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# Alaska State Legislature

## Senate

### Committee on Labor & Commerce

Pouch V  
State Capitol  
Juneau, Alaska 99811

Official Business

#### SUMMARY SB 277:

Sec 1: This act provides aircraft owners and operators with access, thru the establishment of a public insurance corporation, to adequate insurance against liability and hull damage.

Sec 2: AS 21 is ammended by adding a new chapter; Chapter 86

#### ARTICLE 1 AVIATION INDEMNITY CORPORATION OF ALASKA

21.86.010 Corporation established; Aviation Indemenity Corporation of Alaska is established as a public corporation, having a legal existence independent and separate of the State. Obligations issued by the corporation do not constitute a debt, liability, or obligation and credit of the State.

21.86.020 Establishment of a board of directors appointed by the governor and confirmed by the legislature. Membership:

- (1) one representative from an air carrier, subject to FAA routes
- (2) two representatives, certified by the Alaska Transportation Commission as air taxi operators; only one may be operating from a business based in a city having over 100,000 population, and both must be insured under this chapter when insurance becomes available.
- (3) two reps from the aviation community not associated with commercial aviation enterprise represented in (1) or (2) of this sub-sec.
- (4) two representatives of the insurance industry
- (5) two members of the general public who have no financial interest in the aviation or the insurance business.

The term of office for each director is three years;

When a directors term expires, the governor shall appoint a successor form the same class as the director whose term has expired. In the event of resignation, death, or inability to serve , the governor sha! appoint a successor from the same class as the terminated director for the unexpierd term.

SB 277 cont.

Provides for a three year term of office;

Within 90 days of the first meeting of the board, the director shall submit to the Div of Insurance a plan of operation, providing for fair and reasonable administration of the corporation.

Outlines powers and duties of the board including standards of acceptable risks, the issuance of contracts indemnifying owners and operators against loss by reason of liability for covered claims for an act of omission in the operation of an aircraft in this State, and agreeing to tender on their behalf a defense to a covered claim in a civil action. Subject to approval of the Div of Insurance, the board shall charge a premium for the protection provided. The board shall carry out the obligations of its contracts, and shall maintain and report information concerning claims for those it insures.

Board may exclude an individual based on risk factors, but may not exclude an application because of his classification.

Provides limits on liability for policies issued; insurance contract shall cover the defense against but not the punitive damages.

Annual reporting to the director of information on claims.

Dir. of the Div of Ins. may order termination of the corporation based on public hearings, and a determination that the continuation would result in substantial underwriting loss. (unless excessive premiums)

The corporation is exempt from tax for the first 5 years, however after that period there will be a premium tax.

Outlines rate categories for general and commercial aviation.

Provides for an assessment on insureds, corporation may levy an assessment on insureds holding policies the previous year.

Provides for refunds to insureds if premiums exceed claim and underwriting expenses for the year.

Outlines payment of premiums and cancellation of insurance.

Establishes aviation revolving fund (loan) in the Department of Commerce and Econ. to be administered by the Div of Insur. Loans may be made from the fund to the corporation upon certification of the director, but loans are not to exceed 30 million at any time. Loans shall be repaid to the fund in annual installments of at least 25% of the excess of the premiums earned, reserves, expenses, and assessments made by the corporation, if any, and interest shall be paid at a rate of 7 percent.

## FUTURE OF AVIATION INSURANCE IN ALASKA

Before one can predict the future of Aviation Insurance, one must look at its past.

Prior to 1970 there were no Domestic Insurers accepting Aviation Insurance in Alaska. From 1970 through 1977 several notable Domestic Insurers entered the State including, but not limited to, such well known Insurers as Insurance Company of North America, Ranger, Pan American, Insurance Company State of Penn. and U.S.A.I.G. Without exception, all lost money and withdrew from the State.

Prior to 1970 and since 1978 most of the Aviation Insurance in Alaska has been provided by Lloyds of London and British Companies who have continually provided a market for the aviator since the first airplane came to Alaska.

During the 1970's aviation rates were steadily decreasing year after year even though as a Nation we were experiencing inflation and as a State we were experiencing an increase in airplanes, pilots and, sadly, a sharp increase not only in accidents, but also an increase in the fatality rate. In 1978 one hundred fifty-eight people were killed in airplanes with the average court award and/or settlement per person being \$450,000. each or \$71,000,000. That figure does not include the dollars spent on hull losses.

Rates started increasing in 1979 after the 1978 figures were known. In 1979 the fatality record was better, but over the past five years Alaska has averaged more than 50 fatalities a year at an average cost of \$450,000. per death or an annual cost of \$22,500,000. just to pay liabilities. As a result, many pilots and Air Taxi operators have experienced sharp and heavy increases in the cost of their insurance. Those who have had accidents the past five years are being charged more than those who have had no accidents. But everyone's rates are up and up a lot.

Newspaper articles have appeared recently accusing Lloyds of London of having a monopoly and "fixing" prices. I have been somewhat dismayed to see these things in print and even more dismayed as to who is doing the accusing.

(1) Many of those doing the most complaining have been involved in accidents in the past five years and many have had a fatal crash. The statistics are a matter of public record.

(2) Lloyds of London is a Market Place, not an Insuror, so how can it be a monopoly?

(3) The British Companies are also a Market Place made up of many Insurors.

(4) We are seeing a wider variance in rates today than we've seen in years, i.e. the ones with a repeated accident record are rated accordingly. Those with none or one are also rated accordingly.

(5) There is stiff competition in the World Market, but there is no rate cutting.

Recently Senator Eliason had introduced into the Senate Senate Bill 277 which would create a State Funded Aviation Insuror. The bill asks for \$30,000,000. to fund the Insurance Company. The Insurance Company would be assessible. That means anytime within three years from date your policy expires you could be assessed up to 50% of what you paid in premium. S.B. 277 does not discuss rate levels, but in verbal discussion proponents of this bill acknowledge they probably could not provide insurance cheaper. So you would trade what you now have, i.e. a guaranteed cost, for an unknown cost, and by asking the State to subsidize your insurance do, at the same time, subject yourself to public scrutiny for you cannot expect public funds without accepting public involvement in your day to day flying life.

There are many arguments against Senate Bill 277, and I'm confident your Broker and Insuror is ready to discuss in detail with you all of the ramifications of it.

As for the future of Aviation Insurance in Alaska

- (1) It will always be available in the free market at price;
- (2) When the accident rate declines and thus loss experience declines, rates will decrease;
- (3) There is at present three separate Domestic Insurors considering re-entering the State to provide Aviation Insurance. However, it is not their intent to cut rates, for the past 10 year's statistics prove that rate levels for that decade were hopelessly inadequate.

(4) But some of you were not here in the sixties, but those of you who were realize that the rate levels of today are the rate levels of the sixties. Your hull values are higher, your seating capacity is greater, and with the average court award being \$450,000. per person, most of you are carrying higher limits of liability as you should.

I would suggest that instead of "Hanging the wrong man" i.e. the Insurors, that each of you acknowledge that the basic problem is accidents, not insurance. Pilots wreck airplanes and hurt people. Insurors pay for them, so we all pay for them.

Insurance is a pooling of dollars by the many to pay the losses of the few. But if the dollars out exceed the dollars in, then rates must be increased, and that fact does not change whether it is Insurors as you now know them or a State owned Insurance.

Here are some sobering statistics: The State of Alaska has one-eighth of 1 percent of the United States population, 1.3 percent of the pilots, 2.9 percent of the aircraft and 5.6 percent of the accidents. Alaskan aircraft are involved in 4.4 percent of the fatal accidents. Air taxi operators here rack up 22.6 percent of American accidents among that group, and 15 percent of the air-taxi fatalities.

Instead of complaining about rates and asking the State to subsidize the accident and fatality rate by forming an Insurance Company, ask

your legislator to:

(a) Kill Senate Bill 277 - and in its place -

(b) Put the \$30,000,000. to work doing what National Transportation Safety Board AAS-80-3 recommends in its Special Report on Safety in Alaska.

for in so doing all citizens would benefit in a reduction in loss of life and property, and each of you will ultimately benefit in reduced insurance costs as a result of safety.

Submitted by



Lois Clary

Lois Clary is a licensed insurance agent who has been actively involved in all lines of insurance for 32 years and insurance in the State of Alaska for 20.

# Alaska Air Carriers Association

TESTIMONY

OF

TULINDA DEEGAN

PRESIDENT

ALASKA AIR CARRIERS ASSOCIATION

ON

S.277 - AN ACT TO  
ESTABLISH THE AVIATION  
INDEMNITY CORPORATION  
OF ALASKA

MAY 4, 1981

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I AM PLEASED TO PRESENT THE VIEWS OF THE ALASKA AIR CARRIERS ASSOCIATION (AACA) ON SENATE BILL 277 - AN ACT ESTABLISHING THE AVIATION INDEMNITY CORPORATION OF ALASKA. WITH ME TODAY IS D. CRAIG CLARK, PRESIDENT OF ANCHORAGE AIRWAYS AND CHAIRMAN OF THE ALASKA AIR CARRIERS ASSOCIATION.

THE ALASKA AIR CARRIERS ASSOCIATION, FOUNDED IN 1966, REPRESENTS AIR CARRIERS ENGAGED IN THE TRANSPORTATION OF PASSENGERS, CARGO AND MAIL. THE MEMBERSHIP INCLUDES CERTIFICATED AIR CARRIERS, COMMUTER AND AIR TAXI OPERATORS. THE KEY PURPOSE OF THE ASSOCIATION IS TO FOSTER AND PROMOTE AN ENVIRONMENT THAT ASSURES SAFE AIR TRANSPORTATION IN THE STATE OF ALASKA.

THE AACA BOARD OF DIRECTORS PASSED THE FOLLOWING RESOLUTION AT THEIR APRIL 8, 1981 MEETING:

WHEREAS, ESCALATING INSURANCE RATES HAVE BECOME A MAJOR PROBLEM OF THE AIR CARRIER INDUSTRY IN ALASKA, THE ALASKA AIR CARRIERS ASSOCIATION,

RESOLVES, TO SUPPORT DISCUSSION OF PROPOSALS IN S.277 TO ESTABLISH AN ALTERNATIVE IN THE INSURANCE MARKET PROVIDED THAT SECTION 21,86,110, ASSESSMENTS ON INSURED, BE AMENDED TO DELETE THE 50% SPECIAL ASSESSMENT AND THAT SECTION 21,86,086, TERMINATION, BE AMENDED TO INCLUDE AT LEAST A 30 DAY NOTICE PERIOD TO INSURED ON DISSOLUTION OF THE CORPORATION.

THE MEMBERS OF THIS COMMITTEE ARE WELL AWARE OF THE IMPORTANCE OF AVIATION IN ALASKA. AIR TRANSPORTATION IS ESSENTIAL TO ALASKA. OUTSIDE OF MAJOR POPULATION CENTERS THERE ARE VIRTUALLY NO ROADS. ALMOST EVERYTHING THAT IS REQUIRED FOR SURVIVAL, INCLUDING FOOD, CLOTHING AND MEDICINE MUST BE BROUGHT IN BY AIR.

INSURANCE PREMIUMS FOR AIRCRAFT HULL INSURANCE AND AVIATION LIABILITY INSURANCE HAS JUMPED 100 TO 200 PERCENT THIS YEAR. ALL OPERATORS HAVE FACED THESE COST INCREASES. AIR CARRIERS ARE FORCED TO PASS THIS INCREASE ON TO CONSUMERS. ATTACHED TO OUR TESTIMONY ARE RECENT ARTICLES THAT OUTLINE THE PROBLEM.

THE ALASKA AIR CARRIERS ASSOCIATION COMMENDS THE SENATE FOR ADDRESSING THIS CRITICAL ISSUE AND IS CONFIDENT THAT THE HEARINGS OF THIS COMMITTEE WILL BE A MAJOR STEP IN RESOLVING THE PROBLEM OF HIGH AVIATION INSURANCE RATES IN THE STATE OF ALASKA.

A REVIEW OF SOME FACTS ON THE CURRENT AVIATION INSURANCE INDUSTRY IS IN ORDER. SINCE AMERICAN INSURANCE COMPANIES PULLED OUT OF ALASKA IN 1968, THE PRIMARY MARKET FOR AVIATION COVERAGE IS LLOYDS OF LONDON. ACCORDING TO THE ALASKA DIVISION OF INSURANCE THIS MARKET REPRESENTS 90% OF ALASKAN AVIATION INSURANCE.

QUOTATIONS IN THE CURRENT MARKET ARE LIMITED TO THE INITIAL BROKER. THIS MEANS THAT AN AIR CARRIER CANNOT "SHOP AROUND" FOR A BETTER RATE. STATISTICS ON THE PREMIUM AND LOSS LEVELS EXPERIENCED BY LLOYDS IS SKETCHY AT BEST AND ARE NOT COMPLETE ENOUGH TO DRAW REALISTIC CONCLUSIONS.

MEMBERS OF THIS COMMITTEE WILL HEAR TESTIMONY THAT THE CURRENT HIGH INSURANCE RATES ARE PART OF A CYCLE. PROPONENTS OF THE CYCLE THEORY CONTEND THAT HIGH INSURANCE RATES WILL DRAW DOMESTIC INSURANCE COMPANIES BACK INTO THE MARKET AND THROUGH COMPETITION RATES WILL COME BACK DOWN.

WHEN RATES GO TOO LOW THEN THE DOMESTIC COMPANIES WILL PULL OUT OF THE MARKET AS THEY DID IN 1968.

THE DEVASTATING IMPACT THIS CYCLE WOULD HAVE ON AIR TRANSPORTATION IN ALASKA IS OF GREAT CONCERN TO THE

ALASKA AIR CARRIERS ASSOCIATION. SUCH A CYCLE WOULD MAKE LONG TERM FINANCIAL PLANNING EXTREMELY DIFFICULT. THE EXISTENCE OF AN UNDERWRITING FIRM IN ALASKA MAY SMOOTH OUT THE PEAKS AND VALLEYS IN SUCH A CYCLE.

THE AIR CARRIERS IN THE STATE OF ALASKA UNDERSTAND THAT THE CONCEPT OF INSURANCE IS A POOLING OF DOLLARS BY A LARGE GROUP TO PAY FOR THE LOSSES OF A FEW. ONE CLEAR WAY TO IMPROVE ALASKAN AVIATION INSURANCE RATES IS TO IMPROVE THE ALASKAN AVIATION ACCIDENT RATE. A RECENT NATIONAL TRANSPORTATION SAFETY BOARD STUDY ON AIR TAXI SAFETY IN ALASKA STATES "ALASKA . . . HAS AN AIR SAFETY PROBLEM . . . (A)BOUT 30 PERCENT OF ALL AIR TAXI ACCIDENTS IN THE UNITED STATES OCCURRED IN ALASKA, AND THEIR RATE OF OCCURRENCE WAS FOUR TIMES THAT OF THE REST OF THE UNITED STATES." THE ALASKAN FEDERATION OF NATIVES (AFN) ALSO RECOGNIZED THE NEED FOR IMPROVED AVIATION SAFETY. AT THE 1980 CONVENTION THE AFN PASSED A RESOLUTION TO WORK WITH OTHER ASSOCIATIONS AND AGENCIES TO REDUCE THE AIRCRAFT ACCIDENT RATE IN ALASKA.

THE AIR CARRIER INDUSTRY RECOGNIZES THAT MANAGEMENT AND COMPETENT FLIGHT CREWS ARE THE KEY TO SAFE OPERATION.

AT THE PRESENT TIME, AIR CARRIERS IN ALASKA DO NOT HAVE ACCESS TO STANDARDIZED TRAINING PROGRAMS TO IMPROVE BOTH MANAGEMENT AND THE FLIGHT CREW'S SKILLS.

IN 1978, THE INDUSTRY ESTABLISHED THE ALASKAN AVIATION SAFETY FOUNDATION, A NON-PROFIT CORPORATION DESIGNED TO FOSTER AVIATION SAFETY THROUGH EDUCATION PROGRAMS. THE FOUNDATION WILL OFFER AVIATION TRAINING PROGRAMS THROUGHOUT THE STATE.

AMERICAN AIRLINES TRAINING CORPORATION (AATC) WILL DEVELOP TRAINING SYSTEMS TO MEET THE UNIQUE NEEDS OF AVIATION IN ALASKA. THESE PROGRAMS WILL BE DESIGNED TO PROVIDE STANDARDIZED RECURRENT TRAINING THAT WILL REDUCE THE ACCIDENT RATE. THE RESEARCH TO DEVELOP THE TRAINING PROGRAMS WILL BE CONDUCTED IN ALASKA.

WHILE AMERICAN AIRLINES IS DEVELOPING THE COMPREHENSIVE TRAINING PROGRAM THE FOUNDATION WILL BE WORKING WITH OTHER AVIATION GROUPS TO OFFER THEIR PROGRAMS IN ALASKA.

THE AIRCRAFT OWNERS AND PILOTS ASSOCIATION (AOPA) HAS DEVELOPED EXTENSIVE PILOT TRAINING COURSES. VERY FEW OF THESE PROGRAMS ARE OFFERED IN ALASKA BECAUSE OF THE HIGH COST OF TRANSPORTING INSTRUCTORS AND THE TRAINING MATERIALS TO ALASKA. THE FOUNDATION HAS WORKED OUT A COST-SHARING ARRANGEMENT WITH AOPA TO OFFER MORE OF THESE PROGRAMS IN ALASKA.

THE PREVENTION OF ACCIDENTS IN ALASKA BEGINS WITH MANAGEMENT. THE ALASKAN AVIATION MANAGEMENT PROGRAM WILL BE OFFERED IN AT LEAST FIVE ALASKAN COMMUNITIES. THE MANAGEMENT PROGRAM HAS BEEN OFFERED IN THE PAST AND IS DESIGNED SPECIFICALLY FOR ALASKAN AVIATION OPERATORS.

EACH YEAR AT THE ALASKA AIR CARRIERS ASSOCIATION ANNUAL CONVENTION, ENGINE AND AIRCRAFT MANUFACTURERS OFFER SEMINARS FOR MECHANICS. THESE PROGRAMS ARE WELL ATTENDED AND ARE THE ONLY SCHEDULED OPPORTUNITY FOR ALASKAN CARRIERS TO MEET WITH THE MANUFACTURERS. THE FOUNDATION WILL EXPAND THIS PROGRAM AND OFFER MECHANICS' SEMINARS THROUGHOUT THE STATE.

THE FOUNDATION HAS WORKED WITH THE EMPLOYEE ASSISTANCE CONSULTANTS OF ALASKA (EAC) TO DEVELOP A PROGRAM TO HELP EMPLOYEES OF AIR CARRIERS. EAC WORKES WITH EMPLOYEES AND THEIR FAMILIES TO DEAL WITH PERSONAL PROBLEMS WHICH MAY AFFECT THEIR PRODUCTIVITY, HEALTH, OR CONTINUED EMPLOYMENT. THE BASIC ASSUMPTION OF THIS PROGRAM IS THAT A HEALTHY EMPLOYEE IS ALSO A SAFE EMPLOYEE.

THE FOUNDATION WILL PROVIDE AIR CARRIERS WITH INFORMATION ON AIRCRAFT ACCIDENTS IN ALASKA. INFORMATION SUCH AS THE CAUSE AND THE TYPE OF AIRCRAFT WILL BE PREPARED IN AN EASY-TO-READ FORMAT AND DISTRIBUTED TO AIR CARRIERS.

THE ALASKAN AVIATION SAFETY FOUNDATION IS BEING DEVELOPED IN COOPERATION WITH THE INSURANCE INDUSTRY. THE FOUNDATION IS WORKING WITH ROBERT J. CARNIE, AVIATION SAFETY CONSULTANT WITH THE INTERNATIONAL INSURANCE BROKERAGE FIRM OF REED STENHOUSE, TO ESTABLISH SAFETY PROGRAMS RECOGNIZED BY THE INSURANCE INDUSTRY. CARNIE HAS EXTENSIVE EXPERIENCE FLYING HELICOPTERS IN ARCTIC ENVIRONMENTS.

IN AN EFFORT TO REDUCE INSURANCE COSTS, THE ALASKA AIR CARRIERS ASSOCIATION HAS PUT TOGETHER A GROUP WORKERS' COMPENSATION INSURANCE PROGRAM. THE ALASKA DIVISION OF INSURANCE HAS ISSUED FINAL APPROVAL FOR THE ALASKA AIR CARRIERS ASSOCIATION (AACA) WORKERS' COMPENSATION PROGRAM. THIS PROGRAM IS AVAILABLE EXCLUSIVELY TO MEMBERS IN GOOD STANDING WITH THE AACA. AN IMPORTANT PROVISION OF THE PROGRAM IS THE REQUIREMENT THAT PARTICIPANTS IN THE PROGRAM MUST BE ACTIVE IN SAFETY PROGRAMS ESTABLISHED BY THE AACA BOARD OF DIRECTORS. THE DIVISION OF INSURANCE HAS ALLOWED THE BOARD OF DIRECTORS ONE YEAR TO DEVELOP THE PROGRAMS. THE PARTICIPANTS IN THE PROGRAM TO DATE WILL SAVE AN ESTIMATED \$86,000 IN PREMIUMS.

THANK YOU FOR THE OPPORTUNITY TO EXPRESS OUR VIEWS ON AVIATION INSURANCE.

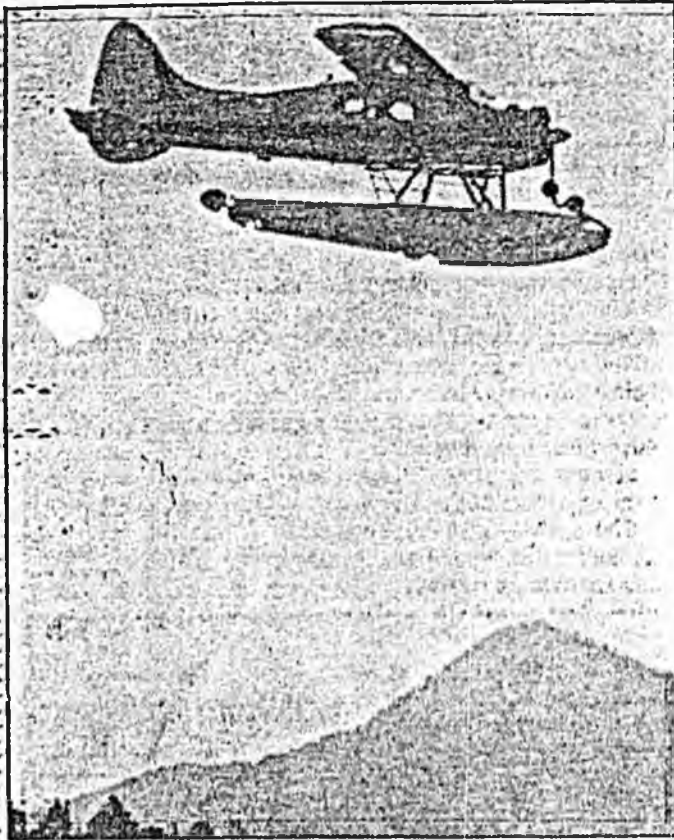
# Pilots fasten seat belts, a

By J.K. MARSH  
Daily News Staff Writer

Alaska aviators have found their insurance rates jumping from 100 to 200 percent this year, and those changes are forcing changes for many.

The rate increase is hitting both commercial and pleasure pilots, forcing increases in air taxi rates, and discouraging private pilots from acquiring their own planes.

The reasons for the high Alaskan rates are simple. Alaskans fly more, with almost 16 times the flight hours per



Aircraft owners and operators throughout Alaska have faced insurance premium increases that have more than doubled their payments in the last few years. Increases are blamed on the high percentage of accidents in the state, and the reluctance of most insurance writers to get involved. Andrea Smith photo.

resident as the rest of the U.S. in 1978, and have double the number of aviation accidents.

Insurance companies that have taken too many losses insuring Alaskan fliers are staying out of the market, leaving almost no one insuring state aviation but the Lloyd's syndicate of London.

Alaska Senate Bill 277, introduced March 12, would establish an Aviation Indemnity Corporation of Alaska to provide another market for insuring the aircraft operators in the state. Initially funded by the state, the corporation would exist independently and would set rates at a competitive level. It would not depend on state subsidy for continued operations.

The corporation would make aircraft insurance more accessible to fliers, but would not guarantee lower rates, said state Division of Insurance director Ken Moore.

Another reason for higher rates is the unlimited liability to which Alaska air carriers are subject, said Paul Breed of SEA Airlines. The amount of liability for which a victim can sue is unlimited in Alaska, while on international flights the amount is limited to \$100,000 by international agreement, Breed said. Alaska is not the only state with unlimited liability, but many states have set limits.

"People injured in a wreck deserve to be compensated, but I question some of the large claims being awarded," said Mike Salazar of Ketchikan Air Service.

Breed also contends there is little significant difference between the rates for good risks and bad risks. Operators who may cut corners on safety procedures can cut operating costs, and suffer no greater increase in insurance premiums.

Breed said he has had no liability claims filed against him since he started as an air taxi operator in 1973, and only one claim for hull damage, in 1974. But he has found no significant difference between his rates and those of others who have had claims against them.

The result is sharply increasing insurance premiums, for air taxis, instructors and private pilots alike.

Jack Cousins has been a flight instructor in the Ketchikan area since 1964, but he won't be teaching this year because his insurance premiums have gone from \$3,800 to \$9,800, and the coverage has fallen from \$500 to \$1,000 deductible on ground insurance and from five percent to 10 percent deductible on air insurance.

"You can hobnob for one or two dollars more to cover fuel

# Insurance rates climb

increases, but you can't tell a guy you need to charge \$20 more an hour to cover the insurance," Cousins said.

Breed said it looks like his rates would have increased by about 500 percent over the past two and a half years, "and that's with no claims against us at all."

Adding to the increase is the new policy requirement that Breed carry year-round insurance for all his fleet, although one-half to two thirds of his planes are inactive during the winter. He said that until last year he could get a lower rate for inactive planes during the winter.

Higher insurance rates come partially from higher accidents rates. Between 1974 and 1978, there were almost five times as many nonfatal air taxi accidents per 100,000 hours of flying time in Alaska - 15.2 - as in the rest of the U.S. Nonfatal general aviation accidents per 100,000 hours were more than double those in the rest of the U.S. during that period.

A 1980 special study by the National Transportation Safety Board concluded that the major factors contributing to the high air taxi accident rate in Alaska are the "bush syndrome," inadequate airfield facilities and communications, and inadequate weather observations and navigation aids.

One recommendation was safety programs which reiterate the hazards of the "bush syndrome," which is the willingness of the pilot or the passengers to take unwarranted risks to complete a flight in hazardous conditions.

Other recommendations include improved maintenance of runway facilities, especially in small villages; increasing weather observation stations and improving weather in-

formation communications; and location of a Federal Aviation Administration principal operations inspector and principal maintenance inspector at Ketchikan, Nome, Bethel and other regional hubs.

Insurance companies are in the business to insure, but if they lose money at it they are going to get out of the market.

"In the early and mid-1970s, the foreign (lower 48) market was strong, but they had a terrible experience," said Ken Moore, director of the state Division of Insurance. "Over the last 11 years their true loss - loss against premium - was 139 percent, and some years it went up to 219 percent. They gradually eased out instead of adjusting the price structure."

In 1979, Lloyd's syndicate wrote \$13.9 million in insurance covering Alaska aviation, while companies in the lower 48 wrote only \$1.2 million, Moore said.

"Basically, Lloyd's is the only market, and they're keeping up with losses by the expedient of adjusting their rates to conform," he said.

Moore said the proposed state aviation insurance corporation, "isn't any guarantee rates will go down at all. It's to make a market that's accessible by local agents. If nothing else, it may jar London to opening up the market."

"Aviation insurance in Alaska has been like this historically," said Rick Hardeastle of Hardeastle-Davies Insurance in Ketchikan. "Peaks and valleys. After a year or two of good experiences, we get more companies involved."

"The competition aspect came home this year, and the composite of deaths and accidents over the last few years finally caught up with the industry," he said.

The amount of damages per accident can be much higher for airplanes than automobiles, and Hardeastle said, "the trend in damages per accident, particularly fatalities and partial disability, has gone from fair to worse."

Fewer people own automobiles, and the claims are generally smaller, so that a company's losses can be better predicted. "But in aviation, you might wipe out 20 people with one accident," Hardeastle said.

The result of higher insurance costs, coupled with increasing fuel costs, is higher air taxi rates. "We're already pricing ourselves out of the local recreation market," Breed said.

Salazar said that the state should start building more airports. Wheel planes are faster, cheaper and carry more. "In the future I don't think it will be economical for float planes to operate, except into the lakes."

If other insurance writers get involved in the market again, the premiums may peak and start heading down again. But insurance may stay high, making flying in Alaska accessible less to those who do it for pleasure, and more expensive for those who fly out of necessity.

Rep. Linn Dancy, D-Ft., saying that full Social Security benefits at 65 is enshrined in our culture, expressed fears that the measure might prove politically unacceptable. People retiring at age 62 under the plan would receive 64

## at odds in sh

right direction. Not only must weather conditions be adequate at Kennedy Space Center here, but the forecast must be favorable at the main landing site at Edwards Air Force Base in California and the backup site at White Sands Missile Range in New Mexico.

The Anchorage Times

# CITY / STATE

/ General news

## Senators grapple with aviation

by Karen Ranspot  
Times Writer

Six Alaska state senators are proposing the state get in the business of aviation insurance.

But an aide to Sen. Richard Ellison said he sponsored the legislation as a means of sparking discussion and not as an absolute solution to the problem of high aviation insurance rates.

The Senate bill was introduced last week by the Sitka Republican and would create the Aviation In-

demnity Corp. of Alaska, fashioned after the state's medical malpractice insurance corporation.

The corporation would set requirements for insurance and establish premiums that would be neither "excessive" nor "inadequate." The bill defines excessive rates as those producing too high a profit and inadequate rates as those that would endanger the solvency of the corporation or destroy competition in the aviation insurance field.

The state would loan the corpora-

tion up to \$30 million to set up shop and the loan would be repaid from premiums collected.

Air taxi operators, unhappy with rising insurance rates, and insurance brokers, concerned the state may be entering their business, are meeting separately this week to discuss the legislation.

Although the director of the division of insurance said the administration is not taking a position on the legislation, he said the high rates are caused, at least in part, by high

Tuesday, March 17, 1981, The Anchorage Times B-1

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## insurance rate woes

loss rates in Alaska.

"There is no place in the world they fly like we fly up here," Ken Moore said. That statement is backed up by a 1980 National Transportation Safety Board report that says Alaska's non-fatal air taxi accident rate is five times the national average. The fatal air taxi accident rate is double the national average.

Moore said it is difficult to compile figures comparing rates charged to losses paid since most aviation in-

ket, Lloyd's of London.

However, statistics for American insurance companies in 1978 show losses of \$6.4 million in Alaska compared to premiums of \$2.7 million. That was the year the American insurance companies pulled out of Alaska, Moore said.

London's rates have "virtually doubled, and in cases tripled, in the last year," Moore said.

And Ellison is concerned those rate increases will force some air

"Due to lack of competition (in aviation insurance), air taxi operators are forced to pay unreasonably high rates," Mary LaVan of Ellison's office said. The senator is also concerned about a rumor Lloyd's may be considering pulling out the Alaska market, she said.

"The legislation is designed to spark discussion, LeVan said, and Ellison hopes to get input from the aviation and insurance industries. "The best way to get input from a

# Air insurance rates anger fliers

Caren Ranspot  
Writer

The courts' and the public's attitude toward insurance companies causing aviation insurance rates to skyrocket, according to one local taxi operator. Another thinks the state's monopoly on Alaska aviation insurance is the real problem. Some air taxi operators are facing insurance rate increases of 200 to 300 percent. But Joe Wilbur of Wilbur Flight Operations blames the courts and not the insurance companies. "It is a combination of the sue-happy people and juries," Wilbur says. "The public thinks the insurance companies are ripping them off and the juries make large settlements in cases involving insured pilots. They never stop to think that those awards passed along through increased rates. When losses are higher than premiums, the insurance companies have no choice but to raise rates," Wilbur said. "And because there is often no al-

ternative transportation, pilots find themselves 'pushing the weather,' Wilbur said, which leads to the high accident rate in Alaska. Alaska's non-fatal air accident rate is five times the national average and the fatal air accident rate is double the national average.

Because of the high cost of getting liability insurance, air taxi operators are currently studying proposed legislation that would set up a state aviation insurance program. But Craig Ketchum of Ketchum Air Service said operators aren't ready to come out in support or opposition to the bill.

Most of the operators only received a copy of the bill Wednesday and they haven't had time to review it, Ketchum said, but all think something must be done.

Ketchum thinks part of the problem is the lack of competition in Alaska. Since American insurance companies pulled out of the market in 1978, Lloyd's of London is the only company willing to insure Alaska pilots. "They have a monopoly,"

Ketchum said.

Air taxi operators are required by state law to carry liability insurance. While Ketchum said pilots realize the insurance is essential to protect the public, he said 200 to 300 percent rate increases this year are endangering many air taxi operators.

One pilot is facing a \$30,000 insurance bill this year, Ketchum said, compared to \$12,000 last year. That kind of increased cost of business is difficult to pass along to passengers without losing business, he said.

Liability insurance for passengers is running between \$1,200 to \$2,500 per seat plus another \$1,000 to \$1,700 for the aircraft, Ketchum said, which means liability for a seven-passenger plane might run \$15,500.

And since most air taxi airplanes are mortgaged, the operator is also required to carry hull insurance to cover the cost of replacement in case of a crash. The hull insurance is currently running about 10 percent of the value of the airplane or \$10,000 for a \$100,000 plane.

A rumor that Lloyd's of London is considering pulling out of the Alaska aviation market might be good news, Ketchum said. If no insurance was available and "the public could not fly anywhere, the problem (of insurance costs) could come to light."

A local insurance agent, Lois Clary, defended the rate increases and said the reason for the sudden jump was that rates have been too low for the past 10 years.

The Anchorage Times

# CITY/STATE

/Comics  
/Television

SECTION  
B

## Clark: penalize unsafe pilots

by Karen Ranspot  
Times Writer

The first step toward lowering Alaska's skyrocketing aviation insurance rates is to get the unsafe pilots out of the air, the chairman of the Alaska Air Carriers Association says.

And he thinks the way to reach them is through their pocketbooks.

Craig Clark says safe aviators are having to pay higher insurance bills because the poor pilots are having all the accidents. He thinks a proposed state aviation insurance program may be a solution for the safety-conscious pilots. But he's also worried that the program may become a subsidy program.

"A subsidy is not going to solve the problem. It will just allow the bad operators to continue," Clark says. Selective underwriting would keep the bad operators out and allow the good operators to pay lower premiums.

"Usually you buy insurance to cover a catastrophe but this year my

insurance was a catastrophe."

Clark thinks it is time he and other safety conscious air taxi operators quit paying for the losses piled up by the sloppy operators.

He recommends a state grant to the recently formed Alaska Safety Foundation. The money could be used to institute a safety program, both for pilots and managers of air taxi operations.

If insurance companies or a state insurance program offered graduating a reduced premium, the responsible operators would get an economic break while bad pilots would have to pay for their own crashes.

The Federal Aviation Administration is not doing a good job of policing pilots in Alaska and that allows the irresponsible operator to continue to add to the accident rate in Alaska, Clark said. "I don't believe FAA has enough personnel (in Alaska) to police the operators."

The accident prevention coordinator for the Federal Aviation Administration in Alaska agrees polic-

ing is difficult. The Nome-Kotzebue area has a high accident rate, Gene Morris said, but most of the accidents take place in Bush areas far from the population centers.

"The area is so large you could put a 100-man office in the area and still have trouble covering it."

But the manager of an air taxi operation plays an important role in keeping accidents to a minimum. Despite the high accident rate for the area, Nelson Walker of Kotzebue recently received an award for 30-years of accident-free flight.

"As soon as a pilot leaves the fold of the guy who is keeping a tight rein, they get the same accident rate as everyone else," Morris said.

Because of an oversupply of air taxi operations and the marginal profitability of the business, there is a lot of pressure to fly in marginal weather or to overload airplanes, Clark said.

Otherwise, the potential customer may take his business elsewhere, he added. "Most pilots don't

go out to commit suicide," Clark said, but some of them might as well.

Morris agrees the safety foundation is a good idea, but like Clark, he doubts it will be effective unless it is tied to some form of economic incentive such as reduced insurance rates.

Accident prevention specialists feel they are putting on a dog and pony show for the empty seats, Morris said. The pilots and managers willing to invest the time and money to attend the classes usually are not the ones who need to be there.

But while aviation insurance rates have skyrocketed this year, Morris said, there is some hope on the horizon. Insurance rates tend to lag a year or two behind accident rates and, so far, 1981 is a safer year than 1980 was.

There have been six non-fatal air taxi accidents and one fatal accident, Morris said. During the same period, the previous five-year annual average was 11.2 non-fatal accidents and 1.2 fatal accidents.

The Anchorage Times

# CITY/STATE

/Business  
/Television

SECTION  
B

## Program goal: better pilots

by Bill Blessington  
Times Writer

The Alaska Air Carriers Association is seeking a \$1-million state grant to begin a state-of-the-art training program aimed at reducing aircraft accidents.

The training program, operating under the umbrella of a tax-exempt foundation, would be specifically tailored to improve pilot skills and reduce the accidents attributed to pilot error, said Tulinda Deegan, executive director of the Alaska Air Carriers Association.

She said the foundation will either build a training facility at a centralized location or transport portable facilities throughout the state if the project is approved by the Legislature.

The association hopes the training facility will help reduce Alaska's aircraft fatality rate, which is five times higher than anywhere else in the country.

From 1974 through 1978, 600 lives were lost in commercial and general aviation accidents in Alaska. Just over 85 percent of the accidents were caused by pilot error, accord-

ing to government statistics.

If the Legislature funds the initial cost of setting up the program, the association hopes that state aviation-fuel taxes can be used to support it on a regular basis.

"We are willing to keep it (the tax) and add to it if necessary to fund this," Deegan said.

Presently, airlines and private pilots pay a four cents a gallon tax on aviation gasoline and 2.5 cents per gallon tax on jet fuel. The state collects \$4.1 million a year from the aviation fuel tax.

"We'd like to see that tax turned over and used for aviation," said Deegan.

The Air Carriers Association has contracted with the American Airlines Training Corp. to build the curriculum and provide flight training simulators. Deegan said they plan to spend nine months putting the training program together at a cost of \$363,000.

"We're hopeful we can be fully funded by the Legislature this year. If not, we'll try to make it up with private funds. The problem is that

American Airlines has the manpower now, but they may not have it next year."

As Deegan explained, the firm has proposed to interview the most experienced Alaskan pilots — survivors, as she put it — to find out why they are still flying. Their methods and techniques will then be incorporated in the training program and passed on to other pilots.

The second highest cause for aircraft accidents here, she said, is terrain, a condition that can be duplicated by sophisticated flight simulators.

"If we can train pilots to handle terrain better," she said, "we can reduce accidents."

The training program, she said, would offer participating companies and pilots a way to lower their aircraft liability rates in the same way that car drivers who have had student training can obtain lower rates on their car insurance.

The foundation's budget for the training program calls for a \$1 million grant from the state the first year, decreasing to \$400,000 by the

fourth year. Private contributions from the industry would increase over the first five years from \$150,000 to \$500,000 during the same period, and user fees, collected from pilots and mechanics who take the specialized courses would increase from \$50,000 to \$100,000 during the same period.

In a related effort to reduce accidents and provide lower costs for members, the association has just announced a reduced rate group plan for workmen's compensation.

The new workmen's compensation plan, said Deegan, provides a reduction of about 24 percent for members. To participate, she explained, members have to participate in safety programs sponsored by the organization.

"This follows several years of difficult negotiations and should prove a valuable benefit to members," Deegan said.

"Not only are the premium savings attractive, but the safety programs associated with the insurance package should help improve the overall accident rate in the state."



4950 AIRCRAFT DRIVE • ANCHORAGE, ALASKA 99502 • (907) 243-4600

TESTIMONY

OF

D. CRAIG CLARK

CHAIRMAN

ALASKA AIR CARRIERS ASSOCIATION

PRESIDENT

ANCHORAGE AIRWAYS, INC.

ON

SB 277 - AN ACT TO  
ESTABLISH THE AVIATION  
INDEMNITY CORPORATION  
OF ALASKA

MAY 4, 1981

I am pleased to have the opportunity to present my views on Senate Bill 277 - An act establishing the Aviation Indemnity Corporation of Alaska.

Aviation hull and liability rates have taken a sharp increase in the past two years and are apparently going to rise higher. Anchorage Airways, Inc. rates on our primary turbo prop aircraft have risen from 1.30% for hull coverage to 2.75% and are expected to go higher in June 1981. The liability premium for 9 passenger seats has increased from \$5700.00 per year to \$12,400 per year. This rate increase on our 2 turbo-prop aircraft has increased our cost of operation nearly \$53,000 per year or approximately \$30.00 per hour. Our other aircraft insurance was increased by \$28,000. During this three year period of insurance renewals, Anchorage Airways has suffered one hull loss in the amount of \$46,000 caused by operation of one of our aircraft by the Federal Government. We have not had any liability claims. My point is that our rate increases have been a result of the overall rising market rates and not a result of the losses experienced by our firm. Insurance is purchased for protection from high operating losses, however the increase in premiums has become a high operating loss in itself.

Air taxi firms can pass this increased cost of operations on to their customers but there is usually a period of time (as high as six months) that the cost must be absorbed by the operator because of the competition. The scheduled Air Carriers are not

experiencing the same increase in rates. Lloyds of London has typically been reducing airlines premiums and have now stopped those reductions but have not as yet begun to raise the airline rates.

The private aircraft owner is having a particularly difficult time. Many have dropped insurance coverage on their aircraft. This results in a smaller premium base available to spread the risk. Aircraft sales to the private pilot have suffered because of the high cost of insurance coverage required by the lending institutions.

The high cost of insurance today is the result of the problem of high dollar losses incurred by the insurance companies. The high dollar losses are a result of the liberal liability claims paid in the State of Alaska and the high aviation accident rate we have in the state.

There are several actions that can be taken to solve the problem of high losses. The FAA over the past 10 years has ineffectually tried to lower the accident rate by imposing more restrictive operating regulations upon the public. These new regulations have been totally unsuccessful as exhibited by the continuing high accident rate which is five times higher in Alaska than in the lower 48 states. My proposed solutions are:

1. Selective underwriting of aviation risks. Establish procedures for rating a risk (similar to the existing workmen's compensation program) whereby a good risk enjoys a reasonable rate and a bad risk must pay a much higher rate (possibly up to 500% higher than standard).
  
2. Recognition of Aviation Safety Training. Establish procedures for recognition of aviation safety training and allowing a reduction in premium rates for successful completion of such courses. The aviation safety training course must be qualified under the program and must train to a desired proficiency level. It is my opinion that most flight schools would not qualify as an approved aviation training course, in order for this type of program to be effective the safety training must be beyond the level of FAA requirements.
  
3. Wrongful death limit. Consideration of a "wrongful death limit" may be beyond the scope of this committee at this time, however a wrongful death limit similar to the Warsaw Convention and the state workmen's compensation program would considerably reduce the cost of aviation insurance. If a reasonable wrongful death limit of \$100,000 to \$250,000 existed liability rates would be manageable and the deceased's estate

would be adequately compensated. In the event of gross negligence the death limit would be pierced and the deceased's estate would receive the "normal" settlement. This type of legislation would provide several benefits to the flying public in that a "grossly negligent" operator, as proven guilty of such by the court system, would find that continued negligent operations would be financially burdensome and the Federal Aviation Agency would be hard pressed to allow the individual to continue with FAA approved flight operations.

In closing, I would like to express my belief that insurance is a protection for a catastrophic loss that has occurred with reasonable preventative practices in effect. Subsidization of Aviation Insurance premiums by the State of Alaska without provisions for the forementioned solutions will only foster a continued high Alaskan aviation accident rate and result in the eventual financial failure of the proposed Aviation Inemnity Corporation of Alaska.

Thank you very much for your time to hear my opinions.



MUNZ

NORTHERN

AIRLINES, INC.

P. O. BOX 790 NOME, ALASKA 99762 (907) 443-2215

April 9, 1981

Senator Richard Eliason  
Pouch V  
Juneau, Alaska 99811

Re: Senate Bill 277  
Aviation Insurance Co.

Dear Senator Eliason,

I would add my support to Senate Bill 277 for it is truly needed in the rural areas.

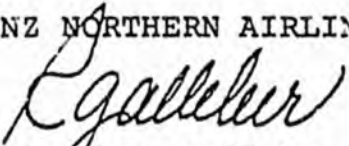
At this moment I have before me a bill for over \$115,000, just arrived from our Insurance Company. If we were Sears or Coca Cola this wouldn't be so tough, but Munz is a small struggling privately owned company attempting to provide needed passenger and mail service in a very remote, low traffic area.

We fly about 11,000 passengers a year. Simple math reduces this to almost \$11 for each passenger.

Reducing this cost means better, more economical service for our travellers and I heartily endorse the effort.

Yours truly,

MUNZ NORTHERN AIRLINES, INC.

  
Richard F. Galleher  
President & General Manager

RFG:mpc  
cc: Frank Ferguson

d/c Hunter of Alaska, Inc.  
 Set. 4 Alaska 99501  
 ne 907,

# Statement

GUNZ NORTHERN  
 AIRLINES INC  
 P O BOX 790  
 Anchorage AK 99762

Date 3 31 81  
 Account 455800

Contact D VANDER JAGT

PAGE 004

Reference Number	Reference Date	Coverage	Transaction	Company	Policy Number	Effective Date	Amount
74013	3 30 81	AVN HULL	PREMIUM TAX	PREM TAX-ST	B1-RBH679	3 01 81	391.86
						TOTAL	115,331.34*

*Handwritten:* # ending this month

*Stamp:* APR-5 81

Retain this copy for your records.  
 Please return the gold copy with your remittance.

P.O. Box 4340  
Mt. Edgecumbe, AK 99835

March 27, 1981

Telephone (907) 966-2258

Dear Aviation Insurance Consumer:

Recent proposed legislation (SB 277) will allow an Aviation Indemnity Corporation of Alaska to be formed. Reading the proposed act, it is clear that AICA will be separate from the state government and will provide a vehicle through which all Alaskans can benefit through reduced insurance premiums for aviation coverage.

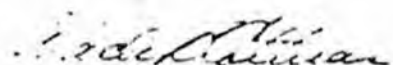
At present, as you all know, the only real market for insurance is through London, and that market is milking Alaskan dollars at an ever increasing rate. While it is true that our accident rate is several times that of the lower 48, there is no reason that we should have to pay premiums which are a hardship to us or our customers when the primary benefit of these premiums is to enrich the insurance community. Senate Bill 277 provides for premiums to be determined by the actual loss histories, not by the profit incentive of how much will the market bear. Further, no Alaskan insurance broker or agent need fear being hurt by this legislation because the insurance to be made available will be marketable through them, providing them with reasonable profits. It should be noted that there is no requirement that this insurance must be purchased. If less expensive or more complete coverage is available, then it should be used.

AICA is to be a private corporation totally separate from the state. Indeed, the only association between the state and AICA will be that the Governor of Alaska will appoint the board of directors, and the state will provide the seed money to get it started--all of which is to be repaid through future premiums. True, yearly reports will have to be made, and the corporation will have to abide by the laws of the state, but these requirements are neither more nor less restrictive than those imposed on other corporations doing business within Alaska; however they are more stringent than those imposed on foreign corporations.

Each of you who have been involved in a loss situation know that the final settlement of that loss has been to the insurance company's benefit. A salvagable aircraft has been declared a total loss because it was insured for less than the market value, and an aircraft which for economic reasons should have been totalled has been declared repairable, requiring many months delay. A local company sensitive and responsive to local needs would be able to respond to the unique needs of the Alaskan aviation community and prevent such excesses.

This legislation is needed to keep the cost of insurance at a reasonable level, and your input is necessary to make this proposed legislation into law. Copies of Senate Bill 277 can be obtained through your local Legislative Information Office, and comments on it, both positive and negative, would be welcomed by any of the sponsors or your local Senator. If you are in favor of this proposal, please write and inform Senator Richard Eliason, Pouch V, Juneau, Alaska 99811. Without your help and input, this much-needed assistance will never become available.

Very truly yours,

  
Wade R. Cothran  
AIR Center Sitka

April 16, 1981

Senator Richard Eliason  
Pouch V  
Juneau, Alaska 99811

Dear Senator Eliason:

This letter is in regards to the proposed legislation (SB 277). We as an organization, consisting of approximately one hundred members, do support SB 277.

As you probably are aware, aircraft insurance costs are spiraling and we believe this is partially due to the monopoly by Lloyds' of London. We believe our Aviation Indemity Corporation would be benefical to not only the operator, but to the consumer.

Your help in pursueing this matter to an equitable end would be greatly appreciated.

Sincerely yours,



Ken Bellows  
S.E. Alaska Aviation Assn.  
Box 1566  
Sitka, Alaska 99835



P.D.&G. AIRCRAFT  
P.O. Box 81063  
College, Alaska 99708

April 12, 1981

Senator Richard Eliason  
Pouch V  
Juneau, Alaska 99811

Dear Senator Eliason:

I wish to comment on proposed legislation regarding the formation of the Aviation Indemnity Corporation of Alaska. I am a certified air carrier (certificate no. F-24-79).

At this point something has to be done to provide some alternative to the insurance situation which we carriers are confronted with. Rates of most of the carriers have been driven far beyond the means of the everyday citizen, primarily by the unreasonable rises in insurance costs. This has caused the public to not conduct business with certified carriers, or to turn to uncertified, uninsured (and illegal) carriers. There is virtually no enforcement action taken against those illegal operations, and I can understand that enforcement and conviction are difficult. Part of the solution is for certified carriers to be able to provide service to the public at an affordable and reasonable rate. We are hard-pressed to do that under current conditions.

Another related problem we have is the various State agencies acquiring their own aircraft. Some of the justification I have heard expressed is that it is too expensive for the agencies to charter an aircraft, that they can do it cheaper for themselves. I doubt that is true under even the current economic conditions. There is no question it would not be true if the State were required to provide at the same cost the insurance which air carriers must provide. But for a State agency to use such justification when the State is so involved as a factor in our high rates is farcial. (If elaboration is needed as to how involved the State is in causing those rates, I am sure some of the local Juneau operators would verbally assist me). Lower insurance rates would once again make it unquestionably cheaper for us to do the State's flying than it would be for the State to do its own.

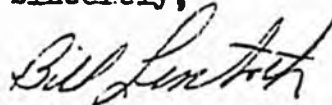
Now, because of my views against the State's involvement in areas which should be left to private enterprise, it is going to seem hypocritical for me to advocate the establishment

page 2, Letter to Senator Eliason

of the Aviation Indemnity Corp. of Alaska. Despite the fact that I have given it much thought, in some aspects it remains hypocritical, but at this point I am willing to swallow a bitter pill and say that I support the establishment of the AICA.

We must have an alternative to the insurance situation we are faced with. So long as the monies which the State provides are paid back once the program is established, then I believe that is a legitimate, and in this case necessary, use of the revenues which our resources are producing for us.

Sincerely,



BILL LENTSCH  
Owner/Operator

cc: all Fairbanks Senators and Representatives

April 16, 1981

Senator Richard Eliason  
Alaska State Senate  
Pouch V  
Juneau, AK 99811

Dear Senator Eliason:

Below, I have comments on Senate Bill 277. My first emphasis will be referenced to the page number of the Senate bill. I will then define some general concerns and comments voiced by myself and other businessmen in Sitka. I am very much in support of this legislation, so any criticism I voice hopefully is constructive.

Page 1 -- Purpose -- Many feel adequate insurance is available presently. Should emphasis be on "alternative and economical" insurance? (later I'll discuss the need to substantiate economical coverage).

--Corporate Board of Directors -- A directorship consisting of users of the insurance program may be more effective than a "mixed bag".

Page 2 -- Item E -- The Board should be responsible for policy of the corporation, not the Director of the Division of Insurance. Is this not a distinct and separate entity from the State of Alaska?

-- Item F -- I question the legality discussed here. Directly or indirectly, the Board of Directors must be responsible for their conduct as agents of the Corporation.

Page 4 -- Powers and duties of the Corporation -- My question: Is the corporation actually getting into the whole gamut of insurance services (i.e., underwriting, sales, payoff, etc.? Or as a support vehicle to the already established insurance market? Many read this legislation and are not sure as to the scope of proposal.

Page 7 - d -- There is a discussion of "available reasonable rates". What is reasonable? I feel there is a strong need to have projected management costs, premiums, etc., in order to evaluate what is proposed in this bill with what is presently available.

Page 12 -- Sale of Corporation -- Many businessmen in Sitka have concerns of the involvement of the State in financing, policy decisions, etc., of this Corporation. Although intent is one thing, what will actually occur?

I feel the corporation should be organized with private ownership at the inception. It may become more complicated, but if the need is justified in dollars and cents, then the major users should be willing to contribute capital to the corporation (in the form of insurance premium deposits). Use of present insurance markets with the corporation's support as underwriter seems more conducive to the insurance industry as a whole.

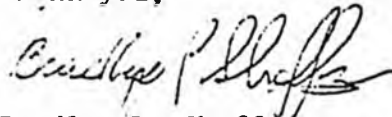
There is an imminent need for either direct or indirect subsidy of this industry. At present the principle means of travel in Alaska are marine, air, or road (rail and auto). The aviation industry is the only one of the three which does not receive subsidy from the State. This means of subsidy seems very logical in that it is not a direct demand for funding of aircraft transportation but of financing a means of reducing costs.

I wonder if the need of an independent study and evaluation may be necessary to eventually reach a viable solution to the insurance situation. This bill needs organized support of the aircraft industry, insurance companies, and the public.

I have a concern as to the effect of premium loss ratios and its effect on the financial capacity of the Corporation. A year of major losses could conceivably exceed the present \$30,000,000.00 addressed in SB 277.

Please contact me if you have any questions or comments, Senator Eliason, as I am hopeful this proposal will become a reality.

Thank you,



Bradley L. Shaffer  
P.O. Box 1636  
Sitka, Alaska 99835

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

MEMORANDUM

April 1, 1981

SUBJECT: Aviation indemnity insurance  
(SB 277)

TO: Senator Richard I. Eliason

FROM: *LHC* Linr. H. Asper  
Legislative Counsel

You have asked for a description of the operation of the provisions of SB 277, which would create an aviation indemnity corporation to provide aircraft insurance in the state. The perceived need for creating the corporation is that aircraft insurance in the state is currently available only through Lloyds of London at very high rates. It is thought that a quasi-public corporation backed by the state might be able to offer coverage at reasonable rates. This bill is patterned after the Medical Indemnity Corporation of Alaska (MICA) which was formed to deal with the unavailability of insurance in the area of medical malpractice.

The corporation is established by state law, but is independent of and separate from the state (sec. 010). The corporation operates through a Board of Directors selected by the governor (sec. 020). The directors manage the business of the corporation and must prepare a plan of operations within 90 days of their first meeting (sec. 030). The corporation has standard corporate powers in order to operate, and can write aircraft insurance (sec. 040). The operations of the corporation are supervised, to some extent, by the director of the division of insurance (secs. 060 - 070). The corporation may be terminated if the director determines that the corporation can only prevent substantial underwriting loss by charging excessive premiums (sec. 080).

The corporation must pay a tax on all premiums collected, but is exempt from the tax for five years after it commences operations (sec. 090). Rates may be set by the corporation

April 1, 1981

under guidelines set out in sec. 100. If experience indicates that claims and claims expenses exceed premiums, an assessment may be levied against the insureds (sec. 110). If premiums exceed claims and claims expenses the corporation may return money to the insureds by refunds (sec. 120).

Provision is made for sale of the corporation to a private corporation upon such terms as may be required by the director (sec. 140).

Financial support of the corporation is provided in Article 3 of the bill, which creates a loan fund in which the state provides the corporation with loans not to exceed \$30,000,000 to provide surplus to pay claims of policyholders. The loans are to be paid back in annual installments of at least 25 percent of the excess of premiums earned over claims and expenses, at an interest rate of 7 percent (sec. 200).

Under Article 3, General Provisions, are found various definitions, a description of which provisions of Title 21 apply to the corporation, and a provision exempting the corporation from the open meeting requirement of AS 44.62.310.

LHA:ljb



April 6, 1981

The Honorable M. Ed Dankworth  
Senator  
State of Alaska, District J  
Pouch V  
Juneau, Alaska 99811

Re: Senate Bill 277

Dear Ed:

Your letter of April 1, 1981, plus memorandum prepared by Linn H. Asper, Legislative Council, written to Senator Richard I. Eliason regarding Aviation Indemnity Insurance has been received for which I thank you.

Ed, I am not an Aviation expert, but with a working knowledge of same, a close relationship with Lloyds of London, as well as having over forty years in the insurance business, I feel I can speak for our industry somewhat.

Insurance rates are based more on loss experience than on competition of insurance companies. Lloyds Underwriters basically are comprised of what in our country are insurance companies, and, I assure you, the syndicates these Underwriters represent are competitive.

I feel you or anyone else reading the newspapers will agree that not too many days go by without your reading of aircraft accidents, and the value placed on planes and lives runs extremely high. You state that Senator Eliason received numerous comments from people in the Aviation Industry regarding high rates. I have heard of one comment, that being from Sitka; however, the number is irrelevant and immaterial. There are many classes of insuring needs where Lloyds is the only outlet for coverage, and their rates are also high. I am surprised a Senator, or Senators, would ever consider

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Telex 25193

Senator M. Ed Dankworth  
April 6, 1981  
Page Two

Re: Senate Bill 277

placing a bill before the Senate because he, or they, were told the rates were high and only Lloyds was insuring.

Have you any idea of the stampede of dissatisfied people, associations, industries, businesses that would request the State of Alaska supply them with insurance coverage if the State even considers providing coverage for one industry because of high cost complaints by a few in that industry? S.B. 277, Aviation Indemnity Insurance, follows and refers to Medical Indemnity Corporation of Alaska. First of all, MICA was formed because at that time no insurance was available for medical malpractice, not even Lloyds, and doctors were threatening to leave Alaska. A few years ago, preceding MICA, I represented the State's insurance agents and brokers on the Governor's Malpractice Committee and, believe me, we on this Committee worked our butts off for three months plus in an attempt to solve the problem of malpractice insurance with MICA as the ultimate outcome, and it was not until after several months of diligent, concentrated study that the final plea was presented for either the Senate's or House's consideration. Yet, because of one or more complaints, not because of lack of coverage availability, but because of high cost created by high loss experience, a Senator presents a bill to the Senate with no prior investigation for the cause of high rates. If the Alaska Insurance Industry had been consulted, which it was not, I'm sure S.B. 277 would never have reared its ugly head. The Insurance Division of the Department of Commerce was consulted and presented a Bill Analysis to the Senate.

This Bill Analysis was presented, it appears, with very little planning, investigation or common sense. Of the eleven factors they presented favoring creation of the A.I.C.A., not one presents any solid thinking or knowledge of what's going on. In preparing this analysis, I feel they (the Insurance Division) could have at least gathered statistics and other concrete information from specialists of Aviation Insurance within our State's agents and/or brokers who are daily underwriting, rating and handling other factors of this very specialized coverage. This criticism also applies to their presentation opposing creation of A.I.C.A.



Senator M. Ed Dankworth  
April 6, 1981  
Page Three

Re: Senate Bill 277

Ed, I am not directly involved with those of our industry who are formulating a solid front opposing this bill. Our office insures a heavy volume of Aviation Insurance.

Lois Clary, President of our Company, heads our Aviation Department. I am not speaking of her as Mrs. Clary, but Lois is probably the most highly respected Aviation specialist in Alaska and holds the same high respect on the Lloyds' floor in London. She is meeting with and leading the brokers in their opposition, and said opposition is based on knowledge and facts, not the fumbling and guesswork given to the Senate in the pros and cons presented by the Insurance Division. The possibility of the Senate's even recognizing and considering a bill because a few felt their insurance rates were too high is mind-boggling.

From where I sit, I would say every individual whoever purchased insurance of any kind feels the premium is too high.

Ed, I've discussed the idiocy of this bill with you and Arliss, to whom I'm sending a copy of this presentation. I am not otherwise involved other than in listening to Lois discuss the progress being made.

I realize this presentation sounds strong and critical, but how in H--- could we on the Malpractice Committee spend so many working hours over three plus months being led by the Commissioner of the Department of Commerce, Tony Motley, who was assisted by a highly qualified technical consultant imported from Los Angeles before a Bill was presented, when here is a Bill being presented to the Senate asking for the formation of a Company and Thirty Million Dollars to support same with nothing to back it up? The Thirty Million Dollars could probably be used up in a few months just paying or defending claims.



Senator M. Ed Dankworth  
April 6, 1981  
Page Four

Re: Senate Bill 277

I am enclosing copies of the Bill Analysis prepared by the Division of Insurance plus a copy of a Position Editorial prepared by Lois and other Brokers which will give more facts from those who know.

Amen.

Sincerely,



CLYDE H. CLARY  
Chairman/CEC  
BAYLY, MARTIN & FAY, INC. OF ALASKA  
d/b/a Clary Insurance Agency

CHC:mes

cc: Senator Arliss Sturgulewski



# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

POUCH D

JUNEAU, ALASKA 99811

Phone: 465-2500

April 2, 1981

The Honorable Bob Mulcahy  
Chairman  
Senate Labor and Commerce Committee  
Pouch V  
Juneau, Alaska 99811

Dear Senator Mulcahy:

Re: SB 277

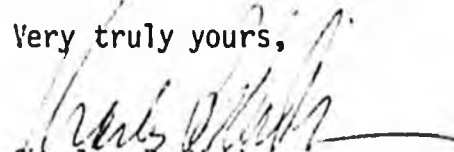
Thank you for your request for our position on SB 277. We have taken a neutral position on this legislation. The bill is modeled after AS 21.88 which was formed to resolve a market availability crisis for medical professional liability insurance in 1976. SB 277 establishes a similar corporation (A. I. C. A.) to write aviation hull and liability insurance for risks in Alaska. More than 90% of this market is written in nonadmitted, nonregulated markets such as Lloyds of London.

We have prepared a list of factors favoring creation of A. I. C. A. and a list of factors not favoring creation of A. I. C. A. These are enclosed for your review.

In addition, the Division of Insurance has prepared a section by section analysis and a chart of the aviation experience for 1970 to 1980 for insurers admitted to write insurance in this State. These materials are also enclosed for your perusal. The chart of aviation experience also lists the experience for nonadmitted insurers but the data is not completely reliable since it does not come directly from the insurer.

As I noted earlier, we do not take a position of the bill but we do have an interest in assuring that the proposal is workable and can be administered. This proposal does meet those provisions.

Very truly yours,

  
Charles R. Webber  
Commissioner

CRW/tt3/7

08-H2LH

Enclosures

Factors opposing creation of A.I.C.A.

1. The principal argument in opposition is philosophical. This can be viewed as placing the State in the insurance business thus in competition with private industry.
2. There has been no documentation or substantiation that currently available rate levels are excessive.
3. There has been no documentation or substantiation that current marketing practices are inappropriate.
4. Viability of the program relies on the ability of A.I.C.A. to purchase reinsurance at reasonable rates. This ability has not been tested.
5. Two admitted markets are considering the provision of a market in Alaska. These are U.S.A.I.G. and A.O.A.
6. Formation of A.I.C.A. may tend to become a monopolistic or exclusive market. There may not be sufficient risks left to attract other markets including Lloyds.
7. There are other market segments that might equally argue for creation of similar corporations.

## Factors favoring creation of A.I.C.A.

1. Primary market for coverage is Lloyds of London. This market writes 90% of the aircraft insurance. That market is not regulated.
2. Statistics from the unregulated market concerning loss levels are sketchy at best and do not permit realistic conclusions as to the experience in that market.
3. Quotations in current market are limited to initial broker.
4. Rates for general aviation hull have been reported as high as 20% which (if you assume 40% for expenses including commission) equates to a total loss of each aircraft every eight (8) years.
5. Rates for commercial aviation hull have been reported as high as 16% which (if you assume 40% for expenses including commission) equates to a total loss of each aircraft every ten (10) years.
6. With aircraft insurance rates so high, it is difficult for aviation interests to develop enough additional funds to adequately capitalize an insurer. Only the State is in a position to provide necessary initial funds.
7. The Marine Highway System in Southeast and South Central is subsidized. The land highway system in Southeast, South Central and Central Alaska is subsidized. Many communities lie outside the subsidized systems and must depend on air travel. A.I.C.A. is only indirectly a subsidization.
8. Even though A.I.C.A. is a State created, State owned corporation, it operates independent of the State and is, thus, not subject to the bureaucratic inefficiencies that may exist in government.
9. Funds for insurance are currently leaving State and the country, thus, contributing to balance of trade deficit. If the rate levels are not excessive, there would still be an advantage to having a domestic entity provide coverage, not the least of which is expediting claims.
10. Coverage will be available through any agent or broker licensed in Alaska.
11. Lloyds is traditionally slow to pay claims.

SB 277  
An Act Relating to Aviation Insurance  
Section by Section Analysis

\*Section 1.

Provides insurance for liability and hull damage.

\*Section 2.

- 21.86.010. Corporation Established. This section establishes a corporation of the state which is to be operated separate from the state.
- 21.86.020. Corporation Board of Directors. The Board of Directors is to be appointed by the Governor and confirmed by the Legislature. The board is comparable to the Board of Directors of an insurance company. There are nine members serving terms of three years. The make up of the board is
  - 1 Member from a Part 121 scheduled air carrier;
  - 2 Members from air taxis;
  - 2 Members from nonbusiness aviation;
  - 2 Members from the insurance industry; and
  - 2 Members from the public.

The director of insurance has access and notice to all meetings. He also approves the level of compensation to board members. 020(f) defines the liability of a board member.

- 21.86.030. Corporation Plan of Operation. This section provides for development of a plan of operation roughly equivalent to the bylaws of a corporation. It lists in general the items that must be addressed in the plan of operation.
- 21.86.040. Powers and Duties of the Corporation. Subsection (a) lists the functions that the corporation must perform including the establishment of underwriting standards, the underwriting of risk, the issuance of policies, the development and filing of rates, the meeting of its obligations under policies issued, and the gathering and reporting of statistics.

Subsection (b) permits the corporation to hire employees, negotiate reinsurance, expand coverages, borrow money, enter into contracts, sue or be sued, provide services other than insurance, negotiate and contract for management services, and do whatever else is necessary to carry out the duties of the corporation.
- 21.86.050. Establishment of Risk Standards. This section provides that the corporation may refuse coverage.

- 21.86.060. Limits on Liability Policies. This section excludes punitive damages coverage and provides for the approval of the policy limits offered by the director of insurance.
- 21.86.070. Reporting of Claims. This section requires an annual report of claims activity to the director to be available to the public and the Alaska Transportation Commission.
- 21.86.080. Termination. This section provides conditions for termination of the operation of the corporation and for reactivation of the corporation following a termination.
- 21.86.090. Premium Tax. This section places the premium tax structure for the corporation on the same basis as that applicable to a domestic corporation under AS 21.09.210.
- 21.86.100. Rates. This section provides for categories of risk, that rates may not be excessive, inadequate or unfairly discriminatory, lists items that may be considered in rate review and requires an annual review of rates.
- 21.86.110. Assessments on Insureds. This is a provision that is not usual to a stock corporation which in a sense is what we would have with the creation of this corporation. The State of Alaska would be the holding company. Assessment provisions are usual to reciprocal exchanges and to mutual insurance companies where the insuring entity is owned by the persons insured. It is a form of solvency protection in the event of a financial failure. Provision is made for extinguishment of the assessment provision when surplus reaches a certain level and limits the maximum assessment to 50% of an annual premium.
- 21.86.120. Refunds to Insureds. This section provides for participation by insured persons in the excess profits of the corporation in proportion to his earned premium for the particular year.
- 21.86.130. Payment of Premiums; Cancellation of Insurance. This section allows installment payment of premium, and for cancellation due to nonpayment of premium.
- 21.86.140. Sale of Corporation. This section provides that the corporation may be sold to a private corporation under conditions approved by the director.
- 21.86.200. Fund Established. This section establishes a loan fund in the Department of Commerce and Economic Development in the amount of \$30,000,000 with a 7% interest rate.
- 21.86.960. Applicability of Other Laws in this Title. This section makes this new Chapter 86 exclusive of the insurance code (Title 21) except as provided within the chapter. External insurance statutes applicable to the corporation are

AS 21.06.090. This section of law is the director's authority to promulgate regulations under AS 21.

AS 21.06.120. Director's authority to examine an insurer.

AS 21.06.140. Sets forth the procedure for examining an insurer.

AS 21.06.160. Provides that examination expense will be borne by the examined insurer.

AS 21.06.250. Fees and licenses section.

AS 21.09.180. Provides that the director is attorney for service of process.

AS 21.09.190. Provides for serving process and sets the time to plead.

AS 21.09.200. Requires an annual statement.

AS 21.09.250. Defines unlawful acts related to payment of commission to unlicensed producers.

AS 21.09.280. Sets forth the power to appoint general agents or managers.

AS 21.12 (b)-(e). Deals with reinsurance.

AS 21.18. This chapter regulates assets and liabilities.

AS 21.21. This chapter deals with the regulation of investments.

AS 21.24. This chapter addresses the administration of deposits.

AS 21.36. This chapter regulates and prohibits unfair trade practices.

- 21.86.970. Meetings. This section provides that meetings of the corporation are not subject to AS 44.62.310 concerning state agency meetings being open to the public.

- 21.36.980. Definitions.

\*Section 3.

Provides for staggered terms for board members.

\*Section 4.

Effective date clause.

AVIATION EXPERIENCE - ADMITTED INSURERS - 1970 to 1980 (000) OMITTED  
STATE OF ALASKA

	1970		1971		1972		1973		1974		1975		1976		1977		1978		1979		1980	
	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL
ACTINA CASUALTY-SURETY CO	-	-	-	-	17	144	0	13	0	(4)	-	-	-	-	-	-	-	-	-	-	-	-
ALL STATE INSURANCE CO	-	-	-	-	21	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AMERICAN BANKERS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	82	128	89	(73)	-	-	-	-
AMERICAN HOME INS CO	-	-	0	84	0	(34)	-	-	12	0	21	0	0	22	2	2	72	16	58	443	59	31
AMERICAN MARINE INS CO	-	-	-	-	1	0	-	-	-	-	1	0	-	-	-	-	-	-	-	-	-	-
ARGONAUT INS CO	-	-	-	-	3	6	8	0	3	1	112	319	0	(36)	0	(14)	-	-	-	-	-	-
AVIATION	41	22	70	48	87	89	71	92	58	59	70	10	81	44	122	42	131	109	47	87	245	239
CASUALTY INDEMNITY EXCH.	-	-	-	-	-	-	-	-	5	0	-	-	-	-	-	-	-	-	-	-	-	-
CENTRAL INS CO	417	35	466	(14)	413	(3)	428	319	44	(22)	(2)	(15)	-	-	-	-	-	-	-	-	-	-
CENTRAL NATIONAL INS CO	-	-	-	-	-	-	-	-	-	-	-	-	64	43	679	1,435	378	1,055	352	345	722	67
CHIEF AMERICAN INS CO	-	-	-	-	-	-	-	-	-	-	-	-	23	726	437	256	218	625	(2)	(24)	0	(22)
CIRCLE STAR	29	(1)	49	10	10	2	0	(8)	0	(1)	-	-	0	(10)	0	80	0	(4)	0	(2)	-	-
EMERALD MUTUAL INS CO	1	0	1	7	-	-	-	-	-	-	-	-	-	-	-	-	0	11	0	(1)	-	-
EMSCO	-	-	0	54	-	-	0	6	0	(2)	0	318	0	(3)	0	1	-	-	-	-	-	-
EMPLOYERS CONTROL UNION INS CO	-	-	4	0	-	-	-	-	-	-	-	-	-	-	-	-	0	3	-	-	-	-
FEDERAL INS CO	-	-	-	-	1	0	-	-	1	0	3	0	-	-	19	0	3	(3)	0	(1)	-	-
FIREMAN'S INS CO	14	0	11	0	-	-	3	0	13	0	6	646	(1)	(2)	0	(33)	7	2	7	(66)	-	-
FIDELITY CASUALTY OF N.Y.	-	-	30	0	3	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FORSYTH INS CO	311	43	40	35	-	-	2	18	8	11	5	40	0	(1)	-	-	-	-	-	-	-	-
GLEN FALLS INS CO	-	-	-	-	-	-	-	-	1	0	-	-	-	-	-	-	-	-	-	-	-	-
GRAND AMERICAN INS CO	24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	(1)	-	-	-	-
HANDLER INS CO	-	-	-	-	-	-	6	26	33	(1)	7	0	6	1	7	66	2	17	257	531	156	609
HAZARD INS CO	-	-	-	-	-	-	-	-	-	-	34	0	31	0	14	0	3	8	1	26	-	-
HAZZARD INS CO	52	37	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	7	0	(4)	-	-
HOMER INSURANCE CO	-	-	-	-	-	-	-	-	-	-	2	0	2	0	2	0	-	-	-	-	-	-
IDA AL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	3	1	0	-	-
INA	-	-	4	(1)	12	0	51	68	52	23	70	27	22	6	1	(1)	2	0	3	0	3	315
INDUSTRIAL INDEMNITY INS CO	-	-	-	-	-	-	-	-	-	-	1	0	-	-	-	-	-	-	-	-	-	-
INDUSTRIAL INDEMNITY INS CO OF AK	-	-	-	-	-	-	-	-	-	-	1	0	1	0	-	-	-	-	-	-	-	-
INS CO OF STATE OF ALASKA	-	-	107	-	16	182	47	(9)	4	0	64	17	57	313	31	111	2	0	1	(1)	1	0
INDIAN INS CO	-	-	-	-	-	-	-	-	-	-	187	246	11	(22)	-	-	-	-	(58)	(6)	0	3
INTELL AMERICAN INS CO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	615	0	(321)	0	(62)
INTELL AMERICAN FIRE INS CO	-	-	-	-	-	-	-	-	-	-	19	0	4	9	7	15	81	8	89	0	12	4
INVESTMENT INSURANCE CO	12	0	440	221	659	1,15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INVESTMENT INSURANCE CO	-	-	-	-	-	-	-	-	126	573	95	(87)	1	(42)	0	110	0	(70)	0	1	-	-

PACIFIC INDEMNITY INS. CO.	0	(9)	-	-	5	3	-	-	-	-	-	-	-	-	-	-	-	-
PACIFIC INSURANCE CO.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PAN AMERICAN INS. CO.	-	-	26	7	258	535	120	588	361	512	201	1,011	154	876	357	(443)	-	-
PROPRIETORS INS. CO.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	403	521
PURELAN INS. CO.	-	-	-	-	-	-	-	-	-	-	-	-	377	823	422	1,778	1,157	2,289
RAPIER INS. CO.	-	-	3	-	212	163	62	29	87	203	77	427	122	128	-	-	-	-
REPUBLIC INS. CO.	-	-	-	-	80	81	68	9	95	77	147	226	137	537	(8)	(22)	0	(6)
RESERVE INS. CO.	17	3	1	(2)	1	0	273	679	527	717	880	648	(60)	(175)	0	133	0	(33)
ROYAL INDEMNITY CO.	-	-	-	-	2	0	-	-	-	-	-	-	-	-	-	-	-	-
STOUT & SAFFER INS. CO.	-	-	-	-	-	-	13	9	272	678	331	900	13	73	0	277	-	-
U.S. FIRE INS. CO.	-	-	24	0	-	-	-	-	-	-	-	-	-	-	0	1	2,132	258
U.S. LIABILITY INS. CO.	-	-	-	-	-	-	-	-	-	-	361	193	190	191	(1)	207	0	(132)
YORKMITE INS. CO.	5	0	-	-	-	-	-	-	0	2	-	-	-	-	-	-	-	-
TOTALS	923	132	1,278	511	1,765	1,678	1,439	1,843	1,739	2,821	2,351	5,136	1,379	2,789	2,194	4,096	7,116	6,429
LOSS RATIO	14.3%		39.1%		62.2%		128.1%		162.2%		218.2%		202.2%		186.7%		240.2%	

11 YEAR LOSS RATIO

$$12 \div EP = LR$$

$$25,691 \div 18,512 = 138.8\%$$

EP = EARNED PREMIUM

IL = INCURRED LOSS

WP = WRITTEN PREMIUM

PL = PAID LOSS

PREPARED: ALASKA DIVISION OF INSURANCE

SOURCE: ANNUAL INSURANCE REPORTS

DATE: 8-31-81 (EPS)

NON ADMITTED  
INSURERS 1970-1980-  
ADDITIONAL EXPERIENCE  
(000) OMITTED

	1970		1971		1972		1973		1974		1975		1976		1977		1978		1979		1980	
	WP	PL	WP	PL	WP	PL	WP	PL	WP	PL	WP	PL	WP	PL	WP	PL	WP	PL	WP	PL	WP	PL
	4,036	1,590	3,942	1,415	3,177	1,568	2,492	4,610	8,883	10,064	7,470	5,842	10,465	4,919	7,163	4,450	13,902	7,307	12,872	8,563		

POSITION PAPER - SENATE BILL 277

PREPARED BY: CENTRAL ALASKA INDEPENDENT INSURANCE AGENTS & BROKERS, INC  
ALASKA SURPLUS LINES ASSOCIATION  
ALASKA INDEPENDENT AGENTS & BROKERS ASSOCIATION  
VARIOUS AGENTS AND BROKERS

Consumers are complaining about rates and Legislators have reacted with Senate Bill 277 instead of conducting research into the basic problem, being accidents.

We are opposed to Senate Bill 277 for the following reasons:

PROBLEMS

1. Senate Bill 277 appears to be based in part on the premise that Aviation Insurance is not available. This is simply not true.
2. Senate Bill 277 fails to address the subject of rate levels.
3. Senate Bill 277 apparently would create a State funded monopoly and appears to have been drafted without proper research into what the existing markets are.
4. Senate Bill 277 does not limit itself to the subject of air commerce which is vital to our State, but would also include the pleasure pilot. While subsidizing air commerce may or may not have a sound basis in logic, subsidizing the pleasure pilot would not unless we are also going to subsidize the pleasure boat owners, snow machiners, skiers, motorcyclists, etc.

5. Senate Bill 277 fails to recognize, which leads one to believe that Legislators are unaware of, the National Transportation Safety Board Report on Air Taxi Safety in Alaska (NTSB-AAS-80-3) and the Recommendations made in said report on pages 32 and 33.
6. Senate Bill 277 favors governmental involvement in a business in competition with free enterprise even though the present administration has stated vehemently for seven years that it believes in the free enterprise system.
7. Senate Bill 277 ignores the basic fact that airplanes and pilots kill and maim residents and tourists of our State each year at an alarming rate and attempts to place the blame upon the insurers who only pay on the results.
8. Senate Bill 277 appears to endorse and encourage the continuation of unsafe flying practices and puts a stamp of approval on the accident rate which is, if looked at from that point of view, simply outrageous and unacceptable, and to expect State's monies, i.e. all citizens, to share in these costs is incredible. We suggest that Legislators, pleasure pilots, air commerce and the insurance industry work in concert to accomplish what needs to be done to reduce the accident rate and save lives which will, when accomplished, reduce insurance costs.

We suggest that:

- A. Serious consideration be given to the NTSB Report.
  - B. The effect of Rule 82, Supreme Court Decisions, Unilateral Repudiation of Release, Pre-Judgment Interest, and other unhealthy legalities which adversely effect our State's ability to attract Insurers in general and especially Aviation Insurers be examined.
9. In closing we respectfully request an opportunity to meet with you and other interested Legislators with representatives from the Insurer community (i.e. companies), the Alaska Surplus Lines Association, the Anchorage Agents Association and various attorneys who have all expressed a concern and who, like insurance brokers, have daily contact with the effected area of the law.

#### ASSESSABILITY

Senate Bill 277 has been drafted to create a reciprocal insurer which is not covered by the Guarantee Association of the State of Alaska. Again, it would appear that Legislators have failed to conduct proper research into the success of assessability of policy holders, especially in this class of business where the participants are, by the very nature of the industry, transient and assessing them would prove extremely difficult or impossible.

We would suggest that Legislators request input from other state Divisions of Insurance to determine the inability to "collect" from policy holders after the fact and request again that Legislators working in concert with representatives from the Insurer community, Alaska Surplus Lines Association, Anchorage Agents Association and various attorneys do a study on this particular problem.

Respectfully submitted,

*Mark S. Rauch*

MARK S. RAUCH, CPCU

President, Central Alaska Independent Insurance Agents & Brokers, Inc.  
President, Pacific Rim Insurance Brokers, Inc.

*Linn R. Lockwood*

LINN R. LOCKWOOD *ms*

President, Alaska Surplus Lines Association  
President, Great Land General Agency

*David Blackwood*

DAVID BLACKWOOD *ms*

Senior Vice President, Reed Stenhouse Inc. of Alaska

*Lois Olary*

LOIS OLARY

Board Member, Alaska Surplus Lines Association  
President, Bayly, Martin & Fay, Inc. of Alaska dba Clary Ins. Agency

*Don Coates*

DON COATES *ms*

Secretary-Treasurer, Alaska Surplus Lines Association  
Corroon & Black/Dawson Co. Inc.

*M. R. Howard*

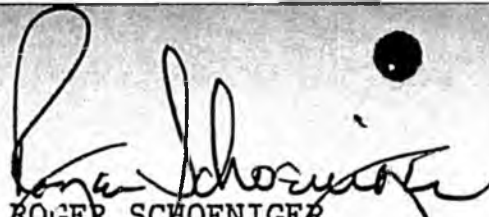
MICHAEL R. HOWARD


Account Manager, Rollins Burdick Hunter of Alaska Inc.

*M. Russ Neville*

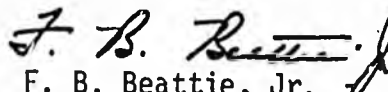
M. RUSS NEVILLE

Committee Member, Central Alaska Independent Insurance Agents & Brokers  
Committee Member, Alaska Independent Agents & Brokers Association  
Board Member, Alaska Surplus Lines Association

  
ROGER SCHOENIGER  
Director, Alaska Surplus Lines Association  
Executive Vice President, Brady & Associates

  
KENNETH M. TAYLOR  
Vice President, Alexander & Alexander Inc.

CHARLES WEIR  
Alexander & Alexander, Inc.

  
F. B. Beattie, Jr. President  
F. B. BEATTIE & CO., INC.



Official Business

# Alaska State Legislature

## Senate

### Committee on Labor & Commerce

Pouch V  
State Capitol  
Juneau, Alaska 99811

#### Committee Minutes:

4 May, 1981

Senator Mulcahy called the Senate Committee on Labor and Commerce meeting to order, with all members present except Senator Ziegler who was excused from a call of the Senate while conducting State business. SB 277 was before the committee for discussion; an act relating to aviation insurance.

In the absence of the sponsor, Senator Fergusson, co-sponsor began the testimony with an explanation of the circumstances which inspired the bill, and provided an overview of the aviation insurance problems facing many pilots in Alaska. He expounded on the high cost of insurance, the lack of competition, and the unregulated foreign market which dominates the industry. AICA was designed to provide relief for Alaskan pilots whose insurance rates have been effected since the withdrawal of domestic aviation insurance carriers.

Senator Mulcahy asked if there were questions for Senator Fergusson, and stated for the record that Senator Eliason (prime sponsor) was unable to attend the meeting and was excused from a call on the Senate while conducting business for the State.

The next testimony was provided by Tulinda Deegan, Alaska Air Carriers Association, who briefly discussed the insurance problem as a reflection of high accident rates, and the balance of her testimony was devoted to elaborating on the creation of a proposed aviation safety foundation. Citing data extracted from the NTSB report, she emphasized the importance of training and education to reduce accidents and lower insurance rates.

Craig Clark, Alaska Air Carriers Association, spoke about insurance rates and the increases in premiums for both commercial and general aviation. Explained that liberal court awards for liability damages have increased the rates, and these rates have impacted aircraft sales. Stressed the points expressed in the Air Carriers position paper: 1. Selective underwriting of aviation risks;

2. Recognition of aviation safety training

3. Wrongful death limit

Further stated that subsidization by the State (AICA) without the implementation of the solutions he outlined (~~would result in~~) will perpetuate the high aviation accident rate and the ultimate failure of the proposed AICA program.

Senator Fahrenkamp asked about the Air Carriers dissatisfactions; what recommendations are you making? Mr. Clark responded with a statement about premium increases.

Russ Neville testified next from the insurance industry's perspective explaining his background as an insurance broker for the past 15 years, 8 of which were in Alaska. Began his testimony with a reference to the rumor that Lloyds of London had withdrawn from the aviation market which was unfounded. Described the insurance market in London, 3 year cycles for their data, and that in a year period there were \$48 million dollars in premiums collected and a subsequent \$59 million dollars in paid claims, as an explanation of today's increased insurance costs. He further stated that insurance premium increases were also a reflection of liberal court awards (damages and liability), and the FAA. Mr. Neville cited the statistical data which he had compiled, making the report available to committee members, and expressed his support for the aviation safety foundation, and the conclusions of the NTSB report. Mr. Neville represented the Alaska Insurance agents and brokers association.

Mr. Wade Cochran, Sitka Air Services, testified in support of the legislation, expressing the need for guaranteed availability of aviation insurance to Alaskan pilots. He made the point that local interests are better able to assess the liabilities incurred, and that rate structures should be established with knowledge of local conditions. He addressed the economic incentives of SB 277, the possibility of insurance companies establishing safety programs to reduce accident rates (as they do with other types of insurance), and make varied rate structures available for pilots with demonstrated good aviation records. Further stated that the bill is not a subsidy (the initial money is to be refunded), and that passage of this bill should enhance air safety and provide markets for aviation insurance customers.

Ken Bellows, S.E. Alaska Pilots Association, expressed his feeling

that SB 277 addresses aviation industry needs. Mr. Bellows perspective on aviation is that of an air taxi operator, with an accident free record for 17 years of flying, and a premium increase this year of 50%. He stressed the inconsistencies of the insurance industry (rates), and the hesitancy of the insurance agents to make more than three inquiries of the London underwriters. The Southeast Pilots Association support this legislation.

The final testimony was provided by Don Koch, Division of Insurance, explaining briefly that the Department has taken a neutral position toward the bill.

# STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

POUCH D

JUNEAU, ALASKA 99811

Phone: 465-2500

April 2, 1981

The Honorable Bob Mulcahy  
Chairman  
Senate Labor and Commerce Committee  
Pouch V  
Juneau, Alaska 99811

Dear Senator Mulcahy:

Re: SB 277

Thank you for your request for our position on SB 277. We have taken a neutral position on this legislation. The bill is modeled after AS 21.88 which was formed to resolve a market availability crisis for medical professional liability insurance in 1976. SB 277 establishes a similar corporation (A. I. C. A.) to write aviation hull and liability insurance for risks in Alaska. More than 90% of this market is written in nonadmitted, nonregulated markets such as Lloyds of London.

We have prepared a list of factors favoring creation of A. I. C. A. and a list of factors not favoring creation of A. I. C. A. These are enclosed for your review.

In addition, the Division of Insurance has prepared a section by section analysis and a chart of the aviation experience for 1970 to 1980 for insurers admitted to write insurance in this State. These materials are also enclosed for your perusal. The chart of aviation experience also lists the experience for nonadmitted insurers but the data is not completely reliable since it does not come directly from the insurer.

As I noted earlier, we do not take a position of the bill but we do have an interest in assuring that the proposal is workable and can be administered. This proposal does meet those provisions.

Very truly yours,

Charles R. Webber  
Commissioner

CRW/tt3/7

08-H2LH

Enclosures

## Factors opposing creation of A.I.C.A.

1. The principal argument in opposition is philosophical. This can be viewed as placing the State in the insurance business thus in competition with private industry.
2. There has been no documentation or substantiation that currently available rate levels are excessive.
3. There has been no documentation or substantiation that current marketing practices are inappropriate.
4. Viability of the program relies on the ability of A.I.C.A. to purchase reinsurance at reasonable rates. This ability has not been tested.
5. Two admitted markets are considering the provision of a market in Alaska. These are U.S.A.I.G. and A.O.A.
6. Formation of A.I.C.A. may tend to become a monopolistic or exclusive market. There may not be sufficient risks left to attract other markets including Lloyds.
7. There are other market segments that might equally argue for creation of similar corporations.

## Factors favoring creation of A.I.C.A.

1. Primary market for coverage is Lloyds of London. This market writes 90% of the aircraft insurance. That market is not regulated.
2. Statistics from the unregulated market concerning loss levels are sketchy at best and do not permit realistic conclusions as to the experience in that market.
3. Quotations in current market are limited to initial broker.
4. Rates for general aviation hull have been reported as high as 20% which (if you assume 40% for expenses including commission) equates to a total loss of each aircraft every eight (8) years.
5. Rates for commercial aviation hull have been reported as high as 16% which (if you assume 40% for expenses including commission) equates to a total loss of each aircraft every ten (10) years.
6. With aircraft insurance rates so high, it is difficult for aviation interests to develop enough additional funds to adequately capitalize an insurer. Only the State is in a position to provide necessary initial funds.
7. The Marine Highway System in Southeast and South Central is subsidized. The land highway system in Southeast, South Central and Central Alaska is subsidized. Many communities lie outside the subsidized systems and must depend on air travel. A.I.C.A. is only indirectly a subsidization.
8. Even though A.I.C.A. is a State created, State owned corporation, it operates independent of the State and is, thus, not subject to the bureaucratic inefficiencies that may exist in government.
9. Funds for insurance are currently leaving State and the country, thus, contributing to balance of trade deficit. If the rate levels are not excessive, there would still be an advantage to having a domestic entity provide coverage, not the least of which is expediting claims.
10. Coverage will be available through any agent or broker licensed in Alaska.
11. Lloyds is traditionally slow to pay claims.

SB 277  
An Act Relating to Aviation Insurance  
Section by Section Analysis

\*Section 1.

Provides insurance for liability and hull damage.

\*Section 2.

- 21.86.010. Corporation Established. This section establishes a corporation of the state which is to be operated separate from the state.

- 21.86.020. Corporation Board of Directors. The Board of Directors is to be appointed by the Governor and confirmed by the Legislature. The board is comparable to the Board of Directors of an insurance company. There are nine members serving terms of three years. The make up of the board is

- 1 Member from a Part 121 scheduled air carrier;
- 2 Members from air taxis;
- 2 Members from nonbusiness aviation;
- 2 Members from the insurance industry; and
- 2 Members from the public.

The director of insurance has access and notice to all meetings. He also approves the level of compensation to board members. 020(f) defines the liability of a board member.

- 21.86.030. Corporation Plan of Operation. This section provides for development of a plan of operation roughly equivalent to the bylaws of a corporation. It lists in general the items that must be addressed in the plan of operation.

- 21.86.040. Powers and Duties of the Corporation. Subsection (a) lists the functions that the corporation must perform including the establishment of underwriting standards, the underwriting of risk, the issuance of policies, the development and filing of rates, the meeting of its obligations under policies issued, and the gathering and reporting of statistics.

Subsection (b) permits the corporation to hire employees, negotiate reinsurance, expand coverages, borrow money, enter into contracts, sue or be sued, provide services other than insurance, negotiate and contract for management services, and do whatever else is necessary to carry out the duties of the corporation.

- 21.86.050. Establishment of Risk Standards. This section provides that the corporation may refuse coverage.

- 21.86.060. Limits on Liability Policies. This section excludes punitive damages coverage and provides for the approval of the policy limits offered by the director of insurance.
- 21.86.070. Reporting of Claims. This section requires an annual report of claims activity to the director to be available to the public and the Alaska Transportation Commission.
- 21.86.080. Termination. This section provides conditions for termination of the operation of the corporation and for reactivation of the corporation following a termination.
- 21.86.090. Premium Tax. This section places the premium tax structure for the corporation on the same basis as that applicable to a domestic corporation under AS 21.09.210.
- 21.86.100. Rates. This section provides for categories of risk, that rates may not be excessive, inadequate or unfairly discriminatory, lists items that may be considered in rate review and requires an annual review of rates.
- 21.86.110. Assessments on Insureds. This is a provision that is not usual to a stock corporation which in a sense is what we would have with the creation of this corporation. The State of Alaska would be the holding company. Assessment provisions are usual to reciprocal exchanges and to mutual insurance companies where the insuring entity is owned by the persons insured. It is a form of solvency protection in the event of a financial failure. Provision is made for extinguishment of the assessment provision when surplus reaches a certain level and limits the maximum assessment to 50% of an annual premium.
- 21.86.120. Refunds to Insureds. This section provides for participation by insured persons in the excess profits of the corporation in proportion to his earned premium for the particular year.
- 21.86.130. Payment of Premiums; Cancellation of Insurance. This section allows installment payment of premium, and for cancellation due to nonpayment of premium.
- 21.86.140. Sale of Corporation. This section provides that the corporation may be sold to a private corporation under conditions approved by the director.
- 21.86.200. Fund Established. This section establishes a loan fund in the Department of Commerce and Economic Development in the amount of \$30,000,000 with a 7% interest rate.
- 21.86.960. Applicability of Other Laws in this Title. This section makes this new Chapter 86 exclusive of the insurance code (Title 21) except as provided within the chapter. External insurance statutes applicable to the corporation are

AS 21.06.090. This section of law is the director's authority to promulgate regulations under AS 21.

AS 21.06.120. Director's authority to examine an insurer.

AS 21.06.140. Sets forth the procedure for examining an insurer.

AS 21.06.160. Provides that examination expense will be borne by the examined insurer.

AS 21.06.250. Fees and licenses section.

AS 21.09.180. Provides that the director is attorney for service of process.

AS 21.09.190. Provides for serving process and sets the time to plead.

AS 21.09.200. Requires an annual statement.

AS 21.09.250. Defines unlawful acts related to payment of commission to unlicensed producers.

AS 21.09.280. Sets forth the power to appoint general agents or managers.

AS 21.12.020(b)-(e). Deals with reinsurance.

AS 21.16. This chapter regulates assets and liabilities.

AS 21.21. This chapter deals with the regulation of investments.

AS 21.24. This chapter addresses the administration of deposits.

AS 21.36. This chapter regulates and prohibits unfair trade practices.

- 21.86.970. Meetings. This section provides that meetings of the corporation are not subject to AS 44.62.310 concerning state agency meetings being open to the public.

- 21.86.980. Definitions.

\*Section 3.

Provides for staggered terms for board members.

\*Section 4.

Effective date clause.

AVIATION EXPERIENCE ADMITTED INSURERS - 1970 TO 1980 (000) OMITTED  
STATE OF ALASKA

	1970		1971		1972		1973		1974		1975		1976		1977		1978		1979		1980		
	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	EP	IL	
ACTIA CASUALTY-SURETY CO	-	-	-	-	17	14	0	13	0	(1)	-	-	-	-	-	-	-	-	-	-	-	-	
AMERICAN INSURANCE CO	-	-	-	-	21	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
AMERICAN LUMBER	-	-	-	-	-	-	-	-	-	-	-	-	-	-	82	128	87	(17)	-	-	-	-	
AMERICAN HOME INS CO	-	-	0	84	0	(84)	-	-	12	0	21	0	0	22	2	2	72	10	38	43	59	31	
AMERICAN PRODUCTS INSUR	-	-	-	-	1	0	-	-	-	-	1	0	-	-	-	-	-	-	-	-	-	-	
ARROWHART INS CO	-	-	-	-	11	6	2	0	3	1	112	311	0	(34)	0	(14)	-	-	-	-	-	-	
AVENUE	48	22	90	48	81	87	71	92	58	57	70	10	81	47	122	42	151	107	147	37	245	339	
CALIFORNIA INSURANCE CO	-	-	-	-	-	-	-	-	5	0	-	-	-	-	-	-	-	-	-	-	-	-	
COMMERCIAL INS CO	47	35	46	(14)	43	(10)	3	428	34	64	(22)	(2)	(15)	-	-	-	-	-	-	-	-	-	
FEDERAL NATIONAL INS CO	-	-	-	-	-	-	-	-	-	-	-	-	-	44	43	677	1,435	378	1,053	552	315	722	67
FARMERS AND MERCHANTS	-	-	-	-	-	-	-	-	-	-	-	-	-	28	72	437	254	218	625	(8)	(24)	0	(2)
FARM STAR	21	(1)	49	10	10	2	0	(2)	0	(1)	-	-	0	(10)	0	50	0	(4)	0	(2)	0	(2)	-
FARMERS MUTUAL INS CO	1	0	1	7	-	-	-	-	-	-	-	-	-	-	-	-	0	(1)	0	(1)	-	-	-
FIRE CO	-	-	0	87	-	-	0	6	0	(2)	0	316	0	(3)	0	1	-	-	-	-	-	-	-
FARMERS HOME OWNERS ASSN	-	-	4	0	-	-	-	-	-	-	-	-	-	-	-	-	0	3	-	-	-	-	-
FEDERAL INS CO	-	-	-	-	1	0	-	-	1	0	3	0	-	-	19	0	3	(3)	0	(1)	-	-	-
FIREMANS ASSOCIATION	14	0	11	0	-	-	3	0	13	0	6	66	(1)	(3)	0	(33)	7	2	7	(6)	-	-	-
FIDELITY CASUALTY OF N.Y.	-	-	30	0	5	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FIREMANS INS CO	311	43	40	35	-	-	2	18	8	11	5	40	0	(1)	-	-	-	-	-	-	-	-	-
FIREMANS ASSOCIATION	-	-	-	-	-	-	-	-	1	0	-	-	-	-	-	-	-	-	-	-	-	-	-
FIRST AMERICAN INS CO	24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	(1)	-	-	-	-	-
FARMERS INS CO	-	-	-	-	-	-	6	26	0	(1)	1	0	6	1	7	66	2	17	257	331	156	627	
FARMERS INS CO	-	-	-	-	-	-	-	-	24	0	31	0	-	-	14	0	5	8	1	26	-	-	
FARMERS INS CO	52	37	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	7	0	(1)	-	-	
FARMERS INSURANCE	-	-	-	-	-	-	-	-	2	0	2	0	2	0	-	-	-	-	-	-	-	-	
FIRE INSURANCE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	3	1	0	-	-	
FIRE	-	-	9	(1)	12	0	31	68	32	23	70	27	26	6	1	(1)	2	0	3	0	3	315	
FIDELITY CASUALTY INS CO	-	-	-	-	-	-	-	-	1	0	-	-	-	-	-	-	-	-	-	-	-	-	
FIDELITY CASUALTY INSURANCE	-	-	-	-	-	-	-	-	1	0	1	0	1	0	-	-	-	-	-	-	-	-	
FIDELITY CASUALTY OF N.Y.	-	-	107	-	46	182	47	(1)	4	0	64	17	37	313	51	111	2	0	1	(1)	1	0	
FIRE INSURANCE	-	-	-	-	-	-	-	-	-	-	181	266	11	(25)	-	-	-	-	(58)	(6)	0	3	
FIRST AMERICAN INS CO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	615	0	(22)	0	(6)	
FIRST AMERICAN INSURANCE	-	-	-	-	-	-	-	-	-	-	19	0	4	9	7	15	81	7	97	0	12	4	
FIRST AMERICAN INSURANCE	12	0	440	321	657	135	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
FIRST REPUBLIC INS CO	-	-	-	-	-	-	-	-	124	373	95	(37)	1	(4)	0	110	0	(10)	0	1	-	-	
FIRE INSURANCE	0	(4)	0	5	0	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
FIRE INSURANCE CO	-	-	26	7	258	555	410	888	361	312	361	1,011	134	216	357	(443)	-	-	-	-	-	-	
FIRE INSURANCE CO	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	403	121	81	(8)	
FIRE INSURANCE CO	-	-	-	-	-	-	-	-	-	-	-	-	-	277	873	422	1,178	1,157	2,181	(175)	18	118	31
FIRE INSURANCE CO	-	-	5	-	812	63	82	29	87	203	77	427	122	128	-	-	-	-	-	-	-	-	
REPUBLIC INS CO	-	-	-	-	30	81	68	9	93	77	147	226	137	337	(8)	(22)	0	(6)	0	236	-	-	
REPUBLIC INS CO	17	1	(8)	1	0	173	477	327	717	325	648	(6)	(175)	0	183	0	(93)	-	-	-	-	-	
REPUBLIC INSURANCE CO	-	-	-	-	2	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
REPUBLIC INSURANCE CO	-	-	-	-	-	-	15	9	212	678	331	900	13	73	0	277	-	-	-	-	-	-	
REPUBLIC INSURANCE CO	-	-	24	0	-	-	-	-	-	-	-	-	-	-	1	0	1	2,132	238	(1,30)	56	0	
REPUBLIC INSURANCE CO	-	-	-	-	-	-	-	-	-	-	361	193	120	191	(1)	207	0	(132)	0	(3)	-	-	
REPUBLIC INSURANCE CO	5	0	-	-	-	-	-	-	0	2	-	-	-	-	-	-	-	-	-	-	-	-	
TOTALS	723	132	1,218	511	1,765	1,018	1,437	1,843	1,787	2,821	2,351	3,134	1,377	2,781	2,197	4,016	2,676	6,427	1,212	277	1,453	1,222	
LOSS RATIO	14.3%		39.1%		62.2%		128.1%		162.2%		218.2%		202.2%		186.7%		240.2%		21.4%		82.7%		

11 YEAR LOSS RATIO

$11 \div EP = LR$

$25,671 \div 18,512 = 138.8\%$

EP = 1980 PREMIUMS IL = INCURRED LOSSES  
 PREPARED BY: ALASKA DIVISION OF INSURANCE  
 DATE: 8-21-80 (62)



SPECIAL

RISK

# F. B. BEATTIE & CO., INC.

BROKERS

April 13, 1981

Mr. Don Koch  
State of Alaska  
Department of Commerce & Economic Development  
Pouch D  
Juneau, Alaska 99811

RE: ALASKA SENATE BILL 277  
F. B. BEATTIE & CO., INC.  
AVIATION LOSSES 1979/1980

Dear Mr. Koch:

We understand from some of our friends in Alaska that Alaska Senate Bill 277 was recently up for Committee review in the Alaska Legislature. According to the report given us, this review involved the discussion of Aviation Insurance loss figures as reported to the Alaska Insurance Department by various agencies and general agencies underwriting this business on behalf of Lloyd's.

In that regard we have been reminded that the Aviation Loss Report filed by F. B. Beattie & Co., Inc. for the year 1979 was incomplete in that it showed no losses for that year. Since that report was incomplete and because of the discussion of Senate Bill 277, we now hasten to correct the record.

Enclosed you will please find a corrected 1979 Alaska Loss Report for F. B. Beattie & Co., Inc., showing losses on all classes of business underwritten by this company in 1979, including Aviation business. We are also enclosing our 1980 report, showing the same information by category for last year. We trust that this report letter with enclosures will give you a more accurate review of our current Alaska Aviation Insurance picture for reference in connection with the subject Senate Bill.

If you have any questions concerning these loss statistics, please do not hesitate to check with us so that we may assist as appropriate.

Yours very truly,

FBB/p

F. B. Beattie, Jr.

Enclosures

✓ BCC RUISS NEVILLE - Brady & Associates

ALASKA ANNUAL STATEMENT OF SURPLUS LINE BUSINESS TRANSACTED 19.80

F. B. BEATTIE & CO., INC.

#693

(Name of Surplus Line Broker)

(License Number)

Exhibit 1-A

LOSSES PAID AND INCURRED

Line of Business	Actual Losses Paid to Policyholders (deduct salvage)	Plus Claim Emp.	Total Losses Inc.	Reserves
1. Fire & Allied				
(a) Habitational	0	0	0	0
(b) Homeowners	0	0	0	0
(c) Commercial	13,388.14	1,237.40	14,625.54	1,456.21
2. Inland Marine (DIC, Earthquake, ARBR)	43,321.96	21,820.02	65,141.98	2,473,056.96
3. Ocean Marine	0	0	0	0
4. Professional Liability				
(a) Medical	0	0	0	0
(b) Attorneys	0	0	0	0
(c) Architects & Engineers	?	?	?	?
(d) Other	?	?	?	?
5. General Liability	31,540.59	2,375.00	33,915.59	250,000.00
6. Auto Liability				
(a) Private Passenger	0	0	0	0
(b) Commercial	0	0	0	0
7. Auto Physical Damage				
(a) Private Passenger	0	0	0	0
(b) Commercial	0	0	0	0
8. Workmen's Compensation				
(a) Aviation	38,366.04	1,709.50	40,075.54	21,717.77
(b) Other	0	0	0	0
9. Aircraft - All Perils	1,586,287.61	36,072.74	1,622,360.55	3,117,172.16
10. Other (Identify)	0	0	0	0
<b>TOTAL</b>	<b>1,712,904.54</b>	<b>63,214.66</b>	<b>1,776,119.20*</b>	<b>5,863,403.10</b>

1,776,119.20 \*

TOTAL LOSSES/EXPENSES/RESERVES INCURRED \$7,639,522.30

ALASKA ANNUAL STATEMENT OF SURPLUS LINE BUSINESS TRANSACTED . 1970

F. B. BEATTIE & CO., INC.  
(Name of Surplus Line Broker)

#693  
(License Number)

Exhibit 1-A

LOSSES PAID AND INCURRED

Line of Business	Actual Losses Paid to Policyholders (deduct salvage)	Plus Claim Expn.	Total Losses Inc.	Reserves
1. Fire & Allied				
(a) Habitational	0	0	0	0
(b) Homeowners	0	0	0	0
(c) Commercial	615.37	97.20	712.57	105,183.78
2. Inland Marine (DIC, Earthquake, ARBR)	78,935.10	3,940.92	82,876.02	375,607.09
3. Ocean Marine	0	0	0	0
4. Professional Liability				
(a) Medical	0	0	0	0
(b) Attorneys	?	?	?	?
(c) Architects & Engineers	?	?	?	?
(d) Other	?	?	?	1,880.00
5. General Liability	0	259.30	259.30	27,419.88
6. Auto Liability				
(a) Private Passenger	0	0	0	0
(b) Commercial	0	0	0	0
7. Auto Physical Damage				
(a) Private Passenger	0	0	0	0
(b) Commercial	0	0	0	0
8. Workmen's Compensation				
(a) Aviation	43,424.11	1,621.80	45,045.91	128,197.70
(b) Other	0	0	0	0
9. Aircraft - All Perils	282,616.48	18,722.50	300,883.98	580,822.67
10. Other (Identify)	0	0	0	0
TOTAL	405,136.06	24,641.72	429,777.78*	1,219,111.12

429,777.78 \*

TOTAL LOSSES/EXPENSES/RESERVES INCURRED \$1,648,888.90

ROSEMURGY SEA

APR 30 IQ  
TO JUANITA BROWN  
ROLLINS BURDICK & HUNTER  
ANCHORAGE

AVIATION LIABILITY CLAIMS ADJUSTED & RESERVED BY ROSEMURGY & CO  
BY NUMBER OF CLAIMS WE MEAN EACH INDIVIDUAL KILLED OR INJURED IN  
AN AIRPLANE ACCIDENT IN ALASKA. THIS DOES NOT INCLUDE HULL  
CLAIMS:

1978	40 CLAIMS	TOTAL PD \$17,942,769	O'S RESERVES \$10,000
1979	22 CLAIMS	TOTAL PD \$ 1,626,404	O'S RESERVES \$6,255,000
1980	68 CLAIMS	TOTAL PD \$ 7,931,207	O'S RESERVES \$7,062,500

WE TRUST THIS INFORMATION IS OF ASSISTANCE TO YOU.

REGARDS

R J ROSEMURGY  
♦  
RBH ALASKA AHG  
V

*Can Document : P Desarry*

# REED STENHOUSE

Reed Stenhouse Inc. of Alaska  
International Insurance Brokers  
4794 Business Park Blvd., Suite 1  
Anchorage, Alaska 99503  
907 274-0694 Telex 090-25-214

April 30, 1981

Mr. Donald P. Koch  
Chief of Market Surveillance  
Division of Insurance  
State of Alaska  
Department of Commerce  
and Economic Development  
Pouch D  
Juneau, Alaska 99811

Re: Alaska Surplus Lines Filings

Dear Don:

It has been brought to my attention that we did not report losses for aviation hulls and liabilities in our 1979 and 1980 surplus lines filings. The following figures represent losses paid by aviation hull and liability underwriters on behalf of our clients and not otherwise reported for these policy years in question:

1979 Aviation hulls - \$167,800.00  
1980 Aviation hulls - \$119,522.23

I hope this is of some assistance to you in compiling your premium and loss summaries.

Sincerely,



David A. Blackwood  
Senior Vice President

cc: Mr. Russ Neville  
Brady and Associates

RECEIVED  
DIV. 17  
MAY 1 10 10 AM '81

ALASKA DEPT. OF  
**ROLLINS BURDICK  
HUNTER**

April 28, 1981

Mr. Don Koche  
State of Alaska  
Department of Commerce  
Division of Insurance  
Pouch D  
Juneau, Alaska 99811

Re: Insured Aviation Losses

Dear Mr. Koche:

I am taking this opportunity to give you some further information insofar as aviation losses in the State of Alaska. Currently, the information that the State of Alaska has shows that Dougan, Eader, Reynolds & Wheller wrote \$838,000 in premium in 1978 and \$325,000 premium in 1979 for aviation insurance. In these two years no losses were reported.

Rollins Burdick Hunter is now affiliated with Dougan, Eader, Reynolds & Wheller and we have requested that they review their files as to losses in 1978 and 1979. We have been advised that in 1978 they paid losses of \$1,037,089, and in 1979 losses amounted to \$305,349.

This gives us total losses in the years 1978, 1979 and 1980 of \$1,426,438, with premium generated of \$1,218,000, with a loss ratio of 117%.

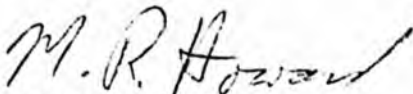
I am in hopes that this further information will help the legislature in their consideration of Senate Bill 277, and in understanding why the

Mr. Don Koche  
April 28, 1981  
Page 2

insurance cost to the aviation community in the State of Alaska have risen as they have in the past few years.

Sincerely,

ROLLINS BURDICK HUNTER OF ALASKA, INC.

  
Michael R. Howard

MRH/tsh

cc: Russ Neville  
Brady & Associates  
310 K Street  
Anchorage, Alaska 99501

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§ 21.06.180

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Sec. 21.06.180. Hearings. (a) The director may hold hearings for any purpose within the scope of this title considered by him to be necessary.

(b) The director shall hold a hearing if required by a provision of this title, or upon written demand by a person aggrieved by an act, threatened act or failure of the director to act, or by a report, regulation or order of the director (other than an order for the holding of a hearing, or an order on hearing or under it). A demand shall specify the grounds to be relied upon at the hearing as a basis for the relief. Unless postponed by mutual consent or for good cause shown, the hearing shall be held within 30 days after receipt by the director of the written demand.

(c) If within the 30-day period the director does not either (1) grant the hearing, or (2) issue his order refusing the hearing, as to the previous report, regulation, or order as to which the person so claims to be aggrieved, the hearing shall be considered to have been refused. (§ 1 ch 120 SLA 1966)

Sec. 21.06.190. Stay of action. (a) A demand for a hearing received by the director before the effective date of an order issued by him or within 10 days after an order is delivered, shall stay the effectiveness of the order pending the hearing and an order made thereon, except as to action taken or proposed (1) under an order on hearing, or (2) under an order under and supplemental to an order on hearing, or (3) under an order based upon impairment of assets or unsound financial condition of an insurer.

(b) If an automatic stay is not provided for and the director after receipt of a written request for a stay fails to grant it, the person aggrieved may apply to the superior court for a stay of the director's proposed action. (§ 1 ch 120 SLA 1966)

Sec. 21.06.200. Notice of hearing. Not less than 20 days in advance the director shall give notice of the time and place of the hearing, stating the matters to be considered at the hearing. If the persons to be given notice are not specified in the provision under which the hearing is held, the director shall give notice to all persons whose pecuniary interests are to be directly and immediately affected by the hearing. (§ 1 ch 120 SLA 1966)

Sec. 21.06.210. Hearing procedure. (a) The director shall allow a party to the hearing to appear in person and by counsel, to be present during the giving of all evidence, to have a reasonable opportunity to inspect all documentary evidence and to examine witnesses, to present evidence in support of his interest, and to have subpoenas issued by the director to compel attendance of witnesses and production of evidence in his behalf.

(b) The director shall permit to become a party to the hearing by intervention, if timely, any person who was not an original

party to the proceeding and whose pecuniary interests are to be directly and immediately affected by the director's order made upon the hearing.

(c) Formal rules of pleading or evidence need not be observed at a hearing.

(d) Upon written request seasonably made by a party to the hearing and at that person's expense, the director shall cause a full stenographic record of the proceedings to be made by a competent reporter. If transcribed, a copy of the stenographic record shall be furnished to the director, without cost to the director or the state, and shall be a part of the director's record of the hearing. If transcribed a copy of the stenographic record shall be furnished to any other party to the hearing at the request and expense of the other party. If no stenographic record is made or transcribed, the director shall prepare an adequate record of the evidence and of the proceedings.

(e) Upon written request of a party to a hearing filed with the director within 30 days after an order made pursuant to a hearing has been mailed or delivered to the persons entitled to receive it, the director may grant a rehearing or reargument of the matters involved in the hearing. Notice of the rehearing or reargument shall conform to the requirements of § 200 of this chapter. (§ 1 ch 120 SLA 1966)

**Sec. 21.06.220. Order on hearing.** (a) In conducting the hearing the director shall sit in a quasi-judicial capacity. Within 30 days after termination of the hearing, rehearing, or reargument, the director shall make his order on hearing, covering matters involved in the hearing, rehearing or reargument, and shall give a copy of the order to the same persons given notice of the hearing.

(b) The order shall contain a concise statement of the facts found by the director, his conclusions, and the matters required by § 100 of this chapter.

(c) The order may affirm, modify, or nullify a previous action or may constitute the taking of new action within the scope of the notice of hearing. (§ 1 ch 120 SLA 1966)

**Sec. 21.06.230. Appeals from the director.** A person aggrieved by an order of the director may appeal the order to the superior court, using procedures provided by court rule. (§ 1 ch 120 SLA 1966)

**Sec. 21.06.240. Hearings inapplicable.** The hearing and appeal procedures provided for in §§ 180—230 of this chapter do not apply to matters covered by ch. 39 of this title. (§ 1 ch 120 SLA 1966)

**Sec. 21.06.250. Fees and licenses.** (a) The director shall collect required fees in advance. The fees are as follows:

## Chapter 78. Rehabilitation and Liquidation.

Section	Section
10. Jurisdiction of delinquency proceedings	150. Claims of nonresidents against domestic insurers
20. Commencement of delinquency proceedings	160. Claims against foreign insurers
30. Injunctions	170. Form of claim
40. Grounds for rehabilitation	180. Priority of certain claims
50. Grounds for liquidation	190. Attachment and garnishment of assets
60. Grounds for conservation—Foreign insurers	200. Uniform Insurers Liquidation Act
70. Grounds for conservation—Alien insurers	210. Deposit of money collected
80. Grounds for ancillary liquidation	220. Exemption from fees
90. Order of rehabilitation	230. Borrowing on pledge of assets
100. Order of liquidation, domestic insurers	240. Date rights fixed on liquidation
110. Order of liquidation, alien insurers	250. Voidable transfers
120. Order of conservation or ancillary liquidation of foreign or alien insurers	260. Priority of claims for compensation
130. Conduct of delinquency proceedings against domestic and alien insurers	270. Offsets
140. Conduct of delinquency proceedings against foreign insurers	280. Allowance of certain claims
	290. Time to file claims
	300. Report and petition for assessment
	310. Order and levy of assessment
	320. Assessment prima facie correct
	330. Definitions

**Sec. 21.78.010. Jurisdiction of delinquency proceedings.** (a) The court is vested with exclusive original jurisdiction of delinquency proceedings under this chapter, and is authorized to make all necessary and proper orders to carry out the purposes of this chapter.

(b) Delinquency proceedings under this chapter constitute the sole and exclusive method of liquidating, rehabilitating, reorganizing or conserving an insurer, and no court may entertain a petition for the commencement of the proceedings unless it has been filed in the name of the state on the relation of the director.

(c) An appeal shall lie to the supreme court from an order granting or refusing rehabilitation, liquidation, or conservation, and from every other order in delinquency proceedings having the character of a final order as to the particular portion of the proceedings embraced therein. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.020. Commencement of delinquency proceedings.** The director shall commence the proceedings by application to the court for an order directing the insurer to show cause why the director should not have the relief prayed for. On the return of the order to show cause, and after a full hearing, the court shall either deny the application or grant the application, together with other relief which the nature of the case and the interest of the policyholders, creditors, stockholders, members, subscribers or the public may require. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.030. Injunctions.** (a) Upon application by the director for an order to show cause, or at any time thereafter, the court may without notice issue an injunction restraining the insurer, its officers, directors, stockholders, members, subscribers, agents and all other persons from the transaction of its business or the waste or disposition of its property until the further order of the court.

(b) The court may at any time during a proceeding under this chapter issue injunctions or orders which may be considered necessary to prevent interference with the director or the proceeding, or waste of the assets of the insurer, or the commencement or prosecution of actions, or the obtaining of preferences, judgments, attachments or other liens, or the making of any levy against the insurer or against its assets or any part of its assets.

(c) No bond may be required of the director as a prerequisite for the issuance of an injunction or restraining order under this section. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.040. Grounds for rehabilitation.** The director may apply to the court for an order appointing him as receiver of and directing him to rehabilitate a domestic insurer upon one or more of the following grounds. That the insurer

- (1) is impaired or insolvent;
- (2) has refused to submit any of its books, records, accounts or affairs to reasonable examination by the director;
- (3) has concealed or wrongfully removed records or assets or otherwise violated AS 21.69.390;
- (4) has failed to comply with an order of the director to make good an impairment of capital or surplus or both;
- (5) has transferred or attempted to transfer substantially its entire property or business, or has entered into a transaction the effect of which is to merge substantially its entire property or business in that of any other insurer without having first obtained the written approval of the director;
- (6) is found, after examination, to be in such condition that its further transaction of business will be hazardous to its policyholders, or to its creditors, or to its members, subscribers, or stockholders, or to the public;
- (7) has an officer, director, or manager who has refused to be examined under oath, concerning its affairs, for which purpose the director is authorized to conduct and to enforce by all appropriate and available means an examination under oath in another state or territory of the United States, in which the officer, director or manager may then presently be, to the full extent permitted by the laws of the other state or territory, this special authorization considered;
- (8) has been or is the subject of an application for the appoint-

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ment of a receiver, trustee, custodian or sequestrator of the insurer or its property otherwise than under the provisions of this title, but only if the appointment has been made or is imminent and its effect is or would be to oust the courts of this state of jurisdiction;

(9) has consented to such an order through a majority of its directors, stockholders, members or subscribers; or

(10) has failed to pay a final judgment rendered against it in this state upon any insurance contract issued or assumed by it, within 30 days after the judgment became final or within 30 days after the time for taking an appeal has expired, or within 30 days after dismissal of an appeal before final termination, whichever date is the later. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.050. Grounds for liquidation.** The director may apply to the court for an order appointing him as receiver (if his appointment as receiver is not then in effect) and directing him to liquidate the business of a domestic insurer or of the United States branch of an alien insurer having trusteed assets in this state, regardless of whether or not there has been a prior order directing him to rehabilitate the insurer, upon any of the grounds specified in § 40 of this chapter, or if the insurer

(1) has ceased transacting business for a period of one year, or

(2) is an insolvent insurer and has commenced voluntary liquidation or dissolution, or attempts to commence or prosecute an action or proceeding to liquidate its business or affairs, or to dissolve its corporate charter, or to procure the appointment of a receiver, trustee, custodian or sequestrator under any law except this title. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.060. Grounds for conservation — Foreign insurers.** The director may apply to the court for an order appointing him as receiver or ancillary receiver, and directing him to conserve the assets in this state, of a foreign insurer upon any of the following grounds:

(1) upon any of the grounds specified in §§ 40 or 50 of this chapter; or

(2) upon the ground that its property has been sequestrated in its domiciliary sovereignty or in any other sovereignty. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.070. Grounds for conservation—Alien insurers.** The director may apply to the court for an order appointing him as receiver or ancillary receiver, and directing him to conserve the assets within this state, of an alien insurer upon any of the following grounds:

(1) upon any of the grounds specified in §§ 40 or 50 of this chapter;

(2) upon the ground that the insurer has failed to comply within the time designated by the director, with an order made by him to make good an impairment of its trusteed funds; or

(3) upon the ground that the property of the insurer has been sequestered in its domiciliary sovereignty or elsewhere. (§ 1 ch 120 SLA 1966)

Sec. 21.78.080. Grounds for ancillary liquidation. The director may apply to the court for an order appointing him as ancillary receiver of and directing him to liquidate the business of a foreign insurer having assets, business or claims in this state upon the appointment in the domiciliary state of the insurer of a receiver, liquidator, conservator, rehabilitator or other officer by whatever name called for the purpose of liquidating the business of the insurer. (§ 1 ch 120 SLA 1966)

Sec. 21.78.090. Order of rehabilitation. (a) An order to rehabilitate a domestic insurer shall require the director to take immediate possession of the property of the insurer and to conduct its business, and to take steps toward removal of the causes and conditions which have made rehabilitation necessary as the court may direct.

(b) If at any time the director considers that further efforts to rehabilitate the insurer would be useless, he may apply to the court for an order of liquidation.

(c) The director, or an interested person upon due notice to the director, at any time may apply to the court for an order terminating the rehabilitation proceedings and permitting the insurer to resume possession of its property and the conduct of its business, but the order may not be made or entered except when, after a hearing, the court has determined that the purposes of the proceeding have been fully accomplished. (§ 1 ch 120 SLA 1966)

Sec. 21.78.100. Order of liquidation, domestic insurers. (a) An order to liquidate the business of a domestic insurer shall require the director to take immediate possession of the property of the insurer, to liquidate its business, to deal with the insurer's property and business in his own name as director of insurance or in the name of the insurer, as the court may direct, and to give notice to all creditors who may have claims against the insurer to present the claims.

(b) The director may apply for and secure an order dissolving the corporate existence of a domestic insurer upon his application for an order of liquidation of the insurer or at any time after the order has been granted. (§ 1 ch 120 SLA 1966)

Sec. 21.78.110. Order of liquidation, alien insurers. An order to liquidate the business of a United States branch of an alien insurer

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having trusteed assets in this state shall be in the same terms as those prescribed for domestic insurers, except that the assets of the business of the United States branch shall be the only assets included in the order. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.120. Order of conservation or ancillary liquidation of foreign or alien insurers.** (a) An order to conserve the assets of a foreign or alien insurer shall require the director to take immediate possession of the property of the insurer in this state and to conserve it, subject to the further direction of the court.

(b) An order to liquidate the assets in this state of a foreign insurer shall require the director to take immediate possession of the property of the insurer in this state and to liquidate it subject to the orders of the court and with due regard to the rights and powers of the domiciliary receiver, as provided in this chapter. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.130. Conduct of delinquency proceedings against domestic and alien insurers.** (a) When under this chapter a receiver is to be appointed in delinquency proceeding for a domestic or alien insurer, the court shall appoint the director as the receiver. The court shall order the director immediately to take possession of the assets of the insurer and to administer the assets under orders of the court.

(b) As a domiciliary receiver, the director shall be vested by operation of law with the title to all of the property, contracts and rights of action, and all of the books and records of the insurer, wherever located, as of the date of entry of the order directing him to rehabilitate or liquidate a domestic insurer or to liquidate the United States branch of an alien insurer domiciled in this state, and he shall have the right to recover the same and reduce the same to possession; except that ancillary receivers in reciprocal states shall have, as to assets located in their respective states, the rights and powers which are herein prescribed for ancillary receivers appointed in this state as to assets located in this state.

(c) The filing or recording of the order directing possession to be taken, or a certified copy of the order, in any office where instruments affecting title to property are required to be filed or recorded shall impart the same notice as would be imparted by a deed, bill of sale, or other evidence of title duly filed or recorded.

(d) The director as domiciliary receiver shall be responsible for the proper administration of all assets coming into his possession or control. The court may at any time require a bond from him or his deputies if considered desirable for the protection of the assets.

(e) Upon taking possession of the assets of an insurer, the

domiciliary receiver shall, subject to the direction of the court, immediately proceed to conduct the business of the insurer or to take steps authorized by this chapter for the purpose of rehabilitating, liquidating or conserving the affairs or assets of the insurer.

(f) In connection with delinquency proceedings, the director may appoint one or more special deputies to act for him and he may employ counsel, clerks and assistants which he considers necessary. The compensation of the special deputies, counsel, clerks or assistants and all expenses of taking possession of the insurer and of conducting the proceedings shall be fixed by the receiver, subject to the approval of the court, and shall be paid out of the funds or assets of the insurer. Within the limits of duties imposed upon them, special deputies shall possess all the powers given to, and in the exercise of those powers shall be subject to all of the duties imposed upon, the receiver with respect to the proceedings. (§ 1 ch 120 SLA 1966)

Sec. 21.78.140. Conduct of delinquency proceedings against foreign insurers. (a) When under this chapter an ancillary receiver is to be appointed in delinquency proceedings for an insurer not domiciled in this state, the court shall appoint the director as ancillary receiver. The director shall file a petition requesting the appointment on the grounds set out in § 80 of this chapter,

(1) if he finds that there are sufficient assets of the insurer located in this state to justify the appointment of an ancillary receiver; or

(2) if 10 or more persons resident in this state having claims against the insurer file a petition with the director requesting the appointment of the ancillary receiver.

(b) The domiciliary receiver for the purpose of liquidating an insurer domiciled in a reciprocal state shall be vested by operation of law with the title to all of the property, contracts and rights of action, and all of the books and records of the insurer located in this state, and he shall have the immediate right to recover balances due from local agents and to obtain possession of any books and records of the insurer found in this state. He shall also be entitled to recover the other assets of the insurer located in this state, except that upon the appointment of an ancillary receiver in this state, the ancillary receiver shall during the ancillary receivership proceedings have the sole right to recover the other assets. The ancillary receiver shall, as soon as practicable, liquidate from their respective securities those special deposit claims and secured claims which are proved and allowed in the ancillary proceedings in this state, and shall pay the necessary expenses of the proceedings. He shall promptly transfer all remaining assets

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to the domiciliary receiver. Subject to these provisions, the ancillary receiver and his deputies shall have the same powers and be subject to the same duties with respect to the administration of the assets as a receiver of an insurer domiciled in this state.

(c) The domiciliary receiver of an insurer domiciled in a reciprocal state may sue in this state to recover assets of the insurer to which he may be entitled under the laws of this state. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.150. Claims of nonresidents against domestic insurers.** (a) In a delinquency proceeding begun in this state against a domestic insurer, claimants residing in reciprocal states may file claims either with the ancillary receivers, if any, in their respective states, or with the domiciliary receiver. The claims must be filed on or before the last date fixed for the filing of claims in the domiciliary delinquency proceedings.

(b) Controverted claims belonging to claimants residing in reciprocal states may either:

(1) be proved in this state; or

(2) if ancillary proceedings have been commenced in the reciprocal states, may be proved in those proceedings; if a claimant elects to prove his claim in ancillary proceedings, if notice of the claim and opportunity to appeal and be heard is afforded the domiciliary receiver of this state, as provided in § 160 of this chapter with respect to ancillary proceedings in this state, the final allowance of the claim by the courts in the ancillary state shall be accepted in this state as conclusive as to its amount and its priority, if any, against special deposits or other security located in the ancillary state. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.160. Claims against foreign insurers.** (a) In a delinquency proceeding in a reciprocal state against an insurer domiciled in that state, claimants against the insurer who reside in this state may file claims either with the ancillary receiver, if any, appointed in this state, or with the domiciliary receiver. The claims must be filed on or before the last date fixed for the filing of claims in the domiciliary delinquency proceedings.

(b) Controverted claims belonging to claimants residing in this state may either

(1) be proved in the domiciliary state as provided by the law of that state; or

(2) if ancillary proceedings have been commenced in this state, be proved in those proceedings; in the event that a claimant elects to prove his claim in this state, he shall file his claim with the ancillary receiver and shall give notice in writing to the receiver in the domiciliary state, either by registered mail or by personal service at least 40 days before the date set for hearing; the notice

shall contain a concise statement of the amount of the claim, the facts on which the claim is based, and the priorities asserted, if any; if the domiciliary receiver within 30 days after the giving of notice gives notice in writing to the ancillary receiver and to the claimant, either by registered mail or by personal service, of his intention to contest the claim, he shall be entitled to appear or to be represented in any proceeding in this state involving adjudication of the claim; the final allowance of the claim by the courts of this state shall be accepted as conclusive as to its amount and its priority, if any, against special deposits or other security located in this state. (§ 1 ch 120 SLA 1966)

Sec. 21.78.170. Form of claim. (a) All claims against an insurer against which delinquency proceedings have been begun shall set out in reasonable detail the amount of the claim, or the basis upon which the amount can be ascertained, the facts upon which the claim is based, and the priorities asserted, if any. The claims shall be verified by the affidavit of the claimant, or someone authorized to act on his behalf and having knowledge of the facts, and shall be supported by documents which may be material to the claims.

(b) All claims filed in this state shall be filed with the receiver, whether domiciliary or ancillary, in this state, on or before the last date of filing as specified in this chapter.

(c) Within 10 days of the receipt of a claim, or within a further period which the court may for good cause shown fix, the receiver shall report the claim to the court, specifying in the report his recommendation with respect to the action to be taken. Upon receipt of the report, the court shall fix a time for hearing the claim and shall direct that the claimant or the receiver, as the court specifies, give notice which the court determines to the persons who appear to the court to be interested therein. All notices shall specify the time and place of the hearing and shall concisely state the amount and nature of the claim, the priorities asserted, if any, and the recommendation of the receiver.

(d) At the hearing, all persons interested shall be entitled to appear and the court shall enter an order allowing, allowing in part, or disallowing the claim. The order shall be an appealable order. (§ 1 ch 120 SLA 1966)

Sec. 21.78.180. Priority of certain claims. (a) In a delinquency proceeding against an insurer domiciled in this state, claims owing to residents of ancillary states shall be preferred claims if like claims are preferred under the laws of this state. Claims owing to residents or nonresidents shall be given equal priority of payment from general assets regardless of where the assets are located.

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**Sec. 21.78.210. Deposit of money collected.** The money collected by the director in a proceeding under this chapter shall be from time to time deposited in one or more state or national banks, savings banks, and in the case of the insolvency or voluntary liquidation of a depository which is an institution organized and supervised under the laws of this state, the deposits shall be entitled to priority of payment on an equality with any other priority given by the banking laws of this state. The director may in his discretion deposit the money or any part of it in a national bank or as a trust fund. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.220. Exemption from fees.** The director shall not be required to pay a fee to a public officer in this state for filing, recording, issuing a transcript or certificate or authenticating a paper or instrument pertaining to the exercise by the director of any of the powers or duties conferred upon him under this chapter, whether or not the paper or instrument is executed by the director or his deputies, employees or attorneys of record and whether or not it is connected with the commencement of an action or proceeding by or against the director, or with the subsequent conduct of the action or proceeding. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.230. Borrowing on pledge of assets.** For the purpose of facilitating the rehabilitation, liquidation, conservation or dissolution of an insurer under this chapter, the director may, subject to the approval of the court, borrow money and execute, acknowledge and deliver notes or other evidences of indebtedness and secure the repayment of the same by the mortgage, pledge, assignment, transfer in trust, or hypothecation of any or all of the property, whether real, personal or mixed, of the insurer, and the director subject to the approval of the court shall have power to take any and all other action necessary and proper to consummate the loan and to provide for its repayment. The director shall be under no obligation personally or in his official capacity to repay a loan made under this section. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.240. Date rights fixed on liquidation.** The rights and liabilities of the insurer and of its creditors, policyholders, stockholders, members, subscribers and all other persons interested in its estate shall, unless otherwise directed by the court, be fixed as of the date on which the order directing the liquidation of the insurer is filed in the office of the clerk of the court which made the order, subject to the provisions of this chapter with respect to the rights of claimants holding contingent claims. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.250. Voidable transfers.** (a) A transfer of, or lien upon, the property of an insurer which is made or created within

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four months before the granting of an order to show cause under this chapter with the intent of giving to creditor a preference or of enabling him to obtain a greater percentage of his debt than another creditor of the same class and which is accepted by the creditor having reasonable cause to believe that the preference will occur, shall be voidable.

(b) Each director, officer, employee, stockholder, member, subscriber and any other person acting on behalf of the insurer who is concerned in any act or deed and each person receiving thereby any property of the insurer or the benefit of it shall be personally liable therefor and shall be bound to account to the director.

(c) The director as receiver in a proceeding under this chapter may avoid a transfer of or lien upon the property of an insurer which a creditor, stockholder, subscriber or member of the insurer might have avoided and may recover the property transferred unless the person was a bona fide holder for value before the date of the entering of an order to show cause under this chapter. The property or its value may be recovered from anyone who has received it except a bona fide holder for value as herein specified. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.260. Priority of claims for compensation.** (a) Compensation actually owing to employees other than officers of an insurer, for services rendered within three months before the commencement of a proceeding against the insurer under this chapter, but not exceeding \$500 for each employee, shall be paid before the payment of any other debt or claim, and in the discretion of the director may be paid as soon as practicable after the proceeding has been commenced; except that at all times the director shall reserve the funds which will in his opinion be sufficient for the expenses of administration.

(b) The priority shall be in lieu of any other similar priority which may be authorized by law as to wages or compensation of the employees. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.270. Offsets.** (a) In all cases of mutual debts or mutual credits between the insurer and another person in connection with an action or proceeding under this chapter, the credits and debts shall be set off and the balance only shall be allowed or paid, except as provided in (b) of this section.

(b) No offset may be allowed in favor of a person if

(1) the obligation of the insurer to the person would not at the date of the entry of a liquidation order or otherwise, as provided in § 240 of this chapter, entitle him to share as a claimant in the assets of the insurer;

(2) the obligation of the insurer to the person was purchased by or transferred to the person with a view of its being used as an offset; or

(3) the obligation of the person is to pay an assessment levied against the members of a mutual insurer, or against the subscribers of a reciprocal insurer, or is to pay a balance upon the subscription to the capital stock of a stock insurer. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.280. Allowance of certain claims.** (a) No contingent and unliquidated claim may share in a distribution of the assets of an insurer which has been adjudicated to be insolvent by an order made under this chapter, except that the claim shall be considered, if properly presented, and may be allowed to share if

(1) the claim becomes absolute against the insurer on or before the last day for filing claims against the assets of the insurer; or

(2) there is a surplus and the liquidation is thereafter conducted upon the basis that the insurer is solvent.

(b) If an insurer has been adjudicated to be insolvent a person who has a cause of action against an insured of the insurer under a liability insurance policy issued by the insurer has the right to file a claim in the liquidation proceeding, regardless of the fact that the claim may be contingent, and the claim may be allowed

(1) if it may be reasonably inferred from the proof presented upon the claim that the person would be able to obtain a judgment upon the cause of action against the insured;

(2) if the person furnishes suitable proof, unless the court for good cause shown otherwise directs, that no further valid claim against the insurer arising out of his cause of action other than those already presented can be made; and

(3) if the total liability of the insurer to all claimants arising out of the same act of its insured is no greater than its maximum liability would be were it not in liquidation.

(c) No judgment against the insured taken after the date of entry of the liquidation order shall be considered in the liquidation proceedings as evidence of liability, or of the amount of damages, and no judgment against an insured taken by default, or by collusion before the entry of the liquidation order may be considered as conclusive evidence in the liquidation proceedings, either of the liability of the insured to the person upon the cause of action or of the amount of damages to which the person is entitled.

(d) No claim of a secured claimant may be allowed at a sum greater than the difference between the value of the claim without security and the value of the security itself as of the date of the entry of the order of liquidation or other date set by the court for determining rights and liabilities as provided in § 240 of this chapter unless the claimant surrenders his security to the director, in which event the claim shall be allowed in the full amount for which it is valued. (§ 1 ch 120 SLA 1966)

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§ 21.78.290

INSURANCE

§ 21.78.310

**Sec. 21.78.290. Time to file claims.** (a) If upon the entry of an order of liquidation under this chapter or at any time thereafter during liquidation proceedings the insurer is clearly not solvent, the court shall, upon hearing after notice it considers proper, make and enter an order adjudging the insurer to be insolvent.

(b) After the entry of the order of insolvency, regardless of prior notice that may have been given to creditors, the director shall notify all persons who may have claims against the insurer to file the claims with him, at a place and within the time specified in the notice, or that the claims shall be forever barred. The time specified in the notice shall be as fixed by the court for filing claims and may not be less than six months after the entry of the order of insolvency. The notice shall be given in the manner and for the reasonable period of time that may be ordered by the court. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.300. Report and petition for assessment.** Within three years after the date of the entry of an order of rehabilitation or liquidation of a domestic mutual insurer or a domestic reciprocal insurer, the director may make and file his report and petition to the court setting out

- (1) the reasonable value of the assets of the insurer;
- (2) the liabilities of the insurer to the extent thus far ascertained by the director;
- (3) the aggregate amount of the assessment, if any, which the director considers reasonably necessary to pay all claims, the costs and expenses of the collection of the assessments and the costs and expenses of the delinquency proceedings in full;
- (4) any other information relative to the affairs or property of the insurer that the director considers material. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.310. Order and levy of assessment.** (a) Upon the filing and reading of the report and petition provided for in § 300 of this chapter, the court, ex parte, may order the director to assess all members or subscribers of the insurer who may be subject to the assessment, in the aggregate amount the court finds reasonably necessary to pay all valid claims as may be timely filed and proved in the delinquency proceedings, together with the costs and expenses of levying and collecting assessments and the costs and expenses of the delinquency proceedings in full. The order shall require the director to assess each member or subscriber for his proportion of the aggregate assessment, according to the reasonable classification of the members or subscribers and formula which may be made by the director and approved by the court.

(b) The court may order additional assessments upon the fil-

21.78.320

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INSURANCE

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of the order and petition referred to in (c) of this section is made upon him

(1) fails to appear at the time and place specified in the order, judgment shall be entered against him as prayed for in the petition; or

(2) appears in the manner and form required by law in response to the order, the court shall hear and determine the matter and enter a judgment in accordance with its decision.

(e) The director may collect the assessment through any other lawful means. (§ 1 ch 120 SLA 1966)

**Sec. 21.78.330. Definitions.** In this chapter

(1) "impairment" or "insolvency" means that the capital of a stock insurer or the surplus of a mutual or reciprocal insurer, shall be considered to be impaired and the insurer shall be considered to be insolvent, when the insurer is not possessed of assets at least equal to all liabilities and required reserves together with its total issued and outstanding capital stock if a stock insurer, or the minimum surplus if a mutual or reciprocal insurer required by this title to be maintained for the kind or kinds of insurance in which it is then authorized to transact;

(2) "insurer" means a person, firm, corporation, association or aggregation of persons doing an insurance business and subject to the insurance supervisory authority of or to liquidation, rehabilitation, reorganization or conservation by the director or the equivalent insurance supervisor, or official of another state;

(3) "delinquency proceeding" means a proceeding commenced against an insurer under this chapter for the purpose of liquidating, rehabilitating, reorganizing or conserving the insurer;

(4) "state" means a state of the United States and the District of Columbia and Puerto Rico;

(5) "foreign country" means territory not in a state;

(6) "domiciliary state" means the state in which an insurer is incorporated or organized, or in the case of an insurer incorporated or organized in a foreign country, the state in which the insurer, having become authorized to do business in the state, has at the commencement of delinquency proceedings, the largest amount of its assets held in trust and assets held on deposit for the benefit of its policyholders or policyholders and creditors in the United States, and the insurer is considered to be domiciled in that state;

(7) "ancillary state" means a state other than a domiciliary state;

(8) "reciprocal state" means a state other than this state in which in substance and effect the provisions of the Uniform Insurers Liquidation Act, as defined in § 200 of this chapter, are in

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SENATE BILL NO. 277

Title Relating to aviation insurance

Requested by Senate Labor & Commerce, Finance Committees

Date 3/12/81

II. FISCAL DETAIL

Agency Affected Department of Revenue

Program Category Affected Revenue Collection and Management

BRU, Program, or Subprogram(s) Affected Treasury Management

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						

TOTAL

FUNDING (Thousands of Dollars)

← MILLIONS →

GENERAL FUND		30.0				
<del>EXCESS BOND PROCEEDS</del>						
OTHER (Specify Fund Source)						
OPPORTUNITY COST/INTEREST LOST		1.5	1.5	1.5	1.5	1.5

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

This bill creates the Aviation Indemnity Corporation of Alaska. It's purpose is to furnish aircraft owners and operators with adequate liability/hull damage insurance. The bill also creates the Aviation Liability Revolving Loan Fund which can make loans to the Corporation to provide necessary surplus. The Dept. of Revenue shall purchase all notes offered by the fund up to \$30 million.

The first line indicates that the \$30 million of notes bought, while an investment, are illiquid assets and are not available for appropriation for other purposes. The opportunity cost/interest lost is the difference between the 7% interest rate that the fund pays on loans and the earnings rate for the General Fund currently. It is assumed that the \$30 million in loans are outstanding throughout the period.

*Anselm C. Staack*

IV. DATE March 26, 1981

PREPARED BY Anselm C. Staack, Treasury Comptroller

AGENCY Dept. of Revenue/Treasury Division

Original: Legislative Finance

PHONE 465-2351

cc: Budget and Management

Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. SB-277

Title An act relating to aviation insurance; and Providing for an effective date.

Requested by Eliason

Date 3/12/81

II. FISCAL DETAIL

Agency Affected Department of Commerce & Economic Development

Program Category Affected Public Protection

BRU. Program. or Subprogram(s) Affected Division of Insurance

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES	0	0	0	0	0	0
200 TRAVEL	0	7	4	1	1	1
300 CONTRACTUAL	0	3	0	0	0	0
400 COMMODITIES	0	0	0	0	0	0
500 EQUIPMENT	0	0	0	0	0	0
600 LAND & STRUCTURES	0	0	0	0	0	0
700 GRANTS, CLAIMS, ETC.	0	30000	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>30,010.</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>1</b>

FUNDING (Thousands of Dollars)

GENERAL FUND	0	30,010.	4	1	1	1
FEDERAL FUNDS	0	0	0	0	0	0
OTHER (Specify Fund Source)	0	0	0	0	0	0

POSITIONS

FULL TIME	0	0	0	0	0	0
PART TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Travel Funds heavy initially to monitor start up operations  
contractual funds for hearing to implement new chapter 86.

The \$30 Million in 700 for fy 82 is the fund established in proposed  
section 21.86.200(b)

IV. DATE 3/17/81

PREPARED BY Kenneth C. Moore, Director of Insurance  
AGENCY Department of Commerce & Economic Development  
PHONE 465-2515

Original: Legislative Finance  
cc: Budget and Management  
Prime Sponsor (First Legislator Named)