

HB

77

Chairman's Information:

1) HB 77 am: "An act relating to the capital funds required of domestic and foreign insurers"

- a) Introduced: Cato
- b) Co-Sponsors: none

2) INTENT: This legislation increases the capital and surplus requirements for insurance companies to operate in the state. The justification for this proposed increase is to assure that the insurer is able to meet its financial obligations. The capital and surplus minimums were last increased in 1976, and the proposed increases would restore the purchasing power of the minimums to slightly over the 1976 level.

The bill also has "grandfather" provisions for domestic life companies (we have one) and for domestic reciprocals (we have two).

The Div of Insurance feels that the domestic reciprocals (Alaska Timber Insurance Exchange and Alaska Rural Electric Cooperative Association) are watched closely, and that as non profit corporations the increased minimums would present a hardship to them.

NOTE: The proposed increases will make it more difficult for new companies (in Alaska and outside) to do business in the state. Although there is no demonstrable evidence that this will impact the "bush" negatively, it would be a good question to pose. Don Koch from the Div of Insurance should be present to give testimony.

FISCAL NOTES: 0

3) COMMITTEE COMMENTS: SCS drafted regarding the "grandfathering" of the one domestic life insurer. Language occurs on page 3, lines 18 thru 21 and states that the "grandfathering" will not occur if the ownership is changed, or the class, line, and volume of business written is "materially" changed from that written on Dec 31st, 1984.

4) PUBLIC HEARINGS:

- a) Sponsor
- b) Public witnesses:

5) BILL ACTION:

- a) Hold in committee?
- b) Assign to sub committee for further review?
- c) Move from Committee?
- d) close public hearings?

6) COMMITTEE ACTION:

- a) amendments?
- b) CS adoption? Need to adopt CS

FRED: AS A REMINDER EACH COMMITTEE MEMBER HAS BEEN GIVEN UNTIL TODAY TO REPORT OBJECTIONS TO CONFIRMATION RESUMES.

Chairman's Information:

- 1) HB 77 am: "An act relating to the capital funds required of domestic and foreign insurers"
 - a) Introduced: Cato
 - b) Co-Sponsors: none
- 2) INTENT: This legislation increases the capital and surplus requirements for insurance companies to operate in the state. The justification for this proposed increase is to assure that the insurer is able to meet its financial obligations. The capital and surplus minimums were last increased in 1976, and the proposed increases would restore the purchasing power of the minimums to slightly over the 1976 level.

The bill also has "grandfather" provisions for domestic life companies (we have one) and for domestic reciprocals (we have two).

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NOTE: The proposed increases will make it more difficult for new companies (in Alaska and outside) to do business in the state. Although there is no demonstrable evidence that this will impact the "bush" negatively, it would be a good question to pose. Don Koch from the Div of Insurance should be present to give testimony.

FISCAL NOTES: 0

- 3) COMMITTEE COMMENTS:
- 4) PUBLIC HEARINGS:
 - a) Sponsor

John George
Don Coker
Dick Block
AK Nat'l Ins Co
Div Ins

b) Public witnesses:

5) BILL ACTION:

- a) Hold in committee?
- b) Assign to sub committee for further review?
- c) Move from Committee?
- d) close public hearings?

6) COMMITTEE ACTION:

- a) amendments?
- b) CS adoption?

PRIME SPONSOR: CATO
CO-SPONSORS:

CURRENT STATUS: (S) L&C

DATE	PAGE	ACTION
01/18/85	64	READ THE FIRST TIME - REFERRAL(S)
02/01/85	229	L&C RPT 6DF 1AM 0 FISCAL NOTE
02/01/85	229	RLS TO CALENDAR 2/1/85
02/01/85	245	READ THE SECOND TIME
02/01/85	245	AMD NO 1 ADOPTED UNAN CONSENT
02/01/85	245	AMD NO 2 ADOPTED UNAN CONSENT
02/01/85	246	ADVANCED TO 3RD READING UNAN CONSENT
02/01/85	246	READ THE THIRD TIME
02/01/85	246	PASSED Y36 N3 X1
02/01/85	246	CLOCKSIN NOTICE OF RECONSIDERATION

PAGE 02 OF 02

HB 77

MEASURE HISTORY

DATE	PAGE	ACTION
02/04/85	265	RECONSIDERATION NOT TAKEN UP
02/04/85	265	TRANSMITTED TO (S)
02/05/85	220	READ THE FIRST TIME LABOR&COMMERCE RULES

Ford
2/22/85 ✓

Solomon

Original sponsor: Cato

1 IN THE HOUSE

BY THE LABOR AND
COMMERCE COMMITTEE

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SENATE CS FOR HOUSE BILL NO. 77 (L&C)
IN THE LEGISLATURE OF THE STATE OF ALASKA
FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

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

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

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

(a) To qualify for authority to transact any one kind of insurance as defined in AS 21.12, or combination of kinds of insurance as shown below, a foreign insurer, or a domestic insurer applying for its original certificate of authority in this state, or an insurer re-applying for a certificate of authority in this state after having withdrawn from this state for any cause, shall possess and thereafter maintain unimpaired basic paid-in capital stock (if a stock insurer) or unimpaired basic surplus (if a foreign mutual insurer or foreign reciprocal insurer), and shall possess when first so authorized additional funds in surplus as follows:

Kind or Kinds of Insurance	Basic Capital		Additional	
	or		Surplus	
	Basic Surplus		Surplus	
Life	<u>\$800,000</u>	[\$400,000]	<u>\$800,000</u>	[\$400,000]
Disability	<u>800,000</u>	[400,000]	<u>800,000</u>	[400,000]
Life and Disability	<u>1,000,000</u>	[500,000]	<u>1,000,000</u>	[500,000]
Property	<u>600,000</u>	[400,000]	<u>600,000</u>	[400,000]
Casualty exclud- ing vehicle	<u>1,000,000</u>	[500,000]	<u>1,000,000</u>	[500,000]

1966
1976

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 or more of the following

7 kinds of insurance: property,

8 marine and transportation,

9 vehicle, casualty excluding

10 vehicle, surety and

11 disability 1,500,000 [550,000] 1,500,000 [550,000]

12 [MULTIPLE LINES (ALL LINES

13 EXCLUDING LIFE AND TITLE

14 INSURANCE) 750,000 750,000]

15 Legal Expenses 600,000 [400,000] 600,000 [400,000]

16 Mortgage Guarant-

17 tee 1,000,000 [400,000] 1,000,000 [400,000]

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

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

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

28 (b) An insurer described in this section may not, after
 29 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 a stock insurer) or less surplus (if a mutual insurer) than required
7 by AS 21.09.070 as to new domestic insurers shall increase their
8 unimpaired basic paid-in capital stock or surplus by an amount equal
9 to 20 percent of the difference between the actual paid-in capital
10 stock or surplus on December 31, 1983, and that required by AS 21.09.-
11 070 as to new domestic insurers. By December 31, 1989, all domestic
12 insurers shall maintain paid-in capital stock and surplus in amounts
13 no less than required by AS 21.09.070 as to new domestic insurers.

14 (d) Notwithstanding the provisions of this section, a domestic
15 life insurer duly licensed and capitalized on December 31, 1984, shall
16 have and maintain the capital and surplus required under the laws of
17 this state on December 31, 1984, as if the laws had continued in
18 force. This subsection does not apply to a domestic life insurer if
19 the ownership of the insurer is changed, or the class, line, and
20 volume of the business written is materially changed from that written
21 on December 31, 1984.

22 * Sec. 3. AS 21.69.270(b) is amended to read:

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

1 hand and deposited as of the date the insurance coverages are to
 2 become effective, or, in lieu of the applications, premiums and sur-
 3 plus, may deposit surplus, all in accordance with that part of the
 4 following schedule which applies to the one kind of insurance the
 5 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	(F) Maximum Amount of Insurance	(G) Minimum Surplus	(H) Deposit
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Insurance Each Subject	Each Subject (5)	Funds Deposited (6)	of Surplus in Lieu of (6)
\$1,000	\$ 2,500	<u>\$800,000</u>	[\$ 50,000] <u>\$800,000</u> [\$100,000]
\$ 10 (weekly indem.)	\$ 25 (weekly indem.)	<u>\$800,000</u>	[\$ 50,000] <u>\$800,000</u> [\$100,000]
\$1,000	\$ 3,000	<u>\$600,000</u>	[\$100,000] <u>\$600,000</u> [\$200,000]
\$1,000	\$10,000	<u>\$1,000,000</u>	[\$150,000] <u>\$1,000,000</u> [\$200,000]
\$1,000	\$10,000	<u>\$1,000,000</u>	[\$200,000] <u>\$1,000,000</u> [\$300,000]
\$1,000	\$25,000	<u>\$1,000,000</u>	[\$100,000] <u>\$1,000,000</u> [\$200,000]

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

(d) Notwithstanding (a) and (c) of this section, or AS 21.09.-080, domestic reciprocal insurers duly licensed and capitalized on December 31, 1984, shall have and maintain the capital and surplus required at the date of their original license.

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

1 IN THE HOUSE

BY CATO

2 HOUSE BILL NO. 77 an

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
7 foreign and domestic insurers."

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 ad-
19 ditional funds in surplus as follows:

20	Basic Capital			
21	Kind or Kinds	or	Additional	
22	of Insurance	Basic Surplus	Surplus	
23	Life	<u>\$800,000</u> [\$400,000]	<u>\$800,000</u>	[\$400,000]
24	Disability	<u>800,000</u> [400,000]	<u>800,000</u>	[400,000]
25	Life and			
26	Disability	<u>1,000,000</u> [500,000]	<u>1,000,000</u>	[500,000]
27	Property	<u>600,000</u> [400,000]	<u>600,000</u>	[400,000]
28	Casualty exclud-			
29	ing vehicle	<u>1,000,000</u> [500,000]	<u>1,000,000</u>	[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 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 a stock insurer) or less surplus (if a mutual insurer) than required
7 by AS 21.09.070 as to new domestic insurers shall increase their
8 unimpaired basic paid-in capital stock or surplus by an amount equal
9 to 20 percent of the difference between the actual paid-in capital
10 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 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. 3. 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:

4 _____
 5 _____

6 (A)	7 (B)	8 (C)	9 (D)
	Minimum No.	Minimum No.	
	of	of	Minimum
Kind of	Applicants	Subjects	Premium
Insurance	Accepted	Covered	Collected

13 Life (1)	500	500	annual
14 Disability (2)	500	500	quarterly
15 Property (3)	100	250	annual
16 Casualty (4)	250	500	annual
17 With Workers'			
18 Compensation	250	1,500	quarterly
19 Marine, Wet			
20 Marine, and			
21 Transportation	50	50	annual

24 (E)	25 (F)	26 (G)	27 (H)
	Maximum		
Minimum	Amount of	Minimum	Deposit
Amount of	Insurance	Surplus	of Surplus
Insurance	Each	Funds	
Each	Subject	Deposited	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]
12				
13				

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, or AS 21.09.-
16 080, domestic reciprocal insurers duly licensed and capitalized on
17 December 31, 1984, shall have and maintain the capital and surplus
18 required at the date of their original license.

HB 77 AM
ALASKA STATUTES

AS21.09.070

CHAPTER = 21.09
SECTION = 21.09.070
TITLE = 21
HEADINGS TITLE 21.
Insurance.
CHAPTER 09.
Authorization of Insurers and General Requirements.
CITATION Sec. 21.09.070.
CATCH LINE

CAPITAL FUNDS REQUIRED OF FOREIGN INSURERS AND NEW DOMESTIC INSURERS.

TEXT (a) To qualify for authority to transact any one kind of insurance as defined in AS 21.12, or combination of kinds of insurance as shown below, a foreign insurer, or a domestic insurer applying for its original certificate of authority in this state, or an insurer reapplying for a certificate of authority in this state after having withdrawn from this state for any cause, shall possess and thereafter maintain unimpaired basic paid-in capital stock (if a stock insurer) or unimpaired basic surplus (if a foreign mutual insurer or foreign reciprocal insurer), and shall possess when first so authorized additional funds in surplus as follows:

Kind or Kinds of Insurance	Basic Capital or Basic Surplus	Additional Surplus
Life	\$400,000	\$400,000
Disability	400,000	400,000
Life and Disability	500,000	500,000
Property	400,000	400,000
Casualty excluding vehicle	500,000	500,000
Vehicle	400,000	400,000
Marine & Transportation	450,000	450,000
Surety	500,000	500,000
Title	250,000	250,000
Any two of the following kinds of insurance: property, marine and transportation, casualty excluding vehicle, surety and disability	550,000	550,000
Multiple Lines (all lines excluding life and title insurance)	750,000	750,000
Legal Expenses	400,000	400,000
Mortgage Guarantee	400,000	400,000

AS21.09.080

(b) Notwithstanding (a) of this section, a domestic insurer holding a valid certificate of authority to transact insurance in this state immediately before July 1, 1966, may continue to transact the same kinds of insurance permitted by the certificate of authority by maintaining after that date unimpaired not less than the same amount of paid-in capital stock (if a stock insurer) or not less than the same amount of surplus (if a mutual or reciprocal insurer) for that authority as required under the laws of this state in force immediately before July 1, 1966, as if the laws had continued in force.

AS21.69.220

CHAPTER = 21.69
SECTION = 21.69.220
TITLE = 21
HEADINGS TITLE 21.
Insurance.
CHAPTER 69.
Organization and Corporate Procedures.
CITATION Sec. 21.69.220.
CATCH LINE

TEXT INITIAL QUALIFICATIONS OF DOMESTIC MUTUALS.
(a) When newly organized, a domestic mutual insurer may be authorized to transact any one of the kinds of insurance listed in the schedule contained in
(b) of this section.
(b) When applying for an original certificate of authority, the insurer must be otherwise qualified under this title, and must have received and accepted bona fide applications as to substantial insurable subjects for insurance coverage of a substantial character of the kind of insurance proposed to be transacted, must have collected in cash the full premium at a rate not less than that usually charged by stock insurers for comparable coverages, must have surplus funds on hand and deposited as of the date the insurance coverages are to become effective, or, in lieu of the applications, premiums and surplus, may deposit surplus, all in accordance with that part of the following schedule which applies to the one kind of insurance the 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 Subject	(F) Maximum Amount of Insurance Each Subject (5)	(G) Minimum Surplus Funds Deposited (6)	(H) Deposit of Surpl s in Lieu of (6)
\$1,000 \$ 10 (weekly indem.)	\$ 2,500 \$ 25 (weekly indem.)	\$ 50,000 \$ 50,000	\$100,000 \$100,000
\$1,000	\$ 3,000	\$100,000	\$200,000
\$1,000	\$10,000	\$150,000	\$200,000
\$1,000	\$10,000	\$200,000	\$300,000
\$1,000	\$25,000	\$100,000	\$200,000

AS21.75.050

CHAPTER = 21.75
SECTION = 21.75.050
TITLE = 21
HEADINGS TITLE 21.
Insurance.
CHAPTER 75.
Reciprocal Insurers.
ARTICLE 1.
General Provisions.

CITATION Sec. 21.75.050.

CATCH LINE

SURPLUS FUNDS REQUIRED.

TEXT

(a) A domestic reciprocal insurer formed in accordance with the provisions of this chapter shall have and maintain a surplus no less than an amount equal to the total of the capital and one-half of the surplus that would be required of a domestic stock insurer writing the same lines for which the reciprocal insurer seeks to be authorized.

(b) A foreign reciprocal insurer shall have and maintain a surplus no less than an amount equal to the total capital and surplus that would be required of a domestic stock insurer writing the same lines for which the reciprocal seeks to be authorized.

(c) A domestic reciprocal insurer formed under this chapter by and insuring only 10 or more municipalities shall

(1) comply with (a) of this section or post a bond for an amount equal to the capital that would be required of a domestic stock insurer writing the same lines of insurance for which the reciprocal insurer seeks to be authorized; and

(2) maintain a surplus of \$250,000 in admitted assets or a surplus sufficient to operate the reciprocal insurer for one year, whichever is greater.

HISTORY

(Sec. 1 ch 120 SLA 1966; am sec. 4 ch 150 SLA 1978; am sec. 2 ch 104 SLA 1983)

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
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
500 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

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)

Fiscal Note



Official Business

Alaska State Legislature

Senate

Committee on Labor & Commerce

Pouch V
State Capitol
Juneau, Alaska 99811

HB 77am Sectional Analysis:

- Section 1) Increases the amount of capital and surplus requirements for "new" foreign and domestic insurers applying for a certificate to operate in the state. Also requires insurers who were previously certified in the state but withdrew to provide the increased capital and surplus amounts. Scheduled increases are established in this section.
- Section 2) (a) Allows those domestic insurers presently holding valid certificates to continue to transact the same kinds of insurance as long as they maintain no less capital or surplus than they are currently required to have.
- (b) prohibits insurers from declaring a dividend or distributing assets to their shareholders, members, or subscribers until they have the total capital and surplus required under this proposed legislation.
- (c) Allows domestic insurers currently holding valid certificates of authority until Dec 31st 1989 to increase their capital and surplus requirements to the schedule adopted in section 1). Starting on December 31st, 1985, and then annually, domestic insurers with less than the required minimums proposed in this bill must increase their capital and surplus minimums by 20% of the difference between the amounts held on Dec 31st 1983 and the new required amounts.
- (d) "Grandfathers" domestic life insurance companies at the capital and surplus requirement levels in effect on Dec 31st, 1984.
- Section 3) Amends the "minimum surplus funds deposited" and the "deposit surplus in lie of" for insurers who are applying for a certificate of authority.
- Section 4) Exempts domestic reciprocal insurers licensed and capitalized on Dec 31st, 1984 from the requirements of the new provisions.

FEB 6 1985

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



A policy of service and protection

January 11, 1985

The Honorable Betty Cato, 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

CAPITAL AND SURPLUS OF
DOMESTIC INSURERS
DECEMBER 31, 1982

	Paid-In Capital	Paid-In and Contributed Surplus	Policyholder's Surplus
Alaska Insurance Company	600,000	2,160,092	2,760,092
Alaska Pacific Insurance Company	1,024,080	22,920,775	23,944,855
Alaska Timber Insurance Exchange		1,442,383	1,442,383
Great American Insurance Company of Alaska	750,000	880,359	1,630,359
Industrial Indemnity Company of Alaska Revolving Fund	750,000	2,869,016	3,619,016
MICA	3,000,000 *	1,749,059	4,749,059
Pacific Marine Insurance Company of Alaska	1,000,000	973,973	1,973,973
Providence Washington Insurance Company of Alaska	650,000	1,707,856	2,357,856
Umialik Insurance Company	750,000	616,464	1,366,464
Security Title Insurance Company of Alaska	950,010	1,318,128	2,268,138
Life Insurance Company of Alaska	103,859 *	1,259,124	1,362,982

* Grandfather's Rights

SOURCE: ALASKA DIVISION OF INSURANCE 11-14-83.