

Approved: Feb. 14, 2000  
Date

## MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Senator Don Steffes at 9:00 a.m. on February 3, 2000 in Room 231N of the Capitol.

All members were present except:

Committee staff present: Dr. William Wolff, Legislative Research  
Ken Wilke, Office of Revisor of Statutes  
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Rick Friedstrom, Kansas Association of Insurance and Financial Advisors  
Patrick J. Morris, Kansas Association of Insurance Agents  
Linda DeCoursey, Kansas Insurance Department

Others attending: (See Attached)

### **Hearing on SB 458 - Insurance; licensing requirements for insurance agents; hearings**

Linda DeCoursey, Kansas Insurance Department, described this bill as being "purely technical" (Attachment 1). Currently it is the policy of the Kansas Insurance Department that if an agent is denied for licensure, he or she is informed of the denial, the reasons for the denial and informed of the opportunity to request a hearing. This bill would put into legislation the policy as followed by the Kansas Insurance Department.

Rick Friedstrom, Kansas Association of Insurance and Financial Advisors, testified in support of the bill as it provides steps necessary when a prospective agent-applicant for an insurance license is denied the license (Attachment 2).

Patrick J. Morris, Kansas Association of Insurance Agents, supported the bill in that it would correct an oversight in the appeals process for those individuals who desire to become insurance agents within the state of Kansas (Attachment 3).

The hearing was closed on **SB 458**.

### **Hearing on SB 443 - Codification of standard accounting procedures**

Linda DeCoursey, Kansas Insurance Department, presented testimony explaining the request of the insurance industry for all states to adopt a comprehensive guide that prescribed standard accounting practices versus permitted practices be used throughout the U.S. (Attachment 4). Fundamental concepts include:

- Consistency in providing the same set of rules year after year
- Recognition of company assets and non-admitted assets
- Conservatism which places a limit on data processing equipment because it becomes obsolete so quickly
- Provide consistency for all states in accounting rules that do not infringe on states' rights

The portion of the bill relating to "discounting reserves" for mutual insurance companies organized to provide health care provider liability insurance (Kansas Medical Mutual Insurance Company--KaMMCO) was discussed at length. The Committee questioned the advisability of allowing them to incrementally phase-out the discounting of reserves over the next several years. This would be a private agreement between KaMMCO and the Kansas Insurance Department as it is not statutorily addressed. By allowing them to phase out the discounting of reserves over a five to eight year period, the value of the company will not appear to be decreased as drastically as if it were all done within one year. Mrs. DeCoursey assured the Committee this was merely an accounting procedure and was not due to lack of capital on the part of KaMMCO. The Committee questioned what the recent loan of \$1.7 million to Horizon would do to the reserves of KaMMCO. Would only the balance sheet be changed or would this impact the value (assets) of the company?

CONTINUATION SHEET

Other changes in the proposed legislation would repeal the section allowing the cost of the data processing equipment to be fully amortized over a period of ten years by making it three years. With codification, the net of accumulated depreciation shall be limited to 3 percent of the capital and surplus. By repealing K.S.A. 40-2-23 and 40-2b22, aircraft, word processing systems (electric or mechanical), motor vehicles, and detached modular partition systems would no longer be identified as admitted assets.

Inasmuch as the Committee requested further explanation of KaMMCO's role in the financial support and ultimate liquidation proceedings of Horizon, the Hearing was continued.

The meeting was adjourned at 9:45 a.m. The next meeting is scheduled for February 7, 2000.





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

TO: Senate Committee on Financial Institution and Insurance

FROM: Linda De Coursey, Director of Government Affairs Division

RE: SB 458 – Agent Application Denial Procedure

DATE: February 3, 2000

Mr. Chairman and members of the committee:

Thank you for allowing me this opportunity to discuss with you SB 458. The change we are requesting in K.S.A. 1999 Supp. 40-240 is purely a technical one. This particular statute sets out the procedure to follow to become a licensed insurance agent. Some applicants for licensure do not meet the criteria, and are denied. It is our current procedure to follow the Kansas administrative procedures act, and when an applicant is denied for licensure, he or she is informed of the denial, the reasons for the denial, and the opportunity to request a hearing in accordance with the provisions of the Kansas administrative procedures act. Even though “we’ve always done it that way”, we discovered that step is missing from the statute.

Mr. Chairman and members of the committee, I respectfully request your favorable passage of SB 458.

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Session of 2000

## SENATE BILL No. 458

By Committee on Financial Institutions and Insurance

1-20

10 AN ACT concerning insurance; relating to licensure of agents; amending  
11 K.S.A. 1999 Supp. 40-240 and repealing the existing section.

12  
13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 1999 Supp. 40-240 is hereby amended to read as  
15 follows: 40-240. (a) Any person desiring as agent to engage in the insur-  
16 ance business, as herein set out, shall apply to the commissioner of in-  
17 surance of this state, in the manner hereinafter prescribed, for an insur-  
18 ance agent's license, authorizing such agent to engage in and transact  
19 such business. The applicant for such license shall file with the commis-  
20 sioner of insurance such applicant's written application for a license au-  
21 thORIZING the applicant to engage in the insurance business and the ap-  
22 plicant shall make sworn answers to such interrogatories as the  
23 commissioner of insurance may require on uniform forms and supple-  
24 ments prepared by the commissioner. A nonrefundable fee in the amount  
25 of \$30 shall accompany such application. Such applicant, if an individual,  
26 shall establish:

27 (1) That the applicant certifies, by evidence satisfactory to the com-  
28 missioner, that the applicant is a graduate of an accredited four-year high  
29 school or its equivalent. This requirement shall not apply to any person  
30 holding a valid agent's license as of July 1, 1971, or a full-time student  
31 enrolled in an accredited high school in this state while and to the extent  
32 such student is participating in an insurance project sponsored by a bona  
33 fide junior achievement program; and

34 (2) that the applicant is of good business reputation and is worthy of  
35 a license.

36 (b) Corporations, associations, partnerships, sole proprietorships and  
37 other legal entities acting as insurance agents and holding a direct agency  
38 appointment from an insurance company or companies or health main-  
39 tenance organization are required to obtain an insurance agent's license.  
40 Application for such license shall be made to the commissioner on a form  
41 prescribed by such commissioner. Before granting the license, the com-  
42 missioner shall determine that:

43 (1) Each officer, director, partner and employee of the applicant who

1 is acting as an insurance agent is licensed as an insurance agent;

2 (2) the applicant has disclosed to the insurance department all offi-  
3 cers, directors and partners whether or not they are licensed as insurance  
4 agents;

5 (3) the applicant has disclosed to the insurance department all offi-  
6 cers, directors, partners and employees who are licensed as insurance  
7 agents; and

8 (4) the applicant has designated a licensed officer, employee, partner  
9 or other person to be responsible for the organization's compliance with  
10 the insurance laws and rules and regulations of this state.

11 (c) The insurance department may require any documents reasonably  
12 necessary to verify the information contained in the application.

13 (d) (1) Agents licensed pursuant to subsection (b) shall advise the  
14 commissioner of any officers, directors, partners or employees who are  
15 licensed as individual insurance agents and are not disclosed at the time  
16 application is made for a license within 30 working days of their affiliation  
17 with the licensee. Failure to provide the commissioner with such infor-  
18 mation shall subject the licensee to a monetary penalty of \$10 per day for  
19 each working day the required information is late subject to a maximum  
20 of \$50 per person per licensing year.

21 (2) Officers, directors, partners or employees disclosed at the time of  
22 the original application or reported thereafter whose affiliation with the  
23 licensee is terminated shall be reported to the commissioner within 30  
24 days of the effective date of termination. Failure to report such termi-  
25 nation shall subject the licensee to the penalty prescribed in paragraph  
26 (1) of this subsection.

27 (e) *An applicant whose application for a license is denied shall be*  
28 *given an opportunity for a hearing in accordance with the provisions of*  
29 *the Kansas administrative procedure act.*

30 Sec. 2. K.S.A. 1999 Supp. 40-240 is hereby repealed.

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



Testimony  
By  
Richard K. Friedstrom  
Before  
Senate Financial Institutions and Insurance Committee

Mr. Chairman, Members of the Committee, Good Morning.

I am Rick Friedstrom. I appear before you today representing the 1,500 members of the Kansas Association of Insurance and Financial Advisors. Our acronym is KAIFA. Prior to January 15, 2000, we were the Kansas Association of Life Underwriters-KALU. I serve as Legislative Chairman for our Association.

We testify in support of Senate Bill #458. This Bill "cleans up" significant legislation that was passed during recent Sessions. The Bill before you provides steps necessary when a prospective agent-applicant for insurance license is denied license. We feel the opportunity for a denied applicant to be given a hearing is fair to both the individual and the Kansas insurance consumer.

We feel this is good legislation and warrants passage.

Thank you.



## Testimony on Senate Bill 458

Presented by Patrick J. Morris

Kansas Association of Insurance Agents

February 3, 2000 - Senate Financial Institutions & Insurance Committee

Thank you Mister Chairman and members of the committee for the opportunity to appear in support of Senate Bill 458 at today's hearing. I am Pat Morris, the Executive Vice President of the Kansas Association of Insurance Agents. Our association represents over 500 independent agency members across Kansas whose agencies employ nearly 3,000 people, most of whom are licensed agents.

I am pleased to note that this is my first chance to testify before your committee this year, and we are again standing in support of an Insurance Department legislative proposal. We were able to stand together and help each other a great deal last year, and I believe that by working together with our company partners and our regulator and our elected representatives, we have all collectively been able to bring real benefits to the insurance consumers of Kansas.

This bill would correct an oversight in the appeals process for those individuals who desire to become insurance agents within the state of Kansas. The current state law provides for a hearing with the Insurance Commissioner for those agents denied re-licensure, however, there is no such provision for individuals applying for original licensure.

This bill, number 458 would allow the applicant agent who has been denied licensure by the Kansas Insurance Department to petition for a hearing with the Insurance Commissioner under the Kansas Administrative Procedure Act, KSA 77-513. Representing the interests of independent insurance agents (and potential insurance agents) in the state, our association is strongly supportive of measure that will guarantee individual rights. Since this procedure is already in place and used by



those who are already licensed, it is our position that this bill will painlessly correct an oversight in the current law without undue administrative or technical difficulties. I would urge your support of this bill as it has been drafted by the Insurance Department.

Thank you, and I will attempt to answer any questions you may have.



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

TO: Senate Committee on Financial Institutions and Insurance

FROM: Linda J. De Coursey, Director of Government Affairs Division

RE: SB 443 – Codification of Standard Accounting Procedures

DATE: February 3, 2000

Mr. Chairman and members of the committee:

Thank you for this opportunity to discuss with you SB 443, which concerns codification of standard 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. Fundamental concepts developed 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 poured over the Insurance Code and found only five statutes that would need revision to be consistent with the codification of SAP procedure.

K.S.A. 40-12a09 pertains to “mutual insurance companies organized to provide health care provider liability insurance” and presently permits discounting of reserves. Only one company is

presently organized under this statute and that is Kansas Medical Mutual Insurance Company (KaMMCO). The new standards would not permit the discounting of reserves, and in the bill you will see that we struck the language in the statute. We are now amending SB 443 to replace that language we struck. 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. These exceptions have to be disclosed in the annual statements and CPA reports. KaMMCO will be submitting a plan to the department for the phasing-in or maybe it should be referred to as phasing-out the discounting of reserves over the next several years.

K.S.A. 40-2a15 and 40-2b14 (Data Processing Equipment) 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 shall have certain aggregate costs and that those costs shall not exceed a certain percentage of the admitted assets of the company. In addition these statutes provide that the cost of the component machines shall be fully amortized over a period of ten years. With codification the net of accumulated depreciation shall be limited to three percent and shown on the balance sheet. System software is considered a non-admitted asset.

K.S.A. 40-2-23 and 40-2b22 (Aircraft, WP System, Vehicles) These statutes 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.

Mr. Chairman and members of the committee, we respectfully request your favorable consideration and passage of SB 443, as amended.

**SENATE BILL No. 443**

By Committee on Financial Institutions and Insurance

1-19

9 AN ACT concerning insurance companies; relating to accounting pro-  
10 cedures and investments; amending K.S.A. 40-12a09 and repealing the  
11 existing section; also repealing K.S.A. 40-2a15, 40-2a23, 40-2b14 and  
12 40-2b22.  
13

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

15 Section 1. K.S.A. 40-12a09 is hereby amended to read as follows: 40-  
16 12a09. Each company organized pursuant to this act shall file an annual  
17 statement each year in accordance with the requirements for domestic  
18 insurers writing the same kind of insurance. ~~Any company organized pur-~~  
19 ~~suant to this act may state its liabilities for losses and loss adjustment~~  
20 ~~expenses on a present value basis in any statement or report which the~~  
21 ~~company is required to file so long as the company's surplus as reported~~  
22 ~~upon such basis remains above \$1 million, unless the commissioner de-~~  
23 ~~termines the method used by the company to arrive at the present value~~  
24 ~~of its liabilities for losses and loss adjustment expense is based upon un-~~  
25 ~~reasonable assumptions.~~

26 Sec. 2. K.S.A. 40-2a23, 40-2b22 and 40-12a09 are hereby repealed.

27 Sec. 3. On January 1, 2001, K.S.A. 40-2a15 and 40-2b14 are hereby  
28 repealed.

29 Sec. 4. This act shall take effect and be in force from and after its  
30 publication in the statute book.

Any company organized pursuant to this act may state its liabilities for losses and loss adjustment expenses on a present value basis in any statement or report which the company is required to file so long as the company's surplus as reported upon such basis remains above \$1 million, unless the commissioner determines the method used by the company to arrive at the present value of its liabilities for losses and loss adjustment expense is based upon unreasonable assumptions.