

# 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.

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.

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, Liberty Northwest Insurance Corporation, and Umialik Insurance Company are the servicing carriers for the assigned risk market. These three insurers will be the workers' compensation servicing carriers through 2011.

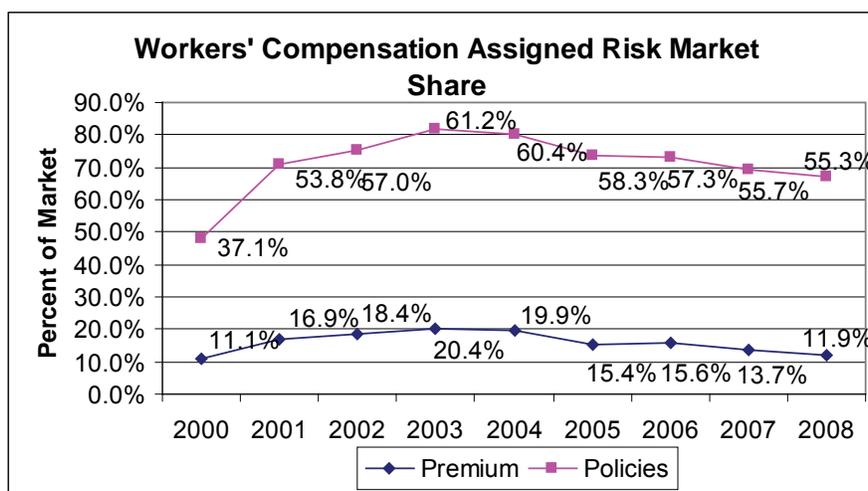
In addition to the three servicing carriers, one insurer, American Interstate Insurance Company, participates in the residual market as a direct assignment carrier. A direct assignment carrier is assigned policies from the pool in proportion to the insurer's percent of its voluntary market business. The direct assignment carrier bears the full experience, profit or loss, related to the policies assigned to it.

All other insurers, that are not direct assignment carriers, participate in the workers' compensation pool by being assigned a percentage of the pool experience, profit or loss, based upon the insurer's voluntary market share.

### 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 2008, the workers' compensation residual market had 8,241 policyholders and \$32.1 million in premium. This is approximately 12% of all workers' compensation premium and 55% of the total number of workers' compensation policies written in Alaska in 2008. Of these 8,241 policies, 5,400 have premiums less than \$2,500. Between 2005 and 2006, both the number of policies and the premium volume in the residual market remained about the same and decreased slightly in 2007 and 2008. 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, followed by a small decrease in 2005.



The number of policies written in both the private passenger and commercial automobile plans continued to decrease in 2008. In 2008, there were 141 policies in the private passenger plan and 55 policies in the commercial automobile pool. This is a decrease of 30% for the private passenger plan over the 2007 volume and a 32% 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.

