

Approved February 14, 1991
Date

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE

The meeting was called to order by REPRESENTATIVE TURNQUIST at
Chairperson

3:30 ~~xxx~~ p.m. on Wednesday, February 13, 1991 in room 531-N of the Capitol.

All members were present except:

Theo Cribbs - Excused

Committee staff present:

Mr. Bill Edds, Revisor
Mr. Chris Courtwright, Research
Ms. Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee:

Mr. Dick Brock,
Mr. David Hanson
Mr. Roger Viola
Ms. Nancy Zogelman

Others Attending: See Attached List

Representative Welshimer moved that the minutes for the February 12, 1991, meeting be approved. Motion seconded by Representative Wells. Motion carried.

Mr. Dick Brock of the Insurance Commissioner's Office appeared as a proponent in the hearing for HB 2146. This bill concerns amendments to statutory provisions which were enacted in 1968 to identify, authorize and regulate entities engaged solely in the business of financing insurance premiums. The more substantive amendments include changes that are necessary to permit the Department of Insurance to issue premium finance companies a continuous license to parallel the process used for insurance entities and agents; to provide for an actuarial calculation of unearned service charges in all instances; the removal of the \$5 limit on delinquency charges in order that the charge will vary with the magnitude of the delinquency (5% of premium amount); permit premium finance companies to charge a penalty equal to 10% of the amount of the check for worthless checks; and establish a specific time limit of 20 days for the return of unearned premium to the premium finance company by insurers in the event a financed policy is canceled. See Attachment 1.

There were no opponents to HB 2146.

Representative Campbell appeared as a proponent in the hearing for HB 2116. This bill would allow an insuree to cancel a term life insurance policy and receive a refund on the unused premium such as is available to purchasers of health, auto, and liability insurance. At this time it is the option of the insurance company to either refund the unused premium or deny the request. This bill would apply to term life insurance only.

Mr. David Hanson, representing the Kansas Life Association, testified as an opponent of HB 2116. See Attachment 2. A pro rata refund may not be equitable or warranted in every case. There is a certain amount of administrative expense involved in issuing the policy, which the insurer should not be required to refund in the event the insured decides to cancel the policy after only a few days. The agent's commission may have already been paid out of the premiums and, therefore, may not be available for refund.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE

room 531 N, Statehouse, at 3:30 ~~a.m.~~ p.m. on Wednesday, February 13, 1991

Mr. Hanson suggested that another method of computing the refund with certain periodic minimum requirements would be more equitable. This would discourage the use of term life insurance as "trip insurance." Mr. Hanson recommended this bill and its possible ramifications be more carefully studied by representatives of insurance companies and the Insurance Department prior to decision making by the Insurance Committee.

Mr. Roger Viola, Security Benefit Life, testified as an opponent of HB 2116. See Attachment 3. It is the position of SBL that HB 2116 should reflect that an insured who desires to cancel during the policy term only be entitled to receive the differences between the premium actually paid and the premium which would have been paid had he or she elected at the commencement of the term to pay monthly quarterly or semiannual premiums. Mr. Viola also suggested that notifications of cancellation be required to be submitted in writing. This would help avoid a dispute as to the liability of an insurer which might arise if telephonic cancellations were allowed and a death occurred shortly after a verbal cancellation was made.

Ms. Nancy Zogelman, Blue Cross/Blue Shield, asked the Committee how HB 2116 would affect the refund policy in group policies. Mr. Brock of the Insurance Department suggested that provisions for refund should be part of the original contract.

The Committee adjourned at 4:16 p.m.

Testimony By
Dick Brock, Kansas Insurance Department
Before the House Insurance Committee
on House Bill No. 2146
February 13, 1991

In 1968 separate and specific statutory provisions were enacted to identify, authorize and regulate entities engaged solely in the business of financing insurance premiums. Since inception, there has been no general review or revision of these statutory provisions. Therefore, in 1989 former Commissioner of Insurance Fletcher Bell created a study group consisting of representatives of premium finance companies doing business in this state and members of the Insurance Department staff to review the relevant statutes and recommend any appropriate changes.

House Bill No. 2146 consists of the recommended amendments resulting from that effort. Several editorial changes are included such as incorporating reference to the consumer credit code in line 26, page 1 instead of its predecessors and changes to accommodate current bill drafting criteria.

The more substantive amendments include changes contained in Section 2 that are necessary to permit the Department to issue premium finance companies a continuous license to parallel the process used for insurance entities and agents; the amendments in Section 3, lines 38 and 39, page 2 to provide for a pro rata calculation of unearned service charges in all instances; the removal of the \$5 limit on delinquency charges in Section 4, line 5, page 3 in order that the charge will vary with the magnitude of the delinquency; the addition of the new language contained in New Section 5 to permit premium finance companies to charge a penalty equal to 10% of the amount of the check for worthless checks; and, in Section 6, line 13, page 4 establish a specific time limit of 20 days for the

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Attachment 1*

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return of unearned premiums to the premium finance company by insurers in the event a financed policy is cancelled.

The amendments proposed by House Bill No. 2146 are not of great magnitude but they will simplify the administration of the laws relating to premium finance companies for both the Insurance Department and the regulated industry. For that reason, we support House Bill No. 2146 and hope you will give it favorable consideration.

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RALPH F. GLENN
(1988)

February 13, 1991

House Insurance Committee
State Capitol
Topeka, KS 66612

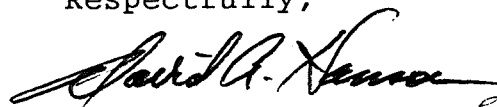
Re: House Bill 2116

Dear Chairman Turnquist and Members of the Committee:

The Kansas Life Association would like to submit several considerations concerning the proposed requirement for proportional refunds upon cancellation of term life insurance. A pro rata refund may not be equitable or warranted in every case. Obviously, there is a certain amount of administrative expense involved in issuing the policy, which the insurer should not be required to refund in the event the insured decides to cancel the policy after only a few days. The agent's commission may have already been paid out of the premiums and therefore may not be available for refund. We therefore feel that another method of computing the refund with certain periodic minimum requirements would be more equitable. Term life insurance is not the same as what is sometimes referred to as "trip insurance" and is not underwritten or marketed as such. However, the potential impact of requiring proportionate refunds on every cancellation would allow the purchase of large amounts of term life insurance immediately prior to departing for a trip or engaging in some dangerous activity and then, upon safe completion thereof, immediately cancelling the insurance policy, requiring almost a full refund. This could certainly affect the underwriting and cost of such insurance.

We are therefore requesting your consideration of other methods of determining an appropriate refund.

Respectfully,



DAVID A. HANSON

DAH:kls

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Attachment 2*

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HOUSE INSURANCE COMMITTEE
State Capitol
Topeka, Kansas 66612

Re: House Bill 2116

Dear Chairman Turnquist
and Members of the Committee:

I am Senior Vice President and General Counsel for Security Benefit Life Insurance Company ("SBL"). SBL is a member of the Kansas Life Association and is a domestic life insurance company specializing in the sale of life insurance, annuities and mutual funds. It has approximately \$3 billion under management.

SBL has no objection to the concept of H.B. 2116, although we do feel there are two (2) principal problems with the proposed statute as it is currently drafted.

The first of these concerns the amount of premium to be refunded upon cancellation. Term life insurance policies are priced by our Company with the assumption that all premiums are paid on an annual basis. Likewise, our pricing standards assume that all lapses occur at the end of the year. Obviously, this is not always the case. Some people pay premiums on a basis other than annual and some lapses occur during the term of the policy.

Since it is more expensive for our Company to administer policies where the premiums are paid on a basis other than annual, we charge an additional premium for those people desiring to pay their premiums on a monthly, quarterly or semiannual basis. As you can readily determine, it is less expensive to administer a policy where only one premium is paid per year rather than handling two (2), four (4) and twelve (12) premium payments per year.

Therefore, it is our position that H.B. 2116 should reflect that an insured who desires to cancel during the policy term only be entitled to receive the difference between the

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premium actually paid and the premium which would have been paid had he or she elected at the commencement of the term to pay monthly, quarterly or semiannual premiums. As an example, assume the annual premium on a term policy is \$100. Monthly premiums might be \$10 each. Consequently, if an insured elects to terminate his coverage after three (3) months, he or she should only be allowed to recover \$70 rather than \$75.

The second problem which we see with the proposed statute relates to the term "cancellation." It is our suggestion that notifications of cancellation be required to be submitted in writing. This would help avoid a dispute as to the liability of an insurer which might arise if telephonic cancellations were allowed and a death occurred shortly after a verbal cancellation was made. Anything less than written confirmations could result in disputes arising between insurers and insureds over when cancellations were actually made.

Our Company also concurs in the comments made by David A. Hanson to your Committee on February 13, 1991.

Thank you for your time and your consideration of our comments concerning H.B. 2116. We remain willing to assist you in clarifying the provisions of this bill.

Very truly yours,

Roger K. Viola
ROGER K. VIOLA

RKV/lg