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**STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

August 13, 1981

**ADMINISTRATIVE LETTER
1981-10**

TO: All Insurance Companies Writing Group
Accident and Sickness Insurance in
the Commonwealth of Virginia

RE: Risk Sharing Arrangements
(Replacement for Administrative Letter 1980-7)

It has come to my attention that some insurance companies are having difficulty interpreting Administrative Letter 1980-7 and the Bureau's position as expressed therein. In view of this, I am issuing this administrative letter to replace Administrative Letter 1980-7 and to restate the Bureau's position with respect to risk sharing arrangements issued in conjunction with self-funded plans; including minimum premium, excess loss, stop loss, aggregate excess risk, and other arrangements of similar nature by whatever name called.

Administrative services only agreements not involving risk assumption by an insurance company are not subject to this letter. Whenever there is any risk assumption by the insurance company, the risk sharing arrangement becomes subject to the rules contained in this letter.

The following rules should be used by insurance companies entering into insurance agreements with self-funded plans of accident and sickness benefits:

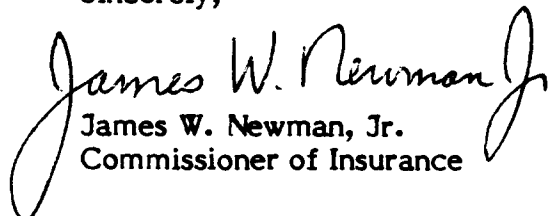
1. The insurance policy or contract should be filed with and accepted by the Virginia Bureau of Insurance as is presently required for all group accident and sickness insurance forms.
2. Any arrangement where the benefits are paid to the employer may not be provided by a rider to a conventional group insurance policy.
3. The insurance policy should clearly indicate the extent and duration of the liability assumed by the insurer once the policyholder's liability has been exceeded.
4. Any employee or member covered under a plan in which the policyholder assumes liability for providing a portion of the benefit should be furnished a brief description of such arrangement.

5. The insurer should maintain reserves in accordance with Section 38.1-173* of the Virginia Insurance Code for the liability it assumes under such insurance agreement.
6. The insurer should be responsible for claims for which it is liable but were not reported before the end of a plan year before the insurance agreement was terminated.

The requirements of this letter shall apply to all policies or contracts delivered, issued for delivery, reissued, or extended, or at any time when any term of the policy or contract is changed or any premium adjustment is made. The effective date for implementation of rules contained in this letter will be 90 days after the date of issue of this administrative letter.

Should any clarification be required as to the intent of this letter or the requirements of the Virginia Bureau of Insurance with regard to risk sharing arrangements as described in this letter, please contact Robert L. Wright, Supervisor of Forms and Rates, Life and Health Division, at the Virginia Bureau of Insurance.

Sincerely,


James W. Newman, Jr.
Commissioner of Insurance

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* Effective July 1, 1986, Section 38.2-1314