



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON SB 273

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE January 31, 2012

Madam Chair and Members of the Committee:

I am Kris Kellim with the Kansas Insurance Department. Thank you for the opportunity to testify in support of SB 273.

SB 273 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 cannot collectively total more than \$25,000 for any one company, including its subsidiaries or any combination thereof. This cap is simply inadequate and outdated, for any one examination.

Although the Department is seeking to raise the cap for all domestic companies, we are proposing a two-tier cap structure in an effort to balance the need for a major increase in the current cap across the board against the relatively limited financial capacities of smaller, domestic companies. The first tier would apply to companies with less than \$50 million in gross premiums, direct and assumed, and would cap the outside fees and expenses at \$100,000 per company. The \$50 million figure is based on a industry standard for “nationally significant” companies. The second tier would consist of any other company, i.e. with \$50,000 million or greater in gross premiums, direct or assumed. Companies in the second tier would pay the total of all fees and expenses.

We have discussed our proposal with some companies, and we are aware of a potential amendment to the second tier that would place a cap on the outside fees and expenses. The Department is open to consideration of such an amendment.

Without adequate funding for financial examinations, the Department cannot sufficiently monitor the financial stability of Kansas insurance companies, and ensure they are able to pay their obligations to Kansas policyholders. The current \$25,000 cap is inadequate with respect to all domestic companies, regardless of size.

A major reason the current cap is insufficient is that it was last amended over 20 years ago. Today, it costs about \$250 per hour to engage a life actuary, and \$160 per hour for a property and casualty actuary. Examination of a small company would typically require a single actuary,

whereas a large company would require 3 or 4 actuaries. Contract financial examiners are often used in addition to actuaries and cost about \$140 per hour.

The duration and scope of the work needed for any given examination depends on the size of the company, the complexity of its business, and the degree of its financial distress. We have set the small company tier cap at \$100,000 to account for the generally limited size and complexity of business for those companies. However, we did not place a cap on the second tier because it is difficult to estimate how much it would cost to examine a large, complex company in a hazardous financial condition. This is not out of line with other states. Based on a survey of the insurance departments of other states, none of the 25 states that responded to the survey had any limitation on the amount paid to outside consultants or contracted examiners.

Under the current cap, the Department has only been able to hire outside actuaries to perform peer reviews of companies' reserve methods, without a full-scope audit of the reserves. A major concern for the Department is that this inability to effectively evaluate claims and life reserves could jeopardize Kansas' status as an accredited state with the National Association of Insurance Commissioners. Loss of accreditation would mean other states where a Kansas company is licensed could reject KID examinations, and examine the company directly. More important, however, is the fact the Department cannot protect Kansas consumers without the ability to adequately assess the financial stability of Kansas insurance companies.

For these reasons, we would ask the Committee to recommend SB 273 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.

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Kansas Insurance Department