



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON HB 2485

HOUSE INSURANCE COMMITTEE January 30, 2012

Chairman and Members of the Committee:

I am Kris Kellim with the Kansas Insurance Department. Thank you for the opportunity to testify in support of HB 2485.

There are three pieces to HB 2485. The first (*p. 1, l. 10*) amends the definition of a “fraudulent insurance act” to include statements that are made in an electronic or recorded manner. This update to the definition is necessary because in today’s insurance industry many transactions are done by recording and electronically. For instance, claims are sometimes reported to the carriers via voicemail or through a webpage link, and some companies accept applications for coverage completed online and by email. This definition change is important because it ultimately affects prosecution of insurance fraud. The Department wants to ensure all evidence is available in such prosecutions.

The second piece (*p. 1, l. 27*) clarifies an existing requirement regarding company antifraud prevention efforts. The current language requires companies to implement “fraud initiatives,” but this term has raised questions as to what exactly is required. The new language is simplified and easier to understand. It clearly requires each company to submit to the Department an antifraud plan used to detect suspicious or fraudulent insurance activity. Under the amended language, each company retains discretion in designing its plan, and implementing other fraud initiatives. Insurance fraud prevention is important to the Department. Figures from the Coalition Against Insurance Fraud indicate up to 10% of insurance claims may be fraudulent, and annually cost \$80 to \$120 billion nationwide. The goal of requiring antifraud plans is to help reduce fraud losses and lower premiums for Kansas consumers. Antifraud plans also enable the Department to keep current on antifraud prevention methods and issues.

The final piece of the bill (*p. 2, l. 16*) establishes an additional fraud prevention measure. It requires companies to provide a “fraud warning” on all insurance applications and written or electronic claim forms. The warning must contain in substance the warning language set forth in the amendment. The lack of a warning could not be the basis of a criminal or civil legal defense, nor would it be required on reinsurance forms. The basic purpose of the fraud warnings is to give notice to applicants and claimants as to the consequences of insurance fraud in an effort to deter insurance fraud. Fraud warnings also help prosecutors prove “intent” to commit fraud in criminal prosecutions. Currently, 28 states require companies to issue fraud warnings of some

sort. Fraud warnings are recommended by the Coalition Against Insurance Fraud and the National Insurance Crime Bureau.

For these reasons, we would ask the Committee to recommend HB 2485 favorable for passage.

Thank you for the opportunity to appear in support of this bill. I will be happy to stand for questions at the appropriate time.

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Kansas Insurance Department