

MINUTES OF THE SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS

The meeting was called to order by Sen. Neil H. Arasmith at
Chairperson

9:00 a.m./~~p.m.~~ on January 17, 1983 in room 529-S of the Capitol.

All members were present except:

Senators Hess and Gordon - Excused

Committee staff present:

Bill Wolff, Legislative Research
Myrta Anderson, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Larry Magill, Independent Insurance Agents of Kansas

The minutes of January 11 were approved.

The Chairman began the meeting by announcing that Pat Hurley and John Peterson had withdrawn their request to appear before the committee to present the multi-bank holding company bill. They plan to work the bill in the House.

The Chairman called the committee's attention to SB 434 which was heard and reported favorably last year but rereferred because of the lack of time to work it on the calendar. He called Larry Magill, Independent Insurance Agents of Kansas, to give testimony to refresh the committee's memory. (See Attachment I.)

Sen. McCray asked if the consumer would be paying more because of this bill. Mr. Magill answered that the bill does not involve the consumer but rather helps the agents. The cost involved is considered as a cost of doing business. Sen. McCray inquired further as to if the bill involves title insurance companies. Mr. Magill replied that it would not involve title insurance companies because these companies do not need this type of insurance.

In response to a question by Sen. Gannon as to if the \$500,000 coverage was adequate, Mr. Magill said that there is a potential to have a larger loss than \$500,000 but that this has not occurred.

Sen. Karr asked Mr. Magill if passage of the bill would allow agencies with excess lines to reduce the cost of coverage for the agent, and Mr. Magill replied that it would.

Sen. Pomeroy made a motion to amend SB 434 to correct the bill by changing "1982 Supp." to "1983 Supp.". Sen. Feleciano seconded the motion, and it carried.

Sen. Reilly informed the committee that SB 434 contains nothing devious and in no way would reflect on the consumer, but it will help agents in Kansas.

Sen. Reilly made a motion to recommend SB 434 favorably as amended. Sen. Gannon seconded the motion, and it carried.

The Chairman told the committee that the author of HB 2336 no longer wants it. Sen. Feleciano made a motion to report HB 2336 adversely. Sen. Pomeroy seconded the motion, and it carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

COMMERCIAL AND FINANCIAL INSTITUTIONS

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
1/17	Ron Smith	Topeka	KIBA
"	Marvin Chubotz	"	KCUL
"	ED MULLINS	"	BUDGET
	Jim McBride	"	United Way
	Tom Futzler	"	Sen. Hess
	Ron Todd	"	Bus Dept.
	LARRY MAGILL	"	IIRK

Testimony on SB 434
By: Larry W. Magill, Jr., Executive Vice President
Independent Insurance Agents of Kansas

Thank you for the opportunity to appear in support of SB 434. We requested the introduction of this legislation by the Senate Ways & Means Committee during the 1983 session, after the problem was brought to our attention by one of our members. SB 434 corrects a serious oversight in the drafting of the errors and omissions insurance requirement for Excess and Surplus Lines and Brokers licenses.

There are approximately 303 Excess and Surplus Lines licenses and approximately 402 Brokers licenses, many of which are held by our members. All of these licenses renew on May 1st each year, at which time it is necessary to show compliance with the errors and omissions insurance requirements.

The two statutes in question, K.S.A. 40-246f and the statute it was patterned after, K.S.A. 40-3711, both require "a blanket liability insurance policy insuring other insurance agents or brokers in an amount of not less than five hundred thousand dollars (\$500,000) total liability limit per occurrence subject to not less than five hundred thousand dollars (\$500,000) annual aggregate for all claims made during the policy period." As an alternative the agent can provide a \$100,000 individual policy.

The IIAK completely supports the concept of requiring E&O insurance to protect consumers against an agent's professional negligence. But agencies do not buy individual policies on each employee and it is a common practice in all types of commercial insurance to carry the lowest possible primary limits and then purchase a less expensive umbrella liability policy of \$1,000,000 or more.

Attachment I

The umbrella or excess liability frequently will include other exposures such as excess auto liability and general liability in addition to the E&O coverage. While it is possible that an auto or general liability claim could exceed the agency's primary amount and reduce the coverage available for E&O claims under the umbrella, that possibility is extremely remote. It is no more possible than a series of E&O claims reducing the annual aggregate below the \$500,000 aggregate limit. In virtually all cases where the agent carries primary and excess, the excess is written for a minimum of \$1,000,000, twice the required amount.

We checked with two of our members here in Topeka last year to determine the cost impact of meeting the E&S license requirements. One agency presently carries \$250/750,000 primary and \$3 million excess E&O with St. Paul. For them to raise their primary to \$500/1,500,000 (St. Paul always uses an aggregate 3 times the per occurrence limit) it cost them approximately \$323 per year. The other agency presently carries \$100/300,000 primary and \$1,000,000 excess. For them to comply it cost approximately \$687 per year with American States Insurance Company.

We cannot see the public policy objective being served by forcing these agencies to increase their primary policy limits when they already carry two or more times as much coverage as the law requires.

We urge your favorable consideration of SB 434.