

HB

554

"An Act relating to regulation of insurance holding companies; and providing for an effective date," A

### COMMITTEE REPORT

1/14/76

HOUSE

JUDICIARY

Mr. Speaker:

Date \_\_\_\_\_

The Committee on COMMERCE has had HB 554

under consideration. A Majority of the members of the Committee

- recommends it DO PASS
- recommends it DO NOT PASS
- recommends it DO PASS WITH ATTACHED AMENDMENT(S)
- recommends it BE REPLACED WITH CS FOR \_\_\_\_\_ AND THAT  
CS FOR \_\_\_\_\_ DO PASS
- "and" recommends it BE REFERRED TO THE \_\_\_\_\_  
COMMITTEE
- reports it back WITHOUT RECOMMENDATION
- "other"

Members signing the Majority report:

<u>[Signature]</u>	_____	<u>[Signature]</u>
<u>[Signature]</u>	_____	<u>[Signature]</u>
<u>[Signature]</u>	<u>[Signature]</u>	_____

Members NOT concurring in the Majority report:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ recommends:

\_\_\_\_\_ Chairman

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

POUCH D - JUNEAU 99811

January 22, 1976

The Alaska State House of Representatives  
Commerce Committee  
In Session  
Juneau, Alaska

Dear Ladies and Gentlemen:

Re: House Bill 554

As I explained at the meeting of the Committee on Friday, January 16th, I would propose certain technical amendments to accommodate wishes of the insurance industry which were, in general, acceptable to the administration.

Those amendments are as follows:

Amend Section 21.22.060 (c) to read as follows:

The Director may permit an authorized insurer, which is a member of a holding company system subject to registration under the laws or regulations of its state of domicile, which are in the opinion of the Director substantially similar to those contained in this chapter to satisfy the requirement of Subsection (a) by filing a statement in accordance of the laws of its state of domicile except that the Director may at any time require the filing of a copy thereof with the Director. [TO FURNISH A COPY OF THE REGISTRATION STATEMENT OR OTHER INFORMATION FILED BY THE INSURER WITH THE INSURANCE REGULATOR AUTHORITY OF ITS DOMICILIARY JURISDICTION IN PLACE OF FILING THE STATEMENT AS REQUIRED IN (B) OF THIS SECTION].

The effect of this section is to not make it mandatory that all of the 700 foreign carriers authorized to do business in Alaska file the statement, provided a statement is filed with their state of domicile, but authorizes the Director of Insurance to require a copy thereof if necessary.

Amend Section 21.22.060 (d) to read as follows:

No information need be disclosed on the registration statement filed under (b) of this section. That information is

not material for the purposes of this section. Unless the Director by regulation or order provides otherwise, sales, purchases, exchanges, loans or extensions of credit, or investments, involving the lesser of one half of one per cent [OR LESS] of an insurers admitted assets or five per cent of policyholder's surplus as of the 31st day of December of the calendar year in which the transaction took place, are not considered material for purposes of this section.

Some members of industry indicated that the definition of a material transaction was such that a lot of very small transactions would have to come under the prior approval requirement. This dual standard still provides sufficient protection for policyholders in this State but gives appropriate additional latitude to the industry.

Amend Section 21.22.070 to read as follows:

If at any time the Director determines that any material transaction entered into between and insurer and any of its affiliates does not meet the standards set out in Section 80. of this chapter, the Director may, after hearing as provided in Chapter 06 of this title, require the insurer and the affiliate to terminate, set aside, or modify the transaction as considered appropriate by the Director to make the transaction conform to those standards.

An insurer may submit a proposed material transaction to the Director for review and the Director may issue an opinion that such transaction meets the standard set out in Section 80. of this chapter and such opinion shall create a rebuttable presumption that neither the insurer, director, officer, employee, nor agent committed a willful violation of this chapter in entering into the transaction. No such opinion shall prohibit the Director from subsequently exercising his authority in this section."

It was pointed out that the after the fact review authority of the Director created an onerous burden on the carriers and they have asked that the law be amended to require the Director to give an approval of a material transaction or disapproval prior to the effective date of the transaction. The difficulty with their request is that once approved, the company may hide behind the approval should the transaction subsequently prove to be unwise for the benefit of policyholders. It is my opinion that if the transaction should fail to meet the standards set forth in Section 80. and Section 90., that the transaction ought to be set aside for the benefit of policyholders even if once approved by the Director.

January 22, 1976

I do believe that due process ought to be accorded and that the carriers be given an opportunity to have some indication of the Division's attitude toward the transaction and further that if the executives of an insurance company take the trouble to seek a prior approval, that they should be excused from the penalties for willfully violating the section.

Amend Section 21.22.080 (3) to read as follows:

"The insurers surplus as regards policyholders following any dividends or distributions to shareholder affiliates or performance pursuant a material transaction with an affiliate shall be reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs."

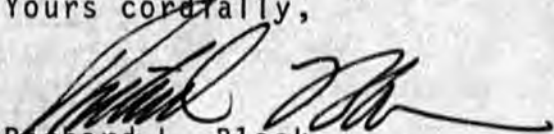
This amendment makes Section 090, the standards for adequacy of surplus, applicable to the approval of material transaction.

For your information I have correspondence from Alaska Pacific Assurance Company, Pioneer National Title Insurance Company (Alaska Title Guarantee Company), and Alaska Insurance Company, all generally supporting the measure provided certain technical changes are made. All technical changes requested are included in these amendments except with respect to the prior approval of material transactions and my reason for not wishing to accede fully to their wishes is explained.

I believe however, that the industry will support the current language.

Let me again take this opportunity to point out the importance of this type of regulatory authority to the proper protection of policyholders in this state. Unfortunately, the prior inability of regulators to deal with transactions between carriers and their noninsurance affiliates has permitted substantial abuse of policyholder's surplus and while it is not prevalent with respect to the carriers currently domiciled in this state, it is important that the authority be available to provide continuing protection.

Yours cordially,



Richard L. Block  
Director

RLB:ls