

SESSION OF 2005

SUPPLEMENTAL NOTE ON SENATE BILL NO. 268

As Recommended by Senate Committee on
Financial Institutions and Insurance

Brief*

SB 268 would enact new law to allow Kansas to join the Interstate Insurance Product Regulation Compact, a National Association of Insurance Commissioners (NAIC) initiative, that has created a national system for the regulation of life and annuity products by states. Products regulated under the Compact would include life insurance, annuities, disability income, and long-term care insurance. The Compact does not include property and casualty lines, home insurance, or workers compensation. The act contains the stated purposes of the Compact:

- To promote and protect the interest of consumers of individual and group annuity, life insurance, disability income, and long-term care insurance products;
- To develop uniform standards for insurance products covered under the Compact;
- To establish a central clearinghouse to receive and provide prompt review of insurance products covered under the Compact and, in certain cases, advertisements related thereto, submitted by insurers authorized to do business in one or more of the compacting states;
- To give appropriate regulatory approval to those product filings and advertisements satisfying the applicable uniform standard;
- To improve coordination of regulatory resources and expertise between state insurance departments regarding the setting of

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

uniform standards and review of insurance products covered under the Compact;

- To create the Interstate Insurance Product Regulation Commission; and
- To perform these and such other related functions as may be consistent with the state regulation of the business of insurance.

The 16 articles of the Compact address: Purposes; Definitions; Establishment of the Commission and Venue; Powers of the Commission; Organization of the Commission; Meetings and Acts of the Commission; Rules and Operating Procedures; Rulemaking Functions of the Commission and Opting Out of Uniform Standards; Commission Records and Enforcement; Dispute Resolution; Product Filing and Approval; Review of Commission Decisions Regarding Filings; Finance; Compacting States, Effective Date and Amendment; Withdrawal, Default and Termination; Severability and Construction; Binding Effect of Compact and Other Laws.

The Compact would create an Interstate Insurance Product Regulation Commission whose powers would include the development of uniform standards for product lines, receipt and review of the filed products and the approval of those product filings satisfying the uniform standards. The powers of the Commission are outlined in Article IV, with 26 separate stated powers. The Commission would be made up of one member from each of the Compact member states. The Commission would be required to submit an annual report, which would include an independent audit report, to the Governor and legislature of each member state.

In addition to the Commission, the features of the Compact include:

- A management committee of up to 14 states that would manage the organization. Six large states would have permanent seats; the mid-size states would rotate among four seats; and the smaller states and the District of Columbia would rotate by region among four seats;

- The management committee and the full Commission would require a two-thirds super majority to adopt uniform product standards;
- A legislative committee would oversee the activities and make recommendations and be responsible for keeping state lawmakers informed; and
- Consumer and industry advisory committees would be created to allow for the exchange of information and ideas with the Commission.

Also, the Compact would provide that states be allowed to “opt out” of a uniform standard for a specific product line through legislation or regulation. When enacting the agreement, states also may opt out of all product standards for long-term care insurance. Legislatures also could withdraw from the Compact at any time.

The act would be effective and be in force from and after July 1, 2005, and its publication in the *Kansas Register*.

Background

SB 268 was introduced by the Committee on Federal and State Affairs at the request of the Insurance Commissioner. The Commissioner indicated that the Compact would create a streamlined system of regulation for life, long-term care and disability insurance, as well as annuities. This system of regulation also would allow insurers to more quickly market certain types of insurance products nationally and reduce the number of variations of the same product. The general counsel for the National Association of Insurance Commissioners (NAIC) testified in support of the bill, noting that the Compact would allow for effective product standards, serve as a central point for the filing of products, and provide a quality review for those filings. The bill is supported by the American Council of Life Insurers and the Security Benefit Life Insurance Company.

There were no opponents to the bill.

The Compact only would regulate the content of the insurance policies addressed by this act. States would retain their authority to scrutinize market conduct, ensure claims are settled properly and investigate complaints, take actions against companies in violation of the terms of an insurance policy and enforce any related consumer protection laws. The Compact would become effective when 26 states, or states representing 40 percent of the premium volume, have joined the Compact. The NAIC has indicated that joining the Compact would have no fiscal impact on the states, as the Compact will be financed by filing fees, i.e., user fees, paid by insurers. Currently, nine states have enacted the Compact into law: Colorado, Iowa, Utah, West Virginia, Virginia, New Hampshire, Rhode Island, Maine, and Hawaii. The premium volume of these nine states is 8.06 percent. According to NAIC, legislation is being considered in 23 states, including Kansas.

The 2004 Legislature adopted HCR 5027, a resolution that strongly urged the Insurance Commissioner to pursue the creation of a national system of state-based regulation for life and annuity products through an interstate compact.

The fiscal note prepared by the Division of the Budget indicates that passage of the bill would have no fiscal effect.