

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE
January 18, 2002
3:25 p.m.

COMMITTEE CALENDAR

UPDATE: DIVISION OF INSURANCE ON EFFECTS OF SEPTEMBER 11

TAPES

02-2, SIDES A & B

CALL TO ORDER

REPRESENTATIVE LISA MURKOWSKI, Chair, convened the House Labor and Commerce Committee meeting at 3:25 p.m.

PRESENT

Committee members present were Representatives Murkowski, Halcro, Meyer, Kott, Rokeberg, and Crawford.

SUMMARY OF INFORMATION

BOB LOHR, Director, Alaska Division of Insurance, Department of Community and Economic Development, reminded the committee that the division's mission is to protect and serve the state by regulating all aspects of insurance in Alaska, to educate consumers, and to enhance the insurance business environment.

MR. LOHR remarked that the tragic events of September 11, 2001, resulted in the costliest insurance disaster in the nation's history with a price tag of \$35-50 billion. He noted that as a comparison, Hurricane Andrew cost \$15.5 billion. As a result of 9/11, all of our lives have changed. Many Americans are unwilling to expose themselves to the uncertainty of future terrorist attacks and have reevaluated their priorities. The impact on the insurance industry was catastrophic and brought forth the unwelcome reality of terrorist exposure.

MR. LOHR reported that the response to 9/11 resulted in reduced coverage for policyholders and has challenged the solvency of many businesses. Fortunately, he remarked, the impact on Alaska was not direct, that is, Alaskan insurance companies did not have direct

losses as a result of 9/11. The secondary repercussions of the events in New York, Pennsylvania, and Virginia however, resulted in increased costs of reinsurance and limits on the availability of reinsurance. Reinsurance, he noted, is insurance for insurance companies. It protects insurance companies against frequent or severe losses and stabilizes underwriting results. He commented that, without reinsurance, insurance companies issue fewer policies or write the same policies with lower limits and exclude certain types of losses. Terrorism losses, for example, are unpredictable and therefore, many reinsurance contracts exclude coverage for terrorism. Insurance costs rose significantly in spite of the terrorism exclusions.

MR. LOHR discussed the reaction to the unpredictability of reinsurance and pointed to certain Alaska examples. Before 9/11, workers compensation reinsurance negotiations were almost complete. After 9/11 those quotes were withdrawn, and the first quote was 1900 percent higher than the prior year. Aircraft exposures were 112 percent higher than expiring contracts and the coverage is now limited. State insurance regulators have attempted to encourage reinsurers to reinstate terrorism coverage and to limit the impact of premium increases.

MR. LOHR reported that the lack of reinsurance has resulted in solvency concerns for businesses. Lack of reinsurance affects an insurers ability to provide coverage to businesses and individuals and requires insurers to limit exposure to maintain ability to pay for future losses. The affect on consumers may result in unpaid claims, and services promised by insurers that may not be provided. The affect on the economy may be long term. Without adequate property insurance, businesses may reduce operations and lenders may reevaluate terms for loans. Construction may also be limited.

MR. LOHR noted that the federal government has attempted to control overreaction to the uncertainty of terrorist attacks by proposing federal reinsurance protection. The legislation was passed by the U.S. House of Representatives but the U.S. Senate recessed without passing the measure. A temporary solution may be sufficient. He noted that insurers pulled out of Florida and Hawaii after hurricanes Andrew and Iniki and later returned to those markets. Thus, insurers and reinsurers may eventually provide terrorism catastrophe coverage again. Alaska, he noted, is a prior approval state. Therefore, exclusions must be approved by the division. Thus far, broad exclusions have been disapproved in Alaska.

MR. LOHR, in conclusion, remarked that Alaska's distance from the events of 9/11 has not exempt Alaska's insurance market from rate

increases, reinsurance, and terrorism exclusions. The Division of Insurance seeks to protect Alaska's insurance industry, its economy, and will continue to monitor the market impact on Alaska as well as continue to support federal reinsurance legislation.

ANNOUNCEMENTS

There were no committee announcements.

COMMITTEE ACTION

The committee took no action.

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee was adjourned at 4:40 p.m.

NOTE: The meeting was recorded and handwritten log notes were taken. A copy of the tape(s) and log notes may be obtained by contacting the House Records Office at State Capitol, Room 3, Juneau, Alaska 99801 (mailing address), (907) 465-2214, and after adjournment of the second session of the Twenty-Second Alaska State Legislature this information may be obtained by contacting the Legislative Reference Library at (907) 465-3808.