

Approved: _____
Date: 4-3-02

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 27, 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:

Bill Curtis, Kansas Association of School Boards
Linda DeCoursey, Kansas Insurance Department

Others attending: See attached list.

Confirmation to State Banking Board

The Chair called the Committee's attention to the confirmation and reappointment of Nancy A. Taylor of Overland Park as an at-large banker member of the State Banking Board. Senate confirmation information on the candidate was distributed to the Committee. (Attachment 1) The Chair called for the Committee's consideration of the nominee.

Senator Teichman made a motion the Committee recommend Nancy A. Taylor to the full Senate to be reappointed as a member of the State Banking Board, seconded by Senator Barnett. The motion carried.

Hearing on SB 654 - Municipalities; insurance group funded municipal pools

Bill Curtis, Kansas Association of School Boards, testified in support of **SB 654** which would amend current law relating to premium contributions to municipal funded insurance pools. Mr. Curtis noted that the tragedy of 9/11 and the fact that reinsurance costs are quite high when first starting a pool, have driven reinsurance costs much higher for all lines of insurance. KASB believes the time for starting a property and casualty pool is now. An amount of 70% of the annual premium would be designated to pay claims. However, passage of **SB 654** would allow this pool to exceed its 30% administrative limit with the excess coming from the 70% premium amount. (Attachment 2) During Committee discussion it was noted that KASB has operated a workers compensation pool since 1987, and in order to benefit from this bill, one has to be a member of KASB.

Senator Teichman, sponsor of **SB 654**, expressed her support for the bill, and noted that a need exists to permit public sector pools the same flexibility in paying reinsurance premiums as private sector pools now enjoy.

Linda DeCoursey, Kansas Insurance Department, testified as neutral on the bill. She offered technical amendments that would change two statutes so that language would read the same as shown in her written testimony. (Attachment 3).

There were no opponents to the bill.

The Chair directed staff to draft a balloon of the bill showing the proposed amendments, and the Committee would consider the bill when such amendments have been drafted.

Adjournment

The meeting was adjourned at 10:00 a.m.

Bio of Nancy A. Taylor, Kansas State Bank Board

Nancy A. Taylor has been a Kansas banking professional for over 27 years, participating in operations, marketing, real estate lending, commercial lending, and consumer lending. Currently, Nancy is the Executive Vice President/Cashier of Cornerstone Bank, a newly formed de novo community bank in Overland Park, Kansas, where she was active in the initial offering, raising capital, and obtaining federal and state regulatory approvals. Nancy's responsibilities include managing the bank's operational staff and activities, consumer loans, mortgage loans, and compliance.

Previously, Nancy was a Senior Vice President at Bank of Blue Valley in Overland Park, Kansas. She was one of the four founding officers who formed the bank in 1989. During the eleven years with the bank, she served as Vice President/Cashier before her promotion to Senior Vice President. Her responsibilities included operations, consumer lending, and commercial lending. As Senior Vice President, she designed and developed the bank's Secondary Market Mortgage Division.

From 1975 to 1989, Nancy served in several capacities at Stanley Bank in Overland Park, Kansas, which included Cashier, Assistant Cashier, Loan Processor, New Accounts Representative, and Teller. She feels fortunate to have worked with excellent Kansas bankers who have been willing to share their knowledge, expertise, and encouragement through the years.

Nancy has been married to her husband, Rick, for 37 years. They have two daughters and three grandchildren.



**Testimony on SB 654
before the
Senate Committee on Financial Institutions and Insurance**

by

**Bill Curtis, Associate Executive Director
Kansas Association of School Boards**

March 26, 2002

Madam Chair and members of the Committee, we appreciate the opportunity to testify today in favor of SB 654. SB 654 was introduced at our request to permit public sector pools the same flexibility in paying reinsurance premiums as private sector pools now enjoy.

Kansas has two pooling statutes, one that deals with the private sector, K.S.A. 44-581 et seq. and K.S.A. 12-2616 et seq., which deals with the public sector. Both pools operate under the statutory requirement that premium dollars must be allocated in the amount of 70% to the claims fund and 30% to the administrative fund. In 1995 the private sector pools asked for authority to pay reinsurance premiums before this allocation was made. The problem arose that reinsurance costs were causing many of them to exceed the 30% limit on administrative costs. Public sector pools were not having any problems and consequently did not ask to be included. Hindsight would indicate we should have asked for that authority. In the interest of full disclosure, it should also be pointed out that private sector pools have the authority to pool only for workers compensation. Public sector pools have the authority to pool for workers compensation, property and casualty coverage, and health. KASB is asking for this bill today to initiate a property and casualty pool. KASB has operated a workers compensation pool since 1987.

The need for SB 654 is created by the tragedy of 9/11 and the fact that reinsurance costs are quite high when first starting a pool. The events of last September have driven reinsurance costs much higher for all lines of insurance. It will take some time to build the size of the pool to a level where reinsurance costs are not such a major portion of the administrative fund.

The Kansas Association of School Boards believes the time for starting a property and casualty pool is now. Both availability and affordability are posing ever-increasing problems for school districts in this hardening market. It has been our experience, through the workers compensation pool, that this alternative to the traditional insurance market has been very successful. Thank you for listening to our comments. We would ask the Committee to pass the bill out favorably.



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

March 27, 2002

TO: Senate Committee on Financial Institutions and Insurance

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

RE: SB 654 – Municipal pools

Madam Chair and members of the committee:

Last year when HB 2263 was heard, we did not testify for or against the bill. At our suggestion, technical amendments were made to the bill by the proponents. While we will leave the policy determinations up to the legislators on SB 654, we would like to propose technical amendments to the bill.

By the proposed bill, the same language found in K.S.A. 44-585 is being implemented into K.S.A. 16-2621. We need to change both statutes with the clean up amendment so that the language is the same.

Beginning on line 22 of SB 654 we would suggest the following changes:

- 22 Such rates shall ~~either be the rates effective June 1, 1994, or the pro-~~
23 spective loss costs, as defined in K.S.A. 40-1113e **955**, and amendments

We would also like to change the same wording in K.S.A. 44-585. I have attached a copy of that statute with our changes.

The reasons for the changes are that no one uses the June 1, 1994 rates any more. It would be ludicrous to do so...everyone uses loss costs these days. K.S.A. 40-1113c no longer exists.

Thank you for listening to our suggested changes, and we would respectfully ask that these amendments be made should you pass out SB 654 favorably.

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Senate Financial Inst. & Insurance
Date: 3-27-02
Attachment No. 3

44-585. Same; premiums; contributions; deposit of premiums; refunds. (a) Premium contributions to the pool shall be based upon appropriate manual classification and rates, plus or minus applicable experience credits or debits, and minus any advance discount approved by the trustees, not to exceed 15% of manual premium. The pool must use rules, classifications and rates as promulgated by an approved rating organization and must report premium and loss data to a rating organization. ~~Such rates shall either be the rates effective June 1, 1994, or~~ **the prospective loss costs, as defined in K.S.A. 40-955**, and amendments thereto, plus expenses necessary to administer the pool. For purposes of subsection (b) the prospective loss costs shall be presumed to be the 70% required to be deposited in the claims fund. If the pool has been in operation for more than five years, the board of trustees may determine such rates as approved by the commissioner.

(b) At least 70% of the annual premium shall be placed into a designated depository for the sole purpose of paying claims. If so approved by the commissioner of insurance, the annual premium to be designated to such depository may be determined to be the net amount of premium after all or a portion of the specific and aggregate excess insurance premium costs have been paid. This shall be called the claims fund account. The remaining annual premium shall be placed into a designated depository for the payment of taxes, fees and administrative costs. This shall be called the administrative fund account. If a pool has been in operation for more than five years, the commissioner may authorize allocation of a different amount to the claims fund account, if solvency of the pool would not be endangered.

(c) At the end of a fund year or any time thereafter, the trustees may 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. Such refund shall not be distributed, in whole or in part, less than 12 months after the end of the fund year for which the refund was declared. After receipt from the pool 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 an entire year. Payment of previously earned refunds shall not be contingent on continued membership in the pool.

History: L. 1983, ch. 166, § 5; L. 1995, ch. 67, § 2; L. 1997, ch. 125, § 17; L. 1999, ch. 95, § 6; L. 2001, ch. 85, § 1; July 1.