVES THAT
22 DO NOT COMPLY WITH MINIMUM STANDARDS ESTABLISHED BY STATE INSURANCE LAWS,
23 RULES, STATUTORY ACCOUNTING STANDARDS, SOUND ACTUARIAL PRINCIPLES AND
24 STANDARDS OF PRACTICE.

25 18. WHETHER THE MANAGEMENT OF AN INSURER PERSISTENTLY ENGAGES IN
26 MATERIAL UNDER RESERVING THAT RESULTS IN ADVERSE DEVELOPMENT.

27 19. WHETHER TRANSACTIONS AMONG AFFILIATES, SUBSIDIARIES OR CONTROLLING
28 PERSONS FOR WHICH THE INSURER RECEIVES ASSETS OR CAPITAL GAINS, OR BOTH, DO
29 NOT PROVIDE SUFFICIENT VALUE, LIQUIDITY OR DIVERSITY TO ASSURE THE INSURER'S
30 ABILITY TO MEET ITS OUTSTANDING OBLIGATIONS AS THEY MATURE.

31 20. ANY OTHER FINDING DETERMINED BY THE DIRECTOR TO BE HAZARDOUS TO THE
32 INSURER'S POLICYHOLDERS OR CREDITORS OR THE GENERAL PUBLIC.

33 B. FOR THE PURPOSES OF MAKING A DETERMINATION OF AN INSURER'S
34 FINANCIAL CONDITION UNDER THIS SECTION, THE DIRECTOR MAY:

35 1. DISREGARD ANY CREDIT OR AMOUNT RECEIVABLE RESULTING FROM
36 TRANSACTIONS WITH A REINSURER THAT IS INSOLVENT, IMPAIRED OR OTHERWISE
37 SUBJECT TO A DELINQUENCY PROCEEDING.

38 2. MAKE APPROPRIATE ADJUSTMENTS INCLUDING DISALLOWANCE TO ASSET VALUES
39 ATTRIBUTABLE TO INVESTMENTS IN OR TRANSACTIONS WITH PARENTS, SUBSIDIARIES OR
40 AFFILIATES CONSISTENT WITH THE ACCOUNTING PRACTICES AND PROCEDURES MANUAL
41 ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS, STATE LAWS
42 AND RULES.

43 3. REFUSE TO RECOGNIZE THE STATED VALUE OF ACCOUNTS RECEIVABLE IF THE
44 ABILITY TO COLLECT RECEIVABLES IS HIGHLY SPECULATIVE IN VIEW OF THE AGE OF
45 THE ACCOUNT OR THE FINANCIAL CONDITION OF THE DEBTOR.

1 4. INCREASE THE INSURER'S LIABILITY IN AN AMOUNT EQUAL TO ANY
2 CONTINGENT LIABILITY, PLEDGE OR GUARANTEE NOT OTHERWISE INCLUDED IF THERE IS
3 A SUBSTANTIAL RISK THAT THE INSURER WILL BE CALLED ON TO MEET THE OBLIGATION
4 UNDERTAKEN WITHIN THE NEXT TWELVE-MONTH PERIOD.

5 C. IF THE DIRECTOR DETERMINES THAT THE CONTINUED OPERATION OF THE
6 INSURER LICENSED TO TRANSACT BUSINESS IN THIS STATE MAY BE HAZARDOUS TO ITS
7 POLICYHOLDERS OR CREDITORS OR THE GENERAL PUBLIC, IN ADDITION TO ANY OTHER
8 ACTION AUTHORIZED BY THIS TITLE, THE DIRECTOR MAY ISSUE AN ORDER REQUIRING
9 THE INSURER TO:

10 1. REDUCE THE TOTAL AMOUNT OF PRESENT AND POTENTIAL LIABILITY FOR
11 POLICY BENEFITS BY REINSURANCE.

12 2. REDUCE, SUSPEND OR LIMIT THE VOLUME OF BUSINESS BEING ACCEPTED OR
13 RENEWED.

14 3. REDUCE GENERAL INSURANCE AND COMMISSION EXPENSES BY SPECIFIED
15 METHODS.

16 4. INCREASE THE INSURER'S CAPITAL AND SURPLUS.

17 5. SUSPEND OR LIMIT THE DECLARATION AND PAYMENT OF DIVIDENDS BY AN
18 INSURER TO ITS STOCKHOLDERS OR ITS POLICYHOLDERS.

19 6. FILE REPORTS IN A FORM ACCEPTABLE TO THE DIRECTOR CONCERNING THE
20 MARKET VALUE OF AN INSURER'S ASSETS.

21 7. LIMIT OR WITHDRAW FROM CERTAIN INVESTMENTS OR DISCONTINUE CERTAIN
22 INVESTMENT PRACTICES TO THE EXTENT THE DIRECTOR DEEMS NECESSARY.

23 8. DOCUMENT THE ADEQUACY OR PREMIUM RATES IN RELATION TO THE RISKS
24 INSURED.

25 9. IN ADDITION TO REGULAR ANNUAL STATEMENTS, FILE INTERIM FINANCIAL
26 REPORTS ON THE FORM ADOPTED BY THE NATIONAL ASSOCIATION OF INSURANCE
27 COMMISSIONERS OR IN A FORMAT PRESCRIBED BY THE DIRECTOR.

28 10. CORRECT CORPORATE GOVERNANCE PRACTICE DEFICIENCIES AND ADOPT AND
29 USE GOVERNANCE PRACTICES ACCEPTABLE TO THE DIRECTOR.

30 11. PROVIDE A BUSINESS PLAN TO THE DIRECTOR IN ORDER TO CONTINUE TO
31 TRANSACT BUSINESS IN THIS STATE.

32 12. NOTWITHSTANDING ANY OTHER LAW LIMITING THE FREQUENCY OR AMOUNT OF
33 PREMIUM RATE ADJUSTMENTS, ADJUST RATES FOR ANY NONLIFE INSURANCE PRODUCT
34 WRITTEN BY THE INSURER THAT THE DIRECTOR CONSIDERS NECESSARY TO IMPROVE THE
35 FINANCIAL CONDITION OF THE INSURER.

36 D. A HEARING DEMANDED BY AN INSURER AGGRIEVED BY AN ORDER OF THE
37 DIRECTOR AS PRESCRIBED BY RULE SHALL BE CLOSED TO THE PUBLIC BUT THE HEARING
38 SHALL BE OPEN TO THE PUBLIC IF REQUESTED ACCORDING TO SECTION 20-164,
39 SUBSECTION A.

40 E. THIS SECTION DOES NOT LIMIT OR SUPERSEDE ANY PROVISION OF THIS
41 TITLE OR ANY OTHER PROVISION OF LAW PERTAINING TO THE POWERS OF THE DIRECTOR
42 OR THE REGULATION OF THE FINANCIAL CONDITION OF INSURERS TRANSACTING
43 INSURANCE IN THIS STATE.

1 Sec. 2. Section 20-229, Arizona Revised Statutes, is amended to read:
2 20-229. Countersignature of insurance producer; exceptions

3 A. An authorized insurer shall not issue a policy covering a subject
4 of insurance resident, located or to be performed in this state unless the
5 policy or countersignature endorsement attached to the policy is
6 countersigned by its licensed insurance producer, ~~OR~~ OR bail bond agent ~~or~~
7 ~~managing general agent~~, as applicable.

8 B. Subsection A of this section does not apply to:

9 1. Reinsurance or life, disability or title insurance.

10 2. Insurance of the rolling stock, vessels or aircraft of any common
11 carrier in interstate or foreign commerce, or of any vehicle principally
12 garaged and used in another state or covering any liability or other risks
13 incident to the ownership, maintenance or operation thereof.

14 3. Insurance of property in the course of transportation interstate or
15 in foreign trade, or any liability or risk incident thereto.

16 4. Insurance of ocean marine risks.

17 5. Policies issued through salaried insurance producers or issued by
18 insurers not using insurance producers in the general solicitation of
19 business.

20 6. Bid bonds issued by any surety insurer in connection with any
21 public or private contracts.

22 7. Policies issued by a vending machine pursuant to section 20-293.

23 C. A violation of this section shall not invalidate the policy.

24 D. The countersignature that is required under subsection A of this
25 section may be made by a facsimile signature or other printed or reproduced
26 signature and shall be presumed to be the authorized signature of the person.

27 Sec. 3. Section 20-311, Arizona Revised Statutes, is amended to read:

28 20-311. Definition of managing general agent; exceptions;
29 adjustment or payment of claims

30 A. In this article, unless the context otherwise requires, "managing
31 general agent" means any person, firm, association or corporation ~~that~~
32 ~~negotiates and binds ceding reinsurance contracts on behalf of an insurer or~~
33 that manages all or part of the insurance business of an insurer, including
34 the management of a separate division, department or underwriting office,
35 ~~that acts as an insurance producer or agent for the insurer~~ and that, with or
36 without authority and either separately or together with affiliates, directly
37 or indirectly produces and underwrites an amount of gross direct written
38 premium that is at least five per cent of the policyholder surplus as
39 reported in the last annual statement of the insurer in any one quarter or
40 year and that either:

41 1. Engages in the adjustment or payment of claims **IN EXCESS OF TEN**
42 **THOUSAND DOLLARS PER CLAIM.**

43 2. Negotiates reinsurance on behalf of the insurer.

44 B. Notwithstanding subsection A of this section, for the purposes of
45 this article the following persons are not managing general agents:

46 1. An employee of the insurer.

1 2. A United States manager of the United States branch of an alien
2 insurer.

3 3. An underwriting manager who, pursuant to contract, manages all of
4 the insurance operations of the insurer other than those operations that are
5 managed by the insurer, who is under common control with the insurer, subject
6 to the holding company regulatory act, and whose compensation is not based on
7 the volume of premiums written.

8 4. The attorney-in-fact who is authorized by and acting for the
9 subscribers of a reciprocal insurer or inter-insurance exchange under powers
10 of attorney.

11 5. A reinsurance intermediary broker or a reinsurance intermediary
12 manager as defined in section 20-486, who provides administrative services
13 for an insurer and whose compensation consists only of remuneration not
14 related directly or indirectly to direct written premium. For the purposes
15 of this paragraph, reinsurance commissions shall not be considered
16 remuneration related to direct written premium.

17 C. The director shall establish by rule the dollar amount of adjusted
18 or paid claims that constitutes engaging in the adjustment or payment of
19 claims.

20 Sec. 4. Section 20-311.01, Arizona Revised Statutes, is amended to
21 read:

22 20-311.01. Managing general agents; requirements

23 A. A person ~~in this state~~ shall not act ~~as~~ IN THE CAPACITY OF a
24 managing general agent ~~of an insurer or underwriter's department~~ FOR AN
25 INSURER LICENSED IN THIS STATE WITH RESPECT TO THE RISKS LOCATED IN THIS
26 STATE unless the person is licensed AS AN INSURANCE PRODUCER by the director.
27 ~~A person shall apply for the license on forms designated and provided by the~~
28 ~~director. The director shall issue the license on completion and filing of~~
29 ~~the application and payment of the license fee prescribed in section 20-167.~~

30 ~~B. The license expires as prescribed in section 20-289. The director~~
31 ~~may suspend or revoke the license or licenses of a managing general agent for~~
32 ~~any of the same causes and pursuant to the same procedures that apply to~~
33 ~~insurance producer licenses under article 3 of this chapter.~~

34 ~~C. All managing general agents shall maintain a deposit according to~~
35 ~~section 20-581 in favor of this state to be held in trust for the benefit and~~
36 ~~protection of insureds and insurers whose monies the managing general agent~~
37 ~~handles that consists of any of the following:~~

38 ~~1. Cash.~~

39 ~~2. Securities eligible for investment pursuant to chapter 3, articles~~
40 ~~1 and 2 of this title.~~

41 ~~3. Surety insurance as defined in section 20-257 in a form acceptable~~
42 ~~to the director and issued by a corporate surety authorized to transact~~
43 ~~business in this state. The surety insurance may include individual bonds or~~
44 ~~schedule or blanket forms of bonds.~~

45 ~~D. The amount of the deposit required by subsection C of this section~~
46 ~~is ten per cent of the amount of total monies handled by the managing general~~

1 ~~agent on behalf of insurers possessing a certificate of authority issued by~~
2 ~~the director to transact insurance in this state unless the director~~
3 ~~determines that a lesser amount is adequate for the protection of the public,~~
4 ~~except that the deposit shall not be less than fifty thousand dollars or more~~
5 ~~than one hundred thousand dollars. The amount of the deposit shall be~~
6 ~~determined by the total monies handled by the managing general agent during~~
7 ~~the preceding year, or if no monies were handled during the preceding year,~~
8 ~~the amount of monies reasonably estimated to be handled during the current~~
9 ~~calendar year by the managing general agent. The amount of the deposit is~~
10 ~~payable on the failure of the managing general agent to pay funds that it is~~
11 ~~legally obligated to pay and shall provide protection to the insurers and~~
12 ~~insureds of this state against loss by reason of acts of fraud or dishonesty.~~

13 ~~E. The director may require a managing general agent to maintain an~~
14 ~~errors and omissions policy.~~

15 ~~F. For purposes of this section, "monies" means the total amount of~~
16 ~~gross written premium less gross return premium.~~

17 B. A PERSON SHALL NOT ACT IN THE CAPACITY OF A MANAGING GENERAL AGENT
18 FOR AN INSURER DOMICILED IN THIS STATE WITH RESPECT TO RISKS LOCATED OUTSIDE
19 OF THIS STATE UNLESS THE PERSON IS LICENSED AS AN INSURANCE PRODUCER BY THE
20 DIRECTOR.

21 Sec. 5. Section 20-311.02, Arizona Revised Statutes, is amended to
22 read:

23 20-311.02. Requirements for managing general agent agreements

24 A. A person, firm, association or corporation acting in the capacity
25 of a managing general agent shall not place business with an insurer unless
26 there is in force a written contract between the parties that sets forth the
27 responsibilities of each party and, if both parties share responsibility for
28 a particular function, specifies the division of the responsibilities. The
29 contract shall contain the following minimum provisions:

30 1. The insurer may terminate the contract for cause on written notice
31 to the managing general agent. The insurer may suspend the underwriting
32 authority of the managing general agent during the pendency of a dispute
33 regarding the cause for termination.

34 2. At least each month the managing general agent shall render
35 accounts to the insurer detailing all transactions and remit all monies due
36 under the contract to the insurer.

37 3. The managing general agent shall hold in a fiduciary capacity all
38 monies that are collected for the account of an insurer in a bank that is ~~a~~
39 ~~member of the federal reserve system~~ AN INSTITUTION THAT IS INSURED BY THE
40 FEDERAL DEPOSIT INSURANCE CORPORATION. The account shall be used for all
41 payments on behalf of the insurer. The managing general agent may retain no
42 more than three months' estimated claims payments and allocated loss
43 adjustment expenses.

44 4. The managing general agent shall maintain separate records of
45 business that is written by the managing general agent. The insurer shall
46 have access to and the right to copy all accounts and records related to its

1 business in a form usable by the insurer. The director shall have access to
2 all books, bank accounts and records of the managing general agent in a form
3 usable to the director.

4 5. The managing general agent may not assign the contract in whole or
5 in part.

6 6. Appropriate underwriting guidelines, including:

7 (a) The maximum annual premium volume.

8 (b) The basis of the rates to be charged.

9 (c) The types of risks that may be written.

10 (d) Maximum limits of liability.

11 (e) Applicable exclusions.

12 (f) Territorial limitations.

13 (g) Policy cancellation provisions.

14 (h) The maximum policy period.

15 7. The insurer may cancel or refuse to renew an insurance policy
16 subject to applicable laws and rules.

17 8. If the contract permits the managing general agent to settle claims
18 on behalf of the insurer:

19 (a) All claims shall be reported to the company in a timely manner.

20 (b) A copy of the claim file shall be sent to the insurer on request
21 or as soon as it becomes known that the claim:

22 (i) May exceed an amount determined by the director or exceeds the
23 limit set by the company, whichever is less.

24 (ii) Involves a coverage dispute.

25 (iii) May exceed the managing general agent's claims settlement
26 authority.

27 (iv) Is open for more than six months.

28 (v) Is closed by payment of an amount set by the director or an amount
29 set by the company, whichever is less.

30 (c) All claim files are the joint property of the insurer and the
31 managing general agent. On an order of liquidation of the insurer the files
32 become the sole property of the insurer or its estate. The managing general
33 agent shall have reasonable access to and the right to copy the files on a
34 timely basis.

35 (d) Any settlement authority that is granted to the managing general
36 agent may be terminated for cause on the insurer's written notice to the
37 managing general agent or on the termination of the contract. The insurer
38 may suspend the settlement authority during the pendency of a dispute
39 regarding the cause for termination.

40 9. If electronic claims files exist, provisions on the timely
41 transmission of the data.

42 10. If the contract provides for the sharing of interim profits by the
43 managing general agent, and the managing general agent has the authority to
44 determine the amount of the interim profits by establishing loss reserves,
45 controlling claim payments or any other manner, interim profits shall not be
46 paid to the managing general agent until one year after the interim profits

1 are earned for property insurance business or five years after the interim
2 profits are earned on casualty business and the interim profits have been
3 verified pursuant to subsection B of this section.

4 11. The managing general agent shall not:

5 (a) Bind reinsurance or retrocessions on behalf of the insurer, except
6 that the managing general agent may bind facultative reinsurance contracts
7 pursuant to obligatory facultative agreements if the contract with the
8 insurer contains reinsurance underwriting guidelines including, for both
9 reinsurance assumed and ceded, a list of reinsurers with whom the automatic
10 agreements are in effect, the coverages and amounts or percentages that may
11 be reinsured and commission schedules.

12 (b) Commit the insurer to participation in insurance or reinsurance
13 syndicates.

14 (c) Appoint a producer without assuring that the producer is lawfully
15 licensed to transact the type of insurance for which the producer is
16 appointed.

17 (d) Without prior approval of the insurer, pay or commit the insurer
18 to pay a claim over a specified amount, net of reinsurance, that does not
19 exceed one per cent of the insurer's policyholder's surplus as of December 31
20 of the last completed calendar year.

21 (e) Without prior approval of the insurer, collect any payment from a
22 reinsurer or commit the insurer to any claim settlement with a reinsurer. If
23 prior approval is given, a report shall be forwarded promptly to the insurer.

24 (f) Permit its subproducer to serve on the insurer's board of
25 directors.

26 (g) Employ jointly an individual who is employed by the insurer.

27 (h) Appoint a submanaging general agent.

28 12. THE MANAGING GENERAL AGENT MAY USE ONLY ADVERTISING MATERIAL
29 PERTAINING TO THE BUSINESS ISSUED BY AN INSURER THAT HAS BEEN APPROVED IN
30 WRITING BY THE INSURER IN ADVANCE OF ITS USE.

31 B. With respect to its managing general agent, an insurer shall:

32 ~~1. Have an independent financial examination of each managing general~~
33 ~~agent it does business with on file in a form acceptable to the director.~~

34 1. REQUIRE THE MANAGING GENERAL AGENT TO OBTAIN AND MAINTAIN A SURETY
35 BOND FOR THE PROTECTION OF THE INSURER. THE AMOUNT OF THE SURETY BOND SHALL
36 BE TEN PER CENT OF THE MANAGING GENERAL AGENT'S TOTAL ANNUAL WRITTEN PREMIUM
37 NATIONWIDE PRODUCED BY THE MANAGING GENERAL AGENT FOR THE INSURER IN THE
38 PRIOR CALENDAR YEAR, EXCEPT THAT THE SURETY BOND SHALL NOT BE IN AN AMOUNT
39 LESS THAN ONE HUNDRED THOUSAND DOLLARS OR MORE THAN FIVE HUNDRED THOUSAND
40 DOLLARS. THE INSURER SHALL MAKE THE BOND AVAILABLE FOR INSPECTION BY THE
41 DIRECTOR.

42 2. HAVE ON FILE AN INDEPENDENT AUDITED ANNUAL FINANCIAL STATEMENT OR
43 REPORT FOR THE TWO MOST RECENT FISCAL YEARS THAT PROVE THAT THE MANAGING
44 GENERAL AGENT HAS A POSITIVE NET WORTH. IF THE MANAGING GENERAL AGENT HAS
45 BEEN IN EXISTENCE FOR LESS THAN TWO FISCAL YEARS, THE MANAGING GENERAL AGENT
46 SHALL INCLUDE FINANCIAL STATEMENTS OR REPORTS THAT ARE CERTIFIED BY AN

1 OFFICER OF THE MANAGING GENERAL AGENT AND THAT ARE PREPARED IN ACCORDANCE
2 WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR ANY COMPLETED FISCAL YEARS
3 AND FOR ANY MONTH DURING THE CURRENT FISCAL YEAR FOR WHICH THE FINANCIAL
4 STATEMENTS OR REPORTS HAVE BEEN COMPLETED. FOR AN AUDITED FINANCIAL REPORT
5 PREPARED ON A CONSOLIDATED BASIS, A MANAGING GENERAL AGENT SHALL PROVIDE TO
6 THE INSURER WITH THE FINANCIAL REPORT A COLUMNAR CONSOLIDATING WORKSHEET THAT
7 INCLUDES AMOUNTS SHOWN ON THE CONSOLIDATED AUDITED FINANCIAL REPORT, AMOUNTS
8 FOR EACH ENTITY STATED SEPARATELY AND EXPLANATIONS OF CONSOLIDATING AND
9 ELIMINATING ENTRIES.

10 ~~2-~~ 3. Notwithstanding any other required loss reserve certification,
11 if the managing general agent establishes loss reserves, annually obtain an
12 actuary's opinion attesting to the adequacy of the loss reserves established
13 for losses incurred and outstanding on business that is produced by the
14 managing general agent.

15 ~~3-~~ 4. Conduct semiannually an on-site review of the managing general
16 agent's underwriting and claims processing operations.

17 ~~4-~~ 5. Give to an officer of the insurer who is not affiliated with
18 the managing general agent binding authority for all reinsurance contracts or
19 participation in insurance or reinsurance syndicates.

20 ~~5-~~ 6. Within thirty days of entering into or terminating a contract
21 with a managing general agent, provide to the director written notification
22 of the appointment or termination. A notice of appointment of a managing
23 general agent shall include a statement of the duties that the applicant
24 shall perform on behalf of the insurer, the lines of insurance for which the
25 applicant shall be authorized to act and any other information the director
26 may request.

27 ~~6-~~ 7. Review its books and records each quarter to determine if a
28 producer has become, by operation, a managing general agent. If the insurer
29 determines that a producer has become a managing general agent, the insurer
30 promptly shall notify the producer and the director of the
31 determination. The insurer and the producer shall comply with this section
32 within thirty days.

33 C. An insurer shall not appoint to its board of directors an officer,
34 director, employee, subproducer or controlling shareholder of its managing
35 general agents. This subsection does not apply to relationships that are
36 governed by the insurance holding company act or, if applicable, the producer
37 controlled insurer act.

38 D. The acts of the managing general agent are considered to be the
39 acts of the insurer on whose behalf the managing general agent is acting. A
40 managing general agent may be examined BY THE DIRECTOR as if the managing
41 general agent were the insurer AND THE INSURER SHALL BEAR ALL EXPENSES OF THE
42 EXAMINATION AS PRESCRIBED BY SECTIONS 20-156 AND 20-159.

43 E. If after a hearing the director finds that a person has violated
44 this section, the director may order:

45 1. For each separate violation, a civil penalty in an amount of up to
46 one thousand dollars.

1 2. Revocation or suspension of the producer's license.

2 3. The managing general agent to reimburse the insurer or the
3 rehabilitator or liquidator of the insurer for any losses **THAT ARE** incurred
4 by the insurer **AND** that are caused by an act that is committed by the
5 managing general agent in violation of this section.

6 F. Nothing contained in this section affects the right of the director
7 to impose any other penalties pursuant to this title.

8 G. Nothing contained in this section limits or restricts the rights of
9 policyholders, claimants and auditors.

10 H. The director may adopt rules for the implementation and
11 administration of this section.

12 I. Except as provided in section 41-1092.08, subsection H, the final
13 decision, determination or order of the director pursuant to subsection E of
14 this section is subject to judicial review pursuant to title 12, chapter 7,
15 article 6.

16 Sec. 6. Repeal

17 Section 20-311.03, Arizona Revised Statutes, is repealed.

18 Sec. 7. Section 20-407, Arizona Revised Statutes, is amended to read:

19 20-407. Surplus lines; brokers

20 A. Any portion or all of an insurance coverage designated in this
21 article as "surplus lines" may be procured from unauthorized insurers subject
22 to the following conditions:

23 1. The insurance is procured through a surplus lines broker licensed
24 in this state, referred to in this article as the "broker".

25 2. The insurance coverage is a recognized surplus line pursuant to
26 section 20-409 or the insurance coverage is not procurable, after diligent
27 effort has been made to procure coverage or the coverage has been procured to
28 the full extent the insurers are willing to insure, and the placing of
29 insurance with an unauthorized insurer is not for the purpose of securing
30 advantages either as to premium rate or terms of the insurance contract.

31 B. Subsection A, paragraph 2 of this section does not apply to the
32 sale of insurance coverage to an industrial insured as defined in section
33 20-401.07. At the inception of each new policy and at the time of each
34 renewal, but not less than annually during the term of the policy, each
35 industrial insured that purchases a policy as provided in this section shall
36 certify to the broker on a form prescribed by the director that the insured
37 meets the definition of industrial insured prescribed in section
38 20-401.07. The broker shall maintain the certification in the broker's
39 files. The insurance is surplus lines insurance and is subject to the
40 applicable provisions of this article that relate to surplus lines insurance.

41 C. ~~Nothing in~~ This section ~~prohibits~~ **DOES NOT PROHIBIT** a resident or
42 nonresident insurance producer ~~or managing general agent~~ licensed in this
43 state for property or casualty insurance from obtaining surplus lines
44 insurance for policyholders through a surplus lines broker if the insurance
45 producer ~~or managing general agent~~ uses a surplus lines broker licensed in
46 this state for the transaction of the insurance with the surplus lines

1 insurer. The surplus lines broker is responsible for compliance with the
2 applicable provisions of this article. The insurance producer ~~or managing~~
3 ~~general agent~~ may pay a fee or share a commission with a surplus lines broker
4 who procures the surplus coverage on behalf of the insurance producer. For
5 the purposes of this subsection, "transaction" means the acts listed in
6 section 20-106, subsection A.

7 D. For the transaction of surplus lines insurance, a surplus lines
8 broker licensed in this state shall not receive a fee, commission, brokerage
9 or other valuable consideration from any person who is not licensed in this
10 state as any of the following:

11 1. An insurance producer pursuant to ~~chapter 2~~, article 3 of this
12 ~~title~~ CHAPTER.

13 2. A managing general agent pursuant to ~~chapter 2~~, article 3.1 of this
14 ~~title~~ CHAPTER.

15 3. A surplus lines broker pursuant to section 20-411, 20-411.01 or
16 20-411.02.

17 Sec. 8. Section 20-411, Arizona Revised Statutes, is amended to read:
18 20-411. Licensing of surplus lines broker; examination

19 A. A person shall not act as a surplus lines broker in this state on
20 behalf of an insured whose home state is Arizona unless the person has a
21 current surplus lines broker license issued by the director.

22 B. Any individual who is a resident of this state and who is licensed
23 as a resident insurance producer authorized for property or casualty
24 insurance in this state may also be licensed as a resident surplus lines
25 broker if the director determines that the insurance producer is competent
26 and trustworthy. The director shall prescribe and furnish application forms.

27 C. Each individual applicant for an original license as a resident
28 surplus lines broker or for renewal of a resident surplus lines broker
29 license who has not previously taken and passed a surplus lines broker
30 license examination in this state shall take and pass to the director's
31 satisfaction a written examination given by or under the supervision of the
32 director. The examination shall reasonably test the applicant's knowledge of
33 surplus lines insurance and the legal responsibilities of a surplus lines
34 broker.

35 D. The director may issue a resident surplus lines broker license to
36 any business entity that is licensed as a resident property or casualty
37 insurance producer in this state and that satisfies all of the requirements
38 prescribed by section 20-285, subsections C and D.

39 E. At least one individual in each office or place where surplus lines
40 insurance is transacted in this state shall be licensed pursuant to this
41 title as ~~either~~ an insurance producer authorized for property or casualty
42 insurance ~~or a managing general agent for property or casualty insurance~~, and
43 shall be licensed pursuant to this article as a surplus lines broker.

44 F. The license prescribed in this section shall expire and be subject
45 to renewal coincidental to, and in the same manner as, other insurance
46 license authority as prescribed in section 20-289. The director shall charge

1 the surplus lines broker license fee prescribed in section 20-167, except
2 that, from and after June 30, 2005, a licensee adding surplus lines broker
3 authority to an existing insurance license shall be charged one-half the
4 surplus lines broker license fee if less than two years remain in the term of
5 the existing insurance license as of the date the director receives the
6 application to add surplus lines broker authority to the existing insurance
7 license.

8 G. To the extent not inconsistent with this article, section 20-281,
9 section 20-283, subsection B, paragraph 6, section 20-286, subsection C and
10 sections 20-287, 20-289, 20-291, 20-292, 20-295, 20-296, 20-297, 20-298,
11 20-299, 20-300, 20-301 and 20-302 apply to surplus lines brokers.

12 H. For the purposes of implementing the nonadmitted and reinsurance
13 reform act of 2010 (15 United States Code section 8201) the director shall
14 participate in the national insurance producer database of the national
15 association of insurance commissioners or any other equivalent national
16 database for the licensure and license renewal of surplus lines brokers on
17 and after July 21, 2012.

18 Sec. 9. Section 20-481.19, Arizona Revised Statutes, is amended to
19 read:

20 20-481.19. Extraordinary dividend or distribution; time;
21 notice; definition; approval by director

22 A. No insurer subject to registration under section 20-481.09 shall
23 pay an extraordinary dividend or make any other extraordinary distribution to
24 its shareholders until thirty days after the director has received notice of
25 the declaration thereof and has not within such period disapproved such
26 payment, or the director shall have approved such payment. Notice of the
27 declaration shall be provided to the director no more than five business days
28 after the declaration.

29 B. For the purposes of this section, an extraordinary dividend or
30 distribution includes any dividend or distribution of cash or other property
31 whose fair market value together with that of other dividends or
32 distributions made within the preceding twelve months exceeds the greater of
33 either ten per cent of such insurer's surplus as regards policyholders as of
34 December 31 next preceding, or the net gain from operations of such insurer,
35 if such insurer is a life insurer, or the net ~~investment~~ income, if such
36 insurer is not a life insurer, for the twelve month period ending December 31
37 next preceding, but shall not include pro rata distributions of any class of
38 the insurer's own securities.

39 C. Notwithstanding any other law to the contrary, an insurer may
40 declare an extraordinary dividend or distribution which is conditional upon
41 the approval of the director, and such a declaration shall confer no rights
42 upon shareholders until the director has either approved the payment of such
43 dividend or distribution or has not disapproved such payment within thirty
44 days after the notice of such declaration has been received.

45 Sec. 10. Section 20-488, Arizona Revised Statutes, is amended to read:
46 20-488. Definitions

1 In this article, unless the context otherwise requires:

2 1. "Adjusted RBC report" means a report that has been adjusted by the
3 director in accordance with section 20-488.01.

4 2. "Authorized control level event" means any of the following events:

5 (a) The filing of an RBC report by the insurer indicating that the
6 insurer's total adjusted capital is more than or equal to its mandatory
7 control level RBC but less than its authorized control level RBC.

8 (b) The notification by the director to the insurer of an adjusted RBC
9 report that indicates the event under subdivision (a) of this paragraph,
10 unless the insurer challenges the adjusted RBC report under section
11 20-488.06.

12 (c) If the insurer challenges an adjusted RBC report that indicates
13 the event under subdivision (a) of this paragraph, the notification by the
14 director to the insurer that the director, after a hearing, has rejected the
15 insurer's challenge.

16 (d) The failure of the insurer to satisfactorily respond to a
17 corrective order, unless the insurer has challenged the corrective order
18 under section 20-488.06.

19 (e) If the insurer challenges a corrective order and, after a hearing,
20 the director rejects the challenge or modifies the corrective order, the
21 failure of the insurer to satisfactorily respond to the corrective order
22 after its modification or the rejection of the challenge by the director.

23 3. "Authorized control level RBC" means the number determined under
24 the risk-based capital formula in accordance with the RBC instructions.

25 4. "Company action level event" means any of the following:

26 (a) The filing of an RBC report by an insurer indicating either that:

27 (i) The insurer's total adjusted capital is more than or equal to its
28 regulatory action level RBC but less than its company action level RBC.

29 ~~(ii) If the insurer is a life or health insurer, The insurer's total~~
30 ~~adjusted capital is more than or equal to its company action level RBC but~~
31 ~~less than the product of its authorized control level RBC and 2.5 3.0 and has~~
32 ~~a negative trend.~~

33 ~~(iii) If the insurer is a property and casualty insurer, the insurer's~~
34 ~~total adjusted capital is more than or equal to its company action level RBC~~
35 ~~but less than the product of its authorized control level RBC and 3.0 and has~~
36 ~~a negative trend.~~

37 (b) The notification by the director to the insurer of an adjusted RBC
38 report that indicates any of the events under subdivision (a) of this
39 paragraph, unless the insurer challenges the adjusted RBC report under
40 section 20-488.06.

41 (c) If the insurer challenges an adjusted RBC report that indicates
42 either of the events under subdivision (a) of this paragraph, the
43 notification by the director to the insurer that the director, after a
44 hearing, has rejected the insurer's challenge.

45 5. "Company action level RBC" means, with respect to any insurer, the
46 product of 2.0 and its authorized control level RBC.

1 6. "Corrective order" means an order that is issued by the director
2 and that specifies corrective actions that the director has determined are
3 required.

4 7. "Domestic insurer" means a life or health insurer, OR BOTH, A
5 property or casualty insurer, OR BOTH, or A health organization that is
6 authorized to transact insurance business in this state and that is organized
7 in this state.

8 8. "Foreign insurer" means a life or health insurer, OR BOTH, A
9 property or casualty insurer, OR BOTH, or A health organization that is
10 authorized to transact insurance business in this state but that is not
11 domiciled in this state.

12 9. "Health organization" means a hospital service corporation, medical
13 service corporation, dental service corporation or optometric service
14 corporation or a hospital, medical, dental and optometric service corporation
15 that has a certificate of authority pursuant to chapter 4, article 3 of this
16 title, a prepaid dental plan organization that has a certificate of authority
17 pursuant to chapter 4, article 7 of this title or a health care services
18 organization that has a certificate of authority pursuant to chapter 4,
19 article 9 of this title.

20 10. "Life or health insurer" means an insurer authorized to transact
21 life insurance, annuities or accident and health insurance in this state, A
22 FRATERNAL BENEFIT SOCIETY or an authorized property or casualty insurer
23 writing only accident and health insurance, but does not include ~~fraternal~~
24 ~~benefit societies, hospital, medical, dental and optometric service~~
25 ~~corporations, health care services organizations or prepaid dental plan~~
26 ~~organizations~~ A HEALTH ORGANIZATION.

27 11. "Mandatory control level event" means any of the following:

28 (a) The filing of an RBC report by the insurer indicating that the
29 insurer's total adjusted capital is less than its mandatory control level
30 RBC.

31 (b) The notification by the director to the insurer of an adjusted RBC
32 report that indicates the event under subdivision (a) of this paragraph,
33 unless the insurer challenges the adjusted RBC report under section
34 20-488.06.

35 (c) If the insurer challenges an adjusted RBC report that indicates
36 the event under subdivision (a) of this paragraph, the notification by the
37 director to the insurer that the director, after a hearing, has rejected the
38 insurer's challenge.

39 12. "Mandatory control level RBC" means the product of .70 and the
40 authorized control level RBC.

41 13. "Negative trend" means, with respect to ~~a life or health~~ AN
42 insurer, a negative trend over a period of time as determined in accordance
43 with the trend test calculation included in the RBC instructions.

44 14. "Property or casualty insurer" means an insurer licensed to
45 transact insurance as described in section 20-256 or 20-252, respectively,

1 but does not include monoline mortgage guaranty insurers, financial guaranty
2 insurers and title insurers.

3 15. "RBC" means risk-based capital.

4 16. "RBC instructions" means the RBC report, including risk-based
5 capital instructions adopted by the national association of insurance
6 commissioners.

7 17. "RBC level" means an insurer's company action level RBC, regulatory
8 action level RBC, authorized control level RBC or mandatory control level
9 RBC.

10 18. "RBC plan" means a comprehensive financial plan containing the
11 elements specified in section 20-488.02, subsection A. If the director
12 rejects the RBC plan and the insurer revises the plan, regardless of the
13 director's recommendation, the plan shall be called the revised RBC plan.

14 19. "RBC report" means the report required under section 20-488.01.

15 20. "Regulatory action level event" means, with respect to any insurer,
16 any of the following events:

17 (a) The filing of an RBC report by the insurer indicating that the
18 insurer's total adjusted capital is more than or equal to its authorized
19 control level RBC but less than its regulatory action level RBC.

20 (b) The notification by the director to the insurer of an adjusted RBC
21 report that indicates the event under subdivision (a) of this paragraph,
22 unless the insurer challenges the adjusted RBC report under section
23 20-488.06.

24 (c) If the insurer challenges an adjusted RBC report that indicates
25 the event under subdivision (a) of this paragraph, the notification by the
26 director to the insurer that the director, after a hearing, has rejected the
27 insurer's challenge.

28 (d) The failure by the insurer to file an RBC report by the filing
29 date, unless the insurer provides the director with a satisfactory
30 explanation for the failure and cures the failure within ten days after the
31 filing date.

32 (e) The failure by the insurer to submit an RBC plan to the director
33 within the time period prescribed in section 20-488.02, subsection B.

34 (f) Notification by the director to the insurer that both:

35 (i) The RBC plan or revised RBC plan that the insurer submitted is, in
36 the judgment of the director, unsatisfactory.

37 (ii) If the insurer has not challenged a determination pursuant to
38 section 20-488.06, the notification constitutes a regulatory action level
39 event.

40 (g) If the insurer challenges pursuant to section 20-488.06 a
41 determination made by the director pursuant to subdivision (f) of this
42 paragraph, the notification by the director to the insurer that the director,
43 after a hearing, has rejected the insurer's challenge.

44 (h) If the insurer has not challenged the determination pursuant to
45 section 20-488.06, the notification by the director to the insurer that the
46 insurer has failed to adhere to the insurer's RBC plan or revised RBC plan

1 and that states that failure has a substantial adverse effect on the
2 insurer's ability to eliminate the regulatory action level event in
3 accordance with its RBC plan or revised RBC plan.

4 (i) If the insurer challenges pursuant to section 20-488.06 a
5 determination made by the director pursuant to subdivision (h) of this
6 paragraph, the notification by the director to the insurer that the director,
7 after a hearing, has rejected the insurer's challenge, unless the insurer's
8 failure to adhere to its RBC plan or revised RBC plan does not have a
9 substantial adverse effect on the insurer's ability to eliminate the
10 regulatory action level event.

11 21. "Regulatory action level RBC" means the product of 1.5 and an
12 insurer's authorized control level RBC.

13 22. "Total adjusted capital" means the sum of:

14 (a) An insurer's statutory capital and surplus.

15 (b) Any other items that the RBC instructions may provide.

16 Sec. 11. Section 20-648, Arizona Revised Statutes, is amended to read:

17 20-648. Receivership liquidation fund; purpose; deposit;
18 expenses of receivership; deputy receiver; powers and
19 duties

20 A. The director shall appoint a deputy receiver to administer the
21 conservation, rehabilitation or liquidation of an insurer pursuant to this
22 article.

23 B. ~~There is established~~ A receivership liquidation fund **IS**
24 **ESTABLISHED**. The deputy receiver shall file a petition with the court
25 authorizing the deputy receiver to deposit in the fund ten per cent of the
26 insolvent insurer's deposit required under section 20-213.

27 C. The common administrative costs of the receiverships incurred by
28 the deputy receiver are payable from the receivership liquidation fund. The
29 director shall by order after a hearing describe the nature of administrative
30 costs common to every receivership in the operation of the receivership
31 office that are payable from this fund. Costs may include the compensation
32 of special deputies, clerks or assistants but shall not include attorney
33 fees.

34 D. The deputy receiver shall prepare and file with the court a
35 quarterly financial report listing expenditures and the balance remaining in
36 the fund allocable to the respective insurer. On termination of a
37 receivership, the deputy receiver shall remit any balance remaining in the
38 fund ~~which~~ **THAT** is allocated to a particular insurer to the separate account
39 for that receivership or to the person entitled to the monies. If the common
40 administrative expenses allocable to a receivership exceed the initial ten
41 per cent deposit to the fund, the deputy receiver may petition the court to
42 authorize an amount, equal to the excess, to be deposited in the fund.

43 **E. ON NOTICE FROM THE DIRECTOR, THE STATE TREASURER SHALL INVEST AND**
44 **DIVEST MONIES IN THE RECEIVERSHIP LIQUIDATION FUND AS PROVIDED BY SECTION**
45 **35-313, AND MONIES EARNED FROM INVESTMENT SHALL BE CREDITED TO THE FUND.**

46 Sec. 12. Section 20-705, Arizona Revised Statutes, is amended to read:

1 20-705. Articles of incorporation

2 ~~A. Five or more individuals aged eighteen years or more may~~
3 ~~incorporate a stock insurer and ten or more such individuals may incorporate~~
4 ~~a mutual insurer. Not less than two thirds of the incorporators shall be~~
5 ~~citizens of the United States residing in this state. The articles of~~
6 ~~incorporation shall be signed and acknowledged by the incorporators as deeds~~
7 ~~are required to be acknowledged.~~

8 ~~B.~~ A. The articles of incorporation shall state:

9 1. The name of the corporation. If a mutual, the word "mutual" shall
10 be a part of the name.

11 2. The duration of its existence, which may be perpetual.

12 3. The kinds of insurance the corporation is formed to transact,
13 according to the definitions thereof in this title. If the corporation is to
14 be a limited stock insurer, the articles shall provide for limitations ~~upon~~
15 ~~ON~~ the insuring powers of the corporation consistent with ~~the provisions of~~
16 section 20-708.

17 4. If a stock corporation, its authorized capital, the classes and
18 number of shares into which divided, the par value of each such share and the
19 respective rights of each such class. Shares without par value shall not be
20 authorized.

21 5. If a mutual corporation, the maximum contingent liability of its
22 members, other than as to nonassessible policies, for payment of losses and
23 expenses incurred, which liability shall be as stated in the articles of
24 incorporation but not less than one nor more than six times the premium for
25 the member's policy at the annual premium rate for a term of one year.

26 6. The number of directors, not less than five nor more than fifteen,
27 who shall conduct the affairs of the corporation, and the names and addresses
28 of the corporation's first directors and officers for stated terms of office
29 of not less than two months or more than one year.

30 7. The time of the annual meeting of stockholders or members.

31 8. The city or town in this state in which the principal place of
32 business is to be located, and the counties, states and countries in which
33 business may be transacted.

34 9. The limitations, if any, on the corporation's indebtedness.

35 10. If a stock corporation, the extent, if any, to which stock of the
36 corporation shall be liable to assessment.

37 11. Such other provisions, not inconsistent with law, as deemed
38 appropriate by the incorporators.

39 12. The names and addresses of the incorporators.

40 ~~C.~~ B. ~~The provisions of~~ This section ~~shall apply~~ APPLIES to stock and
41 mutual insurers incorporated in this state after January 1, 1955.

42 Sec. 13. Section 20-706, Arizona Revised Statutes, is amended to read:

43 20-706. Filing and publication of articles; appointment of
44 agent to receive process; issuance of certificate

45 A. The articles of incorporation shall be filed in the office of the
46 corporation commission, and certified copies thereof shall be filed with the

1 director of insurance ~~and recorded in the office of the county recorder in~~
2 ~~each county of the state in which the corporation proposes to transact~~
3 ~~business.~~

4 B. The articles of incorporation shall be published ~~at least six times~~
5 ~~in a newspaper published in or having a general circulation in the county of~~
6 ~~the corporation's principal place of business. Upon completion of~~
7 ~~publication, and within three months after recording the certified copy of~~
8 ~~the articles in the office of the county recorder of such county, an~~
9 ~~affidavit of publication shall be filed in the office of the corporation~~
10 ~~commission~~ AS REQUIRED BY TITLE 10.

11 C. The corporation shall appoint a statutory agent located in this
12 state ~~upon~~ ON whom all process in any action or proceeding may be served and
13 shall file ~~duplicate~~ originals of such appointment in the director's office
14 and in the corporation commission's office. Any termination of such
15 statutory agent shall not take effect until the corporation has appointed a
16 new, valid statutory agent.

17 D. ~~Upon completion of the filing and recording as to the articles of~~
18 ~~incorporation, and filing of the appointment of a statutory agent for service~~
19 ~~of process, the corporation commission shall issue to the corporation a~~
20 ~~certificate of incorporation.~~ The corporation shall not transact business as
21 an insurer until it has applied for and received from the director a
22 certificate of authority as provided by this title.

23 Sec. 14. Section 20-709, Arizona Revised Statutes, is amended to read:
24 20-709. Formation of mutual insurer; applications for insurance

25 A. Upon issuance of its certificate of incorporation ~~as provided in~~
26 ~~subsection D of section 20-706~~ BY THE CORPORATION COMMISSION, the directors
27 and officers of a domestic mutual corporation formed for the purpose of
28 becoming a mutual insurer may open books for the registration of such
29 requisite applications for insurance policies as they may accept, and may
30 receive deposits of premiums thereon.

31 B. All such applications shall be in writing signed by the applicant,
32 covering subjects of insurance resident, located or to be performed in this
33 state.

34 C. All such applications shall provide that:

35 1. Issuance of the policy is contingent upon completion of
36 organization of the insurer and issuance to it of a proper certificate of
37 authority.

38 2. No insurance is provided until the certificate of authority has
39 been so issued.

40 3. The prepaid premium or deposit, and membership or policy fee, if
41 any, shall be refunded in full to the applicant if the organization is not
42 completed and the certificate of authority issued before a specified
43 reasonable date, which date shall be not later than one year following date
44 of issuance of the certificate of incorporation.

45 D. All qualifying premiums collected shall be in cash.

1 E. Solicitation for qualifying applications for insurance shall be by
2 licensed agents of the corporation, and the director shall upon application
3 therefor issue temporary agent's licenses expiring on the date specified
4 pursuant to paragraph 3 of subsection C of this section to individuals
5 appointed by the corporation and qualified as for a resident agent's license
6 except as to the taking of an examination. The director may suspend or
7 revoke any such license for the same causes and pursuant to the same
8 procedures applicable to suspension or revocation of licenses of agents in
9 general under article 3 of chapter 2 of this title.

10 Sec. 15. Section 20-1098.04, Arizona Revised Statutes, is amended to
11 read:

12 20-1098.04. Formation of captive insurers; redomestication

13 A. An agency captive insurer or protected cell captive insurer shall
14 be incorporated as a stock insurer with its capital divided into shares and
15 held by the stockholders. Each owner of an agency captive insurer shall be
16 licensed as an insurance producer ~~or managing general agent~~.

17 B. A group captive insurer may be formed in any of the following ways:

18 1. Incorporated as a stock insurer with its capital divided into
19 shares and held by the stockholders.

20 2. Incorporated as a mutual insurer without capital stock, the
21 governing body of which is elected by the member organizations of its
22 association.

23 3. Organized as a reciprocal insurer pursuant to article 2 of this
24 chapter.

25 4. Incorporated as a nonprofit corporation pursuant to title 10,
26 chapter 25.

27 C. A pure captive insurer may be formed in any of the following ways:

28 1. Incorporated as a stock insurer with its capital divided into
29 shares and held by the stockholders.

30 2. Incorporated as a nonprofit corporation pursuant to title 10,
31 chapter 25.

32 3. Incorporated as a limited liability ~~corporation~~ COMPANY pursuant to
33 title 29, chapter 4.

34 D. The capital stock of a captive insurer that is incorporated as a
35 stock insurer may be authorized with no par value.

36 E. A captive insurer that is formed as a corporation shall have at
37 least three incorporators, at least one of whom shall be a resident of this
38 state. Notwithstanding subsection B, paragraph 3 of this section, a captive
39 insurer that is formed as a reciprocal insurer may be organized by three or
40 more subscribers, none of whom shall be required to be a resident of this
41 state.

42 F. A pure captive insurer shall have at least one director. Any other
43 kind of corporate captive insurer shall have at least three directors. Any
44 group captive insurer formed as a reciprocal insurer shall have at least
45 three subscribers' advisory committee members. In addition to independent

1 directors, a group captive insurer may have as many directors as it has
2 members.

3 G. A captive insurer that is formed as a corporation shall have at
4 least one member of the board of directors who is a resident of this state.
5 A captive insurer that is formed as a reciprocal insurer shall have at least
6 one member of the subscribers' advisory committee who is a resident of this
7 state.

8 H. The articles of incorporation or bylaws of a captive insurer that
9 is formed as a corporation with more than one director may authorize a quorum
10 of a board of directors to consist of at least one-third of the fixed or
11 prescribed number of directors, but at least two directors. The subscribers'
12 agreement or other organizing document of a captive insurer formed as a
13 reciprocal insurer may authorize a quorum of a subscribers' advisory
14 committee to consist of at least one-third of the number of its members, but
15 at least two members.

16 I. Any foreign or alien insurer may become a domestic captive insurer
17 by complying with the requirements of this article relating to the licensing
18 of a domestic captive insurer and by complying with all applicable
19 requirements of the laws of this state relating to the domestication of a
20 corporation to this state. The effective date of a license that is issued to
21 a foreign or alien insurer domesticated to this state shall be the date of
22 filing its articles of domestication with the corporation commission.

23 Sec. 16. Section 20-1098.07, Arizona Revised Statutes, is amended to
24 read:

25 20-1098.07. Annual report

26 A. Not later than ninety days after the end of the captive insurer's
27 fiscal year, the captive insurer shall submit to the director a report of its
28 financial condition that is verified by oath of two of its executive officers
29 and that is supplemented by additional information as required by the
30 director. Except as provided in section 20-1098.03, a captive insurer may
31 submit a report that uses generally accepted accounting principles unless the
32 director requires the captive insurer to use statutory accounting principles
33 with any useful or necessary modifications or adaptations of those principles
34 required by the director for the type of insurance and kinds of insurers to
35 be reported on.

36 B. The captive insurer's financial statements shall be audited by an
37 independent certified public accountant **AND BE IN COMPLIANCE WITH CHAPTER 3,**
38 **ARTICLE 10 OF THIS TITLE,** unless the director determines that an audit is not
39 necessary. The audit shall include a reconciliation of differences, if any,
40 between the audited financial report and the statement or form filed with the
41 department. The audit opinion shall be filed with the director not later
42 than six months after the end of the captive insurer's fiscal year.

43 C. Unless exempted by the director, the annual report shall ~~include an~~
44 ~~opinion as to the adequacy of the captive insurer's loss reserves and loss~~
45 ~~expense reserves. A member in good standing of the casualty actuarial~~
46 ~~society, a member in good standing of the American academy of actuaries or an~~

1 ~~individual who has demonstrated competence in loss reserve evaluations to the~~
2 ~~director shall certify the opinion.~~ BE BASED ON THE TYPE OF RISKS INSURED BY
3 THE INSURER AND SHALL MEET THE APPLICABLE REQUIREMENTS OF ONE OR MORE OF THE
4 FOLLOWING:

- 5 1. CHAPTER 3, ARTICLE 8 OF THIS TITLE.
- 6 2. CHAPTER 3, ARTICLE 9 OF THIS TITLE.
- 7 3. THE ACTUARIAL PROVISIONS OF THE NATIONAL ASSOCIATION OF INSURANCE
8 COMMISSIONERS HEALTH ANNUAL STATEMENT INSTRUCTIONS.

9 Sec. 17. Section 20-1098.15, Arizona Revised Statutes, is amended to
10 read:

11 20-1098.15. Applicability

12 A. Chapter 2, article 6 of this title relating to unfair trade
13 practices and frauds applies to captive insurers, except to the extent the
14 director determines the nature of captive insurance renders particular
15 provisions of chapter 2, article 6 of this title inappropriate.

16 B. All other provisions of this title that are not inconsistent with
17 this article apply to captive insurers, except to the extent the director
18 determines the nature of captive insurance renders particular provisions of
19 this title inappropriate.

20 C. A captive insurer that is formed as a corporation is subject to the
21 applicable provisions of title 10, except as otherwise prescribed in this
22 article.

23 D. A captive insurer that is formed as a limited liability company is
24 subject to the applicable provisions of title 29, except as otherwise
25 prescribed in this article.

26 E. The provisions of article 1 of this chapter relating to mergers,
27 consolidations, conversions, mutualizations and redomestications apply in
28 determining the procedures to be followed by captive insurers in carrying out
29 those transactions, except that the director may waive or modify the
30 requirements for a public notice and hearing prescribed in section 20-731.

31 F. Chapter 2, article 8 of this title relating to insurance holding
32 company systems applies to risk retention groups as defined in section
33 20-1098 or 20-2401.

34 G. CHAPTER 2, ARTICLE 12 OF THIS TITLE RELATING TO RISK-BASED CAPITAL,
35 AS MODIFIED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS FOR RISK
36 RETENTION GROUPS, APPLIES TO RISK RETENTION GROUPS AS DEFINED IN SECTION
37 20-1098 OR 20-2401. IF A RISK RETENTION GROUP IS SUBJECT TO REGULATORY
38 ACTION AS PRESCRIBED IN SECTION 20-488.02, 20-488.03, 20-488.04 OR 20-488.05,
39 THE REGULATORY ACTION SHALL BE AT THE DISCRETION OF THE DIRECTOR.

40 H. UNLESS OTHERWISE PRESCRIBED BY THE DIRECTOR BASED ON A RISK
41 RETENTION GROUP'S BUSINESS PLAN, REMOTENESS OF THE RISK AND CLAIM FREQUENCY,
42 SECTION 20-260, SUBSECTION A, RELATING TO INDIVIDUAL RISK LIMITATION, APPLIES
43 TO RISK RETENTION GROUPS AS DEFINED IN SECTION 20-1098 OR 20-2401.

44 Sec. 18. Section 20-1243.05, Arizona Revised Statutes, is amended to
45 read:

46 20-1243.05. Mitigation of responsibility; director orders

1 A. The director may order:

2 1. An insurer to take reasonably appropriate corrective action for any
3 consumer who is harmed by the insurer's or by the insurer's insurance
4 producer's violation of this article.

5 2. An insurance producer to take reasonably appropriate corrective
6 action for any consumer who is harmed by an insurance producer's violation of
7 this article.

8 3. A ~~managing general agent or~~ business entity that employs or
9 contracts with an insurance producer to sell, or solicit the sale of,
10 annuities to consumers to take reasonably appropriate corrective action for
11 any consumer who is harmed by the insurance producer's violation of this
12 article.

13 B. The director may reduce or eliminate any applicable penalty under
14 sections 20-220, 20-295 and 20-456 for a violation of section 20-1243.03,
15 subsection A, B or D if corrective action for the consumer was taken promptly
16 after a violation was discovered.

17 Sec. 19. Section 20-2102, Arizona Revised Statutes, is amended to
18 read:

19 20-2102. Definitions

20 In this chapter, unless the context otherwise requires:

21 1. "Adverse underwriting decision" means any of the following actions
22 involving insurance coverage which is individually underwritten:

23 (a) A declination of insurance coverage.

24 (b) A termination of insurance coverage.

25 (c) Failure of an insurance producer to apply for insurance coverage
26 with a specific insurance institution which the insurance producer represents
27 and which is requested by an applicant.

28 (d) In the case of property or casualty insurance coverage, placement
29 by an insurance institution or insurance producer of a risk with a residual
30 market mechanism, an unauthorized insurer or an insurance institution which
31 specializes in substandard risks, or the charging of a higher rate on the
32 basis of information which differs from that which the applicant or
33 policyholder furnished.

34 (e) In the case of life, health or disability insurance coverage, an
35 offer to insure at higher than standard rates.

36 (f) In the case of property or casualty insurance, assigning an
37 applicant or policyholder to a higher rating tier or failing to apply a
38 premium discount or credit based on any credit related information derived
39 from the applicant's or policyholder's consumer report, insurance score or
40 lack of credit history.

41 Notwithstanding subdivisions (a) through (f) of this paragraph, the
42 termination of an individual policy form on a class or statewide basis, a
43 declination of insurance coverage solely because the coverage is not
44 available on a class or statewide basis or the rescission of a policy is not
45 considered an adverse underwriting decision, but the insurance institution or

1 insurance producer responsible for its occurrence shall provide the applicant
2 or policyholder with the specific reasons for its occurrence.

3 2. "Affiliate" or "affiliated" means a person that directly or
4 indirectly through one or more intermediaries controls, is controlled by or
5 is under common control with another person.

6 3. "Applicant" means any person who seeks to contract for insurance
7 coverage other than a person seeking group insurance that is not individually
8 underwritten.

9 4. "Consumer report" means any written, oral or other communication of
10 information that bears on a natural person's creditworthiness, credit
11 standing, credit capacity, character, general reputation, personal
12 characteristics or mode of living and that is used or expected to be used in
13 connection with an insurance transaction.

14 5. "Consumer reporting agency" means any person who does any of the
15 following:

16 (a) Regularly engages, in whole or in part, in the practice of
17 assembling or preparing consumer reports for a monetary fee.

18 (b) Obtains information primarily from sources other than insurance
19 institutions.

20 (c) Furnishes consumer reports to other persons.

21 6. "Control", including the terms "controlled by" or "under common
22 control with", means the possession, direct or indirect, of the power to
23 direct or cause the direction of the management and policies of a person,
24 whether through the ownership of voting securities, by contract other than a
25 commercial contract for goods or nonmanagement services, or otherwise, unless
26 the power is the result of an official position with or corporate office held
27 by the person.

28 7. "Declination of insurance coverage" means a denial, in whole or in
29 part, by an insurance institution or insurance producer of requested
30 insurance coverage.

31 8. "Individual" means any natural person who:

32 (a) In the case of property or casualty insurance, is a past, present
33 or proposed named insured or certificate holder.

34 (b) In the case of life, health or disability insurance, is a past,
35 present or proposed principal insured or certificate holder.

36 (c) Is a past, present or proposed policyowner.

37 (d) Is a past or present applicant.

38 (e) Is a past or present claimant.

39 (f) Derived, derives or is proposed to derive insurance coverage under
40 an insurance policy or certificate subject to this chapter.

41 9. "Institutional source" means any person or governmental entity that
42 provides information about an individual to an insurance producer, insurance
43 institution or insurance support organization, other than an insurance
44 producer, the individual who is the subject of the information or a natural
45 person acting in a personal capacity rather than in a business or
46 professional capacity.

1 10. "Insurance institution" means any corporation, association,
2 partnership, reciprocal insurer, inter-insurer, Lloyd's association,
3 fraternal benefit society or other person engaged in the business of
4 insurance, including health care service organizations and hospital, medical,
5 dental and optometric service corporations as defined in this title.
6 Insurance institution does not include insurance producers or insurance
7 support organizations.

8 11. "Insurance producer" means an insurance producer as defined in
9 section 20-281 ~~or a managing general agent as defined in section 20-311.~~

10 12. "Insurance score" means, for the purpose of insurance underwriting
11 or rating, a designation that is derived by using a variety of data sources,
12 including an individual's consumer report in an algorithm, computer program,
13 model or other process that reduces the data to a number, alpha character or
14 rating that is used for insurance underwriting and rating decisions.

15 13. "Insurance support organization" means:

16 (a) Any person who regularly engages, in whole or in part, in the
17 practice of assembling or collecting information about natural persons for
18 the primary purpose of providing the information to an insurance institution
19 or insurance producer for insurance transactions, including the furnishing of
20 consumer reports or investigative consumer reports to an insurance
21 institution or insurance producer for use in connection with an insurance
22 transaction or the collection of personal information from insurance
23 institutions, insurance producers or other insurance support organizations
24 for the purpose of detecting or preventing fraud, material misrepresentation
25 or material nondisclosure in connection with insurance underwriting or
26 insurance claim activity.

27 (b) Notwithstanding subdivision (a) of this paragraph the following
28 persons are not considered insurance support organizations for purposes of
29 this chapter:

- 30 (i) Insurance producers.
- 31 (ii) Government institutions.
- 32 (iii) Insurance institutions.
- 33 (iv) Medical care institutions.
- 34 (v) Medical professionals.

35 14. "Insurance transaction" means any transaction that involves
36 insurance primarily for personal, family or household needs rather than
37 business or professional needs and that entails the determination of an
38 individual's eligibility for an insurance coverage, benefit or payment or the
39 servicing of an insurance application, policy, contract or certificate,
40 including transfers of business.

41 15. "Investigative consumer report" means a consumer report or portion
42 of a consumer report in which information about a natural person's character,
43 general reputation, personal characteristics or mode of living is obtained
44 through personal interviews with the person's neighbors, friends, associates,
45 acquaintances or others who may have knowledge concerning those items of
46 information.

1 16. "Medical care institution" means any facility or institution that
2 is licensed to provide health care services to natural persons including:

- 3 (a) Health care service organizations.
- 4 (b) Home health agencies.
- 5 (c) Hospitals.
- 6 (d) Medical clinics.
- 7 (e) Public health agencies.
- 8 (f) Rehabilitation agencies.
- 9 (g) Skilled nursing facilities.

10 17. "Medical professional" means any person licensed or certified to
11 provide health care services to natural persons, including a chiropractor,
12 clinical dietitian, clinical psychologist, dentist, nurse, occupational
13 therapist, optometrist, pharmacist, physical therapist, physician,
14 podiatrist, psychiatric social worker or speech therapist.

15 18. "Medical record information" means personal information that
16 relates to an individual's physical or mental condition, medical history or
17 medical treatment and that is obtained from a medical professional or medical
18 care institution, the individual or the individual's spouse, parent or legal
19 guardian.

20 19. "Personal information" means any individually identifiable
21 information gathered in connection with an insurance transaction and from
22 which judgments can be made about an individual's character, habits,
23 avocations, finances, occupation, general reputation, credit, health or any
24 other personal characteristics. Personal information includes an
25 individual's name and address and medical record information but does not
26 include privileged information.

27 20. "Policyholder" means any person who:

28 (a) In the case of individual property or casualty insurance, is a
29 present named insured.

30 (b) In the case of individual life, health or disability insurance, is
31 a present policyowner.

32 (c) In the case of group insurance which is individually underwritten,
33 is a present group certificate holder.

34 21. "Pretext interview" means an interview in which a person, in an
35 attempt to obtain information about a natural person, performs one or more of
36 the following acts:

37 (a) Pretends to be someone he or she is not.

38 (b) Pretends to represent a person he or she is not in fact
39 representing.

40 (c) Misrepresents the true purpose of the interview.

41 (d) Refuses to identify himself or herself on request.

42 22. "Privileged information" means any individually identifiable
43 information that relates to a claim for insurance benefits or a civil or
44 criminal proceeding involving an individual and that is collected in
45 connection with or in reasonable anticipation of a claim for insurance
46 benefits or a civil or criminal proceeding involving an individual, except

1 that information otherwise meeting the requirements of this paragraph is
2 considered personal information under this chapter if it is disclosed in
3 violation of section 20-2113.

4 23. "Residual market mechanism" means an agreement for the equitable
5 apportionment among insurers of insurance afforded applicants who are in good
6 faith entitled to but who are unable to procure insurance through ordinary
7 methods.

8 24. "Termination of insurance coverage" or "termination of an insurance
9 policy" means either a cancellation or nonrenewal of an insurance policy, in
10 whole or in part, for any reason other than the failure to pay a premium as
11 required by the policy.

12 25. "Transfer of business":

13 (a) Means the transfer by an insurance institution or insurance
14 producer that owns the policy expiration of a policyholder's existing policy
15 of insurance or the transfer of a group of policyholders' existing policies
16 of insurance to another insurance institution.

17 (b) Does not include the transfer of business by an insurance producer
18 that is under an exclusive contract or a contract requiring the insurance
19 producer to submit all eligible business to an insurer or group of insurers
20 under a common management.

21 26. "Unauthorized insurer" means an insurance institution that has not
22 been granted a certificate of authority by the director to transact insurance
23 in this state.

24 Sec. 20. Section 20-2901, Arizona Revised Statutes, is amended to
25 read:

26 20-2901. Definitions

27 In this article, unless the context otherwise requires:

28 1. "Applicant" means a provider organization that submits an
29 application to the contractor to provide continuing education courses.

30 2. "Approved continuing education course" means any course that has
31 been approved by at least five other states or that is approved by a
32 contractor or automatically approved pursuant to section 20-2904.

33 3. "Approved provider" means an organization or individual that offers
34 an approved continuing education course and that is authorized by the
35 contractor to offer the course to a licensee for credit toward the licensee's
36 continuing education requirements.

37 4. "Continuing education review committee" means the committee
38 appointed by the director pursuant to section 20-2905 to establish minimum
39 standards that apply to approved providers and approved continuing education
40 courses and minimum performance standards that apply to contractors.

41 5. "Contractor" means the person who has a contract with the
42 department of insurance to approve continuing education providers and courses
43 and to administer the continuing education program and who is paid through
44 fees collected from approved providers when the approved providers apply for
45 continuing education course approval.

1 6. "Credit hour" means the value assigned to an hour of instruction in
2 an approved continuing education course.

3 7. "License period" means the period between the date an Arizona
4 insurance license is issued or last renewed and the expiration date of the
5 Arizona insurance license.

6 8. "Licensee" means an insurance producer, including a surplus lines
7 broker, ~~or a managing general agent as defined in chapter 2, article 3.1 of~~
8 ~~this title~~ who at any time during the license period holds a current
9 nonresident license to transact insurance in another state. Licensee does
10 not include any firm, corporation or other similar entity or an adjuster as
11 defined in section 20-321.

12 9. "Nonresident applicant" means an insurance producer or a managing
13 general agent or service representative who holds a resident license in
14 another state and a nonresident license in this state and who is applying for
15 the renewal of a nonresident license in this state.

16 10. "Provider organization" means a person that provides continuing
17 education courses but THAT has not yet been accepted as an approved provider
18 pursuant to section 20-2904.

19 Sec. 21. License issuance; expiration

20 On the effective date of section 20-311.01, Arizona Revised Statutes,
21 as amended by this act, the director shall issue to each person who holds a
22 managing general agent license an insurance producer license for the same
23 kind of insurance as that for which the person holds the managing general
24 agent license, and the managing general agent license expires.

APPROVED BY THE GOVERNOR APRIL 3, 2013.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 4, 2013.