



Insurance Quarterly

The Kansas Insurance Department ■ Sandy Praeger, Commissioner
Fall 2008

Policyholder, solvency issues maintain spotlight amid economic turmoil *AIG a reminder state regulation is still key*

As my presidency at the National Association of Insurance Commissioners comes to a close next month, I reflect on a year that has brought the concerns of state insurance departments full circle.

Discussions earlier this year were dominated by debate about optional federal charter legislation that would create a national organization to regulate insurance companies, but the faltering economy has been a primary focus of NAIC's work these past few months.

When we look at the steps that preceded this economic crisis, we discover that the appropriate checks weren't in place at the federal level to prevent the liquidity problems that occurred at AIG.

AIG is a holding group. It owns 71 insurance companies and 176 other financial services companies around the world. It has diversified into other investments, including the aerospace industry, real estate, telecommunications and port administration.

As members of the insurance industry, you're aware of the requirements in place to ensure an insurance company's solvency. It's important to remember AIG's liquidity crisis was



A message from
Sandy Praeger,
Commissioner
of Insurance

caused by its financial services companies, which invested heavily in collateralized debt instruments — specifically, credit default swaps based on mortgage-backed securities. Insurance companies are limited in their use of this type of investment.

I should not fail to mention that AIG holding group is already regulated by a large federal bureaucracy — the Office of Thrift Supervision. That office questioned AIG investments as early as March 2008 but didn't take decisive action.

We need to be careful to not oversimplify the solution to the current financial crisis. The answer may not be more regulation, but rather more effective regulation, such as that found in state insurance departments.

While the investment and commercial banks owned by AIG have expe-

rienced grave difficulties, state-based regulation's conservative financial supervision and accounting requirements, as well as vigilant state oversight, have kept the insurance subsidiaries well capitalized and solvent.

But there also are reasons state regulation can provide a stronger marketplace: Federal regulation of insurance would present several thorny logistical problems.

For example, would the federal government be responsible for administering the laws of more than 50 states and territories. Or, as some suggest, would state insurance laws be supplanted by uniform federal regulation? If it is the latter, would residents of Kansas have to adhere to building code requirements advocated by Gulf states even though our residents are 1,000 miles from the coast? Would Floridians have to comply with Kansas' livestock and crop regulations?

The swift, coordinated response of state insurance regulators in moving to address the problems facing AIG is a clear illustration of how a modern,

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KID monitors Brooke amid lawsuits, recent bankruptcy filing

Claims for outstanding money from premiums, premium refunds, agent's commission, etc., with Brooke Corp. should be sent to the U.S. Bankruptcy Court, according to Sandy Praeger, Commissioner of Insurance.

Brooke Corp. filed Chapter 11 on Oct. 28, 2008, with the U.S. Bankruptcy Court in Kansas City, Kan. The Overland Park-based company had operations in almost half of the United States, operating an insurance agency franchise business and several related corporations.

Original lawsuits filed by financial institutions against Brooke Corp. concern loan contracts.

A federal judge gave former Jackson County (Mo.) prosecutor Albert Riederer control of Brooke on Sept. 15. Riederer is acting as a special master in handling Brooke business and dealing with lawsuits filed concerning loan agreements with banks.

Premium paid by Kansas consumers to a Brooke Corp. agent/agency and/or the special master appointed by the court will be treated as constructive receipt of premium. For other states, contact the appropriate state insurance department.

Coverage will not be canceled if premiums have been paid to any Brooke Corp. agent/agency.

Proof of claim

Agents or agencies must file a proof of claim, hard copies of which can be obtained from any bankruptcy clerk's office. In Kansas, those of-

More information

Agents or agencies with additional questions about Brooke Corp. should contact Chut Tee in our Financial Surveillance Division at (785) 296-6672.

ices are in Wichita, Kansas City and Topeka.

The proof of claim form can also be obtained from the court's Web site: www.uscourts.gov/rules/BK_Forms_Pending_2008/B_010_1208.pdf.

Completed forms must be filed at:
161 Robert J. Dole U.S. Courthouse
500 State Avenue
Kansas City, KS 66101

To contact the Kansas bankruptcy court, call (913) 551-6732. The case number is 08-22786 and the presiding judge is Dale L. Somers.

Divisions work together

The insurance department is handling consumer inquiries and closely monitoring the legal issues surrounding Brooke Corp. and its insurance-related affiliates. The department has been in frequent contact with Riederer and staff members regarding contractual concerns between the corporation and its franchisees. The insurance department does not have regulatory oversight in those contractual matters.

"Our consumer assistance, legal, financial surveillance, producers (agents/company) and anti-fraud divisions within the agency continue to receive phone calls regarding the Brooke situation," Commissioner Praeger said.



Request publications

The Kansas Insurance Department recently revised its "Personal Home Inventory" booklet, which offers tips for recording the contents of a home, as well as tips for photographing or video recording contents. The booklet's charts focus on different areas of a home and include recommendations about the types of items to include.

To request publications, call our Consumer Assistance Hotline at 800-432-2484 or use one of the links below.

LINKS

View or download KID publications here:

www.ksinsurance.org/consumers/publications.htm

Request hard copies of our booklets here:

www.ksinsurance.org/consumers/requestpub.htm



Kansas Insurance Department

Commissioner Sandy Praeger filmed a public service announcement on insurance awareness on Oct. 28 in Topeka. Kansas Insurance Department employees, at left, appeared as extras in the PSA, which will run on TV stations across the state starting early next year and airing into late spring.

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Current system works for industry, consumers

efficient and effective regulatory system should work.

State legislators and insurance regulators can be proud of what this says about the state of our regulatory system. Indeed, for more than 150 years, state-based insurance regulation has proven time and again it can meet the challenges of our vibrant, dynamic industry.

By working together, state legislators and regulators have enacted laws and regulations that protect insurance consumers by ensuring the strength and stability of our nation's insurance market. In fact, conservative state regulations ensured that while AIG's federally regulated holding company was failing,

the insurance businesses were appropriately capitalized and the interests of policyholders were placed ahead of shareholders.

It is this type of state-based cooperation and collaboration that has resulted in practical solutions to streamline regulation without compromising consumer protection. Those who might use the issues facing AIG's holding company to politick for a federal insurance regulatory presence are not only misguided, but also misinformed.

Insurance oversight has been rigorous, resulting in high regulatory compliance and avoiding the level of insolvencies and market meltdowns we have seen in other sectors of the U.S. fi-

nancial community. Indeed, our national solvency system has ensured that insurance companies have the wherewithal to pay claims while remaining competitive and profitable.

We strongly caution against federal intervention in a system that is working for consumers and industry alike. During the AIG crisis, state insurance regulators did what we do best — We ensured the AIG insurance companies and the consumers they serve were not harmed by the financial troubles of the parent company.

As our nation's financial situation continues to evolve, we will remain vigilant and focused on job No. 1: protecting policyholders.

Actuary to address flu

A senior risk actuary from Swiss Re's London office will present information on pandemic influenza modeling on Nov. 14 at the Kansas Insurance Department. Officials from other key state agencies have also been invited.

Actuary Keith Woolnough will discuss how Swiss Re has modeled the spread of pandemic influenza, as well as the history

of flu pandemics. Woolnough gave similar presentations at the Connecticut and New York insurance departments this past summer.

KID leads auto task force

KID is chairing a legislative task force aimed at preventing motorists from driving without liability insurance. Formally called the Electronic Motor Vehicle Financial

Security Verification System Task Force, the group plans to meet again in early December. Its members also include lawmakers, law enforcement, industry leaders and consumer representatives.

Legal issues

Regulatory actions, public hearings, legal orders and bulletins are published on the KID Web site. Link to legal issues [here](#).

More than 60 companies were admitted to do business in Kansas in the first 10 months of 2008.

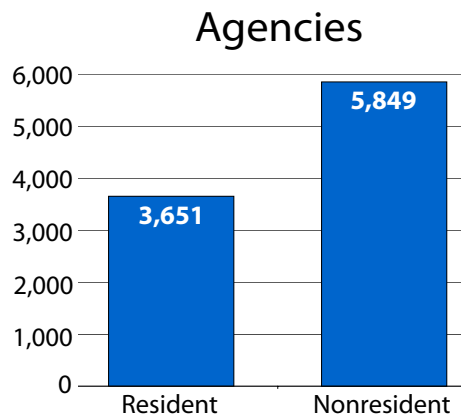
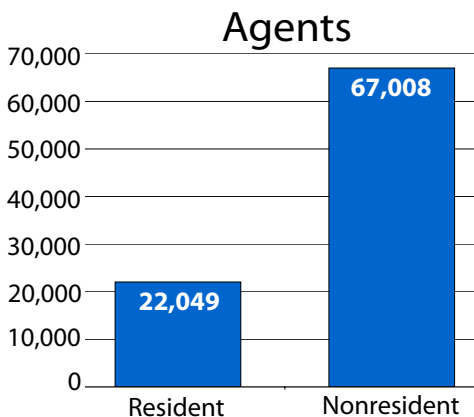
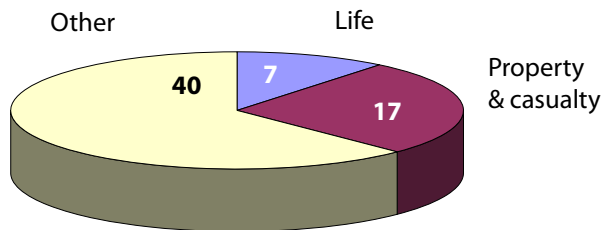
As of Oct. 31, 2008, there were 89,057 agents licensed in Kansas and 9,500 agencies.

New company admissions, through Oct. 31, 2008

Year	Insurance	Other	Total
2003	12	44	56
2004	27	50	77
2005	35	42	77
2006	29	59	88
2007	29	53	82
2008	24	40	64
	156	288	444

2008 company admissions by type, through Oct. 31, 2008

No Accident & health companies were admitted Jan. 1 to Oct. 31, 2008.



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