

COMMITTEE REPORT

SENATE

FURTHER:

3/18/86

Date _____

Mr. President

The Committee on FINANCE considered SB 404

relating to insurance; authorizing joint insurance arrangements;
repealing a prohibition against certain types of group insurance;
efd.

and (a majority of the committee) (the committee) reports it back with
the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

Chairman

Chairman recommendation

COMMITTEE REPORT

SENATE

FURTHER: FINANCE

2/13/86

Date MARCH 17, 86

Mr. President

The Committee on Labor & Commerce considered SB 404

relating to insurance; authorizing joint insurance arrangements;
repealing a prohibition against certain types of group insurance;
efd.

and (a majority of the committee) (the committee) reports it back with
the following recommendations:

do pass

do pass with attached amendment(s)

replace with/or adopt CS for SB 404 (J+C)
 new title
 same title and recommends _____

and attached a "LETTER OF INTENT" NEW FISCAL NOTE

reports it back without recommendation

recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS

[Signature]
[Signature]
[Signature]
[Signature]

[Signature]
Chairman
[Signature]
Chairman recommendation



Official Business

Alaska State Legislature

Senate

Committee on Labor & Commerce

Pouch V
State Capitol
Juneau, Alaska 99811

Letter of Intent for CSSB 404 (L&C)

It is the intent of the Senate Labor and Commerce Committee that the Division of Insurance urge both domestic and foreign insurance companies, conducting business in the state, to write insurance policy contracts in comprehensible, "layman's" language.

Offered: 3/18/86
Referred: Finance

Original sponsor: Josephson

1 IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

2 CS FOR SENATE BILL NO. 404 (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 cancellation and nonrenewal of
7 insurance; authorizing joint insurance arrangements;
8 and providing for an effective date."

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

10 * Section 1. AS 21.36.190(d) is amended to read:

11 (d) This section does not apply to workers' compensation insur-
12 ance when issued to an association of employers formed for purposes
13 other than the purchase of insurance and that

14 (1) has a constitution and bylaws; the requirement of this
15 paragraph does not apply to municipalities, school districts, and
16 regional educational attendance areas;

17 (2) incorporates a safety program;

18 (3) as a group has preferred characteristics over similar
19 risks written on an individual basis; and

20 (4) has filed and received approval from the director for
21 the rating program to be applied to the group.

22 * Sec. 2. AS 21.36.190 is amended by adding a new subsection to read:

23 (e) The provisions of (a) and (b) of this section do not apply
24 to coverage purchased through a joint insurance arrangement formed
25 under AS 21.76.

26 * Sec. 3. AS 21.36.210(a) is amended to read:

27 (a) An insurer may not exercise its right to cancel a policy of
28 personal [AN] automobile insurance [POLICY] except for the following
29 reasons:
S

1 (1) nonpayment of premium; or
2 (2) the driver's license or motor vehicle registration of
3 either the named insured or of an operator who resides in the same
4 household as the named insured or who customarily operates a motor
5 vehicle insured under the policy has been under suspension or revoca-
6 tion during the policy period or, if the policy is a renewal, during
7 its policy period or the 180 days immediately preceding its effective
8 date.

9 * Sec. 4. AS 21.36.210(d) is amended to read:

10 (d) This section does not apply to

11 (1) the failure to renew a policy, except as to coverage in
12 force for less than 12 months;

13 (2) a policy that has been in effect less than 60 days at
14 the time notice of cancellation is mailed or delivered by the insurer,
15 unless it is a renewal policy;

16 (3) a policy issued under an automobile assigned risk plan
17 or automobile insurance plan;

18 (4) a policy insuring more than four motor vehicles;

19 (5) a policy covering the operation of a garage; automobile
20 sales agency, repair shop, or service station; or public parking
21 place;

22 (6) a policy providing insurance only on an excess basis;

23 (7) any other contract providing insurance to the named
24 insured, even though the contract may incidentally provide insurance
25 with respect to motor vehicles.

26 * Sec. 5. AS 21.36.210(f) is amended to read:

27 (f) An [NOTWITHSTANDING (e) OF THIS SECTION, AN] insurer may not
28 exercise its right to cancel a policy of personal insurance other than
29 personal automobile insurance, except for the following reasons [THE

1 TYPE DESCRIBED IN (e) OF THIS SECTION IF ONE OF THE FOLLOWING CONDI-
2 TIONS OR CIRCUMSTANCES ARISES]:

3 (1) nonpayment of premiums, including nonpayment of addi-
4 tional premiums, calculated in accordance with the current rating
5 manual of the insurer, justified by a physical change in the insured
6 property or a change in its occupancy or use;

7 (2) conviction of the insured of a crime having as one of
8 its necessary elements an act increasing a hazard insured against;

9 (3) discovery of fraud or material misrepresentation made
10 by the insured or a representative of the insured in obtaining the
11 insurance or by the insured in pursuing a claim under the policy;

12 (4) discovery of a grossly negligent act or omission by the
13 insured that substantially increases the hazards insured against; or

14 (5) physical changes in the insured property that result in
15 the property becoming uninsurable.

16 * Sec. 6. AS 21.36.220 is amended to read:

17 Sec. 21.36.220. NOTICE OF CANCELLATION. An insurer may not
18 exercise its right to cancel a personal insurance policy unless a
19 written notice of cancellation is mailed or delivered to the named
20 insured, at the address shown in the policy, at least 20 days before
21 the effective date of cancellation. However, if [, EXCEPT THAT WHEN]
22 cancellation is for nonpayment of premium, the notice shall be mailed
23 or delivered to the named insured at the address shown in the policy
24 at least 10 days before the effective date of cancellation, and must
25 [SHALL] include or be accompanied by a statement of the reason for the
26 cancellation. [THIS SECTION DOES NOT APPLY TO THE FAILURE TO RENEW A
27 POLICY, EXCEPT AS TO COVERAGE IN FORCE FOR LESS THAN 12 MONTHS.]

28 * Sec. 7. AS 21.36.220 is amended by adding a new subsection to read:

29 (b) An insurer may not exercise its right to cancel a policy of

1 business or commercial insurance unless a written notice of cancella-
2 tion is mailed or delivered to the named insured, at the address shown
3 in the policy, and to the agent or broker of record, at least 60 days
4 before the effective date of cancellation. However, if cancellation
5 is for nonpayment of premium, the notice shall be mailed or delivered
6 to the named insured at the address shown in the policy and to the
7 agent or broker of record at least 10 days before the effective date
8 of cancellation, and must include or be accompanied by a statement of
9 the reason for the cancellation.

10 * Sec. 8. AS 21.36 is amended by adding a new section to read:

11 Sec. 21.36.235. RETURN OF PREMIUM UPON CANCELLATION. If an
12 insurer cancels a policy under AS 21.36.220(b), it shall return any
13 unearned premium to the agent or broker of record or directly to the
14 insured or premium finance company, if applicable, by the effective
15 date of cancellation, except that if cancellation is for nonpayment of
16 premium, any unearned premium shall be returned within 30 days after
17 the notice of cancellation is given. If the unearned premium is
18 returned by the insurer to a person other than the insured, that
19 person shall promptly return the unearned premium to the insured
20 unless otherwise provided by agreement between the person and the
21 insured.

22 * Sec. 9. AS 21.36.240 is amended to read:

23 Sec. 21.36.240. FAILURE TO RENEW. An insurer may not fail to
24 renew a personal insurance policy in force for less than 12 months.
25 An insurer may not fail to renew a policy [IN FORCE FOR 12 MONTHS OR
26 MORE] unless a written notice of nonrenewal is mailed or delivered to
27 the named insured, at the address shown in the policy, at least 20
28 days for a personal insurance policy, and at least 60 days for a
29 business or commercial insurance policy, before the expiration date of

1 the policy [,] or of the anniversary date of a policy written for a
2 term longer than one year or with no fixed expiration date. This
3 section does not apply

4 (1) if the insurer has in good faith manifested in any way
5 its willingness to renew;

6 (2) in case of nonpayment of premium for the expiring
7 policy; or

8 (3) if the insured fails to pay the premium as required by
9 the insurer for renewal.

10 * Sec. 10. AS 21.36.250 is amended to read:

11 Sec. 21.36.250. NOTICE OF ELIGIBILITY. When a policy of automo-
12 bile liability insurance is cancelled, other than for nonpayment of
13 premium, or is not renewed in accordance with [FOR FAILURE TO RENEW A
14 POLICY OF AUTOMOBILE LIABILITY INSURANCE TO WHICH] AS 21.36.240 [AP-
15 PLIES], the insurer shall notify the named insured of possible eligi-
16 bility for automobile insurance through the automobile assigned risk
17 plan, or automobile insurance plan. The notification must [SHALL]
18 accompany or be included in the notice of cancellation or nonrenewal
19 required by AS 21.36.220 [AS 21.36.230] and 21.36.240.

20 * Sec. 11. AS 21.36.310 is amended to read:

21 Sec. 21.36.310. DEFINITIONS. In AS 21.36.210 - 21.36.310

22 (1) "business or commercial insurance" means insurance
23 other than personal insurance, life insurance, disability insurance,
24 title insurance, or an annuity contract;

25 (2) "nonpayment of premium" means failure of the named
26 insured to discharge when due any obligations of the named insured in
27 connection with the payment of premium on a policy, or any installment
28 of the premium, whether the premium is payable directly to the insurer
29 or its agent or indirectly under any premium finance plan or extension

1 of credit;

2 (3) "personal automobile insurance" means insurance not
3 related to business or commercial activities, covering [(2) "POLICY"
4 MEANS AN INSURANCE POLICY COVERING THE RISKS AND EXPOSURES LISTED IN
5 AS 21.36.210(e) OR AN AUTOMOBILE POLICY THAT INCLUDES] automobile
6 liability [COVERAGE], uninsured or underinsured motorists [MOTORIST
7 COVERAGE], automobile medical payments [COVERAGE], or automobile
8 physical damage [COVERAGE], that is delivered or issued for delivery
9 in this state, [INSURING AS THE NAMED INSURED, ONE INDIVIDUAL OR HUS-
10 BAND AND WIFE RESIDENT OF THE SAME HOUSEHOLD,] and under which the
11 insured vehicles are of the following types only:

12 (A) a motor vehicle of the private passenger or sta-
13 tion wagon type that is not used as a public or livery convey-
14 ance, nor rented to others, or

15 (B) any other four-wheel motor vehicle with a load
16 capacity of 1,500 pounds or less that is not used in the occupa-
17 tion, profession, or business of the insured, nor used as a
18 public or livery conveyance, nor rented to others;

19 (4) "personal insurance" does not include an annuity con-
20 tract or a policy of life insurance, disability insurance, or title
21 insurance; the term means personal automobile insurance, or insurance
22 covering

23 (A) loss of or damage to real property that is used
24 predominantly for residential purposes and that does not consist
25 of more than four dwelling units;

26 (B) loss of or damage to personal property, including
27 personal effects, household furniture, fixtures and equipment
28 located in not more than four dwelling units; or

29 (C) legal liability of natural persons for loss of,

1 damage to, or injury to, persons or property if the insurance
2 does not cover liability arising from or in connection with
3 business or commercial activities;

4 (5) [(3)] "renewal" or "renew" means

5 (A) the issuance and delivery by an insurer of a
6 policy replacing at the end of the policy period a policy previ-
7 ously issued and delivered by the same insurer,

8 (B) the issuance and delivery of a certificate or
9 notice extending the term of a policy beyond its policy period or
10 term, or

11 (C) the extension of the term of a policy beyond its
12 policy period or term under a provision for extending the policy
13 by payment of a continuation premium.

14 * Sec. 12. AS 21 is amended by adding a new chapter to read:

15 CHAPTER 76. JOINT INSURANCE ARRANGEMENTS.

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

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

23 (2) purchase coverage on a group basis.

24 (b) A joint insurance arrangement under (a)(1) of this section
25 may be only for property insurance.

26 (c) A joint insurance arrangement under (a)(2) of this section
27 may be for any kind of insurance defined by this title except for

28 (1) life, annuity, disability, and title insurance; and

29 (2) surety.

1 (d) A joint insurance arrangement shall be considered an alter-
2 native or supplement to any other policy or contract of insurance
3 authorized or required by law, including insurance under AS 21.75.

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

8 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A
9 cooperative agreement shall provide for the proper operation of the
10 joint insurance arrangement, and include provisions for

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

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

16 (3) organization of the arrangement, including a roster of
17 participating members and the names of the members of the board of
18 directors;

19 (4) procedures to establish and promote an aggressive risk
20 management and program among the members of the arrangement, including
21 procedures for identifying and reducing the risks that can be reduced
22 through implementing better safety technologies and improved work
23 techniques and procedures;

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

26 (6) the addition of new members to the arrangement or the
27 withdrawal of members from the arrangement;

28 (7) the method of apportioning costs and disposition of
29 excess contributions;

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

3 (9) terminating the arrangement and disposing of its as-
4 sets; and

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

6 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A
7 cooperative agreement must include a provision requiring an annual
8 determination by a casualty actuary who is a member of the American
9 Academy of Actuaries that procedures for establishing reserves for
10 losses of the joint insurance arrangement are actuarially sound.

11 (b) A joint insurance arrangement shall be subject to an annual
12 independent audit. The audit shall be conducted in accordance with
13 generally accepted auditing standards and must include a review of the
14 actuarial assumptions used for establishing the reserves under (a) of
15 this section. The audit report must include certification from a
16 casualty actuary who is a member of the American Academy of Actuaries
17 that the actuarial assumptions continue to be sound and the level of
18 the reserves are adequate.

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

22 Sec. 21.76.050. CONTRACTING WITH PRIVATE ADMINISTRATORS. A
23 cooperative agreement may authorize the board of directors to enter
24 into contracts for services necessary to perform the functions of a
25 joint insurance arrangement. The person contracting to perform the
26 functions must be appropriately licensed under this title if this
27 title so requires.

28 Sec. 21.76.060. DELEGATION OF POWER TO SETTLE CLAIMS. A cooper-
29 ative agreement may delegate to the board of directors, or authorize

1 delegation by the board to another person or group, the power to
2 compromise, arbitrate, or otherwise settle claims on behalf of the
3 arrangement.

4 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may
5 authorize the board of directors to purchase excess or catastrophic
6 insurance on behalf of the joint insurance arrangement. The cost of
7 the insurance shall be apportioned in the manner specified in the
8 joint insurance agreement. The board may purchase insurance under
9 this section only from an insurer authorized to do business in the
10 state or from an unauthorized insurer if the insurance is placed
11 through a licensed surplus lines broker.

12 Sec. 21.76.080. JOINT INSURANCE FUND. (a) A joint insurance
13 arrangement shall establish a joint insurance fund. The fund consists
14 of money

15 (1) contributed by members of the joint insurance arrange-
16 ment through budgetary appropriations or transfers from a self-insur-
17 ance reserve; and

18 (2) collected by the joint insurance arrangement through
19 subrogation of a claim paid from the fund to a member of the arrange-
20 ment.

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

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

28 (d) For each type of protection offered by the joint insurance
29 arrangement, the method of accounting must show the order, source,

1 date, and amount of each payment from the fund.

2 (e) Within 60 days of the end of the fiscal year, the adminis-
3 trator shall furnish a detailed report of the operation and condition
4 of the fund to the board of directors and the director of insurance.
5 The report furnished to the director of insurance shall be available
6 for public inspection.

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

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

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

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

20 Sec. 21.76.110. SUBROGATION. A joint insurance arrangement has
21 a cause of action for reimbursement of money paid to a participating
22 member for a loss or injury if the participating member recovers money
23 for the loss or injury from a third party. The joint insurance ar-
24 rangement also has a direct cause of action for reimbursement against
25 a third party responsible for loss or injuries sustained by a partic-
26 ipating member if the joint arrangement has paid money to the partic-
27 ipating member for the loss or injuries.

28 Sec. 21.76.900. DEFINITIONS. In this chapter

29 (1) "adjustment expenses" means expenses for investigative.

1 processing, legal, actuarial, arbitration, and settlement services
2 incurred in the adjustment of losses, claims, or benefits;

3 (2) "administrator" means a person or group appointed by
4 the board of directors to administer a joint insurance arrangement or
5 a joint insurance fund;

6 (3) "board" or "board of directors" means the board of
7 directors provided for in a cooperative agreement;

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

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

14 (6) "joint insurance arrangement" means a joint insurance
15 arrangement authorized under AS 21.76.010.

16 * Sec. 13. AS 21.39.155(a) is amended to read:

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

24 * Sec. 14. AS 21.80.180(5) is amended to read:

25 (5) "insolvent insurer" means an insurer

26 (A) authorized to transact insurance in this state,
27 except an assessable reciprocal insurer formed by and insuring
28 only municipalities or nonprofit public utilities, a joint insur-
29 ance arrangement formed under AS 21.76, the Medical Indemnity

1 Corporation of Alaska, and the Health Care Providers Joint Under-
2 writing Association established under AS 21.88, either at the
3 time the policy was issued or when the insured event occurred,
4 and

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

7 * Sec. 15. AS 21.80.180(6) is amended to read:

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

14 (A) writes any kind of insurance to which this chap-
15 ter applies under AS 21.80.020 including the exchange of recipro-
16 cal or interinsurance contracts, and

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

18 * Sec. 16. AS 21.36.210(e), 21.36.230, and 21.36.300 are repealed.

19 * Sec. 17. This Act takes effect immediately in accordance with AS 01.-
20 10.070(c).
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Introduced: 2/13/86
Referred: Labor and Commerce
and Finance

1 IN THE SENATE

BY JOSEPHSON

2 SENATE BILL NO. 404

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; authorizing joint
7 insurance arrangements; repealing a prohibition
8 against certain types of group insurance; and provid-
9 ing for an effective date."

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

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

12 CHAPTER 76. JOINT INSURANCE ARRANGEMENTS.

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

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

20 (2) purchase coverage on a group basis.

21 (b) A joint insurance arrangement may be for any kind of insur-
22 ance defined by this title except for

23 (1) life, annuity, disability, and title insurance; and

24 (2) surety.

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

28 Sec. 21.76.020. REGULATION BY DIVISION OF INSURANCE. A joint
29 insurance arrangement may not be considered insurance for the purpose
S

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1 of any other law of the state and is not subject to regulations of the
2 director except as expressly provided in this chapter.

3 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A
4 cooperative agreement shall provide for the proper operation of the
5 joint insurance arrangement, and include provisions for

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

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

11 (3) organization of the arrangement, including a roster of
12 participating members and the names of the members of the board of
13 directors;

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

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

21 (6) the addition of new members to the arrangement or the
22 withdrawal of members from the arrangement;

23 (7) the method of apportioning costs and disposition of
24 excess contributions;

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

27 (9) terminating the arrangement and disposing of its as-
28 sets; and

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

1 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A
2 cooperative agreement must include a provision requiring an annual
3 determination by a casualty actuary who is a member of the American
4 Academy of Actuaries that procedures for establishing reserves for
5 losses of the joint insurance arrangement are actuarially sound.

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

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

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

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

28 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may
29 authorize the board of directors to purchase excess or catastrophic

1 insurance on behalf of the joint insurance arrangement. The cost of
2 the insurance shall be apportioned in the manner specified in the
3 joint insurance agreement. The board may purchase insurance under
4 this section only from an insurer authorized to do business in the
5 state or from an unauthorized insurer if the insurance is placed
6 through a licensed surplus lines broker.

7 Sec. 21.76.080. JOINT INSURANCE FUND. (a) A joint insurance
8 arrangement shall establish a joint insurance fund. The fund consists
9 of money

10 (1) contributed by members of the joint insurance arrange-
11 ment through budgetary appropriations or transfers from a self-
12 insurance reserve; and

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

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

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

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

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

1 for public inspection.

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

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

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

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

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

23 Sec. 21.76.900. DEFINITIONS. In this chapter

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

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

1 (3) "board" or "board of directors" means the board of
2 directors provided for in a cooperative agreement;

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

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

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

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

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

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

20 (5) "insolvent insurer" means an insurer

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

29 (B) determined to be insolvent by a court of

1 competent jurisdiction;

2 * Sec. 4. AS 21.80.180(6) is amended to read:

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

9 (A) writes any kind of insurance to which this chap-
10 ter applies under AS 21.80.020 including the exchange of recipro-
11 cal or interinsurance contracts, and

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

13 * Sec. 5. AS 21.36.190 is repealed.

14 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
15 10.070(c).
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ALASKA STATE LEGISLATURE

14th Legislature 2nd Session

SENATE BILL NO. 404

By JOSEPHSON

"An Act relating to insurance; authorizing joint insurance arrangements; repealing a prohibition against certain types of group insurance; and providing for an effective date."

Introduced in the Senate 2/13, 1986

HISTORY IN THE SENATE

19 86	Read first time and referred to Committee on										
2 1	Labor & Commerce and Finance										
3 18	Reported back with recommendation that <i>replace w/CS, new title of Intent. to pass to Finance.</i>										
	Read second time and										
	Read third time and										
	<table border="0"> <tr><td>PASS</td><td>Effective Date</td></tr> <tr><td>Yeas</td><td>Yeas</td></tr> <tr><td>Nays</td><td>Nays</td></tr> <tr><td>Absent</td><td>Absent</td></tr> <tr><td>Excused</td><td>Excused</td></tr> </table>	PASS	Effective Date	Yeas	Yeas	Nays	Nays	Absent	Absent	Excused	Excused
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	Reconsideration										
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PASS	Effective Date										
Yeas	Yeas										
Nays	Nays										
Absent	Absent										
Excused	Excused										
	Reported correctly engrossed										
	Signed by President										
	Sent to House										

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19	Read first time and referred to Committee on										
	Reported back with recommendation that										
	Read second time and										
	Read third time and										
	<table border="0"> <tr><td>PASS</td><td>Effective Date</td></tr> <tr><td>Yeas</td><td>Yeas</td></tr> <tr><td>Nays</td><td>Nays</td></tr> <tr><td>Absent</td><td>Absent</td></tr> <tr><td>Excused</td><td>Excused</td></tr> </table>	PASS	Effective Date	Yeas	Yeas	Nays	Nays	Absent	Absent	Excused	Excused
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PASS	Effective Date										
Yeas	Yeas										
Nays	Nays										
Absent	Absent										
Excused	Excused										
	Reported correctly engrossed										
	Signed by Speaker										
	Returned to Senate										

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

19	Received from House
	To enrolling
	Reported correctly enrolled
	Sent to Governor
 by Governor
	Filed with Lt. Governor
	Chapter No.



Official Business

Alaska State Legislature

Senate

Pouch V
State Capitol
Juneau, Alaska 99811

March 21, 1986

The Honorable Jan Faiks
Co-Chair
Senate Finance Committee
P.O. Box V
Juneau, Alaska 99811

Dear Jan:

SB 404 was reported favorably by the Labor and Commerce Committee, and is my proposal to permit municipalities and school districts to enter into joint insurance arrangements.

The idea is simply to provide local governments with more "clout" when they seek insurance in the market place and to enter into joint arrangements that will help their risk management programs.

The Alaska Municipal League has strongly endorsed SB 404, and I know of no objectors. The comments of the Division of Insurance were favorable.

SB 404 entails no cost to the State, even administratively.

I would appreciate the scheduling of SB 404 before the Finance Committee. SB 404 is not offered as a major solution to any current insurance "crisis", but it would be helpful to these political subdivisions and school districts which are trying to get and keep coverage.

Thank you for any attention you are able to give this request.

With best wishes, I am

Sincerely,

A handwritten signature in cursive script, appearing to read "Joe P. Josephson".

Joe P. Josephson
State Senator

JPJ:rak

Enclosures: "Back-up" materials on SB 404

SB 404: "An Act relating to insurance, authorizing joint insurance arrangements, repealing a prohibition against certain types of group insurance, and providing for an effective date."

This legislation allows municipalities, school districts and Regional Educational Attendance Areas to establish joint insurance arrangements for group assumption of losses or group purchase of insurance coverage.

This bill effectively allows self insurance by groups of municipalities, school districts and Regional Educational Attendance Areas. This is probably a reasonable action provided the parties to the grouping are fully aware of the implications of that action, and the Division of Insurance has no regulatory responsibility for those groups.

Markets are currently available for workers' compensation, and group purchase is possible through a safety group. We view inclusion of workers' compensation in this bill as a reduction of the protections built into the system for the benefit of the injured worker. Insurer financial regulation, 100% backup by the Alaska Insurance Guaranty Act, rate regulation, and more accrue to assure that the insurer meets its obligations in a timely fashion. We believe that that action is unnecessary for workers' compensation insurance.

This bill repeals the fictitious group statute. That statute is intended to avoid unfairly discriminatory rates. We have no problem with removing the entities impacted by the joint insurance arrangement from that law, except for workers compensation, but the law should not be repealed.

We recommend that Section 5 on page 7, which repeals AS 21.36.190, be amended to read:

Add a new subsection to AS 21.36.190 to read:

(e) Except as provided in (d)(2)-(4) of this section, this section does not apply to coverage purchased through a joint insurance arrangement formed under AS 21.76.

Also on page 1, line 23, after "disability," insert the words "workers' compensation."



Loren H. Lounsbury

Loren H. Lounsbury, Commissioner
Department of Commerce & Economic
Development

Date: 3/07/86

John L. George

John L. George, Director of Insurance


Date: 3/6/86

Alaska MUNICIPAL League

TELEPHONE
(907) 586-1325

105 MUNICIPAL WAY, SUITE 301
JUNEAU, ALASKA 99801

To: Senator Fred F. Zharoff, Chairman
Members of Senate Labor and Commerce Committee

From: Scott A. Burgess, Executive Director 

Date: March 12, 1986

Subject: Legislation Addressing Insurance Pooling (SB404 and SB377)

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.

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.

Senator Fred F. Zharoff, Chairman
Members of Senate Labor and Commerce Committee
March 12, 1986
Page Two

Regarding SB 377, the Alaska Municipal League supports legislation that would increase availability and decrease costs of insurance for municipalities. In addition, the Alaska Municipal League encourages careful consideration by the Legislature of this and all insurance legislation affecting municipalities. Attached please find copies of a resolution and policy statement language adopted by the Alaska Municipal League during its annual conference November 16, 1985.

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

SAB:TRS:phl

Attachments

PART III
PUBLIC SAFETY

A. FINANCIAL IMPACT

1. State Public Safety Responsibility: The League strongly urges the Legislature to provide full funding of the Department of Public Safety so that, at the very least, the current level of services Statewide can be maintained.

2. Detention Costs: The League recommends that costs associated with prisoner care and prisoner transportation be borne by the State. When a municipal police officer makes an arrest for a violation of a state law, the State should continue to assume the legal and financial responsibility for the prisoner as soon as the prisoner is incarcerated.

3. Financial Impact: The League supports full financial assistance for programs impacted by mandatory services, enforcement, referral or sentencing.

4. Public Defenders: The League recommends the State resume full financial responsibility for the Public Defender Agency.

B. TRAINING

The League urges the Legislature to assure that local full-time and volunteer police, fire, and emergency medical personnel throughout the State have access to adequate facilities and program resources for training. Further, the League endorses public fire education and arson investigation, Village Public Safety Officers, and the Police Standards Council. The League urges full funding of these programs.

C. COURT SYSTEM

1. Use of TV Capacity: The League encourages the court system to make maximum use of TV capacity and other cost saving techniques for arraignment, grand jury, and similar court functions to release the burden on highly trained, public safety personnel.

2. Judicial Presence: The League supports the funding of a judicial system that would assure the presence of sufficient judicial officers in each community in the State when the need arises.

3. Local Trials: The League recommends local felony trials if adequate facilities are available in the community where the offense occurred.

D. STATE ASSISTANCE

1. Emergency Management: The League supports full State and federal funding of civil defense and emergency preparedness activities.

2. Fire Fighting Equipment: The League supports full funding for basic fire fighting equipment which meets minimum Insurance Services Office (ISO) or State criteria for small Alaska cities and fire service districts.

3. Substance Abuse Counseling: The League encourages state funding of positions for counseling on drug and alcohol programs, particularly in conjunction with the existing juvenile probation system

4. Substance Abuse and Domestic Violence: The League recognizes the serious individual and public safety problems that exist in all communities in Alaska as a result of substance abuse and domestic violence. It supports the enforcement of the domestic violence sections of Title 25, Marital and Domestic Relations (AS 25.35.010-AS 25.35.060), in all parts of the State as a public safety priority.

E. HAZARDOUS MATERIALS REPORT

The League supports legislation which would require producers, shippers, distributors, and commercial and industrial users to submit to all affected municipal governments, the Standard Material Safety Data Sheet on all toxic material physical agents being shipped to or through, or stored, manufactured, utilized, produced as a by-product, or otherwise found at any time, on the property or rights-of-way of any enterprise or site within the municipal boundaries.

F. TORT REFORM

The League urges the Legislature to review tort reform and to work for a viable municipal insurance system.

RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE

RESOLUTION NO. 86-13

A RESOLUTION OF THE ALASKA MUNICIPAL LEAGUE
URGING THE STATE LEGISLATURE TO INVESTIGATE
TORT REFORM AND THE REASONS BEHIND THE
UNAVAILABILITY OF CERTAIN LINES OF INSURANCE.

WHEREAS, insurance rates have increased astronomically and this has caused businesses to close and has created a financial burden on taxpayers in Alaska, and

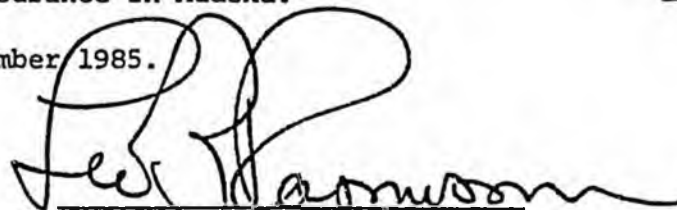
WHEREAS, municipal insurance rates have increased as much as 500% in some areas, and

WHEREAS, day care operators, air carriers, truckers, contractors, CHARR-affiliated businesses, doctors, and architects are in many cases unable to obtain any insurance, and

WHEREAS, the Alaska Municipal League feels strongly that an investigation into causes should be made and a solution to this problem must be found this year;


NOW, THEREFORE, BE IT RESOLVED by the Alaska Municipal League that the Office of the Governor and the Alaska State Legislature are urged to immediately pursue all avenues available to solve this problem and find a way to provide insurance in Alaska.

Adopted this 16th day of November 1985.



LEO B. RASMUSSEN, President

ATTEST:



SCOTT A. BURGESS, Executive Director

TESTIMONY

of

Scott A. Burgess
Executive Director
Alaska Municipal League

October 8, 1985

Testimony, presented on behalf of Alaska's municipalities, for the Governor's Special Task Force on Insurance

Commissioner Lounsbury, members of the task force:

The town of South Tucson, Arizona went bankrupt. A police officer in the town was accidentally shot in the back by his partner. The court awarded the officer damages thirty-six times the amount of liability insurance South Tucson was carrying, over \$1 million more than the city's entire annual budget.

If South Tucson was in Alaska, it would be among the five largest municipalities in the state. If South Tucson was in Alaska, they would still have gone bankrupt. Though several approaches to the problem experienced by South Tucson are being practiced in other parts of the country, none is being practiced here in Alaska.

The Alaska Municipal League certainly encourages the effort being made today, and we certainly encourage the task force to turn today's effort into relief for municipalities, and others experiencing insurance problems.

As far as municipalities go, the problem is pretty basic. Insurance companies consider them a high risk. When the market gets tight, it is insurance for municipalities that experiences the first premium increase, and, later, the first cancellations. It is not that municipalities are more negligent than anyone else that makes them a greater risk in the eyes of insurers, rather it is the court system's lessons to the public which teach citizens that for the greatest compensation, you sue whomever has the most money, the "deep-pocket" theory. In Alaska, the State is exempt(09.50.250), and that leaves municipalities as the target at the top for frivolous and marginal liability suits, with no restrictions on damages.

What can be done? There are several solutions, none of them the total answer, but all of them currently being used successfully somewhere in the U.S. First, there are statutory limits in other states on the fees of trial lawyers, which can dramatically reduce the final amount of liability awards.

Secondly, there are statutory restrictions on what, specifically, municipalities can, and can not, be held liable for.

Thirdly, Alaska could follow the lead of 28 states which have set reasonable dollar limits on liability judgments.

The fourth solution, is providing for "liability insurance pools" by statute. The State tried to address this in 1983, but fell a little short in my view. Because the League has an insurance program, I want to address this potential solution in greater detail.

A liability insurance pool is being used in several states to allow municipalities to create a pool of money to insure themselves through a representative entity such as the Alaska Municipal League. The entity, using the pooled premiums, pays first dollar coverage up to an agreed amount and buys any required excess insurance on their own. Each participant pays premiums into the pool, then, at the end of the year, receives back a dividend payment based on the premiums minus expenses and losses. Therefore, the ability of the members of the pool to reduce their losses, potentially, saves the municipalities, and their taxpayers, money in the future premiums they pay, and in the dividends they receive back.

While the League is still interested in the State sanctioning of a self-insured retention program or pool, minor amendments to the 1983 law providing for "reciprocals", may allow municipalities to help themselves to solve many of their insurance problems under Chapter 75., Reciprocal Insurers.

Alaska has in place the enabling Statutes, called "reciprocal insurance agreements", but the statutes set front-loading, financial requirements that could unnecessarily prevent such agreements from ever being formed, at least among municipalities.

There are two solutions to this problem, both of them within the scope of this task force. The first is legislation that would reduce the amount of capital required on deposit or in surplus by reciprocal insurers. That section, AS 21.75.050, needs some clarification regardless of the amount required. Even the experts in the insurance industry, as well as those within the State's Division of Insurance differ on what the language actually requires as a minimum surplus amount.

The second solution also involves legislation. That language would allow groups forming insurance pools to build up their surplus to the required level over some set period of time. That would permit the use of premiums to meet the State's surplus capital requirements. Without these changes, the only way such a program could get off the ground is through a one-time assessment against participants in the program, which could run as high as \$150,000 apiece. I can assure you, such a membership fee is a major deterrent to forming a reciprocal program under existing law.

The Alaska Municipal League has attempted to provide insurance for its municipal members, and to provide cost savings and some degree of stability to the participants by setting up the AML Insurance Program in April 1984. The League endorsed Frank B. Hall Company of Alaska to help the League set up the program. As of June of this year, the AML program has offered first dollar coverage for member municipalities from the Old Republic Insurance Company. Currently, 55 Alaska local government entities have signed up for coverage through AML.

Old Republic has a financial rating of A-15, and provides first dollar coverage on a basic Comprehensive General Liability policy form, up to \$500,000. Errors and omissions coverage is provided separately by Markel Service, Inc. for Law Enforcement and Public Officials and School Board Liability up to a limit of \$1 million. The AML program has topped \$3 million in premiums, and offers coverage for Workers Compensation, General Liability, Business Auto, Law Enforcement, Public Officials, and School Board.

The current AML program cannot provide municipalities with much stability, however. If Old Republic decides to stop providing coverage, which they can do at any time, the AML program comes to a screeching halt. The other major shortcomings of the our relatively young insurance program is our inability to provide first dollar coverage higher than \$500,000. That leaves a gap in coverage for most municipalities between \$500,000 and \$1 million, which is the lowest level at which they are able to purchase excess insurance coverage independently. Because the League's individually-participating, member municipalities are still subject to the current marketplace for first dollar coverage, the League program cannot offer the most stable, and lowest cost program to its members. The Board of Directors of the Alaska Municipal League believes a self-insured retention pool is the solution. If the League can accomplish the same result with revisions to the reciprocal insurer provisions of the Alaska Statutes, we would very much like to proceed in that direction.

The League appreciates the recognition of the insurance problems faced by the State, its political subdivisions, and others by the Governor and the members of this task force, and offers its assistance and support in finding solutions; those offered above and others. Thank you for your time.



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

Officers

President
 George V. Vanovich
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Immediate Past President
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 Mayor, St. Paul, Minnesota

Executive Director
 Alan Beas

**GROUP SELF-INSURANCE POOLS
 SPONSORED BY STATE MUNICIPAL LEAGUES**

<u>State</u>	<u>Type of Risk Covered</u>				
	<u>Health & 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		X
Iowa		X			
Kentucky		X		X	
Louisiana (3)		X	X		
Maine	X	X	(1)	X	
Massachusetts		X(2)			
Michigan		X	X	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)			X
Vermont		(1)		X	
Virginia		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



Official Business

Alaska State Legislature

Senate

Committee on Labor & Commerce

Pouch V
State Capitol
Juneau, Alaska 99811

Letter of Intent for CSSB 404 (L&C)

It is the intent of the Senate Labor and Commerce Committee that the Division of Insurance urge both domestic and foreign insurance companies, conducting business in the state, to write insurance policy contracts in comprehensible, "layman's" language.

Introduced: 2/13/86
Referred: Labor and Commerce
and Finance

1 IN THE SENATE

BY JOSEPHSON

2

SENATE BILL NO. 404

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; authorizing joint insurance arrangements; repealing a prohibition against certain types of group insurance; and providing for an effective date."

7

8

9

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

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

12

CHAPTER 76. JOINT INSURANCE ARRANGEMENTS.

13

Sec. 21.76.010. AUTHORITY TO ESTABLISH JOINT INSURANCE ARRANGEMENTS. (a) Municipalities, school districts, and regional educational attendance areas may enter into cooperative agreements with each other for the purpose of establishing, operating, or participating in joint insurance arrangements through which the participating members agree to pool contributions and

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

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(2) purchase coverage on a group basis.

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(b) A joint insurance arrangement may be for any kind of insurance defined by this title except for

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(1) life, annuity, disability, and title insurance; and

24

(2) surety.

25

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

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Sec. 21.76.020. REGULATION BY DIVISION OF INSURANCE. A joint insurance arrangement may not be considered insurance for the purpose

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1 of any other law of the state and is not subject to regulations of the
2 director except as expressly provided in this chapter.

3 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A
4 cooperative agreement shall provide for the proper operation of the
5 joint insurance arrangement, and include provisions for

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

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

11 (3) organization of the arrangement, including a roster of
12 participating members and the names of the members of the board of
13 directors;

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

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

21 (6) the addition of new members to the arrangement or the
22 withdrawal of members from the arrangement;

23 (7) the method of apportioning costs and disposition of
24 excess contributions;

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

27 (9) terminating the arrangement and disposing of its as-
28 sets; and

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

1 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A
2 cooperative agreement must include a provision requiring an annual
3 determination by a casualty actuary who is a member of the American
4 Academy of Actuaries that procedures for establishing reserves for
5 losses of the joint insurance arrangement are actuarially sound.

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

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

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

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

28 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may
29 authorize the board of directors to purchase excess or catastrophic

1 insurance on behalf of the joint insurance arrangement. The cost of
2 the insurance shall be apportioned in the manner specified in the
3 joint insurance agreement. The board may purchase insurance under
4 this section only from an insurer authorized to do business in the
5 state or from an unauthorized insurer if the insurance is placed
6 through a licensed surplus lines broker.

7 Sec. 21.76.080. JOINT INSURANCE FUND. (a) A joint insurance
8 arrangement shall establish a joint insurance fund. The fund consists
9 of money

10 (1) contributed by members of the joint insurance arrange-
11 ment through budgetary appropriations or transfers from a self-
12 insurance reserve; and

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

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

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

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

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

1 for public inspection.

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

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

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

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

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

23 Sec. 21.76.900. DEFINITIONS. In this chapter

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

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

1 (3) "board" or "board of directors" means the board of
2 directors provided for in a cooperative agreement;

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

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

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

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

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

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

20 (5) "insolvent insurer" means an insurer

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

29 (B) determined to be insolvent by a court of

1 competent jurisdiction;

2 * Sec. 4. AS 21.80.180(6) is amended to read:

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

9 (A) writes any kind of insurance to which this chap-
10 ter applies under AS 21.80.020 including the exchange of recipro-
11 cal or interinsurance contracts, and

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

13 * Sec. 5. AS 21.36.190 is repealed.

14 * Sec. 6. This Act takes effect immediately in accordance with AS 01.-
15 10.070(c).

Offered: 3/18/86
Referred: Finance

Original sponsor: Josephson

1 IN THE SENATE

BY THE LABOR AND
COMMERCE COMMITTEE

2

CS FOR SENATE BILL NO. 404 (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 cancellation and nonrenewal of
insurance; authorizing joint insurance arrangements;
and providing for an effective date."

8

9

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

10

* Section 1. AS 21.36.190(d) is amended to read:

11

(d) This section does not apply to workers' compensation insurance

12

when issued to an association of employers formed for purposes

13

other than the purchase of insurance and that

14

(1) has a constitution and bylaws; the requirement of this

15

paragraph does not apply to municipalities, school districts, and

16

regional educational attendance areas;

17

(2) incorporates a safety program;

18

(3) as a group has preferred characteristics over similar

19

risks written on an individual basis; and

20

(4) has filed and received approval from the director for

21

the rating program to be applied to the group.

22

* Sec. 2. AS 21.36.190 is amended by adding a new subsection to read:

23

(e) The provisions of (a) and (b) of this section do not apply

24

to coverage purchased through a joint insurance arrangement formed

25

under AS 21.76.

26

* Sec. 3. AS 21.36.210(a) is amended to read:

27

(a) An insurer may not exercise its right to cancel a policy of

28

personal [AN] automobile insurance [POLICY] except for the following

29

reasons:

- 1 (1) nonpayment of premium; or
2 (2) the driver's license or motor vehicle registration of
3 either the named insured or of an operator who resides in the same
4 household as the named insured or who customarily operates a motor
5 vehicle insured under the policy has been under suspension or revoca-
6 tion during the policy period or, if the policy is a renewal, during
7 its policy period or the 180 days immediately preceding its effective
8 date.

9 * Sec. 4. AS 21.36.210(d) is amended to read:

10 (d) This section does not apply to

11 (1) the failure to renew a policy, except as to coverage in
12 force for less than 12 months;

13 (2) a policy that has been in effect less than 60 days at
14 the time notice of cancellation is mailed or delivered by the insurer,
15 unless it is a renewal policy;

16 (3) a policy issued under an automobile assigned risk plan
17 or automobile insurance plan;

18 (4) a policy insuring more than four motor vehicles;

19 (5) a policy covering the operation of a garage; automobile
20 sales agency, repair shop, or service station; or public parking
21 place;

22 (6) a policy providing insurance only on an excess basis;

23 (7) any other contract providing insurance to the named
24 insured, even though the contract may incidentally provide insurance
25 with respect to motor vehicles.

26 * Sec. 5. AS 21.36.210(f) is amended to read:

27 (f) An [NOTWITHSTANDING (e) OF THIS SECTION, AN] insurer may not
28 exercise its right to cancel a policy of personal insurance other than
29 personal automobile insurance, except for the following reasons [THE

1 TYPE DESCRIBED IN (e) OF THIS SECTION IF ONE OF THE FOLLOWING CONDI-
2 TIONS OR CIRCUMSTANCES ARISES]:

3 (1) nonpayment of premiums, including nonpayment of addi-
4 tional premiums, calculated in accordance with the current rating
5 manual of the insurer, justified by a physical change in the insured
6 property or a change in its occupancy or use;

7 (2) conviction of the insured of a crime having as one of
8 its necessary elements an act increasing a hazard insured against;

9 (3) discovery of fraud or material misrepresentation made
10 by the insured or a representative of the insured in obtaining the
11 insurance or by the insured in pursuing a claim under the policy;

12 (4) discovery of a grossly negligent act or omission by the
13 insured that substantially increases the hazards insured against; or

14 (5) physical changes in the insured property that result in
15 the property becoming uninsurable.

16 * Sec. 6. AS 21.36.220 is amended to read:

17 Sec. 21.36.220. NOTICE OF CANCELLATION. An insurer may not
18 exercise its right to cancel a personal insurance policy unless a
19 written notice of cancellation is mailed or delivered to the named
20 insured, at the address shown in the policy, at least 20 days before
21 the effective date of cancellation. However, if [, EXCEPT THAT WHEN]
22 cancellation is for nonpayment of premium, the notice shall be mailed
23 or delivered to the named insured at the address shown in the policy
24 at least 10 days before the effective date of cancellation, and must
25 [SHALL] include or be accompanied by a statement of the reason for the
26 cancellation. [THIS SECTION DOES NOT APPLY TO THE FAILURE TO RENEW A
27 POLICY, EXCEPT AS TO COVERAGE IN FORCE FOR LESS THAN 12 MONTHS.]

28 * Sec. 7. AS 21.36.220 is amended by adding a new subsection to read:

29 (b) An insurer may not exercise its right to cancel a policy of

1 business or commercial insurance unless a written notice of cancella-
2 tion is mailed or delivered to the named insured, at the address shown
3 in the policy, and to the agent or broker of record, at least 60 days
4 before the effective date of cancellation. However, if cancellation
5 is for nonpayment of premium, the notice shall be mailed or delivered
6 to the named insured at the address shown in the policy and to the
7 agent or broker of record at least 10 days before the effective date
8 of cancellation, and must include or be accompanied by a statement of
9 the reason for the cancellation.

10 * Sec. 8. AS 21.36 is amended by adding a new section to read:

11 Sec. 21.36.235. RETURN OF PREMIUM UPON CANCELLATION. If an
12 insurer cancels a policy under AS 21.36.220(b), it shall return any
13 unearned premium to the agent or broker of record or directly to the
14 insured or premium finance company, if applicable, by the effective
15 date of cancellation, except that if cancellation is for nonpayment of
16 premium, any unearned premium shall be returned within 30 days after
17 the notice of cancellation is given. If the unearned premium is
18 returned by the insurer to a person other than the insured, that
19 person shall promptly return the unearned premium to the insured
20 unless otherwise provided by agreement between the person and the
21 insured.

22 * Sec. 9. AS 21.36.240 is amended to read:

23 Sec. 21.36.240. FAILURE TO RENEW. An insurer may not fail to
24 renew a personal insurance policy in force for less than 12 months.
25 An insurer may not fail to renew a policy [IN FORCE FOR 12 MONTHS OR
26 MORE] unless a written notice of nonrenewal is mailed or delivered to
27 the named insured, at the address shown in the policy, at least 20
28 days for a personal insurance policy, and at least 60 days for a
29 business or commercial insurance policy, before the expiration date of

1 the policy [,] or of the anniversary date of a policy written for a
2 term longer than one year or with no fixed expiration date. This
3 section does not apply

4 (1) if the insurer has in good faith manifested in any way
5 its willingness to renew;

6 (2) in case of nonpayment of premium for the expiring
7 policy; or

8 (3) if the insured fails to pay the premium as required by
9 the insurer for renewal.

10 * Sec. 10. AS 21.36.250 is amended to read:

11 Sec. 21.36.250. NOTICE OF ELIGIBILITY. When a policy of automo-
12 bile liability insurance is cancelled, other than for nonpayment of
13 premium, or is not renewed in accordance with [FOR FAILURE TO RENEW A
14 POLICY OF AUTOMOBILE LIABILITY INSURANCE TO WHICH] AS 21.36.240 [AP-
15 PLIES], the insurer shall notify the named insured of possible eligi-
16 bility for automobile insurance through the automobile assigned risk
17 plan, or automobile insurance plan. The notification must [SHALL]
18 accompany or be included in the notice of cancellation or nonrenewal
19 required by AS 21.36.220 [AS 21.36.230] and 21.36.240.

20 * Sec. 11. AS 21.36.310 is amended to read:

21 Sec. 21.36.310. DEFINITIONS. In AS 21.36.210 - 21.36.310

22 (1) "business or commercial insurance" means insurance
23 other than personal insurance, life insurance, disability insurance,
24 title insurance, or an annuity contract;

25 (2) "nonpayment of premium" means failure of the named
26 insured to discharge when due any obligations of the named insured in
27 connection with the payment of premium on a policy, or any installment
28 of the premium, whether the premium is payable directly to the insurer
29 or its agent or indirectly under any premium finance plan or extension

1 of credit;

2 (3) "personal automobile insurance" means insurance not
3 related to business or commercial activities, covering [(2) "POLICY"
4 MEANS AN INSURANCE POLICY COVERING THE RISKS AND EXPOSURES LISTED IN
5 AS 21.36.210(e) OR AN AUTOMOBILE POLICY THAT INCLUDES] automobile
6 liability [COVERAGE], uninsured or underinsured motorists [MOTORIST
7 COVERAGE], automobile medical payments [COVERAGE], or automobile
8 physical damage [COVERAGE], that is delivered or issued for delivery
9 in this state, [INSURING AS THE NAMED INSURED, ONE INDIVIDUAL OR HUS-
10 BAND AND WIFE RESIDENT OF THE SAME HOUSEHOLD,] and under which the
11 insured vehicles are of the following types only:

12 (A) a motor vehicle of the private passenger or sta-
13 tion wagon type that is not used as a public or livery convey-
14 ance, nor rented to others, or

15 (B) any other four-wheel motor vehicle with a load
16 capacity of 1,500 pounds or less that is not used in the occupa-
17 tion, profession, or business of the insured, nor used as a
18 public or livery conveyance, nor rented to others;

19 (4) "personal insurance" does not include an annuity con-
20 tract or a policy of life insurance, disability insurance, or title
21 insurance; the term means personal automobile insurance, or insurance
22 covering

23 (A) loss of or damage to real property that is used
24 predominantly for residential purposes and that does not consist
25 of more than four dwelling units;

26 (B) loss of or damage to personal property, including
27 personal effects, household furniture, fixtures and equipment
28 located in not more than four dwelling units; or

29 (C) legal liability of natural persons for loss of,

1 damage to, or injury to, persons or property if the insurance
2 does not cover liability arising from or in connection with
3 business or commercial activities;

4 (5) [(3)] "renewal" or "renew" means

5 (A) the issuance and delivery by an insurer of a
6 policy replacing at the end of the policy period a policy previ-
7 ously issued and delivered by the same insurer,

8 (B) the issuance and delivery of a certificate or
9 notice extending the term of a policy beyond its policy period or
10 term, or

11 (C) the extension of the term of a policy beyond its
12 policy period or term under a provision for extending the policy
13 by payment of a continuation premium.

14 * Sec. 12. AS 21 is amended by adding a new chapter to read:

15 CHAPTER 76. JOINT INSURANCE ARRANGEMENTS.

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

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

23 (2) purchase coverage on a group basis.

24 (b) A joint insurance arrangement under (a)(1) of this section
25 may be only for property insurance.

26 (c) A joint insurance arrangement under (a)(2) of this section
27 may be for any kind of insurance defined by this title except for

28 (1) life, annuity, disability, and title insurance; and

29 (2) surety.

1 (d) A joint insurance arrangement shall be considered an alter-
2 native or supplement to any other policy or contract of insurance
3 authorized or required by law, including insurance under AS 21.75.

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

8 Sec. 21.76.030. GENERAL PROVISIONS OF COOPERATIVE AGREEMENTS. A
9 cooperative agreement shall provide for the proper operation of the
10 joint insurance arrangement, and include provisions for

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

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

16 (3) organization of the arrangement, including a roster of
17 participating members and the names of the members of the board of
18 directors;

19 (4) procedures to establish and promote an aggressive risk
20 management and program among the members of the arrangement, including
21 procedures for identifying and reducing the risks that can be reduced
22 through implementing better safety technologies and improved work
23 techniques and procedures;

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

26 (6) the addition of new members to the arrangement or the
27 withdrawal of members from the arrangement;

28 (7) the method of apportioning costs and disposition of
29 excess contributions;

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

3 (9) terminating the arrangement and disposing of its as-
4 sets; and

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

6 Sec. 21.76.040. FINANCIAL PROVISIONS OF AGREEMENTS. (a) A
7 cooperative agreement must include a provision requiring an annual
8 determination by a casualty actuary who is a member of the American
9 Academy of Actuaries that procedures for establishing reserves for
10 losses of the joint insurance arrangement are actuarially sound.

11 (b) A joint insurance arrangement shall be subject to an annual
12 independent audit. The audit shall be conducted in accordance with
13 generally accepted auditing standards and must include a review of the
14 actuarial assumptions used for establishing the reserves under (a) of
15 this section. The audit report must include certification from a
16 casualty actuary who is a member of the American Academy of Actuaries
17 that the actuarial assumptions continue to be sound and the level of
18 the reserves are adequate.

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

22 Sec. 21.76.050. CONTRACTING WITH PRIVATE ADMINISTRATORS. A
23 cooperative agreement may authorize the board of directors to enter
24 into contracts for services necessary to perform the functions of a
25 joint insurance arrangement. The person contracting to perform the
26 functions must be appropriately licensed under this title if this
27 title so requires.

28 Sec. 21.76.060. DELEGATION OF POWER TO SETTLE CLAIMS. A cooper-
29 ative agreement may delegate to the board of directors, or authorize

1 delegation by the board to another person or group, the power to
2 compromise, arbitrate, or otherwise settle claims on behalf of the
3 arrangement.

4 Sec. 21.76.070. EXCESS INSURANCE. A cooperative agreement may
5 authorize the board of directors to purchase excess or catastrophic
6 insurance on behalf of the joint insurance arrangement. The cost of
7 the insurance shall be apportioned in the manner specified in the
8 joint insurance agreement. The board may purchase insurance under
9 this section only from an insurer authorized to do business in the
10 state or from an unauthorized insurer if the insurance is placed
11 through a licensed surplus lines broker.

12 Sec. 21.76.080. JOINT INSURANCE FUND. (a) A joint insurance
13 arrangement shall establish a joint insurance fund. The fund consists
14 of money

15 (1) contributed by members of the joint insurance arrange-
16 ment through budgetary appropriations or transfers from a self-insur-
17 ance reserve; and

18 (2) collected by the joint insurance arrangement through
19 subrogation of a claim paid from the fund to a member of the arrange-
20 ment.

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

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

28 (d) For each type of protection offered by the joint insurance
29 arrangement, the method of accounting must show the order, source,

1 date, and amount of each payment from the fund.

2 (e) Within 60 days of the end of the fiscal year, the adminis-
3 trator shall furnish a detailed report of the operation and condition
4 of the fund to the board of directors and the director of insurance.
5 The report furnished to the director of insurance shall be available
6 for public inspection.

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

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

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

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

20 Sec. 21.76.110. SUBROGATION. A joint insurance arrangement has
21 a cause of action for reimbursement of money paid to a participating
22 member for a loss or injury if the participating member recovers money
23 for the loss or injury from a third party. The joint insurance ar-
24 rangement also has a direct cause of action for reimbursement against
25 a third party responsible for loss or injuries sustained by a partic-
26 ipating member if the joint arrangement has paid money to the partic-
27 ipating member for the loss or injuries.

28 Sec. 21.76.900. DEFINITIONS. In this chapter

29 (1) "adjustment expenses" means expenses for investigative,

1 processing, legal, actuarial, arbitration, and settlement services
2 incurred in the adjustment of losses, claims, or benefits;

3 (2) "administrator" means a person or group appointed by
4 the board of directors to administer a joint insurance arrangement or
5 a joint insurance fund;

6 (3) "board" or "board of directors" means the board of
7 directors provided for in a cooperative agreement;

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

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

14 (6) "joint insurance arrangement" means a joint insurance
15 arrangement authorized under AS 21.76.010.

16 * Sec. 13. AS 21.39.155(a) is amended to read:

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

24 * Sec. 14. AS 21.80.180(5) is amended to read:

25 (5) "insolvent insurer" means an insurer
26 (A) authorized to transact insurance in this state,
27 except an assessable reciprocal insurer formed by and insuring
28 only municipalities or nonprofit public utilities, a joint insur-
29 ance arrangement formed under AS 21.76, the Medical Indemnity

1 Corporation of Alaska, and the Health Care Providers Joint Under-
2 writing Association established under AS 21.88, either at the
3 time the policy was issued or when the insured event occurred,
4 and

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

7 * Sec. 15. AS 21.80.180(6) is amended to read:

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

14 (A) writes any kind of insurance to which this chap-
15 ter applies under AS 21.80.020 including the exchange of recipro-
16 cal or interinsurance contracts, and

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

18 * Sec. 16. AS 21.36.210(e), 21.36.230, and 21.36.300 are repealed.

19 * Sec. 17. This Act takes effect immediately in accordance with AS 01.-
20 10.070(c).