

Approved: February 5, 2007

Date

MINUTES OF THE HOUSE INSURANCE AND FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Clark Shultz at 3:30 P.M. on February 4, 2008 in Room 527-S of the Capitol.

All members were present except:

Representative Tom Burroughs- excused
Representative Brenda Landwehr- excused

Committee staff present:

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

Conferees appearing before the committee:

John Meetz, Kansas Insurance Department
David A. Hanson, Kansas Association of Property & Casualty Insurance Companies Inc.

Others attending:

See attached list.

Introduction of Bills:

Representative Lana Gordon, Representative 52nd District, introduced a bill regarding reimbursement for prescribed medical treatment. Representative Grant moved for introduction of the bill. Seconded by Representative Neighbor. Motion carried.

Callie Hartle, representing the Kansas Association of Justice, introduced a bill regarding Kansas Medical Liability Reporting Act. Representative Dillmore moved for introduction of the bill. Seconded by Representative Keigerl. Motion carried.

Hearing on:

HB 2688 **Enacting the property and casualty actuarial opinion letter law**

Melissa Calderwood, Legislative Research Department, provided a brief overview on **HB 2688**.

Proponent:

John Meetz, Kansas Insurance Department, (Attachment #1), presented testimony before the committee in support of **HB 2688**.

Neutral:

David A. Hanson, Kansas Association of Property & Casualty Insurance Companies Inc., (Attachment #2), presented neutral testimony on **HB 2688**.

Hearing closed on **HB 2688**.

Hearing on:

HB 2689 **Insurance; risk-based capital requirements**

Melissa Calderwood, Legislative Research Department, provided a brief overview on **HB 2689**.

Proponents:

John Meetz, Kansas Insurance Department, (Attachment #3), appeared before the committee in support of **HB 2689**.

CONTINUATION SHEET

MINUTES OF THE House Insurance and Financial Institutions Committee at 3:30 P.M. on February 4, 2008 in Room 527-S of the Capitol.

David A. Hanson, Kansas Association of Property & Casualty Insurance Companies Inc. and Kansas Life Insurance Association, (Attachment #4), gave testimony in support of **HB 2689**.

Hearing closed on **HB 2689**.

Hearing on:

HB 2690 **Life insurance; accrual of interest and dividends during deferment periods**

Melissa Calderwood, Legislative Research Department, provided a brief overview on **HB 2690**.

Proponent:

John Meetz, Kansas Insurance Department, (Attachment #5), gave testimony in support of **HB 2690**.

Hearing closed on **HB 2690**.

Representative Grant moved without objection to accept both the January 30, 2008 and January 31, 2008 minutes.

Next meeting will be Tuesday, February 5, 2008, 3:30 PM, in Room 527-S.

Meeting adjourned at 4:25 PM.



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON HB 2688

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE February 4, 2008

Madam Chair and Members of the Committee:

Thank you for the opportunity to appear before you today in support of HB 2688. This bill will require property and casualty companies to annually submit an opinion of an appointed actuary on the reserves. This opinion shall be filed in accordance with the NAIC property and casualty annual statement instructions. A yearly annual opinion is important to determine if a company is in a sound financial state.

While most companies already employ actuaries capable of meeting this requirement, we are aware that this will be a financial burden for a few smaller companies in the state. The NAIC recognized this potential problem when they drafted this model act so they allowed for certain exemptions to the model act.

Exemption for Small Companies: Insurer with less than \$1,000,000 direct plus assumed written premiums, and less than \$1,000,000 direct plus assumed loss and loss adjustment expense reserves.

Exemption for Insurers under Supervision or Conservatorship

Exemption for Nature of Business: Insurer otherwise subject to the requirement and not eligible for an exemption as noted above may apply to the commissioner for an exemption based on the nature of the business written.

Financial Hardship Exemption: Insurer otherwise subject to the requirement and not eligible for an exemption as noted above may apply to the commissioner for a financial hardship exemption, which is presumed to exist if the projected reasonable cost of the Actuarial Opinion would exceed the lesser of:

- (i) One percent of the insurer's capital and surplus...; or
- (ii) Three percent of the insurer's direct plus assumed premiums written.

Using the exemptions, the Insurance Department will make every attempt to prevent the regulatory environment in Kansas from becoming overly burdensome on small domestic companies. Additionally, the property and casualty annual statement instructions also provide that if a person does not meet the definition of a "qualified actuary," but are considered to be qualified to give the opinion then that person may complete the requirement. The company will annually attach a letter with the annual statement from the commissioner indicating that the individual meets the requirements for rendering the opinion.

House Insurance
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Attachment # 1

Most importantly, we request favorable passage of this bill because of the requirements of the NAIC Accreditation Standards regarding laws and regulations. The Actuarial Opinion Standard requires a statute or regulation containing a requirement for an opinion on reserves and loss and loss adjustment expense reserves by a qualified actuary on an annual basis for all domestic insurance companies.

John Meetz
Government Affairs Liaison

KANSAS INSURANCE ASSOCIATIONS

DAVID A. HANSON, LEGISLATIVE COUNSEL
800 S.W. JACKSON, SUITE 900
TOPEKA, KS 66612-1259

TELEPHONE NO. (785) 232-0545
FAX NO. (785) 232-0005

Kansas Association of Property & Casualty Ins. Cos.

Member Companies:

Armed Forces Insurance
Exchange
Ft. Leavenworth

Bremen Farmers Mutual
Insurance Co.
Bremen

Columbia Insurance Group
Salina

Farm Bureau Mutual
Insurance Company
Manhattan

Farmers Alliance Mutual
Insurance Company
McPherson

Farmers Mutual Insurance Co.
Ellinwood

Federated Rural Electric
Insurance Exchange
Lenexa

Kansas Mutual Insurance Co.
Topeka

Marysville Mutual Insurance Co.
Marysville

Mutual Aid Association of the
Church of the Brethren
Abilene

Mutual Aid eXchange
Overland Park

Upland Mutual Insurance Co.
Chapman

House Insurance and Financial Institutions Committee Testimony on House Bill 2688

February 4, 2008

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present information on behalf of the Kansas Association of Property and Casualty Insurance Companies, whose members are domestic property and casualty insurance companies in Kansas.

The actuarial option requirements in the Bill were developed by the NAIC for adoption and use by the states as an additional standardized method of monitoring the solvency of property and casualty insurers and determining if a company is maintaining adequate reserves to remain in sound financial condition. We share the Insurance Department's concern with the potential additional expense involved, especially for our smaller companies and appreciate the Department's willingness to allow qualifying companies to come within the prescribed exemptions and prevent overly burdensome and expensive control measures if reasonably possible. Through our discussions with the Department, we understand this philosophy is not changing and, while passage of the Bill is important for accreditation, it will still allow the reasonable allowance of these exemptions, including the use of persons otherwise qualified to render the opinion.

At this point, we do not believe there will be any substantial adverse effect from the proposed requirements in the Bill before you. Thank you for your consideration.

Respectfully,



DAVID A. HANSON

Association

Member Companies:

The American Home Life
Insurance Company
Topeka

American Investors Life
Insurance Company
Topeka

Blue Cross/Blue Shield
of Kansas
Topeka

Employers Reassurance
Corporation
Overland Park

First Life America Corporation
Topeka

Preferred Health Systems
Wichita

The Pyramid Life Insurance
Company
Shawnee Mission

Security Benefit Life Insurance
Company
Topeka



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON HB 2689

HOUSE INSURANCE AND FINANCIAL INSTITUTIONS COMMITTEE February 4, 2008

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to visit with you on behalf of the Kansas Insurance Department. This bill is a proposal to amend K.S.A. 40-2c01(j), which is the definition of RBC instructions for insurance companies.

Risk-based capital (RBC) is a method that has been used by the Kansas Insurance Department since the mid 1990's to evaluate the financial solvency of insurance companies doing business in this state. The RBC statutes also prescribe various forms of regulatory action that may be taken, or shall be taken, in the event that a company's calculated RBC meets certain thresholds.

Companies must file financial reports with the Insurance Department using RBC instructions and formulas developed by the National Association of Insurance Commissioners (NAIC). These instructions and formulas are amended each year to address various matters, such as changes to line references in the annual statement blanks and to reflect any necessary modifications or adjustments to the formulas.

The current law requires companies to use the December 31, 2006 version of the RBC instructions. This bill would reflect a change in the date of the standard so that companies would use the RBC instructions, including the formulas, in effect as of December 31, 2007. The most recently adopted RBC standards do not represent a significant change from the standards of the previous year.

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

John Meetz
Government Affairs Liaison

House Insurance
Date: 2-4-08
Attachment # 3

KANSAS INSURANCE ASSOCIATIONS

DAVID A. HANSON, LEGISLATIVE COUNSEL
800 S.W. JACKSON, SUITE 900
TOPEKA, KS 66612-1259

TELEPHONE NO. (785) 232-0545
FAX NO. (785) 232-0005

Kansas Association of Property & Casualty Ins. Cos.

Member Companies:

Armed Forces Insurance
Exchange
Ft. Leavenworth

Bremen Farmers Mutual
Insurance Co.
Bremen

Columbia Insurance Group
Salina

Farm Bureau Mutual
Insurance Company
Manhattan

Farmers Alliance Mutual
Insurance Company
McPherson

Farmers Mutual Insurance Co.
Ellinwood

Federated Rural Electric
Insurance Exchange
Lenexa

Kansas Mutual Insurance Co.
Topeka

Marysville Mutual Insurance Co.
Marysville

Mutual Aid Association of the
Church of the Brethren
Abilene

Mutual Aid eXchange
Overland Park

Upland Mutual Insurance Co.
Chapman

House Insurance and Financial Institutions Committee Testimony on House Bill 2689

February 4, 2008

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present information on behalf of the Kansas Association of Property and Casualty Insurance Companies and the Kansas Life Insurance Association, whose members are domestic insurance companies in Kansas.

The risk-based capital provisions referenced in the Bill were developed by the NAIC for adoption and use by the states as a standardized method of monitoring the solvency of insurers and assessing the need for corrective action. The reference date in the statutory definition of "RBC instructions" was originally requested to make sure that the adopted instructions and formula were limited to those that we had had an opportunity to review, rather than potential future revisions, which could adversely affect our companies' risk-based capital evaluation and the resulting action or control levels. While we believe our companies remain in good standing under the previously adopted NAIC instructions and formula, we also believe any significant changes in those instructions and formula by the NAIC should be carefully considered before adoption in Kansas.

At this point, we do not believe there will be any substantial adverse effect from the latest revisions referred to in the Bill before you. Thank you for your consideration.

Respectfully,



DAVID A. HANSON

Kansas Life Insurance Association

Member Companies:

The American Home Life
Insurance Company
Topeka

American Investors Life
Insurance Company
Topeka

Blue Cross/Blue Shield
of Kansas
Topeka

Employers Reassurance
Corporation
Overland Park

First Life America Corporation
Topeka

Preferred Health Systems
Wichita

The Pyramid Life Insurance
Company
Shawnee Mission

Security Benefit Life Insurance
Company
Topeka



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON HB 2690

HOUSE INSURANCE AND FINANCIAL INSTITUTIONS February 4, 2008

Mr. Chairman and Members of the Committee

Thank you for the opportunity to appear in support of HB 2690. This bill would clarify that life insurance companies are required to pay accrued interest and dividends on surrendered life insurance policies during the deferral period if such companies elect to defer payment of the surrender value for a period not to exceed 6 months.

Currently, when a policyholder surrenders a life insurance policy for its cash value, the insurance company is not required to pay the value until six months after the request for surrender. The Insurance Department does not have a problem with the current 6 month deferral period as this provides the insurance company time to evaluate and sell assets in order to meet the surrender value obligation.

The bill would require the companies to include the accrued interest and dividends (as determined by the original life insurance contract) in the payment of the policy's cash surrender value. The accrued interest is the amount of interest that would be credited to the policy's cash value from the date of the surrender request to the date the company pays the surrender value. The accrued dividend is the amount of dividend that would be credited to the policy from the date of the surrender request to the date the company pays the surrender value.

In discussions with the industry, it became evident that the original drafting of the bill was not entirely clear as to when the accrual of interest or dividends would cease. The Insurance Department would like to propose a balloon that has been approved by the industry that hopefully will address this issue.

Thank you for the opportunity to speak and I would now be happy to answer any questions.

John Meetz
Government Affairs Liaison

House Insurance
Date: 2-4-08
Attachment # 5

During such period of deferment, any interest or dividends that would accrue ~~be applicable~~ in the absence of a surrender of the policy shall continue to accrue until such surrender value is paid.