

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE

room 531 N, Statehouse, at 3:30 ~~xxx~~ p.m. on Monday, March 18, 1991, 19

Representative Wells moved for favorable passage to the consent calendar for SB51. Representative Welshimer seconded the motion. Motion carried.

Hearing for SB52 - Amends insurance laws relating to the investments of domestic companies. The bill would change the designation used to identify investment grade bonds from a "Yes/No" designation to a "1" and "2" designation.

Dick Brock of the Insurance Commissioner's office appeared as a proponent of th bill. See Attachment 3. The newly expanded National Association of Insurance Commissioners designations arose out of the concern about insurance company investments in high-yield, non-investment grade securities commonly known as "junk" bonds. Designations "1" and "2" of the revised NAIC categories generally parallel the "Baa3" or better Moody's rating otherwise used in Kansas investment statutes.

There were no opponents appearing.

Representative Cribbs moved for favorable passage to the consent calendar for SB 52. Representative Helgerson seconded the motion. Motion carried.

Hearing for SB304 - Allows property and casualty umbrella policies to have rates quoted prior to approval of Insurance Commissioner.

Glenda Cafer, Legislative Counsel for American Insurance Association, appeared as a proponent for the bill. See Attachment 4. Premiums for umbrella policies are determined by negotiating a percentage of the underlying premium for each of the lines of insurance receiving umbrella coverage. Insureds who purchase umbrella insurance are large commercial businesses who need insurance in the double digit million dollar range which is provided by umbrella coverage. Renewal periods are often a matter of hours or days away from expiration and the current 30 day period for approval of rates prior to utilization does not work in the insurance purchasing environment of today.

There were no opponents appearing.

Representative Cribbs moved for favorable passage for SB304. Representative Helgerson seconded the motion. Motion carried.

Meeting adjourned at 4:15 p.m.

Testimony By
Dick Brock, Kansas Insurance Department
Before the House Insurance Committee
on Senate Bill No. 50
March 18, 1991

K.S.A. 40-223 pertains to the compensation, expenses and other costs associated with the conduct of insurance company examinations performed by the Insurance Department and establishes the procedure which requires the insurance company being examined to reimburse Kansas for such costs.

Because of the reimbursement process, the Department's examiners, except for limited, specific activities addressed in other statutes, are paid only for the time they are actually engaged in performing an examination. Therefore, examiners cannot receive and the state will not be reimbursed for any expenses not specifically identified in the law. However, in Kansas, examiners are full-time employees. When they complete an examination on one company, another company is due for an examination so there is no break or time off for examiners which occurs during a normal course of events when moving from one examination to another. For this reason, the law was amended several years ago to authorize the Commissioner to charge an additional amount when billing companies for reimbursement in order to develop a funding mechanism that can be used to provide examiners paid vacation time on the same basis as state employees in the classified service.

Senate Bill No. 50 would extend this same principle and procedure to sick leave. The additional amount currently being imposed to fund vacation leave ranges from \$5.10 to \$17.43 per day depending on the salary of the examiner involved and his or her length of service. Because sick leave allowance does not vary with length of service and because for examiners, sick leave would not be accumulated for vacation days or sick leave. the range of additional charges pertinent to Senate Bill No. 50 would be \$5.76 to \$10.49 per examination day or an annual total of \$14,020.01 at current examiner compensation levels.

*House Insurance
March 18, 1991
Attachment 1*

Testimony By
Dick Brock, Kansas Insurance Department
Before the House Insurance Committee
on Senate Bill No. 51 as amended
March 18, 1991

In 1988, the legislature enacted a proposal presented by the Insurance Department which requires health maintenance organizations (HMOs) to provide conversion coverage to enrollees or their dependents if their HMO coverage is terminated for any reason and the HMO continues to transact business in the service area. One of the fundamental differences between an HMO and more traditional insurance is that HMOs provide or arrange for the provision of health care services directly to their enrollees rather than in some way paying for or indemnifying insureds for such services. Consequently, when a conversion responsibility was imposed on HMOs it was not believed to be appropriate to attempt to place HMOs under the same kind of continuation and conversion requirements applicable to Blue Cross and Blue Shield and commercial insurers. However, there were a number of similarities so many of the provisions relevant to conversions generally were made applicable to HMOs by reference. These appear on lines 28 and 39 of page 2.

Senate Bill No. 51 proposes a slight change in this law to more clearly specify the obligation of an HMO to provide enrollees and their dependents a reasonable notice of their conversion rights. Originally an attempt to accommodate this need was by reference to the notice requirement applicable to Blue Cross and Blue Shield and other insurers. This was paragraph (21) on line 32, page 2. However, because this provision also refers to a continuation right not present with respect to HMOs -- although it perhaps should be -- one HMO doing business in Kansas has resisted application of this statute. Therefore, Senate Bill No. 51 proposes the addition of a specific notice requirement to the conversion law applicable to HMOs which should eliminate this problem.

*House Insurance
March 18, 1991
Attachment 2*

The Senate Committee amendments appearing in lines 31-37 on page 2 specifically allow HMOs to include provisions in their contracts that will help them obtain information about events and persons that would trigger the notice requirement.

Testimony By
Dick Brock, Kansas Insurance Department
Before the House Insurance Committee
on Senate Bill No. 52
March 18, 1991

Senate Bill No. 52 consists of an editorial amendment to the statutes governing investments of domestic insurance companies. The designation used by the National Association of Insurance Commissioners (NAIC) to identify investment grade bonds has been changed from a "yes"/"no" designation to a "1" through "6" designation as part of a revised procedure adopted by the NAIC to establish a more refined system for valuing the quality of bonds. The new expanded NAIC designations arose out of the concern about insurance company investments in high-yield, non-investment grade securities commonly known as "junk" bonds. Designations "1" and "2" of the revised NAIC categories generally parallel the "Baa3" or better Moody's rating otherwise used in Kansas investment statutes (line 26, page 1 and line 31, page 2 of Senate Bill No. 52).

A complete comparison of the NAIC categories to those of recognized rating agencies is shown on the attached pages. In this comparison "SVO" refers to the Securities Valuation Office of the NAIC. This office is located in the New York financial district and plays an important regulatory role in providing stabilized values on securities owned by insurers for accounting and annual statement purposes.

*House Insurance
March 18, 1991
Attachment 3*

Recognized Rating Agencies and the Rating Equivalent of
Their Systems to the SVO Rating System

1. Moody

o Corporate, Government and Municipal Ratings	SVO
Aaa; Aa 1, 2, 3; A1, 2, 3	1
Baa 1, 2, 3,	2
Ba 1, 2 3,	3
B 1, 2, 3	4
Caa, Ca, C	5 or 6
o Commercial Paper	
P-1	1
P-2	2
P-3	3
N-P	4

2. Standard and Poors

o Corporate and Municipal ratings	
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC+, CCC, CCC-, CC, C	5
CI, D	6
o Commercial Paper	
A	1
A-1, A-2	2
A-3	3
B	4

2 of 3

C	5
D	6

3. Duff and Phelps

o Fixed Income Rating Scale	
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC	5 or 6
o Commercial Paper and Certificate of Deposit	
D1+	1
D1	1
D1-	1
D2	2
D3	2

LAW OFFICES
BENNETT, DILLON & CALLAHAN
1605 S.W. 37TH STREET
TOPEKA, KANSAS 66611
(913) 267-5063

MARK L. BENNETT, JR.
WILBURN DILLON, JR.
LORI M. CALLAHAN

FAX (913) 267-2652

GLENDAL. CAFER

TO: House Insurance Committee
FROM: Glenda L. Cafer, Kansas Legislative Counsel
American Insurance Association
SUBJECT: S.B. 304
DATE: March 18, 1991

The American Insurance Association is a national trade organization representing more than 280 companies who write property and casualty insurance. I appreciate the opportunity to testify today.

AIA supports S.B. 304.

The purpose of S.B. 304 is to allow companies which write the more difficult lines of insurance to quote a premium to an insured prior to approval of the premium by the Insurance Department, subject to approval by the Department within a set amount of time. The insurance companies which would be affected by S.B. 304 would be those companies writing property casualty umbrella policies. These "umbrella" policies are policies in excess of the basic lines of insurance. Premiums for umbrella policies are determined by negotiating a percentage of the underlying premium for each of the lines of insurance receiving umbrella coverage. Insureds who purchase umbrella insurance are large commercial businesses who need insurance in the double

*House Insurance
Attachment 4
March 18, 1991*

digit million dollar range which is provided by umbrella coverage.

The need for S.B. 304 has become apparent as Kansas has become a state in need of larger amounts of insurance for its growing businesses. The companies who currently would like to write umbrella insurance in the state of Kansas are, however, curtailed from doing so in that they must wait until all underlying premiums are quoted in order to establish their umbrella premium, since it is a percentage of the base premium on the underlying coverage. In other words, all the quotes from all the other companies for all the other lines of insurance that the business will be utilizing must be in before the umbrella insurance company can know its premium, and by then, the renewal periods are often a matter of hours or days away from expiration. The current 30 day period for approval of rates prior to utilization, therefore, does not work in this very sophisticated insurance purchasing environment.

As Kansas attracts larger commercial businesses, it needs to be able to assure these businesses that adequate protection in the way of insurance is available in Kansas. S.B. 304 is one factor which will allow this development.

We would ask your support, therefore, of S.B. 304.