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March 13, 2013

The Honorable Robert Olson
Chairman, Senate Committee on Financial Institutions and Insurance
State Capitol Building
Topeka, Kansas 66612

Re: Testimony Letter in Support of HB 2007 – Kansas Senate Financial
Institutions and Insurance Committee Hearing, March 14, 2013

Dear Chairman Olson and Members of the Committee:

The National Association of Mutual Insurance Companies (NAMIC) writes in support of HB 2007, which amends the state's Insurance Holding Company Act. HB 2007 is a key tool for warding off federal encroachment into the regulation of insurance, historically a feature of state sovereignty.

NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 regional and local mutual insurance member companies serving more than 135 million auto, home, and business policyholders and writing in excess of \$196 billion in annual premiums. More than 200,000 people are employed by NAMIC member companies. In Kansas, we have 135 member companies, including 14 domiciled companies, which underwrite 44% of the state's insurance business.

I. Insurance is Best Regulated by the States, not the Federal Government

The regulation of insurance has been a core function of state government for over a century. This arrangement has served consumers well. Despite this success story, there are many who believe that only Washington, D.C. can solve our nation's problems. NAMIC opposes this view and remains a strong advocate of a reformed system of state-based regulation.

HB 2007 helps protect against a federal takeover of insurance by ensuring that the Kansas Insurance Department retains its accreditation by the National Association of Insurance Commissioners (NAIC).

II. Accreditation Benefits the Companies that Cover Millions of Kansans

Accreditation benefits Kansas insurers by ensuring standards and preventing conflicting regulation. States that are accredited agree that amongst themselves they will defer to the sovereignty of the domestic insurer's state.

Thus, a Kansas domestic that has been examined by the Kansas Insurance Department knows that the KID assessment will be accepted by regulators in other states. This prevents the waste of premium dollars that would otherwise be spent on duplicative regulation.

To serve this purpose NAMIC will support the Kansas Insurance Department if revisions are necessary to retain accreditation.

III. HB 2007 Contains an Important Provision that Protects Small and Medium-Sized Kansas Holding Companies

As has been noted before, insurance companies, with their strict financial oversight by the states and conservative investment policies were the bedrock that helped sustain the economy during the 2008 crisis.

That said, some insurers had non-insurance operations that were caught up in the financial crisis. The purpose of HB 2007 is to provide KID greater insight into the non-insurance operations of these very large, complex insurers to provide consolidated supervision of these entities going forward. HB 2007 addresses this by requiring additional reporting and analysis of the overall risk to a holding company via the Enterprise Risk Report, or Form F.

At the same time, NAMIC supports the language in the law that only requires the Enterprise Risk Report of the larger companies. Kansas has many historic small and mid-sized companies that have served Kansans well. These companies did not cause the financial crisis and, frankly, are not of a size where they could. Requiring them to expend resources on the Enterprise Risk Report does not benefit the public, but it does divert premium dollars from reserves needed to pay claims. One NAMIC company has informed us that cost of compliance will be in excess of \$50,000 per year. This amount might not be material to a large, publicly traded company which incurs this cost due to federal securities requirements; the amount is crucial for a Kansas domestic mutual.

IV. The Special Committee That Studied This Issue During the Interim Endorsed the Exemption for Small and Medium Companies

Prior to the start of session, the Special Committee on Financial Institutions and Insurance extensively studied this issue. At the conclusion of the hearing the Committee endorsed the version of the bill found in HB 2007.

NAMIC appreciates the effort this committee is making to understand the Model Holding Company Act. If there is anything NAMIC or our members can do to assist you, or if you have any questions or comments, please do not hesitate to contact me. In the meantime, I remain,

Sincerely,



Mark Johnston
State Affairs Manager – Midwest Region