

Approved _____ Date _____

MINUTES OF THE House COMMITTEE ON Insurance

The meeting was called to order by Dale Sprague at _____
Chairperson

3:30 ~~xx~~ a.m./p.m. on February 26, 1990 in room 531-n of the Capitol.

All members were present except:

Representative Hank Turnbaugh, excused

Committee staff present: Chris Courtwright, Legislative Research Department
Bill Edds, Revisor of Statutes
Patti Kruggel, Committee Secretary

Conferees appearing before the committee:

see attached list

The meeting was called to order at 3:40 p.m.

Representative Brown made a motion to approve the minutes of February 19, 20, 21, and 22, 1990. Representative Allen seconded. The motion carried.

The Committee began hearings on HB 3027.

HB 3027 -- an act relating to insurance; providing for a plan for recording and reporting loss and expense experience by accident and sickness insurers; amending K.S.A. 1989 Supp. 40-19c09 and repealing the existing section; also repealing K.S.A. 1989 Supp 40-19c09a.

Chris Courtwright, Legislative Research Department gave an overview of the bill stating that it would require the Commissioner of Insurance, beginning in 1991, to develop or approve statistical plans for the filing of loss and expense experience by health insurers, HMOs, Blue Cross/Blue Shield. Mr. Courtwright noted that the data would have to be available annually to aid the Commissioner and others in determining whether the rates being charged are reasonable.

Dick Brock, Insurance Department provided testimony (Attachment 1) in support of HB 3027. Mr. Brock explained that HB 3027 was a request of the Insurance Department and would address an information deficiency by directing the Commissioner to develop or approve statistical plans to be used by each insurer writing accident and sickness insurance in this state in reporting its premium, loss and expense experience. Mr. Brock noted that to date, accident and sickness insurance is the only major line of insurance that does not have some kind of systematic, centralized system of aggregating loss and expense experience for use in ratemaking.

There were no others wishing to testify on HB 3027 and the hearings were concluded.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Insurance,
room 531-N, Statehouse, at 3:30 ~~xx~~m./p.m. on February 26, 1990

The Committee began discussion and possible final action of previously heard bills.

HB 2723 -- an act relating to insurance; authorizing provisions providing for acceleration of life and annuity benefits in certain policies; amending K.S.A. 1989 Supp. 40-401 and repealing the existing section.

Representative Littlejohn made a motion to recommend HB 2723 favorable for passage. Representative Bryant seconded. The motion carried.

HB 2653 -- an act relating to insurance; concerning continuing education requirements for agents.

A motion was made by Representative Sawyer, seconded by Representative Bryant to report HB 2653 adversely. The motion carried.

HB 2701 -- an act relating to health maintenance organizations; concerning deposit requirements; amending K.S.A. 1989 Supp. 40-3227 and repealing the existing section.

Representative Hoy made a motion to report HB 2701 adversely. Representative Brown seconded. The motion carried.

The meeting was adjourned at 4:30 p.m.

Kansas Insurance Department
Testimony Before the
House Insurance Committee
on House Bill No. 3027
Presented by Dick Brock

As I mentioned in my appearance before the joint house and senate committee hearing on general health insurance issues a few weeks ago, accident and sickness insurance is the one and only major line of insurance I know of that does not have some kind of systematic, centralized system of aggregating loss and expense experience for use in ratemaking. In Insurance 101, we learn that one of the fundamental principles of insurance is that the risk of loss must be represented by a group of relatively homogeneous exposure units that is of sufficient size to permit a reasonably accurate prediction of average loss by application of the law of large numbers. Perhaps accident and health insurance actuaries are just smarter than their contemporaries that make rates for other kinds of insurance or maybe they have some secret reservoir of information they use. If so, House Bill No. 3027 should attract some disclosure of its whereabouts.

I am aware of the Prevailing Health Care Charge System administered and marketed by the Health Insurance Association of America who testified before this committee earlier this session. As I understand it, this system collects charge information from medical doctors and dentists for about -- or maybe exactly -- 4,000 different medical procedures and 400 different dental procedures. This information is then assembled by range of charges by procedure by frequency and by zip code. However, this information would not tell an individual insurer anything about the relationship between the premium charged, losses and loss expenses incurred or administrative expenses involved on an industry-wide basis. Each company would, of course, have its own experience but with rare exceptions such individual company experience would not generally be of sufficient quantity to be considered a reasonably accurate predictor of loss.

House Bill No. 3027 addresses this apparent information deficiency by directing the Commissioner to develop or approve statistical plans to be used by each insurer writing accident and sickness insurance in this state in reporting its premium, loss and expense experience. The stipulated statistical plan would, of course, permit the experience of all companies to be combined into industry-wide and at least statewide aggregates that would in time provide a statistical data base which would be of sufficient credibility for ratemaking, rate review and other decision-making and public policy needs.

The precise detail of the information that would be required by the statistical plans required by House Bill No. 3027 is, of course, not yet known. This will be an extremely complicated task and will require the use of specialized professional expertise. However, it certainly will identify the generic types of accident and health insurance products that are available and require various kinds of information to be reported and coded separately for each. For example -- and only as an example -- the statistics will obviously need to be separated or separable with respect to group versus individual. Then under individual we could have individual medicare supplement policies; individual dread or specified disease policies; hospital expense coverage; medical-surgical expense coverage, etc. Under each of these products insurers would be required to report their written premiums, earned premiums, losses paid, losses outstanding, allocated loss adjustment expenses paid and outstanding, the number of claims, the type or cause of loss, perhaps the zip code or some other territorial designation of the claimant, and all of this would be required to be reported on a policy year or accident year basis so the losses ultimately paid under a policy would match the premiums collected to pay those losses.

Needless to say, putting this all down in a form computers can understand, putting a system in place so the data can be cross-checked and purified before being released to the data base, and finding some entity with the capability and resources to do it will take some time. But it is done in other lines of insurance and it is an essential

ingredient of proper pricing. Consequently, we believe you should give House Bill No. 3027 your favorable consideration or require any opponents to be very specific about why it can't or shouldn't be done as well as convince you that the data systems they now use are highly reliable.

The one caveat I want to repeat is that the implementation of a centralized statistical data system for accident and sickness insurance will not produce immediate results. It takes time for insurance data to mature and it takes even more time for enough data to be amassed to permit many kinds of analysis. In addition, the collection of reliable data won't solve the accident and health insurance problems -- it might even tell us the situation is worse than we thought but few problems are solved without sufficient, reliable information and enactment of House Bill No. 3027 will represent a first step toward obtaining that kind of information.