

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 March 11, 2009, in Room 136-N of the Capitol.

All members were present except:

Senator Ty Masterson- excused

Committee staff present:

Bruce Kinzie, Office of the Revisor of Statutes
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Beverly Beam, Committee Assistant

Conferees appearing before the Committee:

Melissa Calderwood, Principal Analyst, Research Department
John Meetz, Liaison, Kansas Insurance Department ([Attachment 1](#))
Dave Hanson, Kansas Association of Property & Casualty Insurance Cos., Inc. ([Attachment 2](#))

Others attending:

See attached list.

The Chair called the meeting to order and welcomed everyone to the meeting.

Hearing on

HB 2214 - Insurance, risk-based capital requirements.

Melissa Calderwood, Principal Analyst, Research Department, gave an overview of **HB 2214**. She stated that this bill would allow the Insurance Commissioner to adopt rules and regulations for the most current version of the risk-based capital instructions as published by the National Association of Insurance Commissioners. She said **HB 2214** would require that before such adoption, the Commissioner must prepare an impact statement indicating the projected impact upon domestic insurers and then notify the domestic insurers of the impact. She noted that if the projected impact would cause the amount of the domestic insurer's total adjusted capital or its risk-based capital report from the previous year to change by more than 2.5 percent, or cause a domestic insurer's control level to change upon application of the later version of the risk-based capital instructions, then the Insurance Commissioner would not adopt the latest version of the RBC instructions until approved by legislative action.

John Meetz, Legislative Liaison, Kansas Insurance Department, testified in support of **HB 2214**. Mr. Meetz said the KID has accepted legislation authored by Dave Hanson from the Kansas Association of P & C Companies that closes the six month "lag" but still allows a reasonable review process for the risk based capital standards. He said **HB 2214** would allow the Insurance Commissioner to adopt the new RBC instructions through the rules and regulations process unless those new RBC instructions would cause a company's total adjusted capital or RBC report from the previous year to vary by more than 2.5%, or change a company's control level. He noted that in these events, the new RBC instructions would require legislative action to be adopted, giving the new instructions proper scrutiny. Mr. Meetz said this compromise legislation will allow the KID to hold insurance companies to the most up-to-date RBC instructions while still allowing for a review process in the event of dramatic RBC changes. ([Attachment 1](#))

David Hanson, Legislative Counsel, Kansas Insurance Association, testified as neutral on **HB 2214**. Mr. Hanson said the risk-based capital provisions referenced in **HB 2214** 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 regulatory control levels. He said 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 we have had an opportunity to review, rather than potential future revisions, which could adversely affect their companies' risk-based capital evaluation and the resulting action or control levels. He noted that while they believe their companies remain in good standing under the previously adopted NAIC instructions

CONTINUATION SHEET

Minutes of the Senate Financial Institutions and Insurance Committee at 9:30 a.m. on March 11, 2009, in Room 136-N of the Capitol.

and formulas, they also believe any significant changes in those instructions and formulas by the NAIC should be carefully considered before adoption in Kansas. He stated further that the amendments in **HB 2214** will hopefully achieve this by establishing two guidelines for adoption of any future changes that may be developed by the NAIC. He said if those changes are projected to cause more than a 2.5% reduction in the adjusted capital of domestic companies or cause a change in the applicable control level, then the new instructions and formula should not be adopted in rules and regulations until approved by the Legislature. (Attachment 2)

The Chair closed the hearing on **HB 2214**.

Final Action

HB 2185 - Public moneys, reciprocal deposit program.

The Chair called Melissa Calderwood to briefly update the Committee on **HB 2185**. She stated that this bill would amend current law to allow local governments and the Pooled Money Investment Board (PMIB) to deposit public funds with banks that participate in a reciprocal deposit program, such as the Certificate of Deposit Account Registry Service (CDARS).

Senator Brownlee moved that **HB 2185** be passed out favorably. Senator Steineger seconded. Motion passed.

Final Action

HB 2052 - Life and health insurance guaranty association, claims.

The Chair called Melissa Calderwood to briefly update the Committee on **HB 2052**.

Ms. Calderwood said **HB 2052** would increase the maximum annuity benefit from \$100,000 to \$250,000 for which a life and health guaranty association would be liable in the event of insurer insolvency. She noted that also under current law, any increased limit of liability of a guaranty association does not apply to an impaired or insolvent insurer prior to July 1, 1993. She said **HB 2052** would apply the guaranty association's limits of liability in effect on the date the association became liable for the impaired or insolvent insurer.

Senator Barnett moved to favorably pass out the amendments to **HB 2052** as presented by Nancy Zogelman, America's Health Insurance Plans. Senator Holland seconded. Motion carried.

Senator Brownlee moved to pass out favorably **HB 2052** as amended. Senator Kelsey seconded. Motion carried.

The next meeting is scheduled for March 12, 2009.

The meeting was adjourned at 10:00 a.m.

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

DATE: 3-11-09

NAME	REPRESENTING
John Beetz	KID
Ken Abitz	KID
Lori Church	KAPCIC
Bruce Witt	PHS
Paul Fisher	UHG
Kathy Olsen	KS Bankers Assn.
Paul Miller	Farmers Alliance
Christi Wright	Parent of Page
LIZ MILLER	PMIS
Scott Gates	Treasurer's Office
Scott Miller	PMID
Maree Carpenter	KAHP
Natalie Haag	Security Benefit
Bill Sneed	American Inv. Life
Alex Kotlyantz	P. I. A.
Nick Jordan	Capital Strategies.
Kari Presley	Kearney & Associates
LARRY MAGILL	KAIA
KERRI SPIELMAN	KAIA

Chris Gigstad Federico Consulting
 David Hanson K's Insur. Assns

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

DATE: _____

NAME	REPRESENTING
Matt Casey	BBA
Jacob Wright	Barnett
Talia Smith	Page for Barnett
Phil Bradley	KUBA



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON HB 2214

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE March 11, 2009

Madam Chair and Members of the Committee:

Thank you for the opportunity to testify in support of House Bill 2214. This bill pertains to risk-based capital (RBC) instructions that have previously been updated yearly through legislation. This year we have altered the bill to allow the Kansas Insurance Department to update the RBC instructions through the rules and regulations process in an attempt to correct a fundamental flaw that I will describe in detail.

But first I will explain what RBC is and what it is used for. RBC is a method used by the Kansas Insurance Department to measure the minimum amount of capital that an insurance company needs to support its overall business operations. If a company falls below certain RBC requirements then the Insurance Department will go through a number of steps to determine the financial "health" of the company in question, with the ultimate goal of bringing that company back to a level where it is capable of meeting its contractual obligation to Kansas policy holders.

In previous years our legislation has been crafted to simply update the Kansas statute with the most recent RBC standards as promulgated by the NAIC. This yearly bill has been run by us at the request of the Kansas Association of Property and Casualty Insurance Companies as a way to allow a legislative review process for standards that are determined at the national level. In the event of dramatic RBC changes that jeopardized the solvency or AM Best rating of one of our Kansas domestic insurance companies the legislature would have the authority to not adopt those changes.

Unfortunately, the yearly legislative review process comes with a significant drawback. The national RBC standards are finalized in September of the previous year but the RBC bill does not take effect until its publication in the statute book July 1 of the next year. Thus, there is at least a 6 month "lag" between the promulgation of the new RBC standards and the moment from which companies are to be held to that standard.

To remedy this, the Kansas Insurance Department accepted legislation authored by Dave Hanson from the Kansas Association of P&C Companies that closes that 6 month "lag" yet still allows a reasonable review process for the RBC standards. HB 2214 would allow the Insurance Commissioner to adopt the new RBC instructions through the rules and regulations process unless those new RBC instructions would cause a company's total adjusted capital or RBC report from the previous year to vary by more than 2.5%, or change a company's control level. In these

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Attachment 1*

events the new RBC instructions would require legislative action to be adopted, thus giving the new instructions proper scrutiny.

This compromise legislation will allow the Kansas Insurance Department to hold insurance companies to the most up-to-date RBC instructions while still allowing for a review process in the event of dramatic RBC changes. Protecting Kansas insurance companies and making sure they hold appropriate capital is central to the duties of the Kansas Insurance Department. Ultimately, the ability to hold Kansas insurance companies to the most recent RBC standards is the best way to accomplish this goal so we would urge your support for HB 2214.

Thank you for the opportunity to appear today and I would now stand for any questions.

John Meetz
Government Affairs Liaison

KANSAS INSURANCE ASSOCIATIONS

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Kansas Association of
Property & Casualty Ins. Cos.

**Senate Financial Institutions and Insurance Committee
Testimony on House Bill 2214**

Member Companies:

Armed Forces Insurance
Exchange
Ft. Leavenworth

March 11, 2009

Bremen Farmers Mutual
Insurance Co.
Bremen

Madam Chair and Members of the Committee:

Columbia Insurance Group
Salina

Thank you for this opportunity to present information on behalf of the Kansas Association of Property and Casualty Insurance Companies, our state trade association for domestic property and casualty insurance companies in Kansas.

Farm Bureau Mutual
Insurance Company
Manhattan

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 regulatory control levels. 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 formulas, we also believe any significant changes in those instructions and formulas by the NAIC should be carefully considered before adoption in Kansas.

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

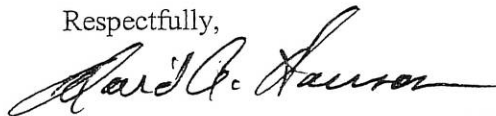
Mutual Aid eXchange
Overland Park

Upland Mutual Insurance Co.
Chapman

The amendments in HB 2214 will hopefully achieve this by establishing two guidelines for adoption of any future changes that may be developed by the NAIC. If those changes are projected to cause more than a 2.5% reduction in the adjusted capital of our domestic companies or cause a change in the applicable control level, then the new instructions and formula should not be adopted in rules and regulations until approved by the Legislature. Hopefully, this means that we will not have to bring this back before you next year. However, since we are dealing with a number of unknowns here, some of our member companies are not sure of the potential impact even at the 2.5% threshold and have expressed concern, but are not opposed to trying this method with the standards set as proposed. We very much appreciate the willingness of Insurance Commissioner Sandy Praeger and her staff to work with us on this proposed legislation. And we also want to express our sincere appreciation to the Legislature for your consideration of all the updates through the years that has brought us this far.

Thank you again.

Respectfully,



DAVID A. HANSON

*FI&I Committee
3-11-09
Attachment 2*