



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON SB 24

HOUSE COMMITTEE ON INSURANCE March 18, 2013

Chairman 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 24.

SB 24 has two pieces both concerning a standard regulatory tool referred to as risk-based capital (“RBC”). Attached for your review is an overview of RBC, including its purpose, history, and current structure. The goal of RBC laws including these amendments is to ensure each Kansas domestic company has the minimum amount of capital needed to support its overall business operations in consideration of its size and risk profile.

In addition, the amendments are part of the national accreditation standard for financial surveillance laws. Accreditation is necessary for other states to be able to rely on Kansas’ financial examinations of its domestic companies. Without it, Kansas companies could be subjected to duplicative financial examinations in other states. Such an increased regulatory burden would deter companies from domesticating in Kansas and would give domestic companies incentive to re-domesticate in another state. Maintaining Kansas’ accreditation is a baseline requirement for making Kansas an attractive place for companies to domesticate.

Year-End 2012 Instructions:

The first amendment appears on p. 2, l. 2-3. It updates the “RBC Instructions,” which instruct companies how to calculate and report RBC, to the current 2012 version. The amendment merely replaces “2011” with “2012” in the definition for “RBC Instructions.” Implementing the 2012 RBC Instructions is a national accreditation standard. A similar date change amendment has been made each year since 2009.

In 2009, a legislative oversight process for updating the annual RBC instructions was established. This process allows the Department to update the requirements by rules and regulations, with two exceptions. If the projected impact of the new RBC Instructions 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. The Department projects a likely 2.5% change in the adjusted capital of most domestic insurers based on application of the new RBC

Instructions. Because this exception applies, legislative approval of the new instructions is necessary.

This oversight process was put in place to ensure domestic insurers would not be drastically affected by RBC requirements from one year to the next without 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. We do not believe the new instructions will adversely affect any domestic insurers, and we are unaware of any opposition to this amendment. Kansas property and casualty insurers and life and health insurers are in a sound financial state and behave as good stewards of the public trust.

“Company action level event” for life and health insurers

The second amendment is on p. 2, l. 38. It makes a technical change to the formula for calculating a “Company action level event.” The RBC formula generates the minimum amount of capital that a company is required to maintain to avoid action by the Department. There are four levels of action that a company can trigger under the formula: company action, regulatory action, authorized control, and mandatory control levels. This amendment regards the first level, company action. An insurer that breaches the company action level must produce a plan to restore its RBC levels. This could include adding capital, purchasing reinsurance, reducing the amount of insurance it writes, or pursuing a merger or acquisition.

Simply put, the increase in the factor of 2.5 to 3.0 raises the bar for when a company can have a company action level event. It is important to keep in mind that RBC laws are concerned with companies in deteriorating financial condition, not the vast majority of healthy companies. Also, the amendment does not raise the bar for the other action levels that entail more severe action by the Department. This amendment allows the Department to intervene and require a company to produce a plan at an earlier point in the deterioration of its RBC. We do not expect this amendment to have a current impact on any Kansas companies. It is however an accreditation requirement.

For these reasons, we would ask the Committee to recommend SB 24 favorable for passage.

Thank you for the opportunity to appear in support of this bill. I am happy to stand for questions.

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