

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:30 p.m. on January 30, 2001 in Room 527-S of the Capitol.

All members were present except

Representative Mayans:

Committee staff present:

Bill Wolff, Legislative Research
Ken Wilke, Legislative Revisor
Mary Best, Committee Secretary

Conferees appearing before the committee: Mr. Don Gaskill, Kansas Insurance Department

Others attending:

See Attached Guest List

Mr. Don Gaskill, Kansas Department of Insurance, Auditing Department, gave a presentation on the procedures taken when the Department audits a company. A copy of the testimony is (Attachment #1) attached hereto and incorporated into the Minutes by reference. Questions were asked by Representatives McCreary, Huff, Chairman Tomlinson. Discussion concluded.

Chairman Tomlinson entertained a motion to remove the sunset clause from **HB 2247**, Kansas business health care partnership act. The motion was made by Representative Hummerickhouse and seconded by Representative Kirk. Motion passed.

Ms. Janet Stubbs, Kansas Building Industry Association, presented an amendment to **HB 2263**, dealing with workman compensation pools. The amendment would add a new section which would allow reimbursement of surplus money from the IRS with in a year under certain conditions. A copy of the amendment is (Attachment #2) attached hereto and incorporated into the Minutes by reference. A motion was made By Representative Grant to accept the amendment and was seconded by Representative Boston. The motion passed.

With no further business the meeting was adjourned. The time was 4:50 p.m.
The next meeting will be held February 1, 2001

AGENDA

1) NAIC Financial Regulation Standards and Accreditation Program

- a) Overview of History of the Accreditation Program
- b) Accreditation Standards
 - i) Laws and Regulations
 - ii) Regulatory Practice and Procedures
 - iii) Organizational and Personnel Practices
- c) Insolvency History Before and After Accreditation
- d) Why does the Kansas Insurance Department want to be an Accredited state?

2) Electronic Examination Process

- a) EDP Audit Process
- b) Examination Electronic Workpaper Process
- c) TeamMate 2000
- d) Document Imaging Process

The Purpose of Solvency Regulation

Identify financially troubled companies FAST

Initiate corrective action to protect:

- Policyholders
- Claimants
- Creditors
- Citizens of the State
- Stockholders

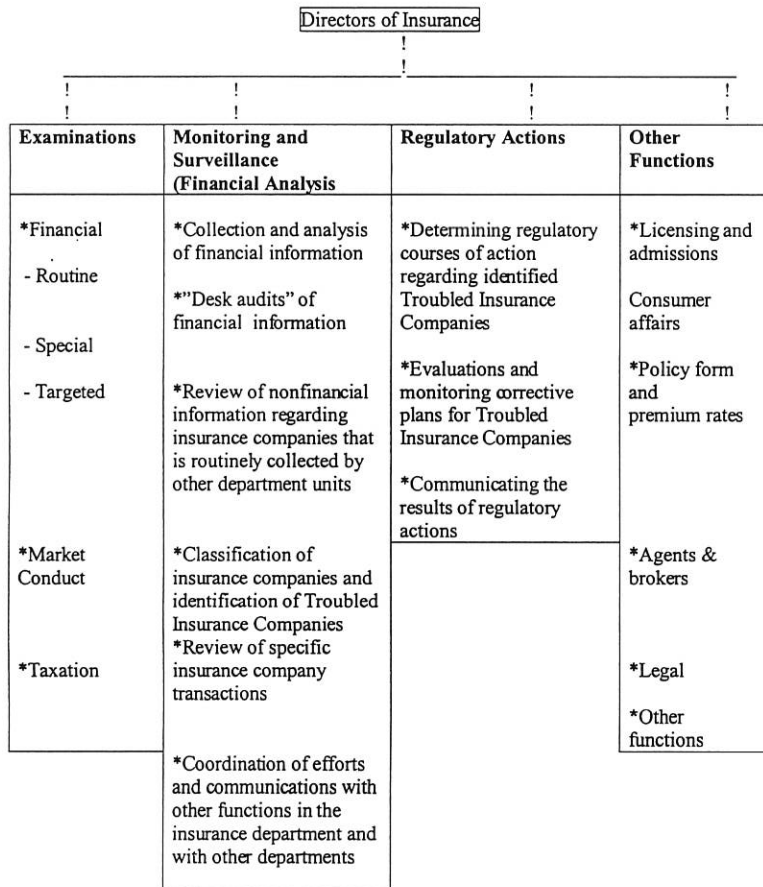
*House Comm on Ins
January 30, 2001
Attachment #1*

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*House Comm on Ins
Attachment #1
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Illustrative Organizational Chart Of Insurance Department



NAIC Financial Regulation Standards and Accreditation Program

- 1) Overview of History of the Accreditation Program
 - a) 1988 – NAIC appoints a committee to develop financial surveillance and regulation standards for insurance departments
 - b) 6/1989 – NAIC Policy Statement on Financial Regulation Standards was adopted.
 - c) 2/1990 -Failed Promises – a report by the Subcommittee on Oversight and Investigations of the U.S. House of Representatives is issued
 - d) 6/1990 – NAIC adopted a formal certification program.
 - e) 5/1991 – State Handling of Financially Troubled Property/Casualty Insurers – a report to the U.S. House of Representatives is issued
 - f) 12/1991 – Kansas become accredited.
 - g) 3/1992 – Life/Health Insurer Insolvencies and Limitations of State Guaranty Funds – a report to the U.S. Senate is issued
 - h) 10/1994 – Wishful Thinking – a report by the Subcommittee on Oversight and Investigations of the U.S. House of Representatives is issued
 - i) 11/1999 – Gramm-Leach-Bliley Act (GLB Act) signed into law -GLB breaks down barriers among the banking, insurance, and securities industries.

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Illustrative Organizational Chart Of Insurance Department

Directors of Insurance

Examinations	Monitoring and Surveillance (Financial Analysis)	Regulatory Actions	Other Functions
<ul style="list-style-type: none"> *Financial - Routine - Special - Targeted 	<ul style="list-style-type: none"> *Collection and analysis of financial information **"Desk audits" of financial information *Review of nonfinancial information regarding insurance companies that is routinely collected by other department units 	<ul style="list-style-type: none"> *Determining regulatory courses of action regarding identified Troubled Insurance Companies *Evaluations and monitoring corrective plans for Troubled Insurance Companies *Communicating the results of regulatory actions 	<ul style="list-style-type: none"> *Licensing and admissions Consumer affairs *Policy form and premium rates
<ul style="list-style-type: none"> *Market Conduct *Taxation 	<ul style="list-style-type: none"> *Classification of insurance companies and identification of Troubled Insurance Companies *Review of specific insurance company transactions 		<ul style="list-style-type: none"> *Agents & brokers *Legal *Other functions
	<ul style="list-style-type: none"> *Coordination of efforts and communications with other functions in the insurance department and with other departments 		

NAIC Financial Regulation Standards and Accreditation Program

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FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

Issue: How should the NAIC assist state legislatures and insurance departments in the development of effective solvency regulation?

Background: In 1988, the NAIC appointed a committee to develop and establish a comprehensive list of financial surveillance and regulation standards for insurance departments. The objective of this undertaking was to create national standards for the financial surveillance and regulation of insurers operating in the United States. It also was discussed that, at a future date, these standards could be utilized and developed into an accreditation program for state insurance departments administered by the NAIC.

The committee determined that the financial regulation standards should be presented in the form of an NAIC policy statement. It was also decided that the list of standards should be divided into three major categories: laws and regulations; regulatory practices and procedures (which include financial analysis and financial examinations); and organizational and personnel practices.

The NAIC Policy Statement on Financial Regulation Standards represents a comprehensive set of standards designed to establish consistent and effective surveillance of the financial condition of the nation's insurers. It was adopted by the NAIC in June 1989. While the NAIC always has encouraged uniformity and sound regulation through model legislation and other regulatory tools, for states' use, this Policy Statement represents a composite list of legislative and administrative prerequisites for an effective solvency surveillance program.

To provide guidance regarding these standards and an incentive to put them in place, the NAIC adopted a formal certification program in June 1990. Under this plan, each

insurance department will be reviewed by an independent review team whose job is to assess that department's compliance with the financial regulation standards. Departments meeting the standards will be publicly acknowledged, while departments not in compliance will be given guidance by the NAIC on how to bring themselves into compliance. In addition to the original certification, states must submit to an annual evaluation process and must undergo a full recertification review every five years.

To help states assess their compliance with the standards and alert states to differences between the NAIC models that are a part of the financial regulation standards and each state's statutes and regulations, the NAIC performs a detailed review of each state's laws and regulations addressing insurer solvency. The reviews are done on an annual basis for accredited states.

As of January 2000, 48 insurance departments have been certified under the Financial Regulation Standards and Accreditation Program: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin and Wyoming.

As insurance industry practices evolve, so must solvency regulation. In recognition of this, the NAIC has anticipated that the original financial regulation standards would be dynamic. The NAIC recognized that any further modifications to the existing standards

FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

(continued)

should be widely exposed and carefully considered prior to adoption. Accordingly, the NAIC, in December 1991, adopted a procedure for the adoption of additional model laws, regulations or standards for accreditation to assure input and comment from regulators, legislators, governors, consumers and the regulated industry. In March 1998, the NAIC implemented revised procedures for adopting new or amending existing accreditation standards. For law and regulation standards, a new two-year seasoning period has been added which will allow more time for states and insurance departments to adopt these changes. The two-year seasoning period coupled with the traditional two-year period to adopt will allow a total of at least four years before states and insurance departments seeking to acquire or retain accreditation would be required to adopt new or amended law and regulation models. For example, a new standard based on an NAIC model initially seasoned in September 1999 would be required no earlier than Jan. 1, 2004.

In 1995, the NAIC undertook a comprehensive review of the accreditation program to ensure that the goals of the program were being met and to determine whether those goals were still relevant. As a part of this review, a mission statement for the accreditation program was adopted to clarify the goals of the program. In addition, the NAIC

held several public hearings to solicit comments from state regulators, state legislators, industry representatives and consumer representatives. These comments were valuable tools in the NAIC's comprehensive review of the program, which was completed in early 1998. The NAIC further adopted a policy that requires the sponsor of any addition or change to the standards to submit written evidence describing how the change is directly related to solvency and why it is needed, why it should be adopted by all jurisdictions, the number of jurisdictions that have adopted it and their experience, for laws and regulations which provisions must be worded in substantially similar language, the estimated cost for insurers to comply and the impact on state regulators, and the impact on consumers if the change is not approved.

In June 1997, the NAIC adopted significant changes to the accreditation standards. These changes increase the flexibility of states in meeting the Guaranty Funds, Producer Controlled Insurer, Managing General Agents and Reinsurance Intermediary Standards by requiring a "regulatory framework" showing that basic regulatory tools are available and exercised by the states. Strict adherence to NAIC model laws on these matters is not needed. However, states that have already enacted NAIC models on these matters are encouraged to retain them. Furthermore, if a

FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

(continued)

state can provide evidence that none of the entities contemplated in the above standards are either present or allowed to operate in the state, it will not need to demonstrate compliance with that standard.

Additional financial analysis standards were adopted that state that analysis procedures should be documented and the procedures should ensure that domestic insurers receive an appropriate level or depth of review commensurate with their financial strength and position. Two standards regarding reporting and acting on material adverse findings were added also. Financial examination standards were expanded to include the communication of relevant information to/from examination staff and timely action by the state upon the reporting of material adverse findings by the examination staff.

The changes to the accreditation standards also included changes to the scoring procedures. Previously, the composite score given to financial analysis and the composite score given to financial examinations were combined and the state's compliance was based upon the combined score. Currently, both the composite score for financial analysis and the composite score for financial examinations must meet minimum values for a state to be considered in compliance, thus creating a more stringent requirement.

In October 1999, the NAIC voted to expose two revisions to existing accreditation standards. The two potential revisions are the Model Rule Requiring Annual Audited Financial Statements and the *NAIC Accounting Practices and Procedures Manual*. The two potential standards will be exposed for two years. Following the two year exposure period the two potential standards will be considered for adoption as required standards. If adopted, the two potential standards will become effective on Jan. 1, 2004, following a two-year adoption period.

NAIC Position: The NAIC encourages all states to develop a strategic plan, if necessary, to comply with the minimum financial regulation standards and support states' actions to become accredited under this program. At a state's request, the NAIC will perform an on-site pre-accreditation review to help the state assess its compliance with the financial regulation standards and help the state develop an action plan to come into compliance in preparation for the accreditation review. The NAIC also will perform a review of legislative packages before they are submitted to the legislatures to help assess whether they will meet the current requirements.

Staff Contacts:

Edward A. Dinkel (816) 783-8130
Kimberly J. Campbell (816) 783-8134

Originated: 1991
Revised: 1992, 1993, 1994, 1995, 1996, 1997,
1998, 1999, 2000

LAWS AND REGULATIONS

1. Examination Authority
2. Capital and Surplus Requirement
3. NAIC Accounting Practices and Procedures
4. Corrective Action
5. Valuation of Investments
6. Holding Company Systems
7. Risk Limitation
8. Investment Regulations
9. Liabilities and Reserves
10. Reinsurance Ceded
11. CPA Audits
12. Actuarial Opinion
13. Receivership
14. Guaranty Funds
15. Filings with NAIC
16. Producer Controlled Insurers
17. Managing General Agents Act
18. Reinsurance Intermediaries Act

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FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

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16. Producer Controlled Insurers
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I. LAWS & REGULATIONS

1. Examination Authority

The department should have authority to examine companies whenever it is deemed necessary. Such authority should include complete access to the company's books and records and, if necessary, the records of any affiliated company, agent, and/or managing general agent. Such authority should extend not only to inspect books and records but also to examine officers, employees, and agents of the company under oath when deemed necessary with respect to transactions directly or indirectly related to the company under examination. The NAIC Model Law on Examinations or substantially similar provisions shall be part of state law.

Reference

- a. Authority to examine companies whenever deemed necessary? K.S.A. 40-222(a)
- b. Complete access to company's books and records? K.S.A. 40-222(c)
- c. Access to records of:
 - . Affiliated companies? K.S.A. 40-222(d)
 - . Agents and/or MGAs? K.S.A. 40-222(c) and (d)
K.S.A. 40-2, 132 and 40-2, 134
- d. Examine under oath:
 - . Officers? K.S.A. 40-222(c)
 - . Employees? K.S.A. 40-222(c)
 - . Agents? K.S.A. 40-222(c)
- e. Examine all domestic insurers no less frequently than every five years? K.S.A. 40-222(a)
- f. Require examiners to observe those guidelines and procedures set forth in the NAIC Examiners Handbook supplemented with such other guidelines or procedures as deemed appropriate? K.S.A. 40-222(f)
- g. Authority to retain attorneys, appraisers, independent actuaries, independent CPAs or other professionals and specialists, the cost of which shall be borne by the insurer? K.S.A. 40-222(h)

Reference

- h. Authority to use and, if appropriate, make public any final or preliminary examination report, any examination workpapers or other documents, or any other information discovered or developed during the course of any examination in the furtherance of any legal or regulatory action which the Commissioner may deem appropriate? K.S.A. 40-222(j)
- i. Establish guidelines for the timing of report filing and adoption to ensure reports are timely similar to Section 5 of the Model Exam Law? K.S.A. 40-222(k)
- j. Authority for the Commissioner to disclose the content of an examination report, preliminary examination report or results, or any matter relating thereto, to the insurance department of any state or country, or to law enforcement officials of any state or country or agency of the federal government at any time, so long as such agency or office receiving the information agrees in writing to hold it confidential? K.S.A. 40-222(k)(5)

III.

Have there been any changes to your Examination Authority since last year's review? If no, please do NOT attach copies of your statutes or regulations.

IV.

V. Yes V VII. No

X

REGULATORY PRACTICES AND PROCEDURES

1. Financial Analysis
 - a. Sufficient Qualified Staff and Resources
 - b. Communication of Relevant Information To/From Financial Analysis Staff
 - c. Appropriate Supervisory Review
 - d. Priority Based Analysis
 - e. Appropriate Depth of Review
 - f. Documented Analysis Procedures
 - g. Reporting of Material Adverse Findings
 - h. Action on Material Adverse Findings

REGULATORY PRACTICES AND PROCEDURES

1. Financial Analysis
 - (i) Sufficient Qualified Staff and Resources
 - (ii) 5 Financial Analysts positions with 3 filled and 2 unfilled

Active

Employee	Title	Years Employed by Dept.	Hire Date
CT	Financial Analyst	2	1/26/98
TB	Financial Analyst	4	6/1/97
CH	Financial Analyst Trainee	5 months	6/1/00
	Vacant		
	Vacant		
JM	Admissions Coordinator	1	9/21/99
AE	Securities Supervisor	12	6/18/93

Resigned in 2000

Employee	Title	Years Employed by Dept.	Hire Date	Termination Date
	Financial Analyst	2	10/12/98	3/23/00
	Financial Analyst	5	10/16/95	7/22/00
	Financial Analyst	3	3/1/98	9/27/00

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12/31/1999 Domestic Insurance Company Financial Information

COCODE	LIFE	TOTAL ASSETS	CAP AND SURP	PREMIUMS	LICENSED
60542	AMERICAN HOME LIFE INS CO	90,865,037	9,263,455	8,973,533	20
60631	AMERICAN INVESTORS LIFE INS CO	3,128,983,420	118,741,508	760,827,263	50
70729	BC & BS OF KS INC	633,515,230	231,772,602	689,808,627	1
68276	EMPLOYERS REASSURANCE CORP	4,128,292,830	480,718,114	660,587,372	50
98213	FINANCIAL BENEFIT LIFE INS CO	421,699,275	20,758,403	23,081,607	45
60227	FIRST LIFE AMER CORP	3,518,782	2,880,773	1,141,351	1
65137	KANSAS FARM BUREAU LIFE INS CO INC	631,390,765	48,684,427	78,018,913	1
60110	PREFERRED HEALTH SYSTEMS INS CO	13,920,197	8,463,323	23,114,385	1
68284	PYRAMID LIFE INSURANCE CO	120,177,322	43,334,351	63,414,687	40
68675	SECURITY BENEFIT LIFE INS CO	8,141,770,502	470,186,615	1,403,721,715	51
70173	UNIVERSAL UNDERWRITERS LIFE INS CO	313,297,291	112,129,574	69,149,073	50

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COCODE	PROPERTY AND CASUALTY	TOTAL ASSETS	CAP AND SURP	PREMIUMS	LICENSED
19186	ALLIANCE INS CO INC	16,267,180	6,698,524	11,769,609	10
10235	AMERICAN SOUTHERN INS CO	83,898,890	29,402,157	38,530,332	24
41459	ARMED FORCES INS EXCHANGE	166,405,755	112,945,848	49,575,496	51
41394	BENCHMARK INS CO	27,994,959	11,449,758	26,775,242	40
15881	BREMEN FARMERS MUT INS CO	14,898,688	7,253,676	8,751,693	1
51373	COLUMBIA NATIONAL TITLE INSURANCE COMPANY	5,421,483	1,957,188	5,524,685	5
21520	FARM BUREAU MUT INS CO INC	289,464,528	135,590,795	156,883,881	2
19194	FARMERS ALLIANCE MUT INS CO	156,675,549	71,288,251	102,984,091	21
10846	FARMERS HAIL INSURANCE COMPANY	10,810	10,700	0	1
21628	FARMERS INS CO INC	133,438,195	63,249,432	80,660,817	6
10323	FARMERS MUT INS CO	2,907,932	1,716,262	1,660,501	1
11118	FEDERATED RURAL ELECTRIC INS CO	125,220,637	37,318,109	32,550,195	41
50043	FIRST AMERICAN TITLE INS CO OF KS	2,380,640	1,534,660	1,820,749	1
10858	GLOBAL CAPTIVE CASUALTY & SURETY COMPANY	270,675	260,545	0	1
15903	GREAT PLAINS MUT INS CO	9,133,395	3,876,860	6,201,262	1
20419	HOMESITE IND CO	5,346,749	5,312,625	2,536,170	13
10951	INDEPENDENCE INDEMNITY INS CO	86,377,501	18,211,431	24,861,840	1
15962	KANSAS BANKERS SURETY CO	91,996,063	72,369,105	15,806,698	25
34703	KANSAS MEDICAL MUT INS CO	37,348,232	6,231,611	10,517,064	2
14362	KANSAS MUT INS CO	4,670,989	2,533,661	2,585,368	1
21539	KFB INS CO INC	18,727,461	13,665,847	-201,195	1
14451	MARYSVILLE MUT INS CO	11,902,007	5,624,975	8,451,237	1
10845	MCPHERSON HAIL INSURANCE CO	412,170	412,060	0	1
37060	OLD UNITED CAS CO	99,290,422	19,316,164	45,248,954	46
35017	PATRONS INS CO	13,424,254	4,732,507	8,247,678	1
40584	TRAVEL AIR INS CO KS	32,352,931	8,944,904	630,000	1
10696	TRAVEL AIR INSURANCE CO, LTD	83,489,812	58,964,396	9,687,460	1
15954	TRINITY UNIVERSAL INS CO OF KS	10,748,118	10,670,284	0	24
41181	UNIVERSAL UNDERWRITERS INS CO	1,283,742,327	444,121,541	557,928,902	51
15296	UPLAND MUT INS INC	12,133,528	6,625,620	7,220,507	1
26093	WATERFORD INS CO	13,492,131	12,214,527	1,420,003	49

10198 HEARTLAND HEALTH, INC (LIQUIDATED)
 37974 MT. HAWLEY INSURANCE CO (REDOMESTICATED)
 26107 PENNSYLVANIA CASUALTY INS CO (REDOMESTICATED)

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COCODE	HMO'S	TOTAL ASSETS	CAP AND SURP	PREMIUMS	LICENSED
95489	Coventry Health Care of Kansas	42,021,410	17,052,317	159,147,634	2
95620	FirstGuard Health Plan Kansas	9,490,180	308,413	28,733,893	1
95250	HMO Kansas, Inc.	37,459,993	35,239,647	0	0
95032	Kaiser Foundation Health Plan	39,683,019	12,616,308	93,355,750	0
95390	Preferred Plus of Kansas, Inc.	43,028,573	16,918,285	136,429,317	1
95254	Premier Health, Inc. (Premier Blue)	27,404,255	12,804,083	83,875,062	1

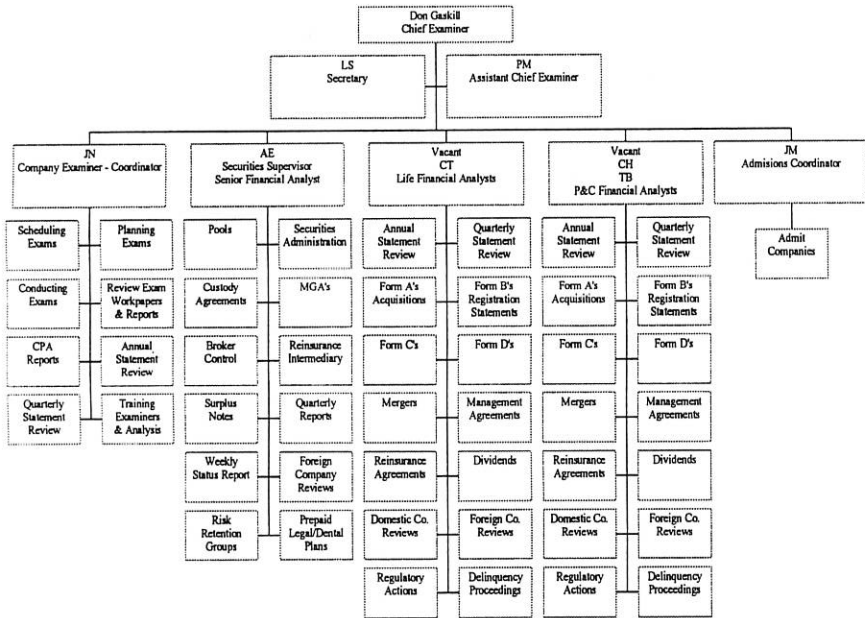
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COCODE	MEDICAL INDEMNITY	TOTAL ASSETS	CAP AND SURP	PREMIUMS	LICENSED
54615	Delta Dental Plan of Kansas	14,358,015	11,835,045	49,656,799	2

COCODE	GROUP FUNDED WORKERS COMP POOLS	TOTAL ASSETS	CAP AND SURP	PREMIUMS	LICENSED
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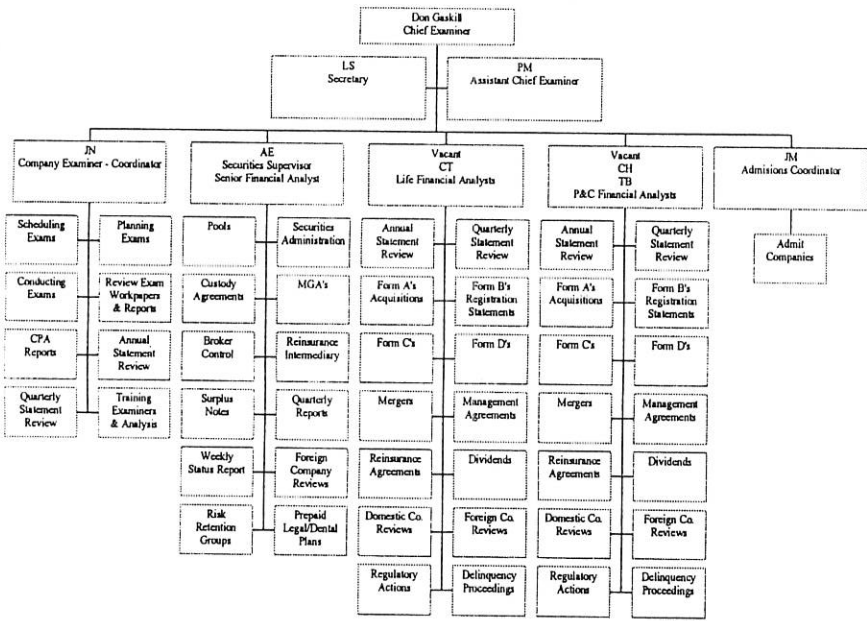
Group-Funded Worker's Compensation Pools	Total Assets	Fund Balance	Premiums	
K.S.A. 44-581 et seq.				
Builders Association SIF of Kansas	17,051,170	9,188,341	5,023,042	Active
Kansas Association of Homes for the Aging	7,688,148	3,301,385	1,259,881	Active
Kansas Automobile Dealers Workers' Comp Fund	3,074,070	1,049,970	1,034,010	Active
Kansas Building Industry Workers Comp Fund	5,183,090	2,301,450	2,060,148	Active
Kansas Employers Workers' Compensation Fund	3,167,073	727,690	816,133	Active
Kansas Health Care Association Worker's Comp	36,929,945	1,506,229	640,461	Active
Kansas Livestock Assoc. Risk Mngmt Services, Inc.	2,719,670	1,342,938	798,427	Active
Kansas Restaurant & Hospitality Assoc. SIF	3,696,664	966,817	1,447,459	Active
Kansas Truckers Risk Mngmt Grp, Inc. Trust	2,335,555	75,950	880,462	Active
KHA Workers' Compensation Fund, Inc.	3,144,909	1,088,245	1,248,711	Active
Wichita Auto Dealers Self-Insurance Fund	1,141,817	772,609	352,756	Active
Kansas Aggregate Ready Mixed Assoc. SIF				Dissolving
Medicalodges Affiliates Workers' Comp SIF				Dissolving
Associated Builders and Contractors SIF				Dormant
Kansas Chamber of Commerce and Industry WCF				Dormant
Kansas PIA Workers Compensation Corp.				Dormant
Western Assoc Self Insurers Workers' Comp Trust-Ks				Dormant
Kansas Electric Cooperative Workers Comp Grp				No Longer Exists
Kansas Manufacturers & Commerce SIF				Surrendered Cert of Auth
Kansas Transportation & Industry SIF				Surrendered Cert of Auth
K.S.A. 12-2616 et seq. - A & H				
Mid-America Regional Council Insurance Trust	6,659,146	5,841,908	11,171,180	Active
Southwest Plains Regional Service Center HIG	1,416,000	474,977	4,350,748	Active
Greenbush Health Insurance Group				Under Superv & Dissolving
Kansas Municipal Employees' Health Ins Grp				Under Superv & Dissolving
Smoky Hill Health Insurance Group				Under Superv & Dissolving
South Central Kansas Health Insurance Group				Under Superv & Dissolving
K.S.A. 12-2616 et seq. - Work. Comp.				
Kansas Assoc. of School Boards Risk Mngmt Serv.	12,078,581	3,252,695	3,816,793	Active
Kansas County Association Multiline Pool	5,533,798	1,144,672	1,817,771	Active
Kansas Eastern Region Insurance Trust	5,972,383	3,282,609	1,300,113	Active
Kansas Municipal Insurance Trust	1,702,208	(361,837)	1,263,559	Active
Kansas Workers Risk Cooperatives	6,130,937	3,360,894	1,392,345	Active
18 - Active				
4 - Dormant				
2 - Dissolving				
1 - No Longer Exists				
2 - Surrender Cert of Authority				
4 - Under Supervision & Dissolving				
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REGULATORY PRACTICES AND PROCEDURES

a. Financial Examinations

- a. Sufficient Qualified Staff and Resources
- b. Communication of Relevant Information To/From Examination Staff
- c. Use of Specialists
- d. Appropriate Supervisory Review
- e. Use of Appropriate Guidelines and Procedures
- f. Scheduling of Examinations
- g. Examination Reports
- h. Reporting of Material Adverse Findings
- i. Action on Material Adverse Findings

b. Communication with States and Procedures for Troubled Companies

- a. Communication with States
- b. Procedures for Troubled Companies

REGULATORY PRACTICES AND PROCEDURES

2. Financial Examinations

- a. Sufficient Qualified Staff and Resources

1999 Employee	Professional Designation	Title	Years Employed by Dept.
CB	CFE	Insurance Examiner	5
CC	CFE	Insurance Examiner	5
RC	CFE	Insurance Examiner	14
AG	CFE	Insurance Examiner	23
TH	AFE	Insurance Examiner	3
MK	CFE, CPA	Insurance Examiner	6
LM	AFE	Insurance Examiner	3
JN		Examiner Coordinator	2
BO		Insurance Examiner	1
BW	CFE	Insurance Examiner	6
			10

1-13 #19

Types of Examinations

Triennial (Comprehensive)

Special

- **Targeted**
- **Limited Scope**

Market Conduct

Three Key Elements of the Examination System

1. **Early Warning System**
2. **System for Scheduling**
3. **Planning How to Conduct the Examination**

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Types of Examinations

Triennial (Comprehensive)

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Market Conduct

Three Key Elements of the Examination System

1. Early Warning System
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3. Planning How to Conduct the Examination

Financial Examinations

- Association Examinations
- Scheduling Examinations
- Planning Examinations
- Conducting Examinations
- Reporting Examinations Progress and Findings
- Review and Filing Examination Reports

I. SCHEDULING FINANCIAL CONDITION EXAMINATIONS

1. Responsibility for Scheduling
2. Timing of Schedule Preparation
3. Procedures for Scheduling
4. Quarterly Updating of the Schedule

II. PLANNING THE EXAMINATION

1. Review and Analysis
2. In-House Planning Meeting
3. Management Assessment
4. Understanding Materiality and Risk
5. Setting Materiality Levels
6. Tolerable Error
7. Specific Risk Analysis (SRA)
8. Analytical Review
9. Internal Control and Compliance Testing
10. Consideration of the Work Performed by independent Auditors
11. Examination Planning Memorandum

III. CONDUCTING EXAMINATIONS

1. General Examination Procedures
2. Examination of Computer-Based Operations
3. Sampling
4. Using the Work of an Outside Specialist
5. Reinsurance
6. Uniform Accounting for Insurers
7. Managing General Agents
8. Custodial or Safekeeping Agreements
9. Use of Independent Certified Public Accountants on Multi-state Examinations

3) ORGANIZATIONAL AND PERSONNEL PRACTICES

- i) Professional Development
- ii) Minimum Educational and Experience Requirements
- iii) Retention of Personnel

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3) ORGANIZATIONAL AND PERSONNEL PRACTICES

- i) Professional Development
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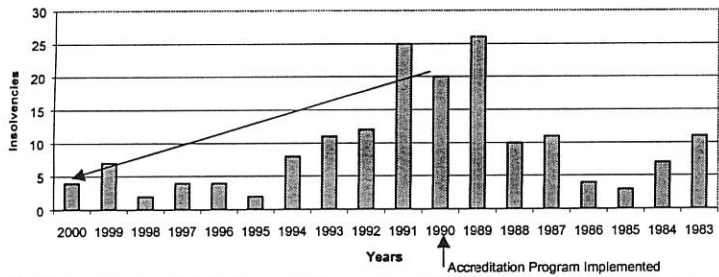
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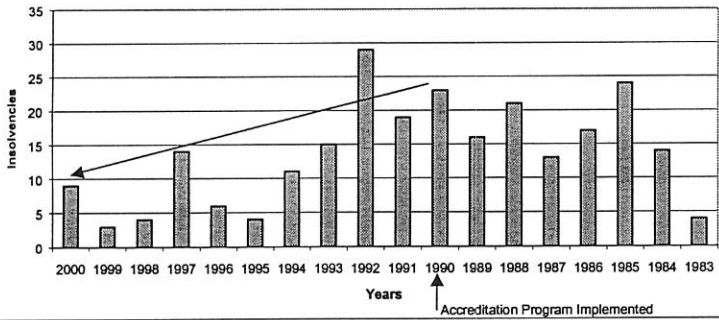
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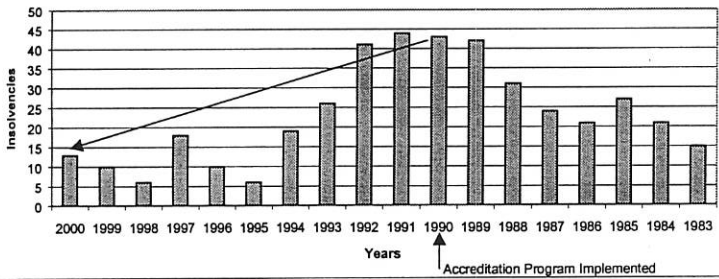
Life Company Insolvency History



Property & Casualty Company Insolvency History



Total Insurance Company Insolvency History



A. Why does the Kansas Insurance Department want to be Accredited?

- a. States will not accept the Examination Reports of Kansas Domestic Insurance Companies without the signature of a Certified Financial Examiner from an Accredited State
- b. States can and will send their examiners to examine Kansas Domestic Insurance Companies causing an undue burden and cost on the Kansas Domestic Insurers
- c. If minimal standards are not maintained by a majority of the State Insurance Departments then the U.S. Congress will likely intervene

Electronic Examination Process

1. EDP Audit Process

a. Information Systems Questionnaire (ISQ)

2. Examination Electronic Workpaper Process

a. Electronic data files

b. Requested items in Electronic Format

- i. Items to be sent to Insurance Department
- ii. Items to be maintained at Company

c. Schedule for requested items

- i. Request sent to company on 11/1/2000
- ii. Documentation and files are due 4/1/2001

3. TeamMate 2000

4. Document Imaging Process

- TeamMate 2000

- Increases the efficiency and effectiveness of the entire audit team
- Examiners spend less time documenting and reviewing
- Planning process is streamlined
- Entire working paper process is automated

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Jan 30, 2001

K.S.A 44-585

(c) The trustees may, at the end of a fund year, declare a refund of any surplus moneys for the fund year in excess of the amount necessary to fulfill all obligations under the workers compensation act for that fund year. Said refund shall not be distributed, in whole or in part, less than twelve months after the end of the fund year for which the refund was declared. After receipt from the fund of the notice of declared refund and satisfactory evidence that sufficient funds remain on deposit for the payment of all outstanding claims and expenses, including incurred but not reported claims, the commissioner shall approve distribution of the declared refund. Any such refund shall be paid only to those employers who remained participants in the pool for the entire year for which a refund was declared. Payment of previously earned refunds shall not be contingent on continued membership in the pool.

*Knew Comm on In
Jan 30, 2001
Attachment #2*