

INTERIM JOINT COMMITTEE ON BANKING AND INSURANCE

Minutes of the 3rd Meeting of the 2024 Interim

November 8, 2024

Call to Order and Roll Call

The third meeting of the Interim Joint Committee on Banking and Insurance was held on November 8, 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: Representative Michael Meredith, Co-Chair; Senators Julie Raque Adams, Donald Douglas, Rick Girdler, Jason Howell, Brandon Smith, and David Yates; Representatives Chad Aull, Josh Bray, Robert Duvall, Deanna Frazier Gordon, Jim Gooch Jr., Matt Lockett, Shawn McPherson, Michael Sarge Pollock, Rachel Roarx, Rachel Roberts, Steven Rudy, Tom Smith, and Cherlynn Stevenson.

Guests: Sharon Clark, Commissioner, Department of Insurance; Shaun Orme, Executive Advisor, Department of Insurance; John Sparrow, CEO, Kentucky Farm Bureau Mutual Insurance; Paula Smith, Vice President of Legal Services, Kentucky Farm Bureau Mutual Insurance; Anne Marie Franklin, Governmental Affairs Manager, Kentucky Farm Bureau Mutual Insurance; William "Bill" Repasky, Partner, Frost Brown Todd LLC; Larry Lipka, General Counsel and Legislative Liaison, CoinFlip; Eric Peterson, Policy Director, Satoshi Action Fund; Ashley Gunn, Senior Policy Manager, Coinbase; and Marni Rock Gibson, Commissioner & Securities Administrator, Kentucky Department of Financial Institutions.

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

Approval of September 17, 2024 Minutes

Representative Lockett moved to approve the September 17, 2024, minutes. Senator Douglas seconded the motion, and the minutes were approved by unanimous voice vote.

Approval of October 15, 2024 Minutes

Representative Lockett moved to approve the October 15, 2024, minutes. Senator Douglas seconded the motion, and the minutes were approved by unanimous voice vote.

Kentucky Department of Insurance Update

Sharon Clark, Commissioner, Department of Insurance (DOI), provided an update on DOI's activities and the insurance industry. DOI licenses over 355,000 people and entities. Consumer complaints continue to be an issue and disaster fraud schemes have continued to escalate. Commissioner Clark discussed the challenges of addressing fraud, including inflated costs, the DOI's lack of authority over contractors, and lack of prosecution from some Commonwealth's Attorneys.

The health insurance market is stable. Of the 4.4 million people in Kentucky, only 330,000 have commercial insurance regulated by the DOI. Four companies will be offering individual health insurance plans next year. The average rate increase was 5.8 percent, which is on the lower end of national filings.

Commissioner Clark provided figures on the amount of money spent on insurance premiums in the state and its impact on tax revenues.

Commissioner Clark provided an update on the property and casualty insurance market. Worker's Compensation rate was lowered by 8.7 percent. Property insurance rates are rising, due to climate change, the severity of storms, and reinsurance. Last year, for every \$100 that was collected in premiums, \$167 was paid out in claims. The market is stable and companies are not leaving the state. Rate increases have been justified and are necessary to pay claims. Companies are taking other measures to avoid rate increases.

In response to Senator Howell, Commissioner Clark stated there are only 330,000 people in the private commercial health insurance market, which is a small percentage of the total health insurance marketplace in Kentucky. Shaun Orme, Executive Advisor, DOI, said he was not certain how that figure compared to other states.

In response to Senator Girdler, Commissioner Clark noted that companies are being gouged by towing charges over which she does not have authority. The \$35.6 billion spent on insurance premiums in Kentucky includes all types of insurance and the 330,000 insureds in the private commercial health insurance market do not include those in the state employee health plan.

In response to Representative Pollock, Commissioner Clark explained four companies in Kentucky offer individual health insurance and four companies offer small group health insurance. Some states have state funded pools to help with insurance costs.

In response to Senator Smith, Commissioner Clark said she has not heard anything about natural disaster assistance on the federal level, but there is legislation with

bipartisan support to make mitigation funding available to states. The ways to help with rates are mitigation and addressing fraud. Fraud issues are out of control. The General Assembly could also explore a funded pool or reinsurance funding.

Representative Rudy thanked Commissioner Clark for working closely with the General Assembly.

In response to Co-Chair Meredith', Mr. Orme explained DOI is in the process of internally vetting regulations for the Strengthen Kentucky Homes Program and has hired someone to oversee the program.

Kentucky Farm Bureau Mutual Insurance - Industry Update

John Sparrow, CEO, Kentucky Farm Bureau Mutual Insurance, provided an update on Kentucky Farm Bureau Mutual Insurance and the property and casualty insurance industry. He discussed issues impacting the industry, including labor supply chain and inflation, severe weather events, the cost of reinsurance, and market conditions. Premiums and deductibles have more than doubled in recent years to mitigate costs.

Representative Pollock commented on claim activity and the rates associated with it. In response, Mr. Sparrow explained that percentage-based deductibles help companies mitigate inflation and reinsurance costs.

Co-Chair Meredith stated if the industry moves to percentage-based deductibles in the consumer market, then disaster savings accounts should be explored.

In response to Senator Girdler's question regarding zip code rating, Mr. Sparrow stated Kentucky Farm Bureau Mutual Insurance's rating factors are more focused on wind and hail risks.

Cryptocurrency Business in Kentucky

Ashley Gunn, Senior Policy Manager, Coinbase, provided an introduction to cryptocurrency, described Coinbase's business activities, and explained how Coinbase is regulated. Of the 52 million Americans that own cryptocurrency, 400,000 are Kentucky residents. In 2019, the University of the Cumberlands was the first school to offer a degree program relating to blockchain. Legislatively, Kentucky has been on the cutting edge, passing bills to establish a blockchain technology working group and cryptocurrency-related tax incentives.

Eric Peterson, Policy Director, Satoshi Action Fund, stated blockchain legislation is essential for Kentucky to remain a leader in this space. Blockchain legislation has passed

in several states. Mr. Peterson discussed previously proposed legislation in Kentucky as well as components of proposals for the 2025 legislative session, including defining cryptocurrency related terms.

William “Bill” Repasky, Partner, Frost Brown Todd LLC, explained the regulation of certain cryptocurrency business activities. Some regulation exists at the federal level under the Bank Secrecy Act. At the state level, the Kentucky Department of Financial Institutions (KDFI) regulates cryptocurrency ATMs as money transmitters through agency guidance because the law is unclear. Mr. Repasky noted areas to consider are enforcement and fraud mitigation.

Larry Lipka, General Counsel and Legislative Liaison, CoinFlip, described CoinFlip’s cryptocurrency ATM operations in the United States and Kentucky and its fraud mitigation practices. Any cryptocurrency legislation in 2025 should require licensure with the state, compliance programs, highly visible scam disclosures, blockchain analytics, and live customer service.

Marni Rock Gibson, Commissioner and Securities Administrator, KDFI, described the KDFI’s regulation of cryptocurrency business activities under the money transmitter and securities laws. The department has issued guidance to clarify that Kentucky’s money transmitter laws apply to virtual currency. A core mission for KDFI is fraud protection and education is a key factor in preventing fraud. There have been instances of Bitcoin ATMs being used for fraud but there is fraud in every area KDFI regulates.

In response to Co-Chair Meredith, Commissioner Gibson agreed to work on potential legislation to incorporate KDFI’s money transmitter guidance.

Representative Lockett spoke about the risks associated with cryptocurrency. In response, Mr. Peterson stated there are 11 cryptocurrency miners in Kentucky.

Representative Smith commented on the shift of wealth associated with the cryptocurrency industry and the need for regulation at the state or federal level. Mr. Peterson responded there is regulation at the state level, major financial institutions are participating in the digital asset marketplace, and increasing regulatory clarity at the state level is resulting in more participation by banks in digital asset custody services.

Co-Chair Meredith stated there is work to be done at both the state and federal level, including the state licensure of cryptocurrency machines.

Adjournment

There being no further business before the committee, the meeting adjourned at 11:22 AM.