



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON SB 25

HOUSE COMMITTEE ON INSURANCE March 18, 2013

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 SB 25.

SB 25 amends K.S.A. 40-2d05, which concerns risk-based capital (“RBC”) of health organizations. Attached for your review is an overview of RBC, including its purpose, history, and current structure. The goal of RBC laws including this amendment is to ensure each Kansas domestic company has the minimum amount of capital needed to support its overall business operations in consideration of its size and risk profile.

In addition, the amendment is part of the national accreditation standard for financial surveillance laws. Accreditation is necessary for other states to be able to rely on Kansas’ financial examinations of its domestic companies. Without it, Kansas companies could be subjected to duplicative financial examinations in other states. Such an increased regulatory burden would deter companies from domesticating in Kansas and would give domestic companies incentive to re-domesticate in another state. Maintaining Kansas’ accreditation is a baseline requirement for making Kansas an attractive place for companies to domesticate.

The RBC formula generates the minimum amount of capital that a company is required to maintain to avoid action by the Department. There are four levels of action that a company can trigger under the formula: company action, regulatory action, authorized control, and mandatory control levels. This amendment regards the first level, company action. An insurer that breaches the company action level must produce a plan to restore its RBC levels. This could include adding capital, purchasing reinsurance, reducing the amount of insurance it writes, or pursuing a merger or acquisition.

The amendment appears on p. 1, l. 13-18. It adds an alternate method for determining a company action level event for health organizations referred to as a “trend test.” The trend test essentially looks at slightly higher range of Total Adjusted Capital (“TAC”) over a period of time and determines whether there has been a decreasing trend of TAC over those years. If so, a company action level event has occurred. Similar trend tests already exist in statute for property and casualty insurers and life and health insurers. SB 24 amends the trend test for life and health insurers.

It is important to keep in mind that RBC laws are concerned with companies in deteriorating financial condition, not the vast majority of healthy companies. Also, the amendment does not affect the other action levels that entail more severe action by the Department. This amendment allows the Department to intervene and require a company to produce a plan based on a low range of RBC coupled with a negative trend. We do not expect this amendment to have a current impact on any Kansas companies. It is however an accreditation requirement.

For these reasons, we would ask the Committee to recommend SB 25 favorable for passage.

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

Kris Kellim
Government Affairs Counsel
Kansas Insurance Department