



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON SUBSTITUTE FOR SB 71

HOUSE INSURANCE COMMITTEE March 14, 2012

Chairman and Members of the Committee:

I am Kris Kellim with the Kansas Insurance Department. Thank you for the opportunity to testify in support of this substitute amendment for SB 71.

This substitute bill strikes the original language of SB 71 regarding insurance agent C.E.C. requirements, and replaces it with two groups of amendments proposed by the Department. The first group would add statutory definitions and eliminate C.E.C. requirements for certain limited lines of insurance. The second would require fingerprinting and national criminal history background checks for new, resident insurance agent license applicants and resident public adjuster applicants. The bill also includes an amendment proposed by the KAIA which the Department supports.

Limited-Lines:

The changes concerning limited lines insurance has two pieces. The first adds five new definitions of limited lines insurance, including crop insurance, title insurance, travel insurance, pre-need funeral insurance, and bail bond insurance (*p. 1, l. 32 – p. 2, l. 19*). The Department is seeking to add these five limited-lines insurance definitions for several reasons. The first and most basic reason is the need to have standard meanings for the types of insurance that we regulate. This need is exemplified by the fact we have C.E.C. requirements for certain lines of insurance that are not currently defined. All but one of the definitions we want to add has associated C.E.C. requirements. The definitions also are needed to meet uniform licensing standards for insurance agent reciprocity with other states. [“Pre-need funeral insurance”]

The second piece concerning limited lines insurance eliminates the current two-C.E.C. requirement for agents who hold life insurance licenses solely for the purpose of selling pre-need funeral insurance or annuity products, and provides that agents who hold only a bail bond qualification do not have to obtain C.E.C.’s (*p. 3, l. 20-25*). These changes are needed to meet the uniform licensing standards for agent reciprocity as well.

I would also note the Senate Insurance Committee amended the bill at the request of the KAIA and with the support of the Department to include “regulatory compliance” courses within the “ethics” C.E.C. requirement for insurance agents (*p. 2, l. 32, 38-39*).

Fingerprinting and National Criminal History Checks:

The second series of amendments in Sub SB 71 would establish a requirement for fingerprinting and national criminal history background checks for new, resident insurance agent license applicants (*p. 7, l. 18*) and resident public adjuster license applicants (*p. 9, l. 28*). The Department would also request a minor amendment that would delay the effective date of these provisions.

When an individual receives a resident insurance agent or public adjuster license, the person acquires a seal of approval by the State of Kansas, along with the trust of its citizens. It is therefore incumbent upon the Department to ensure that each agent is worthy of that trust. An important aspect of the application process is the screening of the applicant's criminal history. This process protects Kansans by preventing untrustworthy and dangerous individuals from obtaining a license and potentially having access to policyholders' money, personal information, and homes. Fingerprinting and national criminal history checks would give the Department access to applicants' criminal records outside Kansas, and would strengthen the applicant screening process.

The Department's current resident agent and public adjuster application process requires an applicant to file an application with the Department and successfully complete all required insurance examinations for the license being sought. The application requires an applicant to indicate whether the applicant has ever been convicted of a crime, had a judgment withheld or deferred, or is currently charged with a crime. An affirmative answer to this question can be cause for denial or deferment of approval of an application. The types of crimes that will disqualify an applicant from receiving a license, generally speaking, are "breach-of-trust" and "violent" crimes.

To ensure the accuracy of the criminal history information provided on an application, the Department currently submits the applicant's name and social security number to the KBI for a criminal history search, but the search only includes criminal history records from Kansas. With such limited information, the Department cannot detect applicants' out-of-state criminal history, unless they volunteer the information.

We want to close this gap in our ability to identify resident agent applicants with out-of-state criminal histories. This requires replacing our current state-limited KBI search with a nationwide background check through the KBI and FBI based on an applicant's fingerprints.

It is important to note that fingerprinting would only be required of new, resident agent applicants. It would not apply to a person applying for renewal, continuation, or adding additional lines of authority to an existing resident or non-resident agent.

There are multiple methods for obtaining and processing applicants' fingerprints. The main differences between these methods are whether a vendor is used and the timing of fingerprinting in the application process. The language offered would give the Department regulatory control over these issues, although the Department intends to initially use a "10-print card" method.

We have discussed applicant fingerprinting with KBI representatives. Our understanding is that the KBI will not have a problem processing the additional fingerprint jobs, which we estimate will be between 2,500 and 3,750 per year. We anticipate the fingerprinting fee will be \$50, although it could increase with time.

The current criminal background check system is not only inadequate because it does not provide vital national criminal history information. It is also difficult to verify an applicant's identity based on a name search only. Fingerprinting will help confirm the identities of resident agent applicants. Another problem is that some states might be reluctant to extend reciprocity to a Kansas resident agent without a national criminal history check.

The value of fingerprinting insurance agent applicants is also reflected in the national trend. Currently, 20 states have implemented fingerprinting and 5 states have passed legislation and are in the implementation process. Fingerprinting is also an increasing trend in Kansas, where numerous regulatory agencies have recognized the need to confirm applicants' identities and to detect those with criminal histories outside Kansas.

As mentioned, the Department would also request an amendment to delay the effective date of the fingerprinting provisions for agents and public adjusters from January 1, 2013 to January 1, 2014. This proposed change is a result of discussions with industry interests.

The ultimate purpose of this bill is to protect Kansas consumers. Fingerprinting and national criminal history checks will give the Department important information in screening new, resident insurance agent and resident public adjuster license applicants. This in turn will help protect consumers from persons who are unworthy of that trust and of being licensed resident insurance agents and resident public adjusters.

For these reasons, we would ask the Committee to recommend this substitute amendment for SB 71 favorable for passage.

Thank you for the opportunity to appear in support of this amendment. I would be happy to stand for questions.

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