

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 February 10, 2005 in Room 234-N of the Capitol.

All members were present except:
James Barnett- excused

Committee staff present:
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Ken Wilke, Office of Revisor of Statutes
Sandy Yingling, Committee Secretary

Conferees appearing before the committee:
Jarrod Forbes, KID
Colonel Deborah Rose, Vice Commander 190th Refueling Wing
Lee Wright, Farmers Ins.
Bill Sneed, St. Farm Ins.
David Hanson, Ks. Ins. Assoc.
Larrie Ann Lower, KAHP
Larry McGill, KAIA

Others attending:
See attached list.

Madam Chair opened the meeting with hearings on **SB 103.**

SB 103 - Insurance; effect of military deployment on certain policies.

Melissa presented an overview stating **SB 103.** Melissa pointed out on lines 31 and 32 there were errors. Madam Chair stated the corrections would be made.

Jarrod Forbes, Kansas Insurance Department, testified in favor of **SB 103** with a balloon pertaining to line 15, changing "mobile homeowner" to "manufactured homeowner" and adding wording to line 26. (Attachment 1). There were no questions.

Colonel Deborah Rose, Vice Commander of the 190th Refueling Wing and Registered Nurse testified in favor of **SB 103.** (Attachment 2). There were no questions.

Lee Wright, representing Farmers Insurance, testified opposing **SB 103** (Attachment 3). Farmers Insurance appreciates the contributions and sacrifices the military personnel endure to serve our country and also applaud the Kansas Insurance Department's good intentions in trying to assist our military personnel overseas. Unfortunately, the requirements that are found in **SB 103** would be difficult, costly and possibly illegal for Farmers Insurance to implement. Madam Chair asked for questions. Senator Brungardt asked if Mr. Wright had any incite to a form that might be acceptable to all? Mr. Wright stated, they had not gotten that far yet, but they are willing to listen and work this out.

Bill Sneed, State Farm Insurance, testified opposing **SB 103** (Attachment 4). Mr. Sneed voiced several of the same issues as Lee Wright. Mr. Sneed attached a balloon to his testimony, deleting the sentence beginning on line 17 through 20, keeping the language on lines 24 through 28 and eliminating the other new language. Simply stating that we could take no adverse action upon anything based solely on a Kansas resident's military deployment. Madam Chair stated the committee would receive the rest of the testimony before questions.

David Hanson, appearing on behalf of Kansas Association of Property and Casualty Insurance Companies, testified in opposition of **SB 103.** (Attachment 5). One of the concerns is in the terminology "deployment," after talking to some of the people with Armed Forces Insurance in Leavenworth, they said not every tour of duty is deployment. A lot of our policies cover a lot of people and they do not want to suggest that any covered person can go and start changing the policy. We hate to suggest that maybe someone else could start

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changing their deductible or coverages without the soldier's knowledge. The use of the word "negligence" is in question. What happens with somebody who has gotten their second DUI? Can we not take some action and is the DUI a form of negligence? There needs to some clarification.

Larrie Ann Lower, Executive Director of the Kansas Association of Health Plans, testified in opposition of **SB 103**. KAHP believes the bill needs work. KAHP is working with language with the Kansas Insurance Department that will let the soldiers back into the individual health insurance market without requiring them to pay their premiums while they are serving on active duty. KAHP would ask the committee to consider their suggestion as it applies to health insurance. (Attachment 6).

Madam Chair took questions. Chair Teichman pointed out that one of the things that struck her was the concern felt by all toward our military, what is happening with them and the wonderful job our military is doing to make things better for us at home in the United States. However, time and time again from the opponents she was hearing they would be willing to work with the Kansas Insurance Department to address their concerns as they struggle with some way to help our military. The bill has some good merits. Therefore, Madam Chair asked the insurance companies and Kansas Insurance Department to get together and bring the committee a solution.

Senator Brungardt stated that is a splendid idea. The bill has good intent, but on the other hand it is not the insurance company's weight to bear. Perhaps a delay in cancellation could be considered. Madam Chair added her concern on top of Senator's Brungardt's concern in the identification and how they are going to identify who is in the military and who is deployed. Madam Chair placed the responsibility upon Jarrod Forbes to see that everyone gets together. Jarrod Forbes pointed out he would be happy to, but in all fairness to the issue, it is worth noting that the language has been available since early December and the health plans have come to them and tried to work out language. Madam Chair would appreciate the KID trying one more time.

Madam Chair closed the hearing on **SB 103**.

Madam Chair opened the hearing on **SB 140**.

SB 140 - Limitation on insurance value on improvements on real property.

Melissa Calderwood, Kansas Legislative Research Department, provided an overview of **SB 140**. Melissa stated **SB 140** would amend existing law K.S.A. 49-05 and pointed out **SB 140** is similar to SB 456 from last session. There is a fiscal note that indicates that it would not have fiscal effect on the operating budget of the Insurance Department. The note does further indicate that the bill has the potential to control premium cost because claims would be limited to replacement costs for the improvements.

Larry McGill, Kansas Association of Insurance Agents, appeared before the committee in support of **SB 140**. Mr. McGill pointed out the legislation of today is intended to accomplish what SB 456 attempted to accomplish last year. SB 456 would have prohibited lenders from requiring insurance for more than the replacement cost of the home. KAIA offered a balloon changing the language in lines 25 through 28 (Attachment 7). Mr. McGill also passed out a 2004 survey titled "Problems With Insurance to Value." (Attachment 8).

Madam Chair asked for questions. Senator Barone asked what is classified in this? Mr. McGill stated any type of property insurance. Senator Barone stated he was particularly troubled because he does not understand why in a specific experience, where a manufactured home was insured insurance for xxx amount of money and it blew away. When it came time to settle, the insurance company settled for something less than the amount of the policy which was sold and the premiums were paid on. There was no house, it was gone. He stated Mr. McGill's testimony seems to suggest the opposite of that. Mr. McGill quoting the statute "upon real property in this state" so it would depend on whether a manufactured house is defined as real property. Mr. McGill does not think it is, a manufactured house even if it is on a permanent foundation, it is removable. Mr. McGill suggested that would be more of a legal question. Senator Baron stated the distinction needs to be fixed.

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Senator Brownlee asked if these loans would be in violation of the UCCC? Sonya Allen answered it does require more disclosure and that they are not prohibited by the UCCC. Senator Brownlee asked who is responsible for the dollar amount of insurance coverage? Mr. McGill stated that generally the courts have held that it is the person purchasing the insurance. Mr. McGill pointed out that insurance agents are not experts at construction costs so they will apply a service to the basic facts about the home and come up with the estimate. Mr. McGill stated that if it is just a little difference, it can be worked out, but if it is \$100,000 difference because of land values, you just can't justify that.

Senator Steineger stated, in regard to mobile home vs. manufactured housing, there is a definition in state law. Mobile homes are a personal property, manufactured house if attached to a permanent, concrete foundation is real property. Senator Steineger stated he had trouble with the italicized language in the bill and asked if there is going to be a need for reappraisal every time there is an improvement to the house? Mr. McGill stated that most of the time the agency would want to increase the amount of coverage on the home on an annual basis to keep up with inflation. It is possible that a homeowner can put more into a home than it appraises out at. That is not an insurance problem, but a decision the homeowner has made. Senator Wilson asked if agents are asked by more mortgage companies than the insurance companies to inflate the amount of insurance? Mr. McGill answered, yes. Senator Wilson personally found the opposite to be true. Senator Brownlee directed her question to the Office of the Bank Commissioner regarding loan officers continued education? Sonya Allen answered in agreement to implementing education.

Lee Wright, Farmers Insurance Group, testified in opposition to the current version of **SB 140** (Attachment 9). Also, Mr. Wright passed out copies of the Missouri and Oklahoma laws which passed last year (Attachment 10) and advised the committee that there are 28 states now that have passed similar laws. There were no questions.

Bill Sneed, State Farm Insurance, Inc., testified in opposition of **SB 140** in its current form. (Attachment 11). There were no questions.

Chair Teichman had a question of Mr. McGill regarding his comments on concern toward the liability that it would cause the insurance companies; would this shift the liability to the lending companies? Mr. McGill answered he does not think it does and it is not their intention. Mr. Sneed commented that "shifting" is a bad term.

Doug Wareham, Kansas Bankers Association, went on record to state the KBA is opposed to the amendment that is offered on **SB 140**. They fail to see the logic in the language in the bill as introduced which essentially places the burden on the insurance industry. That burden is now being shifted and their agents could have new liabilities as a result of **SB 140**. The burden is now being shifted over to the lien holders. This is the same as the bill introduced a year ago. To Mr. McGill's belief that banks are not the problem, then we would consider this a shot gun approach that affects banks. One banker who does mortgage lending feels like the amendment offered by the independent insurance agents undermines the roll of state certified county appraisers in determining the value of which loans need protected with insurance.

Madam Chair closed the hearing on **SB 140**.

Madam Chair reopened the hearing on **SB 102**.

SB 102 - Insurance; closing a block of business; notice to policyholders required.

Madam Chair asked if there were questions or discussion. There were none.

Senator Wysong moved to pass SB 102 favorably out of committee, Senator Brungardt seconded. The motion carried.

Madam Chair reopened discussion on **SB 114**.

SB 114 - Banks and banking; civil penalty authority for state banking commissioner.

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Madam Chair asked to hear briefly from the Office of the Banking Commissioner and the Kansas Banking Association.

Clancy Norris, Bank Commissioner, spoke in support of **SB 114**, stating his office feels very strongly that they need this particular item of a civil money penalty as a deterrent more than any.

Doug Wareham, Kansas Bankers Association, took a neutral position on **SB 114**.

Senator Brungardt addressed the amendment to **SB 114** (Attachment 12).

Senator Steineger voiced concerns about “stacking” but pointed out in regard to these penalties, stacking only happens to people who break the rules. If you live right and obey the law you do not get stacked on. Therefore, exempting one industry from something everyone else has to put up with is not necessary.

Senator Steineger opposes this amendment.

Madam Chair thanked all and concluded the committee meeting.

Meeting adjourned at 10:32.