

MINUTES OF THE House COMMITTEE ON Insurance

The meeting was called to order by Rep. Rex Hoy at
Chairperson

3:30 ~~a.m.~~/p.m. on March 20, 1986 in room 521-S of the Capitol.

All members were present except:

Committee staff present:

Ms. Emalene Correll, Research Department
Ms. Melinda Hanson, Research Department
Mr. Gordon Self, Revisor's Office
Ms. Deanna Willard, Committee Secretary

Conferees appearing before the committee:

Mr. Richard Harmon, Ks. Assoc. of Property/Casualty Companies
Mr. Dick Brock, Kansas Insurance Department
Mr. Larry Magill, Independent Insurance Agents of Kansas
Mr. Rick Wilborn, Alliance Insurance Companies
Mr. Glenn Cogswell, Alliance of American Insurers

The meeting was called to order by the Chairman.

Final action on: HB 3062 - relating to disability income protection coverage; Alzheimer's disease

An committee amendment was offered on HB 3062 which would provide that disability income protection coverage for Alzheimer's disease be offered on the same basis as any other disabling disease and that such payments would be triggered when one becomes disabled rather than diagnosed. (Attachment 1.)

A representative from the Alzheimer's Task Force said they have no problem with the new language as the series of diagnostic tests often takes several months and that the diagnosis and the inability to work usually occur at about the same time.

Mr. Richard Harmon was asked when one is considered disabled for insurance purposes, and he stated that the point at which disability income will kick in is determined by the language of the policy. Mr. Dick Brock said that notification of disability would need to come from a doctor.

Rep. Graeber indicated that the word "and" in Line 0023 should be "or." Rep. Blumenthal made a motion to amend the bill with the proposed balloon, to change "and" to "or" in Line 0023, and to correct the spelling of the word "dementia" in Line 0031. Rep. Graeber seconded the motion. The motion carried.

Rep. Graeber made a motion that HB 3062 be recommended favorably as amended; Rep. Blumenthal seconded the motion. The motion carried. *

Rep. Littlejohn informed the committee that most of the bills dealing with Alzheimer's disease would be referred for interim study to obtain a recommendation that would prevent conflict and overlap.

Hearing on: SB 541 - concerning risk retention groups

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Mr. Dick Brock spoke for this bill, which was the insurance department Proposal 2. It is based on the model product liability risk retention act adopted by the NAIC to complement the federal act of 1981. The federal act permits the formation of risk retention groups but leaves some regulatory functions to the state. SB 541 defines risk retention groups, identifies the state having jurisdiction, sets forth requirements for agents, and establishes the taxes to which groups would be subject. He said that there are no risk retention groups chartered in Kansas, but there is one that does business in Kansas; thus, the bill would make provision for the taxing of such a group. (All this concerns is premium tax.) These entities operate very much like insurance companies; their primary business is being involved in a product rather than a service.

Rep. Littlejohn moved that SB 541 be reported favorably; Rep. Graeber seconded the motion. The motion carried.

Hearing on: SB 528 - requiring notice prior to increasing premiums for certain policies

Ms. Melinda Hanson briefed the committee on this bill, an insurance department request (Proposal 12) which addresses the situation in which a property/casualty policy is renewed, but the insured does not receive the premium notice until subsequent to the renewal date. The bill would provide that, if a contract is placed with another company within 60 days of such notification, the rate charged for the time the policy is in force must be the same as that previously paid.

Mr. Larry Magill, Independent Insurance Agents of Kansas, testified that underwriting renewals is very complex and that the bill would encourage insureds to switch companies. He offered an amendment which would remove that provision. (Attachment 2.) He stated that the bill still provided incentive for companies to get renewals out on time.

Mr. Rick Wilborn, Alliance Insurance Companies, testified that their past experience has shown that a renewal issued prematurely (without all of the rating information) will likely need to be amended. He expressed support for the IIAK amendment and offered an additional amendment that would provide that the bill take effect January 1, 1987. (Amendments 3 and 4.)

Mr. Richard Harmon, Kansas Association of Property/Casualty Companies, stated that it would be difficult to comply with the bill on large commercial risks. He urged support of the IIAK amendments.

Mr. Dick Brock, Kansas Insurance Department, said that there have been complaints from agents that renewals are not being offered on time and not just on large risks. He said the

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bill would not stop increases but simply provide that an insured pay at the same rate as previously until he is notified. He said the "notice to the agent" language has been no problem; the problem has been with the insurance companies getting the notice to the agent. He would see no reason to delay the effective date. He said the insurance companies had two choices: 1) lose money until the insured gets the premium notice, or 2) spend more money to properly staff the company.

Rep. Graeber pointed out that the word "that" in Line 0023 should be "those."

Rep. Blumenthal made a motion to amend SB 528 with the IIAK amendments and to change "that" to "those" in Line 0023; Rep. Turnquist seconded the motion. The motion carried.

Mr. Glenn Cogswell, Alliance of American Insurers, stated that his organization opposes the concept of the bill but that the amendments would improve it. He said the effect would be to further restrict the marketplace, that time is needed to update risk exposure, and that the uncertainty of the reinsurance market adds to the difficulty of pricing risks. He felt the bill would encourage high premium rates as companies seek to protect themselves.

Rep. Lowther made a motion to amend the bill with an effective date of January 1, 1987; Rep. Sprague seconded the motion. The motion carried.

Rep. Neufeld moved the SB 528 be reported favorably as amended; Rep. Bryant seconded the motion. The motion carried.

The minutes of the previous meeting were approved as amended.

The meeting was adjourned at 5:05 p.m. by the Chairman.

*Subsequent to the meeting, staff clarified that HB 3062 has not yet been referred to this committee from the Committee on Ways and Means, and, therefore, committee action taken on this bill is invalid.

HOUSE BILL No. 3062

By Committee on Public Health and Welfare

2-26

0016 AN ACT concerning insurance; relating to disability income
0017 protection coverage; Alzheimer's disease.

0018 *Be it enacted by the Legislature of the State of Kansas:*

0019 Section 1. (a) Every insurer, which issues any individual or
0020 group policy providing disability income protection coverage,
0021 must provide for ~~coverage and reimbursement or indemnity~~
0022 ~~equal to that provided for any other covered disability under~~
0023 ~~such policy for~~ Alzheimer's disease and diseases of a related
0024 type.

0025 (b) For the purposes of this section: (1) "Alzheimer's dis-
0026 ease" means a brain disorder characterized by a progressive
0027 dementia that occurs in middle or late life. The pathologic
0028 characteristics are degeneration of specific nerve cells, presence
0029 of neuritic plaques and neurofibrillary tangles; and

0030 (2) "diseases of a related type" means any progressive neu-
0031 rological disorder which has dementia as one of its manifesta-
0032 tions. This includes but is not limited to multi-infarct dementia,
0033 Parkinson's disease and Huntington's disease.

0034 Sec. 2. This act shall take effect and be in force from and
0035 after its publication in the statute book.

such coverage on the same basis as any other disabling disease
when the insured is disabled by

Attachment 1
House Insurance
3-20-86

Testimony on SB 528
Before the House Insurance Committee
March 20, 1986

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

Thank you, Mr. Chairman, and members of the committee for the opportunity to provide testimony on SB 528. Even though this is only a two paragraph proposal, our Governmental Affairs Committee has debated this issue on two separate occasions, the second time after our amendments were made in the Senate and for nearly one-and-one-half hours. Before I explain our problem with our own amendment, I would like to give the committee some brief background on the problems SB 528 attempts to address and how the solution in SB 528 may be deceptively simple and actually counterproductive.

The late delivery of renewals is a continual problem regardless of the cycle, but nobody complained when rates were going down during the "soft" market.

The renewal process is complex, involving a number of steps and at least three distinct parties. Any of the three parties or all of them can delay the renewal process, the insured, the agent or the company.

Before a company begins a renewal, a renewal application must be completed by the insured. If the insured is out of town or unavailable or does not have the needed information, that can cause a delay.

Frankly, with the "hard market", agents are finding it necessary to spend much more time renewing all of their

accounts. This causes backlogs in agent's offices that can delay renewals.

Insurance companies, in many cases, are reducing staff to improve their bottom line results and are at the same time being swamped with submissions of new business because of the current market.

All of these factors play a part in late renewal quotes. In addition, an agent often spends time negotiating with several carriers on a "renewal" after the first quote to try to improve pricing and coverage before delivering the renewal. Most agents who have a difficult renewal coming up, for example a tough products liability risk, a public entity, directors and officers coverage or an account with loss problems, begin early with an indication from the present carrier. Based on that indication, the agent may approach, and generally does, other markets.

Anywhere along the line, the renewal process can be delayed by any of the parties for a number of reasons.

And, unlike the case with SB 512 on nonrenewal and mid-term cancellation, we are not aware that this type of legislation in SB 528 is being considered in a number of states or by the NAIC. Perhaps because of the complexity of the commercial insurance market and the potential disruption such a law could cause.

Again, we are concerned that Kansas maintain a positive image to attract new insurance companies and to attract capacity from those we have. Kansas is very much in competition with the rest of the country for limited capacity. The more favorable the legal and regulatory climate, the more

favorable the outlook for a profit, hopefully, the more capacity companies will allocate to Kansas.

As I mentioned at the outset, our Governmental Affairs Committee debated SB 512 thoroughly and particularly the impact of our amendment regarding 60 days to cancel after the late delivery of a renewal quote to place coverage with another market with a prorata cancellation.

We ultimately have changed our position and must ask this committee to delete the 60 day provision. We are showing our proposed amendment on a balloon copy of SB 528 attached to our testimony.

Our change in position is based on an unforeseen problem with the 60 day provision. We are concerned that our amendment produces an unfair incentive to insureds and their agents to change insurance companies, even to a carrier that is charging a higher rate. This can result because of the large price increases occurring in the market today.

For example, a renewal quote delivered 30 days late with a doubling of last year's rate could allow an additional 60 days to switch. This means the insured would receive three month's coverage at the old rate at a substantial savings. This could be enough incentive on a large account to switch, even though the new carrier is slightly higher than the renewal quote from the existing carrier.

This is not only unfair to the existing carrier, but it undermines an important consideration for any commercial account - continuity of carriers. It is important to develop a history with one carrier to hopefully help weather the occasional "bad year."

It would also compound the already serious problem of

accounts being marketed to a large number of carriers continuously, causing delays in the renewal process.

The renewal process is complex. If the legislature feels they must take action on SB 528, we urge this committee to favorably consider our amendment.

SENATE BILL No. 528

By Committee on Financial Institutions and Insurance

1-31

0018 AN ACT relating to insurance; requiring notice prior to increas-
0019 ing premiums for certain policies.

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

0021 Section 1. The premium *rates* for any contract of property or
0022 casualty insurance continued or renewed following the effective
0023 date of this act shall be no greater than that charged for the
0024 immediately preceding policy period ~~unless and until the in-~~
0025 ~~ured is notified of any applicable increase if: (a) The notice is~~
0026 ~~received after the continuation or renewal date; and (b) the~~
0027 ~~contract is placed with another insurance company within 60~~
0028 ~~days of such notification. Such cancellation shall be pro rata at~~
0029 ~~the rate charged for the immediately preceding policy period.~~
0030 *Notice to the agent shall be considered notice to the insured.*
0031 Sec. 2. This act shall take effect and be in force from and
0032 after its publication in the Kansas register.

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SENATE BILL No. 528

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1-31

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0029 ~~the rate charged for the immediately preceding policy period.~~
0030 *Notice to the agent shall be considered notice to the insured.*

0031 Sec. 2. This act shall take effect and be in force ~~from and~~
0032 ~~after its publication in the Kansas register.~~

from and after January 1, 1987.

until the insured is notified of
the applicable increase.

Thank you, Mr. Chairman and members of the committee, for the opportunity to talk to you about Senate Bill 528. I am Rick Wilborn, with the Alliance Insurance Companies of McPherson, Kansas.

We understand the intent of Senate Bill 528 as it relates to providing the insured with the renewal prior to effective date. As you may already know, this is readily done with a static risk, such as a personal auto policy, or with a homeowners policy. We as a company send the renewals to the insureds approximately 35 days in advance of the renewal date on personal lines. We also send the renewals to the insureds on smaller business risks in advance of the renewal date.

Unfortunately, the problem isn't with the smaller risks or with the personal lines. As you know, this bill addresses the business lines of insurance that are much more complex and sophisticated in the rating and exposure development process. In order to properly evaluate a risk, lead time sometimes of 120 to 150 days is necessary to retrieve all the adequate information to properly evaluate and rate the risk. This is inclusive of financial reports, audit reports, physical inspections, whatever the information that is required must be retrieved by the agent from the insured and then provided to the insurance company so that they can make their determination and rerate the risk. Unfortunately, many times the renewal can be delayed or the information be sidetracked and therefore the insurance carrier is not able to always get the renewal out on the effective date.

Senate Bill 528 will require insurance companies to have the renewal out by the effective date. In doing so, we will also make an attempt to comply with the statute. However, it has been our past experience that when we prematurely issue a renewal without all of the adequate rating and exposure

information, 40% to 50% of the policies must be amended or endorsed to bring them up to currency, usually within the first three months after the renewal.

Obviously this is a very costly consideration that is passed on eventually to the consumer and at a time when we are attempting to be very cautious of the bottom line numbers. I think you can see I am driving at the point that both affordability and availability can be indirectly affected by Senate Bill 528. The mere fact that the increased cost in handing the risk must be passed on is the first consideration.

The second consideration is the fact we are a viable economic entity serving Kansas and Kansas insureds, may cause us to re-evaluate our position and eliminate writing some of the business and professional lines that are marginal as far as numbers to our companies.

As far as we can tell there are no other states proposing any such statute or regulation such as 528.

Senate Bill 512 attempts to address many of the renewal and nonrenewal needs that were apparent but 528 pretty well stifles the industry by requiring the insurance industry to have the renewal in the insured's hands prior to the effective date.

We are opposed philosophically to the concept of 528 and feel that it is a short-term knee jerk reaction to a problem that should ease itself in the future as the market softens. If the committee feels they must approve Senate Bill 528 we definitely urge you to consider the amendments that were proposed by the Independent Insurance Agents of Kansas.