

Approved: 03-26-2012

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(Date)

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE  
COMMITTEE

The meeting was called to order by Chairperson Ruth Teichman at 9:30 AM on Tuesday, January 31, 2012 in 152-S of the Capitol.

All members were present.

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department  
Heather O'Hara, Kansas Legislative Research Department  
Ken Wilke, Revisor of Statutes Office  
Marilyn Arnone, Committee Assistant

Conferees appearing before the Committee:

Kris Kellim, Kansas Insurance Department  
Natalie Haag, Security Benefit Corporation  
Sandra Sigler, Kansas Association of Property and Casualty Insurance Companies  
John Smith, Administrator, Kansas Department of Credit Union  
Haylee DaVee, Kansas Credit Union Association

Others in attendance:

See attached list.

Chair Teichman opened the meeting and asked the Committee for approval of the minutes for January 11, 17, 18, and 19 of 2012.

Senator Olson moved to approve the submitted minutes for January 11, 17, 18, and 19, 2012 .

Senator Masterson seconded. The motion carried.

The Chair opened the hearing on **SB 273–Fees for examination of insurance company.**

Melissa Calderwood gave an overview of the bill. **SB 273** was requested by the Insurance Department and it would amend provisions in the insurance code pertaining to examinations of

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insurance companies. The bill would specify the total amount paid for outside consulting and data processing fees necessary to provide for an examination. The change will be from \$25,000 to \$100,000 for an insurance company or society that has less than 50 million dollars in gross premiums or the total of all fees and expenses for any insurance company or society with over 50 million dollars. The Fiscal Note would have no effect on the State.

Kris Kellim testified in support of **SB 273** that would increase the amount a domestic insurance company is currently required to pay for outside consulting and data processing fees necessary to perform a financial examination of the company, and for a pro rata amount of funds needed to purchase examination equipment and computer software. Currently these fees and expenses for any examination cannot collectively total more than \$25,000 for any company including its subsidiaries or any combination thereof. This cap is inadequate and outdated. The Department is asking for a two tier cap structure. The first tier is to apply to companies with less than \$50 million in gross premiums and cap outside fees and expenses at \$100,000 per company. Companies in the second tier with \$50 million or more in gross premiums would pay the total of all fees and expenses. The last amendment to the current cap was over 20 years ago and with today's costs the \$25,000 cap is insufficient. Under this cap, the Department has not been able to hire full-scope audits and this could affect Kansas' status as an accredited state, and to protect Kansas consumers. (Attachment 1)

Mr. Kellim included a list of Kansas Insurance Companies with Gross Premiums Written. (Attachment 2)

Mr. Kellim stood for questions. He also called on Ken Abitz to help clarify questions from the Committee.

Natalie Haag spoke in support of **SB 273** saying SBL agrees with the Kansas Insurance Department that the statutory cap of \$25,000 for expenses associated with the financial examination is too low to actually cover the expenses of an examination. With the increase in complexity of the products and services offered within insurance, as well as the depth that the regulators are looking into the risk management practices of their regulated entities, it is more expensive to bring in the expertise required to do a thorough and effective review. SBL proposes

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an amendment that would place a one million dollar cap on the external financial examination expenses for companies with more than \$50 million in gross premium and also clarifies that all of the examination expenses are considered for purposes of the statutory cap. (Attachment 3)

Sandra Sigler said that after polling members, domestics are concerned about the additional fees and in the legislation. The total of all fees and expenses incurred being directed back to the insurance company itself does not suggest a reason for any type of restraint as you go through the examination if there isn't a cap on the upper end companies and even on lower level tiers with the 100,000 limit. Just the outside consultant fee can be quite costly to some of the domestics and it is a concern. It is understood the cap needs to be increased and support an increase in the cap and the bill in that it will increase the cap. (Attachment 4)

Lee Wright, Farmers Insurance Company, said he represents the largest insurance employer in Kansas with over 3,000 employees. His company has concerns about the unlimited cap and is willing to work with the Insurance Department about what is exactly required. But leaving the cap open-ended gives concern.

The Chair closed the hearing on **SB 273**.

The Chair opened the hearing on **SB 287–Credit union insurance** and asked Melissa Calderwood to review the bill. This bill was requested by the Administrator of the Kansas Department of Credit Unions and will amend and repeal several statutes that govern the regulation of the credit unions of Kansas to both delete provisions that allow credit unions the option to purchase private share insurance. Credit unions would be required under the bill and current law to insure shares with the national credit union share insurance fund (NCUSIF) and the application for NCUSIF insurance shall be filed with the Kansas state department of credit unions, then forwarded to the national credit union administration. The fiscal note indicates that there would be no fiscal effect on credit unions.

John Smith testified that the Kansas Department of Credit Unions supports **SB 287** and the repealing of 14 sections and amending of three sections of Kansas Statutes to address mutual

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guarantee corporations which provided private share (deposit) insurance on member shares until 1992. This will remove language that is not used and unnecessary. (Attachment 5)

Haley DaVee testified that the Kansas Credit Union Association opposes **SB 287** as drafted. It is understood that the intention of this bill is to repeal sections of credit union statute that are outdated and no longer applicable. KCUA believes that **SB 287** would remove sections of credit union statute that could negatively impact credit unions. KCUA offers an amendment to address this concern. (Attachment 6)

John Smith commented that the Kansas Department of Credit Unions had no objections to the amendment presented by the Kansas Credit Union Association.

The Chair closed the hearing on **SB 287**.

The Chair opened **SB 264—Allowing trust companies as a nominee for life insurance companies** for final action. Melissa Calderwood reviewed the bill for the Committee. This bill was requested by the Insurance Department and would allow life insurance companies to designate a trust company.

*Senator Taddiken moved that **SB 264** be passed out of Committee favorably. Seconded by Senator Masterson, the motion carried.*

The Chair called for final action on **SB 263—Credit Unions; making use of credit committees permissive**. Melissa Calderwood reviewed the bill for the Committee. This bill was requested by the Kansas Credit Union Association. The bill contained changes proposed to the requirements for by-laws, removal of a required credit committee, and clarification on suspension procedures.

*Senator Schmidt moved that **SB 263** be passed out of Committee favorably. Seconded by Senator Masterson, the motion carried.*

The meeting adjourned at 10:25 AM. The next meeting will be on February 1, 2012.

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