

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairman Ruth Teichman at 9:30 A.M. on February 10, 2005 in Room 234-N of the Capitol.

All members were present except:
James Barnett- excused

Committee staff present:
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Ken Wilke, Office of Revisor of Statutes
Sandy Yingling, Committee Secretary

Conferees appearing before the committee:
Jarrod Forbes, KID
Colonel Deborah Rose, Vice Commander 190th Refueling Wing
Lee Wright, Farmers Ins.
Bill Sneed, St. Farm Ins.
David Hanson, Ks. Ins. Assoc.
Larrie Ann Lower, KAHP
Larry McGill, KAIA

Others attending:
See attached list.

Madam Chair opened the meeting with hearings on **SB 103**.

SB 103 - Insurance; effect of military deployment on certain policies.

Melissa presented an overview stating **SB 103**. Melissa pointed out on lines 31 and 32 there were errors. Madam Chair stated the corrections would be made.

Jarrod Forbes, Kansas Insurance Department, testified in favor of **SB 103** with a balloon pertaining to line 15, changing "mobile homeowner" to "manufactured homeowner" and adding wording to line 26. (Attachment 1). There were no questions.

Colonel Deborah Rose, Vice Commander of the 190th Refueling Wing and Registered Nurse testified in favor of **SB 103**. (Attachment 2). There were no questions.

Lee Wright, representing Farmers Insurance, testified opposing **SB 103** (Attachment 3). Farmers Insurance appreciates the contributions and sacrifices the military personnel endure to serve our country and also applaud the Kansas Insurance Department's good intentions in trying to assist our military personnel overseas. Unfortunately, the requirements that are found in **SB 103** would be difficult, costly and possibly illegal for Farmers Insurance to implement. Madam Chair asked for questions. Senator Brungardt asked if Mr. Wright had any incite to a form that might be acceptable to all? Mr. Wright stated, they had not gotten that far yet, but they are willing to listen and work this out.

Bill Sneed, State Farm Insurance, testified opposing **SB 103** (Attachment 4). Mr. Sneed voiced several of the same issues as Lee Wright. Mr. Sneed attached a balloon to his testimony, deleting the sentence beginning on line 17 through 20, keeping the language on lines 24 through 28 and eliminating the other new language. Simply stating that we could take no adverse action upon anything based solely on a Kansas resident's military deployment. Madam Chair stated the committee would receive the rest of the testimony before questions.

David Hanson, appearing on behalf of Kansas Association of Property and Casualty Insurance Companies, testified in opposition of **SB 103**. (Attachment 5). One of the concerns is in the terminology "deployment," after talking to some of the people with Armed Forces Insurance in Leavenworth, they said not every tour of duty is deployment. A lot of our policies cover a lot of people and they do not want to suggest that any covered person can go and start changing the policy. We hate to suggest that maybe someone else could start

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on February 10, 2005 in Room 234-N of the Capitol.

changing their deductible or coverages without the soldier's knowledge. The use of the word "negligence" is in question. What happens with somebody who has gotten their second DUI? Can we not take some action and is the DUI a form of negligence? There needs to some clarification.

Larrie Ann Lower, Executive Director of the Kansas Association of Health Plans, testified in opposition of **SB 103**. KAHP believes the bill needs work. KAHP is working with language with the Kansas Insurance Department that will let the soldiers back into the individual health insurance market without requiring them to pay their premiums while they are serving on active duty. KAHP would ask the committee to consider their suggestion as it applies to health insurance. (Attachment 6).

Madam Chair took questions. Chair Teichman pointed out that one of the things that struck her was the concern felt by all toward our military, what is happening with them and the wonderful job our military is doing to make things better for us at home in the United States. However, time and time again from the opponents she was hearing they would be willing to work with the Kansas Insurance Department to address their concerns as they struggle with some way to help our military. The bill has some good merits. Therefore, Madam Chair asked the insurance companies and Kansas Insurance Department to get together and bring the committee a solution.

Senator Brungardt stated that is a splendid idea. The bill has good intent, but on the other hand it is not the insurance company's weight to bear. Perhaps a delay in cancellation could be considered. Madam Chair added her concern on top of Senator's Brungardt's concern in the identification and how they are going to identify who is in the military and who is deployed. Madam Chair placed the responsibility upon Jarrod Forbes to see that everyone gets together. Jarrod Forbes pointed out he would be happy to, but in all fairness to the issue, it is worth noting that the language has been available since early December and the health plans have come to them and tried to work out language. Madam Chair would appreciate the KID trying one more time.

Madam Chair closed the hearing on **SB 103**.

Madam Chair opened the hearing on **SB 140**.

SB 140 - Limitation on insurance value on improvements on real property.

Melissa Calderwood, Kansas Legislative Research Department, provided an overview of **SB 140**. Melissa stated **SB 140** would amend existing law K.S.A. 49-05 and pointed out **SB 140** is similar to SB 456 from last session. There is a fiscal note that indicates that it would not have fiscal effect on the operating budget of the Insurance Department. The note does further indicate that the bill has the potential to control premium cost because claims would be limited to replacement costs for the improvements.

Larry McGill, Kansas Association of Insurance Agents, appeared before the committee in support of **SB 140**. Mr. McGill pointed out the legislation of today is intended to accomplish what SB 456 attempted to accomplish last year. SB 456 would have prohibited lenders from requiring insurance for more than the replacement cost of the home. KAIA offered a balloon changing the language in lines 25 through 28 (Attachment 7). Mr. McGill also passed out a 2004 survey titled "Problems With Insurance to Value." (Attachment 8).

Madam Chair asked for questions. Senator Barone asked what is classified in this? Mr. McGill stated any type of property insurance. Senator Barone stated he was particularly troubled because he does not understand why in a specific experience, where a manufactured home was insured insurance for xxx amount of money and it blew away. When it came time to settle, the insurance company settled for something less than the amount of the policy which was sold and the premiums were paid on. There was no house, it was gone. He stated Mr. McGill's testimony seems to suggest the opposite of that. Mr. McGill quoting the statute "upon real property in this state" so it would depend on whether a manufactured house is defined as real property. Mr. McGill does not think it is, a manufactured house even if it is on a permanent foundation, it is removable. Mr. McGill suggested that would be more of a legal question. Senator Baron stated the distinction needs to be fixed.

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on February 10, 2005 in Room 234-N of the Capitol.

Senator Brownlee asked if these loans would be in violation of the UCCC? Sonya Allen answered it does require more disclosure and that they are not prohibited by the UCCC. Senator Brownlee asked who is responsible for the dollar amount of insurance coverage? Mr. McGill stated that generally the courts have held that it is the person purchasing the insurance. Mr. McGill pointed out that insurance agents are not experts at construction costs so they will apply a service to the basic facts about the home and come up with the estimate. Mr. McGill stated that if it is just a little difference, it can be worked out, but if it is \$100,000 difference because of land values, you just can't justify that.

Senator Steineger stated, in regard to mobile home vs. manufactured housing, there is a definition in state law. Mobile homes are a personal property, manufactured house if attached to a permanent, concrete foundation is real property. Senator Steineger stated he had trouble with the italicized language in the bill and asked if there is going to be a need for reappraisal every time there is an improvement to the house? Mr. McGill stated that most of the time the agency would want to increase the amount of coverage on the home on an annual basis to keep up with inflation. It is possible that a homeowner can put more into a home than it appraises out at. That is not an insurance problem, but a decision the homeowner has made. Senator Wilson asked if agents are asked by more mortgage companies than the insurance companies to inflate the amount of insurance? Mr. McGill answered, yes. Senator Wilson personally found the opposite to be true. Senator Brownlee directed her question to the Office of the Bank Commissioner regarding loan officers continued education? Sonya Allen answered in agreement to implementing education.

Lee Wright, Farmers Insurance Group, testified in opposition to the current version of **SB 140** (Attachment 9). Also, Mr. Wright passed out copies of the Missouri and Oklahoma laws which passed last year (Attachment 10) and advised the committee that there are 28 states now that have passed similar laws. There were no questions.

Bill Sneed, State Farm Insurance, Inc., testified in opposition of **SB 140** in its current form. (Attachment 11). There were no questions.

Chair Teichman had a question of Mr. McGill regarding his comments on concern toward the liability that it would cause the insurance companies; would this shift the liability to the lending companies? Mr. McGill answered he does not think it does and it is not their intention. Mr. Sneed commented that "shifting" is a bad term.

Doug Wareham, Kansas Bankers Association, went on record to state the KBA is opposed to the amendment that is offered on **SB 140**. They fail to see the logic in the language in the bill as introduced which essentially places the burden on the insurance industry. That burden is now being shifted and their agents could have new liabilities as a result of **SB 140**. The burden is now being shifted over to the lien holders. This is the same as the bill introduced a year ago. To Mr. McGill's belief that banks are not the problem, then we would consider this a shot gun approach that affects banks. One banker who does mortgage lending feels like the amendment offered by the independent insurance agents undermines the roll of state certified county appraisers in determining the value of which loans need protected with insurance.

Madam Chair closed the hearing on **SB 140**.

Madam Chair reopened the hearing on **SB 102**.

SB 102 - Insurance; closing a block of business; notice to policyholders required.

Madam Chair asked if there were questions or discussion. There were none.

Senator Wysong moved to pass SB 102 favorably out of committee, Senator Brungardt seconded. The motion carried.

Madam Chair reopened discussion on **SB 114**.

SB 114 - Banks and banking; civil penalty authority for state banking commissioner.

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on February 10, 2005 in Room 234-N of the Capitol.

Madam Chair asked to hear briefly from the Office of the Banking Commissioner and the Kansas Banking Association.

Clancy Norris, Bank Commissioner, spoke in support of **SB 114**, stating his office feels very strongly that they need this particular item of a civil money penalty as a deterrent more than any.

Doug Wareham, Kansas Bankers Association, took a neutral position on **SB 114**.

Senator Brungardt addressed the amendment to **SB 114 (Attachment 12)**.

Senator Steineger voiced concerns about “stacking” but pointed out in regard to these penalties, stacking only happens to people who break the rules. If you live right and obey the law you do not get stacked on. Therefore, exempting one industry from something everyone else has to put up with is not necessary.

Senator Steineger opposes this amendment.

Madam Chair thanked all and concluded the committee meeting.

Meeting adjourned at 10:32.

FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: February 10, 2005

NAME	REPRESENTING
Alex Kotogantz	PIA
Sammy Novascone	Federico Consulting
Sammy Novascone	KID
Bill Wempe	KFD
Clancy Norris	OSBC
David Hanson	
Bill Speed	State Farm
DANIEL MASON	KATA
LARRY MASON	KATA



K a n s a s I n s u r a n c e D e p a r t m e n t

Sandy Praeger COMMISSIONER OF INSURANCE

COMMENTS ON
SB 103—RELATING TO POLICIES ISSUED KANSANS DEPLOYED FOR
MILITARY SERVICE
SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE
February 10, 2005

Madam Chair and Members of the Committee:

Thank you for the opportunity to visit with you on behalf of the Kansas Insurance Department in support of Senate Bill 103. I know you join us in commending the men and women who serve our country in the armed services by taking the ultimate risk to preserve the freedom and liberty of the United States. In Kansas, these brave men and women who answer the call of duty face the possibility of insurance cancellation, non-renewal and premium increases.

Today, the Kansas Insurance Department asks you to consider changing Kansas law so that the men and women of the military may have the peace of mind knowing that after their service to their country, they – and their families – will continue to have the insurance coverage they deserve.

Specifically, Senate Bill 103 would prohibit a personal line of insurance covering a Kansas Resident deployed beyond the borders of the United States to be canceled, non-renewed, or subject to adverse action for the term of their deployment.

Commissioner Praeger believes this is the least we can do for our friends and neighbors risking their lives to defend our freedom, and she urges this committee to recommend Senate Bill 103 favorable for passage as a sign of support for our Kansas Military families.

Thank for the opportunity to speak today I would be happy to stand for any questions the committee may have.

Jarrod Forbes
Assistant Director
Government Affairs

*Attachment 1
2/10/05
FI+I*

SENATE BILL No. 103

By Committee on Financial Institutions and Insurance

1-25

9 AN ACT concerning insurance; relating to certain insurance policies is-
10 sued to Kansas residents deployed in military service.

11

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

13 Section 1. As used in this act:

14 (a) "Personal insurance" means private passenger automobile, mo-
15 torcycle, ~~mobile homeowners~~, homeowners, renters and non-commercial
16 dwelling fire insurance policies and boat, personal watercraft, snowmobile
17 and recreational vehicle policies. Personal insurance shall also include
18 individual life and individual health insurance including an individual
19 health insurance policy containing spouse or spouse and dependent
20 coverage.

→ MANUFACTURED HOME OWNER

21 (b) "Adverse tier placement" means being subject to the rates of any
22 tier with less coverage or higher premiums than the tier within which the
23 insured is currently insured.

24 Sec. 2. No personal line of insurance issued to a Kansas resident on
25 active military deployment beyond the borders of the United States of
26 America, or the spouse or any dependent of such Kansas resident, shall
27 be subject to cancellation, non-renewal, premium increase or adverse tier
28 placement for the term of their deployment unless such cancellation, non-
29 renewal, premium increase or adverse tier placement is the result of:

→ IF COVERED BY THE SAME
POLICY COVERING THE
DEPLOYED RESIDENT

30 (a) Unpaid premiums; or

31 (b) *policy changes initiated by a covered individual; or*

32 (c) negligence on the part of any individual covered under such per-
33 sonal line of insurance.

34 Sec. 3. The commissioner of insurance is hereby authorized to adopt
35 such rules and regulations as may be necessary to carry out the provisions
36 of this act.

37 Sec. 4. This act shall take effect and be in force from and after its
38 publication in the statute book.

1-2



1208 SW TYLER
TOPEKA, KANSAS 66612-1735
785.233.8638 * FAX 785.233.5222
www.nursingworld.org/snas/ks
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EXECUTIVE DIRECTOR

For More Information Contact:
Terri Roberts, R.N., J.D.
Executive Director
troberts@ksna.net

S.B. 103 Insurance: Effect on Deployment
Testimony to Senate Financial Institutions and Insurance Committee
February 10, 2005

Chairwoman Teichman and members of the Senate Financial Institutions and Insurance Committee, I am Colonel Deborah Rose, R.N., a representative of the Kansas State Nurses Association, here today to testify in support of S.B. 103. I am currently the Vice-Commander for the 190th Refueling Wing stationed at Forbes Field in Topeka, and during my career I have been deployed several times to foreign soil to perform my assigned duties.

This bill is aimed at protecting from cancellation, insurance coverage for those in the military deployed for service obligations.

Currently there are over 11,000 R.N.'s from the United States deployed to Iraq, Afghanistan, Germany, Kuwait and other support installations. We believe this bill gives the necessary protection to those who are away from their homes and unable to make adequate and timely arrangements for insurance needs in the event their policies are cancelled. When deployed it can be days and weeks before mail is received, let alone the ability to respond and make stateside contacts to address what are ordinary and commonplace personal business matters. We appreciate the Committee's hearing of S.B. 103 and respectfully ask that you recommend it favorably for passage.

Thank You.

Colonel Deborah S. Rose, Vice-Commander, 190th Air Refueling Wing
Work Phone: 785-861-4490 Home Phone: 785-836-3300

The mission of the Kansas State Nurses Association is to promote professional nursing, to provide a unified voice for nursing in Kansas and to advocate for the health and well-being of all people.

CONSTITUENT OF THE AMERICAN NURSES ASSOCIATION

Attachment 1
2/10/05
F I I

AMERICAN JOURNAL OF NURSING

AJN

The Official Journal of the American Nurses Association



February 2005

Volume 105 ▼ Number 2

CE *Chronic Kidney Disease*

CE *Cognitively Impaired
Older Adults*

**Emergency: Brown Recluse
Spider Bites**



LIPPINCOTT WILLIAMS & WILKINS

experience of the medical centers. Landstuhl had only one case of *A. baumannii* bloodstream infection between 2000 and 2002; Walter Reed had only two cases between 2001 and 2002. The substantial antimicrobial resistance that the organism has developed is especially troubling. Therefore, clinicians in all health care settings should be aware of this risk in those returning from military duty in the Middle East. Patients who are colonized or infected with multidrug-resistant *A. baumannii* should be reported to the infection control staff for prompt implementation of appropriate infection control measures to prevent nosocomial spread of this microorganism. (For more on *Acinetobacter*, see www.emedicine.com/med/topic3456.htm.)

SEVERE ACUTE PNEUMONITIS

Between March and August of 2003, 19 U.S. military personnel acquired bilateral pneumonitis requiring intubation and mechanical ventilation; two died, one while being evacuated by helicopter.² Two patients had laboratory-confirmed evidence of infection with *Streptococcus pneumoniae*; another had evidence of *Coxiella burnetii*; and another, *Acinetobacter baumannii*. Preliminary epidemiologic findings suggested that 10 cases were compatible with a diagnosis of acute eosinophilic pneumonia, which was first characterized by Allen and colleagues in 1989 and is treated with corticosteroids.³

Health care providers who observe military personnel with rapidly progressive respiratory

failure of unknown etiology should assess the patients' travel histories and report ca to their state health department and to the U.S. Army Center for Health Promotion and Preventive Medicine at (410) 435-127 or (410) 436-4655. ▼

REFERENCES

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3. Allen JN, et al. Acute eosinophilic pneumonia as a reversible cause of noninfectious respiratory failure. *N Engl J Med* 1989;321(9):569-7.

On the Cover

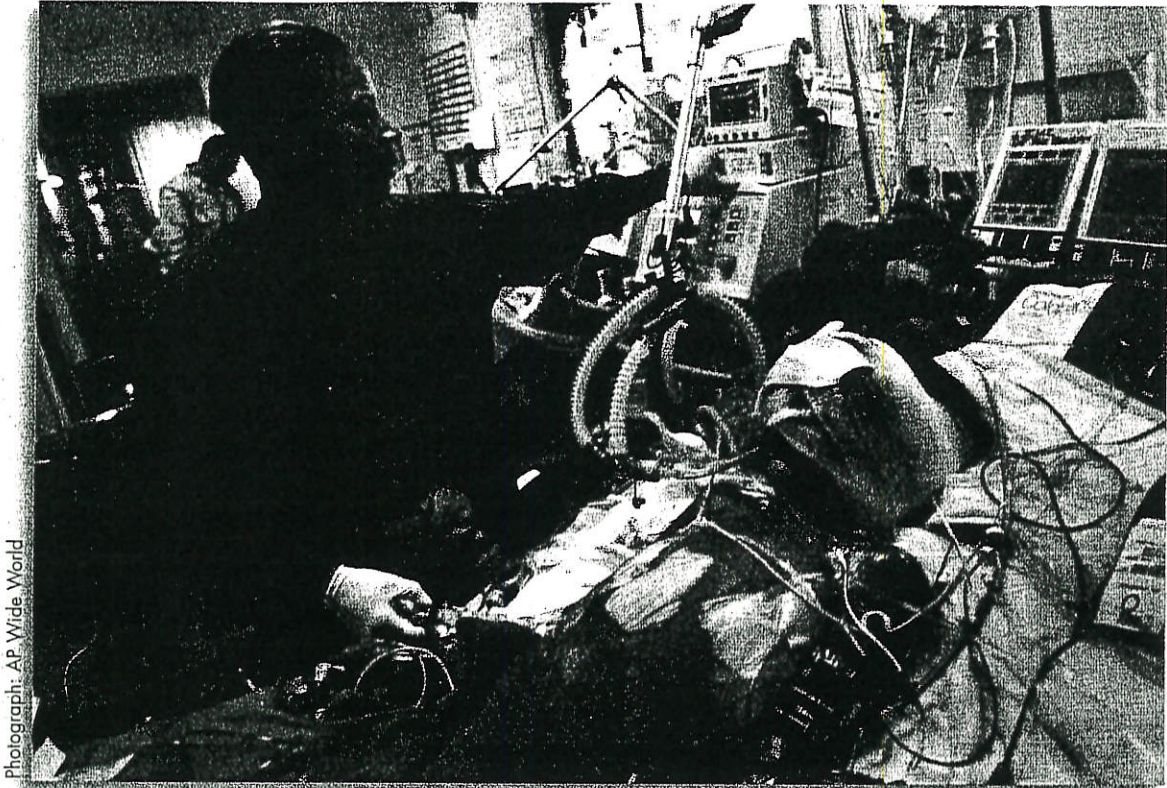
On this month's cover, 1st Lt. Dawn Dirksen, RN, of the U.S. Army's 911th Forward Surgical Team, which was stationed in Afghanistan in fall 2003, checks a girl's head wound in the village of Loy Karezak, Afghanistan. The photo depicts a strong aspect of nursing in the armed forces: caring for civilians, and not just those who are casualties of war. Military nurses' humanitarian efforts may involve conducting health assessments at makeshift clinics and training local health care providers.

In the photo at right, Capt. Jodelle Schroeder, a nurse deployed with the 1st Brigade Combat Team, 1st Infantry Division, lets an Iraqi schoolgirl check her heart beat with a stethoscope during "Operation School Nurse," a project that Schroeder has spearheaded to assess the health of more than 200 students at a girls' school in Al Habbaniyah, Iraq. "After nine months in Iraq," Schroeder wrote in the June–July 2004 issue of *Army Nurse Corps Newsletter*, "I have found myself to be the pharmacist, triage officer, patient tracker, educator, trouble-shooter, mentor, coordinator, the medical supply and equipment expert, advocate, counselor, peacemaker, confidant, soldier, and above all the nurse."

Approximately 11,000 U.S. military nurses are deployed around the world, in combat, in relief efforts, or at home in military hospitals, according to Today's Military, a Web site sponsored by the U.S. Department of Defense (www.todaymilitary.com/mc/careers/jobld_120.php?catId=7&jobld=124&enloff=C). During and after World War I,



shortly after nurses first became a part of the active military, more than 21,000 nurses served, as war and an influenza pandemic swept the globe. The greatest number of U.S. military nurses enlisted was in 1943, at the height of World War II, when more than 250,000 nurses were recruited for active military duty, resulting in the creation of the Cadet Nurse Corps, which enlisted nearly 125,000 young women to fill the void after military nurses were shipped overseas. For more information on the history of nurses in the military, visit the Web site of the U.S. Army Nurse Corps Historical Collection: <http://history.amedd.army.mil/ANCWbsite/anchhome.html>. —David Belcher, associate editor ▼



Photograph: AP Wide World

▲ U.S. Army critical care nurse Captain Marvetta Walker checks on a nine-year-old Falluja boy who was wounded in the face and stomach, at the 31st Combat Support Hospital in Baghdad, November 15, 2004. The boy was in critical condition. The hospital has been treating both American wounded as well as civilians from Falluja.

number-one cause of violent deaths. Better protection for Iraqi civilians may also better protect U.S. troops. Unnecessary casualties create enemies among the very people that the occupation intends to help.

Military reforms are necessary to make more accurate information on civilian casualties available to policymakers and the public. Civil registration systems for births and deaths can be improved, but additional, more comprehensive population-based surveys will still be needed to monitor the health of Iraqi civilians.

Nightingale would undoubtedly support the acquisition of this knowledge, as well as public debate about current policies that put both Iraqis, Americans, and others in harm's way unnecessarily. ▼

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2. Garfield RM, Neugut AI. Epidemiologic analysis of warfare. A historical review. *JAMA* 1991;266(5):688-92.
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2-4



FARMERS

Kansas State Executive Office
10850 Lowell
Overland Park, Ks. 66210
Bus 913.661.6580
Fax 913.323.6172

February 10, 2005

**Testimony on Senate Bill 103
Senate Financial Institutions and Insurance Committee
By Lee Wright**

Madam Chairperson and Members of the Committee. My name is Lee Wright and I represent FARMERS Insurance. Thank you for the opportunity to appear today to explain our opposition to SB 103.

As a good corporate citizen, FARMERS appreciates the contributions and sacrifices made by all who enter the military to serve our country. We also applaud the Kansas Insurance Department's good intentions in trying to assist our military personnel overseas. Unfortunately, the requirements found in SB 103 would be difficult, costly, and possibly even illegal for my company to implement.

Currently, FARMERS does not capture policyholder information regarding who is in the military. To try to obtain that information from our existing policyholders and then have it programmed would be expensive. Furthermore, we do not know how we would be able to determine those who are deployed overseas and when they have returned home.

Freezing the premium rate charged to overseas military personnel may also put us in violation of the Kansas rating law that requires rates to apply so they are not unfairly discriminatory. For example, if we needed to increase our base rate for a particular line of business because our current rate was inadequate due to deteriorating claims experience, then filing to raise the premium rate on all our policyholders except overseas military personnel, their spouses and dependents, could be considered unfairly discriminatory.

For these reasons, we must oppose SB 103. We do stand ready and would welcome the opportunity to work with the Commissioner and her staff to try to craft legislation to a form acceptable to all. Thank you.

*Attachment 3
2/10/05
FI+I*

Memorandum

TO: THE HONORABLE RUTH TEICHMAN, CHAIRMAN
SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

FROM: WILLIAM W. SNEED, LEGISLATIVE COUNSEL
THE STATE FARM INSURANCE COMPANIES, INC

RE: SENATE BILL 103

DATE: FEBRUARY 9, 2005

Madame Chairman, Members of the committee: My name is William Sneed and I am legislative counsel for the State Farm Insurance Companies. State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insured one out of every three cars and one out of every four homes in the United States. We appreciate the opportunity to present our thoughts regarding Senate Bill 103. Please be advised that as written, we oppose SB 103.

Certainly at this time in our country, everyone wishes to do what he or she can to support our men and women in the military service. Thus, notwithstanding the good intentions behind this bill, we are concerned that the way it is written will cause a conflict of law situation and potentially a disruption within the marketplace that is unintended.

First, as it relates to certain lines of insurance, this bill is unneeded. The Federal Soldiers and Sailors' Civil Relief Act (SSCRA) addresses several lines of insurance and what insurance companies can and cannot do. This Federal law was supplemented by a bulletin by the Kansas Insurance Department KID Bulletin 2004-4, which addressed several other areas and requested the industry's compliance. Given the SSCRA and the Bulletin, we do not believe this additional legislation is necessary. The bill as written places an affirmative duty on insurers to identify military policyholders serving overseas, their spouses and dependents. Insurers do not have a mechanism to identify and track the military and duty status of their policyholders. Privacy and national security concerns would prevent us from constructing such a national database.

In an effort to demonstrate my client's cooperation on this issue, I have attached a balloon to my testimony. The meat of the balloon is found on lines 28-33. In essence, it prohibits an insurance company from taking action against one of its insured based solely on the insured's military deployment. Thus, if someone were agreed to buy an insurance carrier while he or she was in deployment, they could solicit the assistance of the Kansas Insurance Department to intercede

Attachment 4
2/10/05
FFI

with the company and if such problems arose solely upon the individual's military deployment, assistance could be garnered for the military personnel.

Again, we appreciate the concepts behind the bill and look forward to working with the proponents in an effort to resolve our issues. We appreciate the opportunity to speak before the group and if you have any questions, please feel free to contact me.

Respectfully submitted,



William W. Sneed

WWS:pmk

019646 / 032884
WWSNE 1167841

SENATE BILL No. 103

By Committee on Financial Institutions and Insurance

1-25

9 AN ACT concerning insurance; relating to certain insurance policies is-
10 sued to Kansas residents deployed in military service.

11
12 *Be it enacted by the Legislature of the State of Kansas:*

13 Section 1. As used in this act:

14 (a) "Personal insurance" means private passenger automobile, mo-
15 torcycle, mobile homeowners, homeowners, renters and non-commercial
16 dwelling fire insurance policies and boat, personal watercraft, snowmobile
17 and recreational vehicle policies. ~~Personal insurance shall also include~~
18 ~~individual life and individual health insurance including an individual~~
19 ~~health insurance policy containing spouse or spouse and dependent~~
20 ~~coverage.~~

21 (b) "Adverse tier placement" means being subject to the rates of any
22 tier with less coverage or higher premiums than the tier within which the
23 insured is currently insured.

24 Sec. 2. No personal line of insurance issued to a Kansas resident on
25 active military deployment beyond the borders of the United States of
26 America, or the spouse or any dependent of such Kansas resident, shall
27 be subject to cancellation, non-renewal, premium increase or adverse tier
28 placement for the term of their deployment, ~~unless such cancellation, non-~~
29 ~~renewal, premium increase or adverse tier placement is the result of:~~

- 30 ~~(a) Unpaid premiums; or~~
- 31 ~~(b) policy changes initiated by a covered individual; or~~
- 32 ~~(c) negligence on the part of any individual covered under such per-~~
33 ~~sonal line of insurance.~~

34 Sec. 3. The commissioner of insurance is hereby authorized to adopt
35 such rules and regulations as may be necessary to carry out the provisions
36 of this act.

37 Sec. 4. This act shall take effect and be in force from and after its
38 publication in the statute book.

based solely upon said Kansas resident's military deployment

4-1-B

GLENN, CORNISH, HANSON & KARNS, CHARTERED

800 SW Jackson - Suite 900
Topeka, Kansas 66612
785-232-0545

**TESTIMONY ON SB 103
February 10, 2005**

TO: Senate Financial Institutions and Insurance Committee

RE: Senate Bill No. 103

Madam Chair and Members of the Committee:

Thank you for this opportunity to appear before the Committee. I am David Hanson and am appearing on behalf of the Kansas Association of Property and Casualty Insurance Companies, whose members are domestic insurance companies in Kansas.

In the latter part of 1997, representatives of several of our member companies were invited to join with legislative leaders, former Insurance Commissioner Sebelius and business development leaders in a task force to explore ways to improve the business climate for insurance in Kansas. The task force recognized the positive impact that insurers have on the economy and sent a clear message to insurers that Kansas wants insurers to bring the jobs and other benefits that only an increased competitive environment in insurance, like any industry, can bring. One of the reports received by the task force indicated that state regulation on underwriting restrictions and cancellation/nonrenewal restrictions ranked second most significant of regulatory burdens of concern to insurers. One of the conclusions reached by the task force was that a regulatory climate in Kansas that was unnecessarily burdensome would prevent insurers from wanting to come to Kansas to compete. As a result of its study, the task force recommended that Kansas should pursue "...accelerated general deregulation and the movement to open competition..." if Kansas is to remain competitive with other states. (See Final Report of the Task Force on the Kansas Insurance Industry, December 1997; Recommendation No. 4)

Consequently, we try to alert you to positive enhancements, as well as to unduly burdensome or unnecessary restrictions. We realize that this often entails a tough policy decision on your part. Insurers are also faced with difficult decisions in managing their businesses. The restrictions contained in this bill - though they are no doubt well-intentioned - go to the very heart of the decisions insurers need to be able to make without undue interference in order to be competitive. And, to be competitive in insurance means to be able to offer the best coverages at the best rates to consumers.

We understand and appreciate the concerns of the Kansas Insurance Commissioner in attempting to help protect deployed soldiers and their families. However, we are concerned with the broad terms of SB 103 and the potential for unintended consequences. We believe revisions will be needed to help clarify the applicability of the restrictions imposed by the bill.

Without these revisions and clarifications, we fear that companies will have great difficulty trying to comply with the Bill as written, since companies generally have no way of knowing when an insured may be on active military deployment outside the United States. Soldiers are encouraged to get their affairs in order before leaving, but unless they tell the insurer when they are leaving or returning, we will not know. We are also not sure we have an adequate definition of some of the terminology, such as what constitutes a deployment, what policy changes can be initiated by a covered individual (there are lots of "covered

*Attachment 5
2/10/05
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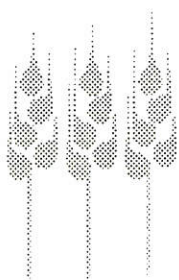
individuals” that a named insured soldier may not want changing their policy), or what would be considered negligence by a covered individual justifying cancellation, non-renewal or a premium

We appreciate your consideration of our concerns and would be glad to work on revisions to address these concerns.

Respectfully,



DAVID A. HANSON



Kansas Association of Health Plans

1206 SW 10th Street
Topeka, KS 66604

785-233-2747
Fax 785-233-3518
kahp@kansasstatehouse.com

**Testimony before the
Senate Financial Institutions and Insurance Committee
SB 103
February 9, 2005**

Madam Chair and members of the Committee. Thank you for allowing me to appear before you today. I am Larrie Ann Lower, Executive Director of the Kansas Association of Health Plans (KAHP).

The KAHP is a nonprofit association dedicated to providing the public information on managed care health plans. Members of the KAHP are Kansas licensed health maintenance organizations, preferred provider organizations and other entities that are connected to managed care. KAHP members serve most all of the Kansans enrolled in a Kansas licensed HMO. KAHP members also serve the Kansans enrolled in HealthWave and medicaid managed care and also many of the Kansans enrolled in PPO's and self insured plans. We appreciate the opportunity to provide comment on SB 103.

The Kansas Association of Health Plans is supportive of the Insurance Commissioners' desire to protect the interests of our soldiers who are called to active duty. However SB 103 misses the mark. As it applies to health insurance, we believe the intent of the bill is to cover only individual policies of soldiers called to active duty. The bill is written in such a way that would impair the ability of an insurer selling group insurance to adjust rates appropriately if just one deployed soldier's spouse is a member of the insured group. Surely this is not was intended. See Section 2

In addition, the bill would require the soldier to maintain payment of premiums while on duty. The problem is that few soldiers could afford to maintain their individual/family coverage when excellent coverage is available to them through TriCare, the military health plan. It makes no financial sense for them to pay premiums to maintain coverage just so they can have guaranteed coverage when they return from active duty. In reality, soldiers are not likely to continue paying premiums for services they don't need thus receiving no protections under the current language of this bill as it relates to health insurance.

With regard to health insurance, we think what lawmakers are looking for is some protection for soldiers and their families when they return. Persons with group coverage have guaranteed coverage when they move from one coverage to another. Because individual policies are underwritten based on health status, there is no guarantee that a person who drops an individual policy will be able to get that individual coverage back from the same carrier or any other.

*Attachment 6
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Two of KAHP's largest member companies (BCBS-KS and BCBS-KC), have decided to offer guaranteed policy renewals to soldiers who are called to service, drop individual policies for themselves and their families while covered by TriCare and then return to the individual market after their service. We suggest the Legislature may want to make this a standard practice for all carriers in the individual market.

In essence, any person returning from active duty with an honorable discharge, will be issued individual coverage with the same carrier they left with no additional underwriting. They would be placed in whatever rating bracket their age would require but no additional health conditions would be considered in setting the rate. They would have the same terms and conditions they would have had if they had not dropped coverage because of their active duty assignment.

We are currently working with the KID to come to agreement on language to accomplish our goal. Should the committee decide to move forward with this legislation, we ask for consideration of our suggestion as it applies to health insurance. Our amendment does nothing to address any other lines of insurance. I'll be happy to answer any questions you may have.

Testimony on Senate Bill 140
Before the Senate Financial Institutions & Insurance Committee
By Larry Magill
Kansas Association of Insurance Agents
February 10, 2005

Thank you madam chair and members of the committee for the opportunity to appear today in support of SB 140, a measure we asked the committee to introduce. My name is Larry Magill and I represent the Kansas Association of Insurance Agents. We have approximately 425 member agencies across the state and another 125 branch offices that employ a total of approximately 2,500 people. Our members write roughly 70% of the business property and liability insurance in Kansas.

As I explained when I requested the bill, this legislation is intended to accomplish what SB 456 would have accomplished last year. Last year's bill prohibited lenders from requiring insurance for more than the replacement cost of the improvements to the real property, in other words the house. We delayed the hearing in 2004 on SB 456 in hopes of working out a compromise with groups that were concerned with the bill. Unfortunately, we were not able to reach any agreement before the deadline and hoped it would be assigned to an interim. It wasn't and we decided to work on it again this year.

This year we hoped to avoid some of those problems by taking a different approach and simply prohibiting insurers from insuring property for more than its replacement cost. A bit indirect, but I thought it might work. As you will hear this morning, at least two insurers have serious concerns with the potential liability that would place on them, and frankly, our legal counsel is advising us that agents could have some new liability as a result of SB 140 as well.

Therefore, we have attached to our testimony, a balloon of SB 140 that was drafted by us with the help of State Farm and accomplishes what we need without placing any new liabilities on the agents, the insurer or the mortgage company. It simply prohibits a mortgagee from requiring insurance for more than the replacement cost of a home. There is no penalty in this statute and we see no need for one. We feel that just being able to point to the law will be sufficient to resolve any disagreements.

To our knowledge there is no state or federal banking requirement that says a lender must have insurance equal to the amount of the loan. Unfortunately that doesn't stop some mortgage companies from requiring it to close. That puts the agent in the untenable position of having a client who needs a policy limit greater than the property is worth. As you can see from the remainder of KSA 40-905, our valued policy law, if the property is completely destroyed, the insured will be paid the policy limit. The valued policy statute prohibits an insurer from arguing after the fact that the home was really not worth what it was insured for. Our association supports the valued policy law as a good consumer protection.

An agent in this situation will be pressured to violate their contract with their insurer and knowingly inflate the replacement cost figures, which could place the agent in the position of having committed fraud. At the very least, it would leave the agent open to a professional error & omission claim by their carrier. What's more, the insured would be forced to pay for coverage they do not need.

This problem most often occurs when a relatively low value home is built on either an expensive lot, a number of acres of high value ground, or the home has depreciated in value. Occasionally

SENATE BILL No. 140

By Committee on Financial Institutions and Insurance

1-31

9 AN ACT concerning insurance; relating to limiting the insurance value of
10 improvements on real property to its replacement cost; amending K.S.A.
11 40-905 and repealing the existing section.
12

13 *Be it enacted by the legislature of the state of Kansas:*

14 Section 1. K.S.A. 40-905 is hereby amended to read as follow: 40-905.

15 (a) (1) Whenever any policy of insurance or an increase in the amount of
16 coverage in an existing policy of insurance shall be written to insure any
17 improvements upon real property in this state against loss by fire, tornado,
18 windstorm or lightning, and the property insured shall be wholly destroyed,
19 without criminal fault on the part of the insured or the insured's assigns, the
20 amount of insurance written in such policy shall be taken conclusively to be
21 the true value of the property insured, and the true amount of loss and
22 measure of damages, and the payment of money as a premium for insurance
23 shall be prima facie evidence that the party paying for such insurance is the
24 owner of the property insured.

25 (2) ~~Improvements on real property shall not be insured for more than~~
26 ~~replacement cost of such improvements as determined by a recognized~~
27 ~~appraisal method or service. Nothing herein shall prohibit an insurer from~~
28 ~~offering an inflation guard endorsement on a replacement cost policy.~~

29 (b) The provisions of subsection (a) shall not apply to:

30 (1) New policies of fire insurance or existing policies of fire insurance
31 where there has been an increase in the amount of coverage of 25% or more,
32 until such policies have been in effect for at least 60 days. If there is a total
33 loss by fire within the sixty-day period and the insurer pays less than the
34 face value of the policy, the insurer shall refund the difference in premium
35 between the amount of insurance purchased and the premium applicable for
36 the amount of the loss actually paid. This paragraph shall not apply to a loss
37 by fire caused by lightning.

38 (2) Builder's risk policies of insurance covering property in the process
39 of being constructed. The value of the property insured shall be the actual
40 value of the property at the time of the loss.

41 Sec. 2. K.S.A. 40-905 is hereby repealed.

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

(2) No lienholder or mortgagee may require insurance on improvements to real property for more than the reasonably estimated replacement cost of the such improvements; provided, however, that nothing herein shall prohibit an inflation guard provision or similar provision in a policy or endorsement to a policy, as described in paragraph (a) of this section.

*Attachment 8
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**2004
Kansas Association of Insurance Agents
Member Survey:

Problems With Insurance to Value**

8-12

Agent/Company	# of Claims	Claims/Reason for Claim	Property Value Survey		Problem: High, Ave, Low
				\$ Amount	
	4	Joe Williams-FNB of Topeka Acreage	\$	15,000.00	
		Bill Wilson-Garden State Bank Expensive Lot	\$	17,500.00	
		Al Jones-Super Chief CU Exclusive Builders	\$	22,000.00	
		Chris Brown-Capitol Federal Very rare flora in landscaping	\$	30,000.00	
S. Higgason/Agency One	0				
	0				
	3	Due to loan amount on a manufactured home, new property or farm acreage, cost of remodeling.			
C. Dooghe/Brooke #292	2	Dan Gill-Community Natl Bank Expensive land	\$	75,000.00	
		Dan Gill-Community Natl Bank Expensive land	\$	75,000.00	
	3	Loan on manufactured home Cost of new property/farm coverage Cost of remodeling			
R. Rariden/Zimmerman & Co	5	Don't have the details, but problems have been with expensive lots. Increase the selling price, but not the replacement price. Lenders insisting on an insurance value in excess of the replacement cost.			
C.Hulse/Gutzman,Haenni & Broome	1 or 2	Don't have any immediate examples, but seems lenders require the insurance amount match the loan, even when that seems to be over what is estimated to be the replacement cost.			
B. Jones/Charlton Manley	1	600 sq ft cabin on lake front-required to insure for value of loan.			

8-3

\$30000.00 cabin insured for \$85000.0

K. Engle/Scribner Ins Agency 0
0

Teri/ABK Ins. Agency 6 Varied-customer borrowed too much money on home

Halpin & Company 15 James Duggan/Aegis Mtg \$ 225,000.00
Acre lot, plus new subdivision

5 Banks require insurance to equal amount of loan regardless of value of property

1 Lender requires insurance amount match loan, even when over replacement cost.

0

50 Banks include land in loan and want that amount on dwelling.
Mobile home on foundation, appraised higher purchase, so more coverage.
Banks loan 125% of value of loan.
Several banks can not write them or if we do they are paying more premium than what they would get if total loss.
Banks do not understand or care as long as the coverage amount is equal to their loan figures.

2 Vernon Van Cleave/Conseco \$ 70,000.00
Double wide-all risk coverage not available unless premium doubled
Todd Gieb/Fannie Mae \$ 60,000.00
Value of garage separate-had to be on dwelling
When more than one structure on loan-if detached building or acreage want all on dwelling amount

Pam Lassen/Becker-Lassen 2 Don't remember specific cases, has not happened frequently.

10 + Dennis Cooper/American Equity \$ 110,000.00
Expensive lots-Mtg companies include land value in loans.

H-8

Mortgage companies include land value in determining loan values and many times they incorporate county appraisals which are normally high.

J Korsak/Heath & Bloxom

3 Brad DeBauge/RBC Centra \$ 252,000.00
New construction, price of lot - Bank & Auditor requirement

J VanHercke/Van Hercke

0
5 Large tract of land purchased with home, Mtg cos want amount of loan, when 1st & 2nd mortgage exceeds the replacement on the dwelling. It appears that m/c use more of a market value, son-in-law saw inspector and said that he sold him home for \$100,000 and ask if the appraisal for the m/c will be at least \$100,000. When it came it was \$80,000. He called inspector and he said he made a mistake. Sent same appraisal and just changed the square footage cost so that the value would change from \$80,000 to \$100,000.00

30-40 The financial instutution loan officers don't know anything about insurance.

K Downing/Conrad Ins.

Many !! Donna Loggins/State Farm Bank \$ 235,000.00
Bank required \$235,000.00 to cover loan of \$200,000.00, even though had guaranteed replacement cost.
Anthony Jordan/ Novastar Bank \$ 85,000.00
Bank requiring to cover loan.
If I had the time to pull up all 2000 personal lines files our of my file room, I could get you lots of examples. I will keep track from now on.

30-40 Financial institution loan officers don't know anything about insurance.

1 or 2

5-8

C. Hower/Kellerman Ins.

We find this is something that might be non-negotiable with the lender 3-4 times a year. The most recent situation involved an insured of over 20 years. We originally wrote the home at \$89,000.00 from our replacement cost calculation and have an invoice that the insured gave us that the value of the home was \$74,000. The insured was required that they have \$133,200. We "massaged" the replacement cost worksheet as much as possible and could only get to \$107,000. There was one small horse shed on the property with no more than a \$3,000 value. The insured was able to find someone else to do it, so we lost a 20+ year customer. Some of the difference could have been land value - 24 acres. But even at \$1,500/acre that is a stretch to \$133,500. I am not positive, but also recall that there may have been some debt consolidation.

3 Value of property, including outbuildings on farm property, included in insured value for full amount.

C Porter/Porter, Spears, etc

25 Smith \$ 120,000.00
Manuf. Home-lender would not accept less than 120,00.00, bought brand new for \$58,900.00 . Added foundation.
Linda Farrar/West America Mtg \$ 98,000.00
10 acres- wouldn't accept coverage on outbuildings to count toward the \$98,000.00 total.
Most often it is due to acreage that the dwelling sits on, appraisers who over-appraise properties, seemingly trying to make the parties happy, instead of doing their job properly.

T. Euse/Allied Group Ins

As a carrier, this practice may increase the motivation for intentional losses. With lending institutions advertising loans for 125% of home value, it goes beyond pure indemnity.
We as a carrier support the bill.

6 Bank has loaned more than the replacement value generated by specific company cost guide and value of land residence is on.

Hundley Ins Services 10 Land is included in loan, borrowed money for other reasons therefore increasing loan value, based on appraisal.
They require the amount of loan to be the amount carried on home.

T. Stegeman/ Elliott Ins 7 Bank insures whole property while Ins co insure for RC on dwelling.
Bank may include closing costs & home repairs.

I. Fritzler/Ness Cty Ins. 0

R. Gouvion/Exchange Ins. 1 Joe Clevenger/ABN AMRO \$ 110,000.00
Acreage & Farm Buildings; to cover 100% of loan

E. McCurley/Hilb,Rogal,Hobbs Happens several times a year. If a local lender, can call and resolve the issue, if not, becomes more difficult.
Problems is when lender is making loan based upon value of building and land. Tell owner they need insurance limit equal to value of loan which is more than building replacement cost.

J. Boxler/Boxler Ins. Agency 0

T. Marrs/Ayres Ins Agency 0 Combining credit card debt and using home equity loan not having enough equity to cover debt.
Loan is for more than R/C cost, additional monies to remodel, consolidating a variety of loans.

J.Davis/Johnston Ins Agency 12 Mike Edgecomb/Charter Funding \$ 1,200,200.00
Acreage attache to the home, loan requirement.

D. Miller/Miller Agency, Inc 50 People refinancing & including credit card debt in mortgages.
Lenders not requiring sufficient downpayment on home loans.

1 or 2 The lenders that I work with have always asked for the amount of the loan, I recommend the insured/customer the different types of insurance that they have the option to purchase and we proceed with

8-6

178

the best product for the customer.

Total of responses:

42



FARMERS

Kansas State Executive Office
10850 Lowell
Overland Park, Ks. 66210
Bus 913.661.6580
Fax 913.323.6172

February 10, 2005

Testimony on Senate Bill 140
Senate Financial Institutions and Insurance Committee
By Lee Wright

Madam Chairperson and Members of the Committee. My name is Lee Wright and I am representing FARMERS Insurance. Thank you for this opportunity to appear before you on Senate Bill 140.

While we are opposed to the bill in it's current form, we do support the Independent Agent Association's position to prohibit mortgage companies from requiring a borrower to purchase homeowner's insurance coverage for more than the replacement value of the improvements on the real property.

If the insurance coverage purchased is for the full value of the loan and the land is included in the loan value, then the insured is paying for something they don't need because the insurance policy does not insure the land.

Requiring someone to carry more insurance than they need is unnecessary, unfair to premium paying consumers and could create a moral hazard for insurance fraud such as arson.

There are currently 28 states that have passed this type of legislation. Missouri, Oklahoma, Illinois, Indiana and Ohio all passed bills in 2004 and I have included the Missouri and Oklahoma laws in my handout.

It is our hope the Committee will give this issue serious consideration and join the majority of other states by passing similar legislation.

Thank you.

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Bill Text For HB2322 - Enrolled

ENROLLED HOUSE
BILL NO. 2322

By: Cox and Pettigrew of
the House

and

Horner of the Senate

An Act relating to insurance; prohibiting lender from requiring certain insurance coverage in certain loans; restricting coverage of term replacement value; defining terms; providing for determination of replacement value; providing for codification; and providing an effective date.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. NEW LAW A new section of law to be codified in the Oklahoma statutes as Section 3639.3 of Title 36, unless there is created a duplication in numbering, reads as follows:

A. No lender, as a condition of financing a residential mortgage or providing other financing arrangements for residential property, including a mobile or manufactured home, may require a borrower to purchase homeowner insurance coverage, mobile or manufactured home insurance coverage, dwelling fire coverage, or other residential property coverage in an amount that exceeds the replacement value of the dwelling and its contents, regardless of the amount of the mortgage or other financing arrangement entered into by the borrower. As used in this section, "replacement value" shall not include the cleanup costs or the value of outbuildings if the limits of coverage are separate from the dwelling limits coverage.

B. A lender may not include the fair market value of the land on which a dwelling is located in the replacement value of the dwelling and its contents.

C. A lender may accept the value of the dwelling determined by the insurer, or use the value placed on the dwelling that is determined by an appraisal of the real property by the lender to determine the replacement value.

D. As used in this section:

1. "Lender" means any person, partnership, corporation, association, or other entity, or any agent, loan agent, servicing agent, or any loan or mortgage broker, who lends money and receives or otherwise acquires a mortgage, lien, deed of trust, or any other security interest in or upon any real or personal property as

Attachment
2-10-05
FII

security for such loan; and

2. "Borrower" means any person, partnership, corporation, association, or other entity, who has or acquires a legal or equitable interest in real or personal property which is or becomes subject to a mortgage, lien, security agreement, deed of trust, or other security instrument.

ENR. H. B. NO. 2322

Page 1

SECTION 2. This act shall become effective November 1, 2004.

Passed the House of Representatives the 25th day of February, 2004.

Presiding Officer of the House of
Representatives

Passed the Senate the 6th day of April, 2004.

Presiding Officer of the Senate

ENR. H. B. NO. 2322

Page 2

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SECOND REGULAR SESSION

[TRULY AGREED TO AND FINALLY PASSED]

HOUSE BILL NO. 1291

92ND GENERAL ASSEMBLY

4123L.01T

2004

AN ACT

To repeal section 375.937, RSMo, and to enact in lieu thereof one new section relating to unfair insurance practice and fraud.

Be it enacted by the General Assembly of the state of Missouri, as follows:

Section A. Section 375.937, RSMo, is repealed and one new section enacted in lieu thereof, to be known as section 375.937, to read as follows:

375.937. 1. No person may require as a condition precedent to the lending of money or extension of credit, or any renewal thereof, that the person to whom such money or credit is extended or whose obligation a creditor is to acquire or finance, negotiate any contract of insurance or renewal thereof through a particular insurer or group of insurers or agent, broker or group of agents or brokers.

2. No person who lends money or extends credit may:

(1) Unreasonably reject a contract of insurance furnished by the borrower for the protection of the property securing the credit or lien. A rejection shall not be deemed unreasonable if it is based on reasonable standards, uniformly applied, relating to the extent of coverage required and the financial soundness and the services of an insurer. Such standards shall not discriminate against any particular type of insurer, nor shall such standards call for rejection of an insurance contract because the contract contains coverage in addition to that required in the credit transaction;

(2) Require that any borrower, mortgagor, purchaser, insurer, broker or agent pay a separate charge, in connection with the handling of any contract of insurance required as security for a loan on real estate, or pay a separate charge to substitute the insurance policy of one insurer for that of another. This subdivision does not include the interest which may be charged on premium loans or premium advancements in accordance with the terms of the loan or credit documents;

(3) Use or disclose, without the prior written consent of the borrower, mortgagor, or purchaser taken at a time other than the making of the loan or extension of credit, information relative to a contract of insurance which is required by the credit transaction, for the purpose of replacing such insurance;

(4) Require any procedures or conditions of duly licensed agents, brokers or insurers not customarily required of those agents, brokers or insurers affiliated or in any way connected with the person who lends money or extends credit;

(5) Solicit insurance for the protection of real property, after a person indicates interest in securing a first mortgage credit extension, until such person has received a commitment in writing from the lender as to a loan or credit extension;

(6) As a condition of financing a residential mortgage or providing other financial arrangements for residential property, require a borrower to purchase homeowners' insurance coverage in an amount exceeding the replacement value of the improvements and contents on the real property. A violation of this subdivision shall not affect the validity of the loan, note secured by a deed of trust, mortgage, or deed of trust.

3. Every person who lends money or extends credit and who solicits insurance on real and personal property subject to subsection 2 of this section must explain to the borrower in writing that the insurance related to such credit extension may be purchased from an insurer or agent of the borrower's choice, subject only to the lender's right to reject a given insurer or agent as provided in subdivision (1) of subsection 2 of this section. Compliance with disclosures as to insurance required by truth-in-lending laws or comparable state laws shall be in compliance with this subsection. This requirement for a commitment shall not apply in cases where the premium for the required insurance is to be financed as part of the loan or extension of credit involving personal property transactions. The commitment shall contain the rate or rate formula, amount and terms of the loan, subject to the creditworthiness of the borrower, valuation of the property and the insurability to value of the property.

4. The director shall have the power to examine and investigate those insurance-related activities of any person which may be in violation of this section. Any affected person may submit to the director a complaint or material pertinent to the enforcement of this section.

5. Nothing in this section shall prevent a person who lends money or extends credit from placing insurance on real or personal property in the event the mortgagor, borrower or purchaser has failed to provide required insurance in accordance with the terms of the loan or credit document.

6. Nothing contained in this section shall apply to credit life or credit accident and health insurance.

Polsinelli | Shalton
Welte | Suelthaus_{PC}

Memorandum

TO: THE HONORABLE RUTH TEICHMAN, CHAIRMAN
SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

FROM: WILLIAM W. SNEED, LEGISLATIVE COUNSEL
THE STATE FARM INSURANCE COMPANIES, INC

RE: SENATE BILL 140

DATE: FEBRUARY 7, 2005

Madame Chairman, Members of the committee: My name is William Sneed and I am legislative counsel for the State Farm Insurance Companies. State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insured one out of every three cars and one out of every four homes in the United States. We appreciate the opportunity to present our thoughts regarding Senate Bill 140. Please be advised that as written, we oppose SB 140.

Initially, we would like to provide some kind of commentary and prospective on our insure-to-value. Thereafter, I will have several comments relative to the mechanics of the proposed amendment and the direct concerns with some of the language used in the amendment.

An estimate of the replace cost of an insured structure is used to establish the structure value, for insurance purposes. Its estimate does not dictate the amount of insurance coverage a policyholder must or may purchase but it does serve as the basis for insurance coverage determinations and premium calculations that are based on "insured-to-value", an essential concept and component of the insurance underwriting process.

"Insurance-to-value" or "IV" refers to the relationship between the amount of the insurance coverage of the structure that the policyholder purchases (insurance) and the estimated replacement cost of that property insured (value). IV is an important concept for balancing the policyholders potential for loss with the amount of risk transferred to the insurer and, as a corollary, allowing the insurer to develop rating plans that equitably allocate insurance costs among those insured and provide for premiums that are, for each policyholder, commensurate with the risk of loss that the insurer has agreed to assume on that policyholders behalf by providing insurance.

When a policyholder purchases Coverage A-Building coverage in the amount that equals the estimated replacement cost of a covered building, the policy has a "100% IV" period. Insuring a structure at 100% of its estimated replacement cost balances the goal as provided adequate protection for the policyholder in the event of a total loss with the goal of charging premiums

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2/10/05
FI+I

that properly correlate with the amount of coverage provided and the risk assumed by the insurer insuring the structure. The customer, however, must decide how much insurance to purchase, based on the customer's insurance needs and circumstances.

Some customers may requisition an insurance amount higher than the estimated replacement cost of their property because they disagree with the estimate or want the piece of mind that comes with purchasing additional insurance protection. Other customers may elect to insure the property for less than 100% IV because they do not want or need full protection or are unwilling or unable to pay it's cost. Thus, we oppose the bill as written. The responsibility as to whether or not to require individuals to insure property for more than its replacement cost rests with the bankers and mortgagers who are making this a condition to financing a home purchase. This bill attempts to shift the burden to the insurance company who has no more responsibility than what is currently involved in K.S.A. 40-905. If the proponents of this bill believe that there is a problem with mortgagers requiring borrowers to insure their residence for more of their replacement value as a precondition of securing a mortgage, we would argue that should be resolved between those parties and not by saddling the insurance industry with additional requirements.

Finally, we do have certain issues with the amendment as written and wish to point out our concerns specifically to the language.

The bill includes terms like "recognized appraisal method or services". That issue is recognized by whom? The insurance company, the insured, the insurance department? Next, the amendment states "nothing herein share prohibit an insurer from offering an inflation guard endorsement or a replacement cost policy". What is a replacement cost policy if it does not include IV since the bill talks about "real property". Real property would include both the house and the land. Thus, based upon the foregoing, we respectfully request that the committee not act favorably on Senate Bill 140. We would be happy to discuss this at your convenience.

Respectfully submitted,



William W. Sneed

WWS:pmk

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SENATE BILL No. 114

By Committee on Financial Institutions and Insurance

1-26

Attachment 12
2/10/05
FII+I

9 AN ACT concerning the bank commissioner; relating to the issuance of
10 civil penalties.

11
12 *Be it enacted by the Legislature of the State of Kansas:*

13 Section 1. (a) After providing a notice and an opportunity for a public
14 hearing in accordance with the Kansas administrative procedure act, the
15 commissioner may, with the approval of the state banking board, assess
16 against and collect a civil money penalty from any bank or trust company
17 that, or any executive officer, director, employee, agent, or other person
18 participating in the conduct of the affairs of such bank or trust company
19 who:

20 (1) Engages or participates in any unsafe or unsound practice in con-
21 nection with a bank or trust company; or

22 (2) violates or knowingly permits any person to violate any of the
23 provisions of:

24 (A) The state banking code;

25 (B) any rule or regulation promulgated pursuant to the state banking
26 code; or

27 (C) any lawful order of the commissioner or the state banking board.

28 (b) The civil money penalty shall not exceed \$1,000 per day for each
29 day such violation continues. In determining the amount of the civil
30 money penalty to be assessed, the commissioner shall consider:

31 (1) The good faith of the bank, trust company or person to be assessed
32 with such civil penalty;

33 (2) the gravity of the violation;

34 (3) any previous violations by the bank, trust company or person to
35 be assessed with such civil penalty;

36 (4) the nature and extent of any past violations;

37 (5) whether another government agency has taken similar action
38 against the bank, trust company or person to be assessed with such civil
39 penalty for the same act or practice; and

(5) 40 (6) such other matters as the commissioner may deem appropriate.

41 (c) Upon waiver by the respondent of the right to a public hearing
42 concerning an assessment of a civil money penalty, the hearing or portions
43 thereof may be closed to the public when concern arises about prompt

No civil money penalty shall be assessed for the same act or practice if another government agency has taken similar action against the bank, trust company or person to be assessed such civil money penalty.