Approved:
Date: 3-26-02

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Sandy Praeger at 9:30 a.m. on March 21, 2002 in Room 234 N of the Capitol.

All members were present except:

Committee staff present: Dr. Bill Wolff, Kansas Legislative Research Department
Ken Wilke, Office of the Revisor of Statutes
JoAnn Bunten, Committee Secretary

Conferees appearing before the committee:

Larry Magill, Kansas Association of Insurance Agents
William Sneed, State Farm Insurance Companies
Tony Kimmi, Farm Bureau Mutual Insurance Company, Inc.

Others attending: See attached list.

Hearing on SCR 1623 - Urging the study of insurance scoring reports

Larry Magill, Kansas Association of Insurance Agents, testified before the Committee in support of the Concurrent Resolution calling for a task force to study the use of credit scoring in insurance and report back to the legislature next January. (Attachment 1)

William Sneed, State Farm Insurance Companies, appeared in opposition to the Resolution and requested that no action be taken at this time inasmuch as there would be some cost to the state with respect to the working group as noted in the text of the Resolution. As an alternative, Mr. Sneed felt that the best course of action would be for the Chair to request the Commissioner of Insurance to form an ad hoc committee to study this issue. (Attachment 2)

During Committee discussion, Linda DeCoursey, Kansas Insurance Department, informed the Committee that at the recent NAIC meeting credit scoring was a topic of interest across the country and most members felt there needed to be a study made on the issue. A suggestion was also made by a member of the Committee that members of the task force not be paid. The Chair noted the Committee will take action on the Resolution at the end of today's meeting.

Hearing on HB 2879 - Automobile insurance - cancellation of policy for nonpayment of dues to organization

Tony Kimmi, Farm Bureau Mutual Insurance Company, Inc., testified in support of **HB 2879** which would allow the company to refuse to renew a policy of automobile insurance based upon the insured's failure to maintain membership in the qualified association. Mr. Kimmi noted that they currently have several hundred insureds that are benefitting from insurance coverage without the requirement of membership. (Attachment 3). During Committee discussion Mr. Kimmi noted that their average dues are $35.00 per year. There were no opponents to the bill.

Action on HB 2677 - Public works bonds; restrictions on requirements thereof

Senator Corbin made a motion the Committee recommend **HB 2677** favorable for passage, seconded by Senator Barnett. The motion carried.

Action on HB 2723 - Manufactured homes and mobile homes; certification of titles

Senator Feleciano made a motion the Committee recommend **HB 2723** favorable for passage, seconded by Senator Brungardt. The motion carried.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Action on SCR 1623 - Urging the study of insurance scoring reports

The Committee discussed the make-up of the task force and changes they wanted to make to the Resolution. It was conceptually agreed that members of the legislature not receive compensation for serving on the task force, and two legislators be appointed from each house.

Senator Feleciano made a motion that language on page 1 relating to legislative members serving on the task force be changed to read the President of the Senate and Senate Minority Leader each appoint one member, and the Speaker of the House and House Minority Leader each appoint one member to serve on the task force, and to strike on page 2, lines 8 and 9 which reads, "Legislative members serving on the task force shall receive pay and allowances as provided for legislative service," and to strike the word "other" after the word "All" on line 9, and **SCR 1623 be adopted as amended**, seconded by Senator Teichman. The motion carried.

Adjournment

The meeting was adjourned at 10:30 a.m. The next meeting is scheduled for March 26, 2002.

SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: 3-21-02

NAME	REPRESENTING
Tony Kimmi	Farm Bureau Mutual Ins. Co.
Sandy Braden	KAIFA
John Gann	KAIFA
Kelleen Brennan	Security Benefit
Bill Sneed	State Farm
Cindy Hermes	St. Legislator
David Hanson	Ks Ins Assns
[illegible] E Wilson	Farmers Alliance
Kevin Davis	Am Family Ins.
LARRY MAGILL	KAIA
Martha Neu Smith	KMHA
John Peterson	SBG
Chuck Stones	KBA
Cathy McNorton	KTLA

Testimony on SCR 1623
Before the Senate Financial Institutions and Insurance Committee
By Larry W. Magill, Jr.
Kansas Association of Insurance Agents
March 21, 2002

Thank you Madam Chair and members of the Committee for the opportunity to appear today on SCR 1623 calling for a task force to study the use of credit scoring in insurance and report back to the legislature next January.

Since the last legislative session, there has been an enormous increase in the amount of interest shown by the states in regulating the use of credit for insurance underwriting and rating purposes. Approximately two dozen states have considered or are considering bills this legislative session that would restrict the use of credit scores for insurance purchases. At least three states, Washington, Utah and Idaho, have passed legislation with bills still alive in a large number of other states.

Use of credit scoring for insurance rating purposes has hit the headlines in the last two weeks in the attached March 19th front page Wall Street Journal article and a March 12th front page U.S.A. Today article.

The proposed legislation in these states addresses the issue in a number of different ways that range from:

1. Prohibiting underwriting based solely on credit scores
2. Disclosure of the score and a detailed explanation of the factors that determined the score along with information on how to improve the score
3. Prohibiting use of credit scores only on renewal books to non-renew, cancel or raise rates
4. Requiring reporting only when adverse actions are taken and applying the adverse underwriting decisions law
5. Requiring filing and approval by the Insurance Department of the insurance scoring method
6. Requiring insurers to notify consumers that a credit score will be used in underwriting
7. Prohibiting use of credit scores that are in dispute
8. Where a credit score resulted in charging a higher premium, requiring the insurer to run a credit score at subsequent policy anniversaries and reduce the premium if the score improves
9. Limiting the credit score impact to no more than a 20% increase in rate
10. Prohibiting of use of "no-hit" credit reports to raise premiums
11. Prohibiting use of certain factors such as number of credit inquiries, credit difficulties caused by health problems or disputed medical bills, use of particular types of credit cards...

And the list could go on....

Senate Financial Inst. & Insurance
Date: 3-21-02
Attachment No. 1

According to a Conning & Company study published in 2001, the proponents of credit scoring have 4 principal arguments:

- There is a strong statistical correlation between credit data and loss ratio. Conning sited studies by Fair, Isaac, The Casualty Actuarial Society and the Virginia Bureau of Insurance.
- The use of credit data enables insurers to make underwriting exceptions for consumers that traditionally would not qualify for preferred or standard programs.
- Credit characteristics are nondiscriminatory.
- Insurance scoring, in combination with other risk characteristics, allows for more objective, consistent and efficient underwriting and pricing decisions.
- Most consumers have good credit.

The use of credit in the underwriting and rating process has increased dramatically, and the practice is commonplace today. A 2001 Conning & Co study found that 92 of the largest 100 personal auto insurers use credit data in underwriting or rating and of those 92 companies, over half have begun doing so since1998.

The NAIC is currently studying the use of credit scores for the second time. KAIA recognizes that Kansas cannot afford, as a small, storm-prone state with a relatively small premium volume to have an overly restrictive underwriting environment. Nevertheless, we hear the frustration frequently from our members that the credit scoring process is shrouded in secrecy, unpredictable and sometimes inconsistent in its effect.

We hear stories of consumers whose credit score varies dramatically over a short period of time for no apparent reason, of instances where a consumer qualifies for the lowest rated auto policy but is not as desirable a risk for homeowners insurance with the same carrier and the very common problem of not knowing why the score is low and how to improve it.

Last year, when the Realtors requested S.B. 185 and H.B. 2254, we waited to see the results and to determine if we would ask that insurance be amended into the bills. Since then, the insurance industry has been engaged in debate over credit scoring in roughly half the states.

We feel that the timing is right for a study of the entire area of credit scoring in insurance for the following reasons:

- The industry's use of credit scores is evolving as more states consider legislation and the debate over credit develops.
- At the same time, the providers of credit scores are responding to some of the concerns. For example, the attached Wall Street Journal article talks about a new service being offered by Fair Isaac, one of the credit scoring firms, which will coach a consumer on ways to improve their score for a fee.

- The NAIC is studying the issue and a number of states are still considering legislation.
- Insurance companies, like Progressive, the largest auto insurance writer for independent agents, recently released a paper with a number of credit scoring improvements they would support. We are convinced more companies will join the discussion in a proactive way if SCR 1623 passes.

At this point, KAIA is not convinced that legislation is the only answer. The advantage of the task force that SCR 1623 proposes is that it gives all the stakeholders a chance to sit down around a table and work on solutions in an open give-and-take discussion. This less formal, more participatory process will give us a chance to find some common ground before the 2003 legislative session.

We urge the Committee to take action on the Concurrent Resolution quickly if we are to have any hope of passing it this late in the session. We would be happy to answer questions or provide additional information.

Larry Magill

From: Wes Bissett [WBissett@iiaa.net]

Sent: Wednesday, March 20, 2002 3:33

To: Larry Magill

Subject: FW:

The first story is from USA Today (March 12). The second is from the WSJ. Both were front page stories.

HEADLINE: Bad **credit** boosts **insurance** costs
BYLINE: Thomas A. Fogarty

Credit trouble doesn't just make it hard to get a loan. For many, it's increasing the cost of **insurance.**

Two dozen state legislatures are looking at curbing the growing practice of using a customer's **credit** history to predict **insurance** claims. Nearly every auto insurer in the USA has started to assign a score to a customer's **credit** history. Practices vary, but the score is used in deciding to issue a policy, to renew it, or to price it. **Credit** scoring is becoming the norm for home insurers, too. This month, the Washington state legislature became the first to significantly restrict **credit** scoring for **insurance.**
Political backlash is building because of such cases as that of Larry Jackson and his wife, Elizabeth Alexander, of Kirkland, Wash. Last fall, their auto insurer raised their rates 40%. The bump followed six years of accident-free coverage and timely premium payments. But the insurer to factor **credit** scores into pricing decisions; that brought up a bankruptcy filing from seven years ago.

"My wife and I are careful drivers, and our **credit** has not been an issue for a number of years," says Jackson, 45, a mining engineer.

Not in dispute is the ability of **credit** scores to predict broadly the likelihood of future claims by a certain type of customer.

Credit scores work in **insurance** calculations, says Lamont Boyd of **credit**-scoring firm Fair Isaac, because "the vast majority of people tend to do things in a certain way." Thus, he says, those who manage their **credit** well also tend to leave home early enough that they don't have to drive recklessly to get to work on time.

Joe Annotti, spokesman for the National Association of Independent Insurers, says banning the use of **credit** scores by insurers could increase rates for good **credit** risks because insurers could no longer distinguish good risks from bad.

FAIR ISAAC PLANS CREDIT-SCORE HELP, BUT WATCHDOG GROUPS SEE CONFLICT

By RUTH SIMON, Staff Reporter of *THE WALL STREET JOURNAL*
Tuesday, March 19, 2002

SAN RAFAEL, Calif. -- Maybe you were forced to put down a big deposit when you got phone service. You might have ended up paying extra-high rates for auto insurance despite a flawless driving record. Or, maybe you suddenly had trouble finding homeowner's insurance.

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In all three cases, the reason could well have been the same: Your credit score wasn't high enough. These days, that score, calculated from your personal financial data using a secret formula, has more influence over your life than ever before.

Increasingly, lenders, merchants and even many insurers consider a customer's credit score a critical tool for predicting whether they'll make money on that customer. The scores are based on complex and closely guarded mathematical formulas, many of them written here by Fair, Isaac & Co.

That gives the little-known California company an influential role in the lives of millions of American consumers. Its scores already play an important part in many insurance decisions, a trend that is drawing increasing scrutiny from regulators. Now, Thomas Grudnowski, Fair Isaac's chief executive since 1999, is leading the company into another potentially controversial business: teaching people how to boost their credit scores and to use them to better advantage.

Starting this spring, Fair Isaac plans to launch the first of a new set of services that would do just that -- for a fee. One of the new services, which will draw on the company's insider knowledge of its own credit-score formulas, will show consumers how certain key financial variables influence their credit scores. For an additional fee, another service would alert consumers to changes in their scores that might indicate that somebody was stealing their financial identity. Yet another fee-based service would show people who want to refinance their mortgages how to get a better interest rate by timing their refinancing to coincide with an increase in their credit score.

Seeking Sales Growth

Mr. Grudnowski is counting on the new services to help spur Fair Isaac's sales growth, which has slowed in recent years as consolidation in the financial industry has reduced the company's traditional customer base. He says he thinks that selling data to consumers could be a $500 million to $1 billion market for the company within five years; Fair Isaac had 2001 sales of $329.1 million.

Some consumer advocates, already critical of the secrecy surrounding Fair Isaac's credit-scoring formulas, are troubled by its planned expansion. Among them is Ed Mierzwsinki of the U.S. Public Interest Research Group, who says the company's new services are just another way of charging consumers for something that should rightfully be theirs for free: access to their credit scores. Fair Isaac is being "incredibly greedy," says Mr. Mierzwsinki, whose liberal consumer-advocacy group is based in Washington, D.C.

Fair Isaac says that's not the case. "Judging by our consumer response so far, people from all walks of life very much want these new services," says company spokesman Craig Watts.

The new services put Fair Isaac in the unusual position of charging consumers for tips on how to better the very scores that Fair Isaac writes the rules for. But the company says it doesn't see any conflict in that position. It says its models merely use technology to measure the same kinds of risk factors that a lender would weigh in deciding whether to make a loan.

Fair Isaac isn't the only company that develops credit-scoring formulas, but it is by far the market leader. It says that credit scores based on its flagship "FICO" formula are a factor in about three-quarters of all mortgages approved in the U.S.

For years, the company refused to let consumers see their credit scores. Two years ago, when Internet lender E-Loan Inc. began giving consumers free online access to their FICO scores, Fair Isaac urged the credit-reporting companies that provided the scores E-Loan used to stop doing so. The lender quickly backed down. Fair Isaac says it didn't think consumers should be given their scores without information that would help them understand the numbers. Federal laws require the nation's credit-reporting companies, the sources of much of Fair Isaac's data, to give consumers access to their credit reports for a nominal fee or, in some cases, free of charge. But those laws don't apply to credit scores.

Last year, under mounting pressure from legislators and consumer groups, Fair Isaac launched myfico.com, a Web site that gives consumers access to their personal FICO scores. For a fee of $12.95, a consumer gets 30 days of online access to his FICO report. So far, the company says, more than one million consumers have paid for the service, which it operates as a joint venture with Equifax Inc., the Atlanta-based credit-reporting company. Myfico.com was introduced roughly five months after California passed a law requiring lenders to disclose, at a reasonable cost, credit scores used in making decisions on home loans.

On the FICO scale, a score of 300 indicates that a consumer is a terrible credit risk, while a score of 850 denotes an ideal borrower. The median score is roughly 720. In addition to their scores, consumers who buy the basic myfico.com service get a copy of their Equifax credit report and a general explanation of the factors that might be holding down their credit scores. Critics say these explanations are too vague to be of much help to consumers.

Partly in response, Fair Isaac, in the next six to eight weeks, plans to upgrade its $12.95 myfico.com service to include an online calculator that will let consumers see how seven key variables could affect their FICO score. According to a prototype of the new service, a consumer with a 707 score could raise that score by as much as 20 points by paying down $750 on $2,230 in credit-card balances. But the prototype's advice isn't always as straightforward. For example, a consumer with a 707 score could either raise or lower that score by 10 points by obtaining a new charge card with a $3,000 credit limit.

Consumer groups argue that the company should expose the formula itself to public scrutiny. But the company has refused to do so, citing competitive concern, though it says it cooperated with legislators and regulators.

Would banks and other lenders find FICO scores as useful if consumers know how to raise them or know when their scores have peaked? "It's something we've wrestled with a lot," says Mr. Watts, the Fair Isaac spokesman. "Our consistent advice to consumers as to how to improve their scores has been pretty generic."

Fair Isaac says it plans to market its new consumer-oriented services primarily through lenders and financial Web sites. Mr. Watts says about a half-dozen lenders and Web sites are providing access to the myfico.com service. These include Quicken.com and Citibank, a unit of Citigroup Inc.

Increasingly, credit scores are also being used to make business decisions that don't involve lending money. Fair Isaac pioneered their use by insurance companies. Now some auto insurers believe that the scores are a better predictor of a client's propensity to file insurance claims than is the client's driving record. The result: If your credit score goes down, your auto-insurance rate may go up -- or you insurer might choose to drop you.

The insurance industry says various studies have shown that consumers with lower credit scores are more likely to file auto or home-insurance claims, though the industry isn't sure why. That's "the $64 million question," says Frank McConnell, a Safeco Corp. assistant vice president and its director of personal-insurance lines.

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Critics say the use of credit scores by insurers penalizes poor people, immigrants and seniors. Members of these groups, who often pay their bills in cash, may not have credit histories, and thus may not have credit scores. Moreover, they say that the credit reports on which credit scores are based often contain errors. Those reports are compiled by credit-reporting companies that glean their information from lenders, debt-collection agencies, courts and other public and private sources.

Earlier this month, the state of Washington passed a law that would restrict the use of credit-based scores for home and auto insurance. Last week, Utah and Idaho enacted related laws. Credit-scoring legislation also has been introduced in more than 20 other states.

When Washington state insurance commissioner Mike Kreidler held hearings on the issue last year, more than 200 consumers complained that they were denied insurance, were told their policies wouldn't be renewed, or saw their rates increased, based on their credit scores.

One of them was Kathryn Korab, a brokerage-firm manager, who lives in Bellingham, Wash. She says her insurer, Safeco, decided not to renew her auto policy based on her credit score -- which she says dropped because her husband failed to pay some bills after they divorced. Ms. Korab says she subsequently called five other insurers.

"Three wouldn't insure me," Ms. Korab recalls. Two others offered to provide her with coverage, but for more than $250 a month, compared with the $63 a month she had been paying. Safeco finally decided to renew Ms. Korab's policy, a month after she testified at one of Mr. Kreidler's hearings.

"I had never had a problem before," says Ms. Korab, who said she had previously renewed with Safeco five times. "I don't equate your driving record to your credit record, and they do."

Safeco, one of the more than 350 insurers nationwide that use Fair Isaac scores, says it doesn't comment on individual cases. It says it no longer uses the scores as the sole basis for dropping existing clients. But it continues to use them to help decide what rates to charge as well as to evaluate new auto-insurance clients and all homeowner's-insurance customers. The Seattle-based insurer says it had declined to renew only 2,000 to 2,500 of its 2.8 million insurance customers because of low credit scores before it reversed that policy. It says it later offered many of those customers coverage.

Using credit scores allows auto insurers to offer better rates to many customers and to extend coverage to some that might otherwise be rejected because of "a less-than-perfect driving record," says Joseph Annotti, an assistant vice president of the National Association of Independent Insurers in Chicago. "Sixty to seventy percent of policyholders are getting a break on premiums" because of their scores, he says.

Fair Isaac says it advises its clients against using credit scores as their sole criterion for accepting or rejecting a client or credit applicant. Nonetheless, Mr. Grudnowski, the company's CEO, says there's no doubt that credit scores are a good predictor of future insurance claims. "That's just a fact," he says.

Uncovering such correlations between consumers' financial profiles and their future behavior has been Fair Isaac's business since shortly after it was founded in 1956 by engineer William Fair and mathematician Earl Isaac. The company produced its first credit score in 1958 for American Investment Co., a St. Louis finance company later acquired by Leucadia National Corp.

Fair Isaac's early credit scores mixed complex mathematics with lower-tech data-gathering methods. Soon after he joined the company in 1974, Larry Rosenberger helped develop a custom credit-score

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formula for catalog merchant Spiegel Group Inc. To gather the data for his calculations, Mr. Rosenberger, Fair Isaac's CEO from 1991 to 1999 and now vice president of research and development/analytics, visited Spiegel stores in small Midwestern towns such as Ironton, Ohio. At each stop he used a microfilm camera to photograph 50 to 100 handwritten ledger cards, each containing application and payment data on a Spiegel customer.

In the mid-1980s, Mr. Rosenberger and other Fair Isaac analysts were brainstorming at a neighborhood hamburger joint when they decided to create a new general-purpose credit score that could be used by a multitude of businesses. The formula would be created from data collected by credit-reporting companies, which track payment histories of millions of Americans. After four years of research, Fair Isaac introduced FICO scores in 1989 in partnership with Equifax. They are now offered by all three major credit-reporting companies.

Like the custom formula Fair Isaac created for Spiegel, the FICO formula was developed by comparing past and current financial information on a large sampling of consumers and then using that information to make predictions about future behavior. Fair Isaac won't disclose its exact recipe, but its says a consumer's payment history and debt load account for 35% and 30% of the score, respectively. The other 35% is determined by how long the consumer has had credit, how actively the consumer is looking for new credit and the types of credit the consumer uses.

The key to an individual's FICO score isn't any single piece of information, but how the different variables interact. A missed payment might slash a squeaky clean consumer's FICO score by as much as 100 points. But it might have no effect on the score of a consumer with an already-checkered credit record.

Though it is best known for its FICO product, Fair Isaac has adapted its scores to different markets and different customers. Insurers, for example, don't really care what type of credit a customer uses as long as he pays his bills. Thus, in the specially designed credit-score formula that Fair Isaac sells to insurers, a customer's payment history counts for roughly 45% of the credit score.

"In insurance, things like a severe bankruptcy, a judgment or a tax lien have a greater" impact because they show the consumer engages in risky behavior, explains Fair Isaac Vice President Michael Rapaport.

At Fair Isaac, about 200 computer programmers, mathematicians and researchers, who call themselves "propeller heads," spend their days researching, writing and refining the complex mathematical formulas, or algorithms, that underlie Fair Isaac's credit scores.

Consider one relatively recent challenge: FICO scores penalized consumers who were constantly applying for credit. But as more consumers began visiting multiple lenders in search of the best auto or home loan, Mr. Rapaport told his team to come up with a way to avoid putting savvy shoppers at a disadvantage. Their solution was to count all the loan requests a consumer makes within a 14-day period as a single credit inquiry.

"It improved the score's predictive power by 0.5%," says Luke Van Dijk, Fair Isaac's director of analytics.

Fair Isaac's complex scoring models can be tough for even the company's executives to decipher. Last year, Mr. Grudnowski, the CEO, who earned more than $800,000 in 2001, was startled to learn that his FICO score was just 705, worse than 55% of all borrowers. He says he was able to raise his score to 780 by canceling a bunch of unused credit cards.

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But cutting up unused credit cards wasn't really the reason Mr. Grudnowski's FICO score rose. Among other things, says a Fair Isaac spokesman, factors in his score's improvement included "not taking on additional debt and ... making sure there are no errors on his credit report."

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Memorandum

TO: The Honorable Sandy Praeger, Chair
Senate Financial Institutions And Insurance Committee

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

RE: S.C.R. 1623

DATE: March 21, 2002

Madam Chair, Members of the Committee: My name is Bill Sneed and I am legislative counsel for The State Farm Insurance Companies. We appreciate the opportunity to appear today and offer our comments in regard to S.C.R. 1623.

S.C.R. 1623 urges a legislative study of insurance scoring reports. The State Farm Insurance Companies, along with its other industry colleagues, would respectfully request that no action be taken on this resolution at this time inasmuch as there will be some cost to the state with respect to the working group as suggested in the text of the bill.

As an alternative, we believe that the best course of action at this time would be for the Committee Chair to request that the Commissioner of Insurance form an ad hoc committee to study this issue.

As always, we appreciate the opportunity to comment before this Committee. If you have any questions or comments concerning our remarks, I would be happy to respond.

Respectfully submitted,

William W. Sneed

WWS:kjb

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One AmVestors Place
555 Kansas Avenue, Suite 301
Topeka, KS 66603

Senate Financial Inst. & Insurance
Date: 3-21-02
Attachment No. 2

SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

RE: HB 2879 Auto Non-Renewal

March 21, 2002
Topeka, Kansas

Presented by:
Tony Kimmi
Farm Bureau Mutual Insurance Company, Inc.

Chairman Praeger, and members of the Senate Financial Institutions and Insurance Committee, thank you for the opportunity to appear today and comment in support of H.B. 2879. I am Tony Kimmi and I represent Farm Bureau Mutual Insurance Company, Inc., which is the largest domestic property and casualty insurance company in Kansas. We insure over 203,000 vehicles in Kansas.

H.B. 2879 seeks to amend existing portions of the law as well as to add an additional section requested by Farm Bureau Mutual Insurance Company, Inc. My comments on the changes and additions are as follows:

1. K.S.A. 40-276a is amended to add a new subsection (a) which essentially replaces the existing law with some minor technical amendments. The amendments were made to clean up the language and bring the statute up to date. The amendments were not made to have any substance effect on the existing portions of the bill.

New subsection b. was added to the statute and is patterned after a similar law passed in the State of Arizona. The relevant portions of that bill are as follows:

1. The bill would allow stock insurance companies to non-renew an automobile policy in the event the insured is not a member of a qualified association as defined by the bill.

2. The dues paid to the association would be paid to the association directly and would not be paid to the insurance companies, nor become part of the income or assets of the insurance company.

Farm Bureau Mutual Insurance Company was established in 1938 to offer insurance services to the members of Kansas Farm Bureau. These insurance services have been a membership benefit ever since. The law allows Farm Bureau Mutual to non-renew auto policies due to a lapsed membership in Kansas Farm Bureau.

We also write insurance through a wholly owned stock company, KFB Insurance Company which is used primarily to write insurance on higher risk drivers and non-traditional vehicles such as monster trucks. Since this is not a mutual company we can't require the insureds to be members. Therefore, we have some insureds that are enjoying the benefit of insurance without being members of Kansas Farm Bureau. The current law does not allow us to non-renew auto policies for membership reasons in these cases.

Senate Financial Inst. & Insurance
Date: 3-21-02
Attachment No. 3

In the past several years, Farm Bureau has developed relationships with Farm Bureau companies in other states to provide our members with specialized coverages that we do not offer. An example of these coverages would be Non-standard Auto policies for high risk drivers or Commercial coverage.

We currently have several hundred insureds that are benefiting from insurance coverage without the requirement of membership. This bill allows the requirement of a membership in our association as a prerequisite for all our policies. This will remove the disparity in eligibility rules that now exists in our companies.

There are many affinity group affiliations that pair insurance companies with not-for-profit groups as a benefit of membership. This bill gives these companies the ability to end the insurance relationship if the affinity group relationship is discontinued.

I respectfully ask that you to support H.B. 2879 without amendment. Thank you.