



## Overview by Kansas Association of Insurance Agents (KAIA) Senate Financial Institutions and Insurance Committee

by William A. Larson

---

January 24, 2013

Mr. Chairman and Members of the Committee,

Thank you for the opportunity to appear before you today. My name is Will Larson. I am an attorney who works on legal and legislative policy issues for the Kansas Association of Insurance Agents (KAIA). In this overview, I would like to touch on KAIA's background, the difference between an independent and a captive agent, and some of the challenges and opportunities we see facing the insurance industry in Kansas.

### Who is KAIA?

KAIA was founded in 1920. Today, the association represents 425 independent insurance agencies in Kansas. Collectively, our member agencies employ more than 3,000 licensed agents in local communities throughout the state. *In your packets, we have included a statewide map of our member agencies and a list of the member agencies that are based in your individual districts.* KAIA members are small businesses with the capabilities to offer consumers a choice of insurance coverage from a variety of companies. Independent agents in Kansas offer all lines of insurance, including property, casualty, life, health, employee benefit plans and retirement products.

To clarify, KAIA is made up of independent insurance agencies, not insurance companies. Independent insurance agencies do not provide insurance coverage themselves. They instead help consumers – both individuals and small businesses - navigate the insurance process, find the best available coverage, and resolve any claims or concerns between the consumer and the insurance company.

### Independent Agents vs. Captive Agents

It is also important to understand the difference between independent insurance agencies and captive agencies (or direct writers). Independent agencies have the ability to place insurance coverage with multiple insurance companies. Even the smallest independent agencies will have five to ten insurance companies with whom they can place coverage. If a customer needs coverage that is not available through these companies, an independent agency may be able to find coverage for difficult to place risks through an insurance wholesaler or broker in the excess and surplus lines market.

Many independent agencies are able to obtain a full spectrum of insurance coverage for consumers, including commercial or property and casualty insurance, life, accident and health, crop hail, and even more unique lines such as coverage specific to local fire departments, schools, nonprofits, restaurants and healthcare providers. Because of this, many consumers only have to work with one agency to take care of all their insurance needs.

As opposed to independent agencies, captive agencies typically only sell insurance written by the company for which they work. For example, State Farm agencies typically only sell State Farm insurance or American Family agencies typically only sell American Family insurance.

KAIA, and independent insurance agents in general, believe the advantages of obtaining insurance through an independent insurance agency are: choice, competition and advocacy.

- **Choice** - Independent agencies offer consumers choices across multiple companies, allowing them to pick and choose the best insurance policies for their particular needs.
- **Customization** - Independent agencies can customize coverage to each individual consumer's needs. Because independent agencies can choose between multiple companies, they increase competition among the insurance companies to provide the best coverage for the best price.
- **Consumer Advocacy** - Independent agencies are in a position to be stronger advocates for the consumer because their insurance market is not limited to only one company. They have access and the training to work across markets and negotiate outcomes for the benefit of the consumer.

### **Challenges Facing the Industry**

One of the biggest challenges facing independent insurance agencies is implementation of the federal Patient Protection Affordable Care Act (ACA). Because of provisions in the act limiting the amount of administrative expenses health insurance companies may charge, many insurance companies have limited or even eliminated commissions paid to agents. The manner in which agents will be allowed to assist consumers and small businesses in finding health coverage through a federally-run insurance exchange is, at this point, unclear. Since the Act allows for some state regulation, even in a federally-run or partnership exchange, the KAIA may ask the Legislature to address some of these challenges during the course of the Session.

KAIA members also face challenges in finding insurance carriers to provide certain types of insurance coverage in Kansas. For example, home day care liability insurance, nursing home liability insurance, and other types of liability insurance can be difficult to obtain for Kansas consumers.

Another continuing challenge is the affordability of workers compensation insurance for Kansas businesses. Recently, the National Council on Compensation Insurance (NCCI) filed to change the split point, which will increase costs for small businesses. KAIA is working on ways to modify the minimum premium attachment point in order to offset those costs for small businesses in Kansas.

We hope to come before you again this Session with solutions and opportunities to address some of the challenges facing consumers, small businesses, and the insurance industry in Kansas. Thank you for the opportunity to appear before you today. We look forward to working with you this Session. I would be happy to stand for any questions.