

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by Neil H. Arasmith at
Chairperson

9:00 a.m. ~~xxx~~ on February 28, 1985 in room 529-S of the Capitol.

All members were present except:

Senators Werts, Reilly, Burke, and Harder - excused

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Ron Todd, Kansas Insurance Department
Bud Cornish, Kansas Association of Property and Casualty Insurance Companies
Wayne Morris, Security Benefit Life Insurance Company
Jim Ketcherside, Farmers Alliance Mutual Insurance Company
Bill Mitchell, legal counsel, Farmers Alliance Mutual Insurance Company
Dick Brock, Kansas Insurance Department

The minutes of February 27 were approved.

The hearing began on SB 286 dealing with insurance administrators. Ron Todd, Kansas Insurance Department, testified in support of the bill saying that it is noncontroversial and is a "clean up" bill which would subject third party administrators to the Unfair Trade Practices Act.

The hearing began on SB 262 concerning the conversion of a domestic mutual insurer into a stock insurer. Bud Cornish, Kansas Association of Property and Casualty Insurance Companies, testified in support of the bill. He explained that the bill would permit domestic mutual insurance companies to convert to domestic stock insurance companies. He said there has been a growing trend in this direction, and a survey of mutual insurance companies showed that 70% of them were investigating the possibility of converting to stock, for federal tax purposes and to increase their surplus. The bill requires that any conversion proceeding be approved by the board of the company, the Insurance Commissioner, and the policyholders. Mr. Cornish proceeded to go through the bill and explain each section to the committee with special attention given to the terms used. He noted that the gist of the bill is found in Section 3 which outlines what must be contained in a plan of conversion.

Sen. Gannon asked what happens to a policy if the policy holder does not convert to stock. Mr. Cornish said that the policy stays the same, only the company changes, and there would be no pressure by the company on selling stocks.

The chairman asked if there is a mechanism in place now for conversion from stock to mutual. Mr. Cornish said there is not and added that the disadvantage today of mutual companies is in raising capital. They cannot grow in the way a stock company can grow.

Sen. Karr asked what happens to stock which is not purchased by policyholders. Mr. Cornish answered that the company must acquire any stock not purchased by policyholders. Such stock can be sold publicly, but only 5% of the stock can be purchased by a large corporation which prevents a large concentration of stock in one corporation.

Sen. Karr inquired further as to what would be the downside in regard to state taxes. Mr. Cornish said there would be none. Hopefully, it would be of help in that the company's capacity would be greater and so they would be selling more insurance and paying more premium taxes.

Wayne Morris, Security Benefit Life Insurance Company, followed with testimony in support of SB 262. (See Attachment I.)

The chairman asked Mr. Morris if he knew of any mutual company that might be considering conversion at this time. Mr. Morris answered he knew of none at this time, but there are some interested in studying conversion, however, they could not be considering it

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,

room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on February 28, 1985

definitely until this bill is enacted.

Jim Ketcherside, Farmers Alliance Mutual Insurance Company, briefly testified in support of the bill. He stated that the mutual industry has worked closely with the Insurance Commissioner. He noted that there have been several mergers of mutual companies which has a potential of bringing down the survival company. This bill would give another vehicle for these mutual companies to work with to increase their surplus. He introduced Bill Mitchell, legal counsel for his company.

Mr. Mitchell said that his company has been studying demutualization for years, but there are no definite plans for conversion because there is no definite statute for it. He said the market has been drying up, and the surplus has been affected which means they cannot write business, particularly for commercial. He feels this bill would help the situation. His company is considering conversion to stock because if they sustain any more losses on their surplus, their high rating will be lowered.

The chairman asked if any one of the three approvals required for conversion could stop the conversion. Mr. Mitchell answered that this is true and that also any amendment plans have to have the approval of all three groups.

Sen. Kerr noted that the bill provides for a proportionate distribution of stock, but there is no provision for a proportionate vote. He asked Mr. Mitchell if there is a possibility for abuse in the votes. Mr. Mitchell said that it is possible but not probable. He added, there is difficulty in getting policyholders interested in the company and agreed with the chairman that most policyholders are not even aware that they have a voice in the company.

Sen. Strick had a question as to if there is any regulation regarding the amount of policies sold in relation to the surplus. Mr. Mitchell explained that if the Insurance Department feels the writing is a danger to the surplus, they will tell the company not to write any more insurance. The NAIC issues early warning tests each year to the Insurance Departments of each state. The test is a three to one test and if the company exceeds that ratio, they get a notice.

Dick Brock, Kansas Insurance Department, testified only to give comments on the bill. He said when the Department was first approached about the bill, the Commissioner felt that the rights of policyholders should be protected in all instances that have a bearing on disclosure and that the converted company should be as sound as its predecessor. The Department views the bill as an additional tool and as doing what it was intended to do.

This concluded the hearing on SB 262.

There being some time left, the committee acted on SB 286. Sen. Karr made a motion to report the bill favorably, Sen. Warren seconded, and the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2/28	LARRY MAGILL	TOPEKA	IIAK
2/28	Steve lobell	"	American Home Life
2-28	Wayne Morris	"	Security Benefit
"	L M CORNISH	"	Kansas of P/C Co's
"	JAMES L. Ketcherside	M th Pherson, KS	FARMERS ALLIANCE MUTUAL
"	William L. Mitchell	Hutchinson	Alliance ^{INS Co.}
2/28	Sonja Midgott	Kansas City	KUMC - student nurse
2/24/85	Heather Botten	Kansas City	KUMC - student nurse
"	Jerel Wright	Topeka	KCWL
"	Dick Brooks	"	Ins Dept
"	Bon Todd	"	" "
2/28	Jean Shewerbush	Pittsburg	Kan. KSNA
	Diana Kerle	"	KSNA
	Kim Fisher	"	



Security Benefit Life Insurance Company

A Member of The Security Benefit Group of Companies

Date: February 28, 1985

To: The Honorable Neil Arasmith, Chairman, and Honorable Members,
Senate Committee on Financial Institutions and Insurance

From: Wayne Morris, Assistant Counsel

Re: S.B. 262

Security Benefit Life Insurance Company, one of the four Kansas mutual life insurance companies, is vitally interested in S.B. 262, a bill which would allow mutual insurance companies to convert to stock insurance companies. We join both the Kansas Life Association and the Kansas Association of Property and Casualty Companies in strong support of S.B. 262.

We believe that demutualization, or conversion to the stock form of ownership, may result in significant benefits for a company's policyholders, the converted company, and the entire state's economy. Senate Bill 262 contains procedures to ensure that these various interests would be protected and furthered.

The demutualization of any company will be a long process, and S.B. 262 is needed so that mutual companies may at least begin to investigate the feasibility and desirability of changing their corporate form. As you all know, the entire financial services industry is undergoing dramatic changes. Kansas insurance companies need this legislation as a potential tool to enable them to continue to compete and grow in our changing economy.

I appreciate the opportunity to express these views, and I would be happy to answer any further questions you may have.

WM/apc