

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairperson Ruth Teichman at 9:30 a.m. on February 10, 2004 in Room 234-N of the Capitol.

All members were present.

Committee staff present:

Bill Wolff, Legislative Research
Ken Wilke, Office of the Revisor of Statutes
Nancy Shaughnessy, Committee Secretary

Conferees appearing before the committee:

Peggy Hanna, State Treasurer's Office
Senator Oleen
Jarrod Forbes, Kansas Insurance Dept.

Others attending:

See Attached List.

The Chair opened the hearing on **SB 392**—**Authorizing the committee on surety bonds and insurance to competitively negotiate certain contracts.**

Senator Lana Oleen testified (Attachment 1) before the Committee as a proponent of **SB 392**. The Senator believes that this bill could save significant dollars on various contracts for state-related purchasing of insurance and surety bonds. A number of other states use negotiation strategies rather than the "sealed-bid" exercise. It is incumbent upon the lawmakers to facilitate the use of smarter strategies in the market place.

Senator Oleen also provided written testimony from: Johnson County Community College, Kansas Board of Regents, KS Dept. of Administration, Wichita State University, Doug Penner, KS Independent College Association (Attachments 2-6)

Jarrod Forbes, of the Kansas Insurance Dept. testified as a proponent of **SB 392**. (Attachment 7) He indicated that the Department wholeheartedly supports the intent of the bill and views it as an opportunity to negotiate more cost-effective contracts.

Senator Helgerson had a question regarding the new bill language and how it related to the open meetings law.

Senator Oleen replied that she would submit additional information to the Committee regarding the question.

Senator Brungardt inquired about who served on the oversight Committee?

The response: Committee on Surety Bonds & Insurance is made up of the Insurance Commissioner, State Treasurer and the Attorney General.

The Chair thanked the conferees and closed the hearing on the bill and opened the hearing on **SB 399**—**Unclaimed property; demutualization of insurance companies.**

Peggy Hanna testified as a proponent of **SB 399**. (Attachment 8) Ms. Hanna stated that the bill amends two statutes related to the administration of the unclaimed property act. The purpose of the changes are to accelerate the remittance of abandoned property that results from an insurance company changing its structure from a mutual company to one having a stock form of ownership.

The change being requested accelerates that reporting to two years after the demutualization. Over half the

CONTINUATION SHEET

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE at 9:30 a.m. on February 10, 2004 in Room 234-N of the Capitol.

states have passed similar laws.

There were no opponents in attendance. The Chair stated that she would entertain a motion.

Senator Steineger made a motion to pass the bill out favorably. Senator Barnett seconded. Motion passes.

The Chair indicated she would like to work the previously heard **SB 342**–**Technical Amendment to form of certain policies.**

This bill was brought to the Committee by the Kansas Insurance Department. It would substitute the word “and” for the present word “or”. As written now, it allows an insurance carrier to pay benefits based on the standard of choice between “usual, customary and reasonable charges.”

Senator Buhler made a motion to pass the bill out favorable with the technical change. Senator Helgerson seconded. Motion passes.

Meeting adjourned 10:05 a.m.

Next Meeting scheduled for February 11, 2004

SENATE FINANCIAL INSTITUTIONS & INSURANCE

Date: 2-10-04

Name:

Representing:

Peggy Hanna
Paul Jones

Treasurer Office
KID

DAVID ADKINS

Larrie Ann Loner

KATHY

Jeff Wagamon

STO

Kathy Priest

STC

Scott Gates

DOA Legal

Bill Sneed

State Farm

Catherine Rankin

State Farm

David Hanson

Hs Inner Assets

State of Kansas

LANA OLEEN
SENATOR, 22ND DISTRICT
GEARY AND RILEY COUNTIES
(785) 296-2497



COMMITTEE ASSIGNMENTS
CHAIR: CONFIRMATION OVERSIGHT
STATE-TRIBAL RELATIONS
VICE CHAIR: ORGANIZATION, CALENDAR & RULES
MEMBER: STANDING & JOINT COMMITTEES

Majority Leader Kansas Senate

SENATE CHAMBER, STATE CAPITOL
TOPEKA, KANSAS 66612-1504

February 10, 2004

Senate Financial Institutions and Insurance Committee Testimony on Senate Bill 392

Chair Teichman and Members of the Financial Institutions and Insurance Committee:

I appreciate the opportunity to offer my support of the provisions of Senate Bill 392. During the 2003 interim, I was made aware of insurance opportunities which could save significant tax dollars on various contracts for state-related projects. A number of our sister states use negotiation strategies rather than the "sealed-bid" exercise.

I have been in communication with the Kansas Department of Insurance and the Department of Administration in the format of this measure, and I believe they too are proponents.

In these tight fiscal times, we need to use smarter strategies in the market place. Negotiation of contracts with a reasonable pool of companies and a three year maximum brings us to a more competitive level in securing the best value for dollars spent. I also would point out that there is a long established precedent for negotiation of the state's health insurance. Under K.S.A. 75-6504 the Kansas State Employees Health Care Commission has been authorized to negotiate its health insurance contracts since 1984. Senate Bill 392 substantially follows the Health Care Commission's negotiation statute. The state also has negotiated contracts for services for many years pursuant to K.S.A. 75-3799 and 75-37,102

I wage your favorable consideration and action on Senate Bill 392.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Lana Oleen".

Lana Oleen

HOME
3000 STAGG HILL ROAD
MANHATTAN, KANSAS 66502
(785) 537-3300

DISTRICT OFFICE
1619 POYNTZ AVENUE
MANHATTAN, KANSAS 66502
(785) 537-9194—PHONE
(785) 537-9198—FAX

Senate FI & I Committee

Meeting Date: 2-10-04

Attachment No.: 1

Johnson County Community College
12345 College Blvd.
Overland Park, Kansas 66210-1299
(913) 469-8500 www.jccc.net

February 9, 2004

Senator Lana Oleen
Office of the Majority Leader
Statehouse/Room Number: 356-E
300 SW 10th Avenue
Topeka, KS 66612

Dear Senator Oleen:

Though I am unable to personally attend the hearing for Senate Bill 392 I do appreciate your invitation to testify.

Since October 1, 2000, Johnson County Community College has elected to purchase its property insurance coverage through the Midwestern Higher Education Compact's (MHEC) Master Property Program. Previous to this date JCCC purchased its property insurance through our broker on the open market. Doing so put JCCC at risk to the whims of the insurance industry and we saw our property insurance rates increase over the years.

Our 2000 property renewal is an excellent example of the extensive increases. At that time our current insurance carrier was offering to renew our property insurance coverage with a 94% increase. JCCC's broker worked diligently to secure other quotes from other carriers, but partially due to the events of 9/11 three underwriters declined to offer a quote and another offered to provide the coverage but at an even greater increase. Fortunately, JCCC had another option in the form of the MHEC Master Property Program, which offered JCCC property insurance coverage with only a 28% increase.

MHEC's quote was not only the most reasonably priced, but the support and services they offered their customers were head and shoulders above anything else available to us. JCCC along with other member institutions receive:

- regular comprehensive property loss control surveys to help members better identify potential property risks;
- the opportunity to provide input as to the evolution of the MHEC Master Property Program;
- educational opportunities through the Annual Loss Control Workshop that addresses numerous issues unique to institutions of higher education;

Senate FI & I Committee

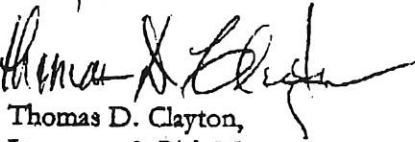
Meeting Date: FEB 10 2004

Attachment No.: 2

- premium savings via the purchasing power of the 36 member institutions representing six of MHEC's 10 member states; and
- the opportunity to receive a dividend after accounting for any losses and expenses after a year.

For these reasons and more I would strongly support any state legislation that would make access to the MHEC Master Property Program more easily accessible to Kansas' institutions of higher education.

Best Regards,



Thomas D. Clayton,
Insurance & Risk Manager

CC: Dr. Charles Carlsen, JCCC President
Dr. Gerald W. Baird, JCCC Executive VP
Mr. Bob Van Crumb, JCCC Lobbyist
Mr. Larry Isaak, MHEC President



KANSAS BOARD OF REGENTS

1000 SW JACKSON • SUITE 520 • TOPEKA, KS 66612-1368

TELEPHONE – 785-296-3421
FAX – 785-296-0983
www.kansasregents.org

February 10, 2004

Senator Ruth Teichman
Chairperson
Senate Financial Institutions and Insurance
State Capitol – Room 143-N
Topeka, KS 66612

Dear Chairperson Teichman:

Today your Committee will hear testimony on SB 392. As you know, this legislation permits the Committee on Surety Bonds and Insurance to negotiate contracts for insurance coverage and other services, rather than use the sealed-bid procedure.

The Board of Regents continues to advocate for new ways of doing business that will allow the state universities greater flexibility to manage their constrained resources. Passage of Senate Bill 392, which the Board of Regents supports, would represent a positive step in that direction.

Thank you for your consideration.

Sincerely,


Reginald Robinson
President & CEO

Senate F I & I Committee

Meeting Date: 2-10-04

Attachment No.: 03

Kansas Department of Administration
Howard Fricke, Secretary
1000 SW Jackson, Suite 500
Topeka, Kansas 66612-1268
(785) 296-3011

Senate Financial Institutions and Insurance Committee
S.B. 392 Authorizing Competitive Negotiations for Insurance

D. Keith Meyers, Director
Divisions of Facilities, Printing, and Purchases
Tuesday, February 10, 2004

Thank you for this opportunity to provide written testimony in support of S.B. 392

Allowing the Committee on Surety Bonds and Insurance to utilize the services of the Division of Purchases and the negotiated procurement method to establish contracts for insurance would be beneficial to agencies responsible for paying insurance premiums. It is our belief that this approach would create greater flexibility in structuring the policies during negotiations and before awards in order to help vendors develop insurance policies that would represent the best possible value to the State of Kansas. We also believe this change would result in more competitive pricing for insurance coverage.

One concern regarding the bill is the provision requiring "not less than three firms or parties submitting proposals..." Due to the nature of the risk and coverage choices, it is not always possible to find three firms interested in bidding on insurance projects.

Consideration should also be given to providing additional flexibility to renegotiate or renew a contract due to market conditions and/or loss experience under the policy.

Senate F I & I Committee

Meeting Date: 2-10-04

Attachment No.: 4



WICHITA STATE UNIVERSITY

Office of the Vice President for Administration and Finance

February 10, 2004

The Honorable Ruth Teichman
Chair, Senate Financial Institutions and Insurance Committee
State Capitol Room 143-N
10th and Jackson
Topeka, KS 66612

Dear Senator Teichman:

Thank you for the opportunity to submit this letter in support of SB 392. My name is Roger D. Lowe, Vice President for Administration and Finance at Wichita State University. We have had a specific experience on bidding insurance that I think gives you a perfect example why SB 392 should be approved to permit competitive negotiation of insurance.

Historically WSU has bid the insurance coverage through the Division of Purchases on our revenue bonded housing/dormitory buildings and our athletic facilities with the understanding that the State would not replace our athletic facilities if they were damaged or destroyed. We followed that same procedure for the renewal for November 1, 2002, only to find that there was only one bidder and the premium increased from \$20,316 to \$159,586 or 685.5 percent. That led me to call the President of IMA of Kansas Inc. to see if they would be interested in giving us a bid for the coverage. I told him of the close time frame in that the coverage would expire on October 31, 2002. He said that they would be interested and that he would contact Travelers Insurance from Kansas City. Travelers came to my office and discussed our needs and toured the buildings that were to be insured. This was the first time that any insurance company had done so during my forty-one years in my capacity at the University. They wanted to know the condition of the buildings, whether there were sprinkler systems, etc. Shortly afterwards, IMA representatives came to the office to present their information and premium requirements. Their premium was \$84,123 less than the bid received by the State when comparing the same coverage. We did find during the review process that we did not have sufficient business income interruption loss coverage for our Athletic Corporation revenue, so we added that to our overall coverage, increasing the premium \$3,080.

I then called State Purchasing to ask for their authority to pay the housing/dormitory portion of the premium from the housing/dormitory funds that are deposited in the State Treasury with the balance being paid from the Athletic Corporation's local funds. They said they could not authorize such in that the insurance bid had to be a "sealed" bid according to statute. I then pursued the matter with the Attorney General's Office and they told me the same thing. So the decision that I had to make

Senate F I & I Committee

Meeting Date: 2-10-04

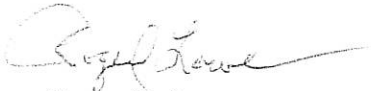
Attachment No.: 5

The Honorable Ruth Teichman
Chair, Senate Financial Institutions and Insurance Committee
February 10, 2004
Page 2

was to lose \$84,000 or pay the entire premium from the Athletic Corporation's local funds. It would have cost the Athletic Corporation more money to have paid their portion of the State's bid than to pay the entire premium through the Athletic Corporation. That made the decision an easy one for me, in that we saved \$84,000 and received better advice and service than we have ever had working with a company from long distance.

I salute the members of the Committee on Financial Institutions and Insurance for your leadership on this matter. The approval of the bill will be of benefit to all of the public universities under the Board of Regents and may also be helpful to other agencies.

Respectfully submitted,



Roger D. Lowe
Vice President for Administration and Finance

Senate Committee on Financial Institutions and Insurance
Testimony on SB 392

Kansas Independent College Association
Doug Penner, President

The KICA supports SB 392 in light of the following considerations:

- As private institutions of higher education, our member colleges and universities are not regulated in their purchasing activities by state statute. However, our members do participate in the purchasing contracts available through the Midwest Higher Education Compact (MHEC). Because this bill would ease statutory barriers to public higher education institutions' use of MHEC programs, the Compact's ability to negotiate more attractive pricing would be improved by virtue of increased volume. Those reduced prices would be available to private institutions as well.
- Affordability and access are important goals of federal and Kansas state higher education policies. A number of state associations of private colleges, including the KICA, are actively involved in developing collaborative purchasing programs in support of those goals. In general, the competitive bidding and price negotiation process using consolidated volume through organizations like MHEC is an important tool in efforts to 1) control operating costs, 2) control tuition, board and rooms costs to Kansas students, and 3) improve the operating efficiency of Kansas colleges and universities. SB 392 helps promote affordability and access.

Senate F I & I Committee

Meeting Date: 07-10-04

Attachment No.: 6



Kansas Insurance Department

Sandy Praeger COMMISSIONER OF INSURANCE

COMMENTS
ON
SB 392—COMPETITIVE NEGOTIATIONS ON CERTAIN CONTRACTS
SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE
February 10, 2004

Madam Chair and Members of the Committee:

Thank you for the opportunity to visit with you on behalf of the Kansas Insurance Department. Senate Bill 392 is an act authorizing the Committee on Surety Bonds and Insurance to negotiate with, and enter into contracts with insurers on behalf of the State of Kansas.

The Kansas Insurance Department supports this legislation, believing it provides the State the same opportunity available to private industry in having the ability to negotiate its coverage options. Continuing to accept the status quo is to force the State into contracting with the lowest bidding insurer. By negotiating the contracts, we believe the State will have better coverage close to, if not at the same rate.

If an insurer knows the Committee must accept the lowest bid, they naturally lack the incentive to provide better coverage. On the other hand, with the insurer knowing the Committee has the authority to negotiate, the insurer will be more likely to be creative in offering better coverage for comparable rates.

The Kansas Insurance Department believes this is good legislation and urges your support. With that madam chair, I would be happy to stand for questions.

Jarrold Forbes
Legislative Liaison

Senate F I & I Committee

Meeting Date: 2-10-04

Attachment No.: 7



STATE OF KANSAS

Lynn Jenkins, CPA

TREASURER

900 SW JACKSON ST. SUITE 201
TOPEKA, KANSAS 66612-1235

TELEPHONE
(785) 296-3171

February 10, 2004

Testimony on Senate Bill 399

Senator Ruth Teichman, Chair
And Members of the Senate Financial Institutions and Insurance Committee

Greetings from State Treasurer Lynn Jenkins, who could not be here today. I am Peggy Hanna, Deputy Assistant State Treasurer. Thank you for allowing me to speak in favor of Senate Bill 399.

The State Treasurer is the administrator of the Unclaimed Property Act. Every state has an unclaimed property act. Under the Kansas act, companies that hold financial assets for other people are required to report and remit those assets to the State if the company has lost contact with the owner of the property and a certain statutory dormancy period has lapsed. When the Treasurer's office receives the assets, the monetary amounts are deposited into the State General Fund to be held in perpetuity for the owner or the heirs of the owner. The State uses those dollars (currently over \$120 million) and retains the interest off those dollars. When an owner claims their asset, they receive only the face amount plus any dividends if the asset happens to be stock, but no accumulated interest.

This bill amends two statutes related to the administration of the unclaimed property act:

The purpose of the changes is to accelerate the remittance of abandoned property that results from an insurance company changing its structure from a mutual company to one having a stock form of ownership.

As a matter of history, in the past, insurance company representatives would sell insurance policies to people, sometimes door-to-door. These were usually policies for small amounts of coverage. The policyholder would then make the premium payments to the insurance company for the life of the policy. There was usually no further contact between the policyholder and the company – other than the payment. After 40 or more years, the company loses track of the policyholder's location. This is not a problem until there is a change in the relationship, as happens during a demutualization or rehabilitation or other types of restructuring.

When an insurance company changes its corporate structure from a mutual company, its policyholders become owners in the restructured company, while retaining any outstanding policies. The owners can either choose to receive cash or stock for their "ownership" in the company. The company is required to contact each and every policyholder to notify them of the change in structure and communicate their options regarding ownership. If the attempted contact is not successful, the financial assets resulting from the reorganization become unclaimed and must be reported to the state where the owner was last known to reside. According to current Kansas law, those assets would be turned over to the state five years after demutualization. The change we are requesting accelerates that reporting to two years after the demutualization. Over half the states have already passed similar laws.

It has been estimated by one of the insurance companies that the State of Kansas c
sooner than current law requires. As a reminder, financial assets remitted as uncla
into the State General Fund.

Senate F I & I Committee

Meeting Date: 2-10-04

Attachment No.: 8