



LAWS OF ALASKA

1970

Source

Chapter No.

HB 782 am

121

AN ACT

Relating to guaranteeing certain insurance contracts.

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

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

CHAPTER 80. ALASKA INSURANCE GUARANTY ASSOCIATION ACT.

Sec. 21.80.010. PURPOSE. The purpose of this chapter is to provide a mechanism for the payment of covered claims under certain insurance policies to avoid excessive delay in payment and to avoid financial loss to claimants or policyholders because of the insolvency of an insurer, to assist in the detection and prevention of insurer insolvencies, and to provide an association to assess the cost of this protection among insurers.

Sec. 21.80.020. SCOPE. This chapter applies to all kinds of direct insurance, except life, title, surety, disability, credit, mortgage guaranty, and ocean marine insurance.

Sec. 21.80.030. CONSTRUCTION. This chapter shall be liberally construed to effect the purpose under sec. 10 of this chapter which constitute an aid and guide to interpretation.

Sec. 21.80.040. CREATION OF ASSOCIATION. There is created a nonprofit incorporated legal entity to be known as the Alaska Insurance Guaranty Association. All insurers defined as member insurers in sec. 180(6) of this chapter shall be and remain members of the association as a condition of their authority to transact insurance in this state. The association shall perform its functions under a plan of

operation established and approved under sec. 70 of this chapter and shall exercise its powers through a board of directors established under sec. 50 of this chapter. For purposes of administration and assessment, the association shall be divided into three separate accounts: the workmen's compensation insurance account; the automobile insurance account; and the account for all other insurance to which this chapter applies.

Sec. 21.80.050. BOARD OF DIRECTORS. (a) The board of directors of the association shall consist of not less than five nor more than nine persons serving terms as established in the plan of operation. The members of the board shall be selected by member insurers subject to the approval of the commissioner. Vacancies of the board shall be filled for the remaining period of the term in the same manner as initial appointments. If no members are selected within 60 days after the effective date of this chapter, the commissioner may appoint the initial members of the board of directors.

(b) In approving selections to the board, the commissioner shall consider among other things whether all member insurers are fairly represented.

(c) Members of the board may be reimbursed from the assets of the association for expenses incurred by them as members of the board of directors.

Sec. 21.80.060. POWERS AND DUTIES OF THE ASSOCIATION.

(a) The association shall

(1) be obligated to the extent of the covered claims existing before the determination of insolvency and arising within 30 days after the determination of insolvency, or before the policy expiration date if less than 30 days after the determination, or before the insured replaces the policy or causes its cancellation, if he does so within 30 days of the determination, but this obligation shall include only that amount of each covered claim which is in excess of \$100 and is less than \$300,000, except that the association shall pay the full amount of any covered claim arising out of a workmen's compensation policy; in no event shall the association be obligated to a policyholder or claimant in an amount in excess of the obligation of the insolvent insurer under the policy from which the claim arises;

(2) be considered the insurer to the extent of its obligation on the covered claims and to that extent shall have all rights, duties, and obligations of the insolvent insurer as if the insurer had not become insolvent;

(3) allocate claims paid and expenses incurred among the three accounts separately, and assess member insurers separately for each account amounts necessary to pay the obligation of the association under (a)(1) of this section subsequent to an insolvency, the expenses of handling covered claims subsequent to an insolvency, the cost of examinations under sec. 110 of this chapter and other expenses authorized by this chapter; the assessments of each member insurer shall be in the proportion that the

net direct written premiums of the member insurer for the preceding calendar year on the kinds of insurance in the account bears to the net direct written premiums of all member insurers for the preceding calendar year on the kinds of insurance in the account; each member insurer shall be notified of the assessment not later than 30 days before it is due; no member insurer may be assessed in any year on any account an amount greater than two per cent of the member insurer's net direct written premiums for the preceding calendar year on the kinds of insurance in the account; if the maximum assessment, together with the other assets of the association in any account, does not provide in any one year in any account an amount sufficient to make all necessary payments from that account, the funds available shall be prorated and the unpaid portion shall be paid as soon thereafter as funds become available; the association may exempt or defer, in whole or in part, the assessment of any member insurer, if the assessment would cause the member insurer's financial statement to reflect amounts of capital or surplus less than the minimum amounts required for a certificate of authority by any jurisdiction in which the member insurer is authorized to transact insurance; each member insurer may set off against an assessment, authorized payments made on covered claims and expenses incurred in the payment of these claims by the member insurer if they are chargeable to the account for which the assessment is made;

(4) investigate claims brought against the association and adjust, compromise, settle and pay covered claims to the extent of the association's obligation and deny all other claims and may review settlements, releases and judgments to which the insolvent insurer or its insureds were parties to determine the extent to which settlements, releases and judgments may be properly contested;

(5) notify persons as the commissioner directs under sec. 80(b)(1) of this chapter;

(6) handle claims through its employees or through one or more insurers or other persons designated as servicing facilities; designation of a servicing facility is subject to the approval of the commissioner, but designation may be declined by a member insurer;

(7) reimburse each servicing facility for obligations of the association paid by the facility and for expenses incurred by the facility while handling claims on behalf of the association and shall pay the other expenses of the association authorized by this chapter.

(b) The association may

(1) employ or retain those persons necessary to handle claims and perform other duties of the association;

(2) borrow funds necessary to effect the purposes of this chapter in accord with the plan of operation;

(3) sue or be sued;

(4) negotiate and become a party to those contracts as are necessary to carry out the purposes of this

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chapter;

(5) perform all other acts necessary or proper to effectuate the purposes of this chapter;

(6) refund to the member insurers in proportion to the contribution of each member insurer to that account that amount by which the assets of the account exceed the liabilities if, at the end of any calendar year, the board of directors finds that the assets of the association in any account exceed the liabilities of that account as estimated by the board of directors for the coming year;

(7) appear in, defend, and appeal any action on a claim brought against the association.

Sec. 21.80.070. PLAN OF OPERATION. (a) The association shall submit to the commissioner a plan of operation and any amendments necessary or suitable to assure the fair, reasonable, and equitable administration of the association. The plan of operation and amendments shall become effective upon approval in writing by the commissioner. If the association fails to submit a suitable plan of operation within 90 days following the effective date of this chapter or if at any subsequent time the association fails to submit suitable amendments to the plan, the commissioner shall, after notice and hearing, adopt and promulgate reasonable rules necessary or advisable to effectuate the provisions of this chapter. These rules shall continue in force until modified by the commissioner or superseded by a plan submitted by the association and approved by the commissioner.

(b) All member insurers shall comply with the plan of operation.

(c) The plan of operation shall

(1) establish the procedures whereby all the powers and duties of the association under sec. 60 of this chapter will be performed;

(2) establish procedures for handling assets of the association;

(3) establish the amount and method of reimbursing members of the board of directors under sec. 50 of this chapter;

(4) establish procedures by which claims may be filed with the association and establish acceptable forms of proof of covered claims; notice of claims to the receiver or liquidator of the insolvent insurer shall be considered notice to the association or its agent and a list of these claims shall be periodically submitted to the association or similar organization in another state by the receiver or liquidator;

(5) establish regular places and times for meetings of the board of directors;

(6) establish procedures for records to be kept of all financial transactions of the association, its agents, and the board of directors;

(7) provide that any member insurer aggrieved by a final action or decision of the association may appeal to the commissioner within 30 days after the action or decision;

(8) establish the procedures whereby selections for the board of directors will be submitted to the commissioner;

(9) contain additional provisions necessary or proper for the execution of the powers and duties of the association.

(d) The plan of operation may provide that any or all powers and duties of the association, except those under secs. 60(a)(3) and 60(b)(2) are delegated to a corporation, association, or other organization which performs or will perform functions similar to those of this association, or its equivalent, in two or more states. Such a corporation, association or organization shall be reimbursed as a servicing facility would be reimbursed and shall be paid for its performance of any other functions of the association. A delegation under this subsection shall take effect only with the approval of both the board of directors and the commissioner, and may be made only to a corporation, association, or organization which extends protection not substantially less favorable and effective than that provided by this chapter.

Sec. 21.80.080. DUTIES AND POWERS OF THE COMMISSIONER.

(a) The commissioner shall

(1) notify the association of the existence of an insolvent insurer no later than three days after he receives notice of the determination of the insolvency;

(2) upon request of the board of directors, provide the association with a statement of the net direct written premiums of each member insurer.

(b) The commissioner may

(1) require that the association notify the insureds of the insolvent insurer and any other interested parties of the determination of insolvency and of their rights under this chapter; this notification shall be by mail at their last known address, when available, but if sufficient information for notification by mail is not available, notice by publication in a newspaper of general circulation shall be sufficient;

(2) suspend or revoke, after notice and hearing, the certificate of authority to transact insurance in this state of any member insurer which fails to pay an assessment when due or fails to comply with the plan of operation; as an alternative, the commissioner may levy a fine on any member insurer which fails to pay an assessment when due; this fine may not exceed five per cent of the unpaid assessment per month, except that no fine may be less than \$100 a month;

(3) revoke the designation of any servicing facility if he finds claims are being handled unsatisfactorily.

Sec. 21.80.090. EFFECT OF PAID CLAIMS. (a) A person recovering under this chapter shall be considered to have assigned his rights under the policy to the association to the extent of his recovery from the association. Every insured or claimant seeking the protection of this chapter shall cooperate with the association to the same extent as the person would have been required to cooperate with the insolvent insurer. The association shall have no cause of action against the insured of the insolvent insurer for any sums it has paid out except those causes of action as the insolvent insurer would have had if the sums had been paid by the insolvent insurer. In the case of an insolvent insurer operating on a plan with assessment liability, payments of claims of the association shall not operate to reduce the liability of insured to the receiver, liquidator, or statutory successor for unpaid assessments.

(b) The receiver, liquidator, or statutory successor of an insolvent insurer shall be bound by settlements of covered claims by the association or a similar organization in another state. The court having jurisdiction shall grant these claims priority equal to that which the claimant would have been entitled in the absence of this chapter against the assets of the insolvent insurer. The expenses of the association or similar organization in handling claims shall be accorded the same priority as the liquidator's expenses.

(c) The association shall periodically file with the receiver or liquidator of the insolvent insurer statements of the covered claims paid by the association and estimates of anticipated claims on the association which shall preserve the rights of the association against the assets of the insolvent insurer.

Sec. 21.80.100. NONDUPLICATION OF RECOVERY. (a) A person having a claim against an insurer under a provision in an insurance policy other than a policy of an insolvent insurer which is also a covered claim, shall be required to exhaust first his right under the policy. Any amount payable on a covered claim under this chapter shall be reduced by the amount of recovery under the insurance policy.

(b) A person having a claim which may be recovered under more than one insurance guaranty association or its equivalent shall seek recovery first from the association of the place of residence of the insured except that if it is a first party claim for damage to property with a permanent location, he shall seek recovery first from the association of the location of the property, and if it is a workmen's compensation claim, he shall seek recovery first from the association of the residence of the claimant. A recovery under this chapter shall be reduced by the amount of recovery from any other insurance guaranty association or its equivalent.

Sec. 21.80.110. PREVENTION AND DETECTION OF INSOLVENCIES. (a) It is the duty of the board of directors, upon majority vote, to notify the commissioner of information indicating that a member insurer may be insolvent or in a financial condition hazardous to the policyholders or the public.

(b) The board of directors may, upon majority vote, request that the commissioner order an examination of a member insurer which the board in good faith believes may be in a financial condition hazardous to the policyholders or the public. Within 30 days of the receipt of the request, the commissioner shall begin the examination. The examination may be conducted as a National Association of Insurance Commissioners Examination or may be conducted by those persons the commissioner designates. The cost of the examination shall be paid by the association and the examination report shall be treated as are other examination reports. In no event may the examination report be released to the board of directors before its release to the public, but this does not preclude the commissioner from complying with (c) of this section. The commissioner shall notify the board of directors when the examination is completed. The request for an examination shall be kept on file by the commissioner but it shall not be open to public inspection before the release of the examination report to the public.

(c) It is the duty of the commissioner to report to the board of directors when he has reasonable cause to believe that a member insurer examined or being examined at the request of the board of directors may be insolvent or in a financial condition hazardous to the policyholders or the public.

(d) The board of directors may, upon majority vote, make reports and recommendations to the commissioner upon any matter germane to the solvency, liquidation, rehabilitation or conservation of a member insurer. These reports and recommendations shall not be considered public documents.

(e) The board of directors may, upon majority vote, make recommendations to the commissioner for the detection and prevention of insurer insolvencies.

(f) The board of directors shall, at the conclusion of an insurer insolvency in which the association was obligated to pay covered claims, prepare a report on the history and causes of the insolvency, based on the information available to the association, and submit this report to the commissioner.

Sec. 21.80.120. EXAMINATION OF THE ASSOCIATION. The association shall be subject to examination and regulation by the commissioner. The board of directors shall submit, not later than March 30 of each year, a financial report for the preceding calendar year in a form approved by the commissioner.

Sec. 21.80.130. TAX EXEMPTION. The association shall be exempt from payment of all fees and all taxes levied by the state or any of its subdivisions except taxes levied on real or personal property.

Sec. 21.80.140. RECOGNITION OF ASSESSMENTS IN RATES. The rates and premiums charged for insurance policies to which this chapter applies shall include amounts sufficient to recoup a sum equal to the amounts paid to the association by the member insurer less any amounts returned to

the member insurer by the association and these rates shall not be considered excessive because they contain an amount reasonably calculated to recoup assessments paid by the member insurer.

Sec. 21.80.150. IMMUNITY. There shall be no liability on the part of and no cause of action of any nature may arise against a member insurer, the association or its agents or employees, the board of directors, or the commissioner or his representatives for action taken by them in the performance of their powers and duties under this chapter. However, this immunity from liability does not apply to wilful or wanton misconduct.

Sec. 21.80.160. STAY OF PROCEEDINGS AND REOPENING OF DEFAULT JUDGMENTS. All proceedings in which the insolvent insurer is a party or is obligated to defend a party in a court in this state shall be stayed for 60 days from the date the insolvency is determined to permit proper defense by the association for all pending causes of action as to any covered claims arising from a judgment under a decision, verdict or finding based on the default of the insolvent insurer or its failure to defend an insured. The association either on its own behalf or on behalf of the insured may apply to have this judgment, order, decision, verdict or finding set aside by the same court or administrator that made the judgment, order, decision, verdict or finding and shall be permitted to defend against the claim on the merits.

Sec. 21.80.170. TERMINATION AND DISTRIBUTION OF FUNDS. (a) The commissioner shall by order terminate the operation of the Alaska Insurance Guaranty Association as to any kind of insurance covered by this chapter with respect to which he has found, after hearing, that there is in effect a statutory or voluntary plan which

(1) is a permanent plan which is adequately funded or for which adequate funding is provided; and

(2) extends, or will extend to the Alaska policyholders and residents protection and benefits with respect to insolvent insurers not substantially less favorable and effective to the policyholders and residents than the protection and benefits provided with respect to the kinds of insurance under this chapter.

(b) The commissioner shall by the same order authorize discontinuance of future payments by insurers to the Alaska Insurance Guaranty Association with respect to the same kinds of insurance so long as the assessments and payments continue, as necessary, to liquidate covered claims of insurers adjudged insolvent before the order and the related expenses not covered by the other plan.

(c) If the operation of the Alaska Insurance Guaranty Association is terminated as to all kinds of insurance otherwise within its scope, the association, as soon as possible thereafter, shall distribute the balance of money and assets remaining (after discharge of the functions of the association with respect to prior insurer insolvencies not covered by the other plan, together with related expenses) to the insurers which are then writing in this

state policies of the kinds of insurance covered by this chapter and which had made payments to the association, pro rata upon the basis of the aggregate of the payments made by the respective insurers during the period of five years next preceding the date of the termination order. Upon completion of this distribution with respect to all of the kinds of insurance covered by this chapter, this chapter shall be considered to have expired.

Sec. 21.80.180. DEFINITIONS. In this chapter, unless the context requires otherwise,

(1) "account" means any one of the three accounts created by sec. 40 of this chapter;

(2) "association" means the Alaska Insurance Guaranty Association;

(3) "commissioner" means the commissioner of the Department of Commerce or his representative;

(4) "covered claim" means an unpaid claim, including one of unearned premiums, which arises out of and is within the coverage and not in excess of the applicable limits of an insurance policy to which this chapter applies issued by an insurer, if the insurer becomes an insolvent insurer after the effective date of this chapter and (A) the claimant or insured is a resident of this state at the time of the insured event; or (B) the property from which the claim arises is permanently located in this state; "covered claim" does not include any amount due a reinsurer, insurer, insurance pool, or underwriting association, as subrogation recoveries or otherwise;

(5) "insolvent insurer" means an insurer

(A) authorized to transact insurance in this state either at the time the policy was issued or when the insured event occurred, and

(B) determined to be insolvent by a court of competent jurisdiction;

(6) "member insurer" means a person who

(A) writes any kind of insurance to which this chapter applies under sec. 20 of this chapter including the exchange of reciprocal or inter-insurance contracts, and

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

(7) "net direct written premiums" means direct gross premiums written in this state on insurance policies to which this chapter applies, less return premiums thereon and dividends paid or credited to policyholders on direct business; "net direct written premiums" does not include premiums on contracts between insurers or reinsurers.

Sec. 21.80.190. TITLE. This chapter may be known and cited as the Alaska Insurance Guaranty Association Act.