

MINUTES OF THE HOUSE INSURANCE COMMITTEE

The meeting was called to order by Chairman Clark Shultz at 3:30 P.M. on March 21, 2006 in Room 527-S of the Capitol.

All members were present.

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Ken Wilke, Revisor of Statutes Office
Sue Fowler, Committee Secretary

Conferees appearing before the committee:

Brad Smoot, American Insurance Agents, Topeka, KS
Larry Magill, Kansas Association of Insurance Agents, Topeka, KS
John Campbell, Kansas Department of Insurance, Topeka, KS
Bill Sneed, State Farm, Topeka, KS
Carmen Alldritt, Kansas Department and Revenue, Division of Motor Vehicles, Topeka, KS
Tim Blevins, Kansas Department of Revenue, Kansas Department of Revenue, Topeka, KS

Others attending:

See attached list.

Hearing on:

Sub for SB 539: Casualty insurance rate filings; forms and premiums

Melissa Calderwood, Legislative Research Department, gave a brief overview on **Sub for SB 539**.

Proponents:

Brad Smoot, American Insurance Agents, (Attachment #1), appeared before the committee in support of **Sub for SB 539**.

Larry Magill, Kansas Association of Insurance Agents, (Attachment #2), gave testimony in support of **Sub for SB 539**.

John Campbell, Kansas Department of Insurance, (Attachment #3), presented testimony in support of **Sub for SB 539**.

Hearing was closed on **Sub for SB 539**.

Hearing on:

SCR 1619: Urging the study of the design and implementation of an electronic motor vehicle financial security verification system

Melissa Calderwood, Legislative Research Department, gave a brief overview on **SCR 1619**.

Proponents:

Bill Sneed, State Farm, (Attachment #4), appeared before the committee in support of **SCR 1619**.

Carmen Alldritt, Kansas Department and Revenue, Division of Motor Vehicles, (Attachment #5), gave testimony in support of **SCR 1619**.

Neutral:

Tim Blevins, Kansas Department of Revenue, (Attachment #6), presented testimony regarding **SCR 1619**.

Hearing was closed on **SCR 1619**.

Discussion and action on:

CONTINUATION SHEET

MINUTES OF THE House Insurance Committee at 3:30 P.M. on March 21, 2006 in Room 527-S of the Capitol.

SB 442: Insurance applications; listing lienholders and mortgagees

Representative Kelsey made a motion to amend SB 442 with the language from SB 422. Seconded by Representative Carter. Motion carried. Representative Kelsey made a motion to amend SB 442 with language from HB 2693. Seconded by Representative Carter. Motion carried. Representative Kelsey moved SB 442 favorably for passage as amended. Seconded by Representative Schwab. Motion carried.

Discussion and action on:

SB 512: Silicosis Claims Act

Representative Carter made a motion to amend SB 512 with two amendments. Seconded by Representative Schwab. Motion carried on the amendment on page 13 in line 14. Representative Carter made a motion to amend SB 512 with the language proposed by the Kansas Association of Osteopathic Medicine. Seconded by Representative McLeland. Motion carried. Representative Kelsey offered a technical amendment suggested by the Revisor to SB 512. Seconded by Representative B. Sharp. Motion carried. Representative Carter moved to adopt acceptance of the balloon and technical corrections to SB 512. Seconded by Representative Schwab. Representative Carter made a motion to move SB 512 favorably for passage as amended. Seconded by Representative Schwab. Representative Kirk moved for a substitute motion to amend SB 512 by striking language in line 12 thru line 28 on page 2. Seconded by Representative Dillmore. Motion failed. A division was requested. Motion failed 5-8. Representative Dillmore made a substitute motion to amend SB 512 on page 11, line 28. Seconded by Representative Grant. Motion failed. A division was requested. Motion failed 5-8. Representative B. Sharp moved for a substitute motion to send SB 512 to Kansas Judicial Council for review. Seconded by Representative Dillmore. Motion failed. A division was requested. Motion failed 6-7.

A recess was called at 5:30 P.M. for Committee members to return to an earlier recessed House Session. The Committee reconvened at 8:00 P.M. following adjournment of the House Session to finish the planned agenda.

Representative Carter closed on prior motion to move SB 512 favorable for passage as amended. Motion carried.

Discussion and action on:

SB 522: Health insurance; internal review process

Representative Grant made a motion to amend SB 522 with new language at the Revisor's discretion and create H Sub for SB 522. Seconded by Representative Kelsey. Motion carried. Representative Kirk proposed to further amend section 1(a). Seconded by Representative B. Sharp. Motion carried. Representative B. Sharp made a motion to move H Sub for SB 522 favorably for passage as amended. Seconded by Representative Cox. Motion carried.

Discussion and action on:

Sub for SB 539: Casualty insurance rate filings; forms and premiums

Representative Carter made a motion to restore stricken language on p.4, line 25-28 in Sub for SB 539. The motion was withdrawn.

Representative Cox made a motion to amend Sub for SB 539 to include the balloon language purposed by the Kansas Insurance Department. Seconded by Representative Brunk. Motion carried. Representative Dillmore made a motion to move Sub for SB 539 favorably for passage as amended. Seconded by Representative Grant. Motion carried.

CONTINUATION SHEET

MINUTES OF THE House Insurance Committee at 3:30 P.M. on March 21, 2006 in Room 527-S of the Capitol.

Discussion and action on:

SCR 1619: Urging the study of the design and implementation of an electronic motor vehicle financial security verification system

Representative Dillmore made a motion to move SCR 1619 favorably for passage. Seconded by Representative B. Sharp. Motion carried.

Discussion and action on:

SB 422: Surety Bonds - eliminating the need for more than one surety in certain statutes

Representative Carter made a motion to offer a substitute for SB 422 and replace the contents of SB 422 with asbestos language from HB 2868. Seconded by Representative Schwab. Motion carried. Representative Carter moved H Sub for SB 422 favorably for passage as amended. Seconded by Representative Brunk. Motion carried.

Discussion and action on:

SB 547: Kansas Pharmacy Benefits Manager Registration Act

Representative Kelsey made a motion to move SB 547 favorably for passage. Seconded by Representative Cox. Motion carried. Representative Carter made a substitute motion to amend SB 547 with language from HB 2920 and HB 2952. Motion was withdrawn. Representative Schwab made a motion to table SB 547. The motion failed to receive a second. On the original motion to pass SB 547, motion carried.

Discussion and action on:

HB 2998: Procedures for appraisal of damage to motor vehicles

Representative Carter moved to offer a substitute for HB 2998 and replace the contents of the original bill with the language from HB 2920 and HB 2952. Seconded by Representative M. Holmes. Representative Carter made a motion to move Sub for HB 2998 favorably for passage. Seconded by Representative McLeland. Motion carried.

Representative Dillmore recommended without objection of the committee to approve the Committee minutes of March 14, 2006.

Meeting adjourned at 8:45 P.M.

BRAD SMOOT

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Statement of Brad Smoot
Legislative Counsel
American Insurance Association
House Insurance Committee
Regarding 2006 Sub for Senate Bill 539
March 21, 2006

Mr. Chairman and Members:

On behalf of the American Insurance Association (AIA), we appreciate this opportunity to appear in support of Senate Substitute for SB 539. This bill was introduced by the Senate committee at our request. It represents AIA's intermediate goal for modernizing the Kansas insurance rate and filing laws. We very much appreciate the cooperation and input from others in the insurance industry and the Kansas Insurance Department.

By way of background, Kansas has long been a "prior approval" state, meaning that insurance rates and policy forms had to be approved by the Kansas Insurance Department before they could be used by insurers, agents and our customers. Historically, prior approval meant long delays in bringing new rates or forms to Kansas commercial and personal lines customers. In 1999, then-Commissioner Kathleen Sebelius brought the legislature a proposal to reduce some of these long-standing market barriers. That legislation removed prior approval of rates for commercial insurance products, moving them to a "file and use" process. "Large commercial risks" were exempted from any rate filing requirement. These modest reforms have worked well and it is, in our opinion, time to consider further modernizations.

Sub SB 539 would further reduce prior approval barriers. As previously noted, commercial rates are already "file and use." Sub SB 539 would extend this faster process to commercial policy forms. Large risks, which are already exempt from any rate filing requirement, would be exempt from policy form filing requirements also. Finally, New Section 4 would increase the benefits that "schedule rating" affords both insureds and insurers. Schedule rating, which is already permitted under current law, provides rates that more closely match the risk presented by permitting the use of credits and debits to reflect factors that may impact loss experience. Section 4 would permit insurers to raise or lower rates for individual risks by as much as 40% plus or minus without KID approval. It is our intention that this provision only apply to commercial insurance, not personal lines, workers compensation, medical malpractice, farmers or crop insurance. Current regulations limit such rating variations to plus or minus 25%.

Property and casualty insurance is one of the last outposts of government price and product controls. Over the last 25 year, price controls have been eliminated or drastically curtailed in almost every sector of the U.S. economy – from transportation to banking to agriculture. Even so-called natural monopolies, like the telephone industry, have been

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exchanging sharply reduced government regulation for increased competition, more consumer choice and lower prices. None of these industries has sharper competition or lower market concentration than most lines of property and casualty insurance.

It's been eight years since the legislature updated our insurance regulatory environment. We think it's time to consider making some of the changes that many of our sister states have adopted, including neighboring Midwestern states of Colorado, Nebraska, Missouri and Oklahoma. Sub SB 539 points us in that direction.

We have worked closely with the Kansas Insurance Department, the Kansas Association of Independent Agents and others in crafting this bill. After its introduction, some concerns arose about SB 539's application to other lines of insurance. As a result of these concerns, the Senate approved a substitute bill 40 to 0. Senate Sub SB 539 applies only to business lines of insurance and not to personal lines. We have also agreed to exclude workers compensation insurance and medical malpractice coverages due to unique Kansas filing and coverage aspects of these two lines of insurance. Senate Sub SB 539 is a consensus proposal that further modernizes the Kansas insurance regulatory system.

Thank you for consideration of our views.

Kansas Association of Insurance Agents



**Testimony on Senate Bill 539
Before the House Insurance Committee
By Larry Magill
March 21, 2006**

Thank you mister chairman and members of the committee for the opportunity to appear today in support of Senate Substitute for Senate Bill 539 as proposed by Mr. Smoot and amended by Mr. Campbell. 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 and 35% of the personal insurance. Independent agents are free to represent a number of different insurance companies.

Although this bill was introduced late in the first half of the session, we were able to meet with the main proponents and the Department and address our most obvious concerns. The amendments to SB 539 made by the Senate and incorporated in the Substitute bill address our initial concerns about the Kansas Insurance Department's ability to question forms that have gone through the file and use process. We also appreciate the fact that the proponents left the current large commercial account exception where it is. Inflation will tend to lower that over time as it is without speeding that up.

We support the Department's changes to the bill as well that added exceptions to some of the rating flexibility for statutory coverage like workers compensation and professional liability and leave the current "unique and unusual" and "consent to rate" authority in place.

Kansas' rate approval law can be a deterrent to a new insurance company deciding to come in to Kansas. Proponents of federal regulation of insurance point to slow rate and form approval processes in the 50 states as a reason they need federal regulation under the banner of "speed-to-market". We think these changes are a good step toward addressing that criticism but still leave the Kansas Insurance Department with ample regulatory control.

We would be happy to answer questions or provide additional information.



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
Substitute for Senate Bill 539
By
Kansas Insurance Department
March 21, 2006

Mr. Chairman, Members of the Committee,

My name is John Campbell, I am the General Counsel for the Kansas Insurance Department. I am here today to testify in support of Substitute for Senate Bill 539. This bill is the result of discussions between the representatives of the insurance industry, insurance agents and the Kansas Insurance Department. Its purpose is to promote the benefits of competition while still providing protections for consumers.

The Department is offering one technical amendment to the bill. It is not the intent of the bill to change the manner of rate adjustment for the types of insurance coverage excluded from the new section 4, i.e. personal lines, farm and ranch, workers compensation and medical malpractice. The proposed amendment will insure that this intent is known and the current methods of rate adjustments in these types of insurance are not challenged. I have attached a copy of the amendment to my testimony.

The Kansas Insurance Department supports Substitute for Senate Bill 539. It will allow the market to more rapidly react to changing market conditions. At the same time, it provides for the review of these products by the Department in order to insure that those products comply with the provisions of the Kansas Insurance Code. We urge the Committee to act favorably on Substitute for Senate Bill 539.

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1 (5) dividends, savings or unabsorbed premium deposits allowed or
2 returned by insurers to their policyholders, members, or subscribers and
3 the investment income of the insurer; and

4 (6) all other relevant factors within and outside the state, including
5 the judgment of technical personnel.

6 (b) The expense provisions included in the rates to be used by an
7 insurer may reflect the operating methods of the insurer, or group of
8 insurers, and, so far as it is credible, its own expense experience.

9 (c) Risks may be classified in any reasonable way for the establish-
10 ment of rates and minimum premiums, except that no classification may
11 be based on race, color, creed or national origin and classifications in
12 automobile insurance may not be based on physical disability of an in-
13 sured. Rates thus produced may be modified for individual risks in ac-
14 cordance with rating plans, schedules, except for workers compensation,
15 individual risk premium modification plans and expense reduction plans
16 that establish reasonable standards for measuring probable variations in
17 experience, hazards, expenses or any combination of those factors.

18 Such standards shall permit recognition of expected differences in loss
19 or expense characteristics, and shall be designed so that such plans are
20 reasonable and equitable in their application, and are not unfairly dis-
21 criminatory, violative of public policy or otherwise contrary to the best
22 interests of the people of this state. This section shall not prevent the
23 development of new or innovative rating methods which otherwise com-
24 ply with this act.

25 (d) Rates may be modified for individual risks, ~~upon written appli-~~
26 ~~cation of the insured, stating the insured's reasons therefore, filed with~~
27 ~~and not disapproved by the commissioner within 10 days after filings in~~
28 ~~accordance with section 4 and amendments thereto.~~

29 (e) The rates may contain provisions for contingencies and an allow-
30 ance permitting a reasonable profit. In determining the reasonableness
31 of the profit, consideration shall be given to the investment income at-
32 tributable to the line of insurance.

33 (f) The commissioner may by rule exempt any person or class of per-
34 sons, line of insurance, or any market segment from any or all of the
35 provisions of this chapter, if and to the extent that the commissioner finds
36 their application unnecessary to achieve the purposes of this act.

37 (g) Once it has been filed, use of any rating plan shall be mandatory
38 and such plan shall be applied uniformly for eligible risks in a manner
39 that is not unfairly discriminatory.

40 Sec. 3. K.S.A. 40-955 is hereby amended to read as follows: 40-955.

41 (a) Every insurer shall file with the commissioner, except as to inland
42 marine risks where general custom of the industry is not to use manual
43 rates or rating plans, every manual of classifications, rules and rates, every

except that insurance of the type described in section 4(a)(2) of this act may be modified upon written application of the insured, stating the insured's reason therefore, filed with and not disapproved by the commissioner within ten days after filings.

Polsinelli | Shalton
Welte | Suelthaus_{PC}

Memorandum

TO: THE HONORABLE CLARK SCHULTZ, CHAIR
HOUSE INSURANCE COMMITTEE

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

RE: S.C.R. 1619

DATE: MARCH 21, 2006

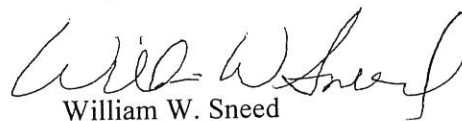
Mr. Chairman, Members of the Committee: My name is William Sneed and I am Legislative Counsel for The State Farm Insurance Companies. State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insures one out of every three cars and one out of every four homes in the United States. We appreciate the opportunity to testify on S.C.R. 1619. Please be advised that we support S.C.R. 1619 and urge your favorable action.

As I'm sure will be explained by staff, S.C.R. 1619 is the result of hearings on S.B. 321. Senate Bill 321 would have created an automatic verification program in the State of Kansas. At the urging of industry, the Senate concluded that a study through a task force, prior to implementation, would be the most appropriate avenue. Thus, S.C.R. 1619 was presented and ultimately approved by the State Senate.

Attached to my testimony is a balloon amendment for some technical changes. After the resolution was passed out of committee, it was noticed that two of the association's listed had merged. Thus, it was decided that we would bring these technical changes to the House. Therefore, if the committee does work this resolution, we would respectfully request that the balloon amendments be accepted.

Again, we respectfully request the House's favorable action on S.C.R. 1619 and will be happy to answer any questions.

Respectfully submitted,


William W. Sneed

WWS:pmk
Attachment
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House Insurance
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1 the minority leader of the house of representatives; one member repre:
2 senting a domestic property and casualty insurance company and one
3 member representing a foreign property and casualty insurance company
4 appointed by the insurance commissioner from a list submitted by the
5 Kansas Association of Property and Casualty Insurance Companies; one
6 member representing foreign stock insurance companies appointed by
7 the insurance commissioner from a list submitted by the American In-
8 surance Association; ~~one member representing foreign mutual insurance~~ two automobile
9 companies appointed by the insurance commissioner from a list submit- s
10 ted by the National Association of Independent Insurers; one member of the top six premium writers in Kansas
11 representing a property and casualty insurance company appointed by
12 the insurance commissioner from a list submitted by the Alliance of
13 ~~American Insurers~~; one member representing a property and casualty Property Casualty Insurers Association of America
14 insurance company appointed by the insurance commissioner from a list
15 submitted by the National Association of Mutual Insurance Companies;
16 one member representing the licensed Kansas insurance agents ap-
17 pointed by the insurance commissioner from a list submitted by the Kan-
18 sas Association of Insurance Agents and two members appointed by the
19 governor representing law enforcement and one member appointed by
20 the governor representing the consumer interests. The commissioner of
21 insurance shall serve as the chairperson and appoint the vice-chairperson
22 from the membership of the task force. The chairperson and vice-chair-
23 person shall not be of the same political party. No task force member
24 shall receive any compensation, subsistence, mileage or other allowances
25 for serving on the task force or attending any meeting thereof.

26 *Be it further resolved:* That a report containing the results of the study
27 and the task force's recommendations and conclusions emanating there-
28 from shall be transmitted to the speaker of the house of representatives,
29 the president of the senate, the chair of the house committee on insur-
30 ance, and the chair of the senate committee on financial institutions and
31 insurance no later than the convening of the 2007 Kansas legislature.



K A N S A S

JOAN WAGNON, SECRETARY OF

DEPARTMENT OF REVENUE
DIVISION OF VEHICLES

KATHLEEN SEBELIUS, GOVERNOR

MEMORANDUM

To: Clark Shultz, Chairman House Insurance Committee

From: Carmen Alldritt, Director Division of Vehicles

Subject: SCR 1619 – Study of electronic motor vehicle financial security verification system.

Date: March 21, 2006

Senate Bill 321 requires the Department to develop, implement and maintain an electronic database of real time insurance verification. When SB321 appeared, the Department asked for participation from KHP and the Insurance Commissioner's office to discuss the issue of real time insurance verification. We all came to the same conclusion, that given time and resources to sufficiently research best practices and methods for implementing such a program, we could develop the best solution for Kansas.

With participation from various stakeholders, SCR1619 was proposed, authorizing a working group to analyze and offer solutions to real time insurance verification. The Department certainly supports this policy issue and looks forward to being a part of the process.



K A N S A S

JOAN WAGNON, SECRETARY OF

DEPARTMENT OF REVENUE
DIVISION OF VEHICLES

KATHLEEN SEBELIUS, GOVERNOR

MEMORANDUM

To: Clark Shultz, Chairman House Insurance Committee

From: Tim Blevins, Chief Information Officer, KDOR

Subject: SCR 1619 – Study of electronic motor vehicle financial security verification system.

Date: March 21, 2006

Thank you for the opportunity to present on issues pertaining to Senate Bill 321/SCR 1619, and update you on the projects related to these systems from the Kansas Department of Revenue Strategic Information Management and Budget Plan. My name is Tim Blevins and I am the Chief Information Officer for the Kansas Department of Revenue.

The Kansas Department of Revenue currently maintains the VIPS (Vehicle Information Processing System) which is used across Kansas Counties, within the KDOR, and provides information associated from this system that is made available to Kansas Law Enforcement's systems through the Criminal Justice Information System. The VIPS application itself is the number one priority for KDOR in regards to disaster recovery due to the critical nature of providing real time vehicle related data to Kansas law enforcement. The current VIPS system was originally installed in the late 1980's. The KDOR VIPS system has had continual improvements made since that time with substantial improvements made in the last five years. One of the new improvements made in 2002 included the ability of KDOR to establish an ongoing communication channel with Kansas Insurance Companies that provide vehicle insurance in order for KDOR to provide Online Vehicle Registration Renewals through the KDOR Vehicles on-line Registration System.

Over the last five years KDOR completed the implementation of the new State of Kansas Tax system under Project 2000. The KDOR has also been working on the replacement of the CAMA (Computer Aided Mass Appraisal System) and is now implementing that system in the first ten targeted counties. The CAMA system rollout to the other ninety-five counties will take place over the next several years. Now that the initial design and implementation work for the CAMA system is nearing completion the Motor Vehicle VIPS system becomes the next large system that is scheduled to begin the process for replacement. The initial work to start the replacement of the VIPS system will take place in Fiscal Year 2008 unless outside funding can be found to accelerate the timeline. The VIPS Replacement Project will start with a feasibility study and then be followed up with a systems design for the new Kansas Vehicle Information Processing System.

The replacement of the current VIPS system will affect many stakeholders including KDOR Motor Vehicle staff, Kansas Law Enforcement Agencies, and Kansas Insurance Companies that provide insurance on vehicles and drivers, and others. An associated system that will also need re-designed and implemented as an integrated part of the new VIPS system is the Kansas Drivers License System. The new functionality established within VIPS over the last few years becomes base line functionality that will be reviewed for inclusion in the new VIPS system design. New products associated with VIPS such as on-line Renewals on Motor Vehicle Registrations that interface with Kansas Insurance Companies will be enhanced to support other needed Insurance Company notifications such as the need for KDOR to be notified with Insurance Cancellations on vehicle insurance as articulated in SB 321a. The work to design and add the new requirements in SB 321a could be handled simultaneously but additional funding will be needed. The requirements documents as they relate to the requirements of SB 321a and as agreed to and developed by the stakeholder committees could then simply be inserted as base line functionality needed in the replacement of the Kansas VIPS and KDLIS applications. If it is determined after the design meetings and agreements are made that the new VIPS implementation dates are beyond when the start up of these processes are necessary, KDOR can design the new feeds for Insurance Cancellations from the Kansas Insurance Companies to KDOR. KDOR can do this in such a way that when the new VIPS systems is in place and implemented it will simply receive the data feeds as set up in the current environment previous to the implementation of the new VIPS system.

The process of involving the key stakeholders in the redesign and implementation of the new systems required to manage Vehicles and Driver Licenses in the State of Kansas will significantly add to the benefits realized by the work that is pending to replace these systems in a modern environment. The timeframe of one year for the stakeholder groups to form and come to agreement on design as it relates to data interfaces and data exchange related to VIPS will enhance the overall outcome of the work that is already required by the KDOR Motor Vehicles Division and all the customers of the KDOR VIPS and KDLIS systems. Any process to move towards a third party stand-alone solution to stand between or beside KDOR VIPS or KDLIS systems and the numerous stakeholders should be avoided. KDOR and the VIPS and KDLIS stakeholders have already spent years and countless resources establishing current communications channels and systems integration. A stand alone design will simply take us further away from a tightly designed multi-channel system that is required to be able to implement and manage solutions that meet all VIPS stakeholder needs without requiring considerable additional resources and complexities in the future.

Thank you again for the opportunity to present. May I answer any questions?