

ALASKA RESIDUAL MARKET FACILITIES

WHY DO WE HAVE RESIDUAL MARKET FACILITIES?

Residual market facilities exist to provide a mechanism of last resort to help members of the public who need essential insurance coverage, but cannot otherwise obtain it. Operating under a variety of organizational formats and names—risk apportionment plans, shared market facilities, joint underwriting associations, and assigned risk plans—residual market mechanisms are active in every state. These mechanisms may operate under the sponsorship of federal and state governments or as voluntary associations of insurance companies.

One of the most common uses of residual market mechanisms is to support financial responsibility and mandatory insurance laws. Alaska statutes require that every employer be financially responsible for the payment of workers' compensation benefits to injured employees. State law also requires that all drivers and vehicle owners be financially responsible for damages resulting from the operation of automobiles. The Workers' Compensation Assigned Risk Plan and The Alaska Automobile Plan are available to help Alaskans meet these legal obligations.

All Alaska licensed insurers that write workers' compensation or automobile insurance, other than reciprocal insurers insuring only municipalities and nonprofit utilities, are required to participate in the workers' compensation and automobile insurance residual market mechanisms.

AUTOMOBILE INSURANCE

The Alaska Automobile Plan (plan), the automobile assigned risk mechanism, is intended for vehicle owners and operators who cannot obtain insurance on a voluntary basis. AIPSO, a nonprofit management organization specializing in working with groups or agencies responsible for residual market mechanisms, administers the Plan. AIPSO works with automobile facilities in 49 states plus the District of Columbia.

Organizations or individuals seeking coverage through the Plan may use the services of a licensed property/casualty insurance producer or may apply directly to AIPSO for assignment to an insurer writing personal automobile insurance in Alaska. Processing of new applications, endorsements, and cancellations for private passenger non-fleet risks has been centralized through the establishment of The Alaska Automobile Insurance Plan Service Center. Applicants are distributed among all insurers writing personal automobile insurance in Alaska based upon the same proportion that the insurer's voluntary private passenger business bears to the statewide total voluntary private passenger business of all companies in the state.

Commercial automobile insurance is organized under a Servicing Carrier Program. Insurers that are interested in being a commercial servicing carrier must meet certain financial standards and demonstrate their ability to provide adequate service to the assigned risk policyholders. Currently, all Alaska commercial automobile assigned risk business is handled by Progressive Casualty Insurance Company.

WORKERS' COMPENSATION INSURANCE

Alaska's workers' compensation pool is administered by the National Council on Compensation Insurance, Incorporated (NCCI). NCCI provides administrative services to assigned risk mechanisms in 33 states.

Like the commercial automobile plan, workers' compensation assigned risk applicants are assigned to servicing carriers. The servicing carrier is an insurer that has volunteered to service assigned risk policies by providing claims handling and other policyholder related services to Alaskan employers. Insurers that are interested in being servicing carriers must meet certain financial standards and demonstrate their ability to provide adequate service to the assigned risk policyholders. Alaska National Insurance Company and Liberty Northwest Insurance Corporation are the servicing carriers for workers' compensation assigned risk policies. Beginning January 1, 2006, Umialik Insurance Company and Liberty Northwest Insurance Corporation as servicing carriers for the assigned risk market. These three insurers will be the workers' compensation servicing carriers for three years.

Employers that have been declined coverage by two non-affiliated insurers may obtain coverage in the Workers' Compensation Assigned Risk Plan. Employers eligible for coverage in the plan may use the services of a licensed property/casualty insurance producer or apply directly to the plan for coverage.

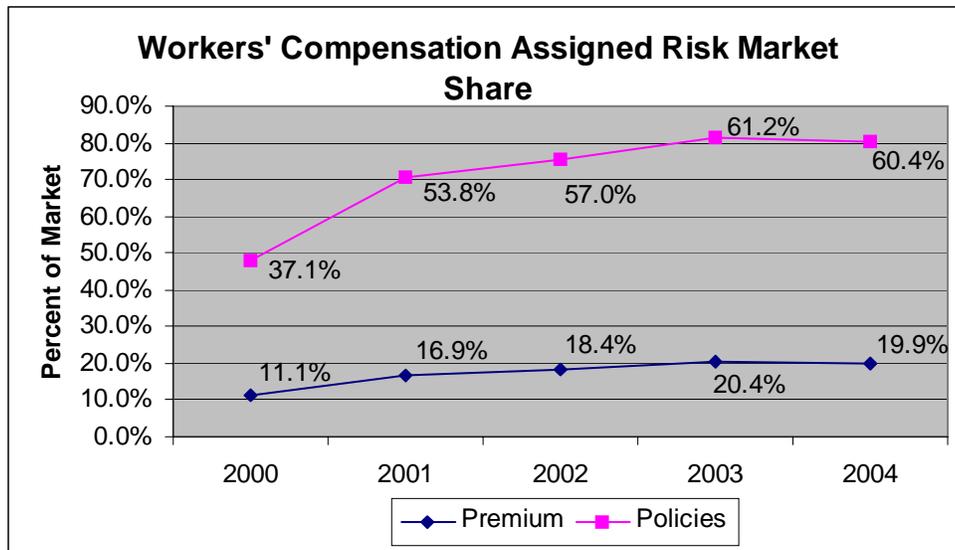
ASSIGNED RISK MECHANISM USE

The level of residual market use can vary widely. The need for policyholders to obtain coverage in a residual market may depend on the competitive environment of Alaska's insurance market, economic conditions, and changes to Alaska's laws that affect coverage or mandatory insurance requirements.

For 2004, the workers' compensation residual market had 9,200 policyholders and \$50.5 million in premium. This is approximately 20% of all workers' compensation premium and 60% of the total number of workers' compensation policies written in Alaska in 2004. Of these 9,200 policies, 5,493 have premiums less than \$2,500. Between 2003 and 2004, both the number of policies and the premium volume in the residual market has remained fairly flat. This is in contrast to the period from 2000 - 2003 during which the assigned risk market grew significantly, both in number of policies and in premium volume as demonstrated in the graph below.

Percent of Market

Year	Policies	Premium
2000	36.1%	11.1%
2001	53.8%	16.9%
2002	57.0%	18.4%
2003	61.2%	20.4%
2004	60.4%	19.9%



The number of policies written in both the private passenger and commercial automobile plans decreased in 2004. This is a reversal of the last two years in which the number of policies in the automobile plans increased. In 2004, there were 1,198 policies in the private passenger plan and 146 policies in the commercial automobile pool. This is a decrease of 49% for the private passenger plan over the 2003 volume and a 24% decrease for the commercial automobile pool. Over the last 15 years, pool volume was at its highest in 1993 with 4,554 private passenger policies and 958 commercial auto policies.

AK Automobile Residual Market Plans Policy Volume

Year	Private Passenger	Commercial Auto
1992	3,940	1,220
1993	4,554	958
1994		
1995		
1996	2,314	361
1997		
1998		
1999	651	81
2000	768	65
2001	758	74
2002	1,736	117
2003	2,341	191
2004	1,198	146

