

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

April 4, 2007

3:05 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Mark Neuman, Vice Chair
Representative Carl Gatto
Representative Gabrielle LeDoux
Representative Jay Ramras
Representative Robert L. "Bob" Buch
Representative Berta Gardner

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 170

"An Act relating to annual audit reports by insurers, to custodians of insurer assets, to writing workers' compensation insurance by surplus lines insurers, to reports by surplus lines insurers, to the definition of 'wet marine and transportation insurance,' to false or misleading financial statements concerning insurance audits, and to the membership of the Alaska Life and Health Insurance Guaranty Association; and providing for an effective date."

- MOVED HB 170 OUT OF COMMITTEE

HOUSE BILL NO. 65

"An Act relating to breaches of security involving personal information, credit report and credit score security freezes, consumer credit monitoring, credit accuracy, protection of social security numbers, care of records, disposal of records, identity theft, furnishing consumer credit header information, credit cards, and debit cards, and to the jurisdiction of the office of administrative hearings; amending Rule 60, Alaska Rules of Civil Procedure; and providing for an effective date."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HB 170

SHORT TITLE: INSURANCE

SPONSOR(S): LABOR & COMMERCE BY REQUEST

03/01/07	(H)	READ THE FIRST TIME - REFERRALS
03/01/07	(H)	L&C, FIN
03/23/07	(H)	L&C AT 3:00 PM CAPITOL 17
03/23/07	(H)	Heard & Held
03/23/07	(H)	MINUTE(L&C)
04/04/07	(H)	L&C AT 3:00 PM CAPITOL 17

WITNESS REGISTER

LINDA HALL, Director
Division of Insurance
Department of Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Presented HB 170.

MAX MERTZ, Certified Public Accountant (CPA);
Partner
Elgee Rehfeld Mertz, LLC
Juneau, Alaska

POSITION STATEMENT: Testified during hearing on HB 170.

JOHN GEORGE, representing
The American Council of Life Insurance
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 170.

ACTION NARRATIVE

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at [3:05:32 PM](#). Representatives Gardner, Gatto, Neuman, Buch, and Olson were present at the call to order. Representatives Ramras and LeDoux arrived as the meeting was in progress.

HB 170-INSURANCE

[3:06:00 PM](#)

CHAIR OLSON announced that the only order of business would be HOUSE BILL NO. 170, "An Act relating to annual audit reports by insurers, to custodians of insurer assets, to writing workers' compensation insurance by surplus lines insurers, to reports by surplus lines insurers, to the definition of 'wet marine and

transportation insurance,' to false or misleading financial statements concerning insurance audits, and to the membership of the Alaska Life and Health Insurance Guaranty Association; and providing for an effective date."

[3:06:11 PM](#)

LINDA HALL, Director, Division of Insurance ("The Division"), Department of Commerce, Community, & Economic Development (DCCED), explained that several of the domestic insurance companies that are regulated by the Division had concerns with HB 170. After meeting to discuss these concerns, both the Division and the companies in question are in agreement. The requirements contained in the bill are not new requirements, as was previously discussed. These companies have suggested language changes that Ms. Hall has agreed to consider. She stated that she does not want the requirements to be more onerous than is needed for the companies regulated by the Division. She is particularly interested in giving the Division statutory authority to adopt the regulations needed to maintain accreditation. She opined that this is important to both the insurance companies and consumers.

CHAIR OLSON stated that he has been contacted by several of the insurance companies, adding that the companies are appreciative that Ms. Hall is working with them to address concerns. He commented that this is a work in progress, and that more work is likely to be done before the bill is heard in the House Finance Committee.

[3:08:02 PM](#)

REPRESENTATIVE NEUMAN commented on the good work done by Ms. Hall.

[3:08:12 PM](#)

REPRESENTATIVE BUCH inquired as to whether the statutory requirement is a "housekeeping requirement."

MS. HALL replied no. She explained that there are provisions in current statute that require the insurers to follow the audit instructions on the annual statement. These instructions will no longer be in statute as of 2009. The Division has added minimum statutory language which gives the authority to adopt the National Association of Insurance Commissioners (NAIC) model regulations. These regulations reiterate the current

requirements. She pointed out that there are 2 requirements that are not currently accreditation standards, but are in the process. This includes a requirement for an audit committee, and a management report of internal controls. She explained that the regulations to be adopted include standards for independent directors, along with requirements for insurance companies that meet certain thresholds. She explained that depending on which threshold is exceeded, there are a certain amount of outside directors. There are no companies in Alaska that meet these thresholds, and only 179 companies meet them nationwide.

3:10:46 PM

REPRESENTATIVE GATTO, referring to the word "require" on Page 2, line 14, asked whether an "order" is different than a "directive."

MS. HALL replied that "directive" does not have a statutory definition. The Division typically issues an order, and the process for this is defined in statute. In regard to the word "require", she explained that there may be circumstances related to insolvency or increased risk of financial impairment, which would then require an internal control report from management. The Division is working with the industry to change the language in Section 2(i), because "for good cause" is not defined.

3:12:38 PM

MAX MERTZ, Certified Public Accountant (CPA); Partner, Elgee Rehfeld Mertz, LLC, stated that he has been working as a CPA since 1989, and in Alaska since 1992. He noted that he is also the chair of the Board of Public Accountancy ("the Board"), although he is not speaking on behalf of the Board. He has discussed this issue with the Alaska Society of Certified Public Accountants (ASCPA), which shares his views. He expressed concern with the language in Section 1, which requires the registration of CPA firms. He shared his belief that this section should be deleted, as the Board regulates both CPAs and CPA firms in Alaska. He explained that CPAs must be licensed, and are subject to the Accountancy Act in Alaska Associated Regulations. Additionally, CPAs must maintain good standing, and conform to the standards of the profession as contained in the American Institute of Certified Public Accountants (AICPA) code of professional ethics. Certified public accountants must also undergo a regular peer review, and maintain a system of quality controls. He stated that a CPA must maintain a level of

competence in any industry that he or she audits, including the insurance industry. He shared his belief that the existing regulatory infrastructure for CPAs is sufficient to ensure adequate protection of the public, and an additional tier of regulation is not needed. He stated that for the past two years, the AICPA and the NAIC have been working on model rules that are to go into effect in 2010. These stipulate qualifications for CPAs performing the audits of insurers. He shared his belief that the language should be changed to allow for the adoption of these model rules once they are completed.

CHAIR OLSON asked whether these concerns were shared with Ms. Hall prior to today's meeting.

MR. MERTZ replied no, and said that this issue was not brought to his attention until the previous day.

CHAIR OLSON shared his understanding that HB 170 contains NAIC model language.

[3:16:05 PM](#)

JOHN L. GEORGE, representing the American Council of Life Insurers (ACLI), stated that the ACLI is in support of HB 170. The ACLI believes that this adds credibility to the solvency of the insurance industry.

CHAIR OLSON noted that Mr. George served as director of the Division for many years.

[3:16:49 PM](#)

MS. HALL, in regard to Mr. Mertz's concerns, said that this is not the first time this concern has been raised. She explained that the term "register" is currently used in the annual statement instructions. This is where all the audit standards are referenced, and this is not a new requirement. She said that the intent behind the enabling language is to adopt the model NAIC rule. She said that while there may be a number of requirements for CPA firms that perform audits, the Division does not have any statutory authority or oversight of CPAs. She stated that statutory requirements are needed in order to take action against or remove a CPA firm.

[3:18:17 PM](#)

REPRESENTATIVE RAMRAS stated that he appreciates the work done by the Division.

CHAIR OLSON closed public testimony.

[3:18:48 PM](#)

REPRESENTATIVE NEUMAN moved to report HB 170 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 170 was reported from the House Labor and Commerce Standing Committee.

[3:19:21 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 3:19 PM.