

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCEThe meeting was called to order by Sen. Neil H. Arasmith at
Chairperson9:00 a.m. ~~xxxx~~ on March 4, 1985 in room 529-S of the Capitol.

All members were present except:

Senators Harder and Reilly - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

None

The minutes of February 28 were approved.

The chairman announced that the committee would be discussing two bills that had been previously heard, SB 262 dealing with insurance company conversion and SB 123 dealing with the alternate rate under the UCCC. The first bill discussed was SB 262. The chairman called the committee's attention to copies of a letter he had received from R. Dan Scott of the Kansas Mutual Insurance Company in opposition to SB 262.
(See Attachment I.)

The chairman reminded the committee of a question raised by Sen. Warren regarding his concern with the individual policyholder's dividends if a company converted to stock. He said that an insurance commissioner representative had said that the primary concern they have is with protecting the policyholder and that the bill does this.

Sen. Karr had questions as to why mutual companies were formed, the tax advantage for such companies, and what checks there would be on the stock company. The chairman answered that the companies were started as closely knit smaller groups in hopes of providing service for lower rates, but this is no longer so. Theoretically, the tax advantage would occur because each policyholder is part owner of a company, and the company could spread the tax over them if necessary, however, now it is about the same for both types of companies. As to the checks on the stock company, a policyholder can give a proxy, and the bill does require a two-thirds majority of the directors for approval. Each policyholder has an equal vote on a conversion regardless of the dollar amount of the policy as indicated in line 34 of the bill.

Sen. Warren had questions as to why a policyholder should have to pay for the stocks if the company converts and if assets are lost if the policyholder does not buy stock. The chairman said that the intent is to make a profit, therefore, it would not be advisable to give the stock away to policyholders. He agreed with Sen. Warren that, technically, assets would be lost if stock is not bought, but the policy would still remain in tact. He agreed with statements made by Sen. Werts that there is a potential of a company owning all the stock if no policyholder exercises his option to buy stock, however, the policyholder is given the first opportunity to buy stock or sell his option; then the remaining stock is sold to the public. Sen. Kerr pointed out that line 122 indicates that if the converted company purchased the left over stock, it is treasury stock which is non-voting stock whereas if the parent corporation picks the stock up, it is voted stock--two quite different situations.

Sen. Gannon made a motion to report SB 262 favorably. Sen. Kerr seconded the motion, and it carried.

Discussion began on SB 123 which calls for the extension of the alternate 21% rate under the UCCC. The chairman offered some options in consideration of the bill as follows: (1) Pass it as is, leaving it at 21%. The full maximum is not being used now by finance companies and banks so he has no concern about the extension. The retailers are using over 18% now, but if it is not renewed, as of July 1 the retailers would not have the 18% but would go back to the blended rate. (2) Use the indexing concept for which he has had staff draft an amendment that would trigger the alternative rate as the T-Bill rate might go up or down. Lenders do not like this concept, and retailers say it would

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 March 4, 1985

be a fiasco for them. (3) Let the rate revert to 18% but add on three nonrefundable points on real estate transactions. (4) Do nothing in which case the rate goes back to 18% and the retail goes back to the blended rate.

In discussion regarding points, Don Phelps, Consumer Credit Commissioner, said that in a suit which was filed against a company which abused the point system, the judge ruled that that company could continue to charge the same points, but other companies are limited to three points. This leaves his office in the grey area in interpreting the judge's decision.

The chairman said that his first reaction to the bill is that this is an ideal time to do this because most are not charging the maximum now.

Sen. Werts made a conceptual motion to include in the bill three nonrefundable points dealing with second mortgage loans as was done last year. Staff informed the committee that the House committee will be passing a bill dealing with this tomorrow. Sen. Werts withdrew his motion.

Upon further information from staff that the 30 day notice provision put in the statute last year would need to be renewed, Sen. Werts made a motion that the bill be amended by including the notice provision. Sen. Karr seconded, and the motion carried.

Sen. Werts made a motion to recommend SB 123 favorably as amended.

Sen. Karr began a short discussion regarding the Rule of 78s in relation to this bill. Staff explained that there is a House bill which has more issues but not the Rule of 78s and that perhaps it could be addressed when heard in this committee.

Sen. Karr made a conceptual motion to amend SB 123 to repeal the Rule of 78s as was discussed last year, substituting the actuarial method with a 2% origination fee, not the 3% as was recommended last year. Sen. Gannon seconded the motion.

Sen. Werts said that he felt it is a mistake to do this now. Senate Bill 123 is a clean bill whereas the House bill coming will have trade offs, and when the committee gets the bill, it can look at this area in connection with that bill where there is some room for trading.

Sen. Karr said he feels this bill has some problems, and the Rule of 78s might address them as something that might make it workable.

Sen. Gordon said he would like to leave the bill as is and include the discussion of the Rule of 78s when the House bill comes to the committee. Senators Kerr and Werts were in agreement with Sen. Gordon.

The chairman called for a vote on Sen. Karr's motion, and it failed.

Sen. Werts repeated his motion to recommend SB 123 favorably as amended. Sen. Kerr seconded the motion.

Sen. Karr said then that perhaps the indexing concept as presented by the chairman should be used. The chairman said that it would work even though the industry does not care for it.

Sen. Strict said that with all the confusion, perhaps the bill should be taken up tomorrow. The chairman noted that there would be no time tomorrow or the next day and that the deadline is drawing near.

There being no further time, the meeting was adjourned until tomorrow when the committee will meet on a different proposal.

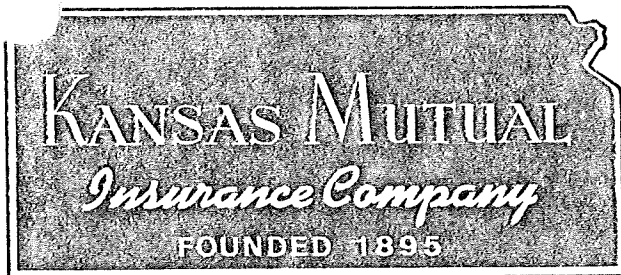
SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3/4	DENNIS DEHN	TOPEKA	SEN. WERTS' INTERN
✓	Don PHELPS	"	CONS. CR. Comm
✓	Jerel Wright	"	Ks Credit Union League
"	SWO GRANT	"	KCCI
	Wayne Morris	"	Security Benefit Life
	L M CORNISH	"	Ks Assoc of Rep & Co Law



February 26, 1985

The Honorable Neil H. Arasmith
Kansas State Senate
State Capitol - Room 128 South
Topeka, Kansas 66612

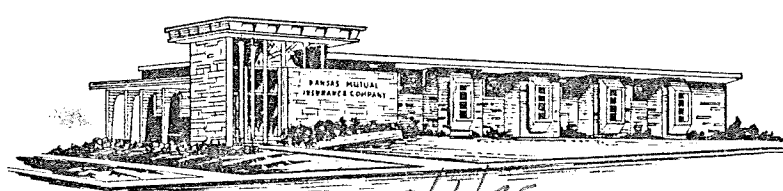
Re: SB 262 - Conversion of a Domestic Mutual Insurer
into a Stock Insurer

Dear Senator Arasmith:

I oppose SB 262 as now written and I oppose any effort to switch a domestic mutual insurer into a stock insurer.

By converting a domestic mutual insurer into a stock insurer you open the door for people and companies outside of Kansas to come in and take control of the few domestic mutual insurance companies we have. The mutual company idea is set up to have the policyholders share in the experience of their neighbors and to have a say in the way the company operates. If all domestic mutual companies choose to convert to a stock company, there could be little or no input by the people of Kansas once the stock was bought up by individuals outside the state. During the hard times when the market is tight, it is the domestic mutual insurers who stand by their commitment to the State of Kansas, while other insurers restrict their writings because of ownership outside the State of Kansas. This type of thing happened in the mid-70's and it was the strong domestic companies that stepped in to serve the people of Kansas, while some of the foreign companies were pulling out of the state.

One other objection I have to SB 262 if it would become law is the wording under Section 3 (a) "unless permitted under the terms of paragraph (e) of this section". This wording could allow any conversion of a domestic mutual insurer into a stock insurer to turn a company immediately over to a few power hungry people if they were able to influence the Insurance Commissioner to approve their plan of conversion. All ownership of stock should be by the existing members and the parent corporation. Also in reference to Section 3 (e) (5) the policyholders not exercising their option to purchase the stock should not be allowed to sell their



3/4/85
Attachment I

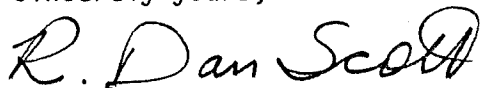
The Honorable Neil H. Arasmith
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option to any person or corporation. If a policy holder does not wish to exercise his option to purchase the stock, then the stock should remain with the original parent corporation.

Lastly, under Section 3 (e) (9) the time period after the conversion date when no individual, corporation, firm or affiliated group of individuals, corporations or firms, other than a parent corporation, may own, directly or indirectly, more than five percent of the voting stock of the insurer should be increased from five to ten years. I feel the waiting period should be increased to ten years so it will discourage a few people from selling the Insurance Commissioner and a company's board of directors on the idea of conversion so that in five years they can take full control of the company. If conversion from a domestic mutual insurer to a stock insurer is such a good thing for the company, then at least a ten year waiting period should be granted to see if the conversion were beneficial. After the ten years had passed most of the people involved in the conversion would probably be gone, and then if it were in the best interest of the policyholders, perhaps outsiders should be allowed to buy a majority interest in the company.

As was stated earlier, I still believe that SB 262 is not good for the people of Kansas who are policyholders of domestic mutual companies and this bill should be killed by your committee.

Sincerely yours,



R. Dan Scott
Executive Manager

RDS/mjb