

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:35 p.m. on February 1, 2000 in Room 527-S of the Capitol.

All members were present except: Representative Burroughs

Committee staff present: Dr. Bill Wolff, Research  
Ken Wilke, Revisor  
Mary Best, Secretary

Conferees appearing before the committee: Linda DeCoursey-Kansas Department of Insurance  
Chris Collins-Kansas Medical Society  
Larry Ann Lower-Kansas Association of Health Plans  
Bill Sneed-Health Insurance Association of America  
Lee Wright-Farmers Insurance Group  
David Hanson-Kansas Association of Property & Casual  
Insurance Co./National Association of Independent Insurers

Others attending: See attached Committee Guest List

The first order of the meeting was for the Chair to remind conferees and guests to please sign the attendance list as there have been several who had not been doing this. With this task completed the Chairperson addressed the committee on two pieces of legislation he was introducing, one of which would eliminate the State Employee Health Commission and the second would simply place a limitation of powers on the commission. The motion was made by Representative Kirk to accept the bill request and was seconded by Representative Empson. A vote of the committee was taken and the motion was passed.

**HB 2681- Health Insurance; Capitation of Pharmaceutical Benefits.**

With this piece of business completed Chairperson Tomlinson opened the public hearings on **HB 2681**. The first conferee recognized by the Chair was Ms. Linda DeCoursey, Kansas Insurance Department. Ms. DeCoursey offered Proponent Testimony to the committee. A copy of the testimony (Attachment #1) is attached hereto and incorporated into the Minutes by reference. Her testimony offered an insight to the bill which states "no health insurer shall offer or operate a compensation arrangement between the health insurer or its agents and a participating provider that may directly or indirectly serve as an inducement to reduce or limit the delivery of medically necessary service to an insured".

There is a feeling some insurers were giving doctors financial incentives to prescribe low cost medications. While these were effective medications, the feeling was insurers were attempting to gain control of rising drug spending. Physicians enroll patients in their practices accepting a flat fee. The fees are used to pay for medications used by these groups. The physicians are reimbursed by the insurers even if no drugs are used that month. Some months the physicians have a profit balance, some months they have a loss balance, and they stand the costs.

The insurance office feels that by strengthening the current law this "will curtail any advances of this type of "cost savings" in Kansas." While the commission has not received any complaints regarding this matter, the department felt it was bet to safe-guard against any up-coming instances.

The Insurance Department offered an amendment to the bill. The Commissioner proposed inserting the word "necessarily" into the last sentence, thereby reading, "Compensation arrangement which involve capitation payments or other risk sharing provisions shall not "necessarily" be considered inducements."

The Insurance Department feels that by passing **HB 2681**, this will protect the Kansas consumers from these type of incentives. With this Ms. DeCoursey stood for questions.

Questions were asked by Representatives Cox, Empson, Kirk, Boston, The Chair, and Myers.

With no further questions from the committee, Ms Chris Collins, Kansas Medical Society, was given the floor. Ms. Collins gave Proponent Testimony to the committee. A copy of her testimony is (Attachment #2) is attached hereto and incorporated into the Minutes by reference.

Ms. Collins notified the committee her organization supported the bill which is a part of the Patient Protection Act. They continue to support the philosophy "that contracted arrangements which create financial incentives for providers to deliver or order less care than medically necessary should be prohibited." They feel that although pharmaceutical services are already covered under statute it does not hurt to be more explicit. Ms. Collins then stood for questions.

Questions were presented by Chairperson Tomlinson.

The Chair then recognized Mrs. Larry Ann Lower, Kansas Association of Health Plans. Mrs. Lower gave Opposition Testimony to the committee. A copy of the testimony is (Attachment #3) attached hereto and incorporated into the Minutes by reference.

Mrs. Lower informed the committee, her organization represents twelve (12) of the thirteen (13) HMO'S serving members enrolled in Kansas. They, (KAHP) were unclear on the arrangements for pharmaceutical benefits the Commissioner was trying to address. Their polls showed "no member plan was currently offering any kind of financial incentive to limit prescription benefits." However, with the rising costs they are attempting to address this issue while continuing try to meet the needs of their insureds by "implementing benefit plans designed to mitigate the impact of the increasing cost of prescription drugs." The KAHP encouraged the committee not to enact legislation that is not clear and could hamper the ability to continue to provide benefit plans. Mrs. Lower then stood for question.

Questions were asked by Representative Kirk.

The Chair offered the opportunity of further comments from the visitors or conferees. Mr. Bill Sneed, representing Health Insurers Association of America, offered no written testimony, but did stand to testify his members did not feel the need for such an amendment. Questions were presented by Representatives Myers, Boston and Phelps with the latter two being directed to the Insurance Department. With this discussions on the bill were completed and public testimony was closed.

#### **HB 2649-Prohibiting cancellation of homeowners insurance for filing a claim for loss.**

The first conferee to be recognized was Ms. Linda DeCoursey, Kansas Insurance Department. A copy of the testimony is (Attachment #4) attached hereto and incorporated into the Minutes by reference. Ms. DeCoursey gave Proponent Testimony. She briefed the committee on the contents and their interpretation (KID). Ms. DeCoursey also included in her testimony a few of the complaints on this issue from policy holders. Ms. DeCoursey explained this bill would prohibit cancellation or non-renewal of a homeowners policy if they filed a single loss claim due to wind, hail, or other acts of nature within any three consecutive year period the policy is enforce.

Ms. DeCoursey reminded the committee that purchasing insurance is usually a requirement of banks and other lending facilities in order to obtain a home loan. The Department feels this bill affords some protection to those homeowners who must still maintain insurance on mortgaged property. She then compared this to the much stricter laws we apply to auto insurance.

Ms. DeCoursey felt that this would also prevent homeowners from paying higher premiums, when after the one time claim cancellation, they are usually forced to pay when changing to another company. It was also brought out that many companies are reluctant or will even refuse to write a new policy for someone who has had their policy cancelled after a loss. Ms. DeCoursey stated that in the "Past years, more rating flexibility has been given to companies writing homeowners' insurance in Kansas through territorial rating. Now it is time to provide the consumer protections which are an important balance to market flexibility.

With this Ms. DeCoursey stood for questions.

Questions were asked by Representatives Empson, Boston, Myers (regarding Sect. 1) (Revisor Wilke responded) and Chairperson Tomlinson.

Mr. Bill Sneed, State Farm Insurance, presented Opponent Testimony to the committee. A copy of the written testimony is (Attachment #5) attached hereto and incorporated into the Minutes by reference.

Mr. Sneed offered testimony to the committee from State Farm's point, stating "State Farm, like many of the property/casualty companies doing business in this state, does not cancel or nonrenew property insurance policy after one storm loss." Mr. Sneed stated this is only done as a last resort and only after considering several factors. Mr. Sneed feels this bill restricts policy writing in this state, and that the three year loss limitation makes underwriting even more difficult. They also view the restriction as a penalty on the companies who have remained in this state when so many other companies have pulled out rather than work with these restrictions. They feel the companies who have brought insurance writing to this level are the companies who have long ago left Kansas. With this Mr. Sneed stood for questions.

Mr. Lee Wright, Farmers Insurance Group, gave Opponent Testimony to the committee. A copy of the testimony is (Attachment #6) attached hereto and incorporated into the Minutes by reference. Mr. Wright basically presented the same opposition to the bill as Mr. Sneed offered, adding they saw no indication of a rise in cancellation or lack of companies to cover homeowners. Mr. Wright also reminded the committee that Farmers Insurance Group is also an ongoing member of the Commissioners' Task Force on Natural Disasters, and throughout the meetings there has been no indication of a cancellation problem presented.

Mr. Wright offered, "If a Homeowners insurance availability problem does develop within our state, then the best solution is to encourage additional new companies to write business in Kansas. Mandated underwriting restrictions like the ones found in **HB 2649** tend to discourage rather than attract new companies to enter the marketplace." With this Mr. Wright stood for questions.

Questions were posed by Representatives Boston and Myers.

Mr. David Hanson, Kansas Association of Property & Casualty and National Association Independent Insurers, was the next conferee to be recognized by the Chairperson. Mr. Hanson also gave Opponent Testimony. Copies of the written testimony are (Attachments #7 & 8) are attached hereto and incorporated into the Minutes by reference.

Mr. Hanson also (representing over two hundred (200) members in property and casualty insurance companies doing business in Kansas) strongly opposed this piece of legislation on the premise that this bill place restrictions on the way insurers do business would do little to protect the consumer, but instead make it more difficult for insurers to provide and make the necessary decisions regarding policies awhile staying and remaining competitive in Kansas. Mr. Hanson informed that in "1997 representatives of three (3) NAII companies, along with legislative leaders, the Commissioner, and business development leaders came together in a task force to explore ways to improve the business climate in Kansas. This same task force drew a positive impact these insurers have on the Kansas economy and sent this same message to other insurance companies to bring their companies and jobs here.

The negative aspect is, the feeling the regulatory climate is unnecessarily burdensome for insurers to come to Kansas to compete. The Legislature and Commissioner, it is felt have made great strides in improving the environment. This includes the "approval of territorial rating, reduction or rate filing requirements and increased use of deductibles". Yet they feel when the insurers see a bill such as this they wonder if Kansas does want a regulatory environment that is less burdensome. Mr. Hanson continued on to further explain the downside of the three year cancellation period and its effect on the insurers, which is the inability to cancel a policy holder who have a string of loss claims within this period or has become unreasonable in their frequency of claims.

He further informed the committee these costs are passed on to other policy holders and could possibly reduce the quality of protection they are or would be receiving. Mr. Hanson then stood for questions.

Questions were presented by Representatives Meyers, Kirk, Showalter, and Boston (addressing “all other acts of nature”).

Written testimony also opposing the bill was presented to the committee for Mr. Kevin Davis, American Family Insurance. A copy of the written testimony is (Attached #9) attached hereto and incorporated into the Minutes by reference. Mr. Davis supports previous opposing testimony.

With no further testimony from either side of the issue, public hearings on **HB 2649** were closed.

With no new or old business the meeting of this day was adjourned.

The time is 4:50 p.m.

The next meeting will be held February 3<sup>rd</sup> at the regular time.

# HOUSE INSURANCE COMMITTEE GUEST LIST

DATE: Feb 1, 2007

NAME	REPRESENTING
Nancy Zigleman	Pfizer
Bruce Hubbs	Ks Pharmacists Assoc
Bill Pittman	Health Midwest
David Hanson	Ks Ins. Assn
Bill Sneed	State Farm
Lee Wright	Farmers
Larrie Ann Lower	KAITP
Maria Espinoza	Federico Consulting
Chris Collins	Kansas Medical Society
Sandra Lee Cooney	Ks Insurance Dept
Dave Holman	Western Resources
Stacy Kum	Western Resources, Jr
Chip Wheeler	Osteopathic Association
Marc Harman	Ks Div. of the Budget
Shevelland Jewery	United Healthcare
Mike Huttles	First Guard
Bob Williams	Ks. Pharmacists Assoc.
Karen Braman	SRS
Kohut Day	SRS
Carrie Donovan	ILHIA
Pat Morris	ILHIA



Kathleen Sebelius  
Commissioner of Insurance  
**Kansas Insurance Department**

TO: House Committee on Insurance

FROM: Linda De Coursey, Director of Government Affairs Division

RE: HB 2681 – Negative Incentives with Pharmaceutical Benefits

DATE: February 1, 2000

Mr. Chairman and members of the committee:

Thank you for the opportunity to review with you HB 2681 regarding the patient protection law. Current law states that that no health insurer shall offer or operate a compensation arrangement between the health insurer or its agents and a participating provider that may directly or indirectly serve as an inducement to reduce or limit the delivery of medically necessary service to an insured.

Last fall, a story broke concerning how some insurers, in order to control rapidly rising drug spending, were giving doctors financial incentives to prescribe the lowest-cost, most effective medications. Here is how the story goes: Doctors agree to accept a flat monthly fee ranging from as little as \$9 to more than \$15 per patient enrolled in their practices. That money is used to pay for medications needed by the group of patients. Insurers pay the fee to these contracts even if the patients (insureds) use no drugs at all that month. If the spending for all patients in the group is less than the payment, the doctors make a profit. If the total spending goes over, it costs the doctors.

Commissioner Sebelius believes strengthening the current law will curtail any advances of this type of “cost savings” in Kansas. Although the Commissioner had not received complaints from consumers or physicians regarding this type of arrangement, one news article stated that the idea

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was picking up steam in the Midwest, and on the West Coast, it's a given. According to one source, these pharmacy risk-sharing contracts are on the rise, up 24% in a three year period (1996-99).

While our law to prohibit inducements to reduce or limit delivery of medically necessary services is short and sweet, it was difficult to fix it. I had it written one way, then another way, and once we had the bill printed, the Commissioner determined that it didn't get at the problem at all. Therefore, Mr. Chairman, I have an amendment to the bill that offers a solution. The Commissioner would like to insert the word "necessarily" in the last sentence. It would thereby read: "Compensation arrangement which involve capitation payments or other risk sharing provisions shall not "necessarily" be considered inducements." The current statement assumes all capitation plans are good. There is indication by the aforementioned contracts that some capitation plans very well may not be good, and actually be against the negative incentive law we put in place in 1997.

With drug spending rising rapidly each year, (Hays Benefits Report says the average increase in health care premiums was 5.2% for 1998-99, up 1.7% over last year's modest 3.5% increase. The culprit: prescription drugs, which increased an average of 15% over the previous year. With out the prescription drug increase, the average health care increased for 1998-99 would have been just 3.7%.) pressures to reduce costs aren't likely to go away.

By passing HB 2681, consumers of Kansas are protected from negative incentives to limit medically necessary service to them. We respectfully ask your favorable consideration of HB 2681, as amended.

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Session of 2000

## HOUSE BILL No. 2681

By Committee on Insurance

1-20

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10 AN ACT concerning prescription plans; relating to capitation of pay-  
11 ments; amending K.S.A. 1999 Supp. 40-4605 and repealing the existing  
12 section.

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

15 Section 1. K.S.A. 1999 Supp. 40-4605 is hereby amended to read as  
16 follows: 40-4605. No health insurer shall offer or operate a compensation  
17 arrangement between such health insurer or its agents and a participating  
18 provider that may directly or indirectly serve as an inducement to reduce  
19 or limit the delivery of medically necessary services *or pharmaceutical*  
20 *benefits* with respect to an insured in any health benefit plan offered by  
21 such health insurer. Compensation arrangements which involve capitation  
22 payments or other risk sharing provisions shall not be considered  
23 inducements.

necessarily

24 Sec. 2. K.S.A. 1999 Supp. 40-4605 is hereby repealed.

25 Sec. 3. This act shall take effect and be in force from and after its  
26 publication in the statute book.

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KANSAS MEDICAL SOCIETY

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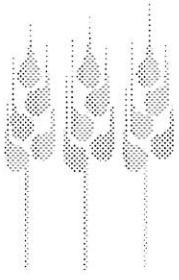
**TO:** House Insurance Committee  
**FROM:** Chris Collins *Chris Collins*  
Director of Government Affairs  
**DATE:** February 1, 2000  
**RE:** HB 2681: Negative Inducements for Pharmacy Services by Insurance Companies

The Kansas Medical Society appreciates the opportunity to testify before you this afternoon in support of HB 2681.

We supported the enactment of K.S.A. 40-4605, which was part of the Patient Protection Act, in 1997. KMS continues to support its underlying philosophy that contracted arrangements which create financial incentives for providers to deliver or order less care than is medically necessary should be prohibited. KMS believes that the proposed amendment to K.S.A. 40-4605 comports with the statute's philosophy of patient protection. While KMS assumed that pharmaceutical services were already covered under the statute, it may not hurt to make the prohibition explicit.

We urge you to report HB 2681 favorably. Thank you for considering our comments.

*Handwritten notes:*  
HSE Chris Collins  
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# Kansas Association of Health Plans

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**Testimony before the  
House Insurance Committee  
The Honorable Robert Tomlinson, Chairman  
Hearings on HB 2681  
February 1, 2000**

Chairman Tomlinson and members of the committee. Thank you for allowing me to appear before you today. I am Larrie Ann Lower, Executive Director of the Kansas Association of Health Plans (KAHP).

The KAHP is a nonprofit association dedicated to providing the public information on managed care health plans. Members of the KAHP are Kansas licensed health maintenance organizations, preferred provider organizations and others who support managed care. KAHP members serve many of the Kansans enrolled in an HMO.

The KAHP appears today in opposition to HB 2681. This bill states that a health insurer may not offer a compensation arrangement to a provider that would serve as an inducement to reduce or limit the delivery of pharmaceutical benefits. The KAHP is unclear on the types of arrangements for pharmaceutical benefits the Commissioner is attempting to address. I recently polled the KAHP member health plans requesting information about any type of financial arrangements that may put physicians in the position of accepting an arrangement that may encourage the physician to limit the delivery of pharmaceuticals. According to this poll, no member plan is currently offering any type of arrangement that includes financial incentives for physicians to limit prescription drug benefits.

However, as you are probably aware, the increasing cost of prescription drugs has been a problem that health plans and others are struggling with. Health plans are attempting to address this rising cost while still trying to meet the needs of our insureds by implementing benefit plans designed to mitigate the impact of the increasing cost of prescription drugs. The KAHP would encourage the Legislature not to enact any type of legislation that is unclear and could hamper our ability to continue these types of benefit plans. To do so may lead to increasing costs thereby increasing the population of the uninsured. I will be happy to try to answer any questions the committee may have.

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Kathleen Sebelius  
Commissioner of Insurance  
**Kansas Insurance Department**

TO: House Committee on Insurance  
FROM: Linda De Coursey, Director of Government Affairs Division  
RE: HB 2649 – Homeowners insurance cancellation due to stormloss  
DATE: February 1, 2000

Mr. Chairman and members of the Committee:

Thank you for the opportunity to discuss with you the merits of HB 2649. This bill would prohibit the cancellation or nonrenewal of a homeowners insurance policy because the insured has filed a single claim for loss due to windstorm, hailstorm, or other acts of nature within any three consecutive years the policy is in force.

Harsh weather is a fact of life in Kansas. In the winter, we have freezing temperatures and in the spring, we have high winds and quite often—tornadoes. If you choose to live in Kansas, you have no choice but to live with the weather.

Over 640,000 owner-occupied homes exist in Kansas. Most of these homes are insured. In fact, purchasing insurance is usually a requirement of banks and other lenders as a condition of making home loans. HB 2649 affords some protection to the homeowner who is required to maintain insurance on the mortgaged property. This proposal seems fair when compared to laws that restrict insurance companies on the nonrenewal of auto insurance in Kansas. K.S.A. 40-276a requires an insurance company to demonstrate that there has been a substantial change in the risk in order to nonrenew an auto policy. The homeowners bill is not nearly as intrusive in the industry's decision making process. And, while HB 2649 offers only minimum protection to the homeowner, it may prevent the homeowner from having to pay higher insurance rates when

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forced to shop for other insurance coverage after termination of coverage. Other insurance companies usually will not insure a property when coverage is terminated after a loss.

I have attached copies of a couple of the many complaints received each year from Kansans who have lost their homeowners coverage. These complaints are usually handled through our Consumer Assistance Division, however, one phone I received personally. He had been referred to me by Senator Clark. Surprisingly, the call was from an insurance agent. His good friend's insurance company had just non-renewed his homeowner's policy. His friend had been with this company for 17 years. He had been hit hard with weather-related claims. The agent's frustration was that the friend, because he had been cancelled or non-renewed, now could not find anyone to insure him. His comment to me was that it just seemed to be unfair to cancel a coverage with person who has been a good customer with a company for 17 years, and because he filed weather-related claims (act of God claims, at that), he no longer has homeowners insurance AND he can't find a company to insure him. He asked me, isn't there something we can do?

I think there is. The bottom line is that Kansas needs to adopt an insurance code that does not penalize its citizens for using insurance they have bought and paid for. Too many times, we at the Insurance Department hear: "I lost my insurance because I used it."

In Kansas, we protect car owners from losing insurance for filing a single claim. It is time to include home cancellation language to provide homeowners with that same kind of insurance protection. Consumers should not have their homeowners insurance canceled just because the insured must file a storm loss claim.

In the past five years, more rating flexibility has been given to companies writing homeowners' insurance in Kansas through territorial rating. Now it is time to provide the consumer protections which are an important balance to market flexibility.

Mr. Chairman and members of the committee, I respectfully request your favorable consideration of HB 2649.



# CONSUMER COMPLAINTS



December 29, 1999

Dear Ms. Sebelius:

I have been a (name of insurance company) customer for 2-3 years with both Homeowners and Auto insurance. In that time, I have had one homeowners claims due to an occurrence. I have NEVER been late on payment for either home or auto...if anything, they receive payment one-two weeks early!

My concern is that...Saturday I received a letter from my mortgage company stating that they had received notice of cancellation or non-renewal from my homeowners insurance. This was a surprise to me. I contacted (insurance company) this morning. They insisted it was true and that the reason was that I had "too many claims". I asked for verification of these "too many claims". The gal told me I had one from May and that was "too many". As a result, they were canceling my homeowners insurance. I asked her why I had to find out about this through my mortgage company. Her answer was that I would receive a "legal notice" closer to expiration date.

I am totally dismayed that one claim in the time I've had their insurance on both auto and home is a means to cancel my homeowners insurance! How can this be? I've been a homeowner for 7 years and this is the first claim ever. Is it my fault I had damage?

## Response to Insurance Department from Company

I am responding to the complaint filed in your office by (name of insured) homeowners policy number.

(Name of insured) policy was terminated effective the renewal date of January 2, 2000, due to a loss on May 3, 1999. However, a review of the loss indicates that the loss was due to a tornado and is designated a serial-numbered catastrophe loss. This catastrophe designation may have been overlooked in our initial underwriting review of the policy. Our underwriting guidelines do allow one catastrophe loss in three years and (name of insured) policy is eligible for continued coverage.

We reinstated (name of insured) (policy number) effective January 2, 2000. (Name of insured) and the mortgage company listed as loss payee will receive the renewal declarations within seven to ten days. Enclosed please find a copy of a letter to (name of insured) regarding our action.


We apologize for our error and appreciate the opportunity to fix the problem. Please call me at 1-800-842-9383, ext. 4833, if you have any questions.

## Insured Response to Company

I received communication from my mortgage company that my homeowners insurance (policy number) was being canceled by your company. This is to inform you that I will be canceling my auto insurance (policy number) effective (date) with your company. I am extremely dissatisfied with how my homeowners insurance has been handled.

At this point, I would not go back with (company name) for NOTHING. Again, I have yet to receive a notice from (name of company) about the cancellation. I specifically asked if I could be reinstated. It bothers me that an investigation from the Kansas Insurance Commission was the result of your company deciding to reinstate me. In my opinion, your company reinstated me to COVER YOUR (explicit language) with the Kansas Insurance Commissioner. I will not do business with a company that conducts business in this manner.

As a result, I am canceling my auto insurance as well. Enclosed is the cancellation form that you require.





# CONSUMER COMPLAINTS

June 29, 1999

Dear Madam:

We are writing with regard to recent correspondence that we received from our insurance agent concerning our homeowners insurance policy. We have enclosed the memo that was sent to our insurance agent by (name of ) Insurance Company stating that due to our losses, they wanted our deductible raised from \$500 to \$1000. We then received the enclosed correspondence from our insurance agent notifying us that (name of company) would not renew the policy at \$500 deductible, only \$1000 but would reduce the overall policy to Standard program rather than the preferred program at \$500.

We are extremely frustrated with this situation as it is our understanding that by paying premiums on a yearly basis, you are entitled to insurance compensation in the case of unforeseen occurrences, hence the whole idea of homeowners insurance. The claims that we made did not indicate any degree of negligence on our part, as our car was vandalized at a reputable hotel chain in a well lighted parking lot and we have yet to figure out how to reduce the wind speed in Kansas.

We ask your consideration in intervening between ourselves and (name of ) Insurance Company to reinstate our \$500 deductible with respect to the preferred Risk Homeowner's Program policy.

## Response to Kansas Insurance Department from Company

For your review, I have enclosed a copy of the memo that we sent to the agent and a printout of the insured reported claims to date.

(insurance company's name) has insured the (insureds) since 1994 on a Preferred Homeowners Policy and to date they have reported 6 claims in the last 3 years. Although we understand that the claims were unforeseen occurrences, we feel that this claim activity is abnormal. Therefore, we felt that we needed to make some underwriting changes to the policy to minimize the losses or charge a higher premium to help pay for the losses. We initially offered the insureds a renewal with a \$1000 deductible in the preferred program, but the agent called inquiring what if they wanted to stay with the \$500 deductible, would we offer them a renewal in the Standard Program.

Our renewal underwriting process has taken into consideration the cause of the losses and determined that they were unforeseen occurrence and thus has offered a couple of renewal options instead of just not renewing the policy. I feel that our underwriting on this property is fair and justified.

3/24/96 - WIND - damage to outbuilding -	Paid to insured: \$159.00
5/23/96 - WIND - damage to Pool/Trampoline -	Paid to insured: \$704.72
11/04/97- WIND - Pool Deck	Paid to insured: \$2,335.00
5/15/98 - WIND - Roof/Door	Paid to insured: \$220.00
6/19/98 - Theft - Theft from vehicle	Paid to insured: \$5,103.20
4/08/99 - WIND - Roof	Paid to insured: \$ 0.00

In three year period, total paid to insured: \$8521.92

## Insurance Department Response to Insured

This department has witnessed many examples of policies being terminated due to "claim frequency". Five in three years is considered above normal claims frequency. In the vast majority of cases, the insurance company will not work with the insured, but simply cancel the policy.

(continued next page)





# CONSUMER COMPLAINTS



Continued:

(Name of insurance company) has offered you two alternatives in lieu of policy termination. We would suggest that you seriously consider selecting on of the options offered to you. Homeowner's insurance is not required by statutory law in Kansas. This department has very limited regulatory authority when it comes to terminations of homeowner's policies, other than being certain that you are given a 30 day notice of pending termination. Once you have been terminated, most insurance companies operating in Kansas will not accept you for a homeowners program, due to the termination, and due to your claims record. Please believe us, it will be extremely difficult to obtain insurance elsewhere, and if you are able to find a new company, it will be extremely expensive. The best service this department can offer you at this time, is to recommend that you accept one of the company's offers. Based on the above information, and based on our lack of authority to regulate homeowners insurance in the State of Kansas, it will be necessary to close your complaint file at this time. We truly regret our inability to have been of more assistance to you in this problem.

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July 5, 1999

(Name of insurance agency) told me by letter that my house insurance would be canceled and would not be renewed when due in August, 1999. I had a claim on the roof earlier this year for which the company paid readily. That's the only claim in 10 years on this house.

My agent told me that the company wanted me to fix the porch roof, paint window frames and other woodwork---all in July.

I had already repaired the porch roof, had aluminum window frames put on and plans for other work. The main problem is getting it done in a month.

Can an insurance company refuse to renew because my house is old or because I've had one claim? I've always paid yearly and always on time. And, only the one claim.

I don't think the insurance company is treating me fairly.

## Response to Kansas Insurance Department from Company

This letter is in response to (name of insured's) concern about the non-renewal of her insurance policy. A copy of my letter to (name of insured) is enclosed.

After reading her letter and talking to our agent, we have agreed to renew this policy. Prior to the August, 2000 renewal, we will get a new inspection and new pictures of the house. If the repair is complete, we will continue the policy. If not, we will non-renew at the time.

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POLSINELLI  
WHITE  
VARDEMAN &  
SHALTON

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## Memorandum

**TO:** The Honorable Bob Tomlinson, Chairman  
House Insurance Committee

**FROM:** William W. Sneed, Legislative Counsel  
The State Farm Insurance Companies

**RE:** H.B. 2649

**DATE:** February 1, 2000

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I represent the State Farm Insurance Companies. We appreciate the opportunity to present testimony in opposition to H.B. 2649. H.B. 2649 would prohibit an insurance company from canceling or nonrenewing a policy of property insurance based on one storm loss within any three-year consecutive period that the policy is in force.

First, it is important to note that State Farm, like many of the property/casualty companies doing business in this state, does not cancel or nonrenew a property insurance policy after one storm loss. The decision to cancel or nonrenew is not take lightly at State Farm, and is always made only as a last resort after considering a number of factors which arise in connection with a property insurance policy.

State Farm is opposed to H.B. 2649 because it unduly restricts our writing of policies in this state. The three-year loss limitation makes underwriting a homeowners policy in Kansas more difficult. The restrictions make pricing the policy less of a mathematical function

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of risk of loss and more of an uneducated guess. Ultimately, this may affect the pricing and availability of homeowners policies in this state.

Further, we view the restriction as a penalty on the very companies who have remained in Kansas notwithstanding recent less-than-favorable homeowners climate due to heavy storm loss. State Farm does not engage in the practice of canceling or nonrenewing a homeowners policy after a single storm-related claim. Neither, we understand, do many of the companies that continue to do business in this state. The real culprits—the ones that this legislation seeks to affect—have long ago canceled their policies and withdrawn from the Kansas insurance market.

At its most basic level, this legislation seeks to place more restrictions on the writing of insurance in the State of Kansas. We urge you to reject H.B. 2649.

We appreciate the opportunity to present our testimony. Please feel free to contact me if you have any questions.

Respectfully submitted,



William W. Sneed



FARMERS

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HOUSE INSURANCE COMMITTEE  
TESTIMONY BY LEE WRIGHT  
RE: HOUSE BILL 2649  
FEBRUARY 1, 2000

Mr. Chairman and members of the Committee, my name is Lee Wright and I represent the Farmers Insurance Group of Companies. We appreciate this opportunity to testify in opposition to House Bill 2649.

Farmers is the third largest writer of Homeowner's insurance in Kansas, with over 103,000 policies in force. This equates to about 12.5% of the total market share.

Farmers is also a member of Commissioner Sebelius' ongoing Task Force on Natural Disasters. Throughout the course of our meetings last year we received no indication from the Insurance Department that storm related homeowner cancellations were on the rise. Furthermore, we have never been advised there is a lack of availability of Homeowner insurance for Kansans.

Over the last several years, Farmers has steadily expanded its homeowners business in Kansas. In 1998 we increased the number of homeowner type policies +3.3%. In 1999 the increase was +5.2%. In 2000 our projections call for another +5.7% increase in policies in force.

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If a Homeowners insurance availability problem does develop within our state, then the best solution is to encourage additional new companies to write business in Kansas. Mandated underwriting restrictions like the ones found in HB2649 tend to discourage rather than attract new companies to enter the marketplace.

Thank you Mr. Chairman that concludes my remarks.

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Testimony of the  
National Association of Independent Insurers  
Regarding House Bill 2649

February 1, 2000

Mr. Chairman and Members of the Committee. I am David Hanson and appear as local counsel on behalf of the National Association of Independent Insurers with over 200 member property and casualty insurance companies who do business in Kansas. Our members write approximately 40% of the homeowners insurance in Kansas.

We strongly oppose HB 2649. Simply put, the restrictions this bill would place on the way insurers do business provide little protection to consumers, but instead make it more difficult for insurers to make the decisions necessary for them to remain competitive in Kansas.

In the summer of 1997, representatives of three NAII member companies joined with legislative leaders, Commissioner Sebelius, and business development leaders in a task force to explore ways to improve the business climate for insurance in Kansas. The task force recognized the positive impact that insurers have on the economy and sent a clear message to insurers that Kansas wants insurers to bring the jobs and other benefits that only an increased competitive environment in insurance, like any industry, can bring.

One of the conclusions reached by the task force was that the regulatory climate in Kansas had been unnecessarily burdensome for too long for insurers to want to come to Kansas to compete. The Legislature and the Commissioner have made some very positive advancements in improving that environment during recent years, including approval of territorial rating, reduction of rate filing requirements and increased use of deductibles, which we believe are more appropriate.

Nevertheless, when insurers see a bill like HB 2649, they have to question whether Kansas really does want the regulatory environment here to be less burdensome. The restrictions contained in this bill - how ever well-intentioned - go to the very heart of the decisions insurers need to be able to make without undue interference in order to be competitive. And, to be competitive in insurance means to be able to offer the best coverages at the best rates to consumers.

HB 2649 would bar insurers from canceling or nonrenewing a homeowner's policy for a single claim for a loss caused by windstorm or hailstorm or other acts of nature for three years. Insurers understand the consumer protection goal aimed at here. The problem insurers have with this provision is not that they would be kept from canceling the person with the single claim. A competitive environment keeps that from happening now. This restriction would, instead, protect a person who may have a string of claims that become unreasonable in their frequency but then has a single loss from a windstorm. As the bill is written, insurers would then have to keep insuring this otherwise bad risk for three years no matter the person's other claim history. The bill then would force insurers to do something that insurance is not meant to do - insure a known, bad risk.

Who pays for these restrictions? Other similarly insured customers of a company cover the extraordinary claims of an individual who, in any other case, would have been taken out of

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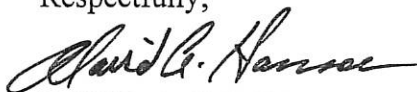
the pool of insureds in which this person has proved he does not belong. This bill could be used to keep him there, against the best interests of the rest of the people covered by similar insurance.

This restriction also has the potential of placing an insurer in the impossible position of having to continue offering a line of business that it no longer wants or even be able to provide. From the plain reading of this bill, an individual covered under a particular line would have to continue to be insured for three years following any claim due to an act of nature. This is the kind of restriction that insurers consider closely when deciding whether to enter a new market or offer a new product in an existing market. Insurers need to be able to know that they can reasonably make decisions based on competitiveness, not on whether a law will keep them in a market beyond when it is possible for them to remain.

In the end, if this bill is enacted, insurance consumers would gain little actual new protection, but could very well be forced to bear the additional cost of insurance that results when insurers are forced to insure risks that should not be insured. Likewise, the goal of encouraging competitive insurance rates is not served if Kansas enacts restrictions that keep insurers from entering this market.

We therefore urge you not to pass House Bill 2649.

Respectfully,



DAVID A. HANSON  
Legal Counsel

**David A. Hanson**  
**Kansas Association of Property**  
**and Casualty Insurance Companies**

**TESTIMONY ON HB 2649**  
**February 1, 2000**

**TO: House Insurance Committee**

**RE: House Bill No. 2649**

Mr. Chairman and Members of the Committee:

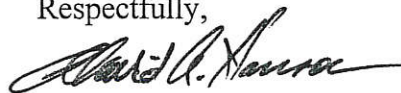
Thank you for this opportunity to appear before the Committee. I am David Hanson and am appearing on behalf of the Kansas Association of Property and Casualty Insurance Companies, whose members are domestic insurance companies in Kansas.

Our member companies have remained in Kansas through six recent years of catastrophic storm losses and have continued to provide insurance coverage while some other companies left the State. We are concerned with this legislative proposal to limit our companies' ability to cancel or nonrenew policies due to storm loss claims for a number of reasons. First, we believe that such cancellations and nonrenewals are not the general practice in Kansas. The proposed restriction would therefore be unwarranted and unduly encroach on appropriate underwriting of risks. Our companies need to be allowed to reasonably manage their businesses, including management of coverage concentrations. The proposed restriction on cancellation and nonrenewal would in effect penalize our companies that have tried to continue providing coverage, even taking on higher risks in some areas where others have withdrawn.

We are also concerned that the proposed restriction fails to address the problem where a policyholder may have already had a number of nonstorm related loss claims, such as repeated fire, theft or vandalism claims, or where they own a vicious dog that has attacked and seriously injured someone and they insist on keeping the dog, the company may need to cancel or nonrenew the policy, but if the policyholder then turns in a storm loss claim, the company may have a problem in trying to cancel or nonrenew under this proposed legislation. Thus, we could be forced to continue providing coverage when cancellation or nonrenewal may otherwise be justified and prudent. Undue restrictions on the ability to limit coverage will hurt availability as companies are forced to become more cautious in the risks they will accept.

We are also concerned that this proposal may have an unintended effect of impeding growth and competition, since companies would be reluctant to enter new market areas with these types of restrictions on underwriting and controlling coverages. This not only affects our companies, but may also discourage other companies from coming into Kansas, contrary to the recommendations of the Kansas Insurance Task Force several years ago. We must therefore oppose this bill.

Respectfully,



DAVID A. HANSON

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PO Box 4384  
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**Kevin R. Davis**  
Government Affairs Counsel

February 1, 2000

**To: Representative Robert Tomlinson and  
The House Insurance Committee**

**From: Kevin R. Davis**

**Subject: Kansas House Bill 2649**

Due to a conflict I am unable to appear in person today on this bill. I offer the following comments on this bill for your consideration.

We are concerned with HB 2649 for two reasons. First, as an insurance carrier we do not support unnecessary restrictions placed on our ability to underwrite our risks, and secondly we believe this bill is inconsistent with the policy of deregulation as established in the 1997 Task Force on the Kansas Insurance Industry.

First, as far as we know there is no wide spread problem of policy cancellation based on a single storm loss. In the early 1990's it is my understanding that there was some problem with several companies actually pulling out of the state due to several years of excessive storm losses. Since that time we are not aware of any problems of cancellations of this nature. Thus, I would conclude that this proposal is perhaps unnecessary regulation.

Next I would point out that the Task Force on the Kansas Insurance Industry received testimony and reports on the impact of excessive regulation on the insurance industry. One report indicated that state regulation on underwriting restrictions and cancellation/nonrenewal ranked as the second most significant of regulatory burdens on insurers (rating was number one).<sup>1</sup> As a result, the Task Force Report recommended that Kansas should pursue "...accelerated general deregulation and the movement to open competition..." if Kansas is to remain competitive with other states.<sup>2</sup> This proposal appears to be in conflict with this recommendation.

We respectfully suggest that this proposal is unnecessary and therefore, unneeded. Thank you for your consideration.

<sup>1</sup> Over-Reaching Authority, An Analysis of Regulatory Excess, National Association of Independent Insurers, November 1995. Page 19

<sup>2</sup> Final Report of the Task Force on the Kansas Insurance Industry, December 1997. Recommendation Number 4, Page 6.

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