

INTERIM JOINT COMMITTEE ON BANKING AND INSURANCE

Minutes of the 1st Meeting of the 2024 Interim

September 17, 2024

Call to Order and Roll Call

The first meeting of the Interim Joint Committee on Banking and Insurance was held on September 17, 2024, at 9:30 AM in Room 149 of the Capitol Annex. Representative Michael Meredith, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jared Carpenter Co-Chair; Representative Michael Meredith Co-Chair; Senators Donald Douglas, Rick Girdler, and Brandon J. Storm; Representatives Chad Aull, Josh Bray, Robert Duvall, Deanna Frazier Gordon, Jim Gooch Jr., Shawn McPherson, Michael Sarge Pollock, Rachel Roarx, Rachel Roberts, Steven Rudy, Tom Smith, and Cherlynn Stevenson.

Guests: Marni Rock Gibson, Commissioner & Securities Administrator, Kentucky Department of Financial Institutions; Chris Nolan, Executive Director, Insurance Institute of Kentucky; and Eric DeCampos, Senior Director of Strategy, Policy & Government Affairs, National Insurance Crime Bureau.

LRC Staff: Jessica Sharpe, Breanna Patterson, Anita Zipfel, and Nathan Carter.

Insurance Institute of Kentucky - Legislative Update

Mr. Nolan recognized the committee and the entire General Assembly for its passage of legislation relating to paid family leave, auto glass fraud, delivery network drivers, minor settlements, mine subsidence, and incentives for making homes more resilient to natural disasters. The National Council of Insurance Legislators (NCOIL) is using three Kentucky bills from the past two legislative sessions to make models for the entire country. Mr. DeCampos expressed appreciation to the Kentucky delegation of NCOIL for supporting the catalytic converter theft prevention model.

Mr. Nolan discussed the Insurance Institute of Kentucky's (IIK's) legislative agenda for the 2025 session. IIK supports legislation relating to hands-free cell phone usage while driving. Similar legislation has passed in surrounding states. There were 813 deaths on Kentucky roads last year, and at least 20 percent were linked to distracted driving. Mr. DeCampos discussed statistics and trends in the area of insurance fraud and noted that

fraud can cause premium increases, bodily injury, and death. He proposed that the definition of insurance fraud in KRS 304.47-020 be expanded to address exaggerated estimates, invoices, and other proofs of loss. Mr. Nolan discussed IIK's opposition to third-party litigation funding.

In response to Representative McPherson's question, Mr. Nolan stated that requiring affidavits for estimates relates to adjusted estimates and recently, cases involving tree estimates have been referred by the Department of Insurance to the Attorney General. Mr. DeCampos stated that more regulation could help with the lack of transparency.

Representative Roberts recognized the entire industry for their efforts in the 2024 session. She expressed hope that the committee continues to work with NCOIL, including considering any model that may be adopted relating to mental health parity and substance use disorder.

Representative Rudy highlighted existing statutes related to distracted driving and Mr. Nolan responded that the proposal is to further define the types of technology and to specify its permitted and prohibited uses. Representative Rudy commented that technology may eventually address this issue and that there could be further enforcement under existing law.

In response to Representative Duvall's question, Mr. Nolan stated that the Department of Insurance conducts most fraud investigations and makes referrals to licensure boards in cases where providers are abusing the system. Mr. Nolan and Mr. DeCampos discussed challenges with prosecuting insurance fraud and Kentucky's Personal Injury Protection (PIP) insurance laws.

In response to Representative Smith's question, Chairman Meredith stated that a draft is in process relating to uninsured coverage and real time insurance. Mr. Nolan stated that IIK hopes to work with Chairman Meredith and the Transportation Cabinet on legislation. With regard to the cost of repairs, the more complex a vehicle gets, the more it costs to fix.

Representative Pollock commented on the efforts and service of people in Kentucky and at NCOIL and the importance of consumer protection legislation.

In response to Representative Bray's question, Mr. DeCampos stated they do not have Kentucky specific figures on the cost of insurance fraud.

Senator Douglas commented on the need for tort reform, noting that there is managed healthcare but not managed legal representation.

Representative Gooch commented that the presumption that medical bills are reasonable for purposes of PIP benefits allows for fraud and abuse. In response to Representative Gooch's question, Mr. DeCampos stated that he has not heard of any cases in which individuals were suggesting that an individual purchase more than the minimum insurance coverage as part of a fraud scheme.

In response to Senator Storm's question, Mr. Nolan said the \$10,000 cap on PIP coverage has existed since 1977.

Consideration of Referred Administrative Regulations

808 KAR 010:260 Proposed

An amendment for proposed administrative regulation 808 KAR 010:260 was filed by the Department of Financial Institutions on August 28, 2024. Commissioner Gibson explained the amendment. A motion was made by Representative McPherson and seconded by Senator Douglas to adopt the amendment for the proposed administrative regulation. The amendment was approved by a voice vote.

Kentucky Department of Financial Institutions Update

Commissioner Gibson provided an update on the Department of Financial Institution's (DFI's) depository, non-depository, and securities divisions.

In the depository division, there has been a decrease in the number of state-chartered banks and banks with assets under \$100,000,000. Despite this, the amount of assets and loans have continued to increase. The number of credit unions have remained relatively consistent, with an increase in assets. Recent initiatives in this division include the banking modernization legislation passed during the 2024 session and a proposed regulation that creates a way for out-of-state trust companies to file in Kentucky.

Commissioner Gibson discussed the securities division. The licensing and registration numbers in the securities division reflect a strong securities industry and economy in Kentucky. The department did not conduct any broker-dealer exams in 2023 and instead focused its resources on investment adviser exams as the department is the sole regulator for investment advisers. Initiatives in this division include a proposed regulation relating to examination validity extensions and the investment adviser representative continuing education program.

In the non-depository division, the licenses in this branch have decreased with the exception of money transmitters. Consumer protection complaints were up in 2023, which generally correlate with the economic cycle.

In response to Chairman Meredith's question, Commissioner Gibson explained that enforcement actions on the compliance slide refer to actions that originated directly from a compliance exam. The other enforcement actions originated from complaints, multi-state actions, or otherwise came to the department's attention.

In response to Representative Smith's question, Commissioner Gibson stated that cryptocurrency touches most areas that the department regulates. The department is aware of "relationship scams" occurring and are evaluating how this conduct may be addressed under current law and how to best protect Kentuckians.

Adjournment

There being no further business before the committee, the meeting adjourned at 10:44 am.