

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:00 a.m./~~p.m.~~ on February 21, 1985 in room 529-S of the Capitol.

All members were present except:

Senators Burke and Reilly - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Senator Bill Mulich
David Ross, on behalf of Mark Cory
Dick Scott, State Farm Insurance
Lee Wright, Farmers Insurance Group
Homer Cowen, The Western Insurance Companies
Dick Brock, Kansas Insurance Department
Jerry Cole, Benefit Plan Administrators

The minutes of February 20 were approved.

The hearing began on SB 173 dealing with cancellation and nonrenewal of property insurance. Senator Mulich, the author of the bill, gave testimony on it. He said the bill is a result of a problem that he has witnessed in his district where property insurance policies have been canceled as a result of damages due to an act of God. He passed out a balloon of the bill showing an amendment he wanted to offer. Staff explained that the bill in its original form provided that a policy could not be canceled for all the reasons listed, but Sen. Mulich had wanted to be specific in including only lightning, windstorm, or hail. (See Attachment I.)

Sen. Karr asked if this problem is occurring throughout the state. Sen. Mulich answered that it is happening quite often throughout the state and added that if it just happens once, that is enough to justify the bill.

The chairman asked if the cases in which Sen. Mulich was involved included multiple losses or a single loss, and Sen. Mulich replied that they involved multiple losses.

David Ross appeared on behalf of Mark Cory of Leewood, Kansas, who was not able to appear due to business obligations. Mr. Ross explained that Mr. Cory's homeowner policy was canceled because of multiple storm damage. He had three storm losses in a two year period. The claims were less than \$500, but the insurance company canceled because of the three losses in a two year period. Mr. Ross noted that one cannot prepare for storm damages as one can for such things as fire or theft. As to speaking on his own behalf, Mr. Ross said that this could have been handled more simply by including it under the adverse underwriting provisions of a policy.

First of those opposing the bill to appear was Dick Scott of State Farm Insurance. Mr. Scott said that he does not believe that Mr. Mulich's proposal is a necessary regulation because it deals with an isolated problem. In reviewing his records and those of other insurance companies, he has found that this is not a widespread problem. Also, other states do not have this regulation dealing with renewal. He feels that the isolated instances of unfair action on the part of insurance companies can be handled in the complaint department of the Kansas State Insurance Department.

Lee Wright, Farmers Insurance Group, followed with his testimony in opposition to SB 173. He said he could appreciate Sen. Mulich's legislative intent, but he feels this is an isolated problem, not a widespread problem. The result of the bill may be that insurance companies cannot provide fair rates for the citizens of Kansas. The bill would not allow insurance companies to investigate damage around the neighborhood of a claimant to determine if the claimant was maintaining a "maintenance policy". Higher rates would have to be charged to cover these false claims.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
 room 529-S, Statehouse, at 9:00 a.m.~~p.m.~~ on February 21, 1985.

Sen. Strick questioned the attitude of opponents who appear to view the problem as trivial. Both Mr. Scott and Mr. Wright said that they do not view multiple losses due to acts of God as insignificant but rather feel that the occurrence is not widespread enough to prohibit failure to renew on a widespread basis. They repeated that such cases of unfairness can be reported to the Kansas State Insurance Department and that these isolated cases should not be made to affect all cancellations.

The hearing continued with the testimony of Homer Cowen of the Western Insurance Companies. He began by stating that there is no reason to cancel a policy as a result of a claim for damages due to acts of God. He maintained that if a company's right to select risks is restricted, the result will be that premiums will rise. The company needs the right to cancel for those who may have a "maintenance policy", and the ability to move people from one group to another is important in setting the premiums. In his opinion, one story, all by itself, does not justify legislation that will be widespread and which really deals with more than just renewals.

The chairman called on Dick Brock of the Kansas Insurance Department for questions from the committee regarding the bill. The chairman asked Mr. Brock if he were familiar with the instances reported by Sen. Mulich. Mr. Brock said that he was not but that those that come to his attention deal with multiple claims which are not always a result of an act of God. In all these cases, it is up to the department employee to use his judgement. In answer to the chairman's question as to if the Insurance Department receives many complaints regarding this problem, Mr. Brock said that there are several, but they do not compose the largest area of complaints.

Sen. Karr asked Mr. Brock's opinion of the suggestion made by Mr. Ross that the problem could be taken care of by an amendment to the underwriting statute. Mr. Brock said that the result of doing that would be about the same as the result of the bill. He added that the bill would work insofar as what Sen. Mulich is wanting to accomplish although he is not recommending the bill.

Sen. Karr requested that Mr. Brock furnish information for the committee as to the number of this particular type of complaint made and what the bill would do to the rate structure. Mr. Brock said that he could make such a study but that he would not be able to give a specific percent the rates might go up but rather only be able to determine if the bill would or would not have an affect on rates.

Sen. Karr also requested that the conferees furnish information on the alternative of amending the underwriter statute, and they agreed to do so. This concluded the hearing on SB 173, and the bill was taken under advisement.

The chairman announced that there had been a request to introduce a bill regarding competition in health care costs by a coalition of people from Wichita and introduced Jerry Cole, Benefit Plan Administrators, to present the request. (See Attachment II.) The chairman told the committee that staff has the draft of the bill and that, basically, the bill is in opposition to the Blue Cross/Blue Shield "most favored nations clause".

Sen. Werts made a motion to introduce the bill. Sen. Gordon seconded, and the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2/21/85	Jeany W Cole	1351 N. Emporia Wichita	Benefit Plan Administrators
2/21/85	C Stanley Kaudatz, MD	224 Arcadia, Wichita,	HEALTH CARE PLAN
"	DENNIS DEHN	TOPEKA	SEN WERTS' INTERN
	David G. Ross	Shawnee, Ks.	
	Mark Bennett	Topeka	AIA
	Homer Cowan	FT SCOTT	The Western Ins Co.
	David Hanson	Topeka	Ks Assoc Prop & Cas Cos.
	Lee Wright	Mission Ks	FARMERS INS GROUP
	Jarl Wright	Topeka	Ks Credit Union Lge
	Jim Olinic	Topeka	PIA of Ks
	Dick Brock	"	Ins Dept.
	Wile Hoover	"	Counselor to Benefit Plan

SENATE BILL No. 173

By Senator Mulich

2-6

0017 AN ACT relating to insurance; concerning property insurance;
0018 relating to cancellation and nonrenewal; providing certain
0019 limitations.

0020 *Be it enacted by the Legislature of the State of Kansas:*

0021 Section 1. As used in this act:

0022 (a) "Property insurance policy" means a policy covering res-
0023 idential property consisting of not more than four family dwell-
0024 ing units and insuring against loss or damage to property owned,
0025 leased or in the care, custody and control of the insured. The
0026 term property insurance policy shall not include property insur-
0027 ance policies: (1) Which are issued through the Kansas F.A.I.R.
0028 plan or any successor plan; or (2) which do not insure against the
0029 perils of fire, lightning or windstorm and hail.

0030 (b) "Property" means real and tangible personal property at a
0031 fixed location but shall not include automobile risks.

0032 Sec. 2. Any insurance company that denies renewal of a
0033 property insurance policy in this state shall give at least 30 days'
0034 written notice to the named insured, at the insured's last known
0035 address, or cause the notice to be given by a licensed agent of its
0036 intention not to renew the policy. [No insurance company shall
0037 deny the renewal of a property insurance policy except in one or
0038 more of the following circumstances:

0039 (a) When the insurance company is required or has been
0040 permitted by the commissioner of insurance, in writing, to re-
0041 duce its premium volume in order to preserve the financial
0042 integrity of the insurer;

0043 (b) when the insurance company ceases to transact business
0044 in this state;

0045 (c) when unfavorable underwriting factors of a substantial]

Attachment I

Atch. I
2/21/85

0046 nature, pertinent to the risk, are existent, which could not have
 0047 been reasonably ascertained by the company at the initial is-
 0048 suance of the policy or the last renewal date;

0049 (d) when the policy has been continuously in effect for a
 0050 period of five years. The five-year period shall begin at the first
 0051 policy anniversary date following the effective date of this act. If
 0052 the policy is renewed or continued in force after the expiration of
 0053 such period or any subsequent five-year period, the provisions of
 0054 this subsection shall apply in any subsequent period; or

0055 (e) when any of the reasons specified as reasons for cancel-
 0056 lation in section 3 are existent.

0057 Sec. 3. No insurance company shall issue a property insur-
 0058 ance policy in this state unless the cancellation condition of the
 0059 policy or any policy endorsement includes the following limita-
 0060 tions pertaining to cancellation by the insurance company. After
 0061 a policy has been in effect for 60 days, or if the policy is a
 0062 renewal, effective immediately, the company shall not exercise
 0063 its right to cancel the insurance afforded unless:

0064 (a) The named insured fails to discharge when due any of the
 0065 insured's obligations in connection with the payment of pre-
 0066 mium for the policy or any installment payment whether payable
 0067 directly or under any premium finance plan;

0068 (b) the insurance was obtained through fraudulent misrepre-
 0069 sentation;

0070 (c) the insured violates any of the terms and conditions of the
 0071 policy; or

0072 (d) there has been a substantial change in the risk since
 0073 inception of the policy.

0074 Sec. 4. When a property insurance policy, as defined in
 0075 section 1, is canceled or nonrenewed, other than for nonpayment
 0076 of premium, by an insurance company, the insurer shall notify
 0077 the named insured of the insured's possible eligibility for cov-
 0078 erage through the Kansas F.A.I.R. plan. The notice shall accom-
 0079 pany or be included in the notice of cancellation or nonrenewal
 0080 given by the insurer and shall state that the notice of availability
 0081 of the Kansas F.A.I.R. plan is given pursuant to the provisions of
 0082 this act.

No insurance company shall deny the renewal of a property insurance policy because of multiple losses sustained to the insured's property caused by lightning, windstorm or hail

0083 Sec. 5. This act shall take effect and be in force from and
0084 after its publication in the statute book.

Benefit Plan Administrators, Inc.

JERRY W. COLE, C.L.U.
PRESIDENT

LARRY J. ARMFIELD
VICE-PRESIDENT
TREASURER

JOAN L. CROWNS
SECRETARY

KIMBERLY G. WALLACE
CLAIMS SUPERVISOR



1359 NORTH EMPORIA
POST OFFICE BOX 3208
WICHITA, KANSAS 67201
PHONE (316) 262-3578

2-21-85

COMPETITION IN PRICING MEDICAL SERVICES

THERE IS A SERIOUS IMPEDIMENT IN KANSAS TO THE WORKING OF THE FREE MARKET SYSTEM REGARDING MEDICAL COSTS. I AM REFERRING TO THE CONTRACT BETWEEN 100% OF OUR HOSPITALS AND 90% OF OUR PHYSICIANS AND BLUE CROSS/BLUE SHIELD. THE TERMS OF THIS CONTRACT PROHIBIT ANY OF THESE PROVIDERS FROM OFFERING SERVICES AT A RATE LOWER THAN THOSE ~~SET BY~~ BLUE CROSS/BLUE SHIELD, UNLESS SUCH LOWER RATES ARE PROVIDED TO ALL BLUE CROSS/BLUE SHIELD SUBSCRIBERS. *offered to*

I HAVE PERSONALLY TALKED TO PHYSICIANS WHO HAVE INDICATED THAT THEY ARE WILLING TO DISCOUNT THEIR SERVICES AS A PREFERRED PROVIDER FOR GROUPS I REPRESENT. HOWEVER, THEY TELL ME THEY ARE PROHIBITED FROM DOING SO BY THEIR CONTRACT WITH BLUE CROSS/BLUE SHIELD. THEY WENT ON TO SAY THEY WERE INTIMIDATED INTO SIGNING THE CONTRACT BECAUSE OF THE BLUE CROSS/BLUE SHIELD POLICY OF REFUSING TO ACCEPT ASSIGNMENTS OR PAY BENEFITS DIRECTLY TO PROVIDERS WHO ARE NOT SIGNATORY TO THEIR CONTRACT. CONSEQUENTLY, THE BLUE CROSS/BLUE SHIELD CONTRACTS SETS A FLOOR ON PRICES FOR MEDICAL SERVICES FOR KANSAS. WHILE THIS MAY SOUND LIKE IT IS IN VIOLATION OF THE ANTI-TRUSTS PROVISION OF THE LAW, WE HAVE BEEN INFORMED THAT IT IS PERMISSIBLE UNDER THE "FAVORED NATIONS CLAUSE" AND THAT OUR ONLY RELIEF IS THROUGH LEGISLATION.

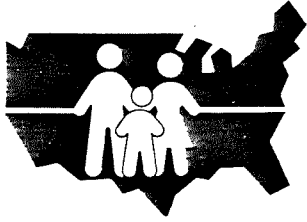
WE BELIEVE THAT THE FREE MARKETPLACE SHOULD BE ALLOWED TO DETERMINE THE PRICES SET FOR MEDICAL SERVICES, AND THAT NO CORPORATE ENTITY, REGARDLESS OF THEIR SIZE OR ECONOMIC IMPACT, SHOULD BE ALLOWED TO FIX THE PRICES FOR THESE SERVICES. THE BLUE CROSS/BLUE SHIELD APPROACH PRODUCES A "CHILLING" AFFECT ON THE ATTEMPT TO OBTAIN DISCOUNTS THROUGH PREFERRED PROVIDER ORGANIZATIONS.

I AM HERE TO REQUEST THAT YOU PROVIDE LEGISLATION RELIEF SO THAT THE CONSUMERS OF MEDICAL SERVICES HAVE THE OPPORTUNITY TO OBTAIN THESE SERVICES AT THE LOWEST PRICE A COMPETITIVE MARKET WILL ALLOW.

RESPECTFULLY SUBMITTED,

JERRY W. COLE, CLU

2/21/85
Attachment II



HEALTH CARE PLUS OF AMERICA, INC.

GARLAND L. BUGG
President
Chief Executive Officer

February 19, 1985

Robert T. Stephan
Attorney General
State of Kansas
2nd Floor Kansas Judicial Center
301 W. 10th Street
Topeka, Kansas 66612

Dear Attorney General Stephan:

The purpose of this letter is to encourage your action to prevent further anti-competitive activity, through the abolishment of the Blue Cross/Blue Shield of Kansas contract provision known commonly as the "Most Favored Nations Clause".

You will recall that I protested this clause nearly a year and a half ago (prior to its effective use on January 1, 1984).

The opportunity to effect substantial competitive pricing and bidding for the citizens of Kansas who choose Health Care Plus is nearly negated by this price floor established by the Blues.

Health Care Plus now has over 55,000 members in our various Plans. However, the price leverage these numbers should give us is negated because it causes the various medical care providers to give the same financial consideration to Blue Cross/Blue Shield of Kansas for even one patient. This has been the case since January 1, 1984.

Now, some physicians who want to keep prices as high as possible are seeing the Most Favored Nations Clause as their ally in keeping their fees as high as they are currently. They consider the Most Favored Nations Clause as a "floor" for their fees.

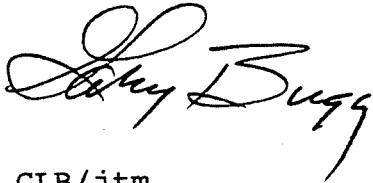
I feel Kansas consumers are being harmed by something about which they have absolutely no knowledge or control, hence my request on their behalf.

Further, employers in Wichita perceive that the Most Favored Nations Clause intimidates "effective" competition among insurance carriers and HMO's and effectively negates the effect of such competition stimulating entities as PPO's.

I hope you will, as in other knotty situations, be the champion of the people of Kansas and rule against the use of the Most Favored Nations Clause in any contract.

Thank you for your consideration.

Best regards,



GLB/jtm





Service Employees' Union Local No. 513

417 EAST ENGLISH

WICHITA, KANSAS 67202

DIAL 263-0323

Affiliated With The Service Employees' International Union, AFL-CIO

February 20, 1985

Mr. Robert Stephan
Attorney General
Kansas Judicial Center
Topeka, Ks 66612

Dear Mr. Stephan:

During the past few months, we have tried to negotiate reduced rates for Health care costs for our members. We have not been successful because of the Favored Nations Clause that Blue Cross/Blue Sheild currently has. This has effected our efforts in controlling Health care cost containment programs.

We urge you to look into this matter and take appropriate action to allow us to negotiate directle with Hospitals and Doctors on Health care cost and benefits.

Thanks for your help in this matter.

Sincerely,

Art J. Veach
Business Representative
Local-513

R. Lawrence Sifford M.D.

959 N. Emporia

Wichita, Kansas 67214

February 20, 1985

Mr. Jerry W. Cole
Benefit Plan Administrators
P.O. Box 3208
Wichita, Kansas 67201

Dear Jerry:

Reimbursement for the delivery of health care is changing. I would welcome the opportunity to compete in a free market system where I could negotiate lower fees, mutually agreeable to my patients and myself, without external limitations.

R. Lawrence Sifford M.D.

R. L. Sifford

Mr. Jerry Cole
Benefit Plan Administrators
1359 N. Emporia
Wichita, Kansas, 67201

Dear Mr. Cole:

The Employee Benefits Advisory Committee will continue to pursue a PPO with the Wichita Clinic however, it will be extremely difficult because of the "Favored Nations" clause. As it stands right now there is very little reason for employers to contract with a PPO because a discount cannot be negotiated. Employees could go the Wichita Clinic now and receive the same benefits as proposed with a PPO.

EBAC would be glad to verify this with the Attorney General as you requested, if necessary.

Sincerely,

Carol Kuhlman

Carol Kuhlman, President
Employee Benefits Advisory Committee

cc: Mr. Robert Wright
Mr. Mick McBride

