

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:00 a.m./~~p.m.~~ on March 22, 1985 in room 529-S of the Capitol.

All members were present except:

Sen. Werts - Excused

Committee staff present:

Bill Wolff, Legislative Research  
Myrta Anderson, Legislative Research  
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Jim Turner, Kansas League of Savings Institutions

The minutes of March 21 were approved.

The hearing began on HB 2107 dealing with finance subsidiaries of savings and loan associations. Jim Turner, Kansas League of Savings Institutions, appeared in support of the bill. (See Attachment I.)

The chairman asked if the definition of a subsidiary would be a branch. Mr. Turner said that it would not be a branch but a separate, single purpose subsidiary corporation to do what is outlined in the bill. The chairman inquired further as to what the advantage of handling it this way would be as opposed to the savings and loan handling it. Mr. Turner said that the subsidiaries would have the expertise of a specialized function and add leverage with the additional funds.

Sen. Karr inquired what process is involved in the issuing of a special order by the Savings and Loan Commissioner. Mr. Turner explained that it is a routine procedure by the Commissioner and that the savings and loan association had agreed to bring such special orders to the legislature's attention. Sen. Harder asked if the special order would remain in effect even though the bill might not be passed, and Mr. Turner said that this was the case but that the Commissioner would rescind the order if the bill were passed.

Upon Sen. Strick's request for staff's opinion of the bill, staff informed the committee that the Commissioner had sent a copy of the special order to their office even though he is not required to do so and that also he had given the legislative leadership a copy of the order as is required.

Sen. Kerr made a motion to report HB 2107 favorable for passage, Sen. Harder seconded, and the motion carried.

The hearing on HB 2509 dealing with cemetery association deposits followed. Jim Turner testified in support of the bill. (See Attachment II.)

Sen. Karr asked if it would apply to other financial institutions, and Mr. Turner answered that it is limited to banks, savings and loans, and trust companies.

Sen. Karr made a motion to recommend HB 2509 favorable for passage, Sen. Kerr seconded, and the motion carried.

The chairman called on Sen. Reilly for the subcommittee report on SB 283. (See Attachment III.) Sen. Reilly said that a lot of work went into the writing of Substitute for SB 283 and that he does not anticipate too much opposition to the bill. The chairman noted that most of the changes made are of a technical nature, and Sen. Reilly agreed adding that it is a condensation. (See Attachment IV.)

Sen. Gannon made a motion to adopt the committee report and to introduce the substitute bill, Sen. Gordon seconded, and the motion carried.

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 22, 1985.

Committee discussion followed as to what the bill does, the authority of the Insurance Commissioner with regard to the bill, what agreements are allowable under the bill, and a determination that it is limited to health care only.

Sen. Strick made a motion to recommend Substitute for SB 283 favorable for passage, Sen. Gannon seconded, and the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS  
(Please print)

DATE                      NAME                      ADDRESS                      REPRESENTING

3/22	M. C. Umholtz	Topeka	KCMC
	M. Hawwa	"	090-Journal

# KL **Kansas** **League of** **Savings** **Institutions**

JAMES R. TURNER, President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

March 22, 1985

TO: SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE  
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS  
RE: H.B. 2107 (S&L FINANCE SUBSIDIARIES)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the Senate Committee on Financial Institutions and Insurance in support of H.B. 2107 which would provide authority for finance subsidiaries on behalf of state-chartered savings and loan associations.

On July 18, 1984, the Federal Home Loan Bank Board issued authority for federally-chartered savings and loan associations to create finance subsidiaries. The sole purpose of the finance subsidiaries must be to issue securities that the S&L could issue and to remit the proceeds of the offering (less reasonable costs) to the parent association. The intent of the finance subsidiary is to facilitate issuance of collateralized mortgage obligations (CMOs), mortgage backed bonds, Eurobonds, and subsidiary preferred stock. The subsidiary may not issue or deal in the deposits of the parent savings and loans. These regulations are set out in 12 CFR Parts 561-571 and 12 CFR 545.82.

To avoid a competitive imbalance between federally and state-chartered associations in this area, the State Savings and Loan Commissioner on September 21, 1984, issued a "Special Order," pursuant to K.S.A. 17-5601, allowing state-chartered savings and loan associations to establish finance subsidiaries. A copy of the "Special Order" has been attached.

The provisions of H.B. 2107 formalized the Commissioner's "Special Order" creating equity between federal and state-chartered associations by allowing state-chartered associations to create finance subsidiaries subject to the regulations of the State Savings and Loan Commissioner.

We would appreciate the committee's earliest attention to reporting H.B. 2107 favorably for passage.

James R. Turner  
President

JRT:bw

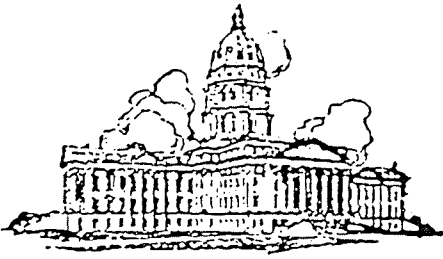
3/22/85  
Attachment I

# *Savings and Loan Department*

Room 220

503 Kansas Avenue

TOPEKA, KANSAS 66603



JOHN CARLIN, Governor

MARVIN S. STEINERT, Commissioner

## SPECIAL ORDER OF THE COMMISSIONER

The Savings and Loan Commissioner hereby enters a Special Order pursuant to K.S.A. 17-5601, which provides that the Commissioner may authorize any and all state chartered savings and loan associations to engage in any activity in which such associations could engage were they operating as a federal savings and loan association. The Commissioner hereby finds it is necessary to adopt this Special Order; that this Special Order is reasonably required to preserve and protect the welfare of state chartered savings and loan associations and that it will promote competitive equality of state and federal savings and loan associations. This Special Order hereby grants the following powers to state chartered savings and loan associations to equalize powers granted to federal associations.

Notwithstanding any restrictions contained in the statutes of the State of Kansas, a state chartered savings and loan association which is a member of a federal home loan bank may, without limitation as to aggregate amount, borrow, give security, and issue notes, bonds, debentures, or other obligations, or other securities, including capital stock, directly or indirectly through a finance subsidiary, and may invest in, transfer or make available assets to any such finance subsidiary, to the same extent it could if it were a federal savings and loan association, subject to the provisions of 12 C.F.R. Parts 561-571 and 12 C.F.R. 545.82.

Signed and sealed this 21st Day of September, 1984 at Topeka, Kansas.

A large, stylized handwritten signature in black ink, which reads "Marvin S. Steinert".

Marvin S. Steinert  
Savings and Loan Commissioner  
State of Kansas

SEAL

This Special Order specifically approved by the Savings and Loan Board at a regular meeting held September 21, 1984.



**KLSI** Kansas  
League of  
Savings  
Institutions

JAMES R. TURNER, President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

March 22, 1985

TO: SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE  
FROM: JIM TURNER  
RE: H.B. 2509 (CEMETERY ASSOCIATION DEPOSITS)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the Senate Committee on Financial Institutions and Insurance in support of H.B. 2509 which would grant equity between federally-chartered and state-chartered savings and loan association in the receipt of cemetery association deposits.

A literal interpretation of present statutes would indicate that only state-chartered savings and loan associations could receive cemetery association deposits. Absent a correction, an inequity would exist among savings and loan associations. The amendments in H.B. 2509 would amend K.S.A. 17-1311 and K.S.A. 17-1312 to provide that both federally-chartered and state-chartered associations could accept such deposits.

We would appreciate the committee's earliest attention to reporting H.B. 2509 favorably for passage.

James R. Turner  
President

JRT:bw

3/22/85  
Attachment II

March 22, 1985

SUBCOMMITTEE REPORT

TO: Senate Committee on Financial Institutions and Insurance  
FROM: Subcommittee on Insurance  
RE: Senate Bill No. 283

Your Subcommittee on Insurance has met to discuss Senate Bill No. 283. Members of the Subcommittee, Senators Gordon and Gannon, the Committee staff, and representatives of the Insurance Department were present for the discussions.

At the outset of our deliberations on the bill, it became clear that it is impossible at this time to precisely define or regulate preferred provider organizations since they are only now beginning to develop in the marketplace. Nevertheless, representatives of the Insurance Department strongly feel that the state must exercise some form of minimal surveillance of these organizations in order to protect the public interest.

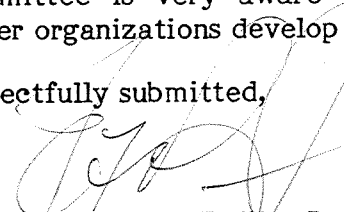
Consequently, following its first meeting, the Subcommittee directed the representatives of the Insurance Department to recast their proposal to clearly set out the minimal requirements it wanted the Legislature to impose. The draft we submit to you, Substitute for S.B. 283, contains what the Department believes to be the necessary provisions for this first effort at regulating these new kinds of health service organizations. Substitute for S.B. 283 loosely defines preferred provider organizations and requires that they be registered with the Commissioner of Insurance. This provision will allow the Commissioner to identify the persons involved in these organizations and to know that these organizations are not acting inappropriately, i.e., as insurance companies or as health maintenance organizations.

The substitute bill also would preclude certain kinds of organizations from developing by prohibiting contracts for exclusive provider organizations and by allowing providers and employers entry into more than one organization. Further, the bill allows for the possibility that the Department of Social and Rehabilitation Services (SRS) may be involved later with these organizations on behalf of its clients by exempting any SRS plan developed under the authority of the Secretary contained in K.S.A. 39-708c.

Finally, the substitute bill grants rule and regulation authority to the Commissioner in order to implement the act. Representatives of the Commissioner, however, indicated to the Subcommittee that little or no additional regulations beyond the statute will be necessary.

Mr. Chairman, the Subcommittee recommends that this report be adopted and that Substitute for S.B. 283 be reported by the Committee favorable for passage. In making this recommendation, the Subcommittee is very aware that additional legislation may be necessary as preferred provider organizations develop in this state.

Respectfully submitted,

  
Senator Edward F. Reilly, Jr.  
Chairman, Subcommittee on Insurance

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3/22/85  
Attachment III

Substitute for SENATE BILL NO. 283

By Committee on Financial Institutions and Insurance

AN ACT relating to insurance; concerning preferred provider organizations; relating to the marketing of preferred provider agreements.

Be it enacted by the Legislature of the State of Kansas:

Section 1. As used in this act:

(a) "Preferred provider organization" means an entity established for the purpose of marketing or administering, or both, a preferred provider agreement;

(b) "preferred provider agreement" means a contractual agreement between a preferred provider organization, a health care provider and a purchaser or insurance company to provide for rates of payment for services such provider agrees to provide to such purchaser;

(c) "insurance company" means companies legally engaged in those kinds of insurance business enumerated in articles 4, 5, 6, 7, 11, 18, 19, 19a, 19b, 19c and 22 of chapter 40 of the Kansas Statutes Annotated;

(d) "purchaser" means one or more persons, organizations or entities which contract with health care providers or insurance companies for the purpose of entering into a preferred provider agreement;

(e) "participant" means any person to whom services are provided pursuant to the provisions of a preferred provider agreement.

Sec. 2. No person, company, corporation, partnership or other legal entity shall act as or hold themselves out to be a preferred provider organization in this state unless such legal entity holds a certificate of registration as a preferred provider organization issued by the commissioner of insurance.

3/22/85  
Attachment IV



Application for such certificate shall be made to the commissioner on a form prescribed by the commissioner and shall be accompanied by a filing fee of \$100. The certificate may be continued for successive annual periods by notifying the commissioner of such intent and payment of a \$50 continuation fee. The certificate shall be issued or continued by the commissioner to a preferred provider organization unless the commissioner, after due notice and hearing, determines that the preferred provider organization is not competent, trustworthy, financially responsible or of good personal and business reputation.

Sec. 3. (a) Failure to hold the certificate required by section 2 or to comply with any other provision of this act shall subject the preferred provider organization to an administrative fine of not more than \$500 unless such preferred provider organization knew or reasonably should have known that such failure was a violation of this act, in which case the penalty shall be not more than \$5,000.

(b) After reasonable notice and hearing, the commissioner may impose a penalty as provided in subsection (a) or revoke or suspend such certificate, upon finding that the preferred provider organization violated any of the requirements of this act or the preferred provider organization is not competent, trustworthy, financially responsible or of good personal and business reputation.

Sec. 4. Preferred provider organizations shall not assume the risk for indemnifying purchasers or participants for covered health care services or of contracting to provide such services.

Sec. 5. Every preferred provider organization shall maintain at its principle administrative office a copy of the preferred provider agreement and for the duration of the preferred provider agreement and five years thereafter, adequate books and records of all transactions between it, the health care providers and the purchasers. The commissioner of insurance shall have access to such books and records for the purpose of examination, audit and

inspection. Any trade secrets contained therein shall be confidential, except the commissioner may use such information for proceedings instituted against the preferred provider organization.

Sec. 6. All moneys collected by a preferred provider organization shall be held by the preferred provider organization in a fiduciary capacity.

Sec. 7. Preferred provider agreements may be entered into for the purpose of reducing health care costs and improving health care provider efficiency, subject to the following:

(a) No preferred provider agreement shall deny reimbursement to a participant because the participant elects to use such participant's own health care provider who is authorized to provide such service within the scope of such provider's practice, but the agreement or plan may provide reasonable incentives to use the services of the preferred provider;

(b) no preferred provider agreement shall preclude any party from entering into other preferred provider agreements;

(c) no preferred provider agreement shall permit the participant to be billed for covered health care costs except amounts for which the preferred provider agreement makes the participant contractually responsible; and

(d) a preferred provider agreement shall provide for written notice to the purchaser upon the addition or deletion of providers to the agreement and shall provide written notice to a provider upon the addition or deletion of purchasers.

Subsection (a) shall not apply to the provision of services under a plan developed by the secretary of social and rehabilitation services pursuant to subsection (s) of K.S.A. 39-708c, and amendments thereto.

Sec. 8. Nothing in this act shall relieve any person, organization or insurance company of regulation under any other applicable insurance law.

Sec. 9. This act shall not apply to organizations exempt under K.S.A. 40-202, and amendments thereto, or any entity which

conclusively shows by submission of an appropriate certificate, license or other document issued by a governmental agency that it is subject to the jurisdiction of an agency of the state or federal government.

Sec. 10. The commissioner of insurance is hereby authorized to adopt such rules and regulations as are necessary to implement and carry out the provisions of this act.

Sec. 11. This act shall take effect and be in force from and after its publication in the statute book.