Approved:
Date 2-5-03

MINUTES OF THE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

The meeting was called to order by Chairperson Senator Ruth Teichman at 9:30 a.m. on January 28, 2003 in Room 234-N of the Capitol.

All members were present except:Senator Brungardt
Excused

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

Conferees appearing before the committee: Insurance Commissioner Sandy Praeger
Risk Based Capital Requirements

Others attending: See attached list

Commissioner Praeger explained that the NAIC began taking steps to establish risk-based capital standards for life and property casualty insurers in 1990. Implementation for life companies began in 1993, and for property/casualty companies in 1994.

RBC level means an insurer's company action level RBC, regulatory action level RBC, authorized control level RBC, or mandatory control level RBC. (See attachment)(1)

She then went through the different levels of insurance companies.

Discussion followed by the committee.

It was explained by Patrick Mulvihill, Kansas Insurance Department as to how companies calculate the RBC level. It is then cross checked by NAIC.

Commissioner Praeger explained that **SB-26** is an ACT concerning insurance; relating to risk-based capital requirements; amending K.S.A. 2002 Supp. 40-2c01 and repealing the existing section regarding the date from 2001 to 2002.

Senator Corbin moved to place **SB-26** on the consent calender. Senator Adkins seconded the motion. Motion Passed.

Senator Teichman asked for approval of the minutes of January 21 and 23rd.
Senator Salmans so moved, seconded by Senator Buhler.
Motion carried.

Meeting adjourned.

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
GUEST LIST
DATE: 1-28-03

NAME	REPRESENTING
Jerry Wells	KID
Patrick Mulvihill	KID
J. Ann Bunten	KID
Commissioner Praeger	KID
Ron Seeber	Hein Law Firm
Larrie Ann Lower	KS Assoc of Health Plans
Bill Sneed	American Inv. Life
Amber Ketchum	Senator Brungardt
Kevin Davis	Am Family Ins.
Cathy McNorton	KTLA

Kansas
Insurance
Department

Sandy Praeger COMMISSIONER OF INSURANCE

TESTIMONY
ON
SB 26

Senate Financial Institutions and Insurance Committee
January 28, 2003

Sandy Praeger, Commissioner of Insurance

Madam Chair and members of the Committee:

Thank you for this opportunity to testify in support of SB 26 regarding risk-based capital requirements.

Why Risk-based Capital:

Capital regulation began with establishment of state capital requirements. These requirements represent minimum capital standards by states for companies licensed in their state. The NAIC began taking steps to establish risk-based capital standards for life and property/casualty insurers in 1990, with implementation beginning in 1993 for life companies and 1994 for property/casualty insurers. Kansas adopted RBC requirements in 1994.

RBC standards are designed to provide regulators with some degree of control in monitoring of the risks companies take. Among the risk that capital and surplus must absorb are asset risk, underwriting risk, credit risk, general business risk and off-balance sheet risk.

The purpose of establishing risk-based capital requirements was to have 1) a more realistic capital base for insurers, 2) a suggested calculation of capital requirements in the annual statement schedules and 3) an NAIC model act on risk-based capital that would provide the basis for treating insurers that did not meet such requirements.

Calculation:

Ratio of the <u>Total Adjusted Capital</u> to <u>Authorized Control Level RBC</u> results in the following action levels.

FI+I
1-28-03
attachment 1

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"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

"RBC level" means an insurer's company action level RBC, regulatory action level RBC, authorized control level RBC, or mandatory control level RBC

Action Level	RBC Ratio
"No Action" level	200% or more
Company Action Level	>=150% but <200%
Regulatory Action Level	>=100% but <150%
Authorized Control Level	>= 70% but <100%
Mandatory Control Level	<70%

Company Action Level - At this level, an insurer must submit to the insurance commissioner a comprehensive financial plan. That plan must identify the conditions in the insurer that contribute to the company's financial condition, contain proposals to correct the company's financial problems and provide projections of the company's financial condition, both with and without the proposed corrections. The plan also must list the key assumptions underlying the projections and identify the quality of, and the problems associated with, the insurer's business. If a company fails to file this comprehensive financial plan, then it is automatically moved to the next lower action level.

Regulatory Action Level — At this level, an insurance company is also required to file an action plan, and the state insurance commissioner is required to perform any examinations or analyses to the insurer's business and operations that he or she deems necessary. The state insurance commissioner also issues appropriate corrective orders to address the company's financial problems.

Authorized Control Level — This level is the first point at which the state insurance commissioner is authorized by law to take control of the insurer. This authorization is in addition to the remedies available at the higher action levels. It is important to note that the law grants the insurance commissioner this power automatically, and that this action level occurs at a point where the insurer may still be technically solvent according to traditional standards - that is, the company's assets may still be greater than it liabilities.

Mandatory Control Level — At the Mandatory Control Level, the state insurance regulator is required to take steps to place the insurer under control. Again, this situation can occur while the insurer still has a positive level of capital and surplus, although a number of the companies that trigger this action level are fully bankrupt (liabilities exceed assets).

The current law requires companies to use the December 31,2001 version of the "RBC instructions." SB 26 would reflect a change in the date of the standard so that companies would use the "RBC instructions" including the formulas in effect as of December 31, 2002.

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.

Thank you, and I'd be happy to answer any questions.