

Kansas Insurance Department

Annual Report
2016

To the Governor

Dear Gov. Brownback:

I am pleased to present to you the 2016 Annual Report of the Kansas Insurance Department. This report is established by the provisions of K.S.A. 40-108 and summarizes the activities of the department through the period ending Dec. 31, 2016.

Sincerely yours,



Ken Selzer, CPA
Commissioner of Insurance

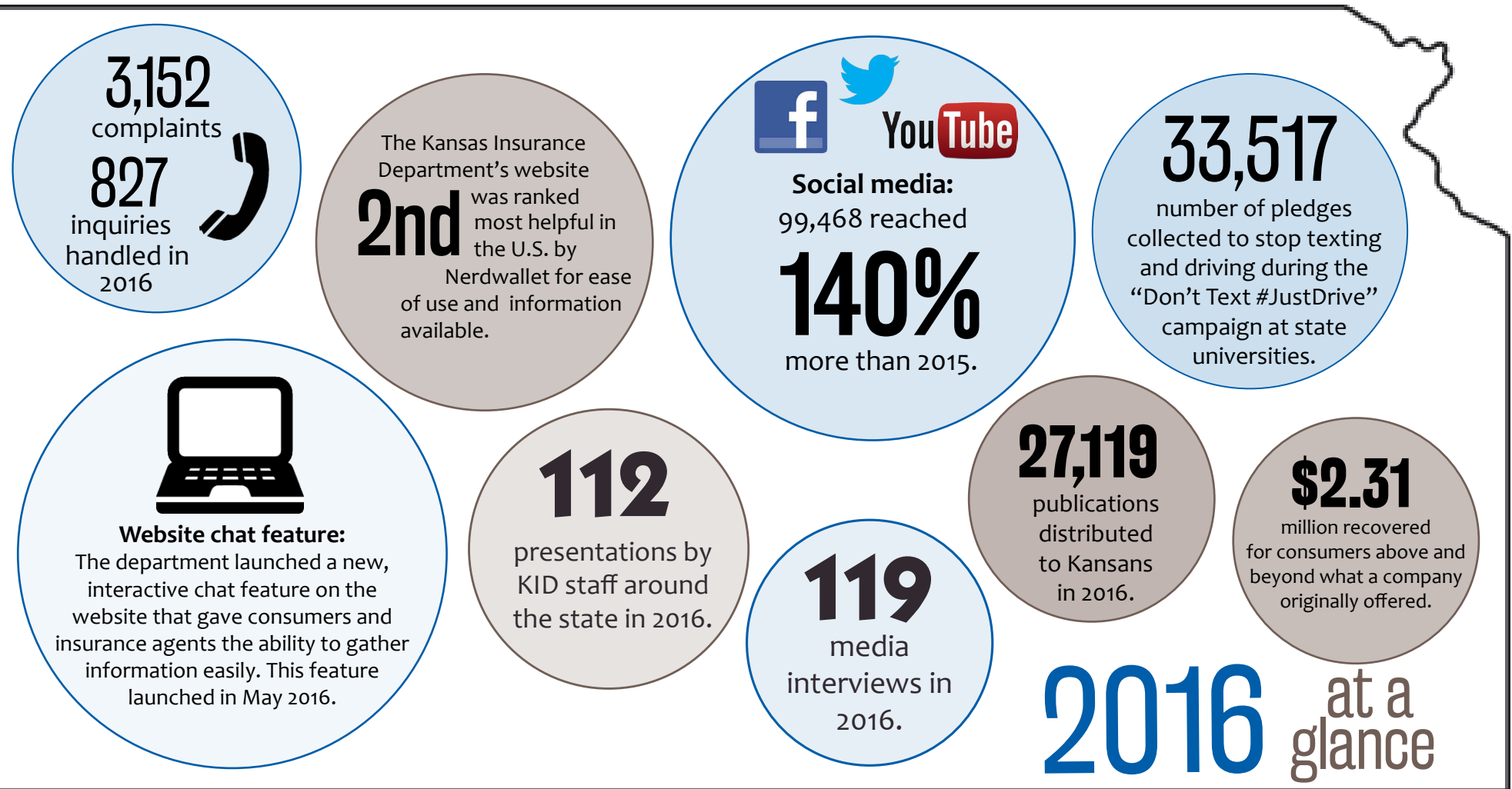
Accreditation

The Kansas Insurance Department is accredited by the National Association of Insurance Commissioners (NAIC). To achieve this accreditation, the department must meet stringent national standards that demonstrate it effectively monitors insurance company solvency.



The Kansas Insurance Department views accreditation by the NAIC as a commitment to Kansas consumers to institute and maintain the highest standards in financial regulation. The accreditation review is repeated every five years to confirm

that the Kansas Insurance Department continues to meet all requirements. The department was re-accredited in November 2016.



About the Department

Administration & Human Resources

The Administration Division is comprised of the commissioner's office, assistant commissioner, actuarial services office, the Firefighters Relief program and reception desk staff. Through the commissioner, the Administration Division sets forth direction for all regulatory and administrative policies and practices of the department.

The assistant commissioner manages the regulatory responsibilities of the agency and serves as the department's administrative hearing officer. The assistant to the commissioner oversees administrative, scheduling and logistical details for the commissioner. The actuarial services office provides statistical and actuarial regulatory assistance to the commissioner and the other divisions as needed. The Firefighters Relief program organizes all of the firefighter relief programs throughout the state and distributes the annual Firefighters Relief Tax.

The Human Resources office provides human resources programs, systems, services and consultation on such topics as organizational planning, recruitment, employment, training, employee relations, benefits, compensation, safety and employee wellness. Human Resources is charged with establishing, administering and effectively communicating policies and procedures that treat employees with respect while meeting management directives and complying with employment and labor laws.

Anti-Fraud

Insurance Commissioner Selzer's goal is to send a clear message throughout the state that insurance scams and schemes (or fraud) will not be tolerated. The Insurance Department's Anti-Fraud division is responsible for achieving that goal by educating Kansas consumers to prevent them from becoming victims of insurance fraud, investigating suspected violators of the insurance fraud statute, and by participating with industry and law enforcement task forces and working groups to deter and detect insurance fraud.

Comptroller/Building Services

The Comptroller's office handles accounts payable and receivables at KID. This division receives and deposits to appropriate accounts more than \$220 million each year. Most of these receipts go to the state's general fund. The

office handles billing for company examinations, oversees annual assessments required by law, and performs other functions.

Building services coordinates the procurement of department supplies; routes internal and external mail; and oversees maintenance and repairs to the KID building.

Consumer Assistance

The primary mission of the Consumer Assistance Division is to better inform and assist Kansas insurance consumers. Consumer Assistance also oversees the independent medical review program and monitors insurance company compliance with laws and regulations designed for the protection of policyholders. Consumer Assistance representatives do not endorse any service, company or person offering any insurance product or service, but they can provide answers to consumer questions.

Financial Surveillance

This division monitors the financial condition of all Kansas-based insurance companies operating in the state; conducts examinations of insurance companies domiciled in Kansas; reviews all applications that involve the acquisition of domestic insurance companies by another party as provided by the Holding Company Act; coordinates activities pertaining to the Kansas Insurance Guaranty Association Act and the Kansas Life and Health Insurance Guaranty Act; approves the admission of all insurance organizations, automobile clubs, and premium finance companies; and oversees securities deposited by insurance companies.

Government & Public Affairs

Government & Public Affairs works to represent the interests of the insurance department before the general public, other government agencies and state and federal legislative committees. The division coordinates the development of the legislative and regulatory initiatives of the department for presentation to the Kansas Legislature. In addition, the division serves as a liaison between the department and state and federal agencies on insurance-related matters. The division handles inquiries from the news media and assists the commissioner in communicating department policy to the insurance industry, agents and the public. The division is also responsible for overseeing all social media

About the Department

of the department. GPA also publishes consumer booklets, shopper's guides, brochures, newsletters and news releases, as well as organizing other public relations efforts. Many of these publications also appear on the department's website.

Health & Life

The Health & Life Division is responsible for the general supervision and regulation of all matters relating to health and life insurance in Kansas. This involves the process of reviewing policy and certificate forms and rates being offered in the state of Kansas. The division assists the commissioner in the formation, review and implementation of pertinent health and life insurance legislation. Health & Life develops departmental bulletins as needed, responds to questions from insurance companies, and oversees premium tax review and calculations.

Information Technology

The IT department is charged with planning, design, acquisition, installation, operation and maintenance of all electronic information systems owned or used by the agency. This includes all information systems hardware, software, infrastructure, data communication facilities and related services. The division develops and maintains the agency's public website and its insurance industry extranet.

Legal

The Legal Division provides advice and counsel to the commissioner and the operating divisions of the department. The division handles department litigation, including the enforcement of penalties for violations of all Kansas insurance laws and regulations. They also provide legal representation and administration of the Workers' Compensation Fund (previously known as the Second Injury Fund).

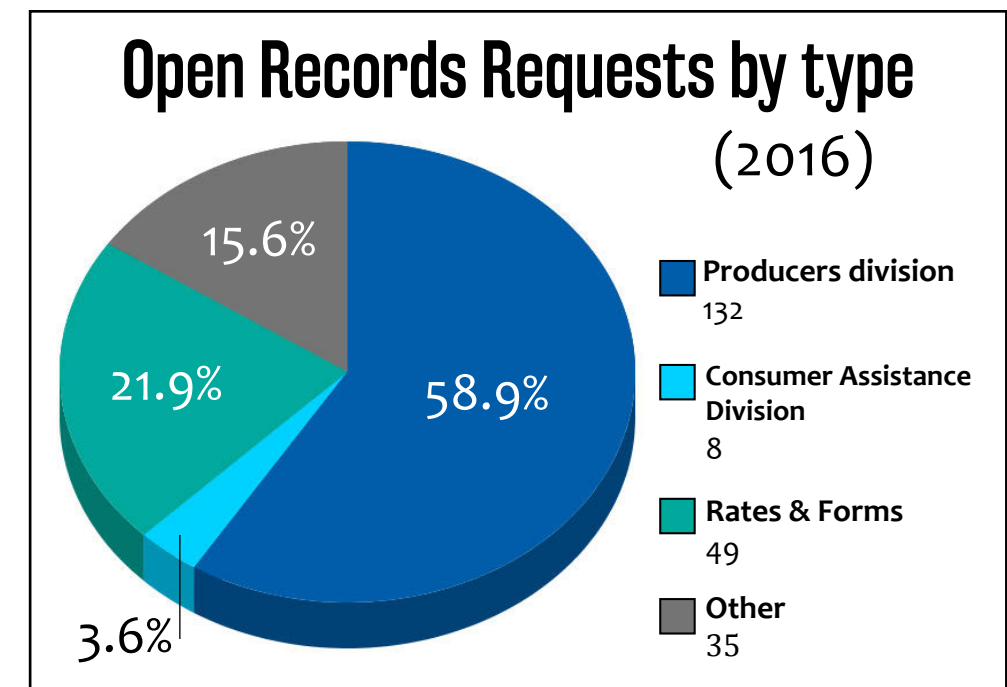
Licensing & Market Regulation

The Licensing section is responsible for the qualification and supervision of agents and agencies in Kansas. It regulates the issuance of licenses through application procedures, examination and background investigation of applicants, and requires continuing education to maintain a license. To ensure compliance with insurance laws, the division monitors the activity of licensees. Additional duties of the Licensing section are the certification of agents and agencies by insurers and the maintenance of licensing records.

The Market Regulation section is responsible for monitoring the insurance marketplace as a whole, and the individual insurance companies that make up the market, for compliance with state regulations, and taking appropriate action if problems are identified. There are three basic mechanisms for information gathering in the evaluation of company performance: examination and investigation of specific companies, surveys designed to gather market conduct data, and the analysis of existing information.

Property & Casualty

The Property & Casualty Division is responsible for the general supervision and regulation of matters relating to the writing of property and casualty insurance companies doing business in Kansas to ensure they are in compliance with the statutes and regulations. This division is also responsible for auditing insurance company annual statement tax and fee forms; reviewing proposed legislation; replying to consumer inquiries and complaints; administering several plans, pools or acts; and issuing licenses to new insurance companies.



About the Department

Financial Information - FY 2016 July 1, 2015 - June 30, 2016

TO THE STATE GENERAL FUND:

Taxes	\$170,202,474
Fines & penalties	\$231,197
Total	\$170,433,671

TO SPECIAL FUNDS:

Insurance company examination fund	\$409,629
Insurance Department service regulation fund	\$6,344,450
Workers compensation fund	\$3,357,318
Group-funded workers compensation pools	\$693
Firefighters Relief tax	\$13,606,340
Total	\$23,718,430

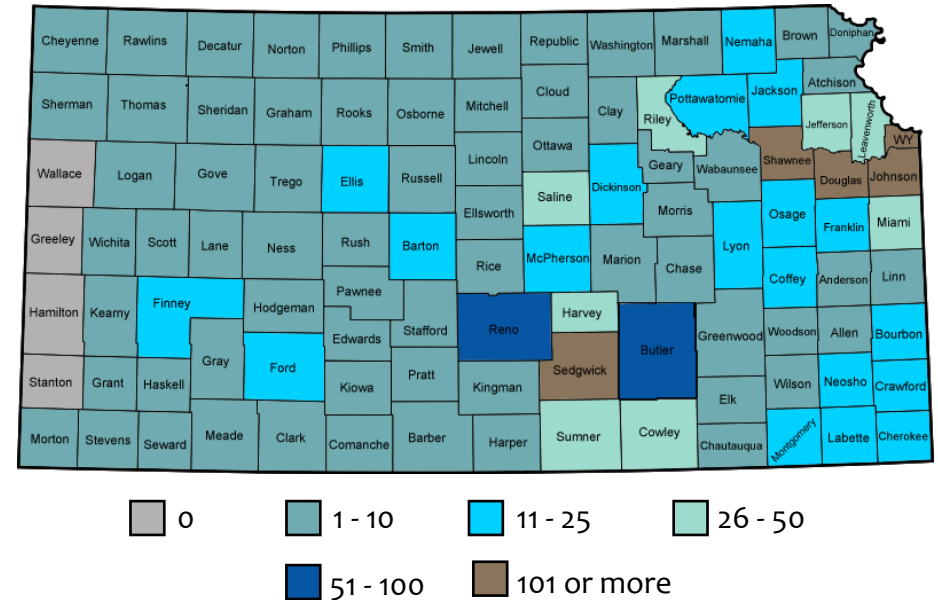
INSURANCE DEPARTMENT NET DEPOSITS FISCAL YEAR 2015: \$194,152,100

TAXES REMITTED TO OTHER STATE AGENCIES \$8,257,257

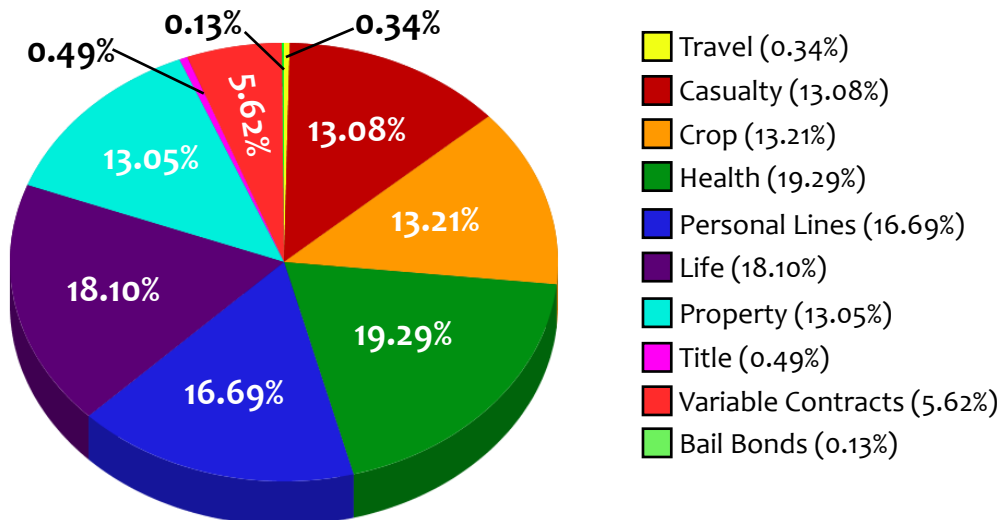
*Collected for other state agencies (Fire Marshal, EMS and KU) in accordance with K.S.A. 40-75-1514. Amount not included in net deposit totals.

Number of complaints by county (2016)

The following map shows how many complaints KID processed in 2016 for Kansas consumers regarding annuities, auto, health, life, property or business insurance policies.



Resident & Nonresident agents by Line (2016)



Top 5 KID web pages visited (2016)

1. Agent/Agency/Company search page
2. Agent Licensing information
3. Medicare Supplement Insurance Shopper's Guide
4. Producer Resources
5. Producer Continuing Education information

Related organizations

Workers Compensation Fund: The Legal Division of the Kansas Insurance Department administers the Workers Compensation Fund pursuant to the Kansas Workers Compensation Act, K.S.A. 44-501, et seq. Attorneys with the Legal Division approve the fund's claim-related expenditures and fund attorney payments. Attorneys throughout Kansas are appointed by the department to protect the integrity and interests of the fund. A detailed accounting of the fund is filed annually with the Legislative Coordinating Counsel, Senate Committee on Commerce and the House Committee on Commerce and Labor. This annual report is available on the insurance department's website, www.ksinsurance.org.

Firefighters Relief Fund Tax: The Firefighters Relief Fund is used to assist firefighters and their families when accidents or deaths occur in the line of duty. The fund's revenue comes from a 2 percent tax imposed on specific premium written by insurance companies in the state of Kansas. The tax is collected, placed in the Firefighter Relief Fund and distributed to approximately 562 firefighter relief associations in Kansas. The 2016 tax distribution of the fund totaled \$13,416,373.

Kansas FAIR Plan: The purpose of the Kansas FAIR Plan (Fair Access to Insurance Requirements) is to provide fire, extended coverage, vandalism and malicious mischief, theft and personal liability insurance for qualified applicants unable to obtain this kind of insurance through the private market. A nine-member governing committee oversees the plan. In 2016, there were 15,005 policies in force with a total premium written of \$8,722,747. The total amount of insurance in force for 2016 was \$1,160,314,362. There were 1,105 claims reported in 2016, and \$4,656,739 was paid in losses.

Kansas Automobile Insurance Plan: The Kansas Automobile Insurance Plan (KAIP) provides coverage for drivers who are unable to purchase automobile insurance in the private market. In 2015, the most recent

year for which figures are available, the KAIP collected premiums totaling \$1,370,951 and paid out \$910,948 in losses.

Kansas Underground Storage Tank Liability Plan: The purpose of the Kansas Underground Storage Tank Liability Plan is to provide owners/operators of petroleum underground storage tanks a method to achieve compliance with the financial responsibility requirements adopted by the federal Environmental Protection Agency. The plan operates under the authority of K.S.A. 65-34,126. For the fiscal year ending June 30, 2016, the plan issued 848 policies covering an average of 4,512 tanks and wrote \$731,594 in premiums. Two new claims were reported, both of which closed with no payment. One claim remained open at 6/30/16, with a low-level "monitoring" reserve of just \$250 (not anticipated to result in meaningful expense or payment...).

Kansas Health Care Provider Insurance Availability Plan: The Kansas Health Care Provider Insurance Availability Plan provides medical malpractice coverage to qualified health care providers who are unable to procure coverage in the private market. The plan is governed by a nine-member board appointed by the Commissioner of Insurance. Currently the servicing carrier is the Kansas Medical Mutual Insurance Company. For the fiscal year ending June 30, 2016, the plan wrote \$1,594,565 in premiums and incurred \$1,054,692 in losses and loss adjustment expenses.

Group-funded pools: Employers including municipalities, may enter into agreements to self-insure certain insurance exposures as a group under the authority of two separate Kansas statutes.

- **Group-Funded Workers Compensation Pools:** Authorized under K.S.A. 44-581, this law permits five or more employers in the same or similar business that belong to the same bona fide trade or professional association, which has been in existence for at least five years, to enter into agreement to

pool their liability for Kansas workers compensation benefits and employers' liability. These pools are required to have a combined members' net worth of at least \$1,000,000; a combined annual workers compensation premium of \$250,000; and specific aggregate excess workers' compensation insurance. Ten of these pools were licensed in 2015.

Five or more employers engaged in dissimilar types of business, under K.S.A. 44-581(b), may form a pool. These pools are required to have a combined members' net worth of at least \$1,250,000; a combined annual workers compensation premium of \$500,000; and specific and aggregate excess workers compensation. Zero certificates of authority were issued in 2016.

- The Kansas Municipal Group-Funded Pool Act:** This act was established under K.S.A. 12-2615 and allows five or more municipalities to enter into agreement to pool their liabilities for all fire and casualty lines, including workers' compensation and employers' liability. Property, casualty and workers' compensation pools must meet certain requirements, but municipal pools must have \$250,000 in premium per line of insurance and may substitute adequate surplus funds in place of excess insurance. Municipalities may also pool their liabilities for accident, sickness and life insurance lines. Accident and sickness pools must have at least \$1,000,000 in

gross annual premium and may substitute adequate reserves with excess loss insurance. The oversight of municipal group-funded pools is divided between the Property & Casualty and Accident & Health divisions. There were a total of seven municipal pools with certificates of authority under K.S.A. 12-2616 as of Dec. 31, 2015. No currently funded municipal pools were involved in the transaction of life insurance. One currently funded municipal pool was involved in the transaction of health insurance. Six currently funded municipal pools were involved in the transaction of property & casualty insurance.

Workers Compensation Assigned Risk Plan: The Kansas Workers Compensation Insurance Plan operates under the authority of K.S.A. 40-2109. The plan provides workers compensation and employers' liability insurance for qualified applicants unable to procure coverage in the regular market. Information from the National Council on Compensation Insurance, which administers the Workers Compensation Assigned Risk Plan, shows the following statistics:

Number of risks	8,294 (as of 11/30/16)
New plan applications	2,509 (as of 12/27/16)
2015 written premium	\$39,900,000 (as of third quarter 2016)
2015 Incurred losses	\$24,000,000 (as of third quarter 2016)
2015 Loss ratio	60.2% (as of third quarter 2016)

Legal Bulletins

Bulletin 2016 -1: RE: Waiver of Subrogation in Construction Contracts - The purpose of this bulletin is to call your attention to the requirements found in the Kansas Fairness in Private Construction Contract Act. (K.S.A. 16-1801 through K.S.A. 16-1807). K.S.A. 16-1803 dictates that a provision in a contract for private construction may not purport to waive subrogation rights for losses covered by a workers compensation insurance policy. Such a contract provision will be void and unenforceable, absent a few isolated exceptions outlined within the act.

Anti-Fraud cases investigated (2016)

