

SESSION OF 2020

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2479**

As Recommended by House Committee on  
Insurance

**Brief\***

HB 2479 would make amendments to provisions in the Insurance Code governing requirements associated with the Corporate Governance Annual Disclosure (CGAD) report and would codify the National Association of Insurance Commissioners (NAIC) Corporate Governance Model Regulation into statute. Under continuing law, a CGAD is a confidential report filed by the insurer or insurance group.

***Definitions; Requirements on Kansas-domiciled Insurers***

The bill would add a definition for “senior management,” which would mean any corporate officer responsible for reporting information to the board of directors at regular intervals or providing this information to shareholders or regulators, including, but not limited to, the chief executive officer, chief financial officer, chief procurement officer, chief legal officer, chief information officer, chief technology officer, chief revenue officer, or any other “C” level executive.

Under continuing law, insurers domiciled in Kansas (or the insurance group in which the insurer is a member) must provide a copy of the CGAD to the Commissioner of Insurance (Commissioner) on or before June 1. The bill would require insurers, upon request, to provide a copy of the CGAD to the chief regulatory official of any state in which the insurance group has a domestic insurer. The bill would further require, each year following the initial filing of the CGAD, the

---

\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

insurer or insurance group file an amended version of the previously filed document indicating where changes have been made. The amended filing would be required to state if no changes were made in the information provided or activities reported.

### ***Commissioner's Consideration***

Under the bill, the Commissioner would be required to consider several criteria to gain an understanding of the insurer's or insurance group's corporate governance structure, including:

- The board of directors and its various committees that are ultimately responsible for overseeing the insurer or insurance group and the levels at which the oversight occurs such as ultimate control level, intermediate holding company, or legal entity (e.g., the insurer's or insurance group's rationale for its current board size and structure and the duties of the board and each of its significant committees and how they are governed);
- The policies and practices of the most senior governing entity and its most significant committees, including the following factors:
  - How the qualifications, expertise, and experience of each board member meet the needs of the insurer or insurance group;
  - How an appropriate amount of independence is maintained on the board and its most significant committees;
  - The number of meetings held by the board and its significant committees over the past year as well as information on the attendance of directors;
  - How the insurer or insurance group identifies, nominates, and elects members to the board

- and its committees (e.g., nomination committee in place, any term limits, and the election and re-election process);
- The processes in place for the board to evaluate its performance and the performance of its committees, as well as any recent measures taken to improve performance;
  - The policies and practices for directing senior management, including a description of the following factors:
    - Any processes or practices such as suitability standards to determine whether officers and key persons in control functions have the appropriate background, experience, and integrity to fulfill their perspective roles (e.g., suitability standards for specified positions, changes in an officer or key person's suitability for the position, code of business conduct and ethics, the process for performance evaluation, compensation, and corrective action);
    - Any other factors relevant in understanding how the insurer or insurance group monitors its compensation policies to determine whether risk management objectives are being met by incentivizing its employees; and
  - The insurer's or insurance group's plans for chief executive officer and other senior management level succession;
    - The processes by which the board, its committees, and senior management ensure an appropriate amount of oversight to the critical risk areas impacting the insurer or insurance group's business activities (e.g., how oversight and management responsibilities are delegated, how the board is kept informed of strategic plans and

associated risks and monitoring, and how reporting responsibilities are organized for each critical risk area).

- The critical risk area reporting would be required to include risk management processes, actuarial function, investment decision-making processes, reinsurance decision-making processes, business strategy and finance decision-making processes, compliance function, financial reporting and internal auditing, and market conduct decision-making processes.

The bill would also make technical changes.

## **Background**

The bill was introduced by the House Committee on Insurance at the request of the Kansas Insurance Department (Department).

In the House Committee hearing, a representative for the Department appeared as a proponent and addressed the NAIC accreditation standards generally, stating the Department is up for accreditation in 2021. One of the requirements for accreditation is the adoption of corporate governance regulation. Rather than adopt the regulation through the regulatory process, the Department requested the bill to adopt the corporate governance regulation into statute.

No neutral or opponent testimony was provided.

The House Committee recommended the bill be placed on the Consent Calendar.

According to the fiscal note prepared by the Division of Budget, the Department states the bill would have no fiscal effect.