

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:30 p.m. on March 16, 2000 in Room 527-S of the Capitol.

All members were present except: Representative Boston

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

Conferees appearing before the committee: Linda DeCoursey, Kansas Insurance Department
Jerry Slaughter, Kansas Medical Mutual Insurance Company

Others attending: See attached Committee Guest List

Chairman Tomlinson made the announcements to the committee and the guests, reminding the guests to sign in. The Chairman also requested the committee be watchful for meeting announcements.

SB 443- Insurance; codification of standard accounting procedures

Ms. Linda DeCoursey, Kansas Insurance Department, was the first conferee on the **SB 443**. Ms. DeCoursey, gave Proponent Testimony, to the committee with a copy (Attachment #1) attached hereto and incorporated into the Minutes by reference. Ms. DeCoursey gave an overview of the bill explaining the need of comprehensive guide that prescribed practices versus permitted practices. She informed the committee that there are 50 states with 50 different accounting procedures, which are very costly to maintain.

Ms. DeCoursey informed the committee that the insurance industry as well as the regulatory groups, have for the past 10 years, been working on a procedure, specifically for the insurance industry, which will allow consistency. They are also attempting to develop these procedures so they do not infringe on states rights.

“Codification of SAP is to be implemented on January 1, 2001,” and **SB 443** would do just that. Ms. DeCoursey explained to the committee that only 5 statutes would need revision to be consistent with the codification of SAP procedures. These statutes were listed as follows: *Discounting Reserves* (“The new standards would not permit the discounting of reserves.”) Kansas believes everyone should have the same accounting rules across the nation, but at the same time they are allowed some flexibility. Allowing this flexibility, “companies discounting reserves after January 1, 2001, will have to disclose this information in their annual statements and CPA reports.” *Data Process Equipment* (“K.S.A. 40-2a15 and 40-2b14 are being repealed on January 1, 2001. These changes reflect different methods of depreciation.”)

As of today, according to the statutes, a data processing aggregate costs are limited and are not to exceed a certain percentage of the admitted assets of the reporting company. These same statutes also state that the cost be fully amortized within a 10 year period. With the new procedure the net accumulation depreciation will be limited to 3% and will also be required to be shown on the balance sheet. Come January these statutes will not be needed as the new practices and procedures will set out where and how companies are to report the accumulated depreciation.

Finally, *Aircraft, WP Systems, Vehicles*, where for purposes of codification, where K.S.A. 40-2-23 and 40-2b22 “provide that fixed wing or rotary wing aircraft, word processing systems, motor vehicles and detached modular partition systems may be held as admitted assets if certain criteria are met.” Under this bill, these no longer would be identified for admitted assets. **SB 443** deletes these statutes.

With this Ms. DeCoursey stood for questions. Questions were asked by Representatives Myers, Phelps, Cox and the Chairman. Questions covered the other 50 states; why KaMMCO was the exception to the rule, and

allowed to count reserves. Responses were from: all 50 states would follow one set of procedures as of 1-1-2001 to letting Mr. Jerry Slaughter explain KaMMCO position.

Chairman Tomlinson recognized Mr. Jerry Slaughter, Kansas Medical Mutual Insurance Company (KaMMCO). Mr. Slaughter presented Proponent Testimony to the committee. A copy of the written testimony is (Attachment #2) attached hereto and incorporated into the Minutes by reference. Mr. Slaughter gave a more detailed view of the bill and also addressed the question of why KaMMCO was the exception to the rule.

Mr. Slaughter explained to the committee that his company was the only company organized under this statute (K.S.A. 40-12a01, et seq.) In the mid '80's, Kansas was struggling with a medical malpractice insurance crisis. One company went so far as to threaten to leave Kansas if the conditions did not improve immensely. Many rural physicians limited their practices because of the high cost of insurance and limited access to companies providing coverage. It was for this reason the Kansas Medical Society agreed to "establish a medical malpractice insurance company to provide a reliable source of insurance for physicians." KaMMCO is the only domestic medical malpractice company today. Mr. Slaughter continued to explain KaMMCO insures more physicians than any other company; it is a mutual insurance company and operates much like a non-profit entity and that it was not set up to earn high profits. "In 1988 the legislature created a statutory framework and allowed KaMMCO to report its loss reserves on a present value discounted basis, so long as the assumptions used by the company were reasonable in view of the Insurance Commissioner." Today the company continues to operate under the same statute set out 11 years ago. The Commissioner has always approved their method of loss reserve discounting.

Mr. Slaughter continued on to explain that they understood the bill would bring the laws it administers to, into compliance with the national guidelines for standard accounting procedures set up by the NAIC. While Mr. Slaughter and his organization understand the need for the changes, they are requesting time to absorb the impact of the proposed changes. He naturally would prefer to operate as was envisioned in 1988 by agreed to gradually eliminate loss reserve discounting over time. The original bill proposed by the Senate would allow them to do just that. Mr. Slaughter stood for questions.

Questions were posed by Representatives Showalter, Cox, Kirk, Burroughs, Myers. These questions covered such areas as: their concept of time foreseen by their actuary department, monetary sources available, will the bill hold a claim hostage, why the exception and why KaMMCO.

Responses ranged from: a reasonable time length to develop a plan to absorb these changes, again explained how their company functions, there would be no economic impact, same with cash flow, must be organizational company to Representative Kirk making a statement the amendment is in the bill and in italics. With this the discussions were closed. As there were no further discussions from the committee or the conferees, the Chairman declared public hearings on the bill closed.

The Chairman then gave the bill to the committee. Representative Myers made the motion to move the bill out favorably for passage. Representative Cox seconded the motion. There was no discussion and the vote carried with the committee in full agreement.

The meeting was adjourned at 4:23 p.m. The next regular meeting will be held March 21, 2000 at 3:30 p.m.

HOUSE INSURANCE COMMITTEE GUEST LIST

DATE: March 16, 2000

NAME	REPRESENTING
Andrew J. DePalency	Kf Ins. Dept.
Anne Spiers	Peterson Public Affairs Group
Paul Hoff	Kammco
Bill	Kansas Ins Dept
Jerry Slavette	Kammco
Bob Hays	HCSF
Alex Bachelor	HCSF
Carol Johnson	
Christopher Johnson	
Bob Tomlinson	
Phil Phillip Tomlinson	
Lee Wright	Farmers Ins
Harrie Ann Lower	KATIP
Kevin Barone	Men / wer chrt'd
Jim Pearson	Kammco



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: House Committee on Insurance
FROM: Linda J. De Coursey, Director of Government Affairs Division
RE: SB 443 – Codification of Standard Accounting Procedures
DATE: March 16, 2000

Mr. Chairman and members of the committee:

Thank you for the opportunity to discuss with you SB 443, which concerns codification of statutory accounting procedures (SAP). For years, the standard in the insurance industry was that 50 different states performed 50 different accounting procedures. The industry found these differences very costly to maintain. The regulatory group found they needed a comprehensive guide that prescribed practices versus permitted practices.

It has been an ongoing endeavor of the insurance industry and regulatory groups for nearly 10 years to develop an accounting basis with solvency at its base. This accounting procedure is specifically fitted to the insurance industry. Fundamental concepts developed in the statutory accounting procedures were: consistency in providing the same set of rules year after year; recognition of company assets and non-admitted assets; and conservatism which places a limit on data processing equipment because it becomes obsolete so fast. But, the bottom line was to provide consistency for all states in accounting rules that do not infringe on states' rights.

Codification of SAP is to be implemented on January 1, 2001. SB 443 brings Kansas law into compliance for the implementation date. The Financial Surveillance Division of the Kansas Insurance Department pored over the Insurance Code and found only five statutes that would need revision to be consistent with the codification of SAP procedure. They are as follows:

Handwritten notes:
HSE
INS Comm
3-16-00
#11
1-11

Discounting Reserves

The new standards would not permit the discounting of reserves. K.S.A. 40-12a09 pertains to “mutual insurance companies organized to provide health care provider liability insurance” and presently permits discounting of reserves. While the Kansas Insurance Department believes that insurance companies should have the same accounting rules across the United States, we are also given some flexibility in the implementation. SB 443, as amended by the Senate, will permit a phase-out of the discounting of reserves. Because we are allowing this flexibility, companies discounting reserves after January 1, 2001, will have to disclose this information in their annual statements and CPA reports.

Data Process Equipment

K.S.A. 40-2a15 and 40-2b14 are being repealed on January 1, 2001. These changes reflect different methods of depreciation. Companies can use this method of depreciation until next January. Presently, these statutes provide that a data processing system’s aggregate costs cannot exceed a certain percentage of the admitted assets of the company. In addition, these statutes provide that the cost be fully amortized over a period of ten years. With the new accounting procedures, the net of accumulated depreciation shall be limited to three percent and will be required to be shown on the balance sheet. System software will be considered a non-admitted asset. The new accounting practices and procedures sets out where and how the companies are to report the accumulated depreciation, and therefore, these statutes (come January) will not be needed.

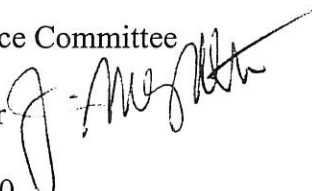
Aircraft, WP System, Vehicles

K.S.A. 40-2-23 and 40-2b22 provide that fixed wing or rotary wing aircraft, word processing systems (electric or mechanical), motor vehicles and detached modular partition systems may be held as admitted assets if certain criteria are met. For purposes of codification, these would no longer be identified as admitted assets, and SB 443 deletes these statutes.

Mr. Chairman and members of the committee, we are happy to provide answers for your questions regarding SB 443. We respectfully request your favorable consideration and passage of SB 443, as amended.

KaMMCO

KANSAS MEDICAL MUTUAL INSURANCE COMPANY

To: House Insurance Committee
From: Jerry Slaughter 
Date: March 16, 2000
Subject: SB 443; concerning codification of standard accounting procedures

KaMMCO appreciates the opportunity to appear today on SB 443, which amends the statute under which the company is organized. By the way, KaMMCO is the only company organized under this statute, K.S.A. 40-12a01, *et seq.* The bill was requested by the Insurance Commissioner to conform our statute to national guidelines recommended by the National Association of Insurance Commissioners (NAIC). We are not opposed to the bill as it has been amended by the Senate. To understand the significance of the proposed change, some background is probably in order.

KaMMCO (Kansas Medical Mutual Insurance Company) was started by the Kansas Medical Society in 1989. It was made possible by a law the legislature enacted specifically for that purpose. It is that statute which this bill amends. In the mid-1980's our state was struggling with a medical malpractice insurance crisis. The cost of insurance for physicians at an all time high, and there were only two companies actively writing this line of insurance. One of the companies, which covered about half the state's physicians, threatened to withdraw from the market if conditions did not improve significantly. This intensified the crisis, because not only was insurance very costly, but now even access to medical malpractice insurance was clearly on the horizon. Many rural physicians had already stopped delivering babies due to the high cost of insurance, and the latest development had implications which seriously threatened access to medical care, particularly for rural Kansans.

It was in that environment that the Kansas Medical Society agreed to establish a domestic medical malpractice insurance company to provide a reliable source of insurance for physicians. It remains today the only domestic medical malpractice insurance company, and it insures more physicians than any other company in our state. KaMMCO is a mutual insurance company, and it was designed to operate much like a non-profit entity. It was never intended to generate large profits, and consequently it would not be in a position to build much surplus from operations. The 1988 legislature understood this unique set of circumstances, and created a statutory framework that allowed KaMMCO to report its loss reserves on a present value discounted basis, so long as the assumptions used by the company were reasonable, in the view of the Insurance Commissioner. The net effect of loss reserve discounting was to lessen the need to raise excessive capital, or surplus dollars, when the company was formed. The company has continued to operate under the rules outlined by this statute for the past eleven years, and its method of loss reserve discounting has always been approved by the Commissioner.

Endorsed by the Kansas Medical Society

623 W. TENTH ST. - STE. 200 • TOPEKA, KANSAS 66612
913-232-2224 / 800-232-2259 / 913-232-4704 (FAX)

*House Ins Comm
3-16-00
#2*

21

Loss reserve discounting is nothing more than reporting in the financial statements the company's reserve for claims and claims expenses on a present value basis. In other words, it allows the company's financial statements to reflect the impact of investment income earned on claims reserves. Reporting loss (claim) reserves in this manner does not affect the economics of the company or its ability to pay claims. It only affects how the insurance company reports its net income and policyholders surplus to regulators and rating agencies.

It is our understanding that this bill is desired by the Insurance Department to bring the laws it administers into conformance with national guidelines for standard accounting procedures established by the NAIC. The goal is to eliminate loss reserve discounting altogether, so there will be uniform reporting guidelines nationally. We do not oppose that concept, but want adequate time to absorb the impact of the change. We have been operating under this statute for eleven years, and we simply cannot absorb overnight the change that would be required in how we report surplus and loss reserves. We would prefer to continue to operate as was envisioned by the 1988 legislature, but have agreed to gradually eliminate loss reserve discounting over time. This bill, as amended by the Senate, would allow us to develop a plan with the Commissioner that meets that objective.

KaMMCO is the only Kansas based medical malpractice insurer. This line of insurance has historically been dominated by large, out of state, commercial insurers. We believe it is important to maintain a domestic market so that the problems experienced in the 80's related to unavailability of insurance are avoided in the future. KaMMCO is a relatively small company, but it is committed to assuring a stable source of medical malpractice insurance for years to come. If the legislature is going to change the rules under which we have been operating for the past decade, then we respectfully request that a reasonable phase in time period be allowed. Thank you for the opportunity to offer these comments.