

SERVICE CONTRACT PROVIDER REQUIREMENTS

According to Section 8-32-3(f), Code of Alabama, 1975,

TO ASSURE THE FAITHFUL PERFORMANCE OF A PROVIDER'S OBLIGATIONS TO ITS SERVICE CONTRACT HOLDERS EACH PROVIDER SHALL BE RESPONSIBLE FOR COMPLYING WITH THE REQUIREMENTS OF ONE OF THE FOLLOWING SUBDIVISIONS:

1. Insure all service contracts under a reimbursement insurance policy issued by an insurer authorized to transact insurance in this state or issued pursuant to Chapter 10, Title 27, Code of Alabama, 1975.

OR

2. Do both of the following:
 - (a) Maintain a funded reserve account for its obligations under its service contracts sold and outstanding in this state. The reserves shall be based on the loss experience of the provider as certified by an actuary or, at the election of the provider, the reserves shall be 30 percent of the aggregate provider fees for all service contracts sold and then in force. The reserve account shall be subject to examination and review by the commissioner.
 - (b) Place in trust with the commissioner a financial security deposit, having a value of not less than five percent of the aggregate provider fees, less claims paid, for all service contracts sold and then in force, but not less than twenty-five thousand dollars (\$25,000) consisting of one of the following:
 - (I) A surety bond issued by an authorized surety.
 - (II) Securities of the type eligible for deposit by authorized insurers in this state.
 - (III) Cash.
 - (IV) A letter of credit issued by a qualified financial institution.
 - (V) Another form of security prescribed by regulations issued by the commissioner.

OR

3. Do both of the following:
 - (a) Maintain a net worth or stockholders' equity of one hundred million dollars (\$100,000,000).

- (b) Upon request, provide the commissioner with a copy of the financial statement of the provider included in its most recent annual report on Form 10-K or Form 20-F filed with the Securities and Exchange Commission (SEC) within the last calendar year, or if the provider does not file with the SEC, a copy of the audited financial statements of the provider, which shows a net worth of the provider of at least one hundred million dollars (\$100,000,000). A consolidated Form 10-K, Form 20-F or audited financial statements shall meet the requirements of Section 8-32-3(f)(3), Code of Alabama, 1975, for the provider if it shows a net worth or stockholders' equity of the provider of at least one hundred million dollars (\$100,000,000) and there shall be no requirement of a parent company guarantee, reimbursement insurance, or other form of financial stability requirement. However, if the Form 10-K, Form 20-F or audited financial statements of the parent company of the provider are filed to meet the provider's financial stability requirement because the provider's net worth or stockholders' equity of the provider is not at least one hundred million dollars (\$100,000,000), or because the net worth or stockholders' equity is not determinable from the consolidated Form 10-K, Form 20-F or audited financial statements of the parent company, then the parent company shall agree to guarantee the obligations of the provider relating to service contracts sold by the provider in this state.