



# Kansas Insurance Department

Ken Selzer, CPA, Commissioner of Insurance

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## TESTIMONY ON SB 55

### HOUSE FINANCIAL INSTITUTIONS

March 12, 2015

Chairman and Members of the Committee:

I am Clark Shultz, Director of Governmental Affairs with the Kansas Insurance Department, and with me today is Ken Abitz, who is the Director of our Financial Surveillance Division. Thank you for the opportunity to testify in support of SB 55.

SB 55 is made up of two different parts having proposed changes to two different statutes.

The first part amends K.S.A. 40-223, regarding the maximum amount of examination fees and expenses that companies having \$200 million or more in gross premiums must pay for examinations conducted by *outside consultants* on behalf of the Department. The original cap on financial examinations, which was put in place over twenty years ago, and recently updated in 2012, is still inadequate.

The Legislature established a statutory mechanism that requires the Department to conduct a financial examination on each domestic company at least once every five years. The purpose of the financial exam is to ensure the company will be able to meet its contractual obligations to consumers. Currently, the amount a company must pay for outside consulting fees is capped at \$100,000. SB 55 raises the cap to \$500,000 for companies having over \$200 million in gross premium.

In 2013, two financial examiners resigned from the Department, one of which was a very senior person with over 18 years' experience in examining insurance companies. Also, during the past five years, four financial examiners, each with over 10 years' examination experience, resigned and/or retired from the Department.

The Department's long-term ability to hire and retain qualified financial examiners and actuaries with the expertise to conduct full-scope financial condition exams is at risk because we are limited in our ability to compete with private consulting firms in hiring qualified examiners. If the Department cannot employ its own financial examiners and actuaries, we will have no choice but to contract with private consulting firms. Today, it costs about \$250 per hour to engage a life actuary and \$180 per hour for a property and casualty actuary. Examination of a small company would typically require a single actuary, whereas a large company could require 2 or 3 actuaries. Contract financial examiners are often used in addition to actuaries and cost about \$145 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 financial investments. The bottom line is that the

Department cannot conduct full-scope audits with its current staff, and the problem will only get worse if the Department cannot hire or retain staff.

With a threshold of \$200 million in gross premiums, only 10 of the 46 domestic insurance companies would be subject to the current \$200 million cap on outside consulting fees of \$500,000 for financial examinations. The gross premiums in 2013 of these 10 companies ranged from \$311 million to \$6.3 billion, with an average of \$1.4 billion. These are large, sophisticated companies with substantial investments and complicated financial dealings. Logic would dictate that an adequate financial examination of such a company would require well compensated and well qualified examiners.

Finally, the Department surveyed a number of states and received responses from 25 whereby they did not indicate having statutory caps regarding the engagement of outside consultants. Additionally, the process for hiring consultants requires the distribution of an RFP through the Department of Administration of the state of Kansas.

The second part amends K.S.A. 40-2127 to change the financial examination period to every five years instead of the current three years. The uninsurable health insurance plan was terminated on December 31, 2013, and has been in run-off since that date. Because the plan is not providing new health coverage for residents of the Kansas, we do not believe it is necessary to subject the plan to the cost of conducting a financial condition examination every three years. They will however continue to have independent audits, which are submitted to the Kansas Insurance Department.

For these reasons, we would ask the Committee to recommend SB 55 favorable for passage.

Thank you for the opportunity to appear in support of this bill.

Clark Shultz  
Director, Governmental Affairs  
Kansas Insurance Department