



Insurance Quarterly

The Kansas Insurance Department ■ Sandy Praeger, Commissioner
Spring 2008

State oversight helps companies better serve their customers *Federal proposals would muddy waters*

Just as the Kansas Insurance Department places great emphasis on advocating for consumers, so should members of the industry who recognize that their livelihood depends upon the quality service they provide their customers.

But companies' good relationships with consumers are being threatened by Optional Federal Charter (OFC) legislation introduced last year in both chambers of Congress. These proposals would let companies choose to be regulated by a federal agency. However, to think that companies would truly have a choice is a stretch.

Many national insurance companies have lobbied in favor of the plans, which could create a more lax regulatory environment and less consumer protection. With less consumer protection comes more consumer dissatisfaction, causing ripples that could damage the image of the entire industry.

To understand the effects federal oversight could have, consider how the federal government handled its response to Hurricane Katrina, or the limitations state banking regulators faced as the subprime mortgage meltdown occurred under federal regulation.



A message from
Sandy Praeger,
Commissioner
of Insurance

State-based regulation has been effective for more than 150 years, and it is continually being improved. States are already working together through the National Association of Insurance Commissioners (NAIC) on projects like the Interstate Insurance Product Regulation Compact and the National Insurance Producer Registry, which simplifies interstate licensing.

State insurance departments have close working relationships with the agents they license and companies they regulate. It would be difficult to replicate that relationship with workers at a national agency. Imagine calling a federal agency and having to navigate through menus in hopes of speaking with a person. But when you call KID, you speak to a live person and receive quick service.

The same is true of the turnaround you should expect when making a filing,

particularly now that all states are using SERFF (see page 3). Could a federal agency provide such fast turnaround?

Additionally, the OFC plans would harm the property and casualty sector of the industry, which has many products tailored to the needs of individual regions.

State regulators are studying appropriate ways to modernize state regulation, improving efficiencies and creating greater uniformity without giving up our all-important consumer protections.

In fiscal year 2007, Kansas collected nearly \$113.9 million in taxes and fines, money that was deposited in the state general fund. Federal regulation of the industry could send that money to Washington.

Consumers in some states, including Kansas, vote for their insurance commissioner. In others, their commissioner is appointed by the governor. In either case, there is a clear chain of accountability. Transferring regulation to Washington means losing accountability — a move that would quickly erode the trust and customer relationships the industry has worked hard to ensure.

Commissioner Praeger is the 2008 president of the NAIC.

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Governor signs STOLI consumer protections

Each legislative session, dozens of insurance-related bills are introduced in House and Senate committees. Only a fraction make it to the governor's desk.

The highlight of the 2008 legislative session for the Kansas Insurance Department was Senate Substitute for House Bill 2110, which Gov. Kathleen Sebelius signed into law on April 21.

Kansas Insurance Commissioner Sandy Praeger said the signing of a bill placing more consumer protections on "Stranger/Investor-Originated Life Insurance" policies, known as STOLIs, is an important step in keeping deceptive practices from harming Kansans.

The bill provides a revised definition of a STOLI policy, places restrictions on financing such a policy by strangers who would profit from it, and closes a trust loophole. It amends the state's Viatical Settlements Act of 2002.

"STOLIs are life insurance policies that are more concerned with your demise than your life," Commissioner Praeger said. "That's why we refer to them as 'death futures.' This bill is a consumer protection measure that responds to this rapidly growing practice of treating human lives as commodities to be traded on the open market."

In a typical STOLI arrangement, agents target older citizens to purchase life insurance policies and their premiums are funded by the agent's company. After a two-year period, the policy is to be sold to the policyholder for a lump sum payment that is significantly less than the policy limits. Then these strangers, who are not family beneficiaries, can bundle policies and sell them as investments.



Kansas Insurance Department

Gov. Kathleen Sebelius, center, signed the STOLI bill April 21 before KID general counsel John Campbell, Insurance Commissioner Sandy Praeger, life division director Marlyn Burch and government affairs liaison John Meetz.

Other 2008 legislation sent to the governor

KID-supported bills

- SB 441** — Extends the Mental Health Parity Act from Dec. 31, 2007, to Dec. 31, 2008, to **comply with the Health Insurance Portability and Accountability Act (HIPAA)**.
- SB 443** — Sets provisions for the **Kansas Partnership for Long-Term Care**, allowing consumers to have dollar-for-dollar asset protection in the event that they need to apply for Medicaid.
- HB 2688** — Implements **property and casualty actuarial opinion model law** that will require Kansas P&C insurance companies to issue a financial statement with a letter from a qualified actuary.
- SCR 1616** — Concurrent resolution requests the continuation of an **Auto Insurance Verification Task Force** to study the design and implementation of an electronic insurance verification system for law enforcement.
- SB 113** — **Insurance "omnibus" bill** for 2008 legislative session. Includes:
- Updated risk-based capital instructions
 - Requirement that insurance companies pay interest on surrendered life insurance policies until the policy value is paid
 - Limits to 18 months the time a company has to recoup erroneously made payments
 - Larger fine for failure to respond to a request from the commissioner
 - Removal of \$100,000 cap on credit life insurance

Bills that originated outside of KID

- SB 209** — Modernizes the **accident and health rate and form filing** procedures, promoting efficiency and standardization in the A&H rate and form filing process.
- HB 2505** — Creates **property and casualty flex rating bands**, allowing companies to raise and lower their rates within a 12% band without approval from the insurance department.

KID to require paperless filings starting in 2009

Beginning Jan. 1, 2009, the Kansas Insurance Department will require filings to be made using the System for Electronic Rate and Form Filing (SERFF).

SERFF enables the submission of rate and form filings electronically and facilitates electronic storage, management, analysis and communication regarding filings. It improves the rate and form filing and approval processes, and it reduces the time and cost involved in making filings.

Insurers, rating organizations and authorized filers may sign up for SERFF by contacting the SERFF Marketing Team at 816-783-8787 or via

KID contacts

Property and casualty filings

Jim Newins, 785-296-7833

Accident and health filings

Craig Van Aalst, 785-296-3765

Life filings

Tom Whalen, 785-296-7857

e-mail at serffmktg@naic.org.

Every state, plus the District of Columbia and Puerto Rico, accepts some type of SERFF filing, and 11 of those entities already require the use of SERFF.

Visit www.serff.com for more information.

Legal issues

Regulatory actions, public hearings, legal orders and bulletins are published on the KID Web site. Link to legal issues [here](#), or use the "Legal Issues" Quick Link on the left side of the home page. KID reports all of its regulatory actions to the National Association of Insurance Commissioners (NAIC).

Open records policy changes

Some fees regarding open records requests made to the Kansas Insurance Department have increased. The new rates are below, or you can link to our [Kansas Open Records Act](#) brochure for more information.

- Service retrieval, review and redaction charges: Range from \$7.50 to \$10.50 per quarter hour
- Copying charge: paper copies at \$.50 per page, PDF copies at \$.25 per page or certified copies with seal at \$7 per page
- Insurance company directory: Available free of charge for download on the KID Web site in spreadsheet format
- Fax charge: \$1 per page locally, \$1.50 per page long distance
- Postage
- Nominal fees for storage media, such as CDs

Or, you can access and copy insurance policy rate and form filings through the SERFF Terminal at KID at a cost of \$1 per minute. Contact the appropriate division to schedule an appointment:

Property & Casualty: 785-296-7844

Life: 785-296-2710

Accident & Health: 785-296-7850

Request publications

The Kansas Insurance Department publishes dozens of booklets and pamphlets that you can share with consumers. We recently published our 2007 Annual Report and the 2007 Consumer Complaint Ratio Report, and our Medicare supplement insurance and long-term care insurance booklets were revised this spring.

Call our Consumer Assistance Hotline at 800-432-2484 to request publications, 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

View or download our 2007 Annual Report here:

www.ksinsurance.org/gpa/annuals/2007_Annual_Report_Online.pdf



Hotline

The Kansas Insurance Department serves all members of the insurance industry. Our Consumer Assistance Hotline isn't just for individual insurance consumers. Agents and companies are also encouraged to contact us.

Our representatives can clarify state statutes, or we may be able to help you better educate the consumers you serve.

800-432-2484

Annual insurance institute updates agents on issues

Insurance Commissioner Sandy Praeger gave the keynote address at the Kansas Insurance Institute 2008, held May 7 in Overland Park. The daylong institute offered agents six hours of continuing education credit.

Commissioner Praeger's message highlighted various NAIC issues, including the Optional Federal Charter.

Life and health agents heard about the Kansas Partnership for Long-Term

Care program and new regulations about Stranger/Investor-Originated Life Insurance (STOLI). Property and casualty agents spent the morning learning about Kansas residual markets and the Kansas FAIR plan.

Afternoon sessions focused on suitability, insurance fraud and the 2008 legislative session. Four of the day's sessions were presented by KID directors or attorneys.



Kansas Insurance Commissioner Sandy Praeger congratulates Randy Wells Jr., a coordinator for BNSF Railway Co., who received a People Saving People Award at the KDOT Transportation Safety Conference in April at the Capitol Plaza Hotel in Topeka. The conference was sponsored by University of Kansas Continuing Education and a federal grant through the Kansas Department of Transportation.

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