

HB 582

COMMITTEE REPORT

1/15/76

HOUSE

FINANCE

Mr. Speaker:

Date 1/15/76

The Committee on COMMERCE has had HB 582

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:

W. H. ...

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

W. H. ... Chairman

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

POUCH D — JUNEAU 99811

January 20, 1976

The House of Representatives
Commerce Committee
Juneau, Alaska

Dear Ladies and Gentlemen:

On Wednesday, January 21, I will discuss with you HB 582 "An act relating to regulation of insurance and providing for an effective date".

This bill deals with several subjects all of which are technical changes in the Insurance Code but very necessary to the proper regulation of insurance.

Section 1 provides for a charge of \$10.00 to cover the cost of issuing an amended certificate of authority. Currently we charge \$10.00 to cover the cost of issuing routine documents, however, no charge is made for the issuing of the amended certificate of authority. This is a frequent demand upon the Division and it is appropriate that the cost be wholly or partially reimbursed by the carriers seeking the certificate.

Section 2 changes the capital and surplus requirements for the licensing of insurance carriers. Under current law the carrier must have a minimum amount of capital plus an additional minimum amount of surplus before the State will issue a license to do business. The capital and surplus are the funds which add financial stability to the policies which the carrier issues. These funds are the buffer which prevent insolvency in the event premiums charged are insufficient to cover losses and operating expenses. The capital and surplus requirements were established when the code was enacted in 1966 and have not been changed since that time. The actual increases are set forth in the bill, however, they are essentially double that of the current requirement. For example, a property and casualty insurer multiple lines, that is all lines of insurance except life and title, under current law may obtain a license with \$400,000.00 capital and \$200,000.00 surplus. We recommend increasing these limits to \$750,000.00 capital and \$750,000.00 surplus for a total of 1,500,000.00. These requirements are within range of the more recently enacted requirements for capital and surplus by other states.

Section 3 is a grandfather and transition provision. Under its terms carriers already licensed as domestic insurers in this state which have adequate capital under current law but would have inadequate capital or surplus under the new law are permitted to continue under the old requirements but are prohibited from adding new lines of insurance or from paying for distributing dividends to policyholders or stockholders until they have acquired sufficient capital and surplus to meet the new requirements.

Section 4 will give the Director authority to require foreign carriers, that is carriers authorized to do business in this State but domiciled in other states, to post deposit of cash or securities in amounts not less than \$300,000.00. Currently the law provides that foreign carriers need post a fixed sum of \$200,000.00 and that requirement is met if the filing of the deposit is made in their own state. This latter described law has prohibited the Director from exercising rights which would have protected the policyholders in the State of Alaska from loss by reason of the insolvency of a foreign carrier. It is imperative that the Director of Insurance have authority to require deposits be lodged in the State of Alaska where the Director finds it necessary for the protection of policyholders.

Section 5 adds two new definitions of insurance. Currently the Insurance Code provides for separately licensing a company and separately licensing agents and brokers, depending upon the kinds of insurance which the agent and broker or the company chooses to market. There are two kinds of insurance which presently do not fall within the existing definitions and yet are either currently being sold or which very likely will be sold in the near future. Those insurances are mortgage guarantee insurance and legal expense insurance. It is appropriate to anticipate the marketing of these kinds of insurance by providing proper definitions and establishing separate license requirements therefore. The amendments in Section 5 will accomplish this purpose.

Section 6 modifies the definition of domestic insurer for purposes of Chapter 21. Chapter 21 deals with the investment by a domestic insurer. The definition is altered to include those carriers which write more business in the State of Alaska than in the state of domicile and where the Alaska premiums exceed 33% of all of that carriers premiums. This statute addresses the situation of carriers who are licensed outside the State of Alaska but come into the State for purposes of selling insurance without complying with the more rigid laws to which the genuine domestic is subject.

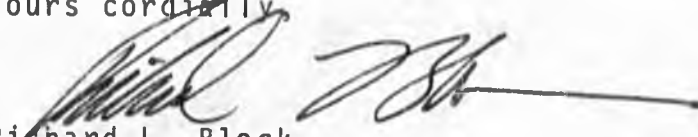
Section 7 adds to the definition of adjustor, by deleting the term from the exclusion sentence, the marine average adjustor and the employee of a general agent.

Section 8 attempts to close a loophole in the tax law. Insurance placed with a nonadmitted market, that is with carriers not authorized to do business in this state, is arranged through specially licensed brokers called surplus lines brokers. Since the carriers are not regulated by this Division the tax can only be collected from the surplus lines broker and is called a surplus lines tax. The tax is equal to 3% of gross premiums. The law excludes the operation of the surplus lines law, including the tax law, with respect to insurance of aircraft owned or operated by manufacturers of aircraft. I am advised that this has its history in a law enacted in the State of Washington for the benefit of Boeing Aircraft. The same considerations do not apply in the State of Alaska and there is no reason why aircraft operators ought to be allowed to lease aircraft from manufacturers in order to avoid the application of surplus lines tax. I am advised that the amounts involved are probably close to \$10,000.00 overall.

Section 9 is made necessary by the inclusion of the definitions of mortgage guarantee insurance and legal expense insurance which is provided for earlier in the bill. It is not appropriate that Section 21.36.190, the fictitious group rating law, be made applicable to these new lines of insurance. Thus as the new definitions are created it is necessary to also provide for exclusions from the application of the fictitious group rating law.

I trust that you will find this explanation helpful in your understanding of the bill. If I can provide further information please feel free to call upon me.

Yours cordially



Richard L. Block
Director