

MINUTES OF THE FINANCIAL INSTITUTIONS & INSURANCE.

The meeting was called to order by Chairperson Senator Ruth Teichman at 9:30 a.m. on January 16, 2003 in Room 234-N of the Capitol.

All members were present except: Senators Feleciano, Corbin, and Atkins
All excused

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

Conferees appearing before the committee: Sandy Praeger, Commissioner of Insurance

Others attending: See attached list

Senator Teichman introduced Sandy Praeger, Commissioner of Insurance

Commissioner Praeger gave an overview of the Kansas Insurance Department. She related that there were 13 new staff members. This was partly due to some staff moving with Governor Sebelius. She shared consumer facts about money collected by the department, and the amount distributed to the state general fund. She also disclosed the insurance dollars recovered for Kansans, and a summary of insurance companies doing business in Kansas.

Commissioner Praeger requested the introduction of a bill to amend K.S.A. 40-2c01(j), which is the definition of "RBC instructions" for life and property & casualty insurance companies. Risk Based Capital is used by the Kansas Insurance Department to evaluate financial solvency of insurance companies. (attachment 1)

Senator Brungardt moved to recommend the introduction of a bill as requested by Commissioner Praeger, seconded by Senator Steineger. The motion carried.

Meeting adjourned

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

GUEST LIST

DATE: 1/16/03

NAME	REPRESENTING
Bill Sneed	Amesius Annuity
John Federico	Humana Inc.
Karnie Anrlower	KAHP
James Jones	KID
Commission Praeger	KID
Asst. Committee Tomison	KID
John Burton	KID
Harry Rossi	Dept of Admin
Rod GACHES	GSBA
Kevin Davis	Am. Family
Ron Seeber	Heine law firm
David Hanson	KS Ins Assoc / NAII
Cathy Mulbator	KTLA
John Burton	KID
Keith Bradshaw	Budget
Scott Heider	KAIFA



Kansas Insurance Department

Sandy Praeger COMMISSIONER OF INSURANCE

January 16, 2003

TO: House Committee on Insurance

FROM: Sandy Praeger
Commissioner of Insurance

RE: RBC Instructions

Madam. Chairperson and members of the Committee:

Thank you for the opportunity to discuss Risk-based Capital with you. This bill is a proposal to amend K.S.A. 40-2c01(j), which is the definition of "RBC instructions" for life and property & casualty insurance companies.

Risk-based capital (RBC) is a method that has been used by the Kansas Insurance Department for several years to evaluate the financial solvency of insurance companies doing business in this state. The RBC statutes also prescribe various forms of regulatory action that may be taken, or shall be taken, in the event that a company's calculated RBC meets certain thresholds.

Companies must file financial reports with the Department using RBC instructions and formulas developed by the National Association of Insurance Commissioners (NAIC). These instructions, including the formulas, are amended each year to address various matters, such as changes to line references in the annual statement blanks and to reflect any necessary modifications or adjustments to the formulas.

The current law requires companies to use the December 31, 2001 version of the "RBC instructions". This bill would reflect a change in the date of the standard so that

*attachment 1
1-16-03
FI+I*

companies would use the "RBC instructions", including the formulas, in effect as of December 31, 2002.

Summary:

The Kansas Insurance Department believes that the passage of this bill would be beneficial in our efforts to monitor and regulate the insurance industry and would, in turn, be in the best interests of policyholders.

Proposed Bill No. _____

(Not edited by Revisor. Please always refer to actual printed bill after session starts, and not rely on this draft; changes may have occurred.)

AN ACT concerning insurance; relating to risk-based capital requirements; amending K.S.A. 2001 Supp. 40-2c01 and repealing the existing section.

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

Section 1. K.S.A. 2001 Supp. 40-2c01 is hereby amended to read as follows: 40-2c01. As used in this act:

(a) "Adjusted RBC report" means an RBC report which has been adjusted by the commissioner in accordance with K.S.A. 40-2c04, and amendments thereto.

(b) "Corrective order" means an order issued by the commissioner specifying corrective actions which the commissioner has determined are required to address a RBC level event.

(c) "Domestic insurer" means any insurance company or risk retention group which is licensed and organized in this state.

(d) "Foreign insurer" means any insurance company or risk retention group not domiciled in this state which is licensed or registered to do business in this state pursuant to article 41 of chapter 40 of the Kansas Statutes Annotated or K.S.A. 2001 Supp. 40-209, and amendments thereto.

(e) "NAIC" means the national association of insurance commissioners.

(f) "Life and health insurer" means any insurance company licensed under article 4 or 5 of chapter 40 of the Kansas Statutes Annotated or a licensed property and casualty insurer writing only accident and health insurance.

(g) "Property and casualty insurer" means any insurance company licensed under articles 9, 10, 11, 12, 12a, 15 or 16 of chapter 40 of the Kansas Statutes Annotated, but shall not include monoline mortgage guaranty insurers, financial guaranty insurers and title insurers.

(h) "Negative trend" means, with respect to a life and health insurer, a negative trend over a period of time, as determined in accordance with the "trend test calculation" included in the RBC instructions defined in subsection (j).

(i) "RBC" means risk-based capital.

(j) "RBC instructions" mean the risk-based capital instructions promulgated by the NAIC, which are in effect on December 31, ~~2001~~ 2002.

(k) "RBC level" means an insurer's company action level RBC, regulatory action level RBC, authorized control level RBC, or mandatory control level RBC where:

(1) "Company action level RBC" means, with respect to any insurer, the product of 2.0 and its authorized control level RBC;

(2) "regulatory action level RBC" means the product of 1.5 and its authorized control level RBC;

(3) "authorized control level RBC" means the number determined under the risk-based capital formula in accordance with the RBC instructions; and

(4) "mandatory control level RBC" means the product of .70 and the authorized control level RBC.

1-3

(l) "RBC plan" means a comprehensive financial plan containing the elements specified in K.S.A. 2001 Supp. 40-2c06, and amendments thereto. If the commissioner rejects the RBC plan, and it is revised by the insurer, with or without the commissioner's recommendation, the plan shall be called the "revised RBC plan."

(m) "RBC report" means the report required by K.S.A. 2001 Supp. 40-2c02, and amendments thereto.

(n) "Total adjusted capital" means the sum of:

(1) An insurer's capital and surplus or surplus only if a mutual insurer; and

(2) such other items, if any, as the RBC instructions may provide.

(o) "Commissioner" means the commissioner of insurance.

Sec. 2. K.S.A. 2001 Supp. 40-2c01 is hereby repealed.

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

Comments to Senate FI&I Committee
January 16, 2003, 9:30 a.m.

Good morning Madam Chair, Vice Chair and Committee Members.

I am honored to be able to address your Senate FI&I Committee as the Kansas Insurance Commissioner.

First, I'd like to give you names of the new people in the Ins. Department:

Bob Tomlinson	Assistant Insurance Commissioner
Jerry Wells	Director of Governmental Affairs
John Campbell	Chief Legal Counsel
Jim Welch	Director of the Consumer Affairs
Neil Woerman	Director of Information Technology
Scott Holeman	Director of Communications
Deann Tiede	Director of Human Resources
Karen Rippel	Assistant to the Commissioner
JoAnn Buntin	Legislative Assistant
Brenda Clary	Attorney
Jeff Peterson	Policy Examiner - Financial Surveillance
John Shoemaker	Policy Examiner - Legal Division
Jarrold Forbes	Legislative Liaison

I'd also like to share with you some facts about the regulation of insurance in Kansas.



Kansas Insurance Department

Sandy Praeger COMMISSIONER OF INSURANCE

FY 2001 Fact Sheet

Total fees, taxes and assessments collected by the Kansas Insurance Department in FY 2001: \$86,522,119

Total tax dollars contributed to the State General Fund in FY 2001: \$68,027,621

Total workers compensation paid in calendar year 2001 to Kansas employees who re-injured a previous injury in the workplace: \$3,302,712

Insurance dollars recovered for Kansas consumers in FY 2001: \$8,947,856

Total number of consumer complaints filed and closed in FY 2001: 7,511

Fraud unit investigation opened in 2001:	121
Total fraud cases closed in 2001:	107
Cases submitted for prosecution in 2001	0
Criminal cases filed in 2001	0

Summary of Insurance companies doing business in Kansas:

	Kansas based	Non-Kansas Based	Kansas Fraternal Societies	Total Companies
Life	12	627	30	669
Fire and Casualty	31	920	0	951
HMO	17	1	0	18
TOTAL	60	1,548	30	1,638

FY 2001 Statewide Firefighters Relief Fund: \$5,518,463

Agents licensed Statewide:
21,900 (Resident)
33,768 (Non-resident)

1-6