

Approved: 2/2/95 ha
Date

MINUTES OF THE HOUSE COMMITTEE ON BUSINESS, COMMERCE & LABOR.

The meeting was called to order by Chairperson Al Lane at 9:05 a.m. on January 26, 1995 in Room 526-S of the Capitol.

All members were present except:

Committee staff present: Jerry Donaldson, Legislative Research Department
Bob Nugent, Revisor of Statutes
Betty Evans, Acting Committee Secretary

Others attending: See attached list

Conferees appearing before the committee: Don Gaskill, Chief Examiner, Ks Insurance Department
Bill Wempe, Fire and Casualty Supervisor, KS Insurance Dept.
Marlyn Burch, Life Supervisor, KS Insurance Dept.

The first order of business was approving the minutes of January 18 and 19. Rep. Ballard moved that the minutes be approved and Rep. Boston seconded. Rep. Beggs pointed out one correction. The minutes were approved as corrected.

Don Gaskill, Chief Examiner for the Insurance Department, appeared before the committee to give a brief overview of what they do, their main purpose, and the accreditation system with the National Association of Insurance Commissioners (NAIC). The main goal of the accreditation process is to identify troubled companies fast and take corrective action to protect policy holders, claimants, and general creditors from any more financial losses. In his handouts he included an organizational chart that shows the different arms of the Insurance Department and their purposes (see Attachment 1). The four main branches are the Examinations, Monitoring and Surveillance (financial analysis), Regulatory Actions, and other functions (such as licensing and admissions, and consumer affairs, among others). He continued by telling the committee about the financial condition exams. These are done every three to five years unless there is a reason to believe that a company is in trouble. There are special or target exams to identify the company's problem so the department can take corrective action before any more financial loss.

The department has what is called a zone exam system. There are four zones in the United States. Departments from other zones are asked to send participants when an exam is to be made on a domestic company in Kansas. One Participant from the zone that has the largest number of premiums in the zone is usually sent to take part in the exam. Mr. Gaskill finished his appearance before the committee by answering questions.

Responding to a question about premium tax, Mr. Gaskill replied that when a company writes a policy, that company is charged a premium tax, 1% for domestic companies and 2% for foreign companies. This pays into the general fund about \$80 million, out of this \$4 to \$5 million is used to run the Insurance Department. Marlyn Burch stated from the audience that there is one exception to this, that domestic companies also pay, in addition to the premium tax, a privilege tax, 5% of their net gains as shown on their federal income tax forms.

Bob Kennedy spoke from the audience about the NAIC. It not only is an enormous help for his department but serves as a huge resource for not only states like Kansas but especially for states that have a smaller department. They have a mainframe that can be accessed and used by all the insurance departments.

Next on the agenda was Bill Wempe, Supervisor of Fire and Casualty Insurance, whose main comments cover ratemaking and the review process of Workers Comp insurance (see Attachment 2). He also brought for the committee a book, Ratemaking...The Pricing of Workers Compensation Insurance, printed by the NCCI, which is available from his office. In the Property and Casualty division, the statistical plan requires companies to file their premiums and losses with a ratemaking organization. They develop rates on an actuarial basis, usually annually, and file a rate change with insurance departments. There is a filing and reply within 30 days. There is then a final decision to approve or disapprove the rates. According to Kansas law, these rates cannot be excessive, inadequate or unfairly discriminatory. The rate changes are subject to prior approval from the insurance commissioner.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON BUSINESS, COMMERCE & LABOR, Room 526-S
Statehouse, at 9:00 a.m. on January 26, 1995.

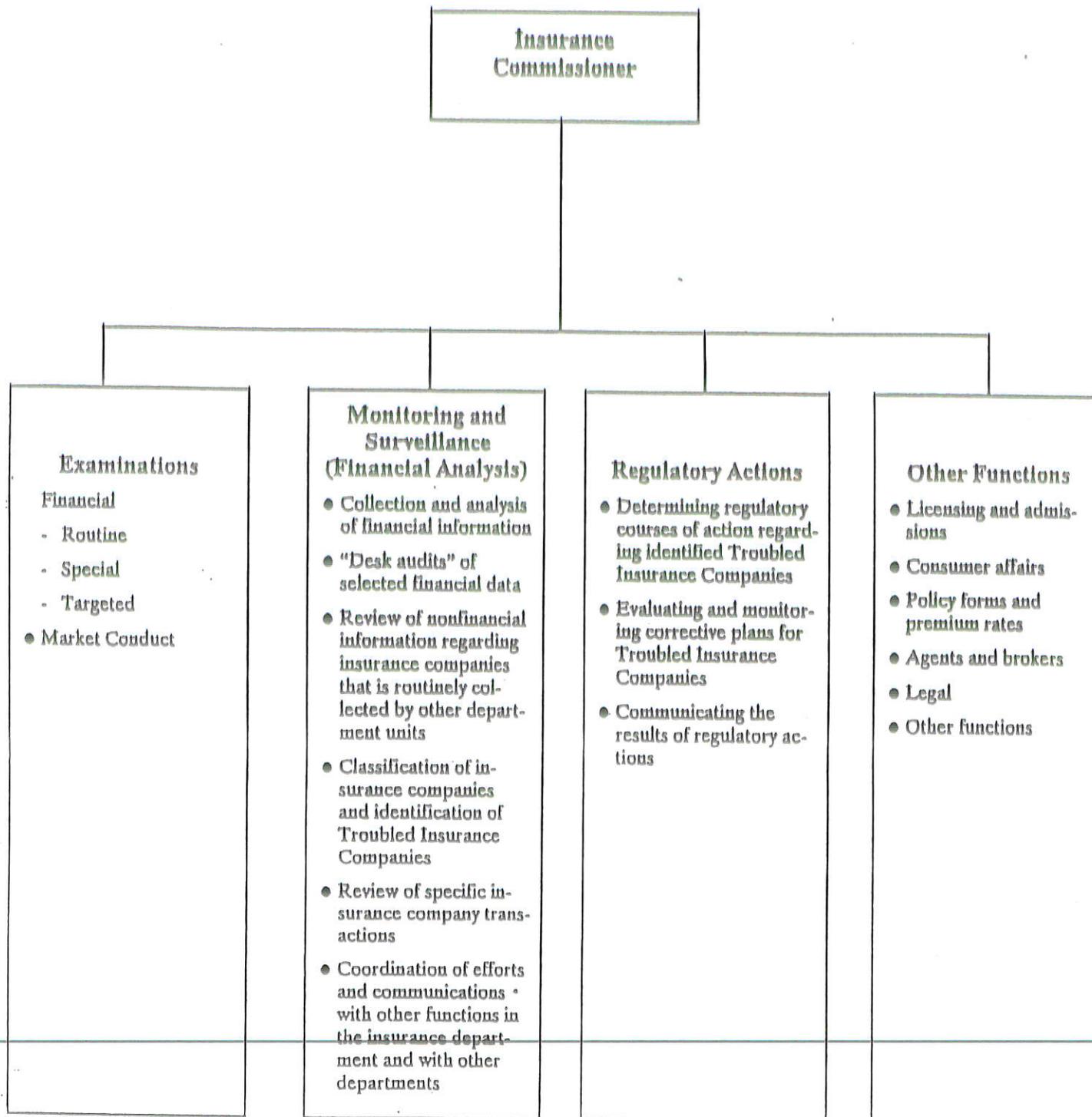
Mr. Wempe continued his presentation with comments about the Worker Comp rates. The National Council on Compensation Insurance (NCCI), collect premium and loss data from all companies that are licensed to carry compensation insurance. They use this information to develop rates. Normally, only Kansas data from Kansas employers are used to determine the adequacy of the current rate level in Kansas. They can only use a two year policy year experience. For the 1994 rate, they used the 1990 and 1991 data. The Workers Comp Reform Act has had the effect of reducing rates in Kansas. The rate change quoted is only the average rate. There are five classes of industry in Kansas, with a total of 600 classifications. Some of their rates will go down and some will go up. The most phone calls to the department are asking, "What is the change in my classification." The rates are filed with the Insurance Department by the NCCI the last of January or the first of February, they will go through the review process, and hopefully have the filing approved for a June 1 effective date. Mr. Wempe finished his presentation by answering questions.

Marlyn Burch, Life Insurance Supervisor, finished the presentation for the Insurance Department by giving a brief overview of the process of policy forms approval (see Attachment 3). These include the life division, the accident and health division, and the fire and casualty division policy forms. In Kansas, our law requires that any company using a policy form of insurance have prior approval. Currently there are 1,510 insurance companies authorized to write in the state. During the 1994 calendar year there were 79,174 policy forms submitted for approval. The policy examiners in the insurance department review and analyze the insurance policies to see if they comply with the law and departmental regulations. Policy examiners must be aware of new forms of insurance and also must be able to recognize the need for new laws. There are plans in the future for companies to be able to submit the policy forms by computer to the insurance department, with the approval sent back by computer. When this plan is implemented, it will be a big saving of time and personnel in the department and would allow for speedier approval of forms. One complaint made to the insurance department each year during the spring months is that policy forms are not being approved. The reason for this is that starting in March each year, selected policy examiners are temporarily reassigned to do tax audits of every insurance company doing business in Kansas.

As the committee was out of time, Chairman Lane asked any members who had questions to call Mr. Burch at his office.

The next meeting is scheduled for January 27, 1995.

Illustrative Organizational Chart of Insurance Department Functional Units



*Business, Commerce & Labor
Attachment 1
1/26/95*

NAIC ACTIVITY

Financial Regulation Standards

- A. In June, 1989 the NAIC adopted Financial Regulation standards
- B. Financial Regulation Standards categories
 - 1) Laws and Regulations
 - a) Examination authority
 - b) Capital and Surplus requirements
 - c) Accounting practices and procedures
 - d) Corrective regulatory action
 - e) Valuation of investments
 - f) Holding company systems
 - g) Risk limitations
 - i) Investment regulations
 - j) Allowable admitted assets
 - k) Liabilities and reserves
 - l) Reinsurance
 - m) CPA audits
 - n) Actuarial opinions
 - o) Receivership
 - p) Guaranty Funds
 - q) Required IRIS participation
 - 2) Regulatory Practices and Procedures
 - a) Financial analysis
 - b) Financial examinations
 - c) Interdepartmental communications regarding troubled companies
 - 3) Organizational and Personnel Practices
 - a) Minimum education and experience requirements
 - b) Continuing education

RATEMAKING

i. General (For all P & Lines)

- * Statistical Plan requires company's to file their premium and losses with a ratemaking organization
- * the rating organization develops rates (actuarial basis) usually annually and files a rate change with insurance department
- * department/actuary review filing and reply within 30 days
- * Final decision (approve or disapprove)
- * rates and rules subject to "prior approval"

ii. Developing Workers Compensation Rates

- A. NCCI collects premium and loss data from member companies for each state. The data is validated for accuracy and if necessary, questioned and returned for correction.
- B. Only Kansas financial data is relied upon to evaluate the adequacy of of the current rate level.
- C. Financial data used in Kansas filing is:
1. (Two years) Policy Year Data - (Premium and benefit costs (medical and indemnity) from all policies whose coverage began in a certain year. (i.e. the 1994 rate filing used 1990 and 1991 FY data.)
 2. Premium must be adjusted for any recent rate changes and late audits. Losses (indemnity and medical) must be adjusted for law changes and cost development.
-
- D. For solvency reasons, reserves are estimated using actuarial principles to predict amounts to be set aside for future payments on open claims.

B, C & L

Attachment 2

1/26/95

2/1.

E. Concept of premium adequacy

1. The ideal situation is for premium collected at current rates to equal the losses expected under current benefit provisions. Rate increases or decreases are needed if other than this "balance" is expected.

F. Average the loss ratio for both policy years and compared with the "target" cost ratio.

This produces the needed change due to experience.

G. Trend

1. Reflects anticipated changes in payroll, duration of claims, frequency of claims and inflation. Movement of payroll (premium) and benefit costs indicate the need of a rate change.

H. Changes in statutory benefits also considered in ratemaking.

I. Distributing the rate change to classifications

1. A rate change does not mean that every classification should be adjusted - the indicated change is only an average.

2. Industry group (Mfg., Contracting and All Other) change calculated from statewide experience for all classifications in each industry group.

3. Each industry group average change is distributed to individual classifications. The volume of experience for each code determines the "credibility" and how much Kansas experience can be used in determining the rate change. A low credible class would be influenced by countrywide experience.

Note: The procedure mentioned above produces only the "manual rate."

J. Final premium depends on:

1. Experience rating - (Current eligibility = \$2,250)
2. Premium discounts
3. Dividends
4. Deductibles - \$100-\$10,000 (NCCI) Premium discounts are .9% to 25.8% depending on code and size of deductible

III Miscellaneous

* Loss cost in 1995 (what co. will file)

* 1 filing / year

* ~~200 co. writing w/c~~

* Responsibilities of Div. w/c - *claims + indiv. self-insureds*

* Self-insured plan for state employees

* Deemer clause

2-3

IV Kansas Workers Compensation Plan

A. Available to insured unable to secure coverage, established under K.S.A. 40-2109

B. ~~Some~~ base rates

C. Assigned Risk Adjustment Program (ARAP) surcharge max. 1.37 to 12.5%
for all in addition to Experience Rating, possible 1.49 if a & f

D. Reduced Premium Discount (non-stock)

V. Questions

APPROVAL OF POLICY FORMS

Although the policy review sections of the department are responsible for the general supervision and regulation of matters relating to the writing of the various types of insurance, THE PRIMARY FUNCTION OF THOSE DIVISION INVOLVES THE PROCESS OF REVIEWING THE POLICY FORMS BEING OFFERED IN THE STATE OF KANSAS TO ASSURE THAT THEY ARE IN COMPLIANCE WITH THE KANSAS STATUTES AND REGULATIONS.

1. Kansas is not a use-and file state - we require prior approval (K.S.A. 40-216).
2. 30 day deemer clause in the law
3. a. Policy forms submitted to the office
b. Entered into the computer and placed in date order awaiting review by the policy examiners
c. Either approved or disapproved
4. Currently there are 1,510 insurance companies authorized to write in the state. During the 1994 calendar year those companies submitted a total of 79,174 policy forms for approval. Including a backlog from the previous year, the department approved 65,342 forms and disapproved 25,070.

The role of a policy examiner is difficult, as it involves a responsibility for reviewing and analyzing insurance policies to determine their compliance with the law and departmental regulations. Both independent judgement and technical knowledge are required in deciding whether they are in conformity with legal and administrative requirements. The advent of many new forms of insurance require constant study and analysis - even the ability to recognize the need for and recommendation of new laws to govern totally new products.

It is possible that you will receive inquiries in the spring as to submissions that haven't received prompt handling. That is due to another area of supervision that I've been asked to cover. The Insurance Department is one of the major income producing agencies in the state government, at one time ranking third in general tax revenue. In 1994 the department collected \$87,420,923.00 in taxes and fees. Of that amount, \$8,876,733.00 was collected from Kansas companies and \$868,773 was collected from Kansas companies as a result of a Privilege Tax imposed in addition to the premium tax. K.S.A. 40-225 requires every insurance company doing business in Kansas to file within sixty days after January 1 a financial statement. That statement and supplementary papers are used as a basis for determining and assessing various fees and taxes due to the state of Kansas. Thus, starting the first of March, selected policy examiners are temporarily reassigned to assess taxes and fees. As Kansas is a retaliatory state, this is a monumental task, as all 1,510 companies are thoroughly audited.

*BF+L
Attachment 3*