

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 24, 2008 in Room 136-N of the Capitol.

All members were present.

Committee staff present:

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

Conferees appearing before the committee:

Insurance Commissioner, Sandy Praeger
Ron Gaches, Gaches, Braden, Barbee & Association
Dan Nackley, Pooled Money Investment Board

Others attending:

See attached list.

The Chair called the meeting to order.

Continued hearing on:

SB 209 - Insurance; rate and form filings; error notification procedure.

Ken Wilke presented amendments to the substitute bill. He said the new language sets out more specifically the procedure to be followed. The Chair closed the hearing on SB 209.

Senator Brownlee moved to approve the substitute bill and move it out favorably. Senator Schmidt seconded. Motion passed.

Bill introductions

The Chair called Insurance Commissioner, Sandy Praeger, who introduced the following bills:

1. Self Insurers to provide uninsured motorist coverage.
2. Change in assumption reinsurance agreement act.
3. Inadequate, excessive, or discriminatory forms. (Attachment 1)

Senator Schmidt moved to introduce the bills. Senator Steineger seconded. Motion passed.

Ron Gaches, asked for introduction of a bill dealing with credit cards. Mr. Gaches said it addresses a parity issue of credit cards issued by big box retailers when they issue the card themselves compared with credit cards issued by credit card companies who are issuing private cards for the big box retailers. There is a disparity in the treatment between the two.

Senator Steineger moved introduction of the bill. Senator Brownlee seconded. Motion passed.

Daniel J. Nackley, Director of Investment for Pooled Money Investment Board requested the F I & I Committee consider legislation authorizing the Pooled Money Investment Board to invest state monies in corporate bonds. He said currently the Board has the authority to invest in commercial paper but not corporate bonds. The Board feels this expansion of its investment options will help increase the return on its investment portfolio as well as provide more options for matching the maturities of investments to the state's cash flow needs. (Attachment 2)

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on January 24, 2008 in Room 136-N of the Capitol.

Senator Wilson moved introduction of the bill. Senator Steineger seconded. Motion passed.

Senator Steineger moved to accept the minutes as written. Senator Brownlee seconded. Motion passed.

The meeting adjourned at 10:30 a.m.

**SENATE FINANCIAL INSTITUTIONS & INS. COMMITTEE
GUEST LIST**

DATE: 1-24-08

NAME	REPRESENTING
Alex Kotyantz	P. I. A.
Dan Nackle	Pooled Money Investment Board
Scott Miller	Pooled Money Investment Board
James Forbes	UHG
Lori Church	KAPCIC
Bill Sneed	AHIP
Jamie Slack	Federico Consulting
Dan Murray	Fed Consulting
Emily Geier	Hein Law Firm
LARRY MAGILL	KAIA
KERRI SPIELMAN	KAIA
John Meek	KID
Sandy Praeger	KID



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

SENATE FINANCIAL INSTITUTIONS AND INSURANCE

Sandy Praeger, Commissioner of Insurance

January 24, 2008

Madam Chair and Members of the Committee:

Thank you for the opportunity to address you today. My name is Sandy Praeger and I am the Commissioner of Insurance for the state of Kansas. I am the chief executive of the Kansas Insurance Department, whose primary responsibilities are to assist and educate consumers, regulate and review companies, and license agents selling insurance products in the state.

I would like to begin by requesting the introduction of five bills for consideration by the committee:

Self insurers to provide uninsured motorist coverage-Self insurers recognized under K.S.A. 40-3104 and K.S.A. 66-1, 128 shall be required to provide uninsured and underinsured motorist coverage equal to the limits of liability for bodily injury or death of its self insurance limit. Self insurers shall have the opportunity to reject uninsured and underinsured motorist coverage which is in excess of the limits for bodily injury or death set forth in K.S.A. 40-3107 and amendments thereto. The rejection of excess limits shall be in writing and on a form promulgated by the commissioner. The self – insurer shall file a copy of the completed form with the commissioner (40-284)

Change in assumption reinsurance agreement act-Allow discretion for the Commissioner to waive the provisions of the statute in those situations where the ceding domestic insurance company is discontinuing its operations and the business is being assumed by another domestic insurance company (40-5201).

Inadequate, excessive, or discriminatory forms-K.S.A. 40-216(a)(2)(A) states in part, ... "unless the commissioner disapproves such contract of insurance within 30 days after filing because the rates are determined to be inadequate, excessive, unfairly discriminatory or otherwise fail to meet the requirements of this act." This statute concerns forms, not rates; therefore, it does not make sense that the commissioner may only be able to disapprove a contract of insurance or indemnity when the rates are determined to be inadequate, excessive or unfairly discriminatory. Thus, we would like to strike the part, "rates are determined to be inadequate, excessive, unfairly discriminatory or otherwise fail to meet the requirements of this act, and replace with, "contract of insurance or indemnity does not comply with Kansas law".

*FI & I Committee
January 24, 2008
Attachment 1*

Record Year

The Kansas Insurance Department helped thousands of Kansas consumers settle disputes with their insurance companies in 2007. The department recovered a record setting \$15 million in insurance claims for policyholders. During the same period the Insurance Department actually saw a drop in complaints and inquiries.

Savings by Year		Complaints by Year		Inquiries by Year	
Year	Savings	Year	Complaints	Year	Inquiries
2004	\$11,144,573.41	2004	5,039	2004	2,044
2005	\$13,632,946.20	2005	4,594	2005	1,700
2006	\$11,100,648.55	2006	4,529	2006	1,642
2007	\$15,096,012.38	2007	4,420	2007	1,509

Devastating Storms

In 2007, Kansas saw some of the most devastating storms on record. The most dramatic of these storms was the Greensburg tornado on May 4, 2007 which caused \$153 million in estimated insured property losses.

As devastating as the tornado was, it turns out that this tragic storm was an example of all the things that are right with the insurance industry in Kansas. Company representatives were on their way to Greensburg as early as 8:00 a.m. the morning after the tornado, and about 80 percent of affected policyholders received emergency funds from their respective companies within a week's time. Overall, the industry responded quickly and efficiently to the disaster in Greensburg.

Unfortunately, the Kansas floods of 2007 exposed a major vulnerability in the financial security of most Kansans. In fact a recent NAIC survey showed that 33 percent of policyholders incorrectly believe that their policy will cover damages to their house in the event of a flood. Flood insurance is only available through the National Flood Insurance Program (NFIP) that is run by FEMA.

While we do not have statewide figures, we do know that in Coffeyville alone 300 structures were damaged by last year's floods, and only 30 of those had flood insurance through the NFIP. Fortunately, flood insurance is available for Kansans that reside in the 100 counties that participate in NFIP.

All-Perils Insurance

One solution being proposed is all-perils insurance coverage. A multi-peril bill proposed in the United States House of Representatives would have allowed the NFIP to offer wind coverage. This approach would help resolve potential conflicts between consumers and insurers regarding the cause of damage to their homes during a hurricane. An alternative offered by the NAIC would be an all-perils product offered by the private market that could be supported by a federal backstop or credit line that would cap the industry's share of such catastrophic losses—helping insurers manage their claims-paying ability while keeping insurance affordable for consumers.

Optional Federal Charter

Something that state regulators and the NAIC have had a close eye on recently is a proposal for an Optional Federal Charter. An Optional Federal Charter would establish an Office of National Insurance that essentially takes over the job of insurance regulation that is currently delegated to the states.

There is little doubt that such a charter would create a massive federal bureaucracy with limited experience and limited accountability. Currently, state regulators enforce state laws developed by state legislatures that are uniquely positioned to accurately reflect local values, concerns, culture and socioeconomic conditions. Most arguments for a federal charter site the lack of uniformity and consistency between different state regulators, but the NAIC continues working to modernize insurance regulation through initiatives such as the Interstate Insurance Compact, the accreditation program, SERFF, NIPR and harmonized financial solvency regulation.

Health Insurance Reform

It comes as no surprise that in an election year the topic of health insurance reform is front and center. As the presidential race heats up, and each candidate touts the advantages of their respective plans, we feel it is important to be there as an authority to point out what works and what doesn't.



KANSAS

POOLED MONEY INVESTMENT BOARD
DANIEL J. NACKLEY, DIRECTOR OF INVESTMENTS

KATHLEEN SEBELIUS, GOVERNOR

INTRODUCTION ON PRELIMINARY SENATE BILL
BY
DANIEL J. NACKLEY, DIRECTOR OF INVESTMENTS
POOLED MONEY INVESTMENT BOARD
JANUARY 24, 2008

The Honorable Ruth Teichman, Chair
State Capitol, Room 241-E
Topeka, KS 66612

Re: Bill Introduction

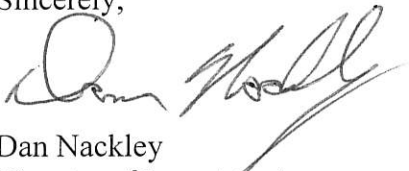
To the Honorable Ruth Teichman and Committee Members:

On behalf of the Board of Directors for the Pooled Money Investment Board, I respectfully request that the Senate Financial Institutions and Insurance Committee consider the attached legislative proposal for bill introduction. This measure authorizes the Pooled Money Investment Board to invest state moneys in corporate bonds.

Currently, the Board has the authority to invest in commercial paper but not corporate bonds. The Board feels that this expansion of its investment options will help increase the return on its investment portfolio as well as provide more options for matching the maturities of investments to the state's cash flow needs.

Thank you for considering this proposal.

Sincerely,



Dan Nackley
Director of Investments

*FI&I Committee
January 24, 2008
Attachment 2*

January 24, 2008

PROPOSED BILL NO. _____

BY

An act concerning investment of state moneys, amending K.S.A.75-4209.

Section 1. K.S.A. 75-4209 is hereby amended to read as follows: 75-4209. (a) The director of investments may invest and reinvest state moneys eligible for investment which are not invested in accordance with K.S.A. 75-4237, and amendments thereto, in the following investments:

(1) Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America or any agency thereof and obligations and securities of the United States sponsored enterprises which under federal law may be accepted as security for public funds, on and after the effective date of this act moneys available for investment under this subsection shall not be invested in mortgage-backed securities of such enterprises and of the government national mortgage association, except that any such mortgage-backed securities held prior to the effective date of this act may be held to maturity;

(2) repurchase agreements with a bank or a primary government securities dealer which reports to the market reports division of the federal reserve bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof and obligations and securities of United States government sponsored enterprises which under federal law may be accepted as security for public funds;

(3) commercial paper that does not exceed 270 days to maturity and which has received one of the two highest commercial paper credit ratings by a nationally recognized investment rating firm; and

(4) corporate bonds which have received one of the two highest credit ratings by a nationally recognized investment rating firm.

(b) When moneys are available for deposit or investments, the director of investments may invest in SKILL act projects and bonds pursuant to K.S.A. 74-8920, and amendments thereto, and in state agency bonds and bond projects.

(c) When moneys are available for deposits or investments, the director of investments may invest in preferred stock of Kansas venture capital, inc., under terms and conditions prescribed by K.S.A. 74-8203, and amendments thereto, but such investments shall not in the aggregate exceed a total amount of \$10,000,000.

(d) When moneys are available for deposits or investments, the director of investments may invest in loans pursuant to legislative mandates, except that not more than the lesser of 10% or \$80,000,000 of the state moneys shall be invested.

(e) Interest on investment accounts in banks is to be paid at maturity, but not less than annually.

(f) Investments made by the director of investments under the provisions of this section shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

(g) Investments under subsection (a) or (b) or under K.S.A. 75-4237, and amendments thereto, shall be for a period not to exceed four years, except that linked deposits authorized under the provisions of K.S.A. 2006 Supp. 2-3703 through 2-3707, and amendments thereto, shall not exceed a period of 10 years and agricultural production loan deposits authorized under the provisions of K.S.A. 2006 Supp. 75-4268 through 75-4274, and amendments thereto, shall not exceed a period of eight years.

(h) Investments in securities under paragraph (1) of subsection (a) shall be limited to securities which do not have any more interest rate risk than do direct United States government obligations of similar maturities. For purposes of this subsection, "interest rate risk" means market value changes due to changes in current interest rates.

(i) The director of investments shall not invest state moneys eligible for investment under subsection (a), in the municipal investment pool fund, created under K.S.A. 2006 Supp. 12-1677a, and amendments thereto.

(j) The director of investments shall not invest moneys in the pooled money investment portfolio in derivatives. As used in this subsection, "derivatives" means a financial contract whose value depends on the value of an underlying asset or index of asset values.

(k) Moneys and investments in the pooled money investment portfolio shall be invested and reinvested by the director of investments in accordance with investment policies developed, approved, published and updated on an annual basis by the board. Such investment policies shall include at a minimum guidelines which identify credit standards, eligible instruments, allowable maturity ranges, methods for valuing the portfolio, calculating earnings and yields and limits on portfolio concentration for each type of investment. Any changes in such investment policies shall be approved by the pooled money investment board. Such investment policies may specify the contents of reports, methods of crediting funds and accounts and other operating procedures.

(l) The board shall adopt rules and regulations to establish an overall percentage limitation on the investment of moneys in investments authorized under paragraph (3) of subsection (a), and within such authorized investment, the board shall establish a percentage limitation on the investment in any single business entity.

Section 2. K.S.A. 75-4209 is hereby repealed.

Section 3. This act shall take effect and be in force from and after July 1, 2008.