

Offered: 5/9/86  
Referred: Labor and Commerce

Original sponsors: Taylor, Gruenberg,  
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1 IN THE HOUSE BY THE JUDICIARY COMMITTEE  
2 SENATE CS FOR 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) Municipalities, city and borough school districts, and  
13 regional educational attendance areas may enter into cooperative  
14 agreements with each other for the purpose of establishing, operating,  
15 or participating in joint insurance arrangements through which the  
16 participating members agree to pool contributions in order to either  
17 assume risks from losses to the participants on a group basis or  
18 purchase coverage for the participants 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 disability insurance, health  
21 insurance, life insurance, and title insurance.  
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 (d) For purposes of AS 23.30.075, a joint insurance arrangement  
26 is considered to be an association duly authorized to transact work-  
27 ers' compensation insurance in the state.  
28 Sec. 21.76.020. REGULATION BY DIVISION OF INSURANCE. (a) A  
29 joint insurance arrangement may not be considered insurance for the

1 purpose of any other law of the state and is not subject to regula-  
2 tions of the director except as expressly provided in (b) - (d) of  
3 this section and other provisions of this chapter.

4 (b) A joint insurance arrangement is subject to examination by  
5 the division under AS 21.06.140 - 21.06.230.

6 (c) A joint insurance arrangement is subject to approval by the  
7 director. As a condition of approval by the director, a joint insur-  
8 ance arrangement shall have and maintain, as to the coverage provided,

9 (1) a certificate of excess insurance or reinsurance

10 (A) for property insurance, to the value of the single  
11 most valuable property covered;

12 (B) for liability insurance, to the highest policy  
13 limit provided by the arrangement;

14 (C) for workers' compensation, to the extent of all  
15 benefits allowed by law above retention;

16 (2) a certificate of insurance limiting the arrangement's  
17 total exposure for liability and workers' compensation to the  
18 arrangement's aggregate retention;

19 (3) assets allowable under AS 21.21.020 - 21.21.140, 21.-  
20 21.225, or 21.21.230 in an amount no less than the arrangement's  
21 aggregate retention plus an amount considered adequate by the director  
22 to cover administrative and adjustment expenses.

23 (d) The value of assets and liabilities under (c) of this sec-  
24 tion shall be determined in accordance with AS 21.18.

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

28 (1) administration of the arrangement by a board of direc-  
29 tors, specifying the number of members of the board and other

1 requirements necessary for the proper functioning of the board;

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

4 (3) organization of the arrangement, including a roster of  
5 participating members and the names of the members of the board of  
6 directors;

7 (4) procedures to establish and promote an aggressive risk  
8 management and program among the members of the arrangement, including  
9 procedures for identifying and reducing the risks that can be reduced  
10 through implementing better safety technologies and improved work  
11 techniques and procedures;

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

14 (6) the addition of new members to the arrangement or the  
15 withdrawal of members from the arrangement;

16 (7) the method of apportioning costs and disposition of  
17 excess contributions;

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

20 (9) terminating the arrangement and disposing of its as-  
21 sets; and

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

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

28 (b) A joint insurance arrangement shall be subject to an annual  
29 independent audit. The audit shall be conducted in accordance with

1 generally accepted auditing standards and must include a review of the  
2 actuarial assumptions used for establishing the reserves under (a) of  
3 this section. The audit report must include certification from a  
4 casualty actuary who is a member of the American Academy of Actuaries  
5 that the actuarial assumptions continue to be sound and the level of  
6 the reserves are adequate.

7 Sec. 21.76.050. CONTRACTING WITH PRIVATE ADMINISTRATORS. A  
8 cooperative agreement may authorize the board of directors to enter  
9 into contracts for services necessary to perform the functions of a  
10 joint insurance arrangement. The person contracting to perform the  
11 functions must be appropriately licensed under this title if this  
12 title so requires.

13 Sec. 21.76.060. DELEGATION OF POWER TO SETTLE CLAIMS. A cooper-  
14 ative agreement may delegate to the board of directors, or authorize  
15 delegation by the board to another person or group, the power to  
16 compromise, arbitrate, or otherwise settle claims on behalf of the  
17 arrangement.

18 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may  
19 authorize the board of directors to purchase excess or catastrophic  
20 insurance on behalf of the joint insurance arrangement. The cost of  
21 the insurance shall be apportioned in the manner specified in the  
22 joint insurance agreement. The board may purchase insurance under  
23 this section only from an insurer authorized to do business in the  
24 state, except that an arrangement formed by municipalities or school  
25 districts may purchase insurance under this section from a risk-shar-  
26 ing pool established by a national association of similar entities if  
27 the risk-sharing pool meets the qualifications for an unauthorized  
28 insurer under AS 21.34.040(b) and (d) and 21.34.220 and has capital  
29 and policyholders surplus in an amount at least as great as would be

1 required if the association were a domestic multiple line insurer. An  
2 arrangement may purchase insurance under this section for property and  
3 liability risks from unauthorized insurers allowed for use by licensed  
4 Alaska surplus lines brokers.

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

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

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

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

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

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

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

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

1           (1) filed in the general form and context acceptable to the  
2 director;

3           (2) in accordance with accounting principles established  
4 under this title; and

5           (3) available for public inspection.

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

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

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

15           Sec. 21.76.100. REGULATIONS. A cooperative agreement may au-  
16 thorize the board of directors to adopt rules not inconsistent with  
17 law for the fair and equitable administration of the joint insurance  
18 arrangement and the joint insurance fund.

19           Sec. 21.76.110. SUBROGATION. A joint insurance arrangement has  
20 a right of subrogation with respect to its participants to the same  
21 extent that an insurer has a right of subrogation with respect to one  
22 of its insureds.

23           Sec. 21.76.900. DEFINITIONS. In this chapter

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

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

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

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

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

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

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

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

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

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

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

23 (5) "insolvent insurer" means an insurer

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

1           time the policy was issued or when the insured event occurred,  
2           and

3                       (B) determined to be insolvent by a court of competent  
4           jurisdiction;

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

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

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

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

16   \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
17 10.070(c).