

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672  
5940 HOUSE LABOR & COMMERCE

344

STEVE FRANK  
DISTRICT K  
SEAT A

119 N. Cushman, Rm. 213  
Fairbanks, Alaska 99701

*While in Juneau*  
P.O. Box V

Juneau, Alaska 99811  
(907) 465-3709

Capitol Rm. 514

# Alaska State Legislature



Senate

MEMBER  
Finance Committee  
Resources Committee  
Legislative Council  
Special Committee on Banking &  
Economic Development

VICE-CHAIR  
Community & Regional  
Affairs Committee

## MEMORANDUM

TO: Senate Labor & Commerce Committee

FROM: Senator Steve Frank

RE: CS SB 309 - Auto Insurance Exclusions

DATE: March 5, 1990

During the last hearing on SB 309 in this committee, questions arose about what would happen to insurance rates if this legislation were passed and whether the courts would uphold the exclusionary provision. In your packet are some hypothetical rate quotes from a local Insurance Agent and also a letter from the Department of Law reviewing other state's experience.

The rate information shows a savings of about \$400 per year, over what would be paid without the exclusion benefits if the bad driver is excluded from the policy, but continues to drive under a second policy.

An even larger savings, approximately \$1,000. would result if the bad driver chose not to drive and were excluded. Without this legislation, most companies will not exclude someone even when they choose not to drive if they reside in the same household.

The Assistant Attorney General summarizes a number of states that have exclusions laws now in effect. In those states with laws on the books "the courts in those states have generally upheld the exclusions." In all of the court cases relating to exclusions, the courts placed a tremendous weight on their perception of the Legislature's intent.

The New Mexico Legislature even put the language necessary to exclude an individual right in the statute. We have followed that approach in the proposed CS by adopting the same language in hopes to make Legislative intent very clear.

shattuck & grummett, inc.

ESTABLISHED 1898  
insurance • bonds

101 SEWARD STREET

Juneau, Alaska 99801

CURTIS G. SHATTUCK  
ALLEN D. SHATTUCK  
ROGER R. SHATTUCK, C.P.C.U.  
BUD JAEGER

MICHAEL A. GRUMMETT  
ROGER GRUMMETT  
NANCY L. BURNS

February 9, 1990

Senator Steve Frank  
State of Alaska  
PO Box V  
Juneau, Alaska

Re: Senate Bill #309  
Excluding Named Drivers from Auto Insurance Policies

Dear Senator Frank

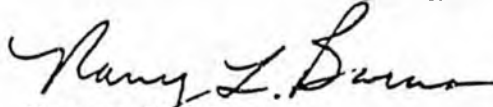
At the request of Rick Solie of your office, I am forwarding samples of automobile insurance premiums comparing some varied situations such as applicants meeting preferred risk rating criteria, and then dealing with the same risk except with adverse driving record, and with and without the proposed Exclusion Endorsement being applied.

I hope the committee will find this practical type of information to be helpful in deliberating SB #309.

If our office can be of further help in this regard, we hope you will contact us again.

Sincerely

SHATTUCK & GRUMMETT INC

  
Nancy L. Burns  
Agent/Broker

NLB/kj

Encl

The following figures are premium ESTIMATES only.

### YOUR LIABILITY

BODILY INJURY covers your legal liability for Injury to persons. Limits \$50,000 per person and \$100,000 per accident where more than one person is injured, including legal costs. Auto 1/Auto 2 \$ 64.50\* & 57.00\*  
or  
\$100,000 per person, \$300,000 per acc... \$ \_\_\_\_\_

PROPERTY DAMAGE covers your legal liability for damages to property of others. Limit, \$25,000 including legal costs. \*Included \$ \_\_\_\_\_  
or  
\$50,000 \$ \_\_\_\_\_  
or  
\$ \_\_\_\_\_ Combined Single Limit Bodily Injury AND Property Damage Liability \$ \_\_\_\_\_

### YOUR CAR

COMPREHENSIVE pays for all damage to your car from any cause except collision or upset. It includes fire, theft, glass breakage, vandalism, windstorm, etc. (but excludes sound equipment not permanently installed.) If you pay the first \$100 of each claim \$ 50.00 - Buick

COLLISION OR UPSET pays for all damage to your car from these two hazards except that you pay the amount of deductible on each claim. If you pay the first \$100... \$ \_\_\_\_\_  
or  
\$250 Deductible \$ 131.00 - Buick  
\$500 Deductible \$ \_\_\_\_\_

UNINSURED MOTORIST — covers you and your family for Bodily Injury done by an uninsured motorist with limits of \$50,000/100,000 and for damage to your car (\$250 deductible) \$ 11.30 & 20.20

MEDICAL PAYMENTS will cover all medical costs of anyone hurt in your car regardless of liability. It also covers each family member injured in or by any other car.

\$1,000 per person limit \$ 2.00 & 2.00  
\$2,000 per person limit \$ \_\_\_\_\_  
\$5,000 per person limit \$ \_\_\_\_\_

Most of our programs offer higher limits of Liability, Uninsured Motorist and Medical Payments coverages than those shown above, as well as various Deductibles on your car. We also urge you to inquire re our Personal Catastrophe Policy — minimum limits \$1,000,000. In addition, most programs offer Towing, Auto Death and Disability, Rental Reimbursement, Customized Auto Endorsement and other coverages. Inquire for details.

In order to effect this coverage, a completed and signed application is required, and premium or downpayment (inquire re available payment plans.) We will need information including the serial number of your car, odometer reading, dates of birth and drivers license numbers of all drivers, and prior insurance information, if any.

AUTO #1 = 1990 Buick Century Cstm - Loan requires Comprehensive & Collision  
AUTO #2 = 1982 Ford F150 Pickup 4WD - No Comprehensive or Collision required

TOTAL SIX MONTHS PREMIUM \$338.00 (= \$676.00 IN A YEAR'S TIME)

#### DESCRIPTION OF THIS RISK IS

Adult married couple

Clear driving records (or driving records acceptable in Preferred market)

Allstate Insurance Co Preferred Risk Market (both vehicles included on policy)

(The same vehicles are used on each sample)

Samples #2

The following figures are premium ESTIMATES only.

### YOUR LIABILITY

### YOUR CAR

**BODILY INJURY** covers your legal liability for injury to persons. Limits \$50,000 per person and \$100,000 per accident where more than one person is injured, including legal costs. \$ 85.50\* Buick Only

or

\$100,000 per person, \$300,000 per acc. \$ \_\_\_\_\_

**COMPREHENSIVE** pays for all damage to your car from any cause except collision or upset. It includes fire, theft, glass breakage, vandalism, windstorm, etc. (but excludes sound equipment not permanently installed.) If you pay the first \$100 of each claim \$ 50.00 Buick Only

**PROPERTY DAMAGE** covers your legal liability for damages to property of others. Limit, \$25,000 including legal costs \$ \*Included

or

\$50,000 \$ \_\_\_\_\_

or

\$ \_\_\_\_\_ Combined Single Limit Bodily Injury AND Property Damage Liability \$ \_\_\_\_\_

**COLLISION OR UPSET** pays for all damage to your car from these two hazards except that you pay the amount of deductible on each claim. If you pay the first \$200. \$ \_\_\_\_\_

or

\$250 Deductible \$ 146.00

\$500 Deductible \$ \_\_\_\_\_

**UNINSURED MOTORIST** — covers you and your family for Bodily Injury done by an uninsured motorist with limits of \$50,000/100,000 and for damage to your car (\$250 deductible) \$ 11.30

**MEDICAL PAYMENTS** will cover all medical costs of anyone hurt in your car regardless of liability. It also covers each family member injured in or by any other car.

\$1,000 per person limit \$ 4.00

\$2,000 per person limit \$ \_\_\_\_\_

\$5,000 per person limit \$ \_\_\_\_\_

Most of our programs offer higher limits of Liability, Uninsured Motorist and Medical Payments coverages than those shown above, as well as various Deductibles on your car. We also urge you to inquire re our Personal Catastrophe Policy — minimum limits \$1,000,000. In addition, most programs offer Towing, Auto Death and Disability, Rental Reimbursement, Customized Auto Endorsement and other coverages. Inquire for details.

In order to effect this coverage, a completed and signed application is required, and premium or downpayment (inquire re available payment plans.) We will need information including the serial number of your car, odometer reading, date of birth and drivers license numbers of all drivers, and prior insurance information, if any.

**TOTAL SIX MONTH PREMIUM \$296.80 (Six Month Premium x 2 = \$593.60)**  
**BUICK ONLY**

#### DESCRIPTION OF THIS RISK IS

Insured's spouse has been convicted of Drunk Driving within the past 3 year period with the standard SR-22 (Proof of Insurance) Filing required by the State to reinstate the driver's license.

This spouse has now been EXCLUDED AS A DRIVER ON THE PREFERRED RISK POLICY DUE TO THE DWI, AND HAS A SEPARATE POLICY ON THE PICKUP - SEE PAGE TWO

The policy on the Buick remains in Allstate Insurance Co's Preferred Risk market (with the spouse excluded from driving) and with the deletion of the two car discount.

- COMPLUS #2 (cont.)

The following figures are premium ESTIMATES only.

### YOUR LIABILITY

### YOUR CAR

**BODILY INJURY** covers your legal liability for Injury to persons. Limits \$50,000 per person and \$100,000 per accident where more than one person is injured, including legal costs ..... \$ 362.00  
 or  
 \$100,000 per person, \$300,000 per acc. . . \$ \_\_\_\_\_

**COMPREHENSIVE** pays for all damage to your car from any cause except collision or upset. It includes fire, theft, glass breakage, vandalism, windstorm, etc. (but excludes sound equipment not permanently installed.) If you pay the first \$100 of each claim ..... \$ \_\_\_\_\_

**PROPERTY DAMAGE** covers your legal liability for damages to property of others. Limit, \$25,000 including legal costs ..... \$ 224.00  
 or  
 \$50,000 ..... \$ \_\_\_\_\_  
 or  
 \$ \_\_\_\_\_

**COLLISION OR UPSET** pays for all damage to your car from these two hazards except that you pay the amount of deductible on each claim. If you pay the first \$200..... \$ \_\_\_\_\_  
 or  
 \$250 Deductible ..... \$ \_\_\_\_\_  
 \$500 Deductible ..... \$ \_\_\_\_\_

\$ \_\_\_\_\_ Combined Single Limit Bodily Injury AND Property Damage Liability \$ \_\_\_\_\_

**UNINSURED MOTORIST** — covers you and your family for Bodily Injury done by an uninsured motorist with limits of \$50,000/100,000 and for damage to your car (\$250 deductible) ..... \$ 21.00

**MEDICAL PAYMENTS** will cover all medical costs of anyone hurt in your car regardless of liability. It also covers each family member injured in or by any other car.  
 \$1,000 per person limit ..... \$ 32.00  
 \$2,000 per person limit ..... \$ \_\_\_\_\_  
 \$5,000 per person limit ..... \$ \_\_\_\_\_

Most of our programs offer higher limits of Liability, Uninsured Motorist and Medical Payments coverages than those shown above, as well as various Deductibles on your car. We also urge you to inquire re our Personal Catastrophe Policy — minimum limits \$1,000,000. In addition, most programs offer Towing, Auto Death and Disability, Rental Reimbursement, Customized Auto Endorsement and other coverages. Inquire for details.

In order to effect this coverage, a completed and signed application is required, and premium or downpayment (inquire re available payment plans.) We will need information including the serial number of your car, odometer reading, dates of birth and drivers license numbers of all drivers, and prior insurance information, if any.

PLUS SR-22 FILING SURCHARGE = \$50.00 FULLY EARNED (Paid once in three years provided policy is renewed without lapse)

TOTAL ANNUAL PREMIUM = \$689.00 (Ford Pickup only)

#### DESCRIPTION OF MARKET

This policy is being issued through the Alaska Automobile Insurance Plan, commonly known as the Assigned Risk Plan.

#### PREMIUMS THROUGH OTHER MARKETS AVAILABLE TO THIS RISK

Allstate Indemnity Co = \$341.20 per SIX MONTHS (x 2 = \$682.40)

\*\*\*\*\*Progressive Ins Co = \$631.00 ANNUAL (Less 5% if Paid in Full)

The following figures are premium ESTIMATES only.

## YOUR LIABILITY

BODILY INJURY covers your legal liability for injury to persons. Limits \$50,000 per person and \$100,000 per accident where more than one person is injured, including legal costs. .... \$ 288.50/\$100.00  
 Auto 1/Auto 2  
 or  
 \$100,000 per person, \$300,000 per acc. . . \$ \_\_\_\_\_

PROPERTY DAMAGE covers your legal liability for damages to property of others. Limit, \$25,000 including legal costs ..... \$ \*Included  
 or  
 \$50,000 \$ \_\_\_\_\_  
 or  
 \$ \_\_\_\_\_ Combined Single Limit Bodily Injury AND Property Damage Liability \$ \_\_\_\_\_

## YOUR CAR

COMPREHENSIVE pays for all damage to your car from any cause except collision or upset. It includes fire, theft, glass breakage, vandalism, windstorm, etc. (but excludes sound equipment not permanently installed.) If you pay the first \$100 of each claim ..... \$ 88.00-Buick Or

COLLISION OR UPSET pays for all damage to your car from these two hazards except that you pay the amount of deductible on each claim. If you pay the first \$200 . . . \$ \_\_\_\_\_  
 or  
 \$250 Deductible \$ 341.00-Buick  
 \$500 Deductible \$ \_\_\_\_\_

UNINSURED MOTORIST — covers you and your family for Bodily Injury done by an uninsured motorist with limits of \$50,000/100,000 and for damage to your car (\$250 deductible) ..... \$ 11.30/20.20

MEDICAL PAYMENTS will cover all medical costs of anyone hurt in your car regardless of liability. It also covers each family member injured in or by any other car.

\$1,000 per person limit ..... \$ 4.00/4.00  
 \$2,000 per person limit ..... \$ \_\_\_\_\_  
 \$5,000 per person limit ..... \$ \_\_\_\_\_

Most of our programs offer higher limits of Liability, Uninsured Motorist and Medical Payments coverages than those shown above, as well as various Deductibles on your car. We also urge you to inquire re our Personal Catastrophe Policy — minimum limits \$1,000,000. In addition, most programs offer Towing, Auto Death and Disability, Rental Reimbursement, Customized Auto Endorsement and other coverages. Inquire for details.

In order to effect this coverage, a completed and signed application is required, and premium or downpayment (inquire re available payment plans.) We will need information including the serial number of your car, odometer reading, dates of birth and drivers license numbers of all drivers, and prior insurance information, if any.

TOTAL SIX MONTH PREMIUM \$857.00 (x 2 = \$1,714)

### DESCRIPTION OF THIS RISK IS

Spouse has the Drunk Driving Conviction & SR-22 Filing Requirement

This sample shows both vehicles insured in Allstate Indemnity Co (i.e. no exclusion applies)

ANOTHER MARKET AVAILABLE (besides the Alaska Auto Ins Plan) is Progressive Ins Co

Same coverages etc as above = \$1,260 ANNUAL (Less 5% if paid in full)

### PROGRESSIVE INS CO ALLOWS EXCLUSIONS

Policy issued under above based on the Buick only with the spouse excluded would require an annual premium of \$1,260 (less 5% if paid in full)

STEVE COWPER, GOVERNOR

REPLY TO

**DEPARTMENT OF LAW**

OFFICE OF THE ATTORNEY GENERAL

1031 W 4th AVENUE SUITE 200  
ANCHORAGE, ALASKA 99501-1994  
PHONE: (907) 276-3550  
FAX: (907) 276-3697

1st NATIONAL CENTER  
100 CUSHMAN ST SUITE 400  
FAIRBANKS, ALASKA 99701-4679  
PHONE (907) 452-1568  
FAX (907) 456-1317

PO BOX K—STATE CAPITOL  
JUNEAU, ALASKA 99811-0300  
PHONE (907) 465-3600  
FAX (907) 463-5295

February 12, 1990

The Honorable Steve Frank  
Alaska State Legislature  
P.O. Box V  
Juneau, Alaska 99811

Re: SB 306 -- excluding a named driver  
from a motor vehicle insurance policy  
Our file: 663-90-0295

Dear Senator Frank:

You have asked for our opinion on the likelihood that the named driver exclusion provision of SB 309 would be upheld if challenged in court. Senate Bill 309 (SB 309) relates to the exclusion of a named driver from a motor vehicle insurance policy. Although named driver exclusions are not uncommon in individual automobile insurance policies, we have found few states which have enacted statutes to provide for such exclusions.

The purpose of a named driver exclusion is to exclude from coverage insured automobiles while they are driven or operated by a particular individual. Such exclusions are typically used in policies covering automobiles which may be driven by more than one person where an individual (typically a family member) has a poor driving record.

You have specifically asked for our opinion as to whether a named driver exclusion provision would be upheld by the Alaska courts. Our research has revealed no case law in Alaska that addresses the validity of either named driver exclusions or of the related "household" or "family" exclusions. Without such case law precedent, it is difficult to predict the reaction of the Alaska courts to such provisions with any degree of certainty. However, we have reviewed the treatment of named driver exclusions in other states which provide for them by statute, and our opinion is based on the experiences in those states.

In general, courts in those states which do not have statutory provisions for named driver exemptions on automobile insurance policies have held that such exemptions are valid only

in relation to coverage exceeding the minimum level of liability of coverage mandated, so that the public policy of mandatory uninsured motorist coverage is maintained. See, e.g., Allstate Insurance Co. v. United States Fidelity & Guaranty Co., 619 P.2d 329 (Utah 1980). The underlying tenet is that if any provision of an automobile liability insurance policy conflicts with the requirements of the statute regulating such policies, it is invalid.

Our research has revealed six states (Colorado, Arizona, Pennsylvania, New Mexico, Maryland, and Michigan) having statutes which provide for named driver exclusions in automobile insurance policies similar to that in SB 309. The courts in those states have generally upheld the exclusions. See Parsons v. Erie Insurance Group, 569 F.Supp. 572 (D. Maryland 1983)(if the uninsured motorist coverage on a vehicle was deemed applicable when the driver is excluded from the vehicle's ordinary liability coverage, then the insurer would in effect still be insuring the liable driver, who had a bad claims or driving record, but the insurer would be denied the appropriate premium); Sersion v. Dairyland Insurance Co., 757 P.2d 1169 (Colo, App. 1988)(the application of the statute cannot be limited or invalidated on public policy grounds where the language of the legislative intent is clear and unambiguous); Nationwide Mutual Insurance Co. v. Miller, 505 A.2d 1338 (Md. 1986)(named driver exclusion prevented insured passenger from collecting uninsured motorist benefits when insured in car driven by the excluded driver); Garza v. Glen Falls Insurance Co., 731 P.2d 363 (N.M.1986)(policy which denied liability coverage in accident caused by named driver excluded in the policy upheld); Muxlow v. Auto Club Insurance Association, 394 N.W.2d 121 (Mich. App. 1986)(the named driver exclusion statute permits the vehicle owner to be named as the excluded driver on policy).

In a strong decision, the court in Allstate Insurance Co. v. Detroit Automobile Inter-Insurance Exchange, 369 N.W.2d 908 (Mich. App. 1985) held that the named driver exclusion in a policy permitted the exclusion of the car owner from liability coverage when injured as a passenger in his own car driven by the named individual. The court reasoned that the opposite result would defeat one of the primary purposes of permitting the exclusion, which is to reduce premiums, and that even if there was a conflict between the named driver exclusion statute and the mandatory liability coverage, the statute on exclusions would prevail since it is a specific statute enacted subsequent to a more general statute covering the same subject matter.

The Honorable Steve Frank  
Alaska State Legislature  
663-90-0295

February 12, 1990  
Page 3

An exception has been found in Arizona, another state which has a named driver exclusion statute. The Supreme Court of Arizona held that the named driver exclusion in an individual insurance policy is void as far as mandatory uninsured motorist coverage is concerned. See Employers Mutual Casualty Co. v. McKeon, 765 P.2d 513 (Ariz.1988) (insurance contract was held contrary to public policy and therefore void as it purported to exclude insureds' son from all coverage including mandatory uninsured motorist coverage where son was injured in accident while driving insured car but was not at fault).

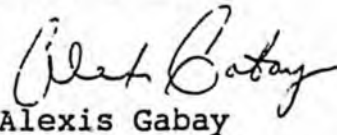
The courts in each of these cases have repeatedly looked at the language of the policy and to legislative intent in reaching their decisions. Therefore, the clearer the legislative intent, the more likely the provision will survive such a challenge.

Thank you for seeking our opinion on this matter. Please do not hesitate to contact this office if you have further questions.

Sincerely,

DOUGLAS B. BAILY  
ATTORNEY GENERAL

By:



Alexis Gabay  
Assistant Attorney General

AG:nb

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

January 22, 1990

SUBJECT: Excluding a named driver from  
automobile insurance (SB 309)

TO: Senator Steve Frank

FROM: Michael F. Ford *M.F.*  
Legislative Counsel

You have asked if it is possible that an exclusion from insurance coverage, as provided in SB 309, could be rejected by the courts. While it is certainly possible to create a fact situation under which an apparent exclusion from coverage as contemplated by SB 309 is found by the court not to have occurred, this would be the exception and not the rule. Assuming that there was a clear and unambiguous exclusion of a named person by the insured, the court should uphold the exclusion.

Please contact me if you have further questions.

MFF:gc  
G13/052

COLORADO

- NOTICE OF NON-RENEWAL
- NOTICE OF CANCELLATION

- ALLSTATE INSURANCE COMPANY
- ALLSTATE INDEMNITY COMPANY

5401 South Valley Highway  
 Greenwood Village  
 Englewood, Colorado 80110

NAMED INSURED AND ADDRESS

DATE OF NOTICE
APPLICATION OR POLICY NUMBER
AGENT
DATE OF CANCELLATION OR NON-RENEWAL 12:01 A.M. Standard Time

You are hereby notified in accordance with the terms and conditions of the policy identified above that this policy is terminated effective on the DATE OF CANCELLATION OR NON-RENEWAL shown hereon and after that date no further protection will be provided thereunder.

You have the right to replace the insurance through the Colorado Motor Vehicle Insurance Plan. Your Agent, Broker or Company should be able to provide you with information regarding this plan.

**ONLY THE AREAS MARKED "X" APPLY**

<input type="checkbox"/> Colorado Law provides that the reason or reasons for cancellation or refusal to renew a "Policy of Automobile Insurance" accompany the notice of such cancellation or refusal to renew. (Reason disclosure not required if coverage has been in effect less than sixty days at the time notice of cancellation is mailed.) REASON OR REASONS FOR CANCELLATION OR REFUSAL TO RENEW:
<input type="checkbox"/> EXCLUSION OFFER: See reverse side for further details regarding an offer to provide a policy excluding _____ from coverage. Under such a policy we would not be liable for damages, losses or claims arising out of the operation of the insured motor vehicle by the named excluded person or persons, whether or not such operation was with the expressed or implied permission of a person insured under the policy. Premium \$ _____
<input type="checkbox"/> See reverse side for details regarding your RIGHT TO PROTEST ACTION AND REQUEST HEARING before the Commissioner of Insurance.
<input type="checkbox"/> (Applicable only to individually owned policies of insurance used for personal, family or household purposes.) This termination was influenced by information in a Consumer Report furnished to us by: _____

THE FOLLOWING ADDITIONAL INFORMATION IS APPLICABLE ONLY WHEN THE POLICY IS A POLICY OF AUTOMOBILE INSURANCE AND WHEN THE BOX TO THE LEFT OF THE APPROPRIATE PARAGRAPH ON THE FRONT SIDE OF THIS NOTICE IS MARKED WITH AN "X".

**RIGHT TO PROTEST ACTION AND REQUEST HEARING**

This Notice has been sent to you in triplicate. You have the right to protest this action and request a hearing thereon before the Commissioner by signing two copies of the Notice in the space provided and sending them to the Commissioner of Insurance, Colorado Division of Insurance, State of Colorado, 303 W. Colfax Avenue, Suite 500, Denver, Colorado 80204, within ten (10) days after receipt of this Notice.

If protest is filed this policy will remain in effect until a determination is made by the Commissioner upon payment of any lawful premium due or becoming due prior to such determination.

The Commissioner has authority to award reasonable counsel fees to the insured for services rendered to the insured in connection with any such hearing if he finds the proposed action to be unjustified.

.....  
I hereby request a hearing. I believe the company is not justified for the following reason(s):

DATE \_\_\_\_\_ SIGNED \_\_\_\_\_

**EXCLUSION OFFER**

If you are desirous of having a policy which will exclude from coverage the person or persons identified on the front side of this Notice, indicate acceptance by signing below and return this Notice together with a remittance in the amount of the premium specified prior to the effective date of cancellation or non-renewal. It should be understood that a similar limitation will be included within any subsequent transfer, reinstatement or renewal of such policy or policies.

DATE \_\_\_\_\_ SIGNED \_\_\_\_\_

S B

3 1 5

# HOUSE COMMITTEE REPORT

4/25  
Rubs

(7)

Date Referred: April 5, 1990

FURTHER REFERRALS:

Date of Committee Action: 4/24/90

The LABOR & COMMERCE Committee considered: CSSB 315(LABOR & COMMERCE)

CS SB NO. 315 (L&C) LONG-TERM CARE DISABILITY INSURANCE

"An Act relating to long-term care insurance; and providing for an effective date."

### RECOMMENDATIONS:

- be replaced with \_\_\_\_\_  the same title
- have attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(s):  
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact \_\_\_\_\_  fiscal note(s) \_\_\_\_\_
- zero fiscal note \_\_\_\_\_ (2)  zero fiscal note(s) L+ED Admin
- zero with analysis \_\_\_\_\_  zero fn/analysis \_\_\_\_\_

### SIGNING DO PASS:

### SIGNING:

(Check approp. column)

Do Not Pass No Rec Amend

<u>David Donley</u>	<u>Donley</u>	<u>Andrew A. Lehman</u>	<u>Lehman</u>	<input checked="" type="checkbox"/>		
<u>Mark Boyer</u>	<u>Boyer</u>	<u>Collins</u>	<u>Collins</u>	<input checked="" type="checkbox"/>		
<u>Finkelstein</u>						
<u>Bucher</u>						
<u>Gruenberg</u>						

David Donley  
Chairman's Signature

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Administration  
 Title: An Act relating to long-term BRU: Retirement and Benefits  
disability insurance  
 Sponsor: Senate HESS Components: Retirement and Benefits  
 Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

The long-term care insurance coverage offered to retirees under the Public Employees', Teachers', Judicial, or the Elected Public Officers' Retirement systems are not affected by this bill.

Prepared by: Sally Smith *Sally Smith* Phone: 465-4470  
 Division: Retirement and Benefits Date: Feb 5 1990  
 Approved by Commissioner: Frank S. Baxter *Frank S. Baxter* Date: 2/12/90  
 Agency: Department of Administration

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

Changes in CSSB 315 (L+0)  
 have no fiscal impact.  
 This fiscal note is  
 appropriate. *sp*

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Commerce & Economic Dev.  
 Title: An Act relating to long-term BRU: Insurance  
care disability insurance; and providing for an effective date  
 Sponsor: HESS Committee Components: Operations  
 Requestor: HESS Committee

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

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

**FUNDING:** (Thousands of Dollars)

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

**POSITIONS:**

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

**ANALYSIS :** (Attach a separate page if necessary) No fiscal impact in FY 90.

Prepared by: Don Koch, Acting Deputy Director *Don Koch* Phone: 465-2577  
 Division: Insurance Date: 2/6/90

Approved by Commissioner: Larry Mercurieff *Larry Mercurieff* Date: 2/7/90  
 Agency: Department of Commerce & Economic Development

**Distribution (by preparer):**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Changes in CSSB 315 (L&C)  
 have no fiscal impact.  
 This fiscal note is  
 appropriate.

# Alaska State Legislature

SENATOR PAUL FISCHER, Chairman  
SENATOR JIM DUNCAN, Vice Chairman  
SENATOR AL ADAMS  
SENATOR LLOYD JONES  
SENATOR TIM KELLY



PO. BOX V  
ROOM 508  
STATE CAPITOL  
(907) 465-3762

## Senate Committee on Health, Education and Social Services

### MEMORANDUM

TO: REPRESENTATIVE DAVE DONLEY, CHAIRMAN, HOUSE LABOR AND COMMERCE COMMITTEE.

FROM: SENATOR PAUL FISCHER, CHAIRMAN, SENATE HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE. *PT.*

RE: SCHEDULING OF CS SB 315 (L&C)

DATE: APRIL 4, 1990

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IN THE FUTURE, IT IS LIKELY THAT INDIVIDUALS WILL BE FORCED TO PLAN FOR THEIR LONG TERM HEALTH CARE NEEDS. MEDICAID IS CURRENTLY THE ONLY VEHICLE PROVIDING COVERAGE FOR LONG TERM CARE IN THE STATE OF ALASKA BESIDES PRIVATE INSURANCE.

AT THE PRESENT TIME, NO GUIDELINES EXIST IN ALASKA LAW FOR LONG TERM CARE INSURANCE. SENATE BILL 315 ESTABLISHES A GUIDELINE FOR LONG TERM CARE INSURANCE IN THE STATE OF ALASKA. THE GUIDELINES USED IN SB 315 ARE BASED UPON A MODEL ACT DEVELOPED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS. THIS MODEL ACT HAS ALREADY BEEN ADOPTED IN 38 STATES, AND IS BEING CONSIDERED IN SEVERAL OTHERS.

IN A SENSE, CS SB 315 (L&C) IS CONSUMER PROTECTION LEGISLATION, IN THAT IT WOULD FORCE A PROVIDER OFFERING LONG TERM CARE INSURANCE IN THE STATE OF ALASKA TO CONFORM TO THE REQUIREMENTS OF ALASKA LAW. AT THE PRESENT TIME, A PROVIDER COULD COME TO ALASKA AND OFFER THEIR OWN VERSION OF LONG TERM CARE INSURANCE. IN SOME STATES THAT DO NOT HAVE A VERSION OF THE MODEL ACT ON THE BOOKS, SOME UNSCRUPULOUS PROVIDERS HAVE OFFERED THEIR OWN VERSIONS OF LONG TERM CARE INSURANCE, AND HAVE ESSENTIALLY CHEATED THEIR POLICY HOLDERS.

I RESPECTFULLY REQUEST THAT YOU CONSIDER THIS LEGISLATION BEFORE THE HOUSE LABOR AND COMMERCE COMMITTEE AT YOUR EARLIEST POSSIBLE CONVENIENCE. A ZERO FISCAL NOTE IS ATTACHED.

THANK YOU.



# Alaska State Legislature

SENATOR PAUL FISCHER, Chairman  
SENATOR JIM DUNCAN, Vice Chairman  
SENATOR AL ADAMS  
SENATOR LLOYD JONES  
SENATOR TIM KELLY



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## Senate Committee on Health, Education and Social Services

TO: REPRESENTATIVE JOHNNY ELLIS, CHAIRMAN, HOUSE HEALTH,  
EDUCATION AND SOCIAL SERVICES COMMITTEE.

FROM: SENATOR PAUL FISCHER, CHAIRMAN, SENATE HEALTH, *RF*  
EDUCATION AND SOCIAL SERVICES COMMITTEE.

DATE: MARCH 16, 1990

RE: SB 315 - LONG TERM CARE INSURANCE.

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THIS BILL IS BASED UPON A MODEL ACT DEVELOPED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS. IT ESSENTIALLY ALLOWS PROVIDERS TO DELIVER LONG TERM CARE INSURANCE IN THE STATE OF ALASKA. TO DATE, 38 STATES HAVE DEVELOPED SIMILAR VERSIONS OF THIS MODEL ACT. SEVERAL OTHER STATES HAVE SIMILAR MEASURES UNDER CONSIDERATION.

ESSENTIALLY, THIS BILL PROVIDES A METHOD FOR OUR CITIZENRY TO MEET THE NEEDS OF AN AGING POPULATION. MEDICARE CURRENTLY PROVIDES ALMOST NO COVERAGE FOR LONG TERM CARE. MOST COVERAGE FOR LONG TERM CARE COMES OUT OF MEDICAID. THIS BILL PROVIDES A PRIVATE SECTOR ALTERNATIVE FOR INDIVIDUALS IN NEED OF LONG TERM CARE. IT WOULD ALSO HELP REDUCE PRESSURES ON THE MEDICAID BUDGET.

THIS BILL ENJOYS THE SUPPORT OF THE DEPARTMENT OF COMMERCE, THE HEALTH INSURANCE ASSOCIATION OF AMERICA, AND THE AMERICAN COUNCIL OF LIFE INSURANCE.

I RESPECTFULLY REQUEST THAT YOU CONSIDER THIS BILL FOR SCHEDULING AT YOUR EARLIEST POSSIBLE CONVENIENCE.

THANK YOU.

STATE LEGISLATION ON LONG-TERM CARE INSURANCE  
(as of March 1989)

NAIC MODEL BILL	LEG/REG MORE STRINGENT THAN MODEL BILL	OTHER	LEGISLATION PENDING	AMENDMENTS PENDING
Arizona	California	Colorado	Arkansas <i>Passed</i>	Arizona
Florida	Connecticut	Kentucky	Delaware	California
Georgia	Maine	New York	Hawaii*	Connecticut
Hawaii*	Minnesota		Maryland	Florida
Idaho	Washington	<u>3 STATES</u>	Massachusetts	Georgia
Illinois	Wisconsin		Michigan	Iowa
Indiana			Montana	Kansas
Iowa	<u>6 STATES</u>		New Hampshire	Maine
Kansas			New Jersey	Missouri
Nebraska			New Mexico	Nebraska
Nevada			Oregon	North Dakota
North Carolina			Pennsylvania	Oklahoma
North Dakota			South Dakota	Tennessee
Ohio			Utah	
Oklahoma			Vermont	<u>13 STATES</u>
Rhode Island				
South Carolina			<u>15 STATES</u>	
Tennessee				
Virginia				
Wyoming				
<u>20 STATES</u>				

\*Inadvertently repealed in 1988; has been re-introduced in 1989.

CSSB 315 (HESS): "An Act relating to long-term care disability insurance; and providing for an effective date.

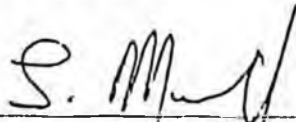
The department supports this legislation. This bill establishes a specific regulatory framework for insurance contracts that provide for long-term care benefits. It establishes certain standardized contract provisions in order to require certain minimum benefits and to facilitate public understanding and comparison shopping.

Funding of long-term care is a critical issue throughout the nation that impacts all third-party and out-of-pocket payers of medical care for older persons. "Long-term care" is the term that pertains to a continuum of care that ranges from some assistance in the home to the extreme of 24-hour skilled care in a medical facility. Our average population is getting older and is living longer, thus, increasing the likelihood of more people requiring some form of long-term care. Medicare currently provides almost no coverage for long-term care. Medicaid provides the majority of the funding for long-term care nationwide and provides for nearly all of the funding for skilled nursing service care in Alaska. Most Americans are not financially prepared to meet the cost of long-term care in their later years. This results in those people spending down both assets and income in order to qualify for public assistance primarily through Medicaid.

The insurance industry has been slow to develop insurance products to cover this risk. The most important reason for this is the lack of reliable statistical data on which to base rates, coupled with the fact that correct projection of costs far into the future is required and is extremely difficult to accomplish. Although this attitude is changing, the general population has held the misperception that there is little or no need for such coverage and also that, if long-term care is needed, Medicare would provide the necessary benefits.

Without mechanisms such as insurance products to prefund long-term care, publicly-funded care is expected to increase, perhaps to a point beyond that which public resources can readily bear. It is important to encourage the growth of insurance products to help finance long-term care needs. However, this needs to be done in a manner that provides appropriate elements of consumer protection.

SB 315 is based on the National Association of Insurance Commissioners (NAIC) Model Long-Term Care Act. The NAIC is encouraging the adoption of this model by the various states in lieu of federal intervention. Abuses have occurred in other states with a large senior population. These abuses have received Congressional scrutiny, with indications that the federal government should regulate long-term care if the states do not.



Larry Mercurieff, Commissioner

Date: 2/7/90

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# LONG TERM CARE EDUCATION COALITION

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## WHAT IS LONG-TERM CARE? *Why You Need to Know*

*This is the first in a series of newsletters produced by the Coalition for Long-term Care Education. The Coalition is comprised of a variety of organizations, cooperating in this endeavor to respond to the need for educational information on the subject of long-term care. This issue introduces the concept of long-term care and explains why it should be of concern to you. Subsequent issues will be produced periodically on such topics as long-term care options, paying for long-term care, what to look for when selecting long-term care services, and others.*

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There's a great deal of talk these days about "the graying of America" and something called "the long-term care issue."

What's it all about? Why should you care?

America is getting older. More and more of us are moving into our senior years. And our life expectancy is increasing.

In the year 2000, about 35 million Americans will be aged 65 and over—more than twice the number in 1960. Since 1960, the population aged 65 and over has grown more than twice as fast as the U.S. population in general. The number of Americans aged 80 and over totals almost six million today; in the year 2030, that number is expected to have almost tripled.

These statistics tell the story behind the phrase, "the graying of America."

This growth in the elderly population will be reflected, among other things, in an increased demand for long-term care services. But what is "long-term care" and why do you need to know about it?

### **The Challenge of Living Longer**

We Americans are healthier than ever—and living longer. And because so many Americans will live into their eighties and nineties—perhaps even to age 100—we all need to do some looking ahead.

While many millions of "young-old" Americans lead healthy, active lives, others are not so fortunate. Two out of five persons aged 65 and over risk needing nursing home care. By the year 1990, about 7.7 million Americans over age 65 are expected to need some form of long-term

care. And as we get into our eighties, the chances increase considerably that we will face health problems or frailty. Statistics show that, at any given time, 22 percent of those aged 85 or older are in a nursing home.

Many of us are concerned that our health might deteriorate as we get older and we worry about our financial ability to handle disability or illness. Still, few of us make preparations that would help us handle these situations. Why? Partially it has to do with widespread misunderstanding about long-term care and how it is paid for.

### **Getting the Facts Straight**

Many Americans deny their own possible future need for long-term care, associate long-term care only with nursing homes and believe that Medicare will pay for most long-term care services—all misconceptions.

The purpose of this newsletter is to help clear up some of the confusion for you about long-term care—to help you learn about the issue and to prepare yourself and other family members for a possible need for long-term care services.

### **What Is Long-term Care?**

Simply stated, long-term care refers to a person's need for a wide range of medical, nursing, and social services over a prolonged period of time. This is generally called "chronic" care, as distinct from more intensive medical treatment for a short-term illness called "acute" care. The need for long-term care can result from chronic illness or disability or from a sudden accident or stroke.

Long-term care does NOT take place only in a nursing home, nor is it needed only by the elderly. Care might be provided to people of any age in the home, in community facilities, or in nursing homes. Relatives, friends and neighbors, and those working for community services often provide assistance with the normal activities of daily living such as eating, bathing, and dressing. Or, those who need care could be living in a community for senior citizens which might meet all of their health and social needs—commonly known as a continuing care community.

If you do not have these support systems or if you need skilled nursing or rehabilitative care on a daily basis, you may find your only option to be an institution such as a nursing home.

Social services are as important a part of long-term care as are medical and nursing services, particularly in helping you remain in the community if you need care. They include services provided in one's own home such as homemaker or "chore" services, "meals on wheels" and those provided in a community setting such as an adult day care center. Some of these services may also provide "respite care," which is time off for family members caring for an elderly relative.

Future newsletters will cover the types of services available for long-term care in more detail.

### Thinking about the Options

If you are elderly and need help with day-to-day tasks, you may already have had to think about your need for long-term care. You have perhaps wondered how much longer you will be able to remain in your home and what kinds of help you will need to do that. Here are two things you can do: (1) Explore community programs in your area. (2) Find out the cost of these different programs to determine how far your savings or insurance will go to meeting those costs.

If you are the middle-aged child of an elderly parent, you've probably been considering similar questions about your parent's future. And then there's your own future—it's very possible that you have been so busy raising and educating your children and worrying about your parents that you've devoted little time to plans for your own older years.

### The Role of Government Programs

Surveys show that millions of older persons mistakenly believe that Medicare covers most long-term care services. This is a dangerous misunderstanding because it leads to a false sense of security, thinking we already have coverage for the expenses of a chronic illness or disability.

Medicare does not cover any long-term care expenses. It is intended to help pay for short-term "acute" care in a hospital.

It also pays for care in a Medicare-certified skilled nursing home that provides daily nursing and rehabilitative care for a patient following hospitalization. Medicare offers coverage for only 100 days of skilled nursing home care annually and pays in full for only the first 20 days of such care.

Medicare pays for care in your home only if you are homebound and need, for a limited period of time, part-time nursing or speech therapy or physical therapy.

And while private supplemental health insurance (commonly referred to as "Medigap" insurance) is designed to help cover some of the gaps that Medicare covers, it does not include long-term care.

Medicaid, the government program for people with very low incomes, does cover the cost of long-term nursing home care. But if you have savings, you literally have to impoverish yourself to qualify for the program, which means first "spending down" or exhausting all of your own assets (although you do not have to sell your house).

Understanding the limitations of these programs is important when you are beginning to explore choices for yourself or for a family member. Costs vary considerably

depending on the range of services needed and where those services will be provided. Home care may be the least expensive if only limited support is needed and if family members are the primary caregivers. On the other hand, an institution such as a skilled nursing home might be very expensive, costing between \$20,000 and \$40,000 a year.

Medicaid and private savings are the two major ways to finance long-term care today. Various government financing options are being considered by Congress, major studies on financing long-term care will soon be released, and private insurance is becoming more widely available. We'll tell you more about these developments in another newsletter.

### Summing Up

We all need to think about our older years—whether we want to—or will be able to—stay in our homes, move to retirement communities or continuing care communities, or arrange for nursing home care. These decisions depend, of course, on the state of our health and the degree to which we are independent.

Millions of family members today continue a long American tradition of caring for elderly relatives. Family caregivers provide between 75 and 90 percent of the personal care, household maintenance, transportation and shopping for older persons.

But the reality is that many of us are living to very old ages and are being taken care of by relatives who themselves may be elderly or who may also be juggling jobs and other family responsibilities. Many people who are caring for elderly relatives find it very difficult to bear the entire burden alone. It is important that we all get as much help for ourselves or elderly relatives and have as many options as possible.

Obviously, the sooner you begin thinking and planning for a time when you or a relative may require long-term care, the better prepared you will be if a need arises. A crisis develops only when we don't plan.

Anticipating long-term care needs can mean, for example, checking into all of the resources available in your community, such as home care, adult day care, continuing care communities, and nursing homes. It means investigating the costs of these services and facilities and determining what resources you have to cover those costs. It means looking into government programs, private long-term care insurance, and their costs and coverage. And it means following federal and state legislative proposals that offer new solutions to meet long-term care needs.

Ask questions. Find out what is available. Become a knowledgeable consumer. Check out all your options. And look for the next in this series of educational newsletters.

To obtain additional copies, please write to:

American Council of Life Insurance  
Health Insurance Association of America  
Company Services  
1001 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2599

## Long-term Care Insurance

**M**any people want to know how to buy insurance coverage that will protect them from the potentially catastrophic expenses related to long-term care. However, most people do not know what their chances are of ever needing long-term care services, how expensive these services can be or whether their present health insurance coverage will take care of them.

### What Is Long-term Care?

Long-term care refers to the kind of help that you might need should you develop a chronic illness or disability that makes it impossible for you to care for yourself. You may never need lengthy care in a nursing home, but it's possible that some day you will need help at home with daily activities such as dressing, bathing, or walking.

To meet a range of long-term care needs, there are many kinds of long-term care services in addition to the care associated with lengthy stays in a nursing home or health care you may need at home. Other services include: adult day care; respite care (which helps family members cope with caring for older persons at home); care given in senior citizens or congregate housing; aide or chore services; and friendly visiting services.

Some or all of these services may be available where you live now or plan to retire. However, this issue of *Consumer Notes* deals mainly with the two kinds of long-term care covered by private long-term care insurance policies that are currently available: nursing home and home health care.

In addition, it will help you gauge whether long-term care insurance policies can help you meet future expenses related to chronic illness or disability.

### Medicare and Long-term Care

The fact is that neither Medicare nor private Medicare supplement insurance (or the health insurance you have through your employer) will pay for most long-term care expenses.

Medicare supplement (Medigap) insurance is private insurance that is designed to help cover some of the gaps in Medicare coverage. It will not cover long-term care costs. Some retirees are covered by their group health plan which complements Medicare, but these plans generally do not cover long-term care either.

Although you may have Medicare as well as other health insurance, you will be covered for expenses related to only a limited amount of skilled nursing care. Skilled nursing care refers to the kind of daily nursing and rehabilitative care that can be performed only by, or under the supervision of skilled medical personnel. The care received must also be based on a doctor's orders.

This means you will not be covered if you need the kind of extended, intermediate or custodial care associated with long-term nursing home stays or if you need prolonged home health care on a daily basis.

Intermediate care refers to occasional nursing and rehabilitative care that must be based on a doctor's orders and can only be performed by, or under the supervision of skilled medical personnel. Custodial care is care that is primarily for the purpose of meeting personal needs such as help in walking, bathing, dressing, eating or taking medicine. It can usually be provided by someone without professional medical skills or training.

Home health care may include care received at home such as part-time skilled nursing care, speech therapy, physical or occupational

therapy, part-time services of home health aides or help from homemakers or choreworkers.

At present, there are a limited number of long-term care insurance products available that do cover these kinds of expenses. However, insurance companies are developing more products as the demand for this kind of coverage increases.

### Will You Need Long-term Care?

By the year 1990, about 7.7 million Americans over age 65 will likely need some form of long-term care.

But those aged 85 or older are the most at risk for needing long-term care services. In fact, statistics show that, at any given time, 22 percent of those aged 85 or older are in a nursing home.

At the same time, it is estimated that two out of five people aged 65 or older risk entering a nursing home. More than half of those will need to stay 90 days or fewer; yet about 40 percent will need to stay on average 2½ years. Only a small number ever stay over five years.

While you may never need nursing home care, home health care or other long-term care services, you still may wish to consider purchasing insurance that covers many of these services because of the risks posed by the need for long-term care and the costs involved.

Insurance, by definition, is a way for you to share the costs of possible economic loss by contracting with an insurance company to assume the risk of such a loss in exchange for a premium.

### How Expensive Is Long-term Care?

Long-term care can be very expensive. In 1986, a year in a nursing home cost an average of \$20,000 to \$30,000 (the cost often depending on the area in which the

home is located) or about \$2,000 per month. At the most expensive nursing homes, the annual cost could be as much as \$50,000.

Home health care provided on an unskilled basis (help with grooming or dressing) by a home health aide three times a week for a year can easily cost \$440 a month or \$5,300 a year. Skilled nursing home care visits can cost even more with three visits per week for a year running as much as \$680 a month or \$8,200 a year.

It's difficult to know what kind of care you may need or what the costs will be, but knowing you will be responsible for the majority of expenses, you can begin to consider what kind of insurance coverage you need to buy.

#### Who Pays for Long-term Care?

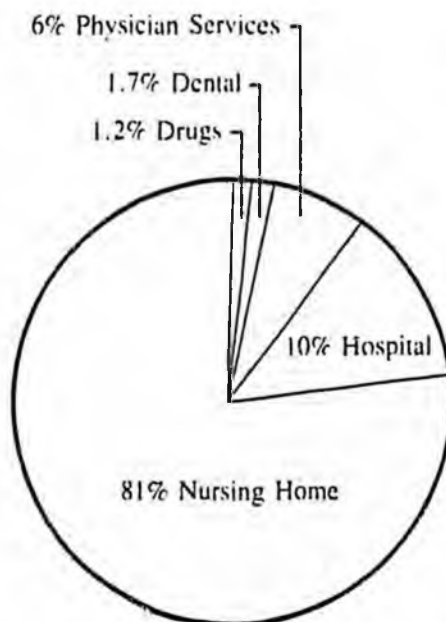
In 1987, over half of nursing home care expenses alone were paid out-of-pocket by individuals or families. Medicare paid for less than two percent of the nation's \$41.6 billion annual nursing home bill and private insurance paid even less.

#### In fact, Medicare will only help pay for:

- Skilled nursing care up to 100 days, and your admission to a facility must be within 30 days of a three-day hospital stay. A physician must show that your admission is necessary.\*
- Part-time skilled home health care (but only if you are homebound, a physician certifies the care is necessary and provides a treatment plan and the agency is Medicare participating). This is a very limited benefit and does not cover services you may need on a daily basis over an extended period of time.\*

The other primary payer of nursing home care expenses (over 42 percent) is Medicaid, the government program that is meant to pro-

Elderly Out-Of-Pocket Expenses over \$2,000 Per Year



vide help with medical expenses to the poor. To qualify for Medicaid, you (or your family) either must already be "poor" or literally impoverish yourself—by spending virtually all of your assets (except your house). That happens to about one half of the people who enter nursing homes as "private-pay" patients. A recent study showed that those who pay for nursing home care out of their own pockets are often impoverished within six months to a year. They then must turn to Medicaid (public assistance) to pay part or all of their expenses.

For those over the age of 60, expenses for some home care services, such as Meals on Wheels, homemaker and home health aides, are available on a limited basis under the Federal Older Americans Act. If you need such services, contact the local Area Agency on Aging, listed in your telephone directory, for more information about eligibility requirements. Area Agencies on Aging are not direct providers of services, but they do operate an information and referral service to help older adults identify and access needed assistance within their communities.

#### What Kind of Insurance Is Available?

You can buy private insurance that helps to cover major expenses for long-term care. (See the "Who Offers Long-term Care Insurance" section for where to write about available policies.) There are a limited number of policies on the market today, but at least one is available in each state. These policies help pay expenses that may pose the highest risk to you.

Almost all available policies are "indemnity" policies, meaning they pay a set amount (usually a certain dollar figure per day) for care in a nursing home or for home health care. No policy, however, provides blanket coverage for all expenses and most policies on the market today do not automatically adjust for inflation. This means a policy's benefits are not necessarily tied to future increases in the costs of long-term care.

Each policy is priced differently. In 1986, costs ranged from about \$100 a year in premiums to more than \$2,500, depending on several factors:

**Age**—In general, the younger you are when you buy a policy, the lower the premium will be.

**Elimination or Deductible Periods**—These periods are defined as the number of days you must be confined in a facility or the number of home care visits you must have received before policy benefits begin. Usually, the longer the elimination or deductible period is, the lower the premium will be.

**Amount Paid and Duration of Benefits**—These vary from policy to policy, but in general, the more money the policy will pay or the longer the benefit period is, the more you will pay for the policy. For example, a policy that pays \$100 a day for up to five years of nursing home care will cost more than a policy that pays \$50 a day for three years.

#### What Kind of Care Is Provided?

Long-term care policies may pay for skilled, intermediate or custodial care in a nursing home. Each policy

\*Legislation currently pending in Congress is expected to change Medicare's present skilled nursing care and home health care benefits. All Medicare beneficiaries will be receiving details from insurers and the federal government once the law goes into effect.

may define these levels of care differently and the definitions are not the same as Medicare's.

Some policies require you to be hospitalized first before covering nursing home care, and many require that you receive skilled or intermediate care before they will pay for custodial care expenses.

**Policies generally pay only for expenses in facilities that:**

- Are licensed by the state and participate in Medicaid and/or Medicare; and
- Meet the policy's definition of skilled, intermediate or custodial care.

It is very important for you to find out the kinds of nursing homes in the area in which you live or plan to receive care before you buy a policy. Check the nursing homes in your area to make sure they fit policy definitions. If they don't, you may not be eligible for benefits.

Also, policies often cover home health care services such as skilled or non-skilled nursing care, and homemaker and home health aides. Some policies, however, require a prior nursing home or hospital stay before they will cover home health care benefits.

### **What Kinds of Limits Are There?**

All policies contain limitations and exclusions in addition to age, elimination or deductible periods, or the amount and duration of benefits. Others you should study before making a purchase are:

**Pre-existing conditions**—When you apply for long-term care insurance, you may be asked questions about the previous and current state of your health. This is because an insurance company generally requires that a certain period of time pass before the policy pays for care related to a health problem you may have had when you applied. Such health problems are called pre-existing conditions. At this time, most companies use a six-month pre-existing condition limitation period. In some cases, you may be denied

coverage because of your health status.

**Eligibility**—After a certain age, you will be unable to buy a policy. Each company sets its own age limit—usually around age 79. Most policies are only available to those over the age of 55. It's possible that both age limits may change in the future, as new policies are developed and sold.

**Renewability**—This policy provision is normally found on the first page of the policy. It tells you under what circumstances the policy can be cancelled by the insurance company or how premiums can be raised. Most policies are guaranteed renewable and cannot be cancelled.

**Exclusions**—Policies may not pay for long-term care related to mental or nervous conditions, alcoholism, mental retardation, or certain other health conditions or situations. However, Alzheimer's disease, and other organic disorders, leading causes of nursing home admissions, are generally covered.

### **What Kinds of Questions Should You Ask?**

Before you consider buying long-term care insurance, you should determine what kinds of resources you have or plan to have to take care of your long-term care needs. For example, do you have savings, life insurance, or a pension that would help pay for them? Would other family members help you, if necessary, or would you qualify for community services that are income-related?

Be sure to read policies you are considering carefully and compare them. Don't be afraid to ask an insurance agent about anything that doesn't seem clear in the policy. There is no one solution for everyone in planning for the future, but your financial plans should include consideration of your long-term care needs.

The following questions will help you compare and evaluate policies you may wish to consider. Use them as a basis for discussion with an insurance agent or for asking ques-

tions about promotional literature you may receive in the mail.

### **What Does Long-term Care Cost?**

1. What kinds of nursing homes are there in your area and how much do they charge per month for:
  - skilled nursing care?
  - intermediate nursing care?
  - custodial/personal care?
2. What do home health care agencies in your area charge per month for:
  - unskilled care?
  - skilled care?

### **How Much Does the Policy Pay?**

3. What is the maximum amount the policy will pay for:
  - skilled nursing care?
  - intermediate nursing care?
  - custodial nursing care?
  - home health care?

### **How Much Does the Policy Cost?**

4. How much will the policy cost you over time (i.e., 1, 5, 10, or 15 years)?
5. Can the company raise your premium over time or under other circumstances? If so, what are the circumstances?

### **What Are the Benefits?**

6. Does the policy provide benefits for:
  - skilled nursing care?
  - intermediate care?
  - custodial care?
  - home health care?
7. How long will the policy pay benefits for:
  - skilled nursing care?
  - intermediate nursing care?
  - custodial nursing care?
  - home health care?
  - all of the above services?
8. Does the policy cover Alzheimer's disease if you developed it after you purchased the policy?
9. Does the policy provide benefits if you need care away from the area in which you live or if you move to another state?
10. Will the policy provide benefits if you have similar coverage with another policy?

## What are the Limits?

11. What is the elimination or deductible period before benefits begin for:
  - nursing home care?
  - home health care?
12. What is the pre-existing condition limitation period?
13. Can the company cancel or refuse to renew the policy? If there are conditions, what are they?
14. a. Is a prior hospital stay required before the policy will pay for:
  - skilled nursing care?
  - intermediate nursing care?
  - custodial nursing care?b. Is a prior skilled nursing home stay required before the policy will pay for:
  - intermediate care?
  - custodial care?c. Is a prior nursing home stay required before the policy will pay for:
  - home health care?
15. Are there other limitations or exclusions that concern you? If so, what are they?

## Who Offers Long-term Care Insurance?

There are policies available now in every state and many companies are in the process of developing policies.

You may wish to contact your state insurance department or insurance agent for more information. To obtain a list of private insurers offering products in your state, write to:

Health Insurance Association of America  
Information Services  
1001 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2599

## Additional Reading

Publications about long-term care, health care coverage, and other subjects of interest to older Americans are available free or at a low cost from the following organizations:

American Association of Homes  
for the Aging  
1129 20th Street, N.W.  
Washington, D.C. 20036  
Telephone: 202/296-5960

Brochures describing continuing care communities.

American Association of Retired  
Persons  
Health Advocacy Services  
1909 K Street, N.W.  
Washington, D.C. 20049  
Telephone: 202/872-4700

Brochures about long-term care, home care, housing options, health care, and health maintenance organizations.

American Health Care Association  
1200 15th Street, N.W.  
Washington, D.C. 20005  
Telephone: 202/833-2050

Brochures about long-term care facilities.

Council of Better Business  
Bureaus  
1515 Wilson Boulevard  
Arlington, VA 22209  
Telephone: 703/276-0100

Brochures about home care and long-term care facilities.

Health Insurance Association of  
America  
1001 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2599  
Health Insurance Hotline 1-800-  
423-8000

Brochures about health insurance, in general, and how private health insurance works with Medicare. Health insurance hotline.

National Consumers League  
Suite 516  
815 15th Street, N.W.  
Washington, D.C. 20005  
Telephone: 202/639-8140

Brochures about life care communities, home health care, hospice care, ambulatory care, and health maintenance organizations.

The National Council on the  
Aging, Inc.  
West Wing 100  
600 Maryland Avenue, S.W.  
Washington, D.C. 20024  
Telephone: 202/479-1200

Brochures about long-term care and Medicaid, Medicare, community resources, housing options and long-distance caregiving.

## State Insurance Departments

Some have consumer education programs for older Americans about a range of insurance-related topics, including Medicare, Medicaid, Medigap, and long-term care insurance. Contact the department in your state for further information.

## Social Security District Office

Several brochures, including *Your Medicare Handbook*, as well as information on Medicaid and other government programs for the elderly. To find the office nearest you, check the government listings in your telephone directory.

- Other Consumer Notes include:
- A326 *Choosing Financial Advisers*
  - C326 *Staying Well, Your Responsibility*
  - D326 *Group Health Insurance Continuation*
  - E326 *IRAs: An Investment in Your Future*
  - F326 *Medicare Supplement Insurance*
  - G326 *Help for the Working Caregiver*
  - H326 *Checklist for Change: Financial Planning for Life's Transitions*

*All issues of Consumer Notes may be obtained free-of-charge in single or bulk quantities by writing to the following address. Please be sure to include the name and booklet number of the issues you are ordering.*

American Council of Life  
Insurance  
Health Insurance Association of  
America  
Company Services  
1001 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2599

## States Adopt NAIC Model Act, Related Legislation For Long-Term Care Insurance Policies

In addition, no policy which "provides benefits only following institutionalization shall condition such benefits upon admission to a facility for the same or related conditions within a period of less than 30 days after discharge from the institution."

An outline of coverage is required for both individual and group policies. The outline should include (1) a description of the principal benefits and coverage provided; and (2) a statement of the principal exclusions, reductions, and limitations. Individual policies must contain a statement of the renewal provisions, including any reservation of a right to change premiums, and that the policy should be consulted to determine governing contractual provisions. Group policies must contain a statement that the group master policy determines governing contractual provisions.

Arizona—Rev. Stat. Ann. 20-1691 to 20-1691.6 (1987)

California—Model pending (1988)

Colorado—Rev. Stat. 10-19-101 to 10-19-104 (1986);  
Admin. Ins. Reg. 86-5 (1986)

Connecticut—Gen. Stat. 38-174m (1986) (Commissioner shall develop regulations to implement)

Florida—HB 478 pending (1988)

Georgia—HB 1748 (1988)

Hawaii—SB 545 model adopted (1987)

Idaho—Code 41-4601 to 41-4606 (1988)

Illinois—HB 1491 model pending (1987)

Indiana—Code 27-8-12-1 to 27-8-12-16 (1987) See also  
Code 12-1-25-1 to 12-1-25-9 (1987)

Iowa—Code 514G.1 to 514G.8 (1987)

Kansas—Stat. Ann. 40-2225 to 40-2228 (1988)

Kentucky—Model pending (1988) Rev. Stat. 304.17-314  
(1987)

Maine—Rev. Stat. Ann. tit. 24A 55051 to 55053 (1986);  
authorizes commissioner to develop regulations)

Maryland—Ann. Code art. 48A 354FF, 477GG (1986);  
authorizes commissioner to develop regulations)

Minnesota—Stat. 62A.46 to 62A.56 (1986/1987)

Nebraska—LB 416 model adopted (1987)

New York—Ins. Law 1117 (1986)

North Carolina—Gen. Stat. 58-540 to 58-546 (1987)

North Dakota—Cent. Code 26.1-45-01 to 26.1-45-10  
(1987)

Ohio—HB 611 pending (1988)

Oklahoma—Stat. tit. 36; 4421 to 4427 (1987)

Oregon—Rev. Stat. 743.138 (1987)

Pennsylvania—SB 1023 model pending (1988)

Rhode Island—HB 9178 pending (1988)

South Carolina—Model awaiting governor's signature  
(1988)

Tennessee—SB 1926 model pending (1988)

Texas—Ins. Code Ann. art. 370.1(F)(5) (1987; authorizes  
commissioner to develop regulations)

Virginia—Code 38.2-5200 to 38.5208

Washington—Rev. Code Ann. 48.84.010 to 48.84.910  
(1988)

Wisconsin—Stat. 146.91 (1987)

Wyoming—Stat. 26-38-101 to 26-38-106 (1988)

### No Action As Of July 1988

Alabama

Alaska

Arkansas

Delaware

District of Columbia

Guam

Louisiana

Massachusetts

Michigan

Mississippi

Missouri

Montana

Nevada

New Hampshire

New Jersey

New Mexico

Puerto Rico

South Dakota

Utah

Vermont

Virgin Island

West Virginia



The National Association of Insurance Commissioners (NAIC) drafted the Long-Term Care Insurance Model Act in July 1987. Thirty-two states have reported action in regard to long-term care insurance, having either adopted the NAIC Model Act, enacted similar or related legislation, or devised pending legislation.

This report summarizes the provisions under the NAIC Long-Term Care Insurance Model Act and lists the action by the various states.

**T**he Long-Term Care Insurance Model Act was drafted by the National Association of Insurance Commissioners to establish standards for the design of long-term care insurance policies. The NAIC model has been adopted or used as a guide by states to promote the availability of individual and group insurance coverage for long-term care.

Following is a summary of the provisions under the NAIC Model Act:

**Section 1. Purpose.** The intent of the act is to protect the public while recognizing the need to permit flexibility and innovation with respect to coverage.

**Section 2. Scope.** Clarifies the entities subject to the act notwithstanding any other applicable state insurance legislation that may be in conflict with the act. The act is intended to apply to group and individual policies, contracts, and certificates issued either by insurers, fraternal benefit societies, non-profit health, hospital, and medical service corporations, prepaid health plans, health maintenance organizations, or any similar organization.

**Section 3. Title.** The Long-Term Care Insurance Act.

**Section 4. Definitions.** The definition of "long-term care insurance" means any insurance policy or rider advertised, marketed, offered; or designed to provide coverage for not less than 12 consecutive months for each covered person on an expense incurred, indemnity, prepaid, or other basis; for one or more necessary or medically necessary diagnostic, preventive, therapeutic, rehabilitative, maintenance, or personal care services, provided in a setting other than an acute care unit of a hospital.

The act further clarifies "other than an acute care unit of a hospital" is intended to allow payment of benefits when "a portion of a hospital has been designated for, and duly licensed or certified as, a long-term care provider or swing bed."

"Applicant" means the person who seeks to contract for benefits under an individual policy or the proposed certificate holder in the case of a group policy.

**Section 5. Limits of group long-term care insurance.** No group insurance coverage may be offered to a resident (of this state) under a group policy issued in another state, unless this state or another state has statutory and regulatory long-term care insurance requirements substantially similar to those adopted in this state.

**Section 6. Disclosure and performance standards.** This subsection permits the adoption of regulations establishing disclosure standards, renewability, and eligibility terms and conditions, and other performance requirements. Regulations should recognize the developing and unique nature of long-term care insurance and the distinction between group and individual policies.

No long-term care insurance policy may:

(1) Be cancelled, nonrenewed, or otherwise terminated because of age or deteriorating mental or physical health of the insured;

(2) Contain a provision establishing a new waiting period in the event existing coverage is converted to or replaced by new or other form within the same company, except when the insured voluntarily selects increased benefits;

(3) Contain coverage for skilled nursing care only, or provide significantly more skilled care in a facility than is covered for lower levels of care.

In terms of preexisting conditions, an insurer is not prohibited from using an application form to determine a preexisting condition; however, no policy, other than an employer's group policy, may define "a preexisting condition" more restrictive than "a condition for which medical advice or treatment was recommended by, or received from, a provider of health care services, within six months preceding the effective date of coverage."

CSSB 315 (L&C): "An Act relating to long-term insurance; and providing for an effective date."

The department supports this legislation and urges its passage. This bill establishes a specific regulatory framework for insurance contracts that provide for long-term care benefits. It establishes certain standardized contract provisions in order to require certain minimum benefits and to facilitate public understanding and comparison shopping.

Funding of long-term care is a critical issue throughout the nation that impacts all third-party and out-of-pocket payers of medical care for older persons. "Long-term care" is the term that pertains to a continuum of care that ranges from some assistance in the home to the extreme of 24-hour skilled care in a medical facility. Our average population is getting older and is living longer, thus, increasing the likelihood of more people requiring some form of long-term care. Medicare currently provides almost no coverage for long-term care. Medicaid provides the majority of the funding for long-term care nationwide and provides for nearly all of the funding for skilled nursing service care in Alaska. Most Americans are not financially prepared to meet the cost of long-term care in their later years. This results in those people spending down both assets and income in order to qualify for public assistance primarily through Medicaid.

The insurance industry has been slow to develop insurance products to cover this risk. The most important reason for this is the lack of reliable statistical data on which to base rates, coupled with the fact that correct projection of costs far into the future is required and is extremely difficult to accomplish. Although this attitude is changing, the general population has held the misperception that there is little or no need for such coverage, and also that, if long-term care is needed, Medicare would provide the necessary benefits.

Without mechanisms such as insurance products to prefund long-term care, publicly-funded care is expected to increase, perhaps to a point beyond that which public resources can readily bear. It is important to encourage the growth of insurance products to help finance long-term care needs. However, this needs to be done in a manner that provides appropriate elements of consumer protection.

CSSB 315 (L&C) is based on the National Association of Insurance Commissioners (NAIC) Model Long-Term Care Act. The NAIC is encouraging the adoption of this model by the various states in lieu of federal intervention. Abuses have occurred in other states with a large senior population. These abuses have received Congressional scrutiny, with indications that the federal government should regulate long-term care if the states do not.

*Larry Mercurieff*  
\_\_\_\_\_  
Larry Mercurieff, Commissioner

Date: 4-19-90

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3790c  
Attachments

S B

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Patrick M. Rodey  
Senator

# Alaska State Legislature



Senate

3111 C. St., Suite 510  
Anchorage, Alaska 99503  
(907) 561-7618

During Session:  
P.O. Box V  
Juneau, Alaska 99811  
(907) 465-3793

DATE: March 26, 1990

TO : Representative Dave Donley, Chair  
House Labor & Commerce Committee

FROM: Senator Patrick Rodey

RE : Senate Bill 322 - authorizing loss of income insurance under the  
Alaska Small Loans Act

I respectfully request that the above-mentioned bill be scheduled in the House Labor and Commerce Committee as soon as possible.

Attached is a copy of back-up material relating to this proposal. There is a zero fiscal note, a CED position paper, as well as a fact sheet which explains the LII (Loss of Income Insurance) coverage.

The bill received strong support in the Senate.

Enclosures

LOSS OF INCOME INSURANCE  
FACT SHEET  
SB 322

Loss of Income Insurance (LII) is a coverage that provides protection for the borrower against loss of employment during the term of the loan due. Coverage arises if unemployment is due to lay-off, termination, lockout, labor dispute, or strike. If the borrower becomes unemployed as a result of one of the foregoing, LII steps in to make payments on the customer's loan. It offers protection similar to credit disability insurance. Coverage is not provided for voluntary unemployment, retirement, accident or sickness, discharge for misconduct and some other exclusions.

LII reduces the risk to both the lender and the borrower. It reduces the risk to the lender of credit losses where the customer is unemployed involuntarily. It also permits the customer to continue making his or her loan payments while involuntarily unemployed, keeping the customer out of default and with credit intact. LII is an additional protection for the customer as well as the lender.

Most policies contain eligibility requirements such as:

- 1) the borrower must be employed by salary or wages for at least 30 hours per week,
- 2) the borrower cannot be self employed, or
- 3) the borrower must have been employed for 12 consecutive months prior to the effective date of the coverage.

Many policies also contain a schedule of benefits which provide a maximum number of monthly benefits ranging from four on a 12 month loan to twelve on a 60 month loan.

LII is usually limited to loans which have an equal monthly payment of \$500 or less. In these instances, there is no limit to the loan term. Other LII loans, with equal monthly payments of \$750 or less, have terms of sixty (60) months or less.

Most of the loans for which LII protects the borrower are small loans. Typically, these small loans are secured by collateral such as automobiles or other kinds of personal property. LII steps in to save the borrower's car or other property when otherwise it might be lost because of the borrower's inability to continue paying the loan, allowing the borrower time to obtain new employment or otherwise get back on his or her feet financially.

There are a number of loan transactions for which this optional insurance coverage would be beneficial to Alaskan borrowers and lenders. For example, Norwest Financial Alaska, Inc. has three offices in Anchorage and one in Fairbanks. As of December 31, 1989, it had 3,977 outstanding loans and sales accounts, with balances of approximately \$10,287,883. While not all borrowers would opt for **LII**, unquestionably there are a number who would, and they would benefit from this insurance coverage.

**LII** is a coverage which cannot be required of any borrower, and it cannot be made a condition of the loan. It is strictly an optional insurance coverage, but one for which there is a growing demand. Five years ago **LII** was virtually an unknown product in the consumer finance industry, but today Norwest Financial has the program available in twenty-one states. Many western states, including California, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah and Washington, already permit companies to offer **LII** to their customers.

Premiums for **LII**, based on rates used in other states where the program is available, are about 3.5% of the coverage amount. The following examples demonstrate typical situations and charges:

- ° Jack Green has been a full-time laborer for an Alaskan pipeline company for three years. Last year, he took out a \$2,500 loan from his local finance company. The loan term is for 24 months with monthly payments of \$124.81. Since Mr. Green's employment situation is somewhat tenuous, he also purchased **LII**. His total premium is  $3.5\% \times \$2,500$  or \$87.50. Mr. Green recently became involuntarily unemployed due to a labor dispute and **LII** coverage stepped in to make his loan payments.
- ° A local fish processing company in Anchorage employs Mary Harrison. She has worked 30-35 hours per week there for over a year. Mary has a \$1,500 loan with ABC Finance Co. of Anchorage. The term of the loan is 24 months with a monthly premium of \$74.16. Due to the seasonal nature of the fisheries, Ms. Harrison's total **LII** payment equals  $3.5\% \times \$1,500$ , or \$52.50. When the company laid off some of its employees, Mary was one of them. She would not have been able to continue her loan payments, had it not been for the **LII** coverage.

factsh.

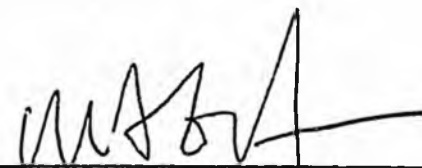
SB 322: "An Act authorizing loss of income insurance under the Alaska Small Loans Act."

The department has reviewed SB 322 and makes the following comments:

Consumer lenders licensed under the Alaska Small Loan Act have statutory limitations on the products they can charge for in conjunction with their lending activity. Alaska Statute 06.20.260(a)(2) sets out what premiums for insurance can be included in the loan charges. Consumer finance companies are now asking for the authority to offer, for a fee, an insurance policy for involuntary unemployment. This policy would protect borrowers from loan default if they should lose their job and be unable to continue to make loan payments.

There are prohibitions that would require the insurance as a condition for the loan which provides protection from abuse. Examinations by the department assures compliance. The department has contacted other states where this insurance is offered and can find no incidence of abuse. Many borrowers who use consumer finance companies for a source of funds are subject to job turnover through no fault of their own, thus, could be protected by this type of insurance.

The department does not oppose the passage of HB 322.



Larry Mercurieff, Commissioner

Date:

6/2/90

LM/LW/dg16257D  
2590a

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Commerce & Economic Dev.  
 Title: Authorizing loss of income insurance under the Alaska Small Loans Act BRU: Banking, Securities and Corporations  
 Sponsor: Rodey Components: Banking  
 Requestor: Senate Judiciary

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

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

**FUNDING:** (Thousands of Dollars)

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

**POSITIONS:**

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

**ANALYSIS :** (Attach a separate page if necessary) No fiscal impact for FY 90.

Prepared by: Willis F. Kirkpatrick, Director Phone: 465-2521  
 Division: Banking, Securities and Corporations Date: \_\_\_\_\_

Approved by Commissioner: Larry Mercurieff Date: 6/21/90  
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: SB 322  
PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Commerce & Economic Dev.  
Title: Authorizing loss of income insurance under the Alaska Small Loans Act BRU: Banking, Securities and Corporations  
Sponsor: Rodey Components: Banking  
Requester: \_\_\_\_\_

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of dollars)

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

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Willis F. Kirkpatrick, Director  
Division: Banking, Securities and Corporations

Phone: 465-2521  
Date: 6-6-89

Approved by Commissioner: Larry Mercurieff  
Agency: Department of Commerce & Economic Development

Phone: 465-2500  
Date: 4/6/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

page \_\_\_\_ of \_\_\_\_

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Corporate  
Finance



October 31, 1983

# African Development Bank



**SUMMARY FACT BOOK**

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# AFRICAN DEVELOPMENT BANK

## Description

The African Development Bank (the "Bank" or "AfDB"), established in 1963, provides financial and technical resources to the African region for the economic and social development of its member countries.

In its first twenty years, the Bank was organized and capitalized entirely by African countries. The Bank's capital consists of callable and paid-in subscribed capital stock and reserves. Callable capital may not be used to fund loans and is subject to call only when required to meet the Bank's obligations on borrowings or guarantees. It is especially noteworthy that at March 31, 1983, the total subscribed capital of African members was \$3,269.7 million, of which \$817.4 million, or 25%, was in the form of paid-up capital.

On December 30, 1982, the Bank amended its Charter to open its membership to non-regional member countries. At March 31, 1983, the Bank's membership consisted of sixty-seven countries, fifty of which were African country members with the remaining seventeen composed of the new non-regional members, which include the United States, Japan, Canada,

and most of the major industrial countries of Europe. The new non-regional subscriptions at March 31, 1983 amounted to \$1,699.5 million, of which callable capital totalled \$1,274.6 million and paid-up capital amounted to \$424.9 million. These member countries are, in effect, both the Bank's shareholders and to the extent of their capital subscriptions, ultimate guarantors of the Bank's obligations. Their collective financial strength within the Bank transcends the individual strengths of each member country's subscription. At March 31, 1983, the Bank's total capital resources amounted to \$5,362.1 million, of which \$4,637.6 million was callable capital and \$724.5 million was paid-in capital plus reserves. The Bank has been profitable in every year since its creation and by policy, has retained all net income by transferring it to reserves.

In the ordinary capital operations of the Bank, loans are made for specific projects which are planned on the basis of detailed analysis and designed to fulfill a priority need in the borrowing member country. These are "hard" loans which have been thoroughly analyzed as to technical and economic feasibility and are fully documented as legal and binding obligations with terms and conditions comparable to commercial loans in the private sector. *These loans are made only to, or guaranteed by, sovereign member governments or to agencies which engage the full faith and credit of a sovereign government. Since the Bank's inception, no borrowing entity has ever defaulted on a loan, and the Bank has maintained its firm policy of not engaging in any loan renegotiations or reschedulings.*

**AFRICAN DEVELOPMENT BANK**  
**Ordinary Capital Resources**  
(Expressed in thousands of U.S. dollars)

**FINANCIAL SUMMARY**

	<u>Total Income</u> (Thousands)	<u>Total Operating Expenses</u> (Thousands)	<u>Net Income<sup>1</sup></u> (Thousands)	<u>Total Assets</u> (Thousands)	<u>Cash &amp; Investments</u> (Thousands)	<u>Total Loans Outstanding</u> (Thousands) (Disbursed)
3/31/83	-	-	-	\$1,414,477	\$228,039	\$641,534
1982	\$71,294	\$37,544	\$33,741	1,283,726	181,345	617,882
1981	73,696	61,557	12,138	1,151,746	232,726	530,537
Avg. Annual Compound Growth Rate: 1978/82	17.5%	24.0%	1.2%	12.7%	Negative	17.4%
	<u>Total Capital: Subscribed &amp; Reserves</u> (Thousands)	<u>Capital Stock Subscribed</u> (Thousands)	<u>Paid-In Capital &amp; Reserves</u> (Thousands)	<u>Capital Stock Callable</u> (Thousands)	<u>Funded Debt (Net)</u> (Thousands)	<u>Total Capitalization</u> (Thousands)
3/31/83	\$5,362,121	\$5,226,415	\$724,542	\$4,637,579	\$400,629	\$1,125,171
1982	4,400,887	4,264,138	587,959	3,812,528	407,398	995,357
1981	2,678,843	2,547,815	327,707	2,151,136	373,019	902,736
Avg. Annual Compound Growth Rate: 1978/82	40.5%	42.4%	6.2%	34.7%	19.5%	10.7%

**RATIO SUMMARY**

	<u>Funded Debt (Net) % Total Capital</u>	<u>Total Callable Capital % Funded Debt (Net)</u>	<u>Net Interest Coverage</u>	<u>Net Income % Total Income</u>	<u>Net Income % Total Assets</u>	<u>Net Income % Paid-In Capital &amp; Reserves (Stockholders' Equity)</u>
3/31/83	7.5%	1,157.6%	-	-	-	-
1982	9.3	935.9	1.37x	19.3%	1.1%	2.3%
1981	14.0	573.6	1.28	16.5	1.1	2.3
	<u>Total Capital % Loans Approved Less Cancellations</u>	<u>Total Capital % Total Debt</u>	<u>Paid-In Capital &amp; Reserves % Total Assets</u>	<u>Total Debt % Total Assets</u>	<u>Cash &amp; Investments % Total Debt</u>	<u>Cash &amp; Investments % Undisbursed Loans</u>
3/31/83	284.7%	777.2%	105.0%	48.8%	33.1%	22.5%
1982	238.0	632.5	84.5	54.2	26.1	16.2
1981	172.4	429.3	84.6	54.7	37.3	24.9
	<u>Total Loans Outstanding % Total Assets</u>	<u>Total Capital % Total Loans Outstanding</u>	<u>Total U.S. Subscriptions % Capital Stock</u>	<u>Total U.S. Subscriptions % Total Loans Outstanding</u>	<u>Total U.S. Subscriptions % Funded Debt (Net)</u>	<u>Subscriptions of U.S., Canada, European Members,<sup>1</sup> Japan % Funded Debt (Net)</u>
3/31/83	45.4%	835.8%	6.2%	50.1%	80.3%	361.3%
1982	48.1	712.3	N.A.	N.A.	N.A.	N.A.
1981	46.1	504.9	N.A.	N.A.	N.A.	N.A.

**LOAN & BORROWING LIMITATIONS**

**Loan Limitation:** The Bank is bound by its Agreement to limit its loans outstanding to the total amount of its unimpaired subscribed capital, reserves and surplus, exclusive of the Special Reserve.  
**Borrowing Limitation:** The Bank has adopted a policy of limiting its borrowings to 80% of the callable portion of its subscribed capital stock.

<sup>1</sup> Sources: Kildner, Pouberty & Co. Net Income prior to allocation to Statutory Commission and to exchange loss or gain.

<sup>2</sup> Selected members include: Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, and Sweden.

N.A. Not applicable.

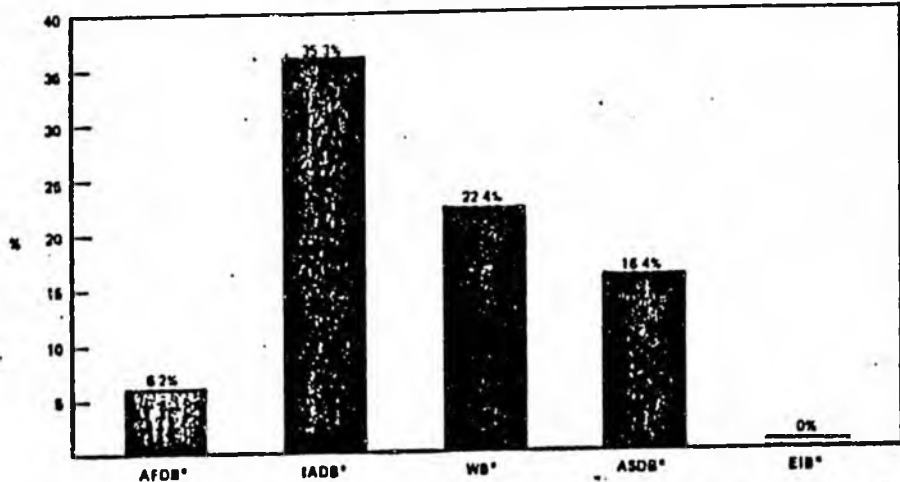
## **Important Facts About the African Development Bank**

- The African Development Bank is located in Abidjan, Ivory Coast, where it is accorded sovereign status by treaty. The Bank has representative offices throughout Africa as well as in London, England.
- At March 31, 1983, the United States subscription to the African Development Bank alone covered the Bank's net funded debt by 80.3%. This compares very favorably to the U.S. subscription coverages (at fiscal year-end 1982) for the World Bank (30.4%), Asian Development Bank (46.3%) and the European Investment Bank (0%). Only the Inter-American Development Bank has a stronger U.S. coverage ratio of 160.0%. (Chart 2)
- At March 31, 1983, when the capital subscriptions of the major industrial nation members of the Bank, including the United States, Japan, and the major European countries, are collectively assessed, their total capital subscriptions covered the Bank's total net funded debt by 361.3%. This compares very favorably to the same coverages of other multilateral development banks' industrial members' subscriptions (at fiscal year-end 1982): World Bank (84.6%), IADB (205.4%), AsDB (170.8%) and EIB (69.6%). (Chart 3)
- Finally, when each bank's full membership subscription is compared to its net funded debt, for the above period of comparison, the African Development Bank reflects the strongest coverage ratio (1,338.4%), when compared to World Bank (147.9%), IADB (488.6%), AsDB (312.2%) and EIB (96.7%). (Chart 4)
- At year-end 1982, the AFDB'S ratio of temporary investments, consisting of government securities and equivalents, to net funded debt amounted to approximately 50.7%. This compares favorably to WB (29.2%), IADB (57.5%), AsDB (71.8%) and EIB (10.3%). (Chart 5)
- At year-end 1982, total equity capital (subscribed plus reserves) of the Bank (\$4,400.9 million) provided a coverage of 712.3% of total loans outstanding (\$617.9 million), the strongest coverage of the multilateral development banks compared. (Chart 6)
- Total loans outstanding, \$617.9 million at year-end 1982, have grown at a compound growth rate of 17.4% for the 1978-1982 period. At March 31, 1983, total loans outstanding (\$641.5 million) represented 45.4% of the Bank's total assets (\$1,414.5 million).
- Total debt for the Bank (net funded debt plus all other liabilities) at March 31, 1983 represented an amount equal to 48.8% of the Bank's total assets.

# ASSET QUALITY RATIOS

## UNITED STATES SUBSCRIPTION % TOTAL STOCKHOLDER SUBSCRIPTION (Fiscal 1982)

CHART 1

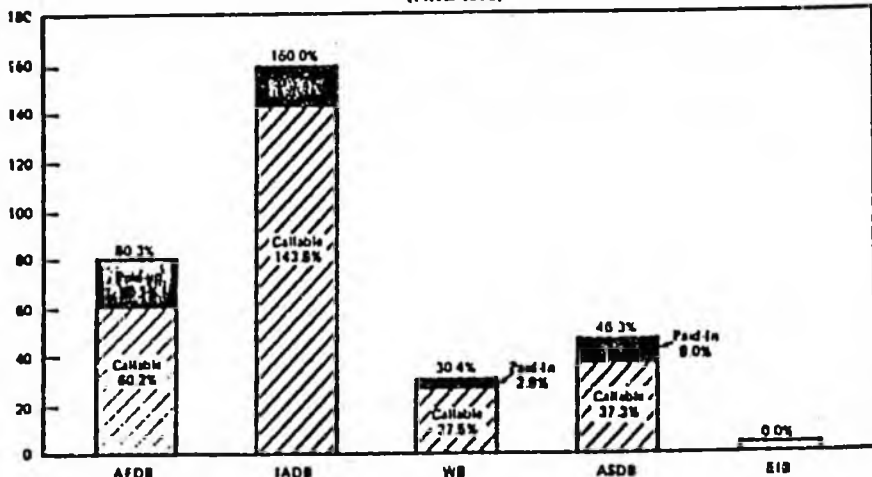


1. Inter-American Development Bank figures include combined Ordinary and Inter-Regional Capital.
  2. European Investment Bank figures reflect conversions to U.S. dollars at year-end rate.
- IAFD\* year-ended 3/31/83

\*African Development Bank ("AFD"), Inter-American Development Bank ("IADB"), World Bank ("WB"), Asian Development Bank ("ASDB"), and European Investment Bank ("EIB").

## UNITED STATES SUBSCRIPTION % FUNDED DEBT (NET) (Fiscal 1982)

CHART 2

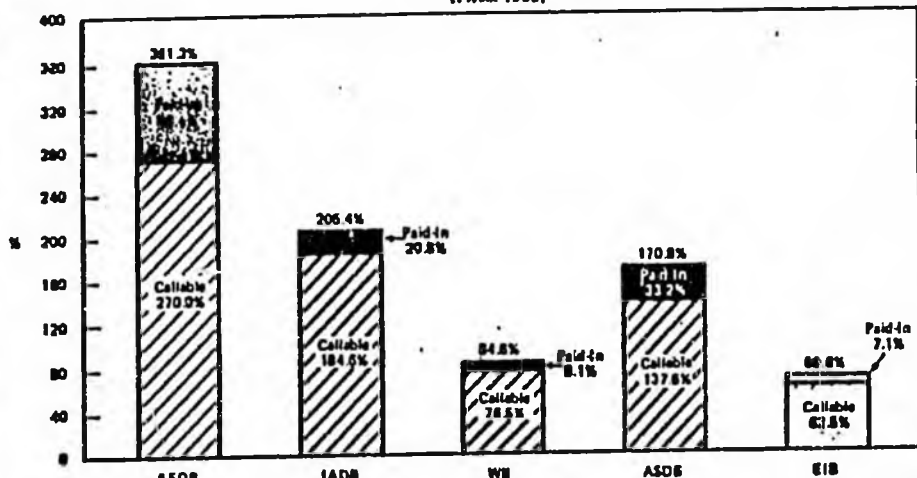


IAFD\* year-ended 3/31/83

# ASSET QUALITY RATIOS

## SUBSCRIPTIONS OF: U.S., CANADA, SELECTED EUROPEAN MEMBERS\*, JAPAN, AUSTRALIA, AND NEW ZEALAND % FUNDED DEBT (NET) (Fiscal 1982)

CHART 3

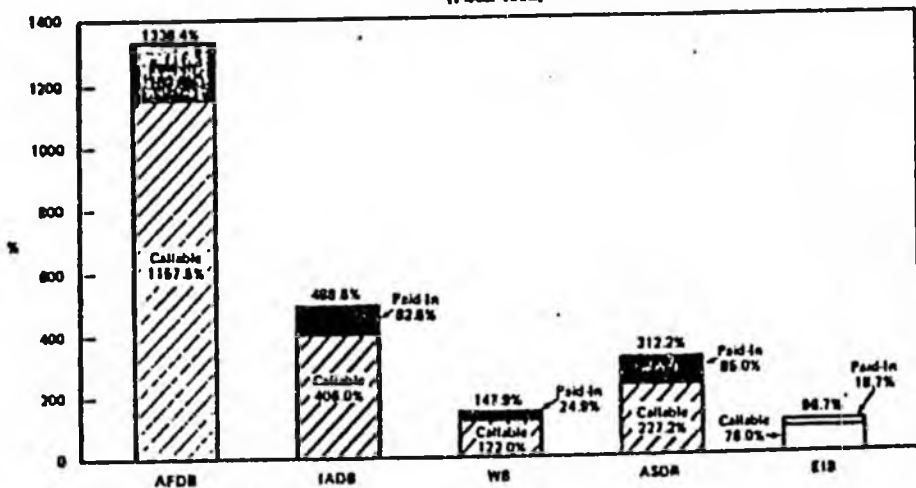


\*Members include: Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, Spain, Sweden, and United Kingdom.

IAFDB year ended 3/31/83

## TOTAL SUBSCRIPTIONS PLUS RESERVES (Total Equity) % FUNDED DEBT (NET) (Fiscal 1982)

CHART 4

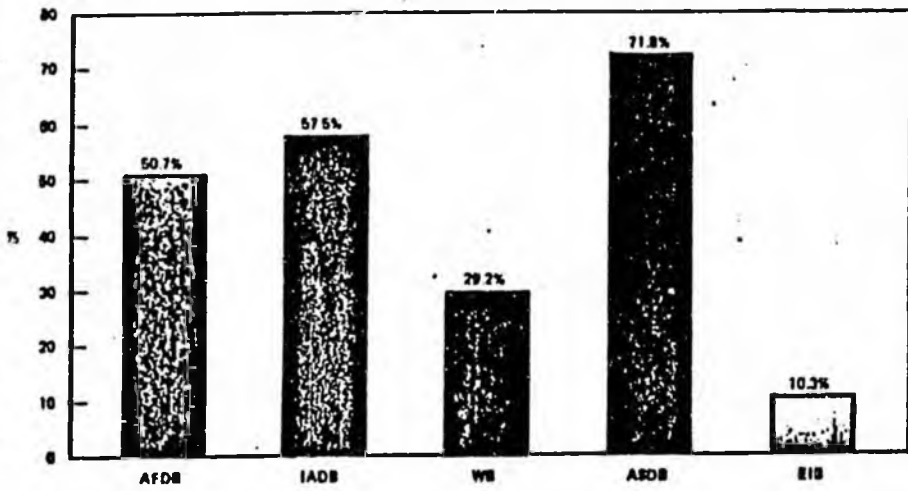


IAFDB year ended 3/31/83

**LIQUIDITY RATIO**

**TEMPORARY INVESTMENTS  
% FUNDED DEBT (NET)  
(Fiscal 1962)**

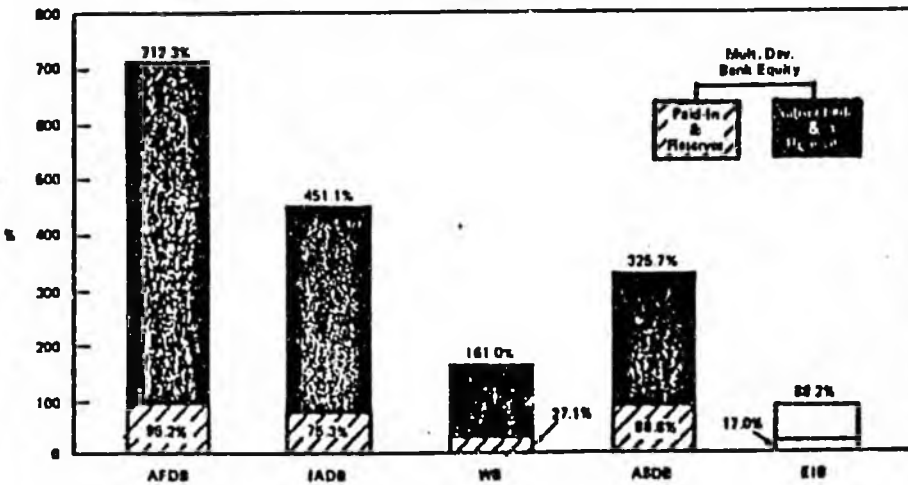
**CHART 6**



**CAPITAL ADEQUACY RATIO**

**YEAR-ENDED EQUITY  
% YEAR-END LOANS  
(Fiscal 1962)**

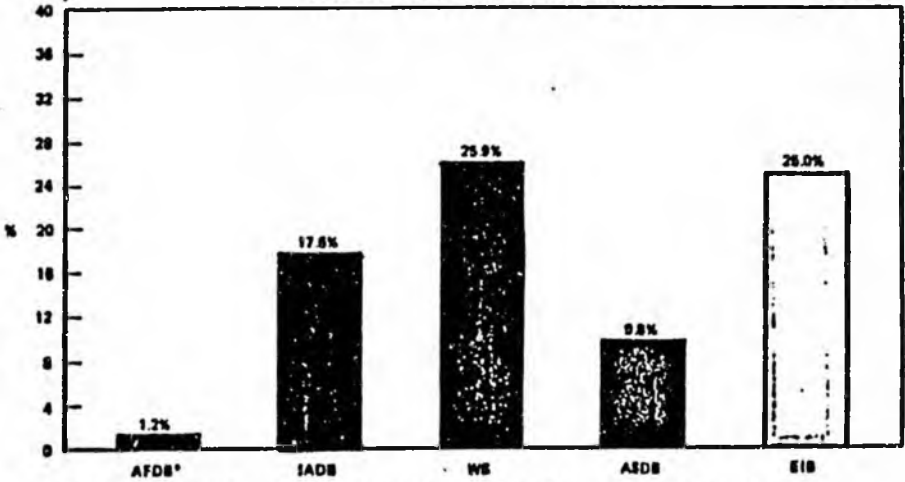
**CHART 6**



# EARNINGS & PROFITABILITY RATIOS

## NET INCOME 1978/1992 COMPOUND GROWTH RATES

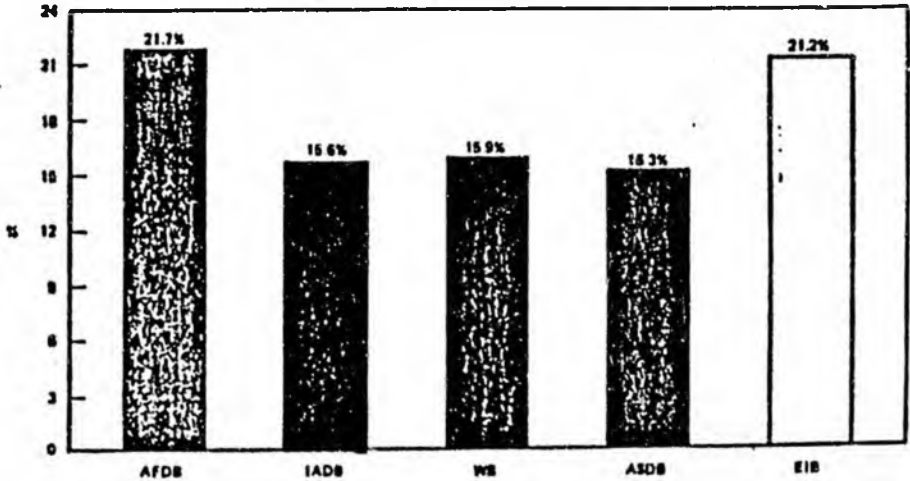
CHART 7



\*AFDB figures adjusted to reflect Net Income prior to allocation to Special Reserve and any exchange loss or gain.

## TOTAL LOAN INTEREST OR LOAN INCOME 1978/1992 COMPOUND GROWTH RATES

CHART 8



## OUTSTANDING LOANS AND LOAN RATIOS

(Fiscal 1982)

(In thousands of dollars)

		<u>Total Disbursed, Undisbursed and Approved Loans Outstanding</u>	<u>(Disbursed) Total Loans Outstanding</u>	<u>Loans Undisbursed Balance</u>
AIDB <sup>1</sup>	\$ U.S.	\$ 1,656,100	\$ 641,534	\$ 1,014,566
	% Subscribed & Reserves	30.9%	12.0%	18.9%
IADB <sup>2</sup>	\$ U.S.	\$10,300,673	\$ 4,593,778	\$ 5,706,895
	% Subscribed & Reserves	49.7%	22.2%	27.5%
WB <sup>3</sup>	\$ U.S.	\$61,151,746 <sup>4</sup>	\$29,167,535	\$24,978,811
	% Subscribed & Reserves	130.2%	62.1%	53.2%
AsDB <sup>4</sup>	\$ U.S.	\$ 6,036,704	\$ 2,684,629	\$ 3,352,075
	% Subscribed & Reserves	69.0%	30.7%	38.3%
EIB <sup>5</sup>	\$ U.S.	\$19,250,985	\$17,594,010	\$ 1,656,975
	% Subscribed & Reserves	124.1%	113.4%	10.7%

<sup>1</sup> AIDB figures reflect year-ended 3/31/83 for ordinary capital resources.

<sup>2</sup> For combined ordinary and inter-regional capital resources.

<sup>3</sup> International Bank for Reconstruction and Development.

<sup>4</sup> Ordinary capital resources.

<sup>5</sup> At year-end conversion rate: 1 European Unit of Account = 0.967667 U.S. dollars.

<sup>6</sup> Includes loans approved but not yet effective, and disbursed and undisbursed effective loans.

## OUTSTANDING FUNDED DEBT AND FUNDED DEBT RATIOS

	<u>Net Funded Debt</u>	<u>Net Funded Debt % Callable Capital</u>
	(Expressed in thousands of U.S. dollars)	
AIDB <sup>1</sup>	\$ 400,629	8.6%
IADB <sup>2</sup>	\$ 4,241,499	24.6%
WB <sup>3</sup>	\$31,760,918	81.3%
AsDB <sup>4</sup>	\$ 2,800,713	44.0%
EIB <sup>5</sup>	\$16,034,390	128.1%

<sup>1</sup> At 3/31/83 for ordinary capital resources.

<sup>2</sup> At 12/31/82 for combined ordinary and inter-regional capital resources.

<sup>3</sup> At 6/30/82 for International Bank for Reconstruction and Development.

<sup>4</sup> At 12/31/82 for ordinary capital resources.

<sup>5</sup> At 12/31/82 at year-end conversion rate.

*For more information about the African Development Bank, or a copy of one of Kidder, Peabody's more detailed analyses on Multilateral Development Banks, please contact:*

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125 South Wacker Drive, Chicago  
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Tulsa • Washington, D.C. • White Plains  
Wilkes-Barre

# HOUSE COMMITTEE REPORT

(7)

Date Referred: February 22, 1990

FURTHER REFERRALS:

FINANCE

Date of Committee Action: 5/1/90

The LABOR & COMMERCE Committee considered:

SB 353

SENATE BILL NO. 353

INVESTMENT BY INSURERS IN CERTAIN BANKS

"An Act relating to insurer investments in development banks."

**RECOMMENDATIONS:**

- [ ] be replaced with \_\_\_\_\_ [ ] the same title
- [ ] \_\_\_\_\_ [ ] a new title
- [ ] have attached amendment(s)
- [  ] do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(s):  
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- [ ] fiscal impact \_\_\_\_\_
- [ ] zero fiscal note \_\_\_\_\_
- [ ] zero with analysis \_\_\_\_\_

- [ ] fiscal note(s) \_\_\_\_\_
- [  ] zero fiscal note(s) C+ED
- [ ] zero fn/analysis \_\_\_\_\_

**SIGNING DO PASS:**

**SIGNING:**

(Check approp. column)

Do Not  
Pass      No Rec      Amend

<u>David Donley</u> Donley			
<u>Mark Boyer</u> Boyer			
<u>John Finkelstein</u> Finkelstein			
<u>Alexander Leman</u> Leman			
<u>Cliff Boucher</u> Boucher			

David Donley  
Chairman's Signature

## HENRY LANCASTER, INC.

550 West Seventh Avenue • Suite 1325 • P.O. Box 10-3461 • Anchorage, Alaska 99510 • (907) 278-4729 • FAX (907) 276-4289

May 1, 1990

Rep. Dave Donley  
Chairman  
House Labor & Commerce Committee  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

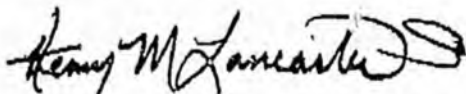
Dear Chairman Donley:

It was brought to my attention that a question was raised during Labor & Commerce Committee deliberations on May 1, 1990 concerning any association between the African Development Bank and the country of South Africa. The regional members of the bank include 50 of the 52 countries on the continent of Africa. South Africa is not a regional member country.

There are twenty-five (25) non-regional members of the bank and twenty-seven (27) members of the African Development Fund. South Africa is not a member of either of those entities. I have enclosed a section from an AfDB publication that identifies countries where it has invested in projects.

Please do not hesitate to contact me if you have any other questions.

Sincerely,



Henry M. Lancaster II  
President

HML:bgm

# THE AMERICAN RIVER BANK

Reported from film by *Investor*  
**THE HEART OF THE NEW AFRICA**



**THE AFRICAN DEVELOPMENT BANK**  
*a special sponsored section*



AFRICAN DEVELOPMENT BANK

12

*The Sonichar mining project, Niger, co-financed by the AfDB.*

Governors in Harare, Zimbabwe, in May 1986, which will govern or strongly influence our activities during the next five year period, 1987-1991.

**Q. How much of an increase do you expect to see?**

**A. We expect to see an increase of 150 percent to 200 percent above the current capital of UA 5.25 billion. That will put us up to about UA 13 billion. I don't think that this is too much, when compared with the four-fold capital increase of the third general capital increase.**

**Q. Who are your non-borrowing members?**

**A. All of the non-regional members, in addition to Algeria, Libya and Nigeria. It now appears that Nigeria and Algeria may start borrowing from the Bank.**

**WHERE THE  
MONEY IS  
INVESTED**

The AfDB last year devoted 36 percent of its new loan money to agriculture, much of it for food production. In a continent where the race between population growth and food production continues to be a close one, with grave consequences for its inhabitants, this percentage is unlikely to decline. "Agriculture," states S.S. Omari, deputy director of planning and research, "will continue to be the priority sector."

The Bank's overall priorities are laid out in a series of five-year plans. The present plan (1982-1986) has called for total investment of U.S. \$7.3 billion for the five-year period, with 33 percent of this amount for agricultural lending. In fact, the proportion of resources devoted to agriculture has been growing in the course of the five-year period. A Bank publication entitled "Agriculture and Rural Development in Africa", states: "The AfDB Group will continue to treat agriculture and rural development as priority areas in the foreseeable future.... Apart from increasing lending to agriculture and rural development, the Bank Group intends to expand technical assistance in the planning, design and implementation of projects."

Other sectorial allocations of new loans last year reflected the Bank's priorities. Transport projects received 28 percent of the new loans; public utilities 21 percent; industry 8 percent; and social services (mostly health and education) 7 percent.

In November the Bank allocated a loan of UA 31.15 million (\$34.2 million) for agricultural development in Egypt and an additional UA 18.62 million (\$20.4 million) for the fifth stage of a large-scale drainage pro-

gram intended in part to combat the debilitating disease bilharziasis, which is transmitted by waterborne parasites.

In both cases, the Bank's "hard loans" were supplemented by "soft loans" granted through the African Development Fund (see below). Leonard M. Shango, chief of the Bank's North Africa division, said that the agricultural loan to Egypt will help to finance the purchase of new farm machinery, the establishment of shops for the repair and maintenance of farm machines, the installation of modern seed-cleaning plants and the establishment of two seed laboratories and a farm testing center.

When they are fully operative, these facilities will aid the production of cereals, vegetables and cotton. There follows an overview of some projects, both agricultural and non-agricultural, which the Bank is helping to finance. The list is by no means comprehensive; it serves only as a brief indication of the kinds of activities, throughout the African continent, that the Bank is helping to make possible.

For Settat Province in Morocco, the bank granted a loan of UA 41.63 million (\$45.7 million) for integrated rural development. Morocco also received approval for a loan of UA 45 million (\$49.41 million) for agricultural rehabilitation.

Among other agricultural-related projects approved for AfDB loans last year were a rubber-growing scheme in Gabon (UA 40.17 million, \$44.1 million); the Mahdia rural development project in Tunisia (UA 19.80 million, \$21.7 million); and in Zimbabwe, a line of agricultural credit worth UA 20 million (\$22 million). The Bank's 1984 annual report describes other agricultural projects for which loans were granted in that year. Among them are the following:

\* In Guinea, a fisheries and pisciculture development project to increase the supply of fish for local consumption. The loan was for UA 10.20 million (\$11.2 million), to help along a scheme that will cost UA 35.17 million (\$38.6 million) over 20

years.

\* In the Côte d'Ivoire, UA 6 million (\$6.6 million) in new loans was approved for a 20-year program to increase the production of livestock through improvement of breeding stock and management methods.

\* In Mozambique, an agricultural rehabilitation project qualified for a new loan of UA 9.6 million (\$10.5 million) for a program designed to cost a total of UA 23.62 million (\$25.9 million), to expand the production of cashews for export and mangoes and other food crops for domestic consumption.

\* In the Seychelles, the Bank committed a new loan of UA 8 million (\$8.8 million) to develop fisheries to supply domestic markets and export demand.

### NON-AGRICULTURAL PROJECTS

In most of these projects, the AfDB provided co-financing mainly to meet foreign exchange requirements in programs that are strongly supported by their sponsoring governments and in many cases aided by loans from the African Development Fund and other multilateral agencies.

In transportation, the Bank was also active in financing new and ongoing projects. Last year's loan approvals included:

\* In the Seychelles, UA 5.70 million (\$6.3 million) for the Victoria Commercial Port.

\* In the Côte d'Ivoire, UA 56.2 million (\$61.7 million) for various road projects, including an improved all-weather road to the Ghana border that will become part of the trans-Africa highway.

\* In Zimbabwe, UA 30 million (\$32.9 million) for rural roads.

\* In Morocco, UA 49 million (\$53.8 million) for road maintenance.

\* In Zambia, UA 20 million (\$21.86 million) for railway rehabilitation.

Beyond the two highest priority areas of agriculture and transport, loans approved during the last two years reflect a variety of approaches to Africa's development needs.

### Items:

\* Egypt, both a large shareholder and a substantial borrower from the AfDB, was approved for a UA 43.50 million (\$47.8 million) financing of its Shoubra-El-Kheima power project.

\* Zambia was approved for a loan of UA 33.80 (\$37.1 million) for further improvements in its telecommunications system.

Other important projects approved in 1984 included the Serowe-Orapa road project in Botswana; airport studies or physical improvements in Equatorial Guinea and Lesotho; railway improvements in Congo and Zaire; urban electrification in Tunisia, telecommunications in Ethiopia and Mozambique; and a project to improve scientific and technical education in Tunisia.

Other loans were directed to national development banks. As Leonard Shango, chief of the North Africa division, explains, these loans provide funds for projects too small for the AfDB to monitor and supervise effectively. "The national development bank signs the loan agreement and assumes responsibility for collecting the funds and repaying the AfDB," says Shango. "Local people are better able to provide supervision and utilization for such loans."

M. Bouzid, director for West Africa and Central Africa, emphasized the professional care and study that the AfDB staff devotes to loan applications. "We are guided by the sectorial priorities set out in the five-year plan, and with our resources, we are generally able to accommodate almost everyone with reasonable proposals," says Bouzid. "We look at the soundness of the project, the rate of return it is likely to produce and we look for co-financing by other multilateral bodies. We are happy to share the risk with other agencies."

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: Insurer investments in  
development banks  
Sponsor: Kelly  
Requestor: Senate Labor & Commerce

Agency Affected: Commerce & Economic Dev.  
BRU: Insurance  
Components: Administration

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

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0	0	0	0	0	0
<b>CAPITAL</b>	0	0	0	0	0	0
<b>REVENUE</b>	0	0	0	0	0	0

**FUNDING: (Thousands of Dollars)**

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

**POSITIONS:**

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

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

This legislation would have no fiscal impact on the department in FY 90.

Prepared by: James J. Jordan, Acting Director Phone: 465-2515  
Division: Insurance Date: 1/18/90

Approved by Commissioner: Larry Mercutioff Date: 1/11/90  
Agency: Department of Commerce & Economic Development

**Distribution (by preparer):**

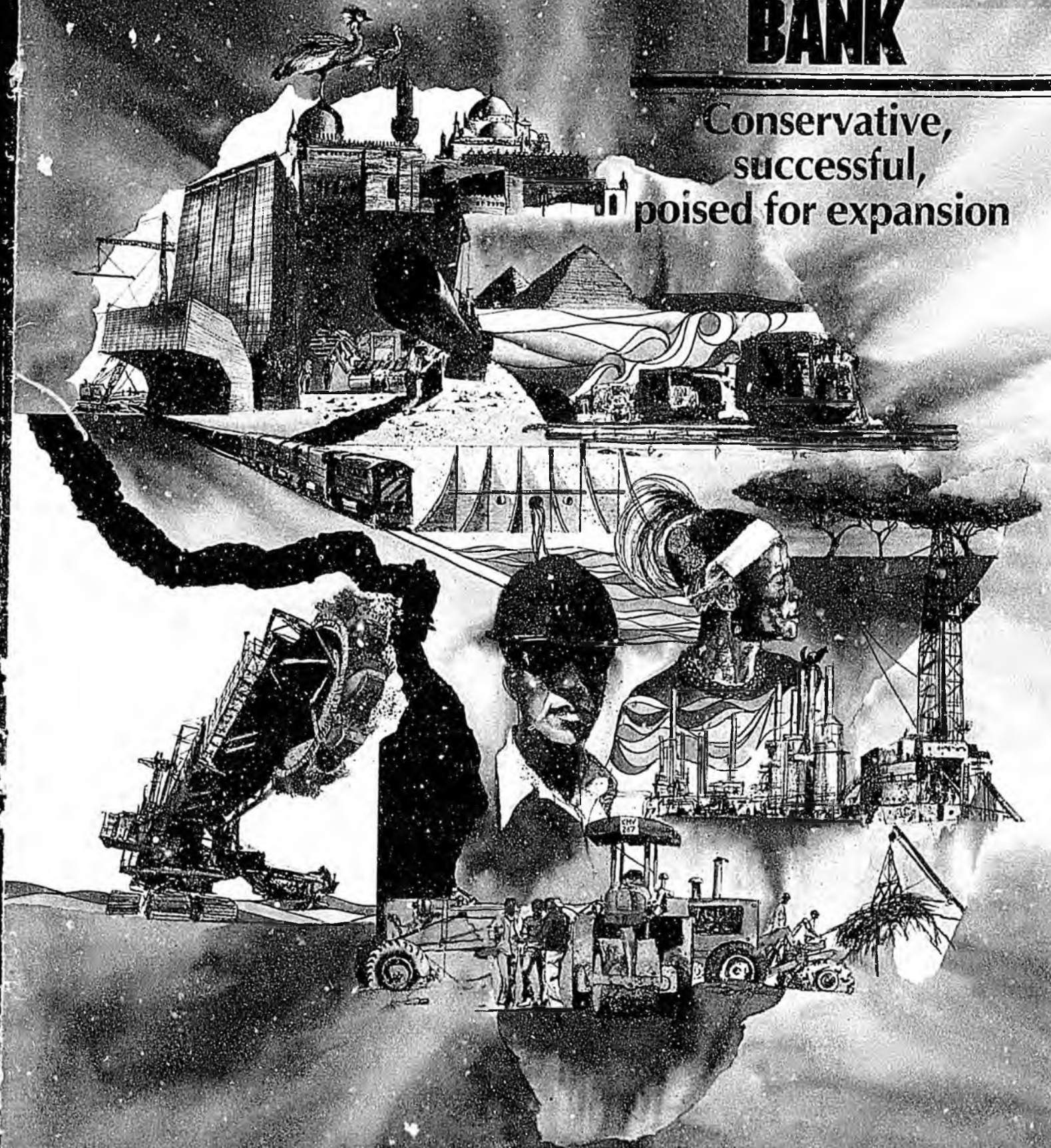
- Legislative Finance
- Legislative Sponsor
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- Office of Management and Budget
- Impacted Agency(ies)

The following is a  
special sponsored section

SB 353

# AFI DEVELOPMENT BANK

Conservative,  
successful,  
poised for expansion



The following section is sponsored by the African Development Bank, The Chase Manhattan Bank, N.A., Nomura Securities Co., Ltd., and The Bank of Credit and Commerce International.

The editorial material has been written independently by J. Graham Carson, a freelance journalist who analyzes economic, financial and geopolitical affairs for major American, British and Canadian publications.

A growing development bank with an outstanding 20-year record

1

Sound banking principles and total professionalism: An interview with Wila D. Mung 'Omba, President of the African Development Bank

5

Financial strengths endorsed by analysts and investors

6

Growing recognition in the international marketplace: An interview with Dr. Rolf M. Jeker, Executive Director of the African Development Bank

9

Helping a continent develop its resource and market potential

11

Ivory Coast—a flourishing economy with exceptional promise

13

Careful planning to finance future growth: An interview with Babacar N'Diaye, Finance Vice President of the African Development Bank

14



# AFRICAN DEVELOPMENT BANK

Conservative, successful, poised for expansion

## A growing development bank with an outstanding 20-year record

**N**ot unlike Africa itself, the African Development Bank (Af.D.B.) has been distant and mysterious to the outside world. But perceptions are rapidly changing. The Bank is moving into the focus of investors. And they are realizing that while the continent is largely promise, the Bank is both promise and performance. The continent is riven by recurrent strife and an inability to concretize a common purpose. The Bank is tightly managed with precise objectives.

There is every reason, of course, for the continent's apparent inability to realize a common purpose. There are more than 50 countries in Africa, many of them nations for less than two decades, some nations in name but in fact ethnic groupings put together to suit the projects and convenience of former colonial powers. The European community, with far fewer countries, is

hardly united in common purpose; it would be remarkable if Africa were more focused.

What is remarkable, therefore, is the purposefulness of the Bank and the way this purposefulness is understood and supported by its members through the most concrete of commitments: the commitment of cash. Despite the well-known economic difficulties of many of the African countries, they have continued, nevertheless, their periodic cash contributions to the Bank's capital with noteworthy promptness and regularity. More remarkable still, they have done so in convertible currencies, despite their well-known foreign exchange shortages. Most remarkable of all, the Bank has the highest ratio of paid-in capital of any multilateral development bank—by a wide margin. Where others would be happy to have 10 percent paid in, the African Development Bank has no

less than 25 percent paid in.

This commitment is demonstrated as well by the way the African countries have always agreed to support the Bank's capital increases despite their political disagreements, according to M.L. Yuma, Secretary General of African Development Bank. And it has been reaffirmed by the way they have continued to make contributions despite current account deficits, says Vice President Samuel Ogunleye. For a number of countries this represents "a sacrifice," notes Ogunleye. "Uganda is a good example," he says. "Everyone knows how they've been affected by economic problems, yet they have made great efforts to keep up their contributions." While there have been some press reports about capital subscription arrears in the Bank contributions of some countries, Af.D.B. officials demonstrate that the problem is exaggerated.

### NON-REGIONAL CONTRIBUTIONS EXPAND THE BANK'S POTENTIAL

The strong commitment by African member countries to the Bank is evident throughout the Bank's history—and in fact it derives in part from that history. For most of its existence—for the 19 years up to December 30, 1962—the African Development Bank depended entirely and exclusively on African countries for its capital. Unlike its sister institutions, the Inter-American and Asian Banks, which were godfathered at their inceptions—the former by the U.S., the latter by the U.S. and Japan—the Af.D.B. very deliberately chose to grow up on its own. Until last year, it refused to accept contributions from non-African nations.

That it finally did so, in fact, was due to certain obvious advantages it gained in the process. That it did so on such a

limited scale—accepting non-regional contributions for only one third of its capital, and amending its constitution so that these contributions cannot obtain a majority—is testimony to the fact that the Bank continues to primarily look for its future development from the commitment of the African members and, to a lesser extent, its non-African partners.

A New York banker familiar with the situation sums up the African Development Bank's rationale for taking the outside money in two key words: "leverage and resources." As Edward J. Waters, Vice President in Corporate Finance of the New York investment banking firm of Kidder, Peabody & Co. Incorporated, sees it, the African Development Bank is adding significantly to its borrowing power, based both on its improved credit and additional capital and leverage.

He and other outside observers, in Japan and Europe as well as the U.S., stress that although the Af.D.B. has managed perfectly well without the non-regional participation for many years, the addition of the industrialized countries would clearly increase the Bank's contribution to the development of Africa. The industrialized countries would also benefit significantly in this accelerated progress.

That the Bank was managing perfectly well without the industrial members' capital is one reason it took the management three years to get the principle of non-regional membership approved by the African members. The other reason, of course, was their determination to keep running their own show—and to avoid all possibility of its domination by the more powerful economies of the industrialized countries.

That the Bank persevered and finally got the increase through is a tribute, in the opinion of the New York commercial banker

mentioned earlier, to the skills of its management.

"President Wila Mung'Omba has kept things in place and kept the boat on an even keel in a stormy environment," he says, and he characterizes this as "quite an achievement."

### EXCEPTIONAL MANAGEMENT, AN EXCEPTIONAL RECORD

Management in fact, in the view of financial market investors, is one of the most important of Af.D.B.'s strengths. "The management of this institution compares most positively with that of any financial institution anywhere in the world," states Kidder, Peabody's Waters, who knows financial institutions everywhere. Waters says the degree of commitment of the managers is the aspect of the Bank that is most impressive. Another is the level of Af.D.B. management's ability and experience, says his colleague S. Melvin Rines, also a Vice President with Kidder, Peabody and who has worked with Waters on in-depth studies of all the multilateral development banks. As Rines notes, "Why not, they have been educated at the best graduate and post-graduate universities in the world." Moreover, adds Waters, "there is no better tribute to their abilities than to recognize that they have successfully managed this development bank in the most underdeveloped regional economy in the world, without any blemish on the Bank's loan portfolio, nor any rescheduling of it as well."

A glance at the curricula vitae of some of the Bank officials confirms these remarks. Mung'Omba, who formerly was a senior executive of the Standard Chartered Bank in London and an Executive Director of the International Monetary Fund before joining Af.D.B., holds a law degree from London University. Finance Vice President Babacar N'Diaye holds an advanced graduate business



management degree from France's prestigious Ecole des Sciences Politiques, and in addition he holds an equivalent Chartered Public Accountant degree from France, Diplome Etat d'expertise comptable. K.K. Dei-Anang, the Bank's General Counsel, has degrees from the Oxford School of Jurisprudence and from the London School of Economics. Among the Bank's Executive Directors, there is Rolf M. Jeker, a Swiss who holds a PhD in Economic Business and Public Administration from St. Gall Graduate Institute. And there is Pierre Moussa of Chad—not to be confused with his namesake from France—who has university qualifications from Paris' Faculté de Droit et des Sciences Economiques. Ibrahim M. Hamed, Vice President for Administration, holds a Bachelor of Commerce from Egypt's Ain Shams University; he has also been Undersecretary of State in charge of the office of the State Ministry for Management and Development in Egypt. Every manager of the Bank is similarly qualified.

The Bank's record with its loans and projects is no less distinguished. As far as loan losses are concerned, the record is clear: it has none. As far as successful completion of projects is concerned, the record is equally impressive: Vice President Donatien Bihute (a Swiss-educated former World Bank Executive Director) says that of 240 projects completed to date, only 14 could be described

*Pierre Moussa, Af.D.B. Executive Director, says that once Africa meets its food production needs, it shows all capabilities a potential market.*

KOSSI KOKOU

as problems, and these only on the basis of whether the projects achieved their planned objectives.

### RIGOROUS LOAN PROCEDURES

The record is due to a strict adherence to a set of procedures that are not only rigorous but thoroughly tested. In many instances, as the Af.D.B. is quick to acknowledge, it has the advantage of the other multilateral development banks' experiences. Rolf Jeker observes that many of its procedures had been established, and many of their wrinkles ironed out, even before the African Bank came into existence.

The "project cycle" which the Af.D.B. applies to every job, for instance, is patterned on the six tried and true steps taken by the World Bank: 1) *identification of the project*—by Af.D.B., by the country or countries concerned, or by another development institution such as the United Nations specialized agencies, the World Bank, or the Inter-American Development Bank; 2) *project preparation*—including such key stages as feasibility and engineering studies; 3) *appraisal*—to ensure not only that the project is financially and technically practical but that it is both socially and economically rewarding to the borrower as well; 4) *loan approval*—which includes negotiations with the government or governments involved on the extent and terms of Af.D.B. participation; 5) *supervision*; and 6) *post evaluation*. After the preparatory stage, the processing of the project through to the board, according to Christopher Kahangi, Director of the Bank's Central Project Units who studied industrial management at M.I.T., takes an average of 18 months before work gets under way—an indication of the thoroughness with which the Bank approaches each project.

The last two stages are most important and deserve elaboration. As Finance Vice President N'Diaye points out, "One of the biggest differences between us and other multilateral development banks (MDBs) is that they are managed by people from their lending countries, which are mainly industrial, and we're managed by people from our borrowing countries—which are entirely African." This enables the African Development Bank to know its borrowers better, and—if possible, since all MDBs are extremely rigorous in their supervisory procedures—to control its disbursements even more carefully.

Vice President Bihute and General Counsel Dei-Anang emphasize several key points with regard to the precautions taken by the African Development Bank to make sure its money is used properly:

- Af.D.B. makes no loans at all unless they are guaranteed by the government of the country concerned.
- "Af.D.B. participation, as a matter of policy," says Bihute, "is limited to the foreign exchange component of a project."
- Af.D.B. reimburses contractors for expenditures, and does so only when they prove they have made them. "We won't just shell out a blank check," says Dei-Anang. In principle, he goes on, "we have to see that you've procured what you said you were going to procure, then we'll reimburse you." In practice, he adds, under the pressure of the foreign exchange shortages of some borrowers, the Bank has partly relaxed this rule: "On the recommendation of Price Waterhouse, we have evolved a system under which, once the borrower proves it has placed an order, we make payment under letters of credit—to the suppliers."
- Af.D.B. has strict surveil-

lance measures in force. "To the suppliers" is the key phrase in the exception above. The African Development Bank goes out of its way to avoid irregularities. The Bank has developed various measures for bringing pressure to bear: for instance, says Dei-Anang, because of its volume of business, the Bank has developed clout with suppliers and contractors—and, in the worst case, it simply stops doing business with them.

Borrowing countries are anything but eager to be cut off from Bank funds, for the simple reason that they cannot borrow as cheaply anywhere else. Besides, as Dei-Anang points out, on a \$5 million project, the Bank's contribution might be \$2.5 million, spread over 25 or more items—so the possibilities for large scale embezzling are just not there. Concludes Dei-Anang: "We work closely with the other multilateral development banks and we know their experience is the same; it is just very difficult to misappropriate funds from the MDBs."

To reinforce these procedures, the bank employs strict credit and *post facto* controls. Quite apart from the Bank's team supervising any project, says Secretary General Yuma, there is a separate team of auditors keeping an eye on the extent to which the project is meeting expectations. And behind them, says Yuma, comes "a special division which does post-evaluation; it gives an independent opinion on how the project was conceived, how it was supervised, and how it was executed." How disinterested is the opinion? "They're very independent," says Dei-Anang.

### A HISTORY OF SUCCESSFULLY COMPLETED PROJECTS

One result of the efficiency of such procedures is a record of which the Bank's management is visibly and understandably



UNITED NATIONS/NAGATA

proud. Among the more striking achievements are its part in the financing of a Trans-Sahara road, which will link Algiers to Lagos, and the fact that, as West and Central Africa country Programmes Department Director Mohamed Bouzid says, the enormous and ambitious project is proceeding according to plan.

While the Trans-Sahara stands out because of its inherent appeal to the imagination, dozens of other Af.D.B. projects are playing vital roles in the development of Africa. Vice President Bihute talks of a power project in Gambia, which was completed at estimated cost and below estimated time—to the country's great advantage; the Kapiri Glass Project in Zambia, which was not only completed ahead of schedule, but also with enough savings to finance an extra furnace. President Mung 'Omba says, "One can't count the number of schools and hospitals we've helped to build." I.B.C. John, the Agricultural and Rural Development Director, says the outstanding projects in his area have involved irrigation. Most of them are relatively small, he says, but they make significant contributions: "In Malawi, we actually got farmers to double their maize yield in five years, in one rural project."

While nobody pretends that 100 percent of the Bank's projects go according to plan, the percentage that does is remarkably high. The Bank has had serious problems—cost overruns or unwarranted delays—on only 6 percent of completed jobs. And the principal problem makers have been mining ventures—where problems have arisen largely because of the recession-induced fall in world commodity prices.

Nobody pretends either that problems do not exist. Executive Director Moussa bemoans the shortage of research and statistics. "There are only a few

regional agricultural research institutions in the whole of Africa," he says, "and when you look for the research budgets of governments, you generally find there aren't any." It is difficult to envision progress without research, he goes on, and the Bank is doing something to encourage it, by including research allocations in its projects—sometimes against the real desires of the countries concerned, since they do not like paying the research money back.

#### SETTING PRIORITIES THAT MATCH AFRICA'S NEEDS

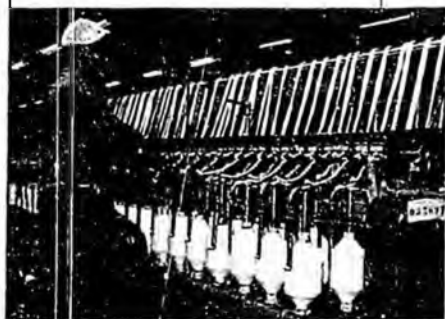
The other overriding problem in Africa, Moussa says, is that malnutrition destroys not only people but productivity. This, too, is a problem the Bank is doing something to solve—indeed a solution is the Bank's overriding policy goal. "The operating program for 1982-1986 provides that the bulk of our resources (slightly over one third) will go to finance agricultural and rural development programs," says Bihute, "with special emphasis on food production."

There is no question that this

is the emphasis of the African Development Bank's President, who speaks movingly of the underfeeding that besets the people of the continent. Mung 'Omba stresses the point, moreover, that the relief of hunger in Africa is a worthy economic goal as well as a humanitarian objective. "The continent is not going to be a prosperous market until the people can feed themselves," he says.

Yet he and other Bank officials stress that, while they are allocating a high percentage of the Bank's resources for this goal, they are doing so on sound banking principles. On the one hand, suggests one Bank officer, "there is a desperate need for a given project—the people can't work as hard as they might because they are sick, and their productivity is low because they are hungry." But on the other hand, he adds, "we have to look at the viability of the project, to be sure it can generate sufficient income to pay back principal and interest."

"We never forget," says still another senior Af.D.B. executive, "we are a bank." ☉



Quality control at a textile plant in Conakry, the Ivory Coast.



CYNTHIA JOHNSON/GAMMA-LIAISON

SCRIP



will you be under any pressure to take the type of action some people in Washington have been urging on the multilateral development banks—of guiding member borrowers toward the liberalization of their economies?

Only in the event of a request from an individual borrowing member can we do so. As an institution, we are prohibited from any attempt, overt or covert, to impose any sort of economic policy on our members. We are actually barred from doing so by the Bank's Charter. Despite this, do you feel there is a general tendency in your member countries toward less controls and subsidies and central planning, and more reliance on the market mechanism?

Looking around the continent, with the direct contacts between the IMF—which does not insist on observance of these criteria—and our member countries, there

is a lot of liberalization going on in Africa today.

Within the limits of the Charter which you mentioned, how do you see your role as a bank evolving?

I don't see it going only in the direction of putting money into the African economies. I do see it evolving not only as a financial but also as an economic institution. It should expand on the activities it has started in order to supplement its own activities. For instance, institution-building. We've created, or helped to create, such institutions as SIFIDA, an investment institution based in Geneva, the Association of African Development Finance Institutions, the African Re-Insurance Corporation, and Shelter Afrique [an institution that will work on the problem of providing housing throughout the continent].

How do domestic political events and the domestic

policies of member countries affect the operations of the African Development Bank? The recent change of power in Upper Volta, for example?

I like to think this is an aspect for which we must be proud of those who first conceived the Bank. They created an institution which was really above the domestic problems of individual countries. Events in Upper Volta would not have any effect on our operations.

The only way in which changes in domestic situations may impact us is when there are changes in the organization of countries and these changes affect our implementation of projects. To that extent domestic politics do have an effect on our operations, but I must add very quickly that, when such interruptions have occurred, the governments concerned have been very quick to contact us to see how we can work with them. ©



ABBAS/GAMMA-LIAISON

## Financial strengths endorsed by analysts and investors

**T**he credit of this Bank compares most favorably with the credits of the Inter-American Development Bank (I.A.D.B.), the Asian Development Bank (A.S.D.B.), the World Bank and the European Investment Bank (E.I.B.)," says Edward J. Waters, with the concurrence of S. Melvin Rines, both Vice Presidents in Corporate Finance of the New York investment banking firm Kidder, Peabody & Co. Incorporated.

To the international investor, there are two particularly interesting aspects to this uncompromising statement. One is the quality of the institutions to which Waters and Rines are favorably comparing A.D.B. All

four of the multilateral development banks are rated triple-A by Moody's and Standard & Poor's, and that in the financial markets these credits are regarded as superior to all but the most superior of all sovereign credits.

The other point of particular significance about Waters and Rines' analysis is the quality of the corporate finance analysts: the Kidder, Peabody officials have made a series of studies of the MDBs, and their thoroughness has made them the leading authorities on Wall Street, and probably anywhere in the world, on the creditworthiness of these institutions.

In the past three years, Waters and Rines have done in-depth

analyses of the A.S.D.B. (running 173 pages), of the I.A.D.B. (running 188 pages), as well as reports on the MDBs as a group. During this summer they have concluded extensive research on a similar basis for the A.D.B. In a number of areas of crucial importance to investors, they found, A.D.B. comes out ahead of all the others:

- At year-end 1982, the total equity (subscribed capital and reserves) as a percentage of total loans outstanding was 712.3 percent for African Development Bank. By comparison, the respective percentages for the Inter-American Development Bank (at June 30, 1982), Asian Development Bank (at Decem-



Pipelines bring fuel to the southern states of Nigeria in Africa. The World Bank is helping to build them.

ber 31, 1982), World Bank (at June 30, 1982), and European Investment Bank (at December 31, 1982) were 451.1 percent, 325.7 percent, 161 percent, and 88.2 percent.

- Also for these periods, "stockholders' equity" (paid-in capital plus reserves) as a percentage of total loans outstanding was 95.2 percent for Af.D.B., against 75.3 percent for I.A.D.B., 88.6 percent for As.D.B., 27.1 percent for the World Bank and 17 percent for E.I.B.

- In terms of long-term debt to subscribed capital plus reserves, African Development Bank also offered the most conservative structure. For the periods noted above, its percentage of 8.5 percent compared favorably, Waters and Rines found, with 17 percent for I.A.D.B., 24.3 percent for As.D.B., 40.3 percent for the World Bank and 50.8 percent for the E.I.B. When long-term debt is compared only to paid-in capital plus reserves, these figures reflected 40.9 percent for Af.D.B., 55.1 percent for I.A.D.B., 54.1 percent for As.D.B., 80.1 percent for World Bank, and 84.3 percent for the E.I.B.

It is important to note that the African Development Bank percentages above were calculated without including the capital subscriptions of the United States and some other non-African member countries which were not formerly admitted until early 1983. Waters and Rines also calculated the ratios above at March 31, 1983, when the full non-regional contributions had been fixed and the results were of course even more favorable to Af.D.B. Total equity as a percentage of total loans rose to 835.8 percent. Paid-in capital and reserves alone as a percentage of total loans rose to 112.9 percent. And the percentage of long-term debt to total capital subscriptions and reserves was

reduced to 7 percent, while long-term debt to the Bank's paid-in capital and reserves dropped to 35.6 percent.

- On the same basis, comparing the African Development Bank at March 31, 1983 to the periods noted above for the other MDBs, in terms of the coverage of net funded debt by the newly subscribed capital of the industrialized countries alone, the African Development Bank shows the strongest percentage of all the MDBs. While the I.A.D.B. and As.D.B. have impressive percentages of 205.4 percent and 170.8 percent, and the World Bank and E.I.B. have 84.6 percent and 69.6 percent, Af.D.B., has no less than 361.3 percent. As Waters and Rines point out, "the subscribed capital of the United States alone covered 80.3 percent of the African Development Bank's net funded debt."

#### RAPID PROFIT GROWTH AHEAD

Moreover, for these same periods, the liquidity position of the Af.D.B. as a percentage of total funded debt of 56.9 percent compares quite favorably with that of the I.A.D.B. (57.5 percent), World Bank (29.2 percent), As.D.B. (71.8 percent) and E.I.B. (10.3 percent).

Not surprisingly, the Kidder, Peabody analysis showed that the African Development Bank was not stronger than its opposite numbers in profitability. In terms of net income growth, for instance, the other MDBs as a group reported annual net income growth rates of 17.6 percent, I.D.B.; 25.9 percent, World Bank; 9.8 percent, As.D.B.; and 25 percent, E.I.B. over the past four years, while Af.D.B. reported a growth rate of approximately 1.2 percent during this period.

Nevertheless, authorities on MDBs regard this shortcoming as less than especially serious, for

two reasons. First, Af.D.B. kept its profit margins deliberately low as a matter of policy. Second, now that it is making more use of the international capital markets, it has adjusted lending rates to reflect these costs and fully anticipates that the Bank will achieve a net income growth rate of approximately 36.1 percent over the 1982-1986 period.

Kidder, Peabody says that as a development bank Af.D.B. "held the view that it was more important to make lower interest rate loans to its members than to accumulate net income in the form of reserves" on behalf of those same members. And, as Bank officials observe, Af.D.B. had two other good reasons for keeping its lending rates low. One was that it wanted to build its asset portfolio, and to get itself recognized by member countries as a key source of funds. The other was that it could afford to charge low rates because such a high percentage of its funding came from paid-in equity capital, on which, of course, it paid no interest.

With all these factors favoring low lending rates, Af.D.B. was actually charging as little as 7 percent on its loans as recently as the middle of last year, when world market rates were so high that the U.S. government was borrowing at 14 percent. Since then, this policy has been amended: the current lending rate for the Af.D.B. is 9.5 percent, and in future the Bank will review its lending rate periodically to take account of changing economic conditions—and set the rate to reflect its marginal cost of borrowing.

This policy change, paradoxically, will help rather than harm the economic situation of borrowing countries. While it will raise their borrowing costs, it will enable them to borrow more, because it will enable the African Development Bank to raise more and lend more. Moreover, it will

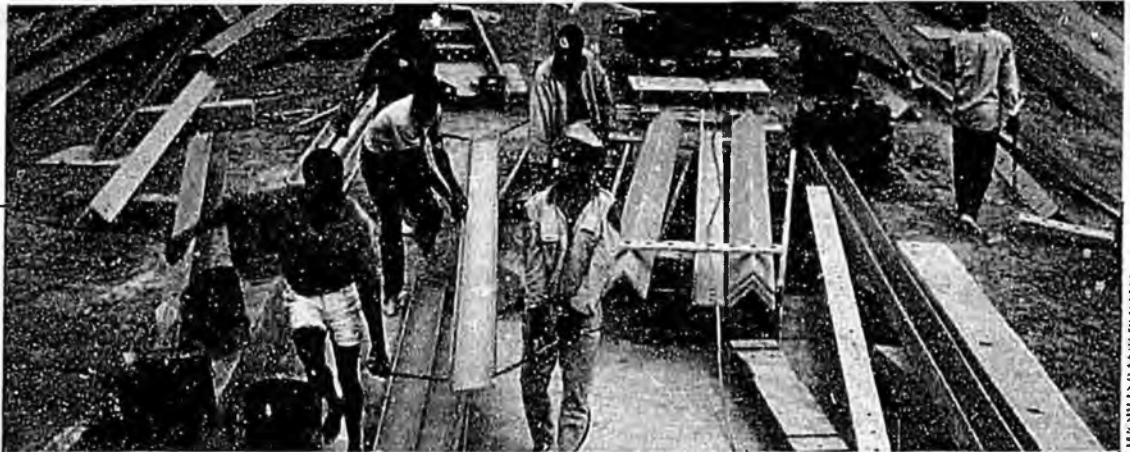
still permit member countries to borrow at rates far lower than those they could obtain on the open market—significantly lower, in practice, than the 11.5 percent currently being paid by the U.S. Treasury. The members that cannot afford to pay any interest at all will continue to borrow from the African Development Fund, a concessional fund administered by Af.D. B., but whose loans, under the Bank's constitution, represent no liability of any kind to the Bank.

While, according to Kidder, Peabody's calculations, the Af.D. B.'s new interest charges will have an extremely significant effect on the Bank's net income (a compound growth rate of 36.1 percent for the 1982–1986 period) and will reinforce Af.D. B.'s credit accordingly, the basic strength of this credit is, nevertheless, the paid-in and callable capital of its members. And now that the industrialized countries have added their cash contributions as well as their moral backing to the commitments of the African nations, that basic strength is more vigorous than ever.

#### GROWING RECOGNITION AMONG INTERNATIONAL INVESTORS

The African countries are rightly proud of the fact that, until they decided on a major expansion of Af.D. B.'s activities to accelerate Africa's development, they had financed their Bank very handsomely on their own credits. As Irving Friedman, the former top IMF official who is now an advisor to Af.D. B., says, one of the strengths of the Bank is that "the [regional] membership has shown a high degree of responsibility in meeting their obligations to the Af.D. B." Another is that the Bank "has a good—a very good—standing among those who have lent to it."

Among those who have lent



WORLD BANK PHOTO

to Af.D. B., and who have organized loans to the Bank by lead-managing issues, there is a strong feeling that the addition of industrialized countries to the membership will add immeasurably to Af.D. B.'s securities' appeal. Uwe F. Flach, a senior official of Deutsche Genossenschaft (D.G. Bank), which led Af.D. B.'s 100 million deutschemark issue in September, 1982, mentions as the chief appeals to investors the facts that "Af.D. B.'s paid-in capital approximately equals its long-term and short-term liabilities, its approved loans represent only 43 percent of subscribed capital, and disbursed loans represent only 14.5 percent." In addition, he says, it is noteworthy that Af.D. B. has the highest percentage of paid-in capital of all the supranational organizations, and the debt-equity ratio is a "convincing argument" from the investor's viewpoint. Furthermore, he continues, the recent opening of the capital to non-African states, and the one-third participation of the industrialized nations in the capital of the Bank "has upgraded the investment quality in the eyes of European investors, individuals and institutions alike."

From Tokyo comes a similar but more emphatic impression. Japanese investors are impressed with the quality of Af.D. B.'s management, its loan portfolio, and its capital structure. Yet to them the overriding consideration is the commitment of the industrialized nations in general, and Japan in particular. "Western summit member countries' capital share in the Bank is the most decisive factor in determining its creditworthiness," says Koichi Kimura, a senior official of Daiwa Securities, while Masao

Kumon, a managing director of Nomura, observes that "sophisticated investors will not hold any doubt about the creditworthiness of the Bank due largely to the fact that Japan has joined the Bank." Moreover, Japan's joining more or less guarantees that Af.D. B. will enjoy excellent borrowing terms in the big Japanese capital market. "Supranational financial institutions with Japanese government participation are ranked at the top of the Tokyo capital market," says Yoshihiko Ando, general manager of the international division at the Long Term Credit Bank of Japan: Af.D. B. will be treated, he says, like the World Bank, Asian Development Bank, and Inter-American Development Bank—"as first-class issuers."

And the United States? As DC Bank's Flach points out, "the African Development Bank is regarded [by European institutions] as by far the best risk in Africa." With endorsements like his and those of the Japanese institutions, it should not be long before U.S. investors form the same judgment. At the moment, says Irving Friedman, the most common reaction when he talks with financial people, is the proverbial blank look: "lack of acquaintance, sheer ignorance." He adds, though, that when he tells them what Af.D. B. is, "there is a very keen interest, an easy acceptance of the fact that African Development Bank is like the other regional development banks." Given the good name of these others in the U.S., and the uncompromising recommendation of Waters and Rines, Af.D. B. should be sure of a welcome in the American and international capital market. ©

## Growing recognition in the international marketplace: An interview with Dr. Rolf M. Jeker, Executive Director of the African Development Bank

**W**hen you talk with other international financial people about the African Development Bank, is there anything they find surprising?

Many investment bankers and bond dealers have not heard a lot about our institution. This is because, in the past, it operated on a relatively low level. The African countries paid in a very high percentage of subscribed capital, and this was mainly the resource base for the Bank to operate—there being no intention to borrow substantial amounts in capital markets.

This situation started to change in the late 1970s and early 1980s (because it became desirable to raise the level of operations) and this implied the need to implement changes in the Bank's financial policies and to get bankers and investors to know what the African Development Bank is and what it's all about.

**Once they do start paying attention what do they find especially interesting?**

Once they realize that we work on the same lines as the World Bank and the Asian Development Bank and Inter-American Development Bank, and that we benefit from the same government guarantees, which is an aspect that is particularly important to bankers and bond investors, they quickly begin to show interest in doing business with us.

Then we can get into more detail and when we explain to them that, like other multilateral development banks, we have never incurred any losses, that we do not go in for debt reschedulings, and that we have a very

low funded debt, they get even more intrigued. On this last point, our level of funded debt is very low relatively as well as absolutely. In fact we even have an advantage over these other multilateral development banks in this respect. We have only borrowed against about 10 percent of our callable capital. What this means is that all the outstanding debts of the African Development Bank are covered tenfold by the callable capital of our approximately 70 member countries. For the sake of argument it can be demonstrated that all this debt does not even exceed the guarantee level provided by only two or three of the most creditworthy countries in the world, such as the United States, the Federal Republic of Germany and Switzerland.

That is one aspect in which we are better off than most other institutions. We also benefit, because we are a relatively new institution from the viewpoint of non-regional countries, from a very high level of support from the governments of these countries—which is reflected in our very high level of paid-in capital, 25 percent. If you have followed recent discussions about the replenishment of paid-in capital at the other multilateral development banks, they talked of levels between zero and 7½ percent. **Is this realized by the foreign financial people with whom you speak? How widely known is this very high level of capital guarantees of the African Development Bank, and is its significance generally appreciated?**

We have to distinguish between bankers and the investors who buy bonds in the market. The



MARK STANLEY REINSTEIN

bankers we deal with already know, or they very quickly understand what this involves. For the rest, my experience shows that they are not well informed; they don't know that such guarantees exist.

**But you are pretty well established in some markets?**

We have already floated bonds in the German and Austrian markets, and we've done syndicated loans in Japan; in those three markets we are known, though I wouldn't say well known. In Germany we've had three issues, and our bonds have done quite well, so we're probably best known there.

We also have done syndicated loans and floating rate notes and we have a number of standby facilities—a concept devised by the finance people of this Bank to always have sufficient funds available if needed for disbursements, etc., without having to draw down the full amount immediately. This is something we've done in the past that is now recommended to other development banks, as a

*Partial quote: "We have a very high level of capital guarantees of the African Development Bank, and is its significance generally appreciated?"*

way of keeping liquidity at a reasonable level at low cost. As we move into the capital markets for long-term borrowing we will reduce drawing on these standby lines, because they are priced on a floating rate base and tend to be more expensive.

**What are you doing to get the Bank better known to investors?** In the markets we enter, we put on "road shows." We send a team of high level staff, headed by our Vice President Finance, Babacar N'Diaye. The team will be assisted by the underwriters and by the Executive Directors representing the countries where borrowings take place.

**You mentioned that one of the strongest marketing points for Af.D.B. bonds is the guarantee you provide investors in the form of limiting borrowing in relation to callable capital. Just**

**how strong are you going to make this guarantee?**

Limiting borrowing to callable capital is a statutory limitation, but in practice we will go much lower than this limit, in order to demonstrate our caution to investors. The level we go to is a question on which the Board will have to decide, taking into account market conditions. We have to work towards an optimum, the level at which you can convince investors.

**From your experience of working with other MDBs, where do they set their limits?**

At the Inter-American Development Bank, they limit borrowings to 80 percent of inter-regional capital. At the Asian Development Bank the limit is the callable capital in convertible currency: in theory they've limited themselves to 100 percent of

that, but in practice they've held it down to 75 percent—they are now attempting to fully use the potential up to 100 percent.

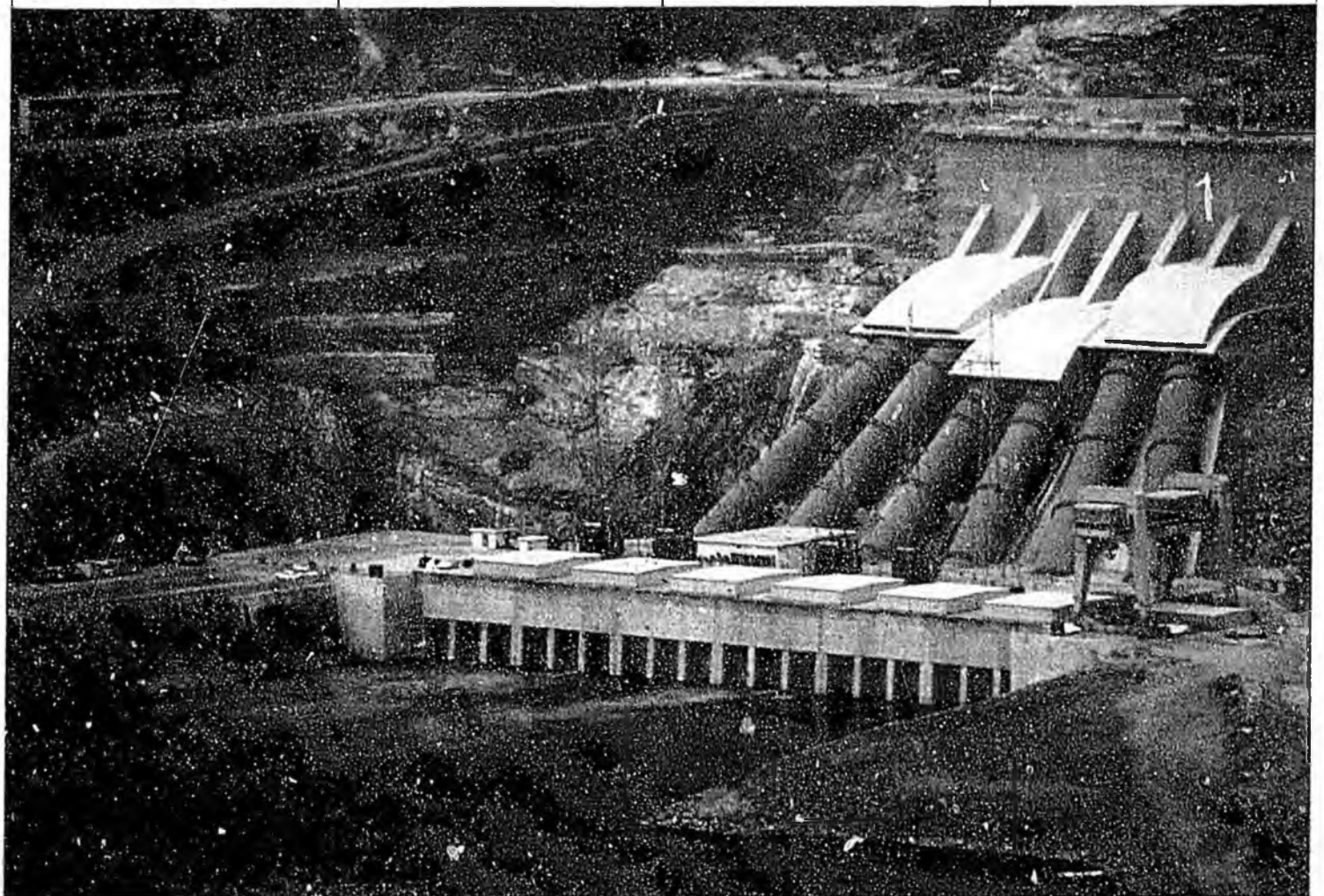
**One question that some investors—and some politicians—raise about the staffing of multilateral development banks: does politics enter into the selection of staff here?**

I think I can confidently say recruitment of staff is done on merit and qualifications.

**As an outside director who has had the opportunity to know all the MDBs, can you say how the professionalism of the African Development Bank compares with that of the others?**

I have dealt with all of them on a management level, and here I can say that we also have a competent management team that is aware of the problems and knows how to deal with them. ©

*The Af.D.B. will not limit borrowing to 75 percent of the potential to guarantee 40 percent of the world's hydroelectric power.*



## Helping a continent develop its resource and market potential

**A**frica is the continent with a lot of resources waiting to be tapped," observes African Development Bank Vice President for Planning and External Relations Samuel Ogunleye—and investors are becoming increasingly aware of the Continent's promise. Irving Friedman sees this growing interest "in the amount of time I'm able to get from people" to talk about Africa and the Bank.

Europe has always been economically and physically close to Africa. France in particular maintains close ties with the Continent, and relies on Africa for a significant proportion of its external trade and resources. According to DG Bank's Uwe Flach, "European investors and entrepreneurs see greatest promise in projects involving metal processing, particularly aluminum based on the extensive resources of bauxite, [but also] in iron ore, copper, manganese and zinc ... and in the exploration and processing of uranium and crude oil."

The involvement, as Friedman notes, is spreading. Japanese investors, according to economists at the Long Term Credit Bank and Daiwa Securities, are very much aware of the minerals and other natural resources of Africa, and Japan has always been one of the strongest supporters of the African Development Bank. One Af.D.B. publication notes that "when 33 African countries met in Khartoum [in 1963] to sign the agreement establishing the African Development Bank, Japan was one of the few non-African countries which was represented at the conference and the signing ceremony."

Now, of course, some 20 non-African nations have com-

mitted capital to the Bank, and, as Friedman points out, the interest in Africa is not confined to the industrialized West. Brazil, India, Korea and Argentina are among those he mentions as increasingly keen to strengthen their relationships with Africa: for instance, the Banco Nacional de Desenvolvimento, the Brazilian development bank, recently signed a technical cooperation agreement with Af.D.B. for an exchange of technical experts.

### A WEALTH OF UNTAPPED RESOURCES

The foreign interest centers on two aspects of Africa: Africa as a resource base and Africa as a market. The continent is rich in both senses:

- "The potential for hydroelectric power is 40 percent of that of the world," says Vice President Donatien Bihute. Many of the enormous possibilities, he points out, "are still untapped." Zaire has the highest potential of all, according to David Twa-hirwa, head of Af.D.B.'s Statistical Division, followed by Uganda and Ethiopia. Then, it is a matter of "wherever the river Niger goes—Guinea, Mali, Niger, Nigeria." The Zambesi river also has tremendous potential for hydropower, and Bihute mentions a major multinational dam in construction on the Senegal—the Manantali Dam, owned by Senegal, Mali and Mauritania, and partly financed by Af.D.B.

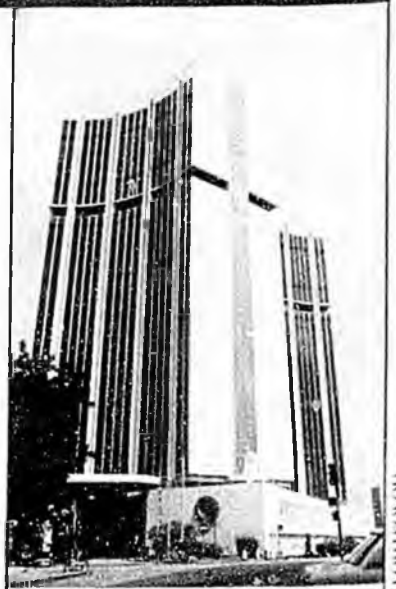
- Under the heading "At last, an alternative to the Mideast," *Business Week* devoted a 1981 cover story to West African oil prospects, and more recently it wrote of "a new tide [there] of offshore investment." It seems that the whole West African coast, from Guinea to Angola,

may contain oil. Congo, Cameroon and Gabon are exporters, the Ivory Coast is very close to self-sufficiency, Nigeria is potentially one of the biggest producers in the world. "Since there is oil in the Ivory Coast and Nigeria, why not also in between?" asks Bihute with a smile. Twa-hirwa adds that Somalia, Ethiopia, Sudan, Egypt, Zambia, Mozambique and Namibia are among other African countries where the international oil companies are spending money—"and one must assume that they spend their money where they think there are good prospects." Executive Director Pierre Moussa notes that in his own country, Chad, "we've known about oil wells since 1968." Back in Paris, an economist at a top French bank suggests that oil potential may be the reason behind France's recent stepping up of its military presence in Chad.

- Some experts contend that an overwhelming preponderance of the world's strategic minerals reserves—Moussa mentions a figure of 72 percent—are to be found in Africa. Cobalt, chrome, manganese, uranium and vanadium are among the vital minerals for which, as the French economist observes, "there are virtually no other sources of surplus supply."

### THE PROMISE OF A MAJOR MARKET

While energy and mineral production and processing represent the greatest potential for foreign investment, food production is Africa's greatest need. When that is met, Africa offers vast promise. "Africa above all constitutes a potential market," says Moussa, and a market which could provide a solution for the surplus



The headquarters of the African Development Bank is located in Abidjan, Ivory Coast. It is one of the highest levels of development in the continent.

MUSSEY/REUTERS



WORLD BANK PHOTO

*African banks can do more to help the continent's economic recovery.*

*These banks are needed to help the continent's economic recovery.*

### Af. D.B. Loans by Sector in 1982 (percentage)

Public Utilities  
27.7

Agriculture  
27.6

Transport  
19.1

Education and Health  
13.5

Industry and Banks  
12.1

\$765.8 million, total

### Af. D.B. Loans by Region in 1982 (percentage)

East Africa  
38.9

West Africa  
28.5

Central Africa  
21.4

North Africa  
11.3

Source: Af. D.B. Annual Report for 1982

industrial capacity problems of the West.

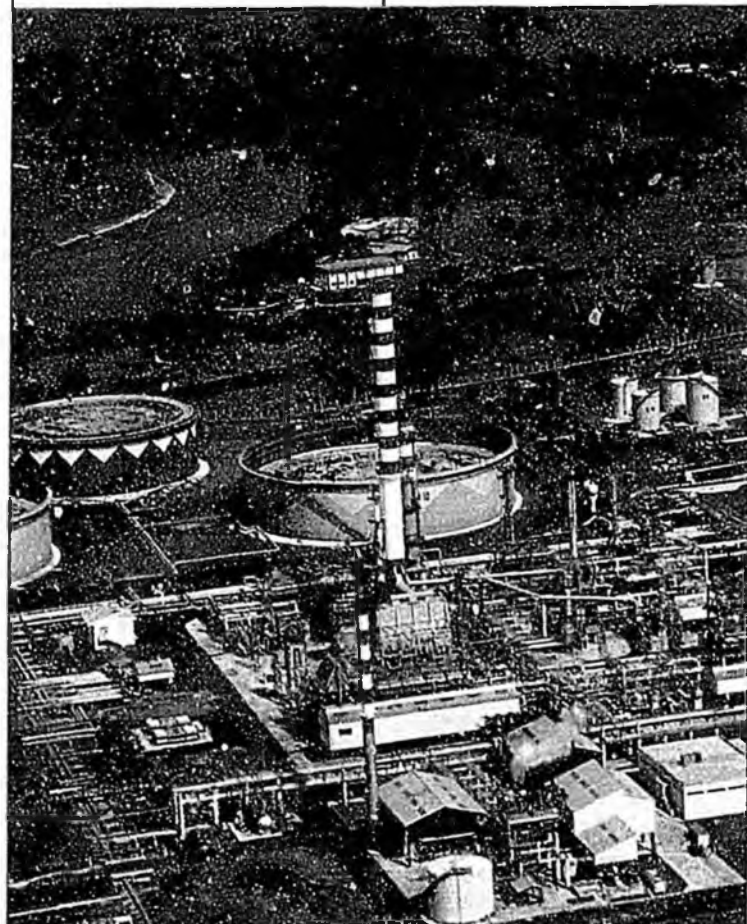
For Africa to realize its potential as a market, however, he and other Af. D.B. officials know that it is essential to build up its human capital, and that is why so much of the Bank's efforts are devoted to agriculture. This, they point out, is plain common sense. "I've had to visit hospitals which have been built with funds from the Bank, and 90 percent of the patients are there because they're suffering from malnutrition," says President Wila Mung "Omba. "If they had had proper meals and a proper diet, the money spent on those hospitals could have gone to other sectors."

The Bank's economists also make the point that many African countries are capable of becoming breadbaskets for the others. "Zaire, Zimbabwe, Sudan, Mozambique and Angola should not only be self-sufficient in food, they should be exporters," says Twahirwa. Many of them can achieve this goal in the period of the Bank's current five-year plan, he maintains.

Twahirwa also advances some facts that suggest the

capacity of the African market, once this primary need for food is satisfied. It is a widespread misconception, he says, that there is a vicious circle of poverty in every nation in Africa: "People say, 'These countries are all very poor, so they have no savings, so they can't invest, so they stay poor.'" This is simply not true, he contends: "Savings rates are surprisingly high, given the low level of per capita incomes." The figures are not totally reliable, he concedes, and the rates, as might be expected, vary widely from country to country—but generally not less than 15 percent.

With some foreign investment to galvanize this latent economic strength, Africa can fulfill its promise more rapidly than most people in the West are aware. The African Development Bank represents an important channel through which foreign investors can take a share in that realization. One New York banker who knows the institution well sums up the situation neatly: "[Investing in] Af. D.B. is a good way to establish a stake in this promising land." ☉



ROBERT ROYAL

## Ivory Coast—a flourishing economy with exceptional promise

“The fact that we’re located in Abidjan, Ivory Coast, is an important factor in the Bank’s favor,” says a senior official of Af.D.B. Location in Abidjan not only places Af.D.B. in a city with good hotels, good services and good communications, it associates the Bank with one of Africa’s most promising economies. BERI (the authoritative Business Environment Risk Information service), which ranks the countries of the world for foreign investors by a series of yardsticks, puts the Ivory Coast in the same grouping as South Korea in terms of potential profit opportunity, and well below such countries as Italy in terms of political risk.

According to an economist at Af.D.B., the Ivory Coast owes its success primarily to the quality of leadership of President Houphouët-Boigny. The open economy and atmosphere created by the president “has attracted capital and expertise,” says the economist. “It’s a process that is self-perpetuating and self-accelerating.”

Among the Ivory Coast’s recent economic achievements:

- With production at 25,000 barrels a day, it is very near self-sufficiency in oil. According to one knowledgeable local observer, the country has the potential to produce its entire 30,000 barrels-a-day need. Still, with oil at present prices, it makes more sense to import the additional 5,000, and leave Ivory Coast reserves in the ground or seabed for the time when prices improve.
- Meanwhile production of electric power has shot up from 225 gigawatt hours (GWH) in 1966 to 1,844 GWH in 1981 (the latest year for which figures are available)—and 90 percent of it is produced from hydroelectric sources. In the development of some of these sources, loans from African Development Bank have played an important part; another Af.D.B. official notes that the Bank is to lend \$40 million toward the construction of a new dam.
- Between 1975 and 1980, tarred road surfaces increased 60 percent, and Ivory Coast added another 386 kilometers in 1981.
- The country has become the largest coffee producer in Africa—and the third largest in the world.

### Responsible programs for continued growth

With all these indications of solid progress, the Ivory Coast has also had its share of problems. The big oil price rises of the 1970s, which took place when the country needed to import much more than it does today, played a part in a sharp increase in prices. The recent world recession has cut deeply into exports of coffee and cocoa—which account for half the Ivory Coast’s export earnings. And the weakness of the French franc has had a severe impact on the country’s debt service costs, because its currency is tied to that of France.

Despite these difficulties, the economy is one of the healthiest on the Continent, says Michel Esnault-Pelterie, a Vice President of Bankers Trust who is the New York institution’s Regional Representative in West and Central Africa. “They have taken measures which were extremely courageous” to cure their economic problems, he says, “such as canceling subsidies and cutting down spending considerably.” While estimates of current inflation vary quite widely, there is general agreement that it is now under double digit—and well under control.

Two signs of outside interest and confidence in Abidjan are the upcoming opening of a new Hilton Hotel and of a new office building by the World Bank. And one sign of the country’s own confidence in itself is up-country—at the new capital, Yamoussoukro, now under construction. Kidder, Peabody Vice Presidents Edward Waters and Melvin Rines, who visited the site in August, returned visibly impressed. For instance, Waters says the new engineering college being built there “will be as good as the finest engineering colleges in the world—including M.I.T.”

*“La Pyramide” in downtown Abidjan, Ivory Coast—soon to be joined by a new Hilton Hotel and World Bank building.*



## Careful planning to finance future growth: An interview with Babacar N'Diaye, Finance Vice President of the African Development Bank



accept very high spreads—1 ¼ percent on our first syndicated loan in 1975.

So we had to work on improving our standing—sometimes we would borrow not so much because we needed the money as because we wanted to get ourselves better known in the markets—and on our most recent floating rate borrowing, the spread was down to ¼ percent.

We also worked on extending our maturities. In 1978 we went to Floating Rate Notes as a bridge between Eurocredits and Eurobonds, and in 1979 we did our first Eurobond issue for 100 million deutschemarks. Since then we've done two more DM issues of bonds, and in April, 1983 we did a bond issue in Austrian schillings.

It's very important to note that this was the first borrowing we've done with the backing of non-regional as well as regional capital. In other words, all our earlier borrowings were made on the strength of the regional capital alone.

**What are the most important differences now that you have allowed in non-regional members and greatly increased your equity both with their contributions and the larger contributions of the regionals?**

We've changed our policies to reflect the facts that we have both greater equity and continuous access to the bond markets. **Which of these markets do you expect to tap over the next year or two?**

At this stage, I would not make definite plans to tap one or another on a set schedule. I'd rather look at each market as and when the opportunities arise.

**In the same way that you did the first bond issue in Kuwaiti dinars in 1977?**

In the sense that we were getting our name known, yes. But in general, this will be a period in which we fix the name of the institution in the different markets, and we'd rather concentrate on the main long-term capital markets—the dollar, the yen, the deutschemark, the Swiss franc, and the Dutch guilder.

**So you haven't any definite plans yet for your entry into the U.S.?**

It is something we are contemplating, but there are a lot of preparations to be made.

Eventually, entry into the U.S. capital market is essential, not only to broaden our supply of funds, but for two other reasons: one is that the U.S. market gives a longer term than other markets; the second is that it gives us greater leverage in the other markets.

**The Asian Development Bank considers that one of its great borrowing strengths is that it has the capital sufficiency not to need to take the maximum amount from any one market at any one time. Do you feel you have the same flexibility?**

For the moment, that is the situation. It could change as we get very much bigger, but we have standby facilities which we can use any time we need instant liquidity. We would fall back on these facilities only if we were unable to arrange fixed term financing at what we regard as reasonable cost.

**According to the Bank's Operational Program for 1982-1986, your borrowing needs over the next three years were likely to**

**W**hat have been the most significant changes in your borrowing strategies?

In the mid-1970s, when we first felt the need to borrow, the Bank had no access to the international bond markets, because the African countries, our sole member countries then, had no access. We could only tap the short-term markets and, because we were then not known at all to international bankers, we had to

be about \$950 million. Is that still the case?

Disbursements run pretty much according to plan, so these numbers are still pretty good.

**If the world economic recovery continues at least through a reasonably long business cycle, would that cause an increase in your borrowings?**

Yes, the world recovery will have an effect on the development process of the Third World, and the acceleration of this development would require the injection of more funds into our borrowing member countries. But the process of change takes time, and it would not increase our borrowing requirements until after the 1982-1986 period.

**Have any particular types of**

**institutions been especially keen buyers of your bonds?**

After the last issue, Girozentrale (the lead managers) made a good analysis of the buyers, and found that they were spread around among all types of institutions. A pleasant aspect of the issue was that it not only got a quick distribution, it also got a wide distribution. Demand was surprisingly strong.

**On that subject of demand, how does the yield on your bonds compare with the yield on the bonds of other regional development banks?**

Right before the U.S. and Japan subscribed, the differential between our yields and those of such banks as the Asian Development Bank and the Inter-American

Development Bank was around 25 to 30 basis points.

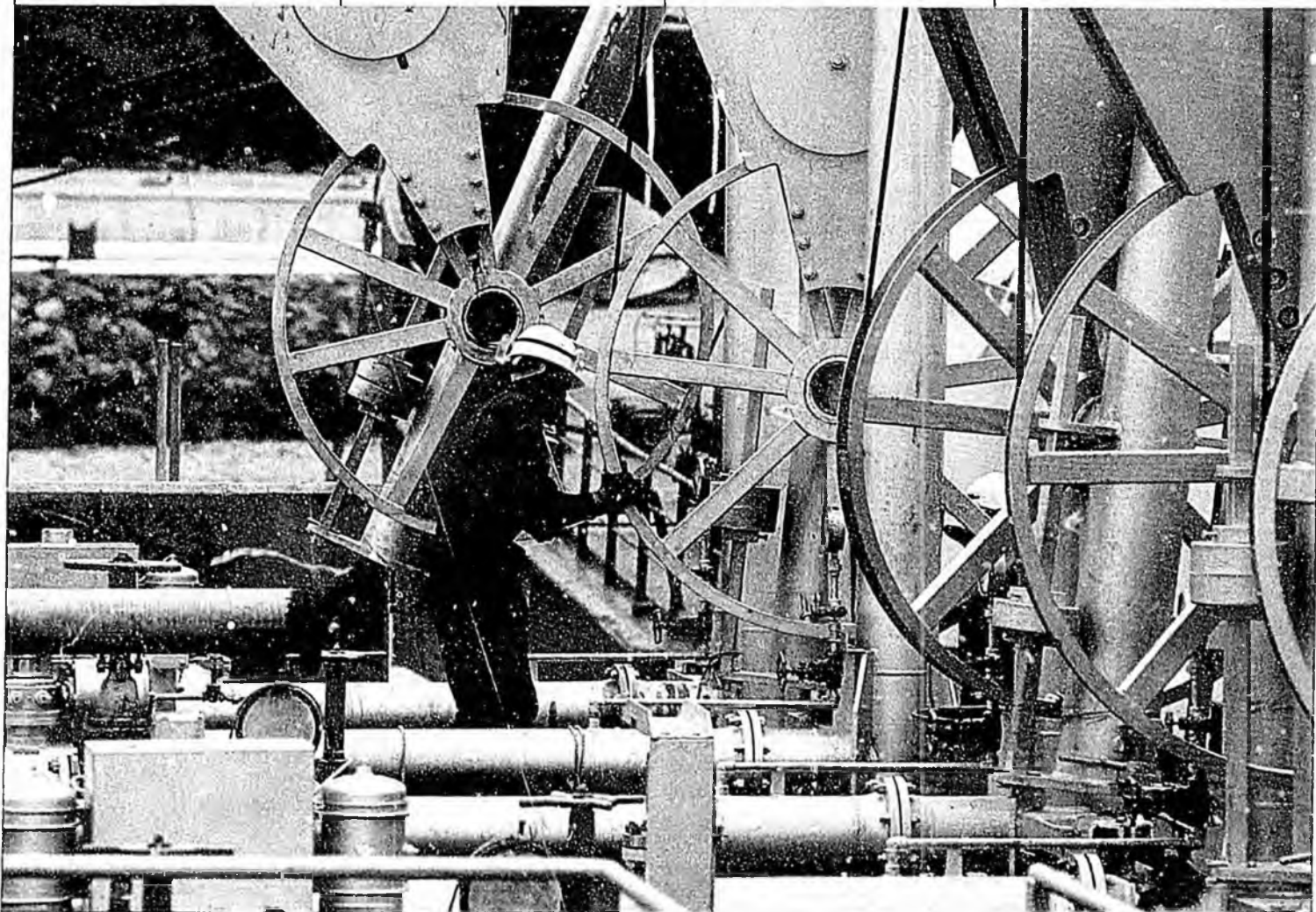
**I gather that represents a considerable narrowing—would you expect it to narrow any farther?**

Now that all the non-regionals are in, my expectation is that the differentials will not only narrow but disappear altogether—at least in the markets where we have made a real penetration.

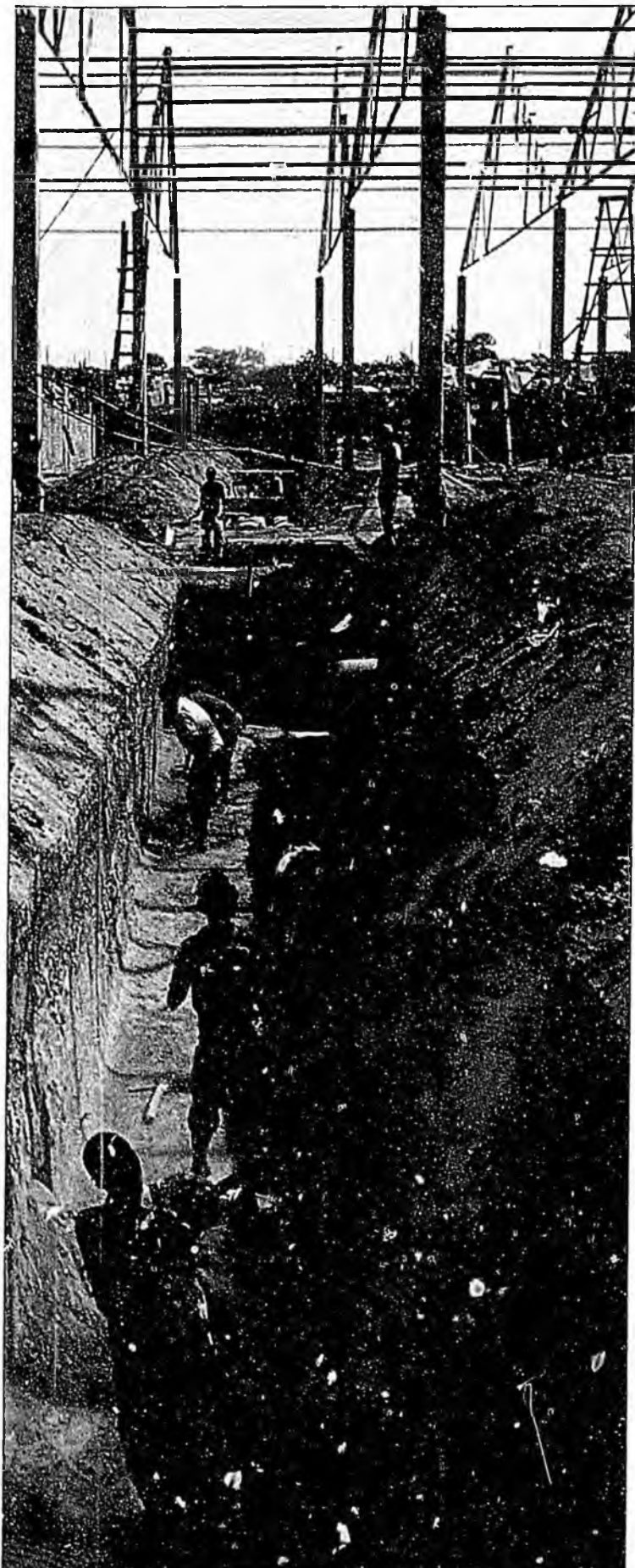
In markets that are new to us, of course, there will always be a spread, which I call the cost of introduction. But at one point recently we were trading in Germany just about on a par with As.D.B. The key point, in any case, is that the differentials are diminishing.

**Going back for a moment to your borrowing in Kuwaiti**

*The Asian Development Bank offers an inviting channel for investment in many energy projects. Another view of the Sonara refinery in Cameroon.*



ROBERT KRYAL



dinars, does the Bank as a representative of Third World borrowers get any especially favorable treatment from the Arab banks or Arab funds?

Not particularly. Arab banks that participate in our loans do so on a strictly commercial basis. The Af.D.B. as such gets no special assistance from any funds. And we have never looked for any, because the African Development Bank has to act strictly as a banking institution, just like the other development banks.

**By comparison with them, the one unfavorable comparison in your operating ratios would appear to be in your operating profit.**

There's a certain logic to this. Until we decided to approach the capital markets, we never considered profit growth important. We kept our interest rates very low on the money we were lending, partly because our funding came from paid-in capital, and partly because, to build our asset portfolio, we needed to get ourselves well known as lenders by our member countries. To do this, we needed to make our loans especially attractive in terms of interest rates.

**More recently, though, you are paying more attention to profitability? For instance, in 1982 you raised your lending rate to 9.5 percent.**

Yes, it is now our policy to get a progressive growth in net income. In line with our Operational Program, we'll have nearly \$300 million in reserves and surplus by the end of 1986.

**Could you summarize what you**

**see as the strongest features, from an investor's viewpoint, of your operating procedures and ratios?**

It is most important that, if you analyze our liquidity against our disbursements, you can see that we have never made loans out of floating rate funds: all our loans have been made on the basis of our equity or of fixed-term borrowings.

Then of course, there is the structure of the balance sheet of the Bank, with 25 percent of the equity actually paid in, and the low ratio of indebtedness of both equity and total capitalization. These features have been analyzed in depth by independent outsiders, and I'd rather investors studied their conclusions than my own.

**What are the features of the Bank, though, that you personally emphasize, when you talk to lenders and investors?**

First that they should realize that this Bank operates as does any other well-run bank—that is, on normal sound banking principles.

Second, I underline the effectiveness of the support of our member countries, because the effectiveness of their support underlines their commitment.

This is reflected in their responses to the Bank's increases in capital, which prove their determination to back the institution [in the most concrete manner] through the subscriptions of the African countries alone—our capital was originally \$250 million, and by 1982 we had raised it to more than \$3 billion. ©



# AFRICAN DEVELOPMENT BANK



Conservative, successful, poised for expansion

S.B./H.B. \_\_\_\_\_

Offered \_\_\_\_\_ (Date) \_\_\_\_\_

By Senator/Representative \_\_\_\_\_

A Bill to amend Alaska Statutes §§06.05.270(a)(9) and 21.21, providing for certain investments in obligations of the African Development Bank.

BE IT ENACTED BY THE ALASKA LEGISLATURE THAT THE ALASKA STATUTES BE AMENDED AS FOLLOWS:

Section 1: Alaska Statutes §06.05.270(a)(9) is amended as follows:

"(9) obligations of the International Bank for Reconstruction or the Interamerican Development Bank or the African Development Bank subject to the limitation of (b) of this section."

Section 2: Alaska Statutes §21.21 is amended to add new section 340, as follows:

"**Sec. 21.21.340 African Development Bank.** An insurer may invest in obligations issued, assumed or guaranteed by the African Development Bank."

Section 3: This legislation shall take effect immediately upon passage.

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Writer's Direct Dial Number

202-857-6434

January 17, 1984

Mr. Willis F. Kirkpatrick  
Director  
State of Alaska  
Department of Commerce and Economic Development  
Pouch D  
Juneau, Alaska 99811

Re: Legislative Qualification of African Development  
Bank Securities for Investment by Alaska  
State-Regulated Institutional Investors

Dear Mr. Kirkpatrick:

I am writing in response to your letter of September 16, 1983 to Secretary of the Treasury Regan concerning the African Development Bank.

Our firm has been retained by the African Development Bank ("the Bank") to represent it in its efforts to obtain legislation in Alaska which would permit various state-regulated institutional investors to purchase the securities of the Bank. I would like to ask your support and assistance in helping to introduce and pass appropriate legislation to help the African Development Bank qualify its securities in Alaska. The needed bill would simply give the African Development Bank the same opportunity to sell securities in Alaska that the other international development banks already enjoy.

BACKGROUND

The United States recently became a member of the African Development Bank, a regional international financial institution established in 1964. The Bank's current membership consists of nearly all countries in Africa (with the exception of South Africa), together with nonregional member governments, largely from Europe, Japan and Canada.

Mr. Willis F. Kirkpatrick  
January 17, 1984 .  
Page Two

As was the case for the International Bank for Reconstruction and Development (the World Bank), the Inter-American Development Bank, and the Asian Development Bank, legislation will be required to authorize institutional investors in Alaska and other states to invest in securities issued by the African Development Bank. Such legislation has already been passed in New York and Illinois.

The Bank makes loans at near-market rates to member countries. These loans in the main support agricultural development and basic infrastructure projects in the recipient African countries.

In 1981 Congress enacted and President Reagan signed into law a bill (Public Law 97-35) authorizing United States participation in the Bank. Approximately \$360 million has been appropriated for the initial U.S. stock subscription. Twenty-five percent (\$89.93 million) of the U.S. subscription would be paid in and seventy-five percent (\$259.8 million) would be callable.

The African Development Bank plays perhaps the leading role in fostering economic cooperation in Sub-Saharan Africa, an area of increasing economic significance for the United States. This cooperative effort among Black African countries serves as the only pan-African institution still in existence. U.S. participation in the Bank will be of critical importance in our attempts to enhance and consolidate our relationships with the nations of this region.

As with other multilateral development banks, the African Development Bank raises its lending resources primarily on the international capital markets. The issuance and marketing of securities in the United States is governed by both federal and state law. As noted above the federal government has already acted to permit federally-chartered financial institutions to invest in the securities of the Bank. We must now seek appropriate legislation at the state level.

#### PROPOSED LEGISLATIVE CHANGES

With respect to Alaska, I outline below for your review those laws which govern the investment authority of state investors. The needed legislative changes are not

Mr. Willis F. Kirkpatrick  
January 17, 1984 .  
Page Three

complicated and in general require only the addition of the name "African Development Bank" to existing statutes. All references and citations are to Alaska Statutes (A.S.).

#### I. Commercial Banks

State commercial banks will need specific authority to invest in African Development Bank securities. Alaska Statutes § 06.05.270.(a)(9) will have to be amended to add the African Development Bank to the list of approved international development bank obligations which now includes those of the International Bank for Reconstruction and Development and Inter-American Development Bank.

#### II. Insurance Companies

Domestic insurers will require specific authorization to invest in African Development Bank securities. The following amendment will be necessary to A.S. § 21.21:

Sec. 21.21. . African Development Bank. An insurer may invest in obligations issued, assumed or guaranteed by the African Development Bank.

(Investment in the obligations of the International Bank for Reconstruction and Development and the Inter-American Development Bank are authorized at A.S. §§ 21.21.120 and 21.21.130, respectively.)

A.S. § 21.21.25 authorizes investments "not otherwise expressly permitted," provided they qualify as "sound" investments and meet other conditions.

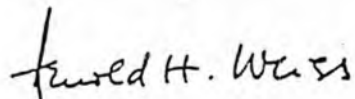
As the above outline indicates, only two provisions of existing Alaska law will need to be amended in order to qualify fully the securities of the African Development Bank. Similar legislation has already been adopted in New York and Illinois and has been proposed in a number of other states.

I would appreciate the opportunity to discuss this legislative proposal further with you or your staff. My colleague, George Lehner, and I would be happy to review with you in detail any questions you may have with regard to this matter. Mr. Lehner can be reached at 202-857-6232.

Mr. Willis F. Kirkpatrick  
January 17, 1984.  
Page Four

Enclosed for your review is a copy of the White House press statement issued on February 8, 1983 marking the occasion of the formal acceptance of the U.S. in the African Development Bank and a reprint from "Institutional Investor" on the Bank.

Sincerely yours,

  
Arnold H. Weiss

Enclosures



THE SECRETARY OF THE TREASURY  
WASHINGTON

August 12, 1983

Dear Governor Sheffield:

I am writing you in support of the African Development Bank's efforts to obtain the qualification of its obligations in the State of Alaska for investment by certain institutions.

The African Development Bank was established as a multi-lateral development bank in 1963 to foster economic and social development of its African members individually and through regional cooperation. In addition to fifty African countries, the Bank's membership now includes the United States and 16 other non-regional countries (primarily the countries of Western Europe and Japan). The African Development Bank is patterned after the International Bank for Reconstruction and Development (the World Bank) and the Inter-American Development Bank. Like them and the Asian Development Bank, the African Development Bank has been making extensive use of capital markets throughout the world to obtain resources for its development lending activities.

I would appreciate your state taking the necessary steps to have the African Development Bank receive at least as favorable treatment under the laws of Alaska as is currently accorded to one or more of the other multilateral development banks with respect to the qualification of its securities for purchase by certain institutions in your state (see the enclosed excerpts from Alaska's statutes). New York and Illinois have already acted to accord such treatment to the African Development Bank. I anticipate that the Bank, through its legal counsel, will be in touch with you to present detailed proposals.

Sincerely,

Donald T. Regan

The Honorable  
Bill Sheffield  
Governor of Alaska  
Juneau, Alaska 99811

Enclosures

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF COMMERCE &  
ECONOMIC DEVELOPMENT

POUCH D  
JUNEAU, ALASKA 99811  
PHONE: 465-2521

DIVISION OF BANKING, SECURITIES, SMALL LOANS & CORPORATIONS

March 5, 1984

Mr. Arnold H. Weiss  
Arent, Fox, Kintner, Plotkin  
and Kahn  
1050 Connecticut Ave., N.W.  
Washington, D.C. 20036-5339

Dear Mr. Weiss:

Re: African Development Bank

Please excuse the somewhat tardy answering of your letter of January 17, 1984. I have reviewed your letter and the enclosures with interest. The suitability of the bank's securities as an investment appears to be sound. I would, therefore, pose no objection to the State's financial institutions being able to purchase them.

Our present statutes, however, do not allow for investment in the African Development Bank. It will, therefore, be necessary to introduce the appropriate legislation to enable them to specifically invest in securities offered. It will be necessary for you to introduce the legislation in our Legislature. We shall be glad to testify in favor of such legislation.

I hope I have answered all your questions. If I may be of further assistance, please feel free to call on me at any time.

Sincerely,

  
Willis F. Kirkpatrick  
Director

WFK/mst1/5  
030584a

# STATE OF ALASKA

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF BANKING, SECURITIES, SMALL LOANS & CORPORATIONS

83-14996

BILL SHEFFIELD, GOVERNOR

POUCH D  
JUNEAU, ALASKA 99811  
PHONE: 455-2521

September 16, 1983

Mr. Donald T. Regan  
Secretary of the Treasury  
Department of Treasury  
15th Street & Pennsylvania Avenue  
Washington, D.C. 20220

Dear Mr. Regan:

Re: African Development Bank

Your letter has been passed on to me for an answer. Please excuse the delay in answering regarding the subject dated August 12, 1983. Some amount of research was, however, in order. We do not, at the present time, have a firm policy regarding the subject. We have the matter under investigation and advisement. We will probably not finalize until we hear from the bank's legal counsel.

If I may be of further assistance, please feel free to call on me at any time.

Sincerely,



Willis F. Kirkpatrick  
Director

WFK/cw#25511  
91683A

For Immediate Release

February 2, 1983

## United States Joins African Development Bank

FACT SHEET

President Reagan today signed the necessary documentation accepting United States membership in the African Development Bank.

In 1972, non-regional countries joined Bank members in establishing the African Development Fund to provide concessional financing to the poorest African countries. In 1979, the Governors of the Bank extended the offer of membership to the United States and other non-regional countries.

In 1981, Congress authorized both U.S. membership in the African Development Bank and a U.S. subscription of \$359.7 million of Bank capital. Also in 1981, the first installment (\$17.99 million of paid-in capital and \$53.96 million of callable capital) was enacted by the Congress. Four additional installments with identical amounts for paid-in and callable capital subscriptions will be sought in the FY 1984-1987 period.

United States membership in the African Development Bank reflects this country's growing economic and security interests in this important region, and our desire to cooperate in a constructive multilateral effort to help the countries of Africa overcome their very serious development problems.

Background on the African Development Bank

The African Development Bank, with headquarters in Abidjan in the Ivory Coast, was established in 1963, by 30 African countries to make loans on near-market terms to promote economic and social development in member countries individually and through regional cooperation. Under the terms of the original Articles of Agreement, membership was restricted to independent African countries. There are currently 50 African member countries. In 1972, Bank members joined with non-regional countries to establish the African Development Fund to provide financing on concessional terms to the poorest African countries. The United States became a member of the Fund in 1976.

The Bank finances its loan operations primarily from the paid-in capital subscriptions of member countries and funds raised through borrowings or guarantees in international capital markets. Lending operations totaled \$1,663 million as of year-end 1981, with lending concentrated in public utilities (32 percent), industry and development banks (25 percent), transport (24 percent) and agriculture (17 percent).

Although Bank resources have increased significantly, the absence of industrial countries severely limited the Bank's access to world capital markets. In May 1979, the Governors of the African Development Bank agreed, subject to the necessary ratification by member governments, to invite non-African countries to join the Bank. Twenty-one non-regional countries subsequently agreed to subscribe a total of \$1.1 billion to the Bank, 25 percent in paid-in capital and 75 percent in callable capital. The United States share of the non-regional subscription is 17.04 percent, i.e., \$89.93 million in paid-in capital and \$269.80 million in callable capital.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

February 8, 1983

EXECUTIVE ORDER

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AFRICAN DEVELOPMENT BANK

By the authority vested in me as President by the Constitution and statutes of the United States of America, including Section 1 of the International Organizations Immunities Act (22 U.S.C. 288), Reorganization Plan No. 4 of 1965, and the African Development Bank Act (22 U.S.C. 290i), and in order to facilitate United States participation in the African Development Bank, it is hereby ordered as follows:

Section 1. The African Development Bank, in which the United States participates pursuant to Sections 1332-1342 of Public Law 97-35 and the Agreement Establishing the African Development Bank, is hereby designated as a public international organization entitled to enjoy the privileges, exemptions, and immunities conferred by the International Organizations Immunities Act. This designation is not intended to abridge in any respect the privileges and immunities which such organization has acquired or may acquire by treaty or Congressional action. This designation shall not affect in any way the applicability of Section 1 of Article 52 of the Agreement, Article 57 of such Agreement or the Declaration made by the United States pursuant to Article 64 of the Agreement.

Sec. 2. Executive Order No. 11269, as amended, is further amended by deleting "and African Development Fund" and adding ", African Development Fund, and African Development Bank" in Sections 2(c), 3(d) and 7, respectively.

Sec 3. The functions vested in the President by Sections 1333(c), 1334, 1338(a) and 1341(b) of Public Law 97-35 (22 U.S.C. 290i-1(c), 290i-2, 290i-6(a), and 290i-9(b)) are delegated to the Secretary of the Treasury.

RONALD REAGAN

THE WHITE HOUSE,  
February 8, 1983.

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

February 8, 1983

TEXT OF A LETTER FROM THE  
PRESIDENT TO THE PRESIDENT OF THE  
AFRICAN DEVELOPMENT BANK

February 8, 1983

Dear Mr. President:

On behalf of the United States of America, it gives me great pleasure to accept membership in the African Development Bank in accordance with Board of Governors resolutions 05-79, 06-79, and 07-79.

In accepting membership, I also wish to inform you of the following:

1. The United States of America has completed all steps necessary in accordance with its laws and is prepared to fulfill all the obligations of membership under the Agreement Establishing the Bank.

2. On January 31, 1983, a duly authorized representative of the United States of America signed the Agreement Establishing the Bank and deposited our instrument of acceptance with the United Nations.

3. The United States of America hereby subscribes to 1,491 shares of the paid-up capital stock of the African Development Bank ("Bank"), and 4,473 shares of the callable capital stock of the Bank (inasmuch as pertinent budgetary appropriations have already been obtained); and subscribes, subject to obtaining budgetary appropriations, to an additional 5,964 shares of the paid-up capital stock of the Bank and an additional 17,892 shares of the callable capital stock of the Bank in accordance with the provisions of the General Rules Governing Admission of Nonregional Countries to Membership in the Bank.

4. I have nominated Donald T. Regan, Secretary of the Treasury, to be Governor of the Bank and W. Allen Wallis, Under Secretary of State for Economic Affairs, to be Alternate Governor of the Bank. The Senate is now in the process of confirming those nominations. We will notify you when they have been confirmed.

5. Pursuant to Article 40 of the Agreement Establishing the African Development Bank, the United States of America designates the Department of the Treasury for purposes of communication with the Bank on matters connected with the Agreement.

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and the Federal Reserve Bank of New York as the depository in which the Bank may keep its holdings of the currency of the United States of America or other assets.

6. The United States of America has fulfilled all the legal requirements necessary to make the subscription to the capital stock and to assure that the currency received by the Bank thereunder shall be freely convertible into the currencies of other countries for the purposes of the Bank's operations.

Sincerely,

RONALD REAGAN

Mr. Wila Mung'Omba  
President  
African Development Bank  
Abidjan, Ivory Coast

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

February 8, 1983

REMARKS OF THE PRESIDENT  
IN CEREMONY MARKING U.S. MEMBERSHIP  
IN AFRICAN DEVELOPMENT BANK

The State Dining Room

1:51 P.M. EST

THE PRESIDENT: Your Excellencies, President Mung 'Cmba, Secretary Regan and members of the Congress and distinguished guests, one of the great pleasures of this office is that I often have a chance to do something unabashedly positive in nature. And I'm pleased to say that what we're about to do offers such an opportunity.

Today we mark the new American partnership, as I'm sure Secretary Regan has told you, with the people of Africa through our acceptance of membership in the African Development Bank.

We take the step purposefully and by it we underscore our commitment to African growth.

The United States has always taken a farsighted view to assist the growth of developing nations. At the Cancun Summit in October of '81, the United States laid out a broad-based program of trade, investment and aid to meet the diverse needs of the developing countries. Last year, we put this approach into practice in our Caribbean Basin Initiative for the developing countries of the Caribbean and Central America. And with this step today, the United States reaches out to its developing nation partners in Africa.

The United States and the African Development Bank are not new friends by any means. Since '68, the United States has provided technical assistance to the bank through the Agency of International Development. And since '76, we've channeled part of our development assistance to Africa through the bank's affiliates -- or affiliates, I should say, of the African Development Fund.

And now, by opening its membership to the non-African countries, the African Development Bank has given us the opportunity for even closer cooperation. I'm happy to say we accept the invitation and stand ready to do our share.

We're painfully aware that Africa's economic development is encountering difficult obstacles. As the leader in the cause of the progress, the African Development Bank group along with other assistance organizations must strive for more effective use of the limited development funds.

The African governments who carry the heaviest responsibility for their own domestic economy -- or economic conditions

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