

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 26, 2010, in Room 152-S of the Capitol.

All members were present.

Committee staff present:

Ken Wilke, 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:

John Meetz, Kansas Insurance Department
David Hanson, Kansas Association of P & C Insurance Cos.

Others attending:

See attached list.

The Chair called the meeting to order. There were no bill introductions.

Hearing on

SB 388 - Changing the effective date for NAIC rules relating to risk-based capital.

John Meetz, Kansas Insurance Department, testified in support of **SB 388**. He stated that 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. He said 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. He noted that safety triggers were put in place to ensure that Kansas insurers would not be drastically affected by regulatory formulas from one year to the next without a diligent review by the industry and Kansas Legislature. In conclusion, Mr. Meetz said despite current economic conditions and record storm losses, Kansas property and casualty insurance companies are in a sound financial state and act as good stewards of the public trust. (Attachment 1)

Dave Hanson testified on behalf of the Kansas Association of P & C Insurance Companies in support of **SB 388**. Mr. Hanson said in summary that **SB 388** seeks legislative approval to adopt the NAIC updates through the end of last year, as has been done in previous years. He said it is believed that the updated formula and instructions will not adversely affect domestic companies. (Attachment 2)

Following Q & A, the Chair closed the hearing on **SB 388**.

Senator Taddiken moved to pass out SB 388 favorably and place it on the consent calendar. Senator Steineger seconded the motion. Motion passed.

Senator Brownlee moved to approve F I & I Minutes of January 19 and January 20. Senator Steineger seconded. Motion carried.

The next meeting is scheduled for January 27, 2010.

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



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON SB 388

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE January 26, 2010

Madam Chair and Members of the Committee:

Thank you for the opportunity to testify in support of Senate Bill 388. This bill pertains to risk-based capital (RBC) instructions that have previously been updated yearly through legislation. Last year the routine bill was altered to allow subsequent RBC updates to be made with rules and regulations rather than yearly legislation, however if either of two “triggers” are met then the new RBC instructions must be instituted statutorily as they have been in the past. This bill seeks to achieve that.

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 an attempt to allow for a legislative review process in the event of major changes to the national RBC factors, two triggers were employed that require the Kansas Insurance Department to update these changes statutorily. If an insurer’s total adjusted capital or RBC report varied by more than 2.5% based upon changes made in the RBC factors then the new standards must be adopted through statute. In this case you can see from the attachment that most domestic property and casualty companies’ scores have changed by more than 2.5%. Property and casualty insurance companies’ expressed the need for these triggers and therefore those projections are being shared. However, no companies will see a change in their regulatory control level (trigger number two).

While the trigger was met a review of the newest RBC formula led us to the conclusion that these changes are nonetheless appropriate especially considering the regulatory action level would not be affected for a single domestic property and casualty insurer. We also understand that the domestic property and casualty industry agrees with this assessment.

These safety triggers were put in place to ensure that Kansas insurers would not be drastically affected by regulatory formulas from one year to the next without a diligent review by the industry and Kansas Legislature. While we believe the trigger may be set slightly low at 2.5%

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Attachment 1*

we do believe the mechanism worked and in this case we are not asking for the statute to be changed, other than the effective date for RBC instructions.

Despite current economic conditions and record storm losses Kansas property and casualty insurance companies are in a sound financial state and behave as good stewards of the public trust. It is for these reasons that we would ask the committee to recommend SB 388 favorable for passage.

Thank you for the opportunity to appear and I would be happy to stand for questions at the appropriate time.

John Meetz
Government Affairs Liaison

<u>Company</u>	<u>2008 RBC</u>	<u>2008 Projected RBC using 2009 Factors</u>	<u>% Change</u>
	5062.083%	5050.467%	-11.616%
	4539.854%	4444.976%	-94.878%
	2276.980%	2159.774%	-117.206%
	2252.609%	2118.499%	-134.110%
	2152.125%	2152.125%	0.000%
	2063.910%	1821.559%	-242.351%
	1935.338%	1865.248%	-70.090%
	1574.871%	1441.962%	-132.909%
	1233.341%	1194.922%	-38.419%
	1199.925%	1204.652%	4.727%
	1148.022%	1204.982%	56.960%
	948.070%	873.551%	-74.519%
	905.940%	905.438%	-0.502%
	867.024%	850.593%	-16.431%
	841.302%	911.195%	69.893%
	782.468%	740.963%	-41.505%
	758.557%	743.689%	-14.868%
	735.530%	669.376%	-66.154%
	721.801%	695.051%	-26.750%
	593.622%	575.345%	-18.277%
	477.914%	466.541%	-11.373%
	329.841%	331.373%	1.532%
	233.330%	233.332%	0.002%

KANSAS ASSOCIATION OF P&C INSURANCE COS.

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Senate Financial Institutions and Insurance Committee Testimony on Seante Bill 388

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

January 26, 2010

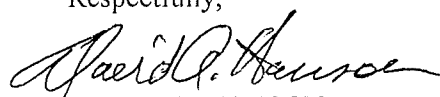
Madam Chair and Members of the Committee:

Thank you for this opportunity to present information on behalf of the Kansas Association of Property and Casualty Insurance Companies, our state trade association for domestic property and casualty 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 regulatory control levels. For a number of years, legislation was introduced to annually update changes that the NAIC adopted in the instructions and formula used to determine risk-based capital scores, thereby allowing our companies to bring any concerns to you and avoiding constitutional problems of allowing the NAIC and/or the Insurance Commissioner to exercise legislative powers in adopting changes without any guidelines or restrictions. Last year, legislation was passed, which not only approved last year's update of the NAIC's model rules and regulations, but also established criteria that would permit the Insurance Commissioner to adopt new updates adopted by the NAIC, subject to two guidelines established as exceptions. If the NAIC 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. We had hoped that those changes meant that we would not have to bring this bill back to you this year, but we did not anticipate the severity of either the continued storm losses nor of the economic downturn. Nevertheless, we believe the restrictions adopted last year have worked and are appropriate, as most companies have had to pay for record storm losses, as well as substantial reductions in investment income, and yet remain in fairly good shape. Although we regret having to bring this back to you so soon, the criteria established last year did work in bringing it back to you when conditions warranted legislative oversight.

Therefore, the bill before you seeks legislative approval to adopt the NAIC updates through the end of last year, as we have done in previous years. It is our understanding that some of these changes could result in more than a 2.5% reduction in the adjusted capital of a number of our domestic companies but would not warrant in the applicable control level of those companies. Therefore, we do not believe the updated formula and instructions will adversely affect our domestic companies. We very much appreciate the work of Insurance Commissioner Sandy Praeger and her staff in analyzing these changes and we certainly appreciate your consideration in light of the developments over the past year. Thank you again.

Respectfully,


DAVID A. HANSON

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1-26-10
Attachment 2