



Kansas Department of Insurance

Commissioner Vicki Schmidt

Proponent Testimony for SB 356 Establishing a tiered financial examination fee schedule

January 31, 2024

Chairman Longbine and Members of the Committee,

Thank you for the opportunity to testify in support of Senate Bill 356.

Senate Bill 356 amends K.S.A. 40-223, concerning fees for financial examinations, and the amount the Kansas Insurance Department may charge to insurers for the cost of an examination.

Pursuant to K.S.A. 40-222, the Department conducts a risk-focused examination of all Kansas domestic insurers at least every five years to assess their financial condition and ability to pay claims. In practice, the financial examinations occur every four years. The total cost of a financial exam can vary depending on several factors including insurer size, asset structure, type of insurance products, etc. and Kansas is the only state in the nation that has a cap on financial examination fees.

The Department currently invoices insurers for the actual internal costs incurred by the Department. Insurers also pay any expenses related to a contracted examiner, up to the contractual services cap outlined in the current statute. The statute caps contractual expenses at \$50,000 for those insurers who write less than \$200 million in annual gross premium and \$500,000 for those insurers who write more than \$200 million in annual gross premium. Any contractual services that exceed the cap are paid for by Department and not invoiced to the company.

In recent years, the Department has struggled to employ examiners that meet the NAIC criteria for accreditation required by the risk-focused examination standards. As a result, the Department has utilized more contractual services. This is similar to what occurs nationwide.

The bill establishes a new, tiered financial examination fee schedule that was developed in collaboration with industry to provide regulatory certainty to insurers by creating an overall cap for both Department expenses as well as contractual services.

The new fee schedule will help ensure strong state-based regulation and consists of seven tiers that correlate with an insurer's annual gross premium written and better fits the varying sizes of Kansas domestic companies:

Annual Gross Premium Written	Proposed Overall Cap
< \$5 million	\$50,000
At least \$5 million but < \$25 million	\$75,000
At least \$25 million but < \$50 million	\$100,000
At least \$50 million but < \$100 million	\$125,000
At least \$100 million but < \$250 million	\$175,000
At least \$250 million but < \$500 million	\$250,000
> \$500 million	Actual Costs

The bill also includes language to ensure that all costs related to examinations must be reasonable.

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