

SESSION OF 2016

**CONFERENCE COMMITTEE REPORT BRIEF
HOUSE BILL NO. 2446**

As Agreed to March 24, 2016

Brief*

HB 2446 would amend the Kansas Automobile Injury Reparations Act to increase the minimum motor vehicle liability insurance policy limit for property damage and to amend other provisions in the Insurance Code to permit cities and counties to request payment of insurance proceeds for covered claims and update the law pertaining to the creation of a lien in favor of such proceeds.

**Kansas Automobile Injury Reparations Act—
Amendments**

The bill would amend the Kansas Automobile Injury Reparations Act to increase the minimum motor vehicle liability insurance policy limit for property damage from not less than \$10,000 to not less than \$25,000 for policies issued or renewed on or after January 1, 2017. Beginning with the 2026 Legislative Interim and at least every ten years thereafter, subject to authorization by the Legislative Coordinating Council, a legislative interim study committee would be required to study whether the minimum motor vehicle liability limits for bodily injury to or death of one or more persons and for harm to or destruction of the property of others should be adjusted. Under the bill, the existing limits for bodily injury (\$25,000 bodily injury to or death of one person in any one accident and \$50,000 bodily injury to, or

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kldr>

death of, two or more persons in any one accident) are unchanged.

Payment of Insurance Policy Proceeds by Cities and Counties

The bill also would amend provisions in the Insurance Code pertaining to the procedure for payment of the proceeds of certain insurance policies by cities and counties. Under current law, cities and counties are permitted, by adoption of an ordinance or resolution, to establish procedures for the payment of an amount not to exceed 15 percent of the proceeds of an insurance policy based on the covered claim payment made for damage or loss to a building or other structure caused by or arising out of any fire, explosion, or windstorm. The bill would delete references to these listed causes for damage or loss and instead permit cities and counties to request payment of insurance proceeds as long as the loss is a covered claim and make similar updates to the law pertaining to cities and counties creating a lien in favor of such proceeds.

The bill also would increase from 30 to 45 days, unless the city or county has instituted legal proceedings, the period specified for the release of the insured's proceeds and any interest that has accrued.

Under existing law, the ordinance or resolution would only apply to covered claims payments in excess of 75 percent of the face value of the insurance policy covering the building or structure.

Effective Dates

The amendments related to the Kansas Automobile Injury Reparations Act would be effective from and after January 1, 2017, and publication in the statute book. The amendments to the Insurance Code related to the procedure

for payment of certain insurance policy proceeds by cities and counties would be effective on publication in the statute book.

Conference Committee Action

The Conference Committee agreed to the Senate amendments to the bill and agreed to:

- Further amend the bill regarding future legislative review of whether adjustments are needed to the minimum motor vehicle liability limits for bodily injury or death or property damage, subject to authorization by the Legislative Coordinating Council (a modification of an amendment made by the House Committee); and
- Add provisions related to the procedure for payment of the proceeds of certain insurance policies by cities or counties (SB 370, as recommended by Senate Committee on Financial Institutions and Insurance).

Background

The Conference Committee Report would include the contents of HB 2446 and add SB 370.

HB 2446 was introduced by the 2015 Special Committee on Insurance. At the hearing in the House Committee on Insurance and Financial Institutions, representatives of the Kansas Association of Insurance Agents (KAIA) and the National Association of Insurance and Financial Advisors of Kansas (NAIFA-Kansas) and a licensed insurance agent testified in favor of the bill. The proponents generally stated the Kansas minimum motor vehicle liability insurance policy limits for property damage no longer adequately protect the consumer, placing the consumer at financial risk. [Note: The last changes to the minimum limit amounts were made in

1981, with technical changes not affecting the limit amounts made in 1984.] Written testimony in favor of the bill was provided by representatives of the Kansas Association for Justice (KsAJ), two personal injury attorneys, and four licensed insurance agents.

Written testimony in opposition to the bill was provided by representatives of Allstate Insurance and the Property Casualty Insurers Association of America (PCI). The opponents' testimony indicated premium increases associated with the bill that, though negligible to most drivers, may be seen as unaffordable to low-income households and could result in an increase in uninsured motorists. The written testimony provided by PCI indicated an increase is unnecessary because the average property damage liability claim cost in Kansas is less than the current minimum liability limit.

Neutral testimony was provided by representatives of the American Insurance Association (AIA) and Enterprise Leasing Company of Kansas, LLC (Enterprise). The conferees testified increasing the mandatory auto insurance minimums makes the purchase of state-required auto liability insurance more difficult for many lower income drivers, Kansas law provides drivers with the opportunity to purchase higher levels of coverage, and the Kansas motor vehicle liability insurance coverage requirements currently are in line with those of most other states. Written neutral testimony was submitted by representatives of the Kansas Insurance Department (Department) and the State Farm Insurance Companies (State Farm).

The House Committee amended the bill by clarifying the increase in the minimum motor vehicle liability insurance policy limits would apply to insurance policies issued or renewed on or after January 1, 2017; clarifying the effective date of the bill; and requiring future legislative review of whether adjustments are needed to the minimum motor vehicle liability limits for bodily injury or death or property damage.

At the hearing in the Senate Committee on Financial Institutions, representatives of State Farm, the KAIA, and two personal injury attorneys appeared in support of the bill. Written proponent testimony was submitted by representatives of Enterprise, the KsAJ, NAIFA-Kansas, and four licensed insurance agents.

Written opposition testimony was submitted by a representative for PCI.

Neutral testimony was provided by representatives of the AIA and the Department.

The Senate Committee amended the bill to delete a provision requiring future legislative review. (A modified legislative review provision is included in the Conference Committee report.)

According to the fiscal note prepared by the Division of the Budget on HB 2446, as introduced, the Department stated enactment would likely result in increased insurance premiums paid by consumers from the increased minimum coverage of property damage or loss, along with higher insurance premium taxes deposited by the Department in the State General Fund. However, the Department could not estimate the increased revenue. Any fiscal effect associated with the bill is not reflected in *The FY 2017 Governor's Budget Report*.

SB 370 Background

SB 370 was introduced by the Senate Committee on Financial Institutions and Insurance at the request of the League of Kansas Municipalities whose representative indicated some member cities have raised concerns that if the seismic activity the state has been experiencing resulted in a heavily damaged building, the current statutes would not provide any protection to the city. The representative stated the intent of the bill is to expand the process for payment of

insurance proceeds to apply to any cause as long as there is insurance coverage for the structure. The extension of time for the release of a lien or to start legal proceedings, the conferee noted, is to address the frequency governing bodies meet. An official with the Department appeared in support of the bill. Written proponent testimony was submitted by the City Administrator for the City of Lyons. There was no other testimony provided.

The fiscal note prepared by the Division of the Budget on SB 370 states the bill would have no fiscal effect on the state. However, the bill would allow cities to accept payment from insurance policies on other types of loss, such as earthquakes, which would increase local revenues. The amount of potential increased revenues could not be estimated.

insurance; Kansas Automobile Injury Reparations Act; motor vehicle liability insurance; property damage limits; payment of insurance policy proceeds by cities and counties; lien on insurance proceeds

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