Approved: March 23, 2000
Date

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:30 p.m. on March 16, 2000 in Room 527-S of the Capitol.

All members were present except: Representative Boston

Committee staff present: Dr. Bill Wolff, Research
Ken Wilke, Revisor
Mary Best, Secretary

Conferees appearing before the committee: Linda DeCoursey, Kansas Insurance Department
Jerry Slaughter, Kansas Medical Mutual Insurance Company

Others attending: See attached Committee Guest List

Chairman Tomlinson made the announcements to the committee and the guests, reminding the guests to sign in. The Chairman also requested the committee be watchful for meeting announcements.

SB 443- Insurance; codification of standard accounting procedures

Ms. Linda DeCoursey, Kansas Insurance Department, was the first conferee on the **SB 443.** Ms. DeCoursey, gave Proponent Testimony, to the committee with a copy (Attachment #1) attached hereto and incorporated into the Minutes by reference. Ms. DeCoursey gave an overview of the bill explaining the need of comprehensive guide that prescribed practices versus permitted practices. She informed the committee that there are 50 states with 50 different accounting procedures, which are very costly to maintain.

Ms. DeCoursey informed the committee that the insurance industry as well as the regulatory groups, have for the past 10 years, been working on a procedure, specifically for the insurance industry, which will allow consistency. They are also attempting to develop these procedures so they do not infringe on states rights.

"Codification of SAP is to be implemented on January 1, 2001," and **SB 443** would do just that. Ms. DeCoursey explained to the committee that only 5 statutes would need revision to be consistent with the codification of SAP procedures. These statutes were listed as follows: *Discounting Reserves* ("The new standards would not permit the discounting of reserves.") Kansas believes everyone should have the same accounting rules across the nation, but at the same time they are allowed some flexibility. Allowing this flexibility, "companies discounting reserves after January 1, 2001, will have to disclose this information in their annual statements and CPA reports." *Data Process Equipment (*"K.S.A. 40-2a15 and 40-2b14 are being repealed on January 1, 2001. These changes reflect different methods of depreciation.")

As of today, according to the statutes, a data processing aggregate costs are limited and are not to exceed a certain percentage of the admitted assets of the reporting company. These same statutes also state that the cost be fully amortized within a 10 year period. With the new procedure the net accumulation depreciation will be limited to 3% and will also be required to be shown on the balance sheet. Come January these statutes will not be needed as the new practices and procedures will set out where and how companies are to report the accumulated depreciation.

Finally, *Aircraft, WP Systems, Vehicles,* where for purposes of codification, where K.S.A. 40-2-23 and 40-2b22 "provide that fixed wing or rotary wing aircraft, word processing systems, motor vehicles and detached modular partition systems may be held as admitted assets if certain criteria are met." Under this bill, these no longer would be identified for admitted assets. **SB 443** deletes these statutes.

With this Ms. DeCoursey stood for questions. Questions were asked by Representatives Myers, Phelps, Cox and the Chairman. Questions covered the other 50 states; why KaMMCO was the exception to the rule, and allowed to count reserves. Responses were from: all 50 states would follow one set of procedures as of 1-1-

2001 to letting Mr. Jerry Slaughter explain KaMMCO position.

Chairman Tomlinson recognized Mr. Jerry Slaughter, Kansas Medical Mutual Insurance Company (KaMMCO). Mr. Slaughter presented Proponent Testimony to the committee. A copy of the written testimony is (Attachment #2) attached hereto and incorporated into the Minutes by reference. Mr. Slaughter gave a more detailed view of the bill and also addressed the question of why KaMMCO was the exception to the rule.

Mr. Slaughter explained to the committee that his company was the only company organized under this statute (K.S.A. 40-12a01, et seq.) In the mid ‘80's, Kansas was struggling with a medical malpractice insurance crisis. One company went so far as to threaten to leave Kansas if the conditions did not improve immensely. Many rural physicians limited their practices be cause of the high cost of insurance and limited access to companies providing coverage. It was for this reason the Kansas Medical Society agreed to “establish a medical malpractice insurance company to provide a reliable source of insurance for physicians.” KaMMCO is the only domestic medical malpractice company today. Mr. Slaughter continued to explain KaMMCO insures more physicians than any other company; it is a mutual insurance company and operates much like a non-profit entity and that it was not set up to earn high profits. “In 1988 the legislature created a statutory framework and allowed KaMMCO to report its loss reserves on a present value discounted basis, so long as the assumptions used by the company were reasonable in view of the Insurance Commissioner.” Today the company continues to operate under the same statute set out 11 years ago. The Commissioner has always approved their method of loss reserve discounting.

Mr. Slaughter continued on to explain that they understood the bill would bring the laws it administers to, into compliance with the national guidelines for standard accounting procedures set up by the NAIC. While Mr. Slaughter and his organization understand the need for the changes, they are requesting time to absorb the impact of the proposed changes. He naturally would prefer to operate as was envisioned in 1988 by agreed to gradually eliminate loss reserve discounting over time. The original bill proposed by the Senate would allow them to do just that. Mr. Slaughter stood for questions.

Questions were posed by Representatives Showalter, Cox, Kirk, Burroughs, Myers. These questions covered such areas as: their concept of time foreseen by their actuary department, monetary sources available, will the bill hold a claim hostage, why the exception and why KaMMCO.

Responses ranged from: a reasonable time length to develop a plan to absorb these changes, again explained how their company functions, there would be no economic impact, same with cash flow, must be organizational company to Representative Kirk making a statement the amendment is in the bill and in is italics. With this the discussions were closed. As their were no further discussions from the committee or the conferees, the Chairman declared public hearings on the bill closed.

The Chairman then gave the bill to the committee. Representative Myers made the motion to move the bill out favorably for passage. Representative Cox seconded the motion. There was no discussion and the vote carried with the committee in full agreement.

The meeting was adjourned at 4:23 p.m. The next regular meeting will be held March 21, 2000 at 3:30 p.m.