



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON SB 266

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE January 24, 2012

Chairwoman and Members of the Committee:

I am Kris Kellim with the Kansas Insurance Department, and with me today is Ken Abitz, Director of our Financial Surveillance Division, who monitors the Risk-Based Capital, or “RBC,” requirements for the Department. Thank you for the opportunity to testify in support of SB 266.

Background:

RBC is a method used by the Department to measure the minimum amount of capital an insurance company needs to support its overall business operations. If a company falls below certain RBC requirements, then the Department starts a process to determine the financial “health” of the company in question, the goal being to ensure the company will continue to be financially capable of meeting its contractual obligations.

In 2009, the Kansas Legislature established a regulatory process for updating RBC requirements that allows the Department to update the requirements by rules and regulations, with two exceptions. If the projected impact of the new, RBC requirements is likely to cause either (1) a 2.5% variance in a domestic insurer’s adjusted capital from the previous year, or (2) a change in a domestic insurer’s control level, then the Legislature must approve the requirements. Last session, the Department projected a likely 2.5% change in most domestic insurers’ adjusted capital, which required approval of the new RBC requirements through SB 15.

Year-End 2011 Instructions:

The Department again projects a likely 2.5% change in the adjusted capital of most domestic insurers based on application of the new RBC requirements. Because this exception applies, legislative approval of the new requirements is necessary.

The two exceptions to the Department’s rule and regulation power were put in place to ensure domestic insurers would not be drastically affected by RBC requirements from one year to the next without diligent review by the Kansas Legislature. Although legislative review is appropriate this year, we do not believe the new instructions will cause a change in the regulatory control level of any domestic insurer. Nor do we believe the new instructions will adversely affect any domestic insurer.

This amendment would approve the new RBC requirements by changing the effective date for the RBC instructions from 2010 to 2011 – page 2, line 1.

Despite current economic conditions and record storm losses, Kansas property and casualty insurance companies are in a sound financial state and behave as good stewards of the public trust. As such, we would ask the committee to recommend SB 266 favorable for passage.

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

Kris Kellim
Government Affairs Liaison
Kansas Insurance Department