

HB

170

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 170
(H) Publish Date: 4/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
Title Insurance RDU Insurance (116)
Component Insurance
Sponsor Labor & Commerce by Request
Requester House Labor & Commerce Component No. 354

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation addresses various provisions relating to audit reports filed by insurers, writing workers compensation insurance, defining certain types of insurance, making false or misleading statements on insurance audits and being members of the Alaska Life and Health Insurance Guaranty Association. It does not have a financial impact on the operations of the division.

Prepared by: Linda S. Hall, Director
Division: Insurance
Approved by: Emil R. Notti, Commissioner
Agency: Commerce, Community, and Economic Development

Phone 907.269.7900
Date/Time 3/21/07 11:11 AM
Date 3/21/2007

adopted 4/18/07

CONCEPTUAL AMENDMENT)

OFFERED IN THE HOUSE FINANCE COMMITTEE
TO: CS HB 170 ()

BY MEYER BY REQUEST

1 Page 3, line 11

2 After "Alaska"

3 Delete ";

4

5 Page 3, line 12 - 16

6 Delete

7 (2) an offset reducing the premium tax payable under AS

8 21.55.210(f);

9 (3) a tax credit allowed for gifts to colleges under AS 21.89.070; or

10 (4) a tax credit allowed for prequalified cash contributions to the

11 Alaska Fire Standards Council under AS 21.89.075.

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14 Page 5, line 28 through Page 6, line 1

15 Delete all material

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4/18/07

**Insurance Legislation
HB 170
Sectional Analysis by the
Department of Commerce, Community and Economic Development
Division of Insurance**

Section 1. AS 21.09.200 Insurer annual audited financial report.

These sections require the insurer to engage a certified public accountant to conduct an annual audit and submit reports to the division.

Subsection (g) specifies that the audit report filing is due by June 1 of each year unless the director exempts the insurer based on financial or organizational hardship or extends the due date based on a showing by the insurer that they have met standards for an extension given in regulations. The director may require an insurer to file the audit report before June 1 for good cause and 90 days advance notice to the insurer. The audit report must be prepared by a qualified independent certified public accountant and the insurer must notify the director of the auditor engaged to conduct the audit.

Subsection (h) requires the insurer to file a written report on any unremediated material weaknesses in internal control over financial reporting which are noted during the audit. The filing must be no later than 60 days after the filing of the audit report.

Subsection (i) says that the director may adopt regulations to require the insurer to file a report on internal control over financial reporting. The internal control report shall be filed on the date specified by the director.

Subsection (j) says that any additional information the director requires to supplement the reports required in subsection (h) and (i) must also be filed by the date specified by the director. The filed reports on internal control are confidential documents.

Subsection (k) requires that an audit committee shall be designated in accordance with regulations. The audit committee will hire the qualified independent certified public accountant registered with the division to conduct the annual audit and shall monitor services performed by the certified public accountant. If no audit committee is designated by the insurer, the whole governing board of the insurer is deemed to be the audit committee.

Subsection (l) requires the certified public accountant to notify the audit committee or governing board of the insurer in writing that the insurer has misstated its financial condition as reported to the director or that the insurer does not meet minimum capital and surplus requirements of statute. An insurer receiving such a report shall forward a copy to the director. The certified public accountant shall forward the report to the director unless the insurer provides evidence that the report has been forwarded to the director.

Section 2. AS 21.09.270(f) Retaliatory fee exclusions.

Subsection (f) is amended to include additional references to tax credits or tax exclusions that are not to be included in the retaliatory fee calculation for health insurers. These credits are not to result in increasing the retaliatory fee nor is the retaliatory fee calculation to result in negating the credit granted to an insurer to reduce premium tax due. The additions are for premium tax credits for payments by insurers to the Comprehensive Health Insurance Association, for gifts to colleges, and for contributions to the Alaska Fire Standards Council.

Section 3. AS 21.21.410 Custodian of insurer assets.

This section specifies new requirements for custodians of the assets of an insurance company.

Subsection (a) specifies that a custodian may only be a bank, trust company, securities firm or clearing corporation who is properly authorized by the insurer and approved by the director.

Subsection (b) allows that when securities are deposited with a clearing corporation the certificates representing securities of the same class of the same issuer may be merged and held in bulk in the name of the nominee of the clearing corporation with any other securities deposited by any person, regardless of ownership of such securities.

Certificates representing securities of small denominations may be merged into one or more certificates of larger denominations. The records of a custodian must at all times show which securities are held for which insurer accounts including when the securities are in a clearing corporation through the custodian. Securities may be transferred by bookkeeping entry on the books of the clearing corporation without physical delivery.

Subsection (c) requires that a custodial agreement between an insurer and the custodian be in writing and authorized by a resolution of the board of directors of the insurer or an authorized committee of the board. The terms of the agreement must comply with requirements of the director as adopted in regulations.

Section 4. AS 21.34.030(a) Workers' compensation written in the surplus lines market.

The amendment to Subsection (a) changes the written document requirement from a directive by the director to an order of the director when allowing workers compensation insurance to be written by a nonadmitted insurer.

Section 5. AS 21.34.170 Monthly report of surplus lines broker.

The amendment to subsection (a) is to remove the need for the monthly report to be verified with a notarization.

Section 6. AS 21.34.900 (9) Definition of wet marine and transportation insurance.
The amendment to paragraph (9) is to clarify that only one or more of the described coverages may be present to have insurance defined as wet marine and transportation insurance. All of the described coverages need not be present to be wet marine and transportation insurance.

Section 7. AS 21.36.060 Materially false or misleading statements.
The addition of subsection (c) prohibits a person from making or causing to be made materially false or misleading statements or omitting or causing another to omit any material fact necessary to make other statements made not misleading to an accountant in connection with a report required under AS 21.09.200.

The addition of subsection (d) prohibits a person from taking action to coerce, manipulate, mislead or fraudulently influence an accountant performing an audit under AS 21.09.200 if the person knew or should have known that the action would make the financial statement materially misleading.

Section 8. AS 21.42.405 High deductible health plan.
This new section specifies in subsection (a) that a health care insurer may have deductible or copayment requirements on health care insurance plans that qualify as high deductible health plans.

Subsection (b) limits the deductible or copayment requirement to the minimum amount necessary to qualify the plan as a high deductible health plan and not violate another provision of the insurance statutes in Title 21.

Subsection (c) specifies that the meaning of "high deductible health plan" is as is given in the Internal Revenue Code at 26.U.S.C. 223.

Section 9. AS 21.55.220(f) Premium Tax Credit.
The amendment to subsection (f) specifies that the premium tax credit given in this subsection for payments by an insurer to the Comprehensive Health Insurance Association is not to be included in the calculation of retaliatory fee in AS 21.09.270. The calculation of the retaliatory fee is not to negate the effect on an insurer of this premium tax credit to lower taxes owed.

Section 10. AS 21.79.040 Alaska Life and Health Insurance Guaranty Association member insurer.
The amendment to subsection (a) clarifies that a member insurer as defined in AS 21.79.900 is a member as a condition of the insurer's authority to transact insurance in Alaska.

Section 11. AS 21.79.900 Definition of member insurer.

The amendment to paragraph (10) clarifies that a member insurer is one that is licensed to transact in Alaska the kinds of insurance covered by the Alaska Life and Health Insurance Guaranty Association.

Section 12. AS 21.89.070 Premium Tax Credit.

A new subsection is added to clarify that a premium tax credit that is earned by a gift to a college allowed in AS 21.89.070(a) is not to be included in the calculation of retaliatory fee in AS 21.09.270. The calculation of the retaliatory fee is not to negate the effect on an insurer of this premium tax credit to lower taxes owed.

Section 13. AS 21.89.075 Premium Tax Credit.

A new subsection is added to clarify that a premium tax credit that is earned by a gift to the Alaska Fire Standards Council allowed in AS 21.89.075 is not to be included in the calculation of retaliatory fee in AS 21.09.270. The calculation of the retaliatory fee is not to negate the effect on an insurer of this premium tax credit to lower taxes owed.

Section 14. Regulations.

The director may adopt regulations necessary to implement this act but the regulations may not take effect prior to the effective date of the statutory changes.

Section 15. Effective date.

The effective date of Section 1 and 3 regarding the filing of an annual audit report by an insurer and the custodian of insurer assets is January 1, 2008 except that subsection (i) of AS 21.09.200 in Section 1 of the bill regarding the filing of a report from management describing internal control over financial reporting will be effective on December 31, 2010 and subsection (k) of AS 21.09.200 in Section 1 of the bill regarding the designation of an audit committee by an insurer will be effective on January 1, 2010.

Section 16. Effective date.

The authority in Section 14 to adopt regulations to implement this act takes effect immediately.

Section 17. Effective date.

All sections of the act are effective on July 1, 2007, except Sections 15 and 16 that specify different effective dates for Section 1, 3 and 14.

adopted 4/18/07 N/D

25-LS0609E
Bailey
4/17/07

CS FOR HOUSE BILL NO. 170()

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE LABOR AND COMMERCE COMMITTEE BY REQUEST

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to annual audit reports by insurers, to custodians of insurer assets, to
2 writing workers' compensation insurance by surplus lines insurers, to reports by surplus
3 lines insurers, to the definition of 'wet marine and transportation insurance,' to false or
4 misleading financial statements concerning insurance audits, to high deductible health
5 plans, to retaliation for obligations, prohibitions, or restrictions imposed on Alaska
6 insurers by other states or countries, and to the membership of the Alaska Life and
7 Health Insurance Guaranty Association; and providing for an effective date."

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

9 * Section 1. AS 21.09.200 is amended by adding new subsections to read:

10 (g) An insurer shall file with the director or the director's designee an annual
11 audited financial report for the previous year by June 1 of each year unless, under a
12 regulation adopted by the director, the director grants an exemption based on a finding

1 that filing an annual audited financial report would constitute a financial or
2 organizational hardship on the insurer. The filing date for the annual audited financial
3 report may be extended by the director upon showing that the standards established by
4 regulation have been met. If the director gives the insurer 90 days' advance notice, and
5 for good cause, the director may require an insurer to file an audited financial report
6 earlier than June 1 of each year. The annual audited financial report must be prepared
7 by a qualified independent certified public accountant. An insurer shall notify the
8 director of the certified public accountant engaged to conduct the audit and issue the
9 annual audited financial report.

10 (h) Within 60 days after filing the annual audited financial report under (g) of
11 this section, the insurer shall file a written report on any unremediated material
12 weakness in internal control over financial reporting noted during the audit.

13 (i) The director may adopt regulations that require the insurer to file a report
14 from management describing internal control over financial reporting. An insurer shall
15 file the report on internal control by the date specified by the director.

16 (j) If the director requires the submission of additional information, the insurer
17 shall supplement the reports required by (h) and (i) of this section by the date specified
18 by the director. The reports on internal control filed with the director under (h) and (i)
19 of this section are confidential and subject to the provisions of AS 21.06.060.

20 (k) In accordance with regulations adopted by the director, an insurer shall
21 designate an audit committee to engage a qualified independent certified public
22 accountant to conduct the annual audit. The audit committee shall oversee services
23 performed by the certified public accountant. If an insurer does not designate an audit
24 committee, the entire governing board of the insurer is considered to be the audit
25 committee for purposes of this subsection.

26 (l) The certified public accountant conducting the annual audit required by (g)
27 of this section shall notify the governing board of the insurer or the audit committee in
28 writing of a determination by the certified public accountant that the insurer has
29 materially misstated its financial condition as reported to the director or that the
30 insurer does not meet the minimum capital requirements and surplus requirements of
31 this title as of the date of the balance sheet currently under audit. An insurer that has

1 received a report under this subsection shall forward a copy to the director. The
2 certified public accountant shall also forward the report to the director unless the
3 insurer provides evidence satisfactory to the certified public accountant that the report
4 has been forwarded to the director.

5 * Sec. 2. AS 21.09.270(f) is amended to read:

6 (f) For purposes of the application of (a) of this section, a health care insurer,
7 as defined in AS 21.54.500, may not include

8 (1) taxes, assessments, or other similar obligations on health care
9 insurance premiums received from the state, a municipality, a city or borough school
10 district, a regional educational attendance area, the University of Alaska, or a
11 community college operated by the University of Alaska;

12 (2) an offset reducing the premium tax payable under
13 AS 21.55.220(f);

14 (3) a tax credit allowed for gifts to colleges under AS 21.89.070; or

15 (4) a tax credit allowed for prequalified cash contributions to the
16 Alaska Fire Standards Council under AS 21.89.075. [IN THIS SUBSECTION,
17 "HEALTH CARE INSURER" HAS THE MEANING GIVEN IN AS 21.54.500.]

18 * Sec. 3. AS 21.21.410 is repealed and reenacted to read:

19 Sec. 21.21.410. Custodian of insurer assets. (a) The custodian for assets,
20 securities, or investments of the insurer may be only a bank, trust company, securities
21 firm, or clearing corporation that is properly authorized by the insurer and approved
22 by the director.

23 (b) When securities are deposited with a clearing corporation, certificates
24 representing securities of the same class of the same issuer may be merged and held in
25 bulk in the name of the nominee of the clearing corporation with any other securities
26 deposited with the clearing corporation by any person, regardless of the ownership of
27 the securities, and certificates representing securities of small denominations may be
28 merged into one or more certificates of larger denominations. The records of any
29 custodian through which an insurer holds securities in a clearing corporation must
30 show that the securities are held for the insurer and for which accounts of the insurer.
31 Ownership of, and other interest in, the securities may be transferred by bookkeeping

1 entry on the books of the clearing corporation without physical delivery of certificates
2 representing the securities.

3 (c) A custodial agreement between an insurer and an institution holding the
4 assets, securities, or investments of the insurer must be in writing and must be
5 authorized by a resolution of the board of directors of the insurance company or of an
6 authorized committee of the board. The terms of the custodial agreement must comply
7 with the requirements of the director.

8 * Sec. 4. AS 21.34.030(a) is amended to read:

9 (a) Workers' compensation insurance may be placed in and written by a
10 nonadmitted insurer if

11 (1) the director considers it in the best interest of the public and issues
12 an order [A DIRECTIVE] to that effect;

13 (2) the insurance is written in accordance with this chapter; and

14 (3) all conditions established for writing workers' compensation
15 insurance in a nonadmitted market receive compliance.

16 * Sec. 5. AS 21.34.170(a) is amended to read:

17 (a) A surplus lines broker shall file with the director on or before the end of
18 each month, on forms prescribed by the director, a [VERIFIED] report of all surplus
19 lines insurance, by type of insurance as required to be reported in the annual statement
20 that must be filed with the director by admitted insurers. The report must include all
21 surplus lines insurance transactions during the preceding calendar month showing the
22 aggregate gross premiums written, the aggregate return premiums, the amount of
23 aggregate tax remitted to this state, and the amount of aggregate tax remitted to each
24 other state for which an allocation is made under AS 21.34.180.

25 * Sec. 6. AS 21.34.900(9) is amended to read:

26 (9) "wet marine and transportation insurance" means one or more of
27 the following:

28 (A) insurance upon, of interest in, or relating to vessels, crafts,
29 hulls, except vessels of 50 displacement tons or less;

30 (B) insurance of marine builders risks, marine war risks, and
31 contracts of marine protection and indemnity insurance;

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(C) insurance of freight and disbursements pertaining to a subject of insurance coming within this paragraph; or [AND]

(D) insurance of personal property and interests in personal property, in course of exportation from or importation into a country or in the course of coastal or inland water transportation, including transportation by land, water, or air from point of origin to final destination in connection with any and all risks or perils of navigation, transit, or transportation, and while being repaired for and while awaiting shipment, and during any delays, transshipment, or reshipment incident to them.

* Sec. 7. AS 21.36.060 is amended by adding new subsections to read:

(c) A person may not, directly or indirectly, in connection with an audit, review, or communication required under AS 21.09.200

(1) make or cause to be made a materially false or misleading statement to an accountant; or

(2) omit to state or cause another person to omit to state any material fact necessary in order to make other statements made not misleading to an accountant.

(d) A person may not, directly or indirectly, take any action to coerce, manipulate, mislead, or fraudulently influence any accountant engaged in the performance of an audit under AS 21.09.200 if that person knew or should have known that the action, if successful, could result in rendering the insurer's financial statement materially misleading.

* Sec. 8. AS 21.42 is amended by adding a new section to read:

Sec. 21.42.405. High deductible health plan. (a) A health care insurer that offers, issues, delivers, or renews a health care insurance plan in this state may apply deductible or copayment requirements to health care benefits and services that qualify the health care insurance plan as a high deductible health plan.

(b) A health care insurer may only apply a deductible or copayment requirement to health care benefits or services under (a) of this section to the extent, and in the minimum amount necessary, to qualify the health care insurance plan as a high deductible health plan and to the extent that the deductible or copayment

1 requirements do not violate another provision of this title.

2 (c) In this section, "high deductible health plan" has the meaning given in 26
3 U.S.C. 223 (Internal Revenue Code).

4 * Sec. 9. AS 21.55.220(f) is amended to read:

5 (f) A member may offset 50 percent of the amount of the assessment under
6 this section as a premium tax credit reducing the premium tax payable by the member
7 under AS 21.09.210. The offset shall apply to the tax levied for the calendar year
8 following an annual determination of each member's liability under (d) of this section.
9 The offset may not reduce the premium tax payable by a member to less than zero or
10 create a premium tax credit for the member. An unused offset may be carried over to
11 the immediately following calendar year. An offset made under this subsection is
12 not subject to AS 21.09.270.

13 * Sec. 10. AS 21.79.040(a) is amended to read:

14 (a) There is established as a nonprofit legal entity the Alaska Life and Health
15 Insurance Guaranty Association. Each member insurer [AN INSURER THAT
16 ISSUES AN INSURANCE POLICY DESCRIBED IN AS 21.79.020(b)] shall be a
17 member of the association as a condition of the insurer's authority to transact
18 insurance in this state. The association shall perform its functions under a plan of
19 operation established and approved under AS 21.79.080 and shall exercise its powers
20 through the Board of Governors established under AS 21.79.050. For purposes of
21 administration and assessment, the association shall maintain the following accounts:

22 (1) the health insurance account; and

23 (2) the life insurance and annuity account, including the following
24 subaccounts:

25 (A) life insurance account;

26 (B) annuity account that must include annuity contracts owned
27 by a governmental retirement benefit plan, or its trustee, qualified under 26
28 U.S.C. 401, 26 U.S.C. 403(b), or 26 U.S.C. 457 (Internal Revenue Code), but
29 that otherwise excludes unallocated annuities; and

30 (C) unallocated annuity account that must exclude contracts
31 owned by a governmental retirement benefit plan, or its trustee, qualified under

1 26 U.S.C. 401, 26 U.S.C. 403(b), or 26 U.S.C. 457 (Internal Revenue Code).

2 * Sec. 11. AS 21.79.900(10) is amended to read:

3 (10) "member insurer" means an insurer licensed to transact insurance
4 in the state for which coverage is provided [THAT ISSUES A POLICY
5 DESCRIBED] in AS 21.79.020 [AS 21.79.020(a) AND (b)], or a subscriber contract
6 providing benefits described in AS 21.87.120(a)(2) - (4) or 21.87.130(a)(2) and (3),
7 and includes an insurer whose license or certificate of authority in this state may have
8 been suspended, revoked, not renewed, or voluntarily withdrawn; "member insurer"
9 does not include

10 (A) a health maintenance organization licensed under
11 AS 21.86;

12 (B) a fraternal benefit society licensed under AS 21.84;

13 (C) a mandatory state pooling plan;

14 (D) a mutual assessment company or an entity that operates on
15 an assessment basis;

16 (E) an insurance exchange licensed under AS 21.75;

17 (F) a hospital or medical service organization licensed under
18 AS 21.87;

19 (G) an organization that has a license or certificate limited to
20 the issuance of charitable gift annuities; or

21 (H) an entity similar to one described under (A) - (G) of this
22 paragraph;

23 * Sec. 12. AS 21.89.070 is amended by adding a new subsection to read:

24 (d) A contribution allowed as a tax credit under this section is not subject to
25 AS 21.09.270.

26 * Sec. 13. AS 21.89.075 is amended by adding a new subsection to read:

27 (e) A contribution allowed as a tax credit under this section is not subject to
28 AS 21.09.270.

29 * Sec. 14. The uncodified law of the State of Alaska is amended by adding a new section to
30 read:

31 TRANSITION: REGULATIONS. The director of insurance may immediately proceed

1 to adopt regulations under AS 21.06.090 necessary to implement this Act. The regulations
2 take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date
3 of the statutory changes.

4 * **Sec. 15.** Sections 1 and 3 of this Act take effect January 1, 2008, except that
5 AS 21.09.200(i), enacted by sec. 1 of this Act, takes effect on December 31, 2010, and
6 AS 21.09.200(k), enacted by sec. 1 of this Act, takes effect on January 1, 2010.

7 * **Sec. 16.** Section 14 of this Act takes effect immediately under AS 01.10.070(c).

8 * **Sec. 17.** Except as provided in secs. 15 and 16 of this Act, this Act takes effect July 1,
9 2007.



ALASKA STATE LEGISLATURE

HOUSE LABOR & COMMERCE COMMITTEE

REP. KURT OLSON

Chairman
State Capitol, Room 17
Juneau, AK 99801-1182
(907) 465-2693 FAX 465-3835

Rep Mark Neuman, V-Chair Rep. Carl Gatto
Rep. Jay Ramras Rep. Berta Gardner
Rep. Gabrielle LeDoux Rep. Bob Buch

Sponsor Statement

HB 170 Insurance

HB 170 relates to the accreditation of the Division of Insurance and includes other minor clarifying changes to the insurance code.

The Bill requires that insurers submit an audit report to the Director each year and other internal control reports if required by the Director. The Certified Public Accountant performing audit services for the insurer must be qualified and independent and must register with the Director. The bill also prohibits a person from making false or misleading statements to an auditor. This reporting is an accreditation standard and is required in order to be uniform with other states and maintain accreditation of the Division of Insurance.

HB 170 puts requirements on custodians of insurer assets. It specifies who may act as a custodian and requires they be approved by the Director. The bill specifies how clearing corporations may hold assets. All custodial agreements must be in writing and in compliance with requirements of the Director. These rules are necessary for the secure control of assets of an insurer and will be accreditation requirements.

The bill also clarifies language in several sections by adopting wording that is consistent with similar wording in other sections, removing unnecessary notarization requirements, and clarifying definitions.

Insurance Legislation

Sectional Analysis by the Department of Commerce, Community and Economic Development Division of Insurance

Section 1. AS 21.09.195 Registration for annual preparer of an insurer's audited financial report.

This section has been added to require the director to establish a system of registration of certified public accounts who will be conducting audits on Alaska insurance companies.

Section 2. AS 21.09.200 Insurer annual audited financial report.

These sections require the insurer to engage a certified public accountant to conduct an annual audit and submit reports to the division.

Subsection (g) specifies that the audit report filing is due by June 1 of each year unless the director exempts the insurer based on financial or organizational hardship or extends the due date based on a showing by the insurer that they have met standards for an extension given in regulations. The director may require an insurer to file the audit report before June 1 for good cause and 90 days advance notice to the insurer. The audit report must be prepared by a qualified independent certified public accountant registered with the director.

Subsection (h) requires the insurer to file a written report on any unremediated material weaknesses in internal control over financial reporting which are noted during the audit. The filing must be no later than 60 days after the filing of the audit report.

Subsection (i) says that the director may require for good cause that the insurer file a report on internal control over financial reporting. The internal control report shall be filed on the date specified by the director.

Subsection (j) says that any additional information the director requires to supplement the reports required in subsection (h) and (i) must also be filed by the date specified by the director. The filed reports on internal control are confidential documents.

Subsection (k) requires that an audit committee shall be designated in accordance with regulations. The audit committee will hire the qualified independent certified public accountant registered with the division to conduct the annual audit and shall monitor services performed by the certified public accountant. If no audit committee is designated by the insurer, the whole governing board of the insurer is deemed to be the audit committee.

Subsection (l) requires the certified public accountant to notify the audit committee or governing board of the insurer in writing that the insurer has misstated its financial condition as reported to the director or that the insurer does not meet minimum capital and surplus requirements of statute. An insurer receiving such a report shall forward a copy to the director. The certified public accountant shall forward the report to the director unless the insurer provides evidence that the report has been forwarded to the director.

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This section specifies new requirements for custodians of the assets of an insurance company.

Subsection (a) specifies that a custodian may only be a bank, trust company, securities firm or clearing corporation who is properly authorized by the insurer and approved by the director.

Subsection (b) allows that when securities are deposited with a clearing corporation the certificates representing securities of the same class of the same issuer may be merged and held in bulk in the name of the nominee of the clearing corporation with any other securities deposited by any person, regardless of ownership of such securities.

Certificates representing securities of small denominations may be merged into one or more certificates of larger denominations. The records of a custodian must at all times show which securities are held for which insurer accounts including when the securities are in a clearing corporation through the custodian. Securities may be transferred by bookkeeping entry on the books of the clearing corporation without physical delivery.

Subsection (c) requires that a custodial agreement between an insurer and the custodian be in writing and authorized by a resolution of the board of directors of the insurer or an authorized committee of the board. The terms of the agreement must comply with requirements of the director as adopted in regulations.

Section 4. AS 21.34.030(a) Workers' compensation written in the surplus lines market.

The amendment to Subsection (a) changes the written document requirement from a directive by the director to an order of the director when allowing workers compensation insurance to be written by a nonadmitted insurer.

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The amendment to subsection (a) is to remove the need for the monthly report to be verified with a notarization.

Section 6. AS 21.34.900 (9) Definition of wet marine and transportation insurance.

The amendment to paragraph (9) is to clarify that only one or more of the described coverages may be present to have insurance defined as wet marine and transportation insurance. All of the described coverages need not be present to have wet marine and transportation insurance.

Section 7. AS 21.36.060 Materially false or misleading statements.

The addition of subsection (c) prohibits a person from making or causing to be made materially false or misleading statements or omitting or causing another to omit any material fact necessary to make other statements made not misleading to an accountant in connection with a report required under AS 21.09.200.

The addition of subsection (d) prohibits a person from taking action to coerce, manipulate, mislead or fraudulently influence an accountant performing an audit under AS 21.09.200 if the person knew or should have known that the action would make the financial statement materially misleading.

Section 8. AS 21.79.040 Alaska Life and Health Insurance Guaranty Association member insurer.

The amendment to subsection (a) clarifies that a member insurer as defined in AS 21.79.900 is a member as a condition of the insurer's authority to transact insurance in Alaska.

Section 9. AS 21.79.900 Definition of member insurer.

The amendment to paragraph (10) clarifies that a member insurer is one that is licensed to transact in Alaska the kinds of insurance covered by the Alaska Life and Health Insurance Guaranty Association.

Section 10. Regulations.

The director may adopt regulations necessary to implement this act but the regulations may not take effect prior to July 1, 2007.

Section 11. Effective date.

The effective date of Section 3 regarding the custodian of insurer assets is January 1, 2008.

Section 12. Effective date.

The authority in Section 10 to adopt regulations to implement this act takes effect immediately.

Section 13. Effective date.

All sections of the act are effective on July 1, 2007, except Section 11 and 12 that specify different effective dates for sections 3 and 10.