

LEGISLATIVE HISTORY OF R.S.17:48A-5; 17:48A-6

(Medical service contracts are for 12 months automatically renewed unless given 30 days written notice).

- ✓ L.1940 - chap.74 - §5, §6 S 108 Scott.
Statement enclosed.
Bill passed without amendment.
Approved May 29, 1940.

No hearings or reports were found.

- L.1944 - chap.102 - §3, §4 - S 152 Scott.
Bill and Statement enclosed.
Mar.29 - Reported with Senate Committee Amendment (enclosed)
Mar.31 - Passed Senate amended. *SENATE J. p. 445-6*
Apr.5 - Passed Assembly.
Apr.13 - Approved.

No hearings or reports were found.

- §5 L.1966 - chap.237 - §1 effective August 10 A 594 Beadleston, et al.
No statement.
Bill and amendments enclosed.
May 23 - Passed Assembly, amended.
May 31 - Passed Senate.

No report or hearings were found.

- L.1970 - chap.113 - S 409.
Jan.20 - Introduced by Dumont.
Amended by Assembly Committee.
No statement.

(For clippings see Legislative History of R.S.17:48-6

This bill listed as "Approved" in:

974.905 M49	The Journal of the Medical Society of New Jersey.
vol.67	no.4 April 1970 p.189
vol.67	no.7 July 1970 p.353

HP/EH
Encl.

SENATE, No. 108

STATE OF NEW JERSEY

INTRODUCED MARCH 11, 1940

By Mr. SCOTT

(By Request)

Referred to Committee on Public Health

AN ACT concerning medical service corporations and regulating the establishment, maintenance and operation of medical service corporations and medical service plans, and supplementing Title 17 of the Revised Statutes by adding thereto a new chapter entitled "Medical Service Corporations."

1 BE IT ENACTED *by the Senate and General Assembly of the State of New*
2 *Jersey:*

1 1. As used in this act the following words and phrases shall have the fol-
2 lowing meanings:

3 A medical service corporation is any corporation organized, without
4 capital stock and not for profit, for the purpose of establishing, maintaining
5 and operating nonprofit medical service plans. A nonprofit medical service
6 plan is any plan or arrangement operated by a medical service corporation
7 under the provisions of this act, and whereby the expense of medical serv-
8 ices to subscribers and other covered dependents is paid by the corporation
9 to participating physicians of such plans or arrangements and to
9½ such other physicians as are provided for herein. A subscriber is a
10 person to whom a subscription certificate is issued by the corporation and
11 which sets forth the kinds and extent of the medical services for which the
12 corporation is liable to make payment and which constitutes the contract
13 between the subscriber and the corporation. A covered dependent is the
14 spouse, an adult dependent or a child of the subscriber who is named in the

15 subscription certificate issued to the subscriber and with respect to whom
16 appropriate premium is specified in the certificate. A participating physician
17 is any physician duly licensed to practice medicine in the State of New Jer-
18 sey pursuant to chapter nine, Title 45, of the Revised Statutes, who agrees in
19 writing with the corporation to perform the medical services specified in the
20 subscription certificates issued by the corporation and at such rates of com-
21 pensation as shall be determined by its board of trustees and who agrees to
22 abide by the by-laws, rules and regulations of the corporation applicable to
23 participating physicians. Medical service includes all general and special
24 medical services ordinarily provided by such licensed physicians in accordance
25 with accepted practices in the community at the time the service is rendered.
26 No subscriber or his covered dependents shall be liable for any payment to
27 any participating physician for medical services specified in the subscriber's
28 certificate to be paid for by the corporation.

1 2. No medical service corporation shall be converted into a corporation
2 organized for pecuniary profit. Every such corporation shall be operated
3 for the benefit of the subscribers. No person shall be elected a trustee of any
4 medical service corporation unless his nomination has been approved by a
5 recognized medical society or professional medical organization having not
6 less than two thousand members holding licenses to practice medicine pur-
7 suant to chapter nine, Title 45, of the Revised Statutes, and which has been
8 incorporated for a period of not less than ten years. No medical service
9 corporation shall impose any restrictions on physicians who administer to its
10 subscribers as to methods of diagnosis or treatment. No person, firm, as-
11 sociation or corporation other than a medical service corporation shall
12 establish, maintain or operate a medical service plan or any other means,
13 agency or device for contracting with persons to pay for medical services on
14 the basis of premiums or other valuable considerations to be collected by
15 such person, firm, association or corporation from such persons for the issue
16 of such contract; *provided*, that this section shall not be construed as pre-
17 venting the exercise of any authority or privilege granted to any corporation
17½ by any certificate of authority issued by the Commissioner of Bank-

18 ing and Insurance pursuant to any law of this State; *and provided, further,*
19 that this section shall not be construed as preventing any person, firm, as-
20 sociation or corporation from furnishing medical services required under
21 any workmen's compensation law. No medical service corporation shall
22 solicit subscribers or enter into any contract with any subscriber until it
23 has received from the Commissioner of Banking and Insurance a certificate
24 of authority to do so.

1 3. The Commissioner of Banking and Insurance may issue such certifi-
2 cate of authority to any such medical service corporation of this State when
3 it shall have filed in the Department of Banking and Insurance a certified
4 copy of its charter or certificate of incorporation, a copy of its by-laws certi-
5 fied by the lawful custodian of the original, a statement of its financial condi-
6 tion in such form and detail and containing such matters as the Commis-
7 sioner of Banking and Insurance shall require, signed and sworn to by its
8 president and secretary or other proper officers, and when the Commissioner
9 of Banking and Insurance is satisfied, on the basis of examination or other-
10 wise, that the corporation has complied with the requirements of this chap-
11 ter and that its condition or methods of operation are not such as would
12 render its operations hazardous to the public or its subscribers. No change
13 in, or amendment to, or alteration in, addition to, or substitution of any
14 document, instrument or other papers so filed shall become operative or effec-
15 tive until the same shall also have been filed in a similar manner. The certi-
16 ficate of authority issued by the commissioner shall specify the county or
17 counties in which the corporation may conduct its business. Such certificate
18 may be amended from time to time to include additional counties on the basis
19 of qualification pursuant to the provisions of this act. No such certificate
20 shall be issued to authorize a corporation to transact business in any county,
21 or if issued, the authority with respect to such county shall be cancelled by
22 the commissioner, if he shall find that less than fifty-one per centum (51%)
23 of the eligible physicians in any county are participating physicians. No
24 certificate of authority shall be issued to any medical service corporation
25 not incorporated under the laws of this State.

1 4. No certificate of authority shall be issued to any medical service cor-
2 poration except on receipt of evidence by the Commissioner of Banking and
3 Insurance that the corporation is in possession of unencumbered funds of
4 not less than five thousand dollars (\$5,000.00) and that such amount is held
5 in cash or in bank to the credit of the corporation.

1 5. Every subscription contract made by any corporation subject to the
2 provisions of this chapter to provide payment for medical services shall pro-
3 vide for the payment of medical services for a period of twelve months from
4 the date of issue of the subscription certificate. Any such contract may
5 provide that it shall be automatically renewed from year to year unless
6 there shall have been one month's prior written notice of termination by
7 either the subscriber or the corporation. During the first contract year the
8 provisions of the contract may provide that the inception of coverage may
9 be deferred for not more than two months from date of issue of the contract,
10 and may exclude treatment for illness existing at inception of the contract.
11 No contract between such corporation and subscriber shall allow for the pay-
12 ment for medical services to more than one person, except that a family con-
13 tract may provide that payment will be made for medical services rendered
14 to a subscriber and any of those dependents defined in section one of this act.

1 6. Every contract entered into by any such corporation with any sub-
2 scriber shall be in writing and a certificate stating the terms and conditions
3 thereof shall be furnished to the subscriber. No such subscription certifi-
4 cate shall be issued or delivered by any medical service corporation of this
5 State unless it contains the following provisions:

6 (a) A statement of the amounts payable to the corporation by the
7 subscriber and the times at which and manner in which such amounts
8 shall be paid;

9 (b) A statement of the nature of the medical services to be paid
10 for and the period during which the certificate is effective; and if there
11 are any types of medical services to be excepted, a detailed statement
12 of such exceptions printed as hereinafter specified;

13 (c) A statement of the terms or conditions, if any, upon which
14 the certificate may be cancelled or otherwise terminated at the option
15 of either party;

16 (d) A statement that the subscription certificate constitutes the con-
17 tract between the corporation and the subscriber and includes the en-
18 dorsements thereon and attached papers, if any, and contains the
19 entire contract;

20 (e) A statement that no statement by the subscriber in his appli-
21 cation for a certificate shall avoid the contract or be used in any legal
22 proceeding thereunder, unless such application or an exact copy thereof
23 is included in or attached to the certificate, and that no agent or rep-
24 resentative of such corporation, other than an officer or officers desig-
25 nated in the certificate, is authorized to change the contract or waive
26 any of its provisions;

27 (f) A statement that if the subscriber defaults in making any pay-
28 ment under the certificate, the subsequent acceptance of a payment by
29 the corporation or by one of its duly authorized agents shall reinstate
30 the certificate, but with respect to sickness and injury may cover only
31 such sickness as may be first manifested more than a specified number
32 of days, not exceeding ten, after the date of such acceptance;

33 (g) A statement of the period of grace which will be allowed the
34 subscriber for making any payment due under the contract. Such period
35 shall not be less than ten days;

36 (h) A statement that indemnity in the form of cash will not be paid
37 to any subscriber except in reimbursement for payments made by the
38 subscriber to a physician and for which the corporation was liable at
39 the time of such payment.

40 Any such subscription certificate may contain a provision that all med-
41 ical services paid for by a medical service corporation shall be in accord-
42 ance with the accepted medical practices in the community at the time, but
43 the corporation shall not be liable for injuries resulting from negligence,

44 misfeasance, malfeasance, nonfeasance or malpractice on the part of any
45 officer or employee or on the part of any physician in the course of render-
46 ing medical services to subscribers.

1 7. In every such subscription certificate issued or delivered by any
2 medical service corporation of this State:

3 (a) All printed portions shall be plainly printed in type of which
4 the face is not smaller than ten point;

5 (b) There shall be a brief description of the subscription certifi-
6 cate on its first page, and on its filing back in type of which the face
7 is not smaller than fourteen point;

8 (c) The exceptions of the contract shall appear with the same prom-
9 inence in the certificate as the benefits to which they apply; and

10 (d) If the contract contains any provisions purporting to make
11 any portion of the articles, constitution or by-laws or regulations of
12 the corporation or plans a part of the contract, such portion shall be
13 set forth in full in the subscription certificate.

1 8. Any medical service corporation may enter into agreements with eli-
2 gible persons whereby such persons become participating physicians of a
3 plan operated by the corporation and may make to such persons such pay-
4 ments as shall have accrued by reason of services required to be performed
5 under the plan and performed on behalf of the corporation by such person.
6 No person shall become a participating physician unless he shall be a physi-
7 cian holding a full license to practice medicine in the State of New Jersey,
8 pursuant to chapter nine, Title 45, of the Revised Statutes. No payment
9 for medical services shall be made to any natural person except to a par-
10 ticipating physician; except that the corporation, in the case of emergency
11 services, may reimburse any physician for services rendered to a subscriber
12 in accordance with the rates adopted by the board of trustees with respect
13 to participating physicians, but only to physicians who would be eligible,
14 except for residence or State by which licensed, to become participating
15 physicians. Any medical service corporation may enter into contracts for

16 the payment of medical services to the subscribers or members of similar
17 nonprofit medical service corporations of other States subject to the super-
18 vision of such other States, or of counties of this State in which the cor-
19 poration does not transact business, and shall have the right to reimburse
20 any other nonprofit medical service corporation or physicians of another
21 State or of counties of this State in which the corporation does not trans-
22 act business for services rendered to its subscribers and their dependents
23 at the same rate paid participating physicians under the certificate of the
24 subscriber.

1 9. No subscription certificate shall be issued by any medical service cor-
2 poration to any subscriber unless and until the form thereof shall have been
3 filed with the Commissioner of Banking and Insurance together with all ap-
4 plications, riders and endorsements for use in connection with the issuance or
5 renewal thereof. If the commissioner shall at any time notify the corporation
6 filing the same of his disapproval of any such form, as contrary to law, or
7 as being oppressive or calculated to mislead the public, specifying particulars,
8 it shall be unlawful for such corporation thereafter to issue any such form
9 so disapproved. Such disapproval of the commissioner may be reviewed by
10 a writ of certiorari.

1 10. No corporation subject to the provisions of this chapter shall enter
2 into any contract with a subscriber unless and until it shall have filed with
3 the Commissioner of Banking and Insurance a full schedule of the rates to be
4 paid by the subscribers to such contracts. The commissioner may disapprove
5 such schedule of rates at any time if he finds that such rates are excessive,
6 inadequate or discriminatory. It shall be unlawful for any corporation to
7 effect any contract or issue any subscription certificate until a revised sched-
8 ule of rates has been filed. Such disapproval by the commissioner may be
9 reviewed by a writ of certiorari.

1 11. No corporation subject to the provisions of this chapter shall enter
2 into any contract with a subscriber unless and until it shall have filed with the
3 Commissioner of Banking and Insurance a copy of the agreement proposed

4 to be entered into by the corporation and the participating physicians.
5 Every such agreement shall provide for the payment for medical services to
6 subscribers and covered dependents to the end of the subscription certificate
7 year, and that the agreement of the physician to render such service to the
8 end of any certificate year shall not be affected by cessation of the transac-
9 tion of business by reason of appropriate resolution of its board of trustees,
10 injunction issued by a court of competent authority, legislative act or by any
11 other exercise of judicial, administrative or legislative authority; *provided*,
12 that this requirement shall not apply to any subscription certificate which
13 is not **maintained in force** by the payment of premiums required thereby.
14 There shall be included in the minutes of the board of trustees of every such
15 organization a **record of the approval of payments to be made to participating**
16 physicians. The corporation shall maintain in its office complete records of
17 all the medical services rendered to subscribers and covered dependents in
18 such form as will indicate the kind of services rendered, the amounts claimed
19 for such services by the participating physicians, and the amounts paid by
20 the corporation. No payment to any participating physicians shall be au-
21 thorized by the board of trustees except in accordance with a plan of payments
22 adopted by the board and recorded in the minutes of a meeting.

1 12. No corporation subject to the provisions of this chapter shall dis-
2 burse during any one calendar year more than ten per centum (10%) of the
3 aggregate amount of payments received from subscribers during that year as
4 expenditures for the solicitation of subscribers except that during the first
5 year after the issuance of a certificate of authority such corporation may so
6 disburse not more than twenty per centum (20%) of such amount and during
7 the second year not more than fifteen per centum (15%).

1 13. No such corporation shall disburse during any one year, a sum
2 greater than twenty per centum (20%) of payments received from subscrib-
3 ers during that year as administrative expenses. The term "administrative
4 expense" as used in this section shall include all expenditures for nonprofes-
5 sional services and in general all expenses not directly connected with the

6 payment for medical services, but not including expenses of soliciting sub-
7 scriptions.

1 14. The funds of any medical service corporation may be invested only
2 in accordance with the requirements now or hereafter provided by law for
3 the investment of funds of life insurance companies. Every medical service
4 corporation after the first full calendar year of doing business after the
5 effective date of this chapter, shall accumulate and maintain a special con-
6 tingent surplus over and above its reserves and liabilities at the rate of two
7 per centum (2%) annually of its net premium income until such surplus
8 shall be not less than one hundred thousand dollars (\$100,000.00) except that
9 no such corporation shall be required to maintain a special contingent sur-
10 plus exceeding fifty-five per centum (55%) of its average annual premium
11 income for the previous five years.

1 15. Every medical service corporation transacting business in this State
2 shall file annually, on or before the first day of March, in the Department of
3 Banking and Insurance a statement, subscribed and sworn to by its presi-
4 dent and secretary, or in their absence, by two of its principal officers, show-
5 ing its financial condition at the close of business on the thirty-first day of
6 December of the year last preceding, and showing its business transacted
7 during that year, which statement shall be in such form and contain such mat-
8 ters as the Commissioner of Banking and Insurance shall prescribe; said
9 commissioner may also address inquiries to any such corporation or its offi-
10 cers in relation to its condition or affairs, or any matter connected with its
11 transactions, and it shall be the duty of the officers of such corporation to
12 reply promptly in writing to all such inquiries; for good cause shown the
13 commissioner may extend the time within which any such statement may be
14 filed.

1 16. Any medical service corporation that neglects to make and file its
2 annual statement in the form and within the time provided by the last pre-
3 ceding section, or neglects to reply in writing to inquiries of the Commis-
4 sioner of Banking and Insurance within such reasonable time as may be

5 specified by him, shall forfeit twenty-five dollars (\$25.00) for each day's
6 neglect, and upon notice by the Commissioner of Banking and Insurance to
7 that effect, its authority to do new business in this State shall cease while
8 such default continues.

1 17. The Commissioner of Banking and Insurance shall have the power,
2 whenever he deems the same expedient, to make or cause to be made an ex-
3 amination of the assets and liabilities, method of conducting business and
4 all other affairs of every medical service corporation authorized or which has
5 made application for authority to transact business under the provisions of
6 this chapter. For the purpose of such examination the commissioner may
7 commission and employ such persons to conduct the same or to assist therein
8 as he may deem advisable, which examination may be conducted in any
9 State in which the corporation examined has an office, agent or place of
10 business.

1 18. The reasonable expense of such examination shall be fixed and de-
2 termined by the Commissioner of Banking and Insurance, and he shall collect
3 the same from the corporation examined, which shall pay same on presenta-
4 tion of a detailed account of such expense. In case any corporation, after
5 such examination, shall be declared by the Court of Chancery to be insolvent,
6 the expense of such examination, if unpaid, shall be taxed in the costs of the
7 proceedings in the Court of Chancery and paid out of the assets of the cor-
8 poration. No corporation shall, either directly or indirectly, pay, by way of
9 gift, credit or otherwise, any other or further sum to the commissioner or to
10 any person in the employ of the Department of Banking and Insurance, for
11 extra service or for purposes of legislation, or for any other purpose what-
12 soever.

1 19. It shall be the duty of the officers, agents and employees of any such
2 corporation to exhibit all its books, records and accounts for the purpose
3 of such examination and otherwise to facilitate the same so far as it may be
4 in their power to do so, and for that purpose the Commissioner of Banking
5 and Insurance, and his deputies, assistants and employees shall have the

6 power to examine, under oath, the officers, agents and employees of any such
7 corporation relative to its business and affairs.

1 20. Whenever any medical service corporation shall become insolvent or
2 shall suspend its ordinary business for want of funds to carry on the same,
3 or whenever the Commissioner of Banking and Insurance shall ascertain, as
4 a result of examination as authorized by this chapter, or in any other man-
5 ner, that any such association is exceeding its powers or violating the law
6 or that its condition or methods of business are such as to render the con-
7 tinuance of its operations hazardous to the public or its members, that the
8 assets of such corporation are less than its liabilities or that the number of
9 subscribers to its service has decreased to less than one hundred persons, or
10 that the corporation has failed to maintain the number of participating
11 physicians specified by this act, said commissioner shall have authority to
12 apply to the Court of Chancery for an injunction restraining such corpora-
13 tion from the transaction of any further business, or from the transfer or
14 disposal of its property in any manner whatsoever, and the court, being
15 satisfied of the sufficiency of the application, may order an injunction and
16 appoint a receiver, with power to sue for, collect, receive and take into his
17 possession all the goods and chattels, rights and credits, moneys and effects,
18 lands and tenement, books, papers, choses in action, bills, notes and property
19 of every description belonging to such corporation and sell and convey and
20 assign the same, and hold and dispose of the proceeds thereof under the
21 directions of the Court of Chancery. Any such corporation may be deemed
22 insolvent whenever it is presently or prospectively unable to fulfill its out-
23 standing contracts and to maintain the reserves required pursuant to this
24 chapter.

1 21. Every corporation to which this chapter shall be applicable shall pay
2 the following fees to the Commissioner of Banking and Insurance for en-
3 forcement of the provisions of this chapter, viz.: for filing its application
4 and charter, ten dollars (\$10.00); for filing each annual statement, five dol-
5 lars (\$5.00); for each copy of any paper filed in the Department of Bank-

6 ing and Insurance, twenty cents (\$.20) a sheet or folio of one hundred
7 words and one dollar (\$1.00) for certifying the same.

1 22. Any medical service corporation of this or any other State, country
2 or province which shall have violated any of the provisions of or shall have
3 neglected, failed or refused to comply with any of the requirements of this
4 chapter, except the failure to file an annual statement, shall be liable to a
5 penalty of five hundred dollars (\$500.00), such penalty to be sued for and col-
6 lected by the Commissioner of Banking and Insurance in an action upon
7 contract in the nature of an action for debt in the name of the State; such
8 penalty when recovered shall be paid by the Commissioner of Banking and
9 Insurance into the State treasury for the use of the State. Any officer, agent,
10 employee or member of any such corporation doing business in this State
11 who shall issue, circulate or cause or permit to be circulated, any estimate,
12 illustration, circular of any sort misrepresenting the terms of any contract
13 issued by such corporation, or any other such corporation authorized to
14 transact business under this chapter, or misrepresent the benefits or advan-
15 tages promised thereby, or use any name or title of any contract or class of
16 contracts misrepresenting the true nature thereof, or who shall solicit, nego-
17 tiate or effect the issue of any contract of any medical service corporation
18 which shall have neglected, failed or refused to procure a certificate of
19 authority as provided for by the provisions of this chapter, or who shall
20 accept any premiums, dues, deposits, contributions, fees, assessments or
21 thing of value of any kind in consideration for such contract or certificate
22 on behalf of such corporation, shall be adjudged guilty of a misdemeanor.

1 23. A medical service corporation may receive and accept from any
2 governmental agencies any grant of funds for the purpose of providing
3 medical services to needy persons under such terms or conditions as shall be
4 specified by such agency. Any medical service corporation may in its discre-
5 tion accept the grant of funds from private agencies, corporations, associa-
6 tions, groups of individuals or individuals for the purpose of providing med-
7 ical services to needy persons under such conditions as shall be satisfactory

8 to such persons or organizations and to the corporation. All funds received
9 under such grants shall be segregated in a separate fund or funds to be used
10 for the purposes agreed upon. Neither the income from subscribers to the
11 corporation, nor the assets accumulated from income received from sub-
12 scribers shall be available for the payment of any obligations assumed by
13 the corporation under such grants, nor shall any funds received through such
14 grants be available for the payment of the obligations assumed by the cor-
15 poration under its subscription certificates. The authority of the Commis-
16 sioner of Banking and Insurance under the provisions of this act shall not
17 extend to funds received under such grants except to such extent as is nec-
18 essary to satisfy him that the requirements of this act have been complied
19 with.

1 24. Any corporation subject to the provisions of this act is hereby de-
2 clared to be a charitable and benevolent institution, and its funds and prop-
3 erty shall be exempt from taxation by the State or any political subdivision
4 thereof.

1 25. Should any provision or section of this act be held invalid for any
2 reason, such holding shall not be construed as affecting the validity of any
3 remaining portion of such section or of this act, it being the legislative in-
4 tent that this act shall stand notwithstanding the invalidity of any such pro-
5 vision or section.

1 26. This act shall take effect immediately.

STATEMENT

The purposes and intent of this act are:

1. To assist individuals to secure medical services, thus promoting the phys-
ical and mental welfare of these individuals and enhancing their value as citi-
zens of this State.

2. To accomplish this by the provision under State statutes for the estab-
lishment and operation of nonprofit medical service corporations.

3. To place the establishment and operation of all such nonprofit medical service corporations under the authority of the Commissioner of Banking and Insurance.

This act is sponsored by The Medical Society of New Jersey and has received the approval of the Commissioner of Banking and Insurance.

[OFFICIAL COPY REPRINT]

SENATE, No. 108

STATE OF NEW JERSEY

INTRODUCED MARCH 11, 1940

By Mr. SCOTT

(By Request)

Referred to Committee on Public Health

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9 to participating physicians of such plans or arrangements and to
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16 of such contract; *provided*, that this section shall not be construed as pre-
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17½ by any certificate of authority issued by the Commissioner of Bank-

18 ing and Insurance pursuant to any law of this State; *and provided, further,*
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23 has received from the Commissioner of Banking and Insurance a certificate
24 of authority to do so.

1 3. The Commissioner of Banking and Insurance may issue such certifi-
2 cate of authority to any such medical service corporation of this State when
3 it shall have filed in the Department of Banking and Insurance a certified
4 copy of its charter or certificate of incorporation, a copy of its by-laws certi-
5 fied by the lawful custodian of the original, a statement of its financial condi-
6 tion in such form and detail and containing such matters as the Commis-
7 sioner of Banking and Insurance shall require, signed and sworn to by its
8 president and secretary or other proper officers, and when the Commissioner
9 of Banking and Insurance is satisfied, on the basis of examination or other-
10 wise, that the corporation has complied with the requirements of this chap-
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12 render its operations hazardous to the public or its subscribers. No change
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14 document, instrument or other papers so filed shall become operative or effec-
15 tive until the same shall also have been filed in a similar manner. The certi-
16 ficate of authority issued by the commissioner shall specify the county or
17 counties in which the corporation may conduct its business. Such certificate
18 may be amended from time to time to include additional counties on the basis
19 of qualification pursuant to the provisions of this act. No such certificate
20 shall be issued to authorize a corporation to transact business in any county,
21 or if issued, the authority with respect to such county shall be cancelled by
22 the commissioner, if he shall find that less than fifty-one per centum (51%)
23 of the eligible physicians in any county are participating physicians. No
24 certificate of authority shall be issued to any medical service corporation
25 not incorporated under the laws of this State.

1 4. No certificate of authority shall be issued to any medical service cor-
2 poration except on receipt of evidence by the Commissioner of Banking and
3 Insurance that the corporation is in possession of unencumbered funds of
4 not less than five thousand dollars (\$5,000.00) and that such amount is held
5 in cash or in bank to the credit of the corporation.

1 5. Every subscription contract made by any corporation subject to the
2 provisions of this chapter to provide payment for medical services shall pro-
3 vide for the payment of medical services for a period of twelve months from
4 the date of issue of the subscription certificate. Any such contract may
5 provide that it shall be automatically renewed from year to year unless
6 there shall have been one month's prior written notice of termination by
7 either the subscriber or the corporation. During the first contract year the
8 provisions of the contract may provide that the inception of coverage may
9 be deferred for not more than two months from date of issue of the contract,
10 and may exclude treatment for illness existing at inception of the contract.
11 No contract between such corporation and subscriber shall allow for the pay-
12 ment for medical services to more than one person, except that a family con-
13 tract may provide that payment will be made for medical services rendered
14 to a subscriber and any of those dependents defined in section one of this act.

1 6. Every contract entered into by any such corporation with any sub-
2 scriber shall be in writing and a certificate stating the terms and conditions
3 thereof shall be furnished to the subscriber. No such subscription certifi-
4 cate shall be issued or delivered by any medical service corporation of this
5 State unless it contains the following provisions:

6 (a) A statement of the amounts payable to the corporation by the
7 subscriber and the times at which and manner in which such amounts
8 shall be paid;

9 (b) A statement of the nature of the medical services to be paid
10 for and the period during which the certificate is effective; and if there
11 are any types of medical services to be excepted, a detailed statement
12 of such exceptions printed as hereinafter specified;

13 (c) A statement of the terms or conditions, if any, upon which
14 the certificate may be cancelled or otherwise terminated at the option
15 of either party;

16 (d) A statement that the subscription certificate constitutes the con-
17 tract between the corporation and the subscriber and includes the en-
18 dorsements thereon and attached papers, if any, and contains the
19 entire contract;

20 (e) A statement that no statement by the subscriber in his appli-
21 cation for a certificate shall avoid the contract or be used in any legal
22 proceeding thereunder, unless such application or an exact copy thereof
23 is included in or attached to the certificate, and that no agent or rep-
24 resentative of such corporation, other than an officer or officers desig-
25 nated in the certificate, is authorized to change the contract or waive
26 any of its provisions;

27 (f) A statement that if the subscriber defaults in making any pay-
28 ment under the certificate, the subsequent acceptance of a payment by
29 the corporation or by one of its duly authorized agents shall reinstate
30 the certificate, but with respect to sickness and injury may cover only
31 such sickness as may be first manifested more than a specified number
32 of days, not exceeding ten, after the date of such acceptance;

33 (g) A statement of the period of grace which will be allowed the
34 subscriber for making any payment due under the contract. Such period
35 shall not be less than ten days;

36 (h) A statement that indemnity in the form of cash will not be paid
37 to any subscriber except in reimbursement for payments made by the
38 subscriber to a physician and for which the corporation was liable at
39 the time of such payment.

40 Any such subscription certificate may contain a provision that all med-
41 ical services paid for by a medical service corporation shall be in accord-
42 ance with the accepted medical practices in the community at the time, but
43 the corporation shall not be liable for injuries resulting from negligence,

44 misfeasance, malfeasance, nonfeasance or malpractice on the part of any
45 officer or employee or on the part of any physician in the course of render-
46 ing medical services to subscribers.

1 7. In every such subscription certificate issued or delivered by any
2 medical service corporation of this State:

3 (a) All printed portions shall be plainly printed in type of which
4 the face is not smaller than ten point;

5 (b) There shall be a brief description of the subscription certifi-
6 cate on its first page, and on its filing back in type of which the face
7 is not smaller than fourteen point;

8 (c) The exceptions of the contract shall appear with the same prom-
9 inence in the certificate as the benefits to which they apply; and

10 (d) If the contract contains any provisions purporting to make
11 any portion of the articles, constitution or by-laws or regulations of
12 the corporation or plans a part of the contract, such portion shall be
13 set forth in full in the subscription certificate.

1 8. Any medical service corporation may enter into agreements with eli-
2 gible persons whereby such persons become participating physicians of a
3 plan operated by the corporation and may make to such persons such pay-
4 ments as shall have accrued by reason of services required to be performed
5 under the plan and performed on behalf of the corporation by such person.
6 No person shall become a participating physician unless he shall be a physi-
7 cian holding a full license to practice medicine in the State of New Jersey,
8 pursuant to chapter nine, Title 45, of the Revised Statutes. No payment
9 for medical services shall be made to any natural person except to a par-
10 ticipating physician; except that the corporation, in the case of emergency
11 services, may reimburse any physician for services rendered to a subscriber
12 in accordance with the rates adopted by the board of trustees with respect
13 to participating physicians, but only to physicians who would be eligible,
14 except for residence or State by which licensed, to become participating
15 physicians. Any medical service corporation may enter into contracts for

16 the payment of medical services to the subscribers or members of similar
17 nonprofit medical service corporations of other States subject to the super-
18 vision of such other States, or of counties of this State in which the cor-
19 poration does not transact business, and shall have the right to reimburse
20 any other nonprofit medical service corporation or physicians of another
21 State or of counties of this State in which the corporation does not trans-
22 act business for services rendered to its subscribers and their dependents
23 at the same rate paid participating physicians under the certificate of the
24 subscriber.

1 9. No subscription certificate shall be issued by any medical service cor-
2 poration to any subscriber unless and until the form thereof shall have been
3 filed with the Commissioner of Banking and Insurance together with all ap-
4 plications, riders and endorsements for use in connection with the issuance or
5 renewal thereof. If the commissioner shall at any time notify the corporation
6 filing the same of his disapproval of any such form, as contrary to law, or
7 as being oppressive or calculated to mislead the public, specifying particulars,
8 it shall be unlawful for such corporation thereafter to issue any such form
9 so disapproved. Such disapproval of the commissioner may be reviewed by
10 a writ of certiorari.

1 10. No corporation subject to the provisions of this chapter shall enter
2 into any contract with a subscriber unless and until it shall have filed with
3 the Commissioner of Banking and Insurance a full schedule of the rates to be
4 paid by the subscribers to such contracts. The commissioner may disapprove
5 such schedule of rates at any time if he finds that such rates are excessive,
6 inadequate or discriminatory. It shall be unlawful for any corporation to
7 effect any contract or issue any subscription certificate until a revised sched-
8 ule of rates has been filed. Such disapproval by the commissioner may be
9 reviewed by a writ of certiorari.

1 11. No corporation subject to the provisions of this chapter shall enter
2 into any contract with a subscriber unless and until it shall have filed with the
3 Commissioner of Banking and Insurance a copy of the agreement proposed

4 to be entered into by the corporation and the participating physicians.
5 Every such agreement shall provide for the payment for medical services to
6 subscribers and covered dependents to the end of the subscription certificate
7 year, and that the agreement of the physician to render such service to the
8 end of any certificate year shall not be affected by cessation of the transac-
9 tion of business by reason of appropriate resolution of its board of trustees,
10 injunction issued by a court of competent authority, legislative act or by any
11 other exercise of judicial, administrative or legislative authority; *provided*,
12 that this requirement shall not apply to any subscription certificate which
13 is not **maintained in force** by the payment of premiums required thereby.
14 There shall be included in the minutes of the board of trustees of every such
15 organization **a record of the approval** of payments to be made to participating
16 physicians. The corporation shall maintain in its office complete records of
17 all the medical services rendered to subscribers and covered dependents in
18 such form as will indicate the kind of services rendered, the amounts claimed
19 for such services by the participating physicians, and the amounts paid by
20 the corporation. No payment to any participating physicians shall be au-
21 thorized by the board of trustees except in accordance with a plan of payments
22 adopted by the board and recorded in the minutes of a meeting.

1 12. No corporation subject to the provisions of this chapter shall dis-
2 burse during any one calendar year more than ten per centum (10%) of the
3 aggregate amount of payments received from subscribers during that year as
4 expenditures for the solicitation of subscribers except that during the first
5 year after the issuance of a certificate of authority such corporation may so
6 disburse not more than twenty per centum (20%) of such amount and during
7 the second year not more than fifteen per centum (15%).

1 13. No such corporation shall disburse during any one year, a sum
2 greater than twenty per centum (20%) of payments received from subscrib-
3 ers during that year as administrative expenses. The term "administrative
4 expense" as used in this section shall include all expenditures for nonprofes-
5 sional services and in general all expenses not directly connected with the

6 payment for medical services, but not including expenses of soliciting sub-
7 scriptions.

1 14. The funds of any medical service corporation may be invested only
2 in accordance with the requirements now or hereafter provided by law for
3 the investment of funds of life insurance companies. Every medical service
4 corporation after the first full calendar year of doing business after the
5 effective date of this chapter, shall accumulate and maintain a special con-
6 tingent surplus over and above its reserves and liabilities at the rate of two
7 per centum (2%) annually of its net premium income until such surplus
8 shall be not less than one hundred thousand dollars (\$100,000.00) except that
9 no such corporation shall be required to maintain a special contingent sur-
10 plus exceeding fifty-five per centum (55%) of its average annual premium
11 income for the previous five years.

1 15. Every medical service corporation transacting business in this State
2 shall file annually, on or before the first day of March, in the Department of
3 Banking and Insurance a statement, subscribed and sworn to by its presi-
4 dent and secretary, or in their absence, by two of its principal officers, show-
5 ing its financial condition at the close of business on the thirty-first day of
6 December of the year last preceding, and showing its business transacted
7 during that year, which statement shall be in such form and contain such mat-
8 ters as the Commissioner of Banking and Insurance shall prescribe; said
9 commissioner may also address inquiries to any such corporation or its offi-
10 cers in relation to its condition or affairs, or any matter connected with its
11 transactions, and it shall be the duty of the officers of such corporation to
12 reply promptly in writing to all such inquiries; for good cause shown the
13 commissioner may extend the time within which any such statement may be
14 filed.

1 16. Any medical service corporation that neglects to make and file its
2 annual statement in the form and within the time provided by the last pre-
3 ceding section, or neglects to reply in writing to inquiries of the Commis-
4 sioner of Banking and Insurance within such reasonable time as may be

5 specified by him, shall forfeit twenty-five dollars (\$25.00) for each day's
6 neglect, and upon notice by the Commissioner of Banking and Insurance to
7 that effect, its authority to do new business in this State shall cease while
8 such default continues.

1 17. The Commissioner of Banking and Insurance shall have the power,
2 whenever he deems the same expedient, to make or cause to be made an ex-
3 amination of the assets and liabilities, method of conducting business and
4 all other affairs of every medical service corporation authorized or which has
5 made application for authority to transact business under the provisions of
6 this chapter. For the purpose of such examination the commissioner may
7 commission and employ such persons to conduct the same or to assist therein
8 as he may deem advisable, which examination may be conducted in any
9 State in which the corporation examined has an office, agent or place of
10 business.

1 18. The reasonable expense of such examination shall be fixed and de-
2 termined by the Commissioner of Banking and Insurance, and he shall collect
3 the same from the corporation examined, which shall pay same on presenta-
4 tion of a detailed account of such expense. In case any corporation, after
5 such examination, shall be declared by the Court of Chancery to be insolvent,
6 the expense of such examination, if unpaid, shall be taxed in the costs of the
7 proceedings in the Court of Chancery and paid out of the assets of the cor-
8 poration. No corporation shall, either directly or indirectly, pay, by way of
9 gift, credit or otherwise, any other or further sum to the commissioner or to
10 any person in the employ of the Department of Banking and Insurance, for
11 extra service or for purposes of legislation, or for any other purpose what-
12 soever.

1 19. It shall be the duty of the officers, agents and employees of any such
2 corporation to exhibit all its books, records and accounts for the purpose
3 of such examination and otherwise to facilitate the same so far as it may be
4 in their power to do so, and for that purpose the Commissioner of Banking
5 and Insurance, and his deputies, assistants and employees shall have the

6 power to examine, under oath, the officers, agents and employees of any such
7 corporation relative to its business and affairs.

1 20. Whenever any medical service corporation shall become insolvent or
2 shall suspend its ordinary business for want of funds to carry on the same,
3 or whenever the Commissioner of Banking and Insurance shall ascertain, as
4 a result of examination as authorized by this chapter, or in any other man-
5 ner, that any such association is exceeding its powers or violating the law
6 or that its condition or methods of business are such as to render the con-
7 tinuance of its operations hazardous to the public or its members, that the
8 assets of such corporation are less than its liabilities or that the number of
9 subscribers to its service has decreased to less than one hundred persons, or
10 that the corporation has failed to maintain the number of participating
11 physicians specified by this act, said commissioner shall have authority to
12 apply to the Court of Chancery for an injunction restraining such corpora-
13 tion from the transaction of any further business, or from the transfer or
14 disposal of its property in any manner whatsoever, and the court, being
15 satisfied of the sufficiency of the application, may order an injunction and
16 appoint a receiver, with power to sue for, collect, receive and take into his
17 possession all the goods and chattels, rights and credits, moneys and effects,
18 lands and tenement, books, papers, choses in action, bills, notes and property
19 of every description belonging to such corporation and sell and convey and
20 assign the same, and hold and dispose of the proceeds thereof under the
21 directions of the Court of Chancery. Any such corporation may be deemed
22 insolvent whenever it is presently or prospectively unable to fulfill its out-
23 standing contracts and to maintain the reserves required pursuant to this
24 chapter.

1 21. Every corporation to which this chapter shall be applicable shall pay
2 the following fees to the Commissioner of Banking and Insurance for en-
3 forcement of the provisions of this chapter, viz.: for filing its application
4 and charter, ten dollars (\$10.00); for filing each annual statement, five dol-
5 lars (\$5.00); for each copy of any paper filed in the Department of Bank-

6 ing and Insurance, twenty cents (\$0.20) a sheet or folio of one hundred
7 words and one dollar (\$1.00) for certifying the same.

1 22. Any medical service corporation of this or any other State, country
2 or province which shall have violated any of the provisions of or shall have
3 neglected, failed or refused to comply with any of the requirements of this
4 chapter, except the failure to file an annual statement, shall be liable to a
5 penalty of five hundred dollars (\$500.00), such penalty to be sued for and col-
6 lected by the Commissioner of Banking and Insurance in an action upon
7 contract in the nature of an action for debt in the name of the State; such
8 penalty when recovered shall be paid by the Commissioner of Banking and
9 Insurance into the State treasury for the use of the State. Any officer, agent,
10 employee or member of any such corporation doing business in this State
11 who shall issue, circulate or cause or permit to be circulated, any estimate,
12 illustration, circular of any sort misrepresenting the terms of any contract
13 issued by such corporation, or any other such corporation authorized to
14 transact business under this chapter, or misrepresent the benefits or advan-
15 tages promised thereby, or use any name or title of any contract or class of
16 contracts misrepresenting the true nature thereof, or who shall solicit, nego-
17 tiate or effect the issue of any contract of any medical service corporation
18 which shall have neglected, failed or refused to procure a certificate of
19 authority as provided for by the provisions of this chapter, or who shall
20 accept any premiums, dues, deposits, contributions, fees, assessments or
21 thing of value of any kind in consideration for such contract or certificate
22 on behalf of such corporation, shall be adjudged guilty of a misdemeanor.

1 23. A medical service corporation may receive and accept from any
2 governmental agencies any grant of funds for the purpose of providing
3 medical services to needy persons under such terms or conditions as shall be
4 specified by such agency. Any medical service corporation may in its discre-
5 tion accept the grant of funds from private agencies, corporations, associa-
6 tions, groups of individuals or individuals for the purpose of providing med-
7 ical services to needy persons under such conditions as shall be satisfactory

8 to such persons or organizations and to the corporation. All funds received
9 under such grants shall be segregated in a separate fund or funds to be used
10 for the purposes agreed upon. Neither the income from subscribers to the
11 corporation, nor the assets accumulated from income received from sub-
12 scribers shall be available for the payment of any obligations assumed by
13 the corporation under such grants, nor shall any funds received through such
14 grants be available for the payment of the obligations assumed by the cor-
15 poration under its subscription certificates. The authority of the Commis-
16 sioner of Banking and Insurance under the provisions of this act shall not
17 extend to funds received under such grants except to such extent as is nec-
18 essary to satisfy him that the requirements of this act have been complied
19 with.

1 24. Any corporation subject to the provisions of this act is hereby de-
2 clared to be a charitable and benevolent institution, and its funds and prop-
3 erty shall be exempt from taxation by the State or any political subdivision
4 thereof.

1 25. Should any provision or section of this act be held invalid for any
2 reason, such holding shall not be construed as affecting the validity of any
3 remaining portion of such section or of this act, it being the legislative in-
4 tent that this act shall stand notwithstanding the invalidity of any such pro-
5 vision or section.

1 26. This act shall take effect immediately.