

Approved: Jan. 21, 1998
Date

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Don Steffes at 9:00 a.m. on January 14, 1998 in Room 529-S of the Capitol.

All members were present except: Senator Feleciano

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Bud Grant, KCCI
Tom Wilder, Kansas Insurance Department
Lori Callahan, KaMMCO
Kurt Scott, Chief Financial Officer, KaMMCO
Jerry Slaughter, Kansas Medical Society

Others attending: See attached list

Bud Grant, representing KCCI, requested the introduction of legislation which would change the way in which finance charges on precomputed consumer credit transactions are figured (Attachment 1). Senator Praeger moved for the proposal to be entered into legislation. Motion was seconded by Senator Brownlee. Motion carried.

Hearing on SB 392 -- Allowing the merger or consolidation of mutual insurance companies providing liability insurance for health care providers with certain insurance companies

Lori Callahan, counsel for KaMMCO, said they represent 40% of the medical malpractice marketplace for physicians, dentists and hospitals in Kansas. Their rates are lower today than in 1988 when they were first formed even though their rates are on the high end in today's market place. Their emphasis has been on insuring the solo as well as the small practice groups. The mutual company is owned by physicians so they could pay dividends with surplus funds but they usually return this to the insureds through practice management resources and value added services. Ms. Callahan, along with Kurt Scott, CFO, stated that as diversity has become the key to strength in the health care community, it is necessary their company be allowed to consolidate or merge with another company (Attachment 2). This bill would allow the merger of managed care malpractice insurance with physicians insurance. The bill still needs some adjustment and they plan to return next week with an amendment after discussion with the Kansas Insurance Department.

Tom Wilder of the KID said they supported the concept and will probably be involved in the development of a substitute bill.

Hearing on SB 411 -- Utilization review organizations

Tom Wilder, Kansas Insurance Department, explained that this bill would remove from the list of approved accreditation groups one that is no longer in operation (Attachment 3). He also asked for an amendment to the bill which would change the name of the Utilization Review Accreditation Commission (URAC) to the American Accreditation Health Care Commission.

Jerry Slaughter of the Kansas Medical Society voiced agreement with the proposal.

Senator Clark moved to amend the bill as requested. Motion was seconded by Senator Brownlee. Motion carried.

Senator Clark moved to report the bill favorably as amended. Motion was seconded by Senator Brownlee. Motion carried.

CONTINUATION SHEET

MINUTES OF THE Senate Committee on Financial Institutions & Insurance, Room 529-S Statehouse, on January 15, 1997.

Hearing on SB 412 -- Risk-based capital

Tom Wilder, Kansas Insurance Department, requested the bill which would make a change to the law dealing with the filing of financial reports with the Department (Attachment 4). The proposed change would bring Kansas statute into compliance with standards of the National Association of Insurance Commissioners (NAIC).

Dave Hanson, Kansas Association of Property and Casualty Insurance Companies and the Kansas Life Insurance Association, presented written testimony supporting the request (Attachment 5).

Senator Becker moved to pass the bill out favorably. Motion was seconded by Senator Barone. Motion carried.

The meeting was adjourned at 10:00 a.m.

The next meeting is scheduled for January 15, 1998.

SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: 1/14/98

NAME	REPRESENTING
Tom Wilder	Kansas Insurance Dept
Leri Callahan	Ka MMCO
Kurt Ross	Ka MMCO
Teresa Salenauer	HIPA
Calvin Hill Denton	KS Association of Health Plans
Max Draper	KMS
Kathy Olsen	ICBA
David Hanson	Ks Insur Assns.
Tom Bell	Ks. Hosp. Assn.
Rvd Grant	KCC
Glenn M. Steibel	Ks. Detail Lawyers Assn
Anne Spiess	Peterson Public Affairs Group
Richard Wilkover	Farmers Alliance
Lee Wight	Farmers Int. Group
Roger Franke	Ks Gov. Consultants
Pat Morris	KATA

KCCI requests the following amendments to:

Section 16a-2-201

- (3) This section does not limit or restrict the manner of calculating the finance charge by way of add-on, discount, or otherwise, so long as the finance charge does not exceed that permitted by this section. *If the sale is precomputed:*
- (a) *the finance charge may be calculated on the assumption that all scheduled payments will be made when due, and the fact that payments are made either before or after the due date does not affect the amount of finance charge which the creditor may charge or receive; and*
 - (b) *the effect of prepayment is governed by the provision on rebate upon prepayment.*

NEW SECTION

(8) *Rebate Upon Prepayment*

- (a) *Except as provided for in this section, upon prepayment in full of a precomputed consumer credit transaction, the creditor shall rebate to the consumer an amount not less than the amount of rebate provided in subsection b, paragraph "1," or redetermine the earned finance charge as provided in subsection b, paragraph "2," and rebate any other unearned charges including charges for insurance. If the rebate otherwise required is less than one dollar, no rebate need be made.*
- (b) *The amount of rebate and redetermined earned finance charge shall be as follows:*
 - 1. *The amount of rebate shall be determined by applying, according to the actuarial method, the rate of finance charge which was required to be disclosed in the transaction:*
 - i. *Where no deferral charges have been made in a transaction, to the unpaid balances for the actual time remaining as originally scheduled for the period following prepayment; and,*
 - ii. *Where deferral charges have been made in a transaction, to the unpaid balances for the actual time remaining as extended by deferral for the period following prepayment.*

The time remaining for the period following prepayment shall be either the full days following prepayment; or both the full days, counting the date of prepayment, between the prepayment date and the end of the computational period in which the prepayment occurs, and the full computational periods following the date of prepayment to the scheduled due date of the final installment of the transaction.

*Senate Financial Inst.
Ans.
Attachment 1
1/14/98*

2. *The redetermined earned finance charge shall be determined by applying, according to the actuarial method, the rate of finance charge which was required to be disclosed in the transaction to the actual unpaid balances of the amount financed for the actual time the unpaid balances were outstanding as of the date of prepayment. Any delinquency or deferral charges collected before the date of prepayment do not become a part of the total finance charge for purposes of rebating unearned charges.*
- (c) *Upon prepayment, but not otherwise, of a consumer credit transaction whether or not precomputed, other than a consumer lease, a consumer rental purchase agreement, or a transaction pursuant to open end credit:*
1. *If the prepayment is in full, the creditor may collect or retain a minimum charge not exceeding five dollars in a transaction which had an amount financed of seventy-five dollars or less, or not exceeding seven dollars and fifty cents in a transaction which had an amount financed of more than seventy-five dollars, if the finance charge earned at the time of prepayment is less than the minimum allowed pursuant to this subsection.*
 2. *If the prepayment is in part, the creditor may not collect or retain a minimum finance charge.*
- (d) *For the purposes of this section, the following defined terms apply:*
1. *"Computational Period" means the interval between scheduled due dates of installments under the transaction if the intervals are substantially equal or, if the intervals are not substantially equal, one month if the smallest interval between the scheduled due dates of installments under the transaction is one month or more, and otherwise one week.*
 2. *The "interval" between specified dates means the interval between them including one or the other but not both of them. If the interval between the date of the transaction and the due date of the first scheduled installment does not exceed one month by more than fifteen days when the computational period is one month, or eleven days when the computational period is one week, the interval may be considered by the creditor as one computational period.*
- (e). *This section does not preclude the collection or retention by the creditor of delinquency charges.*
- (f) *If the maturity is accelerated by any reason and judgment is obtained, the consumer is entitled to the same rebate as if payment had been made on the date maturity is accelerated.*
- (g) *Upon prepayment in full of a precomputed consumer credit transaction by the proceeds of consumer credit insurance, the consumer or his estate is entitled to the same rebate as though the consumer had prepaid the agreement on the date the proceeds of the insurance are paid to the creditor, but no later than ten business days after satisfactory proof of loss is furnished to the creditor.*

KaMMCO
KANSAS MEDICAL MUTUAL INSURANCE COMPANY

TO: Senate Financial Institutions and Insurance Committee

FROM: Lori Callahan, General Counsel

RE: S.B. 392

DATE: January 13, 1998

The Kansas Medical Mutual Insurance Company (KaMMCO) is a Kansas domestic physician-owned professional liability company formed by the Kansas Medical Society. KaMMCO is the largest insurer of physicians in Kansas.

KaMMCO supports S.B. 392.

When KaMMCO was formed in 1988, it was created under K.S.A. 40-12a01 et seq. This legislation allowed insurance companies to be formed by groups of health care providers. In the time period since KaMMCO's creation, diversity has become the key to strength in the health care community. KaMMCO, however, is extremely limited in its ability to diversify, because unlike all other insurance statutes, there is no provision in K.S.A. 40-12a01 et seq. for merger or consolidation. S.B. 392 references the other provisions of the Kansas statutes and allows mergers or consolidation in the same manner as other insurance companies.

KaMMCO would request the committee to pass S.B. 392 favorably.

Senate FDS
Attachment 2
1/14/98

Endorsed by the Kansas Medical Society



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: Senate Financial Institutions
and Insurance Committee

From: Tom Wilder

Re: S.B. 411 (Utilization Review Organizations)

Date: January 14, 1998

I am appearing today in support of Senate Bill 411 which was introduced by Senator Steffes and Senator Feleciano at the request of the Kansas Insurance Department. The proposed legislation deals with utilization review organizations which are entities that examine the appropriateness and efficiency of medical care provided by hospitals and doctors. This review is done by insurance companies to help control the cost of claims and to determine whether medical providers are giving cost-effective and medically necessary care to their patients. A utilization review organization can either be an insurance company or an outside organization which contracts with an insurer.

In 1994, the Kansas Legislature approved legislation which allows the Kansas Insurance Department to license and regulate utilization review organizations. There is an exception in this law in the licensing requirement for review organizations which are certified by either: (a) the Utilization Review Accreditation Commission (URAC), (b) the Kansas City Private Review Group, which was an accreditation group located in Kansas City, Missouri and (c) any other accreditation group approved by the Commissioner.

The Kansas City Private Review Group is no longer in operation. Senate Bill 411 removes them from the list of "approved" accreditation groups listed in the statute.

We are also asking the Committee for one amendment to the legislation. After the bill was introduced, the Department learned that the Utilization Review Accreditation

Senate File D
Attachment 3

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Topeka, Kansas 66612-1678

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1/15/98

Commission (URAC) has changed its name to the American Accreditation Health Care Commission. Their name should be amended in Section 1 (K.S.A. 1997 Supp. 40-22a06 (b)(1). I have attached a copy of a proposed amendment to my testimony.

I would ask that the Senate Committee approve Senate Bill 411 as amended favorable for passage.

Amendment to 1998 SB 411

(b) The provisions of K.S.A. 1994 Supp. 22a04(b)(2), (3), (4), (5), (6) and subsection (c) shall not apply to:

(1) Utilization review organizations accredited by and adhering to the national utilization review standards approved by the ~~utilization review accreditation commission (URAC)~~ **American Accreditation Health Care Commission**; or

~~(2) utilization review organizations presenting evidence satisfactory to the commissioner that they subscribe and are adhering to the voluntary guidelines established by the Kansas City private review group. This exemption shall apply only to Kansas City private review group participants located within the Kansas City, Missouri, and Kansas Metropolitan Statistical Area established by the federal Office of Management and Budget as of June 30, 1993; and~~

~~(2)~~ (3) such other utilization review organizations as the advisory committee may recommend and the commissioner approves.



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: Senate Financial Institutions
and Insurance Committee

From: Tom Wilder

Re: S.B. 412 (Risk Based Capital)

Date: January 14, 1998

I am appearing in support of Senate Bill 412 which was introduced by Senator Steffes and Senator Feleciano at the request of the Kansas Department of Insurance. This bill makes a change to the law dealing with the filing of financial reports with the Department. This change to the law will bring our statute into compliance with standards of the National Association of Insurance Commissioners ("NAIC").

Risk based capital ("RBC") is the method used by the Department to evaluate the financial solvency of insurance carriers doing business in this state. Those companies must file financial reports with the Department using RBC instructions and formulas developed by the NAIC. These instructions are amended each year by the NAIC to reflect changes in accounting procedures.

Our current law (K.S.A. 1997 Supp. 40-2c01) requires companies to use the 1996 version of the RBC instructions. The bill would change the standard so that carriers use the RBC formulas in effect as of December 31, 1997 and adopted as rules and regulations by the Commissioner.

I would ask that this committee approve S.B. 412 favorable for passage.

*Senate F.D.S.D.
Attachment 4
1/15/98*

David A. Hanson
Kansas Insurance Associations
Topeka, Kansas
(785) 232-0545

TESTIMONY ON SB412

TO: Senate Financial Institutions and Insurance Committee
State Capitol
Topeka, Kansas

RE: Senate Bill No. 412

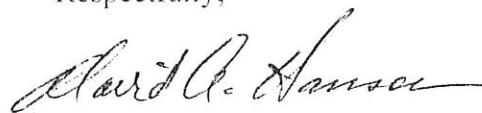
Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present information on behalf of the Kansas Association of Property and Casualty Insurance Companies and the Kansas Life Insurance Association, whose members are domestic insurance companies in Kansas.

The risk based capital provisions involved in Senate Bill 412 were developed by the NAIC for use by state insurance regulators as a standardized method of monitoring the solvency of insurers and the need for corrective action. We had requested the reference date in the statutory definition of "RBC instructions" to make sure the NAIC promulgated RBC instructions and formula were limited to those that we had had an opportunity to review, rather than potential future revisions, which could adversely affect our companies' risk-based capital and the resulting action or control levels. While we believe our companies remain in good standing under the previously approved NAIC instructions and formula, we believe any significant changes in those instructions and formula by the NAIC should be carefully considered before adopting them in Kansas.

Our companies have been reviewing the proposed changes and we do not believe there will be any substantial adverse effect from the revisions proposed in Senate Bill 412. Thank you for your consideration.

Respectfully,



DAVID A. HANSON

Senate F&D
Attachment 5
1/14/98