



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON HB 2508

HOUSE INSURANCE COMMITTEE February 6, 2012

Chairman and Members of the Committee:

I am Kris Kellim with the Kansas Insurance Department, with me today is Ken Abitz, Director of our Financial Surveillance Division. Ken will be speaking in detail about our amendments. We thank you for the opportunity to testify in support of HB 2508.

HB 2508 would make the first series of comprehensive changes to our insurance holding company laws since they were enacted in 1974. In Kansas, an insurance holding company refers to a company that consists of two or more business entities, at least one of which is an insurer. Kansas insurance holding company laws apply to domestic insurance companies that are a part of a larger holding company. Kansas currently has 33 domestic companies that are a part of an insurance holding company. The over-arching purpose of our insurance holding company laws as well as HB 2508 is to ensure that holding company operations outside of the domestic insurance company do not pose a hazard to the sound operation of the domestic company, and ultimately to protect Kansas insurance consumers from such hazards.

Events surrounding the recent financial crisis and economic recession highlight the need for appropriate regulation of insurance holding companies. Perhaps the most well-known example is that of American International Group, or AIG. AIG is a very large holding company that at the time of the financial crisis owned over 70 U.S. insurance companies and over 170 other financial service companies throughout the world, including banks, securities firms, and non-U.S. insurers. Leading up to the financial crisis, AIG's financial operations had invested heavily in complex investments referred to as collateralized debt instruments, such as credit default swaps and mortgage-backed securities. None of these investments are State-regulated insurance products. When the housing markets collapsed, these investments, many of which were tied to the housing markets, lost a significant amount of value for the AIG holding company. These circumstances resulted in the federal bailout of the AIG holding company.

An important fact from this story is that none of AIG's insurance operations directly contributed or experienced the financial distress of the larger holding company. This was mainly a result of the conservative financial supervision and accounting requirements of State insurance regulators, which ensured AIG would honor its commitments to policyholders despite the issues of the holding company. A vital component of adequate regulation of insurance holding companies like AIG, with complex business structures and increasingly complex investments, is coordination and communication among regulators of the holding company. These regulators

can include multiple state regulators, federal agencies, and even foreign regulators. It is important to note that Kansas' insurance holding company laws in no way cede jurisdiction over domestic insurance companies to other regulators. However, it is increasingly necessary to expand our ability to coordinate and communicate with other regulators to identify and understand risks posed to Kansas insurers within a holding company.

Kansas' existing insurance holding company laws were implemented in 1974 to address the unique regulatory issues that holding companies present. Our amendments are necessary to modernize and improve our current laws in several important ways. These include creation of a supervisory college that will help the Department to better coordinate and communicate with other regulators, requiring an Enterprise Risk Report of insurance companies within a holding system, and providing more robust protection of confidential company information. Ken will describe these provisions in more detail, as well as others.

I would also note that our existing insurance holding company laws and the amendments of HB 2508 are consistent with uniform state standards. This uniformity is important for companies that operate in numerous states, preventing them from having to accommodate laws that would only apply in Kansas. We have also discussed our amendments with a number of domestic companies that are a part of an insurance holding company, none of which oppose our amendments.

Our ultimate purpose in regulating insurance holding companies, and in requesting our proposed amendments, is to protect Kansas policyholders from hazardous financial practices of an enterprise outside of but connected to their Kansas insurance company.

Ken will now testify to the specific amendments in HB 2508.

For these reasons, we would ask the Committee to recommend HB 2508 favorable for passage.

Thank you for the opportunity to appear in support of this bill. We will be happy to stand for questions at the appropriate time.

Kris Kellim
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Kansas Insurance Department