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BY THE LABOR AND
COMMERCE COMMITTEE

1 IN THE HOUSE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 506 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to insurance; and providing for an
7 effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 21 is amended by adding a new chapter to read:

10 CHAPTER 76. JOINT INSURANCE ARRANGEMENTS.

11 Sec. 21.76.010. AUTHORITY TO ESTABLISH JOINT INSURANCE ARRANGE-
12 MENTS. (a) Municipalities, school districts, and regional educa-
13 tional attendance areas may enter into cooperative agreements with
14 each other for the purpose of establishing, operating, or participat-
15 ing in joint insurance arrangements through which the participating
16 members agree to pool contributions and

17 (1) assume risks from losses on a group basis; or

18 (2) purchase coverage on a group basis.

19 (b) A joint insurance arrangement may be for any kind of insur-
20 ance defined by this title except for life insurance and title insur-
21 ance.

22 (c) A joint insurance arrangement shall be considered an alter-
23 native or supplement to any other policy or contract of insurance
24 authorized or required by law, including insurance under AS 21.75.

25 Sec. 21.76.020. REGULATION BY DIVISION OF INSURANCE. A joint
26 insurance arrangement may not be considered insurance for the purpose
27 of any other law of the state and is not subject to regulations of the
28 director except as expressly provided in this chapter.

29 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A

1 cooperative agreement shall provide for the proper operation of the
2 joint insurance arrangement, and include provisions for
3 (1) administration of the arrangement by a board of direc-
4 tors, specifying the number of members of the board and other require-
5 ments necessary for the proper functioning of the board;
6 (2) appointment of an administrator and other persons as
7 necessary for the proper functioning of the arrangement;
8 (3) organization of the arrangement, including a roster of
9 participating members and the names of the members of the board of
10 directors;
11 (4) procedures to establish and promote an aggressive risk
12 management and program among the members of the arrangement, including
13 procedures for identifying and reducing the risks that can be reduced
14 through implementing better safety technologies and improved work
15 techniques and procedures;
16 (5) enforcing the collection of contributions or payments
17 in default from members of the arrangement;
18 (6) the addition of new members to the arrangement or the
19 withdrawal of members from the arrangement;
20 (7) the method of apportioning costs and disposition of
21 excess contributions;
22 (8) transmission of financial statements and audit reports
23 of the arrangement to participating members;
24 (9) terminating the arrangement and disposing of its as-
25 sets; and
26 (10) establishing and administering a joint insurance fund.
27 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A
28 cooperative agreement must include a provision requiring an annual
29 determination by a casualty actuary who is a member of the American

1 Academy of Actuaries that procedures for establishing reserves for
2 losses of the joint insurance arrangement are actuarially sound.

3 (b) A joint insurance arrangement shall be subject to an annual
4 independent audit. The audit shall be conducted in accordance with
5 generally accepted auditing standards and must include a review of the
6 actuarial assumptions used for establishing the reserves under (a) of
7 this section. The audit report must include certification from a
8 casualty actuary who is a member of the American Academy of Actuaries
9 that the actuarial assumptions continue to be sound and the level of
10 the reserves are adequate.

11 (c) A joint insurance arrangement shall use a method of account-
12 ing that conforms with generally accepted government accounting prin-
13 ciples.

14 Sec. 21.76.050. CONTRACTING WITH PRIVATE ADMINISTRATORS. A
15 cooperative agreement may authorize the board of directors to enter
16 into contracts for services necessary to perform the functions of a
17 joint insurance arrangement. The person contracting to perform the
18 functions must be appropriately licensed under this title if this
19 title so requires.

20 Sec. 21.76.060. DELEGATION OF POWER TO SETTLE CLAIMS. A cooper-
21 ative agreement may delegate to the board of directors, or authorize
22 delegation by the board to another person or group, the power to
23 compromise, arbitrate, or otherwise settle claims on behalf of the
24 arrangement.

25 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may
26 authorize the board of directors to purchase excess or catastrophic
27 insurance on behalf of the joint insurance arrangement. The cost of
28 the insurance shall be apportioned in the manner specified in the
29 joint insurance agreement. The board may purchase insurance under

1 this section only from an insurer authorized to do business in the
2 state or from an unauthorized insurer if the insurance is placed
3 through a licensed surplus lines broker.

4 Sec. 21.76.080. JOINT INSURANCE FUND. (a) A joint insurance
5 arrangement shall establish a joint insurance fund. The fund consists
6 of money

7 (1) contributed by members of the joint insurance arrange-
8 ment through budgetary appropriations or transfers from a self-insur-
9 ance reserve;

10 (2) contributed by officers and employees of members of the
11 joint insurance arrangement under an employee benefit plan; and

12 (3) collected by the joint insurance arrangement through
13 subrogation of a claim paid from the fund to a member of the arrange-
14 ment.

15 (b) An expenditure may be made from a joint insurance fund only
16 to pay claims, losses, or benefits, including interest on them, and
17 the administrative and adjustment expenses incurred in connection with
18 them, involving the types of protection for which the fund provides
19 coverage as specified in the joint insurance agreement.

20 (c) The administrator shall keep the fund separate from other
21 funds of a member of a joint insurance arrangement.

22 (d) For each type of protection offered by the joint insurance
23 arrangement, the method of accounting must show the order, source,
24 date, and amount of each payment from the fund.

25 (e) Within 60 days of the end of the fiscal year, the adminis-
26 trator shall furnish a detailed report of the operation and condition
27 of the fund to the board of directors and the director of insurance.
28 The report furnished to the director of insurance shall be available
29 for public inspection.

1 (f) Money held by a fund as reserves and money not needed for
2 daily operations may be invested by the board of directors.

3 (g) A fund may not be terminated unless the administrator certi-
4 fies that an amount of money sufficient to pay accrued and contingent
5 expenditures has been placed in a fully collateralized escrow account.

6 Sec. 21.76.090. FILING OF AGREEMENT. The board of directors
7 shall file a copy of the cooperative agreement with the director of
8 insurance at least 60 days before the effective date of the agreement.
9 The agreement shall be available for public inspection.

10 Sec. 21.76.100. REGULATIONS. A cooperative agreement may au-
11 thorize the board of directors to adopt regulations not inconsistent
12 with law for the fair and equitable administration of the joint insur-
13 ance arrangement and the joint insurance fund.

14 Sec. 21.76.110. SUBROGATION. A joint insurance arrangement has
15 a cause of action for reimbursement of money paid to a participating
16 member for a loss or injury if the participating member recovers money
17 for the loss or injury from a third party. The joint insurance ar-
18 rangement also has a direct cause of action for reimbursement against
19 a third party responsible for loss or injuries sustained by a partic-
20 ipating member if the joint arrangement has paid money to the partic-
21 ipating member for the loss or injuries.

22 Sec. 21.76.900. DEFINITIONS. In this chapter

23 (1) "adjustment expenses" means expenses for investigative,
24 processing, legal, actuarial, arbitration, and settlement services
25 incurred in the adjustment of losses, claims, or benefits;

26 (2) "administrator" means a person or group appointed by
27 the board of directors to administer a joint insurance arrangement or
28 a joint insurance fund;

29 (3) "board" or "board of directors" means the board of

1 directors provided for in a cooperative agreement;

2 (4) "cooperative agreement" means a written agreement
3 entered into by two or more entities described in AS 21.76.010 for the
4 purpose of establishing, operating, or participating in a joint insur-
5 ance arrangement;

6 (5) "fund" or "joint insurance fund" means a fund estab-
7 lished under AS 21.76.080;

8 (6) "joint insurance arrangement" means a joint insurance
9 arrangement authorized under AS 21.76.010.

10 * Sec. 2. AS 21.39.155(a) is amended to read:

11 (a) The director may require carriers, except a reciprocal
12 insurer formed by and insuring only a group of municipalities or
13 nonprofit public utilities under AS 21.75 or a joint insurance ar-
14 angement formed under AS 21.76, as a condition of writing a line of
15 insurance dealing with workers' compensation, to participate in an
16 assigned risk pool if the director finds that mandatory carrier part-
17 icipation is in the public interest.

18 * Sec. 3. AS 21.80.180(5) is amended to read:

19 (5) "insolvent insurer" means an insurer

20 (A) authorized to transact insurance in this state,
21 except an assessable reciprocal insurer formed by and insuring
22 only municipalities or nonprofit public utilities, a joint insur-
23 ance arrangement formed under AS 21.76, the Medical Indemnity
24 Corporation of Alaska, and the Health Care Providers Joint Under-
25 writing Association established under AS 21.88, either at the
26 time the policy was issued or when the insured event occurred,
27 and

28 (B) determined to be insolvent by a court of competent
29 jurisdiction;

1 * Sec. 4. AS 21.80.180(6) is amended to read:

2 (6) "member insurer" means a person, except an assessable
3 reciprocal insurer formed by and insuring only municipalities or
4 nonprofit public utilities, a joint insurance arrangement formed under
5 AS 21.76, the Medical Indemnity Corporation of Alaska, and the Health
6 Care Providers Joint Underwriting Association established under
7 AS 21.88, who

8 (A) writes any kind of insurance to which this chapter
9 applies under AS 21.80.020 including the exchange of reciprocal
10 or interinsurance contracts, and

11 (B) is licensed to transact insurance in this state;

12 * Sec. 5. AS 21.36.190 is repealed.

13 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
14 10.070(c).