

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 January 30, 2007 in Room 234-N of the Capitol.

All members were present.

Committee staff present:

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

Conferees appearing before the committee:

Ted Clark, Anti-Fraud Director, Kansas Insurance Department

Others attending:

See attached list.

The Chair welcomed everyone to the meeting.

Bill Introductions

Brad Smoot testified on behalf of the American Insurance Association. He said the bill he was introducing was originally introduced in 2005 in the House Insurance Committee as **HB 2184**. Property and casualty insurers across the country are working with state regulators to increase the opportunities for insurance purchasers to get the policies and rates they need as quickly as possible. Introduction of this bill will initiate a lively and productive discussion of these issues. (Attachment 1)

Senator Barnett moved introduction of the bill. Senator Wilson seconded. Motion carried.

Sandy Braden requested a bill introduction on behalf of MARCIT. MARCIT provides by statute sickness and accident related liability insurance to municipalities in the area served by Douglas, Johnson, Wyandotte, Miami and Leavenworth counties in Kansas. Ms. Braden requested that the Committee introduce a bill that would allow them to expand across the state of Kansas and to provide additional types of insurance lines, including property liability, workers' comp, life, short and long-term disability insurance products. At this time they cannot provide these lines because of statute.

Senator Wysong moved introduction of the bill. Senator Barnett seconded. Motion carried

The Chair asked for continuation of the Legislative Post Audit report concerning credit unions.

John Smith, Kansas Department of Credit Unions, continued with reporting regarding credit union common bond. He said the Legislative Division of Post Audit Report of the Kansas Department of Credit Unions suggests that KDCU has not followed the common bond provisions of K.S.A. 17-2205. According to the report, LPA interpreted K.S.A. 17-2205 as limiting credit union memberships to "groups...having a common bond of occupation or association or to groups residing within a well defined neighborhood, community or rural district. In reviewing the common bond as expressed in Kansas credit unions' bylaws, credit unions have been approved by KDCU to have multiple common bonds at least since the 1950s.

While the Federal Credit Union Act recognized three types of federal credit union charters – single common bond (occupational and associational), multiple common bond (more than one group each having a common bond of occupation or association), and community, KDCU has allowed credit unions to have multiple bonds.

While some Kansas chartered credit unions were initially chartered with multiple common bonds, others were chartered as single common bonds and became mixed due to merger with other credit unions with the surviving credit union incorporating the merger credit unions common bond.

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on January 30, 2007 in Room 234-N of the Capitol.

On January 29, 2007 KDCU reviewed the common bonds found in the individual credit union bylaws of the 90 Kansas credit unions as approved by the KDCU administrator. The common bonds that exist today are as follows:

- 43 Single Common Bonds
- 47 Multiple Common Bonds

KDCU's records support the fact that Kansas chartered credit unions were approved for multiple common bond fields of membership since the 1950s.

Discussion by the Committee followed with the suggestion of an interim study. Senator Brungardt moved the chairman be directed to write a letter requesting an interim from LCC to review the items discussed in the post audit report. Senator Steineger seconded the motion. Motion carried. (Attachment 2)

Hearing on:

The Chair opened the hearing on **SB 114- concerning insurance fraud; pertaining to the penalty therefor; amending K.S.A. 2006 Supp. 40-2,118 and repealing the existing section.**

The Chair asked Melissa Calderwood for an overview of **SB 114** regarding fraudulent insurance acts.

She said this committee reviewed this bill last year and helped define fraudulent insurance. This particular bill would amend that penalty provision for fraudulent insurance acts involving \$25,000 or more. Such acts would be a sentence of imprisonment regardless of its location on the sentencing grid. The Insurance Department has requested language stating anyone committing the act involving \$25,000 or more would be subject to imprisonment. The bill is requested by the Insurance Commissioner.

Mr. Ted Clark, Anti-Fraud Director, testified on behalf of the Kansas Insurance Department. The intention of this bill is to decrease frequency of insurance fraud by increasing penalties for the highest dollar amount of fraud.

SB 114 would change K.S.A. 40-2,118 to a presumptive sentence of imprisonment for criminals stealing large amounts of money through the insurance process. Harsher penalties for high dollar amount of insurance fraud would send a message to Kansans that insurance fraud is a serious crime and will not be taken lightly. Additionally, this will provide a plea bargaining tool for prosecutors.

Out of thirty-seven states reporting with insurance fraud statutes, only four would have less stringent sentencing standards than the state of Kansas. With the implementation of the changes in **SB 114**, insurance fraud criminals would now serve 23 to 26 months for one non-person felony. Texas has the highest maximum penalty with a sentence of life imprisonment.

SB 114 will not only put Kansas on par with other states, but it will synchronize our insurance fraud statute with the penalties that the Kansas Securities Commissioner is able to employ when prosecuting for the same dollar amount.

I urge you to support **SB 114** on behalf of the most vulnerable Kansans who find themselves victims to insurance fraud. (Attachment 3)

The Chair held the hearing open on **SB 114**.

Action on:

SB 112 - concerning insurance companies; pertaining to examination reports. It is a burden on the Insurance Department to have to provide examination reports every three years. The Insurance Department is requesting that these examination reports be done instead every five years.

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on January 30, 2007 in Room 234-N of the Capitol.

Senator Wilson made a motion to move **SB 112** out for passage. Senator Steineger seconded. Motion passed.

The Chair said the Committee would work **SB 111** - concerning insurance companies; pertaining to sharing of certain information. Ken Wilke presented the balloon language. Mr. Wilke said after conferring with the Insurance Department, he rewrote the section so it clearly states they can share the information with the insurance department of this state or any other state or country; the law enforcement officials of this or any other state or agency of the federal government or any other country; or officials of any agency of another country. In subparagraph B, it states, however, that the Commissioner shall not share any information listed in paragraph (A) unless the agency or office receiving the report or matters related thereto agrees in writing to hold it confidential and in a manner consistent with this act.

Senator Steineger moved the balloon language be added. Senator Barnett seconded. Motion carried.

Motion by Senator Barnett moved to pass **SB 111** out favorably as amended. Senator Schmidt seconded. Motion passed.

Meeting was adjourned at 10:30 a.m.

FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: 1-30-07

NAME	REPRESENTING
Alex Kobyanetz	P. I. A
John P. Smith	KS Dept of credit unions
Haley Dalee	KCUA
GAVIN WITTMAN	EDUCATIONAL CREDIT UNION
Greg Winkler	Credit Union Service Ctr
Sue Shelby	New Century CU
Stephanie & Stuart	New Century CU
Stacy Montgomery	Kansas Blue Cross Blue Shield CU
Rickie Hunt	CU 1 of Kansas
MIKE PATRICK	Community America CU
Paul Jobs	Bach Coverts
Leslie Kaufman	Ks Co-op Council
Terrel Wright	Ks Credit Union Assn
Jack Holyday	Ks Dept Credit Unions
Michael Yaden	Ks Dept of Credit Unions
Craig Meador	First National Bank of Kansas
Chuck Stokes	Ks Bankers Assn
Lori Church	KAPCIC
KATHY OLSEN	Ks Bankers Assn
Doug Wareham	Kansas Bankers Assn.
Lee Wright	Farmers Insurance
Michael Herrold	Express Scripts
William Sneed	Express Scripts
Judi Stork	OSBC

FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: _____

NAME	REPRESENTING
Pat Huklell	BWell
Shannon Bell	BLGR LGR
Ted Clark	KID
John Meek	KID

800 SW JACKSON, SUITE 808
TOPEKA, KANSAS 66612
(785) 233-0016
(785) 234-3687 (fax)
bsmoot@nomb.com

BRAD SMOOT
ATTORNEY AT LAW

10200 STATE LINE ROAD
SUITE 230
LEAWOOD, KANSAS 66206

Statement of Brad Smoot
Legislative Counsel
American Insurance Association
Senate Financial Institutions & Insurance Committee

January 30, 2007

Madam Chair and Members:

On behalf of the American Insurance Association (AIA), we are pleased have an opportunity to request legislation to modernize Kansas rate and form filing laws. AIA is a trade association of 430 insurers providing business and personal insurance to customers in all fifty states. Our product lines include business, general liability, workers compensation, malpractice, homeowners and auto insurance.

The bill we request was introduced in 2005 in the House Insurance Committee as HB 2184. A copy of the House Bill is attached to the Committee copy of my testimony. Property and casualty insurers across the country are working with state regulators to increase the opportunities for insurance purchasers to get the policies and rates they need as quickly as possible. These efforts are often referred to as "speed to market" initiatives. Introduction of this bill by this Committee will initiate a lively and, we trust, a productive discussion of these issues.

Thank you for consideration of this request.

FI & I
1-30-07
Attachment 1

BUSINESS & MONEY

4B

WEDNESDAY
JANUARY 24, 2007

Now you know.

Businesses relish insurance price cut

■ Rates on property-casualty insurance renewals have dropped an average of 15 percent in the past four months.

BY ANDI ATWATER
The Wichita Eagle

While health care insurance premiums continue to tax most employers, many businesses are enjoying exceptionally low rates on their property-casualty insurance renewals.

With renewal premiums in the past four months decreasing an average of 15 percent and saving employers thousands of dol-

lars — some midsize employers are seeing as much as a \$10,000 cut — businesses are left with some lucrative options.

“It certainly gives you some cash-flow opportunities that historically you budget the other way,” said George Fahnestock, chief executive of the 125-employee Fahnestock Plumbing, HVAC & Electric, which saw about a 12 percent savings on its renewal this month.

“It doesn’t happen very often, but it’s a nice surprise when it does.”

Property-casualty premiums account for up to 7 percent of a business’s expenses and typically include inland marine coverage — contractors’ equipment,

builders’ risk coverage, transit coverage, etc. — general liability, company automobiles and workers’ compensation.

Very large employers can pay more than \$250,000 annually for property-casualty insurance, although most medium to large companies in the Midwest are typically paying from \$50,000 to \$200,000 a year, said Wichita agent Chock Chapple, chief executive of Commercial Insurance Group.

His clients are seeing premium breaks between 9 percent and 19 percent this year — a significant chunk of money, he said.

“We’re in the softest market I have seen, and I’ve been doing this for 20 years,” said Chapple.

Industry officials attribute the savings boon to several market factors, including no major catastrophes, favorable stock and bond investments by insurance companies and tort reform.

For employers, the additional savings have created unexpected opportunities.

John Osborne, chief executive of Midwest Single Source, a Wichita-based office supply company, used a lucrative 19 percent dip in his property-casualty renewal this month to, among other things, add additional benefits to his coverage.

“The important thing for employers, when you’re talking to insurance companies, is make sure you get your data

right,” Osborne said. “Make sure you have the actual numbers, (such as) how much inventory you have. That could save you thousands of dollars.”

Larry Magill, executive vice president of the Kansas Association of Insurance Agents, said the soft market could last for several years and advises employers who want to take advantage of it to assess their individual risks.

“Businesses always need to monitor their claims carefully and pay attention to loss control and safety and make themselves more attractive than the average risk,” he said.

Reach Andi Atwater at 316-268-6642.

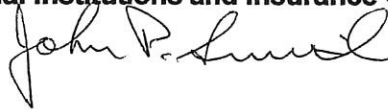
400 Kansas Avenue, Suite B
Topeka, Kansas 66603
Phone (785) 296-3021
FAX (785) 296-6830

**Kansas Department
of Credit Unions**

Memo

To: Senate Financial Institutions and Insurance Committee

From: John P. Smith



Date: 1/30/2007

Re: Credit Union Common Bond

The Legislative Division of Post Audit (LPA) Report of the Kansas Department of Credit Unions (KDCU) suggests that KDCU has not followed the common bond provisions of K.S.A. 17-2205. According to the Report, LPA interpreted K.S.A. 17-2205 as limiting credit union memberships to "groups...having a common bond of occupation or association or to groups residing within a well-defined neighborhood, community or rural district."

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1-30-07
Attachment 2



Kansas Insurance Department

Sandy Praeger COMMISSIONER OF INSURANCE

TESTIMONY ON SB 114

SENATE FINANCIAL INSTITUTIONS AND INSURANCE
January 30, 2007

Madam Chair and Members of the Committee:

Thank you for the opportunity to speak with you today regarding Senate Bill 114. My name is Ted Clark and I am the Director of the Anti-Fraud Division of the Kansas Insurance Department. The intention of this bill is to decrease frequency of insurance fraud by increasing penalties for the highest dollar amount of fraud.

SB 114 would change K.S.A. 40-2,118 to a presumptive sentence of imprisonment for criminals stealing large amounts of money through the insurance process. Harsher penalties for high dollar amounts of insurance fraud would send a message to Kansans that insurance fraud is a serious crime and will not be taken lightly. Additionally, this will provide a plea bargaining tool for prosecutors.

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Not only will SB 114 put Kansas on par with other states but it will synchronize our insurance fraud statute with the penalties that the Kansas Securities Commissioner is able to employ when prosecuting for the same dollar amount.

Generally, fraud cases in the dollar amount that would be affected in SB 114 are fairly rare. Since the Anti-Fraud Division was created in May of 2004, there have been 22 insurance fraud convictions but only 3 of those would have resulted in prison time under the changes in SB 114. The Kansas Sentencing Commission estimates an increase of one prison bed for each year.

While these cases may be rare, they are devastating for the victims who are usually elderly or disabled. Rhonda Wilder defrauded an elderly Lawrence couple by moving

*FI&I
1-30-07
Attachment 3*

nearly \$700,000 of their life savings tying-up that money into annuities they did not want. She did it without their knowledge by forging their signatures. Mikel Pruitt fraudulently changed the beneficiary of a \$100,000 life insurance policy of an elderly man to make himself the beneficiary. There are two ongoing investigations with similarly egregious circumstances.

In closing I urge you to support SB 114 on behalf of the most vulnerable Kansans who find themselves victims to insurance fraud. Thank you for your time and I would be happy to stand for any questions.

Ted Clark
Anti-Fraud Director
Kansas Insurance Department