

Offered: 4/10/86
Referred: Finance

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1 IN THE HOUSE BY THE JUDICIARY COMMITTEE
2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 506 (Judiciary)
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 joint insurance arrangements; and
7 providing for an 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) The following groups may enter into cooperative
13 agreements with each other for the purpose of establishing, operating,
14 or participating in joint insurance arrangements through which the
15 participating members agree to pool contributions in order to either
16 assume risks from losses on a group basis or purchase coverage on a
17 group basis:

- 18 (1) municipalities;
- 19 (2) school districts;
- 20 (3) regional educational attendance areas;
- 21 (4) unincorporated associations;
- 22 (5) regional electrical associations;
- 23 (6) entities qualified to do business under the Federal
24 Risk Retention Act;
- 25 (7) groups that would be considered valid under this title
26 for the type of insurance for which the joint insurance arrangement is
27 established.

28 (b) A joint insurance arrangement may be for any kind of insur-
29 ance defined by this title except for life insurance and title

1 insurance.

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

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

9 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A
10 cooperative agreement shall provide for the proper operation of the
11 joint insurance arrangement, and include provisions for

12 (1) administration of the arrangement by a board of direc-
13 tors, specifying the number of members of the board and other require-
14 ments necessary for the proper functioning of the board;

15 (2) appointment of an administrator and other persons as
16 necessary for the proper functioning of the arrangement;

17 (3) organization of the arrangement, including a roster of
18 participating members and the names of the members of the board of
19 directors;

20 (4) procedures to establish and promote an aggressive risk
21 management and program among the members of the arrangement, including
22 procedures for identifying and reducing the risks that can be reduced
23 through implementing better safety technologies and improved work
24 techniques and procedures;

25 (5) enforcing the collection of contributions or payments
26 in default from members of the arrangement;

27 (6) the addition of new members to the arrangement or the
28 withdrawal of members from the arrangement;

29 (7) the method of apportioning costs and disposition of

1 excess contributions;

2 (8) transmission of financial statements and audit reports
3 of the arrangement to participating members;

4 (9) terminating the arrangement and disposing of its as-
5 sets; and

6 (10) establishing and administering a joint insurance fund.

7 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A
8 cooperative agreement must include a provision requiring an annual
9 determination by a casualty actuary who is a member of the American
10 Academy of Actuaries that procedures for establishing reserves for
11 losses of the joint insurance arrangement are actuarially sound.

12 (b) A joint insurance arrangement shall be subject to an annual
13 independent audit. The audit shall be conducted in accordance with
14 generally accepted auditing standards and must include a review of the
15 actuarial assumptions used for establishing the reserves under (a) of
16 this section. The audit report must include certification from a
17 casualty actuary who is a member of the American Academy of Actuaries
18 that the actuarial assumptions continue to be sound and the level of
19 the reserves are adequate.

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

23 Sec. 21.76.050. CONTRACTING WITH PRIVATE ADMINISTRATORS. A
24 cooperative agreement may authorize the board of directors to enter
25 into contracts for services necessary to perform the functions of a
26 joint insurance arrangement. The person contracting to perform the
27 functions must be appropriately licensed under this title if this
28 title so requires.

29 Sec. 21.76.060. DELEGATION OF POWER TO SETTLE CLAIMS. A

1 cooperative agreement may delegate to the board of directors, or
2 authorize delegation by the board to another person or group, the
3 power to compromise, arbitrate, or otherwise settle claims on behalf
4 of the arrangement.

5 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may
6 authorize the board of directors to purchase excess or catastrophic
7 insurance on behalf of the joint insurance arrangement. The cost of
8 the insurance shall be apportioned in the manner specified in the
9 joint insurance agreement. The board may purchase insurance under
10 this section only from an insurer authorized to do business in the
11 state or from an unauthorized insurer if the insurance is placed
12 through a licensed surplus lines broker.

13 Sec. 21.76.080. JOINT INSURANCE FUND. (a) A joint insurance
14 arrangement shall establish a joint insurance fund. The fund consists
15 of money

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

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

21 (3) collected by the joint insurance arrangement through
22 subrogation of a claim paid from the fund to a member of the arrange-
23 ment.

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

29 (c) The administrator shall keep the fund separate from other

1 funds of a member of a joint insurance arrangement.

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

5 (e) Within 60 days of the end of the fiscal year, the adminis-
6 trator shall furnish a detailed report of the operation and condition
7 of the fund to the board of directors and the director of insurance.
8 The report furnished to the director of insurance shall be available
9 for public inspection.

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

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

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

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

23 Sec. 21.76.110. SUBROGATION. A joint insurance arrangement has
24 a cause of action for reimbursement of money paid to a participating
25 member for a loss or injury if the participating member recovers money
26 for the loss or injury from a third party. The joint insurance ar-
27 rangement also has a direct cause of action for reimbursement against
28 a third party responsible for loss or injuries sustained by a partic-
29 ipating member if the joint arrangement has paid money to the

1 participating member for the loss or injuries.

2 Sec. 21.76.900. DEFINITIONS. In this chapter

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

6 (2) "administrator" means a person or group appointed by
7 the board of directors to administer a joint insurance arrangement or
8 a joint insurance fund;

9 (3) "board" or "board of directors" means the board of
10 directors provided for in a cooperative agreement;

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

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

17 (6) "joint insurance arrangement" means a joint insurance
18 arrangement authorized under AS 21.76.010.

19 * Sec. 2. AS 21.36.190 is amended by adding a new subsection to read:

20 (e) This section does not apply to insurance coverage under a
21 joint insurance arrangement authorized by AS 21.76.

22 * Sec. 3. AS 21.39.155(a) is amended to read:

23 (a) The director may require carriers, except a reciprocal
24 insurer formed by and insuring only a group of municipalities or
25 nonprofit public utilities under AS 21.75 or a joint insurance ar-
26 rangement formed under AS 21.76, as a condition of writing a line of
27 insurance dealing with workers' compensation, to participate in an
28 assigned risk pool if the director finds that mandatory carrier part-
29 icipation is in the public interest.

1 * Sec. 4. AS 21.80.180(5) is amended to read:

2 (5) "insolvent insurer" means an insurer

3 (A) authorized to transact insurance in this state,
4 except an assessable reciprocal insurer formed by and insuring
5 only municipalities or nonprofit public utilities, a joint insur-
6 ance arrangement formed under AS 21.76, the Medical Indemnity
7 Corporation of Alaska, and the Health Care Providers Joint Under-
8 writing Association established under AS 21.88, either at the
9 time the policy was issued or when the insured event occurred,
10 and

11 (B) determined to be insolvent by a court of competent
12 jurisdiction;

13 * Sec. 5. AS 21.80.180(6) is amended to read:

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

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

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

24 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
25 10.070(c).