

H B

5 0 6

HOUSE  
COMMITTEE REPORT

JUDICIARY

(7)

Date referred: 7/19/86

FURTHER REFERRALS: FINANCE

DATE: March 20, 1986

The LABOR & COMMERCE Committee has considered SSHB 506

"An Act relating to insurance; and providing for an effective date."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with CS55 506  same title
- new title

and recommends \_\_\_\_\_

further referral to the \_\_\_\_\_ Committee

- and attaches:
- letter of intent
  - first fiscal note
  - new fiscal note
  - zero fiscal note

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

Mike Savana

Steve Kopman

Mike Dun

Col. D. Brubaker

Charles Kelle's

Mike Leavac

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Mike Savana  
Chairman

Lauterbach  
3/17/86

Original sponsors: Taylor, Gruenberg,  
Larson, et al

1 IN THE HOUSE

BY THE LABOR AND  
COMMERCE COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 506 (L&C)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to insurance; and providing for an  
7 effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 21 is amended by adding a new chapter to read:

10 CHAPTER 76. JOINT INSURANCE ARRANGEMENTS.

11 Sec. 21.76.010. AUTHORITY TO ESTABLISH JOINT INSURANCE ARRANGE-  
12 MENTS. (a) Municipalities, school districts, and regional educa-  
13 tional attendance areas may enter into cooperative agreements with  
14 each other for the purpose of establishing, operating, or participat-  
15 ing in joint insurance arrangements through which the participating  
16 members agree to pool contributions and

17 (1) assume risks from losses on a group basis; or

18 (2) purchase coverage on a group basis.

19 (b) A joint insurance arrangement may be for any kind of insur-  
20 ance defined by this title except for life insurance and title insur-  
21 ance.

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

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

29 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A

1 cooperative agreement shall provide for the proper operation of the  
2 joint insurance arrangement, and include provisions for

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

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

8 (3) organization of the arrangement, including a roster of  
9 participating members and the names of the members of the board of  
10 directors;

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

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

18 (6) the addition of new members to the arrangement or the  
19 withdrawal of members from the arrangement;

20 (7) the method of apportioning costs and disposition of  
21 excess contributions;

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

24 (9) terminating the arrangement and disposing of its as-  
25 sets; and

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

27 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A  
28 cooperative agreement must include a provision requiring an annual  
29 determination by a casualty actuary who is a member of the American

1 Academy of Actuaries that procedures for establishing reserves for  
2 losses of the joint insurance arrangement are actuarially sound.

3 (b) A joint insurance arrangement shall be subject to an annual  
4 independent audit. The audit shall be conducted in accordance with  
5 generally accepted auditing standards and must include a review of the  
6 actuarial assumptions used for establishing the reserves under (a) of  
7 this section. The audit report must include certification from a  
8 casualty actuary who is a member of the American Academy of Actuaries  
9 that the actuarial assumptions continue to be sound and the level of  
10 the reserves are adequate.

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

14 Sec. 21.76.050. CONTRACTING WITH PRIVATE ADMINISTRATORS. A  
15 cooperative agreement may authorize the board of directors to enter  
16 into contracts for services necessary to perform the functions of a  
17 joint insurance arrangement. The person contracting to perform the  
18 functions must be appropriately licensed under this title if this  
19 title so requires.

20 Sec. 21.76.060. DELEGATION OF POWER TO SETTLE CLAIMS. A cooper-  
21 ative agreement may delegate to the board of directors, or authorize  
22 delegation by the board to another person or group, the power to  
23 compromise, arbitrate, or otherwise settle claims on behalf of the  
24 arrangement.

25 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may  
26 authorize the board of directors to purchase excess or catastrophic  
27 insurance on behalf of the joint insurance arrangement. The cost of  
28 the insurance shall be apportioned in the manner specified in the  
29 joint insurance agreement. The board may purchase insurance under

1 this section only from an insurer authorized to do business in the  
2 state or from an unauthorized insurer if the insurance is placed  
3 through a licensed surplus lines broker.

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

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

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

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

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

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

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

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

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

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

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

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

14 Sec. 21.76.110. SUBROGATION. A joint insurance arrangement has  
15 a cause of action for reimbursement of money paid to a participating  
16 member for a loss or injury if the participating member recovers money  
17 for the loss or injury from a third party. The joint insurance ar-  
18 rangement also has a direct cause of action for reimbursement against  
19 a third party responsible for loss or injuries sustained by a partic-  
20 ipating member if the joint arrangement has paid money to the partic-  
21 ipating member for the loss or injuries.

22 Sec. 21.76.900. DEFINITIONS. In this chapter

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

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

29 (3) "board" or "board of directors" means the board of

1 directors provided for in a cooperative agreement;

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

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

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

10 \* Sec. 2. AS 21.39.155(a) is amended to read:

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

18 \* Sec. 3. AS 21.80.180(5) is amended to read:

19 (5) "insolvent insurer" means an insurer

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

28 (B) determined to be insolvent by a court of competent  
29 jurisdiction;

1 \* Sec. 4. AS 21.80.18(6) is amended to read:

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

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

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

12 \* Sec. 5. AS 21.36.190 is repealed.

13 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
14 10.070(c).

1 IN THE HOUSE

2 SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 506

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE -- SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to insurance; and providing for an  
7 effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 21 is amended by adding a new chapter to read:

10 CHAPTER 76. JOINT INSURANCE ARRANGEMENTS.

11 Sec. 21.76.010. AUTHORITY TO ESTABLISH JOINT INSURANCE ARRANGE-  
12 MENTS. (a) Municipalities, school districts, and regional educa-  
13 tional attendance areas may enter into cooperative agreements with  
14 each other for the purpose of establishing, operating, or participat-  
15 ing in joint insurance arrangements through which the participating  
16 members agree to pool contributions and

17 (1) assume risks from losses on a group basis; or

18 (2) purchase coverage on a group basis.

19 (b) A joint insurance arrangement may be for any kind of insur-  
20 ance defined by this title except for life insurance and title insur-  
21 ance.

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

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

29 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A

1 cooperative agreement shall provide for the proper operation of the  
2 joint insurance arrangement, and include provisions for

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

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

8 (3) organization of the arrangement, including a roster of  
9 participating members and the names of the members of the board of  
10 directors;

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

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

18 (6) the addition of new members to the arrangement or the  
19 withdrawal of members from the arrangement;

20 (7) the method of apportioning costs and disposition of  
21 excess contributions;

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

24 (9) terminating the arrangement and disposing of its as-  
25 sets; and

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

27 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A  
28 cooperative agreement must include a provision requiring an annual  
29 determination by a casualty actuary who is a member of the American

1 Academy of Actuaries that procedures for establishing reserves for  
2 losses of the joint insurance arrangement are actuarially sound.

3 (b) A joint insurance arrangement shall be subject to an annual  
4 independent audit. The audit shall be conducted in accordance with  
5 generally accepted auditing standards and must include a review of the  
6 actuarial assumptions used for establishing the reserves under (a) of  
7 this section. The audit report must include certification from a  
8 casualty actuary who is a member of the American Academy of Actuaries  
9 that the actuarial assumptions continue to be sound and the level of  
10 the reserves are adequate.

11 (c) A joint insurance arrangement shall use a method of account-  
12 ing that conforms generally accepted government accounting prin-  
13 ciples.

14 Sec. 21.76.050. CONTRACTING WITH PRIVATE ADMINISTRATORS. A  
15 cooperative agreement may authorize the board of directors to enter  
16 into contracts for services necessary to perform the functions of a  
17 joint insurance arrangement. The person contracting to perform the  
18 functions must be appropriately licensed under this title if this  
19 title so requires.

20 Sec. 21.76.060. DELEGATION OF POWER TO SETTLE CLAIMS. A cooper-  
21 ative agreement may delegate to the board of directors, or authorize  
22 delegation by the board to another person or group, the power to  
23 compromise, arbitrate, or otherwise settle claims on behalf of the  
24 arrangement.

25 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may  
26 authorize the board of directors to purchase excess or catastrophic  
27 insurance on behalf of the joint insurance arrangement. The cost of  
28 the insurance shall be apportioned in the manner specified in the  
29 joint insurance agreement. The board may purchase insurance under

1 this section only from an insurer authorized to do business in the  
2 state or from an unauthorized insurer if the insurance is placed  
3 through a licensed surplus lines broker.

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

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

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

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

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

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

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

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

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

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

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

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

14 Sec. 21.76.110. SUBROGATION. A joint insurance arrangement has  
15 a cause of action for reimbursement of money paid to a participating  
16 member for a loss or injury if the participating member recovers money  
17 for the loss or injury from a third party. The joint insurance  
18 arrangement also has a direct cause of action for reimbursement  
19 against a third party responsible for loss or injuries sustained by a  
20 participating member if the joint arrangement has paid money to the  
21 participating member for the loss or injuries.

22 Sec. 21.76.900. DEFINITIONS. In this chapter

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

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

29 (3) "board" or "board of directors" means the board of

1 directors provided for in a cooperative agreement;

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

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

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

10 \* Sec. 2. AS 21 is amended by adding a new chapter to read:

11 CHAPTER 79. ALASKA REINSURANCE FUND.

12 Sec. 21.79.010. REINSURANCE FUND ESTABLISHED. (a) The Alaska  
13 reinsurance fund is established as an account in the general fund.  
14 The fund consists of appropriations made to it by law for the purposes  
15 of this chapter.

16 (b) Money in the fund may be used to

17 (i) make loans to domestic reciprocal insurers, domestic  
18 cooperative insurers, and joint underwriting associations;

19 (2) pay reinsurance claims under the reinsurance coverage  
20 provided under AS 21.79.050; and

21 (3) pay administrative expenses of the division of insur-  
22 ance that are necessary or appropriate to carry out the purposes of  
23 this chapter.

24 Sec. 21.79.020. HEARINGS ON AVAILABILITY OF INSURANCE. (a)  
25 Within 30 days after receiving an application by a manufacturer,  
26 service provider, a group or association representing manufacturers or  
27 service providers, an Alaska domestic reciprocal insurer, domestic  
28 cooperative insurer, or the Medical Indemnity Corporation of Alaska,  
29 the division shall hold a hearing on the availability and rate

1 structures of adequate commercial general liability insurance and  
2 other lines of liability and property insurance for the applicant or  
3 members of the applicant group or association.

4 (b) In addition to hearings under (a) of this section, the divi-  
5 sion may hold a hearing on the availability and rate structure of  
6 adequate commercial general liability insurance and other lines of  
7 liability and property insurance after a finding by the director that  
8 the line of insurance has become unavailable or that rates in the  
9 state are excessive.

10 Sec. 21.79.030. DETERMINATION OF AVAILABILITY OF INSURANCE. (a)  
11 Within 30 days after a hearing under AS 21.79.020, the director shall  
12 determine in writing, by order, based on the hearing record, whether  
13 the insurance at issue in the hearing is, and will be, reasonably  
14 available at rates neither excessive nor inadequate to cover antici-  
15 pated claims of the applicant or applicants.

16 (b) If the director determines under (a) of this section that a  
17 line of insurance is not, or will not be available at rates neither  
18 excessive nor inadequate, the director may implement the provisions of  
19 AS 21.79.040.

20 Sec. 21.79.040. INSURANCE JOINT UNDERWRITING ASSOCIATIONS. (a)  
21 After a determination of unavailability or inadequate or excessive  
22 rates under AS 21.79.030(b), the director may encourage and assist  
23 insurers licensed to operate in the state to join together in joint  
24 underwriting associations for the purpose of assuming, on the terms  
25 and conditions they agree to, a reasonable portion of responsibility  
26 for the adjustment and payment of claims arising from product, ser-  
27 vice, or operationally related property damage, injuries, disabili-  
28 ties, illnesses, and deaths.

29 (b) The director, in accordance with appropriate standards of

1 financial responsibility, accounting, operation, risk of loss, loss  
2 control and underwriting, on application of a party or parties listed  
3 in AS 21.79.020(a) may authorize modification of the capital and  
4 surplus provisions of AS 21.75.010 - 21.75.340, relating to domestic  
5 reciprocal insurers and cooperative insurers.

6 (c) Money from the joint underwriting associations established  
7 under (a) of this section may be used only to pay claims resulting  
8 from product service, operations, or related actions in excess of  
9 amounts that are established each year by the director as capital and  
10 surplus. The director may establish different amounts for each in-  
11 surer or joint underwriting association based on the needs of the  
12 insureds and joint underwriting association members, and other rele-  
13 vant factors.

14 (d) Joint underwriting associations established under this  
15 section may be funded by premiums paid by those entities listed in  
16 AS 21.79.020(a) to insurers or to their attorney in fact approved by  
17 the director. If the director finds, after notice and hearing, that  
18 the premiums charged by the insurers or joint underwriting associa-  
19 tions make the insurance from the joint underwriting associations  
20 unavailable or available at a rate excessive for manufacturers, ser-  
21 vice providers or other entities listed in AS 21.79.020(a), the direc-  
22 tor may amend the terms and conditions of reinsurance under AS 21.79.-  
23 050 to decrease the premiums to be paid, approve loans from AS 21.79.-  
24 010 funds to joint underwriting associations, or take other actions  
25 authorized by law.

26 Sec. 21.79.050. REINSURANCE COVERAGE. (a) After a finding  
27 under AS 21.79.030(b) of unavailability or availability only at exces-  
28 sive rates, the director may take necessary action to make reinsurance  
29 coverage available to the joint underwriting associations formed under

1 AS 21.79.040 or to Alaska domestic reciprocal insurers, Alaska domes-  
2 tic cooperative insurers, or the Medical Indemnity Corporation of  
3 Alaska. The director may also make reinsurance available directly to  
4 insurers that participate in joint underwriting associations estab-  
5 lished under AS 21.79.040 for the portion of their business that is  
6 related to a line of insurance that the director determines is un-  
7 available or available only at excessive rates under AS 21.79.040.  
8 Action authorized under this subsection includes the authority to  
9 enter into a contract with a reciprocal insurer, cooperative insurer,  
10 the Medical Indemnity Corporation of Alaska, or joint underwriting  
11 association for reinsurance coverage based on a premium, fee, or other  
12 charge set by the director, and to approve loans from the reinsurance  
13 fund.

14 (b) The director shall include in a contract or arrangement  
15 under this section the terms the director considers necessary to carry  
16 out the purposes of this chapter and to protect state funds loaned or  
17 entrusted. The reinsurance may be subject to deductibles and other  
18 restrictions and limitations determined by the director to be prudent.  
19 Premiums collected shall be paid into the general fund.

20 (c) The director may not provide reinsurance under this section  
21 to a manufacturer, service provider, insurer, Medical Indemnity Corpo-  
22 ration of Alaska, or joint underwriting association that

23 (1) the director determines to have assets below acceptable  
24 limits of capital or surplus; or

25 (2) has not adopted reasonable protective measures to  
26 prevent loss, consistent with standards adopted by the director under  
27 AS 21.79.100(a).

28 (d) Reinsurance offered under this section shall reimburse an  
29 insurer or joint underwriting association for its total proved and

1 approved claims for covered losses resulting from product, service, or  
2 operationally related property damage, injuries, disabilities, ill-  
3 nesses, and deaths during the term of the reinsurance contract or  
4 other agreement, above the amount of the insurer's or joint underwrit-  
5 ing association's retention of the losses as provided in the reinsur-  
6 ance contract.

7 (e) Reinsurance claims under this section shall be paid from the  
8 fund established in AS 21.79.010 within 90 days of receipt by the  
9 director of proof of loss.

10 Sec. 21.79.060. CONTRACTING WITH INSURANCE COMPANIES. The  
11 director may contract with a licensed insurer, agent, broker, or  
12 insurance service organization to administer a program or programs  
13 established under this chapter, except that the director may not  
14 delegate the responsibilities described in AS 21.79.020.

15 Sec. 21.79.100. GENERAL RESTRICTIONS ON PROGRAMS UNDER THIS  
16 CHAPTER. (a) The director shall ensure that programs operated under  
17 this chapter

18 (1) do not act as disincentives for improvements in product  
19 safety, safe service delivery, or safe operating practices;

20 (2) promote product safety, safe service delivery, and safe  
21 operating practices through the establishment of models and programs  
22 for risk management and loss control that are agreed on by the direc-  
23 tor, joint underwriting associations, insurers, and insureds and  
24 approved by the director as a prerequisite for eligibility for the  
25 programs under this chapter.

26 (b) A manufacturer, service provider, or other entity listed in  
27 AS 21.79.020 that benefits from a program under this chapter, shall  
28 agree that the relevant product or service will remain available to  
29 the public during the period in which the manufacturer, service

1 provider, or other entity participates in the programs.

2 (c) An insurer that benefits from programs under this chapter  
3 shall agree that insurance that is written during the period in which  
4 the insurer or its insured manufacturer, service provider, or other  
5 entity listed in AS 21.79.020, participates in the programs will  
6 charge premiums that are based on an experience rate and that are not  
7 excessive or inadequate when based on reasonable assumptions and  
8 probabilities.

9 Sec. 21.79.110. ENFORCEMENT OF THIS CHAPTER. (a) At the re-  
10 quest of the director, the attorney general shall bring an action in  
11 the appropriate court to recover from a person the amount of an unpaid  
12 reinsurance premium lawfully payable by the insurer to the director or  
13 to the manager selected under AS 21.79.060.

14 (b) An action under this section must be brought within five  
15 years of the date the right to payment accrued. If false or fraudu-  
16 lent conduct warrants, the claim is not considered to have accrued  
17 until its discovery.

18 (c) A recovery under this section shall be deposited in the  
19 general fund.

20 Sec. 21.79.200. PERIODIC REVIEW OF PROGRAMS. The director shall  
21 periodically review the programs operating under this chapter and  
22 annually report to the legislature within the first 10 days of each  
23 regular session, beginning with the Second Session of the Fifteenth  
24 Legislature, concerning

25 (1) whether the programs are effectively making commercial  
26 general liability and other essential lines of liability insurance  
27 readily available to the entities listed in AS 21.79.020;

28 (2) the director's recommendations for revising this chap-  
29 ter in order that it may more effectively achieve its purposes.

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

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

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

10 (5) "insolvent insurer" means an insurer

11 (A) authorized to transact insurance in this state,  
12 except an assessable reciprocal insurer formed by and insuring  
13 only municipalities or nonprofit public utilities, a joint insur-  
14 ance arrangement formed under AS 21.76, the Medical Indemnity  
15 Corporation of Alaska, and the Health Care Providers Joint Under-  
16 writing Association established under AS 21.88, either at the  
17 time the policy was issued or when the insured event occurred,  
18 and

19 (B) determined to be insolvent by a court of compe-  
20 tent jurisdiction;

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

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

28 (A) writes any kind of insurance to which this chap-  
29 ter applies under AS 21.80.020 including the exchange of

1 reciprocal or interinsurance contracts, and

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


3 \* Sec. 6. By the fifth day of the First Session of the Fifteenth Legis-  
4 lature, the commissioner of commerce and economic development shall report  
5 to the legislature concerning

6 (1) the nature and extent of anticipated use of the insurance  
7 industry in the delivery of reinsurance under sec. 2 of this Act to  
8 manufacturers, service providers, insurers, and joint underwriting  
9 associations;

10 (2) anticipated costs of providing reinsurance under sec. 2 of  
11 this Act;

12 (3) the identity of applicants that have contacted the depart-  
13 ment about the programs that would be authorized under this Act; and

14 (4) the identity of affected parties that might benefit from  
15 participation in the programs authorized under this Act.

16  \* Sec. 7. AS 21.36.190 is repealed.

17 \* Sec. 8. Sections 1 and 3 - 7 of this Act take effect immediately in  
18 accordance with AS 01.10.070(c).

19 \* Sec. 9. Section 2 of this Act takes effect March 1, 1987.  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

# ASSOCIATION OF ALASKA SCHOOL BOARDS

326 Fourth St., Suite 510 • Juneau Alaska 99801 • (907) 586-1083

## TESTIMONY

of

Robert C. Greene  
Executive Director  
Association of Alaska School Boards

The Association of Alaska School Boards would like to state its support for HB 506, which would allow school districts to pool contributions and assume risks from losses on a group basis through a Joint Insurance Arrangement.

It appears that the present restrictive insurance market will continue as insurance companies attempt to write the better risks at a price designed to replace lost surplus and to attain financial stability. Insurance availability to school districts has been severely curtailed and coverage has been narrowed as the marketplace continues to harden. The result has created a hardship for school districts not only in their ability to adequately provide coverage, but in their attempt to budget for unanticipated increases in insurance premiums.

Many municipalities and school districts country-wide are implementing pooling programs as an alternative to the lack of affordable insurance available in the present insurance market. Prior to the current market restrictions, many school districts used group insurance purchasing as an alternative to pooling. This was attempted by the school districts in Alaska last July; however, due to the restrictive insurance market conditions, group purchase was not successful.

In a pooling program, losses are shared to some extent among participants. The advantage that pooling has over a group purchase program is the pool's collective ability to support a higher deductible (or self-insured retention) than any single member can afford.

The lower levels of insurance are the most expensive and require greater capacity from an insurance company than the higher levels. A pooling program can eliminate these expensive insurance layers and open up capacity from the insurance market. Such a program can also provide better stability in terms of cost of insurance to participants.

Attached is a summary of some information we have collected recently regarding the increased rates experienced by some school districts from 1984-85 to 1985-86. While the list represents slightly less than half of the state's school districts, we feel that this information can provide some insight into the impact that the insurance market is having on school districts.

The Association of Alaska School Boards appreciates the attention being given to school districts' insurance problems by the Alaska State Legislature and would encourage the Labor and Commerce Committee to view HB 506 favorably.

ASSOCIATION OF ALASKA SCHOOL BOARDS  
SURVEY OF ALASKA SCHOOL DISTRICTS  
INCREASE IN INSURANCE COSTS

1984-85 to 1985-86

SCHOOL DISTRICT	1984-85	1985-86	COMMENTS
Aleutian Region	\$ 39,319	\$ 101,234	*
Anchorage	414,652	1,582,280	Property/Casualty 85-86 Increased SIR
Bering Strait	348,842	896,708	
Bristol Bay	114,471	185,441	85-86 projected for Dec. 31 renewal
Chatham	30,628	44,000	*
Chugach	19,148	46,769	*
Copper River	96,045	197,583	See attached sample survey response
Cordova	28,020	23,344	85-86 may receive later adjustment
Delta/Greely	45,788	94,578	Property only
Galena	69,993	80,000	
Haines	26,078	36,161	
Hoonah	37,258	84,211	
Ketchikan	547,165	560,000	Insured through the Borough
Lake and Peninsula	203,353	314,516	
Matanuska/Susitna	474,461	923,185	
Railbelt	367,733	151,614	**
St. Mary's	66,963	139,195	**
Sitka	119,392	118,970	85-86 Increased deductibles
Valdez	Estimated rates for 85-86 would have been 85% to 150% higher if same coverages had been secured. However, types of coverage changed dramatically and comparisons wouldn't be logical.		
Wrangell	15,784	16,488	*
Yukon-Koyukuk	110,000	240,000	

\* 1985-86 figure doesn't include all coverages that were carried in 1984-85

\*\* Some coverage hasn't been billed for 85-86 so final costs will be higher

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

M E M O R A N D U M

February 13, 1986

SUBJECT: Sectional Analysis  
(SSHB 506)

TO: Representative Robin Taylor

FROM: Terri Lauterbach *TL*  
Assistant Revisor of Statutes

Section 1 is based on a New York proposal and authorizes joint insurance arrangements as follows:

Sec. 21.76.010. Authorizes the entities specified to either jointly self-insure or to jointly purchase insurance as a group.

Sec. 21.76.020. Exempts joint insurance arrangements from regulation by division of insurance.

Sec. 21.76.030. Specifies that an agreement to form a joint insurance arrangement must include certain minimum provisions.

Sec. 21.76.040. Requires joint insurance agreements to contain certain financial provisions related to audits and accounting procedures.

Sec. 21.76.050. Allows a joint insurance arrangement to allow its board of directors to contract for administering the arrangement or any services that are part of the arrangement. This allows for an attorney-in-fact similar to current reciprocals (AS 21. 5).

Sec. 21.76.060. Allows delegation of power to settle claims.

Sec. 21.76.070. Allows purchase of catastrophic insurance on behalf of the joint insurance arrangement.

Sec. 21.76.080. Requires the joint insurance arrangement to establish a fund made up of money contributed by members. Restricts use of the fund and requires reports about its use.

Sec. 21.76.090. Requires filing of the agreement.

Sec. 21.76.100. Authorizes the board of directors of an arrangement to adopt regulations.

Sec. 21.76.110. Provides subrogation rights to the arrangement.

Sec. 21.76.900. Defines terms used in the chapter.

Section 2 of the draft represents the draft on reinsurance put together by the division of insurance.

Sec. 21.79.010. Establishes a reinsurance fund and specifies its uses.

Sec. 21.79.020. Provides for hearings on availability and rate structures of certain types of insurance.

Sec. 21.79.030. Requires director of insurance to make determination based on hearings; determination triggers next section.

Sec. 21.79.040. Allows director to assist development of joint underwriting associations. Allows director to modify certain provisions in AS 21.75 with respect to these JUA's.

Sec. 21.79.050. Allows state reinsurance for JUA's formed under preceding section.

Sec. 21.79.060. Allows director to contract for administration of programs under AS 21.79.

Sec. 21.79.100. Specifies that programs under the chapter must be operated with various factors in mind, including promotion of safety and experience-based rates.

Sec. 21.79.110. Allows actions by the Attorney General to recover unpaid reinsurance premiums due the state.

Representative Robin Taylor  
Page 3  
February 13, 1986

Sec. 21.79.200. Requires director to periodically review the JUA and reinsurance programs operating under the chapter and to recommend to the legislature any changes that would make the programs more effectively achieve their purposes.

Sections 3, 4, and 5 exempt joint insurance arrangements from certain statutes that already exempt municipal reciprocal insurers.

Section 6 requires a report from the commissioner of commerce and economic development.

Section 7 repeals a law that currently prohibits the formation of groups that comprise a group only for the purpose of insurance.

TL:mkr  
M3:031



# ROBINSON HOMES

215 Corral Ave., Soldotna, Alaska 99669

(907) 262-5074

Cont. Lic. No. AA-5818

March 1, 1986

Rep. Mike Navarre  
Alaska State House of Representatives  
Pouch V (MS 3100)  
Juneau, Alaska 99811

Dear Mike,

I would like to thank you for your hospitality while the Home Builders were in Juneau. I would also like to assure you and your staff that I continue to work hard here on the grass-roots level to promote that dearest of issues, close to all of our hearts: the swift passage of H.B. 700!

## H.B. 494

I feel that the position expressed in the Teleconference hearing on Feb. 26th by the Homebuilders represents middle ground, and that to do more than these suggested changes is to assure future Legislatures of having to correct the law back closer to what it is now. **Making the misappropriation of funds a criminal offense** should go a long way towards correcting the problems of the present law. Further, if Subs and Suppliers can simply file a **Right to Lien** instead of having to get an Acknowledgement of Right to Lien signed by the Owner of Record, this will make this part of the process much less onerous, and ultimately result in more Subs and Suppliers getting their money. The inclusion of a **criminal penalty for the filing of a false or fraudulent lien** would keep "grudge liens" from being the next problem we would have to deal with.

## S.S.H.B. 506

In Chapter 76. JOINT INSURANCE ARRANGEMENTS., Sec. 21.76.010 AUTHORITY TO ESTABLISH JOINT INSURANCE ARRANGEMENTS., sub-section (a) should be amended further to include " and non-profit corporations".

## FUNDING FOR MUNICIPAL PROJECTS IN SOLDOTNA FOR FY 1987

We in Soldotna are satisfied with the Governor's Capital Budget figures as they were passed to the House from the Senate. These represent the projects that are at the top of our priorities, and will allow us to move forward with plans to include traffic signalization in our Binkley Street Project next summer. Including Signalization at this time will ultimately cost less than doing it as a separate job later, and as you well know, is badly needed. We also need to expand our water and sewer on the south side of the Kenai River to allow for the Development of the Salamantof property, and the building of a much-needed Water Storage Tank.

Sincerely,

Mitchel L. Robinson

# Alaska MUNICIPAL League

TELEPHONE  
(907) 586-1325

105 MUNICIPAL WAY, SUITE 301  
JUNEAU, ALASKA 99801

To: Representative Mike Navarre, Chairman  
Members of the House Labor and Commerce Committee

From: Scott A. Burgess, Executive Director *SAB*

Date: March 7, 1986

Subject: Legislation Addressing Insurance Pooling (HB 506; HB 585)

The Alaska Municipal League, representing 116 direct member municipalities, strongly supports legislation that would enable municipalities to pool their insurance costs, and losses. Currently, municipal insurance pools, sponsored by state municipal leagues, are operating in 23 states. Never has any municipal insurance pool gone into default. Never has any municipal insurance pool been unable to pay a claim. All have been very successful.

Municipal insurance pooling lowers costs, and increases availability of insurance to municipalities. Pools offer municipalities a chance to pay premiums based solely upon loss history. In addition, municipalities in an insurance pool can recoup a portion of that premium through a year-end dividend payment, based upon their success at controlling losses. Under a pool, the availability of insurance to municipalities would no longer be subject to the cycles of the general insurance market.

The AML has no position on the creation of the Alaska Reinsurance Fund, proposed in HB 506. If legislation allowing the formation of a municipal insurance pool were passed, the AML would most likely obtain reinsurance from the National League of Cities, which will begin offering reinsurance on May 1 of this year through a reinsurance pool supported by the 23 state municipal league pools currently in operation. In addition, several other reinsurance opportunities would be available to an Alaska Municipal League insurance pool, due to the success, and past performance, of the League's current insurance program. Though not a pool, the League currently sponsors a program which is providing insurance to over 75 municipalities and school districts in the State for worker's compensation, general liability, business auto, and errors and omissions coverage for law enforcement, public officials, and school board members.

House Bill 585 currently includes only school districts, but the bill could easily be amended to include municipalities, simply by adding to Page 1, Line 15, the words "Both municipalities and..."

Thank you for your consideration of this important issue. If the League may be of further assistance in any way, please call.



National League of Cities  
 1301 Pennsylvania Avenue NW  
 Washington, D.C. 20004  
 (202) 626-3000  
 Cable: NLCITIES

**Officers**  
*President*  
 George V. Vonevich  
 Mayor, Cleveland, Ohio  
*First Vice President*  
 Carol Bellamy  
 Council President, New York, New York  
*Second Vice President*  
 Henry G. Cisneros  
 Mayor, San Antonio, Texas  
*Immediate Past President*  
 George Latimer  
 Mayor, St. Paul, Minnesota  
*Executive Director*  
 Alan Bevis

GROUP SELF-INSURANCE POOLS  
 SPONSORED BY STATE MUNICIPAL LEAGUES

<u>State</u>	<u>Type of Risk Covered</u>				
	<u>Health &amp; Accident</u>	<u>Workers Compensation</u>	<u>Liability</u>	<u>Unemployment Compensation</u>	<u>Property</u>
Alabama		x			
Arkansas	x	x		x	
Connecticut		x		(1)	
Florida	x	x		x	
Georgia		x			
Illinois		x		x	
Iowa		x			x
Kentucky		x			
Louisiana (3)		x		x	
Maine	x	x		(1)	
Massachusetts		x(2)			
Michigan		x		x	
Minnesota	x	x		x	x
New Hampshire	x			x	
New Mexico		x			
North Carolina	x	x		(1)	
Oklahoma (3)	x	x		x	
South Carolina (3)	x	x			
Tennessee	x	x		x	
Texas		x		x	
Utah	x	(1)			
Vermont		(1)		x	
Virginia		x			x

- (1) Pool being developed (as of 8/85)
- (2) Fronted safety group program rather than pure pool
- (3) Not participating in NLC/RMPSP

Prepared by: National League of Cities  
 December, 1985

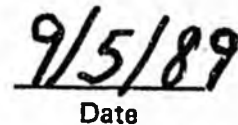


# RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

  
Signature of Camera Operator

  
Date