

HB

77



A M E N D M E N T

OFFERED IN THE HOUSE:

By: HOUSE LABOR & COMMERCE

To: \_\_\_\_\_ HOUSE BILL No. HB 77 \_\_\_\_\_

SENATE BILL No. \_\_\_\_\_

PAGE: 2 \_\_\_\_\_

LINE: 12, 13, 14 \_\_\_\_\_

Page 2, lines 12, 13, 14

Please delete all words and figures on these lines  
so that the bill will read:

- 12. [MULTIPLE LINES (ALL LINES
- 13. EXCLUDING LIFE AND TITLE
- 14. INSURANCE) 750,000 · 750,000]

Note to Mike:

I heard rumors that HB 77 really sets up a closed shop for local insurance companies. This is not true, though it does make it more difficult for new companies, either domestic or local, to open up operations in Alaska without certain minimum baseline assurances. Basically, it is to help prevent struggling, new fly-by-night companies that are just getting established, from starting up operations in Alaska, overextending themselves, and going bankrupt. While it protects certain specialized local companies by grandfathering them, it does make it harder for small companies based outside Alaska, or any brand new company to start up in Alaska.

A handwritten signature in cursive script, appearing to be the name 'Rope' or similar, written in dark ink.

Introduced: 1/18/85  
Referred: Labor & Commerce

1 IN THE HOUSE

BY CATO

2

HOUSE BILL NO. 77

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the capital funds required of  
foreign and domestic insurers."

7

8

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

9

\* Section 1. AS 21.09.070(a) is amended to read:

10

(a) To qualify for authority to transact any one kind of insur-

11

ance as defined in AS 21.12, or combination of kinds of insurance as

12

shown below, a foreign insurer, or a domestic insurer applying for its

13

original certificate of authority in this state, or an insurer re-

14

applying for a certificate of authority in this state after having

15

withdrawn from this state for any cause, shall possess and thereafter

16

maintain unimpaired basic paid-in capital stock (if a stock insurer)

17

or unimpaired basic surplus (if a foreign mutual insurer or foreign

18

reciprocal insurer), and shall possess when first so authorized addi-

19

tional funds in surplus as follows:

20

Basic Capital

21

Kind or Kinds

or

Additional

22

of Insurance

Basic Surplus

Surplus

23

Life

\$800,000 [\$400,000] \$800,000 [\$400,000]

24

Disability

800,000 [400,000] 800,000 [400,000]

25

Life and

26

Disability

1,000,000 [500,000] 1,000,000 [500,000]

27

Property

600,000 [400,000] 600,000 [400,000]

28

Casualty exclud-

29

ing vehicle

1,000,000 [500,000] 1,000,000 [500,000]

1	Vehicle	<u>800,000</u>	[400,000]	<u>800,000</u>	[400,000]
2	Marine & Trans-				
3	portation	<u>1,000,000</u>	[450,000]	<u>1,000,000</u>	[450,000]
4	Surety	<u>1,000,000</u>	[500,000]	<u>1,000,000</u>	[500,000]
5	Title	<u>300,000</u>	[250,000]	<u>300,000</u>	[250,000]
6	Any two <u>or more</u> of the following				
7	kinds of insurance: property,				
8	marine and transportation,				
9	<u>vehicle</u> , casualty excluding				
10	vehicle, surety and				
11	disability	<u>1,500,000</u>	[550,000]	<u>1,500,000</u>	[550,000]
12	Multiple Lines (all lines				
13	excluding life and title				
14	insurance		[750,000]		[750,000]
15	Legal Expenses	<u>600,000</u>	[400,000]	<u>600,000</u>	[400,000]
16	Mortgage Guarant-				
17	tee	<u>1,000,000</u>	[400,000]	<u>1,000,000</u>	[400,000]

\* Sec. 2. AS 21.09.080 is repealed and reenacted to read:

Sec. 21.09.080. CAPITAL FUNDS REQUIRED OF OLD DOMESTIC INSURERS.

(a) A domestic insurer holding a valid certificate of authority to transact insurance in this state immediately before January 1, 1985, may continue to transact the same kinds of insurance permitted by the certificate of authority provided that after January 1, 1985, the insurer maintains unimpaired no less paid-in capital stock (if a stock insurer) and no less minimum surplus (if a mutual or reciprocal insurer) than the amount required of the insurer by AS 21.09.070 on December 31, 1984, as if the law had continued in force.

(b) An insurer described in this section may not, after January 1, 1985, declare a dividend or distribute assets to its

1 shareholders, members or subscribers until it has a total capital and  
2 surplus equal to the total capital and surplus required for a like  
3 insurer under AS 21.09.070.

4 (c) Annually on December 31, beginning in 1985, each domestic  
5 insurer described in this section with less paid-in capital stock (if  
6 #3 a stock insurer) or less surplus (if a mutual or reciprocal insurer)  
7 than required by AS 21.09.070 as to new domestic insurers shall in-  
8 crease their unimpaired basic paid-in capital stock or surplus by an  
9 amount equal to 20 percent of the difference between the actual paid-  
10 in capital stock or surplus on December 31, 1983, and that required by  
11 AS 21.09.070 as to new domestic insurers. By December 31, 1989, all  
12 domestic insurers shall maintain paid-in capital stock and surplus in  
13 amounts no less than required by AS 21.09.070 as to new domestic  
14 insurers.

15 (d) Notwithstanding the provisions of this section, a domestic  
16 life insurer duly licensed and capitalized on December 31, 1984, shall  
17 #4 have and maintain the capital and surplus required under the laws of  
18 this state on December 31, 1984, as if the laws had continued in  
19 force.

20 \* Sec. 7. AS 21.69.220(b) is amended to read:

21 (b) When applying for an original certificate of authority, the  
22 insurer must be otherwise qualified under this title, and must have  
23 received and accepted bona fide applications as to substantial insur-  
24 able subjects for insurance coverage of a substantial character of the  
25 kind of insurance proposed to be transacted, must have collected in  
26 cash the full premium at a rate not less than that usually charged by  
27 stock insurers for comparable coverages, must have surplus funds on  
28 hand and deposited as of the date the insurance coverages are to  
29 become effective, or, in lieu of the applications, premiums and

1 surplus, may deposit surplus, all in accordance with that part of the  
 2 following schedule which applies to the one kind of insurance the  
 3 insurer proposes to transact:

(A) Kind of Insurance	(B) Minimum No. of Applicants Accepted	(C) Minimum No. of Subjects Covered	(D) Minimum Premium Collected
Life (1)	500	500	annual
Disability (2)	500	500	quarterly
Property (3)	100	250	annual
Casualty (4)	250	500	annual
With Workers'			
Compensation	250	1,500	quarterly
Marine, Wet			
Marine, and			
Transportation	50	50	annual

(E) Minimum Amount of Insurance Each	(F) Maximum Amount of Insurance Each Subject	(G) Minimum Surplus Funds Deposited	(H) Deposit of Surplus in Lieu of
--	---	---	--

1	Subject	(5)	(6)	(6)
2				
3				
4	\$1,000	\$ 2,500	<u>\$800,000</u>	[\$ 50,000] <u>\$800,000</u> [\$100,000]
5	\$ 10	\$ 25	<u>\$800,000</u>	[\$ 50,000] <u>\$800,000</u> [\$100,000]
6	(weekly	(weekly		
7	indem.)	indem.)		
8	\$1,000	\$ 3,000	<u>\$600,000</u>	[\$100,000] <u>\$600,000</u> [\$200,000]
9	\$1,000	\$10,000	<u>\$1,000,000</u>	[\$150,000] <u>\$1,000,000</u> [\$200,000]
10	\$1,000	\$10,000	<u>\$1,000,000</u>	[\$200,000] <u>\$1,000,000</u> [\$300,000]
11	\$1,000	\$25,000	<u>\$1,000,000</u>	[\$100,000] <u>\$1,000,000</u> [\$200,000]

14 \* Sec. 4. AS 21.75.050 is amended by adding a new subsection to read:

15 (d) Notwithstanding (a) and (c) of this section, domestic recip-  
 16 rocal insurers duly licensed and capitalized on December 31, 1984,  
 17 shall have and maintain the capital and surplus required at the date  
 18 of their original license.

Feb 1 85  
FRIDAY

HOUSE BILL 77

REPRESENTATIVE BETTE CATO, HOUSE OF REPRESENTATIVES, DISTRICT 6.

I APPRECIATE THIS OPPORTUNITY TO BE ABLE TO SPEAK BEFORE THIS  
COMMITTEE.

HOUSE BILL 77 IS AN ACT RELATING TO THE CAPITAL FUNDS REQUIRED OF  
FOREIGN AND DOMESTIC INSURERS.

THE INSURANCE INDUSTRY IS ONE OF THE FEW INDUSTRIES THAT IS NOT  
FEDERALLY REGULATED, IT IS REGULATED ENTIRELY BY THE STATES.

THROUGH THE DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT,  
DIVISION OF INSURANCE THE STATE REGULATES LICENSING, PREMIUM RATES,  
INVESTMENTS AND DIVIDENDS. THEY ALSO CONTROL WHO CAN BE MANAGERS,  
EXAMINE COMPANIES AND PROVIDE A CONSUMER COMPLAINT SERVICE.

A FULL CODE COVERS ALL OF THESE REQUIREMENTS - TITLE 21, THE  
INSURANCE CODE. THE BASIC FUNDAMENTALS OF THIS STRICT REGULATION  
IS SOLVENCY OF THE AGENCY. THIS IS TO ENSURE THAT A COMPANY WHO  
SELLS A POLICY TODAY IS SOLVENT WHEN THE POLICY COMES DUE.

THIS BILL ADDRESSES INSURANCE COMPANIES NOT THE AGENTS OR BROKERS.  
THERE ARE BASICALLY 2 PARTNERS IN THE INSURANCE BUSINESS, FIRSTLY,  
THE INSURANCE COMPANY - THIS COMPANY WRITES THE POLICY, RECEIVES  
THE MONEY AND HAS THE RESPONSIBILITY TO PAY THE MONEY WHEN THE  
POLICY COMES DUE. SECONDLY, THE PRODUCER, AGENT/BROKER - THIS IS  
THE PERSON WHO PROVIDES THE INSURER WITH THE INSURANCE COMPANY.  
UNDER TITLE 21 DOMICILED COMPANIES AND FOREIGN COMPANIES ARE  
ELIGIBLE TO APPLY FOR A CERTIFICATE OF AUTHORITY.

THE SOLVENCY OF COMPANIES HAS BECOME A CONCERN OVER THE PAST 2-3  
YEARS. REASONS FOR THIS INCLUDE: DOUBLE DIGIT INFLATION, AUTOMOBILE  
ACCIDENT AWARDS OF 2 TO 5 MILLION DOLLARS, AND MORE AND MORE LAW  
SUITS BEING FILED FOR SUCH THINGS AS ENVIROMENTAL HAZARDS,  
ASBESTOSES, ETC.

TODAY, INSURANCE COMPANIES MUST HAVE MONEY TO COVER THESE LARGE  
UNANTICIPATED CLAIMS AND STILL HAVE ENOUGH TO PAY ALL THE POLICIES  
THAT COME DUE. WHEN AN INSURANCE COMPANY WITH LIMITED CAPITAL OR  
SURPLUS BECOMES INSOLVENT BECAUSE THEY CANNOT MEET THEIR  
OBLIGATIONS, IT BECOMES THE RESPONSIBILITY OF THE OTHER INSURANCE

COMPANIES IN ALASKA TO PAY THESE OBLIGATIONS. THIS PLACES A GREAT FINANCIAL BURDEN ON THE INSURANCE COMPANIES.

SEC. 21.80.040 ADDRESSES THE ALASKA INSURANCE GUARANTEE ASSOCIATION. ALL COMPANIES ARE REQUIRED TO BE A MEMBER OF THIS ASSOCIATION AS A CONDITION OF THEIR AUTHORITY TO TRANSACT INSURANCE IN THIS STATE.

SEC 21.080.060 (b) STATES THAT WHEN A COMPANY BECOMES INSOLVENT THE ALASKA INSURANCE GUARANTEE ASSOCIATION IS TO BE CONSIDERED THE INSURER AND IS RESPONSIBLE FOR ALL THE INSOLVENT COMPANIES CLAIM OBLIGATIONS.

ONE OF THE MOST IMPORTANT CONTROLS WHICH THE STATUTES GIVE THE DIVISION OF INSURANCE IS TO REQUIRE THAT INSURANCE COMPANIES HAVE A MINIMUM AMOUNT OF CASH IN THEIR CAPITAL AND FREE SURPLUS ACCOUNTS BEFORE THEY ARE LICENSED AND FURTHER REQUIRE THAT THEY MAINTAIN THOSE LEVELS SO LONG AS THEY ARE LICENSED TO DO BUSINESS IN THE STATE.

PERIODICALLY IT IS NECESSARY FOR THESE REQUIREMENTS TO BE REVIEWED TO DETERMINE IF THEY ARE STILL ADEQUATE TO MEET CURRENT NEEDS.

IN 1966 THE MINIMUMS WERE DOUBLED OVER WHAT HAD BEEN REQUIRED. THE

CAPITAL AND SURPLUS REQUIREMENTS WERE INCREASED BY 100% IN 1976  
WHEN THEY WERE LAST REVIEWED BY THE LEGISLATURE. THERE HAS BEEN NO  
CHANGE IN THE CAPITAL AND SURPLUS REQUIREMENTS SINCE 1976, HOWEVER,  
WITH INFLATION, COURT AWARDS AND LEGAL ACTIONS ALL ON THE INCREASE  
I FEEL WE DEFINATELY NEED TO INCREASE THE AMOUNTS OF CAPITAL STOCK  
AND SURPLUS WE REQUIRE INSURANCE COMPANIES TO HAVE TO PROTECT THE  
SOLVENY OF THE COMPANIES.

THIS BILL ALLOWS INSURANCE COMPANIES WHO HOLD A CERTIFICATE OF  
AUTHORITY IN THIS STATE TO GRADUALLY INCREASE THEIR CAPITAL STOCK  
AND SURPLUS BY 20% OVER A FIVE YEAR PERIOD. BY DECEMBER 31st, 1989  
ALL INSURANCE COMPANIES WITH A CERTIFICATE OF AUTHORITY IN THIS STATE  
SHALL HAVE THE MINIMUM AMOUNT OF CAPITAL STOCK AND SURPLUS REQUIRED  
BY THIS BILL.

THANK YOU FOR TAKING THE TIME TO LISTEN TO ME THIS AFTERNOON.

5

Amendments to the bill:

The first amendment on your sheet was already incorporated into the bill:

The second and third ones remove the words "or reciprocal" . If left in, it appears that the intent is to make domestic reciprocals come up with the surplus by 1989, but it conflicts with Section 4, (page 5, lines 14-18,) which specifically exempts domestic reciprocal insurers, and says that domestic reciprocal insurers dont have to come up with the surplus (they are all table and there were none here before 1976 anyway).

The fourth amendment was scratched as irrelevant.

The fifth amendment is stuck into the last section (Section 5 of the bill) to make it clear by reference to AS 21.09.080, which is the same as Section 2 of this bill, that domestic reciprocals are exempted.

Pg 5  
Line 15

NOTES FOR FLOOR PRESENTATION

HB 77

An act relating to the capital funds required of foreign & domestic insurers.

UNLIKE OTHER AREAS OF OUR SOCIETY, THE INSURANCE INDUSTRY HAS RELATIVELY LITTLE FEDERAL INVOLVEMENT AND RESTRICTION, AND IT IS LEFT UP TO THE INDIVIDUAL STATES TO ESTABLISH THEIR OWN LAWS AND POLICIES TO REGULATE THE INDUSTRY.

UNDER CURRENT LAW, ALL INSURANCE COMPANIES DOING BUSINESS IN ALASKA ARE REQUIRED TO HAVE CERTAIN MINIMUM AMOUNTS OF UNIMPAIRED BASIC CAPITAL AND BASIC SURPLUS. ALTHOUGH IT IS NO ABSOLUTE GUARANTEE, IT DOES PROVIDE AT LEAST A MINIMUM CUSHION TO HELP ENSURE THAT AN INSURER IS ABLE TO MEET ITS FINANCIAL OBLIGATIONS WITHOUT GOING BANKRUPT.

IF THE COMPANY GOES BANKRUPT, THIS CAN AFFECT ALASKANS IN SEVERAL WAYS:  
1) THE PEOPLE OF THE STATE WHO HAVE CLAIMS AGAINST MANY TYPES OF INSURANCE COMPANYS WOULD NOT GET THEIR MONEY 2) IN THE CASE OF THE PROPERTY AND CASUALTY INSURANCE COMPANIES DOING BUSINESS IN ALASKA, THERE IS AN INSURANCE GUARANTEE ASSOCIATION THAT MUST PAY FOR THE LOSSES WHICH AN INSOLVENT INSURANCE COMPANY DOING BUSINESS IN THE STATE IS UNABLE TO PAY.

IT IS THEREFORE IN THE BEST INTEREST OF BOTH THE PEOPLE OF THE STATE AND THE INSURANCE COMPANIES OF THE STATE TO SEE THAT SOME SORT OF MINIMUM CONTROLS CONTINUE TO BE IMPOSED ON NEW INSURANCE COMPANIES THAT ARE DEVELOPING IN ALASKA. IF A NEW COMPANY IS NOT ADEQUATELY CAPITALIZED, IT CAN QUICKLY BECOME INSOLVENT. THIS BILL RAISES THE MINIMUM REQUIRED LEVELS OF BASIC CAPITAL AND BASIC SURPLUS FROM THOSE SET BY ALASKA STATUTE IN 1976 TO LEVELS THAT

TAKE INTO ACCOUNT INFLATION SINCE THEN.

TO AVOID MAKING THIS TOO MUCH OF A HARDSHIP ON DOMESTIC INSURERS, LOCAL COMPANIES ARE GIVEN 5 YEARS, UP TO 1989, AT THE RATE OF 20% INCREASE IN THEIR SURPLUS A YEAR, TO MEET THE NEW RATE LEVELS. BECAUSE OF THE NATURE OF CERTAIN DOMESTIC LIFE INSURANCE COMPANIES THAT SERVED VERY SPECIALIZED AND NARROW CLIENTELE,, THIS LAW DOES NOT APPLY TO THEM, AND THEY ARE GRANDFATHERED IN. (This includes two domestic reciprocals--Alaska Timber Insurance Exchange, and Alaska Rural Electric Cooperative Association Insurance Exchange; and one life insurance company or stock company, the Life Insurance Company of Alaska. No mutual companies are exempted, and the reciprocals for the most part are included and not exempted because they are long term and stable and there were none in Alaska before 1976.)

HB 77

An Act relating to the capital funds required of foreign and domestic insurers.

An insurance company desiring to do business in Alaska must have, among other things, certain amounts of unimpaired paid-in basic capital and unimpaired basic surplus before it can open its doors for business. These amounts, which are specified in Alaska Statutes, are intended to be a minimum cushion to assure that the insurer is able to meet its financial obligations.

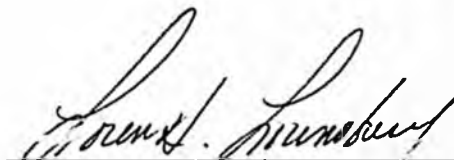
These minimums were last revised in 1976. Since that time, the purchasing power represented by the specified limits has substantially diminished. For example, the value of a limit of \$1,000,000 in 1976 has diminished as follows:

1976	\$1,000,000	1981	\$625,000
1977	\$939,000	1982	\$590,000
1978	\$873,000	1983	\$574,000
1979	\$797,000	1984 est.	\$559,000
1980	\$693,000	1985 est.	\$543,000

The proposed bill would effectively restore the purchasing power of the minimums to slightly over the 1976 level.

This proposal has grandfather provisions for domestic life companies (we have one) and for domestic reciprocals (we have two). All other domestics would have four years to reach the new required minimums. We view this as appropriate.

The Department lends its full support to this measure as proposed with a few minor nonsubstantive amendments. We urge the committee to consider the bill on its merits. The proposal is timely and we encourage its passage.

  
 Loren H. Lounsbury, Commissioner

Date: 1/30/85

0105K13085b

This bill grandfathers in :

- 1) Domestic reciprocals , which are exempted, and include:
  - a. Alaska Timber Insurance Exchange
  - b. Alaska Rural Electric Cooperative Association Insurance Exchange
  
- 2) Domestic stock companies exempted:
  - a. One life insurance company, the Life Insurance Company of Alaska
  
- 3) No mutuals are exempted by the bill

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MICA (Medical Indemnity Corporation of Alaska) was not grandfathered in and already meets the requirements, because it is a state-owned corporation set up under AS 21.88, and it supplies medical malpractice for doctors. It is not really a fit with the others, but it already meets the minimum requirements of the new bill.

Umiliak is a property-casualty company, so it is not grandfathered in.

There are 3 types of insurance companies:

stock companies

These companies <sup>all</sup> ~~is~~ capitalized by stock holders, who are not necessarily policy holders. A stock company is managed independently of the stock holders.

mutual companies

In these companies, the policy holders are the stock holders. In a mutual company you do have management by an independent body.

reciprocal companies

These companies are similar to mutual companies; the policy holders are the company. Its a pooling of their resources. They have an Attorney-in-fact, rather than officers to operate and do company business for them. So the policy holders are more directly involved in day to day operations of the insurance companies. Also, a reciprocal is a non-profit company, while mutual and stock companies are for profit.

HOUSE BILL 77  
Sectional Analysis

"An Act relating to the capital funds required of foreign and domestic insurers"

AS 21.09.070(a)

Section 1 This amended section increases the amounts of capital and working funds required of certain classes of insurers; foreign, first time domestic applicants, and those previously certified who withdrew for any reason. Pg. 2 line 6 the words "or more" are added to the former language. Pg. 2 line 9 "vehicles" is included in the list of kinds of insurance.

AS 21.09.080.

Section 2 (a) Allows domestic insurers who now hold valid certificates to continue to operate in the same lines of insurance as they presently do as long as they maintain no less capital stock, (stock insurers), no less surplus (mutual or reciprocal insurers) than they must now.

(b) Forbids declaration of dividends after Jan. 1, 1985 until an insurer meets the new minimums for that class of insurer under the new law.

(c) Starting December 31, 1985, domestic insurers with less than the new required minimum capital must increase their capital by 20% of the difference between the actual amounts held on 12/31/83 and the new requirements which would bring every insurer up to the new minimums by 1989.

(e) Exempts domestic life insurers from the new capital requirements.

AS.69.220(b)

Section 3 Amends the "minimum surplus funds deposited" and the "deposit surplus in lieu of" on page 5 of the bill.

AS.75.050

Section 4 Adds a new subsection exempting domestic reciprocal insurers licensed and capitalized as of December 31, 1984 from the requirements of the new provisions.

TO: Mike  
FROM: Roger

January 30, 1985

HB 80:

The Dept. of Commerce has requested this fee increase thru the Governor's office and so automatically supports it. Last year they tried to transfer this power from statute to regulation in HB 633, but it was resisted by the Labor and Commerce Committee, who drafted a committee substitute that is exactly the same as this bill.

Last year's bill died in Judiciary because Charlie Bussell as a matter of policy did not move out any of the Governor's bills that were referred to his Committee, so the opposition to it was strictly due to partisan politics, in private, I understand, Charlie actually thought the bill was okay.

The Fiscal Note is zero in terms of cost, but is some \$350,000 annual additional revenues generated in FY 86 with further increases in following years.

Testimony on the bill will come from John George and Don Koch, both of the Division of Insurance, Dept. of Commerce.

It is felt that the insurance industry will probably support this bill or at least not be actively opposed, since if the state insurance companies aren't fairly well regulated, and in line with national averages, the federal government will step in, and the state companies don't want that at all. I did contact a number of insurance companies and lobbyists on these two

bills, so there may be a fair number of observers or even people to testify on either or both bills.

HB 77 The bill comes from the insurance industry due to a letter from Robert Bloch to Bettye Cato; Bloch used to be the Director of the Division of Insurance in the Department. As written, it is a clean bill which the industry will probably accept without too much flak. Fiscal note is zero. Its basic intent is to keep out fly-by-night insurance companies that come in with minimum assets and then go bankrupt and stick the people of Alaska with unpaid bills and premiums and claims, etc. In the case of life-insurance, this means that the other life-insurance companies in the State have to make up the losses of the bankrupt company out of their own assets!! This does not appear to apply, however, to other types of insurance besides life insurance.

There is some problems and confusion around who gets grandfathered in, but the basic list of affected companies are supplied in the file.

The Division of Insurance does have a list of proposed amendments of a housekeeping variety, that they will explain and you may want to act on. Don Koch also wanted to propose a Committee substitute that would give even more power to the Commissioner to anticipate a company going bankrupt and empower him to move in 45 days earlier, but Bettye Cato strongly opposed this, and Dick Bloch and Alex Miller did also, so the Dept. pulled back on requesting it as a Committee Substitute, but it may be brought up as an issue. If it is, it should be dealt with in a separate bill, not this one.

January 30, 1985 Wednesday 1:15 pm

LABOR AND COMMERCE AGENDA

- 1) CALL MEETING TO ORDER
- 2) NOTE HOUR/DAY/YEAR (1:15 pm? January 30, 1985, Wednesday)
- 3) NOTE MEMBERS PRESENT AND MEMBERS ABSENT  
(also note late arrivals as they occur)
- 4) RECOGNIZE ANY VIP'S OR GUESTS PRESENT
- 5) REMIND EVERYONE PRESENT TO SIGN IN AS EITHER A WITNESS OR AS AN OBSERVOR
- 6) EXPLAIN THE ORDER OF BILLS BEFORE THE COMMITTEE
  - \*HB 80 "An Act relating to Insurance Fees and Licensing," by Rules by Request of Governor
  - \*HB 77 "An Act relating to the Capital Funds required of foreign and domestic insurers," by Cato.
- 7) ANNOUNCE FIRST BILL BEFORE THE COMMITTEE, etc.
  - progression of the meeting
- 8) MAKE SURE ALL MEMBERS SIGN ANY BILL THAT IS PASSED OUT OF COMMITTEE
- 9) ANNOUNCE TIME OF ADJOURNMENT

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Note: As each witness comes forth, please request that they state their name and who they are representing, for the record, and to speak loudly enough to be heard by the microphones.

M E M O R A N D U M

TO: All Members, House Labor and Commerce Committee

FROM: Committee Staff

DATE: January 30, 1985

RE: Overview: HB 77, House State Affairs Committee

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On Wednesday, January 30, 1985, from 1:15 to 2:45 pm, in Room 102 of the Capitol Building, the House Committee on Labor and Commerce will hold hearings on HB 77: "An act relating to the capital funds required of foreign and domestic insurers."

Unlike many other areas of government, the insurance industry is primarily governed by the legislation of individual states, rather than by the federal government. This makes any decisions made on insurance issues worthy of state attention, since there is not much of a "safety net" of checks and regulations at the federal level to protect us.

Basically, this bill raises the minimum required amounts of unimpaired, paid-in basic capital and also surplus that an insurance company must have before it can do business in Alaska. These were last revised in 1976, and because of inflation, etc. no longer come close to reflecting true cost.

The right to determine these minimum amounts remains in statute and under the authority of the legislature, rather than giving that authority to the Department.

Ultimately, the bill seeks to protect those individuals or companies purchasing insurance by assuring that adequate cash reserves will be available when it is time to settle a claim. While other means may be worth considering to provide additional protection, this legislation makes a large step in that direction.

A complete and adequate history and rationale for the bill has been supplied in your file in a letter by Richard Block, president of Alaska National Insurance Company to Representative Cato.

There was no legislation on this issue submitted last year, and there is no companion legislation in the Senate at this time.

There does appear to be some confusion on just what specific companies are being grandfathered in under this legislation, as they are named in the table of Capital and Surplus of Domestic Insurers, December 31, 1982 (see item 7 listed in your file contents at the back of the file).

Also, please note that there are 5 housekeeping amendments of a non-substantive nature to clean up the language of the bill being proposed by the Division of Insurance.

HB 77 FILE CONTENTS

- 1) Overview -- Committee Staff Memo
- 2) Fiscal Note -- Dept. of Commerce
- 3) Position Statement -- Dept. of Commerce
- 4) Cover letter -- by Sponsor Cato
- 5) Sectional Analysis -- by Cato staff
- 6) Background letter -- by Richard Block, Alaska National Title Ins.
- 7) Table showing affected Companies in Alaska  
(Title: Capital and Surplus of Domestic Insurers, Dec. 31, 82).
- 8) Written testimony by Division of Insurance  
with proposed housekeeping amendments.



# Alaska National INSURANCE COMPANY

A DIVISION OF SERVICE AND PROTECTION

January 11, 1985

The Honorable Betty Gato, Representative  
House of Representatives  
Pouch V  
Juneau, Alaska 99811

Dear Betty:

I very much appreciate your undertaking to draft, prefile and introduce the legislation requiring increased capital and surplus minima for the formation and operation of insurance companies in the State of Alaska.

## BACKGROUND

Insurance companies formed and doing business in the state of Alaska are closely regulated by Title 21 as implemented and enforced by the Division of Insurance.

Historically, and still today, the most important consideration in regulating insurance companies and the whole insurance business is to insure the solvency of the industry, that is to ensure that the insurance companies selling policies will have the financial resources to pay obligations under those contracts when claims are made. This becomes a particularly acute problem when one realizes claims under our casualty insurance policies may not be made for three, four even five years after the policy has been paid for and for life insurance companies the claims may not be made for as much as twenty years, for title companies an equally long period of time.

The insurance regulatory scheme, which is directed towards assuring the financial capability of all of the carriers selling insurance, attempts to meet this challenge by overseeing almost all phases of an insurance company's activities; its pricing, its investments, its management, its ownership and its significant business transactions.

Perhaps the most important control which statutes give the insurance department is to require that insurance companies have a minimum amount of cash in its capital and free surplus accounts before they are licensed and further requiring that it maintain those levels so long as it is licensed to do business in the state.

Periodically it is necessary for these requirements to be reviewed to determine if they are still adequate to meet current needs.

In 1966 the minima were doubled over what they had been prior to that time. The capital and surplus requirements were last reviewed by the legislature in 1976 at which time they were increased by 100% over the requirements on the books at that time.

Since 1976 there has been no change in the capital and surplus requirements but there have been significant changes in the exposures for insurance companies not the least of which has been double digit inflation which has so decreased the value of money since 1976 making it extremely important that these be again reviewed.

#### CAPITAL AND SURPLUS REQUIREMENTS

Basic capital or basic surplus and additional surplus are the accounts denominated in Alaska statutes as policyholders' surplus. This is the statutory accounting term applied to the accounts which are more commonly known by accountants as a company's net worth.

I was one of the key people responsible for starting Alaska National Insurance Company in October of 1980. I have been in the insurance industry since 1968, from October of 1975 through December of 1978 I was the director of the Division of Insurance and have been involved as a lawyer or as an executive officer for insurance companies

With this background I believe I can say with assurance that one of the most important concerns that the insurance industry has is the adequate capitalization of new entrants into the insurance business.

There are two reasons why the insurance industry is concerned about the financial security of other insurance companies:

- (a) Those in the industry know full well that for the first several years of an insurance company's operation, capital and surplus is marketedly reduced partly because of genuinely incurred operating expenses and losses during the formative years and partly because of the peculiarities of statutory accounting, and that, if a company is not adequately capitalized it will quickly become insolvent even though it may be operating in accordance with rates, forms and procedures common to the rest of the industry.
- (b) In Alaska there is an insurance guarantee association which provides among other things that all of the property and casualty insurance companies doing business in the state of Alaska must pay for losses which an insolvent insurance company doing business in the state are unable to pay. We understand that it is the desire of the Division of Insurance to introduce a life insurance guarantee association which will have the same function with respect to life insurance companies.

Since losses left unpaid by an insolvent insurance carrier whether property, casualty or life must be paid for by those of us who are attempting to act responsibly in the industry we have a good and sufficient reason to be concerned that no company be started in the state of Alaska or allowed to enter the state from another state unless it has at least a minimum capital and surplus which in our judgement is necessary to properly operate a good insurance company.

#### POLICYHOLDER SURPLUS LEVEL

This legislative proposal requires that all the existing capital and surplus requirements be essentially doubled. If this legislation were adopted as proposed it would put Alaska near the top but not among the highest capital and surplus requirements for all of the states; that is, there are several states such as California, New York and Colorado which have capital and surplus requirements which are even higher than those which would be required by Alaska even after this bill were adopted.

It is my judgement that these minima are, particularly for Alaska, essential given the higher cost of workers' compensation claims, the higher property values involved, the higher exposure on auto and general liability claims and so forth.

#### ACCEPTABILITY

This measure was essentially drafted over a year ago and discussed among the insurance industry but never introduced as legislation.

At the time it was drafted, in November of 1983, it was presented to the then director of the Division of Insurance, Kenneth Moore who approved the language of the bill and agreed that he would support it if it were introduced.

I do not have a specific commitment from him but I believe that the new director, John George likewise approves of this proposal.

In addition, the measure was submitted to the Board of Governors of the Alaska Insurance Guarantee Association for their comment. Their response was that all members of the Board Governors except one for themselves and for whatever trade associations in the insurance industry they represent, either approved of or did not disapprove of the measure.

IMPACT ON INSURERS

Enclosed is an exhibit showing the capital and surplus of domestic insurers in the state of Alaska. It can be seen that the bill would not adversely affect any of the existing domestic insurance companies except Umiliak Insurance Company, Life Insurance Company of Alaska, The Alaska Timber Insurance Exchange and a newly formed reciprocal owned by the Alaska Rural Electric Association. All other companies either meet or exceed the capital requirements or are wholly owned by large insurance companies which could easily downstream capital without any loss or expense to themselves in order to meet the requirements. Umiliak Insurance Company would have to come up with additional monies, but I have discussed this matter with the manager of Umiliak who informed me that on his behalf and on behalf of his ownership they approved of the bill and would meet the requirements.

Language has been included in the bill which would grandfather the Alaska Timber Exchange the only other reciprocal in the state and the Life Insurance Company of Alaska the only domestic life insurance company.

Should you have any further questions concerning the general purpose of the proposed bill or its specific language, I would be happy to have you or your staff call upon me.

Yours cordially,

Richard L. Block  
President

DLB:jmd  
Enclosure

STATE OF ALASKA 1985 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

**REQUEST**

Bill/Resolution No.: HB 77  
Title: \_\_\_\_\_

**FISCAL DETAIL**

Agency Affected: Commerce & Econ Dev  
Program Category Affected: \_\_\_\_\_

Sponsor: Cato  
Requestor: \_\_\_\_\_  
Date of Request: \_\_\_\_\_

BRU, Program or Subprogram(s) Affected: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
<b>OPERATING</b>						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
500 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

<b>CAPITAL</b>						
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<b>REVENUE</b>						
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**FUNDING: (Thousands of Dollars)**

<b>GENERAL FUND</b>						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**POSITIONS:**

<b>FULL-TIME</b>						
<b>PART-TIME</b>						
<b>TEMPORARY</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**ANALYSIS:** Attach a separate page if necessary

Prepared By: Donald Koch *DK* Phone: 465-2577  
Division: DIVISION OF INSURANCE Date: \_\_\_\_\_

Approved by Commissioner: Loren H. Lounsbury *LHL* Date: 1/29/85  
Agency: Commerce & Economic Development

- Distribution (by Agency preparing fiscal note):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

7/1/84

TESTIMONY BY THE DIVISION OF INSURANCE  
Prepared on 1/30/85

HB 77

"An Act relating to the capital funds required of foreign and domestic insurers."

An insurance company desiring to do business in Alaska must have, among other things, certain amounts of unimpaired paid-in basic capital and unimpaired basic surplus before it can open its doors for business. These amounts, which are specified in Alaska Statutes, are intended to be a minimum cushion to assure that the insurer is able to meet its financial obligations.

These minimums were last revised in 1976. Since that time, the purchasing power represented by the specified limits has substantially diminished. For example, the value of a limit of \$1,000,000 in 1976 has diminished as follows:

1976	\$1,000,000	1981	\$625,000
1977	\$939,000	1982	\$590,000
1978	\$873,000	1983	\$574,000
1979	\$797,000	1984 est.	\$559,000
1980	\$693,000	1985 est.	\$543,000

The proposed bill would effectively restore the purchasing power of the minimums to slightly over the 1976 level.

This proposal has grandfather provisions for domestic life companies (we have 1) and for domestic reciprocals (we have 2). All other domestics would have 4 years to reach the new required minimums. We view this as appropriate.

This proposal is timely and we encourage its passage.

Page 2.  
Testimony HB 77  
1/30/84

Proposed Amendments

#1  
Editorial Correction

Insert brackets around the language beginning on page 2, line 12 and ending on page 2, line 14.

Editorial Correction

#2  
On page 2, line 25, remove the words "or reciprocal". The presence of these words at this location conflicts with Section 4 on page 5 of the bill."

Editorial Correction

#3  
On page 3, line 6, remove the words "or reciprocal". The presence of these words at this location conflicts with Section 4 on page 5 of the bill."

Editorial Correction

#4  
Following the word "required" on page 3, line 17, remove language to the end of the sentence and insert "at the date of their original license."

Editorial Correction

#5  
Following the word "section" on page 5, line 15, insert "or AS 21.09.080".