Approved April 2, 1985
Date

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 April 1, 1985 in room 529-S of the Capitol.

All members were present except:

Sen. Burke - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Wayne Morris, Security Benefit Group of Companies
Jane Tedder, Security Benefit Group of Companies
Bud Cornish, Kansas Domestic Insurance Companies

The minutes of March 29 were approved.

The hearing was begun on HB 2464 dealing with investment of insurance companies in money market mutual funds. Wayne Morris, Security Benefit Group of Companies, briefly testified in support of the bill which was requested by Security Benefit Life Insurance Company. He explained the background of the bill and said it amends two statutes. (See Attachment I.)

Mr. Morris introduced Jane Tedder also with his company to give further information on the bill in explaining the terms and purposes of the amendments. (See Attachment II.)

Sen. Warren asked if Security Benefit is allowed to purchase common stock, and Robert Burstein, Vice President of Security Benefit, answered for Ms. Tedder saying that they are allowed to purchase common stock with a small portion of their money, and the bill would allow them to make small investments in an area other than common stock.

Sen. Gannon asked for the reason for using the $25,000,000 requirement on line 97 of the bill, and it was explained by Mr. Morris that this is merely existing language.

Sen. Karr inquired as to how safety would be affected by the two requested amendments. Ms. Tedder said that only the highest quality investments would be made and that the money market mutual funds allow one to get in and get out of the investment quickly. Mr. Morris added that investing in money market mutual funds is investing assets that the companies already have power to invest. The difference in this type of investment is that it offers more liquidity than other investments. The chairman said that also the companies can only invest in funds that have a secure portfolio.

Sen. Warren asked how often the company could change its investments from common stocks to mutual funds. Mr. Burstein answered saying that it can be done at will as long as the company has the reserve required by the Insurance Department. The intent of the bill is to allow the company to invest in money market mutual funds which have flexibility in maturities instead of as it is now where investments in funds have a fixed maturity.

Bud Cornish, Kansas Domestic Insurance Companies, appeared to sate his support of HB 2464.

Ron Todd, Kansas Insurance Department, informed the committee that Security Benefit Life did review the bill with the Department when preparing it, and the Department approves the bill.

The hearing was begun on HB 2465 dealing with investment in financial futures contracts by insurance companies which was also requested by Security Benefit Life Insurance Company. Mr. Morris testified that the bill would inact two identical statutes except that one would refer to life insurance companies and the other would refer to other types of insurance companies in dealing with financial futures for hedging purposes. (See Attachment III.)

The chairman asked what the penalty is if an insurance company speculates rather than hedging. Mr. Morris said the company would be subject to dicipline by the Insurance Department, and the brokers handling these accounts would know in what the companies are allowed to invest. The chairman inquired further as to what the definition is of contra-assets and contra-liabilities found on lines 173-174 of the bill. Mr. Morris said they are accounting terms reflecting gain or loss on the books and that this is part of the model from the State of Illinois used in drafting the bill.

Jane Tedder followed with testimony dealing with an explanation of terms used in the bill. (See Attachment IV.)

Sen. Werts said he felt that the definition of "hedge" on page 2, line 49, of the bill could be improved as it defines in terms of itself. Ms. Tedeer explained that all three definitions of "hedge" on this page must be put together to get a complete definition.

Sen. Karr asked who else beside the Board of Directors would be involved in an oversight. Mr. Morris referred to lines 81 and 82 of the bill where it is stated that the insurance department would be involved. Sen. Karr asked how often the department would review a company. Ron Todd of the Kansas Insurance Department said that it could be done at any time, probably at least annually if the bill is enacted although the bill does not say when the examinations should take place. The Department would not additional authority to make such examinations.

A short discussion followed as to the effects of hedging and the protection available from hedging becoming speculating.

Bud Cornish, Kansas Domestic Insurance Companies, stated his support for HB 2465.

On a call for action on HB 2465, Sen. Werts made a motion to report it favorable for passage, Sen. Gordon seconded, and the motion carried.

Sen. Kerr made a motion to report HB 2464 favorable for passage, Sen. Gannon seconded, and the motion carried.

The chairman drew the committee's attention to HB 2422 dealing with no-fault insurance which had been previously heard. He said there were several options that could be taken among which were to adopt the concept from the House or to amend the bill. If the committee decided to adopt the concept as from the House, staff has suggested a technical amendment on page 5, line 177, for clarification in the definition of general benefits. The suggested amendment would change "such" to "the total". Sen. Werts made a motion for the adoption of the suggested amendment. Sen. Gannon seconded, and the motion carried.

The chairman began a discussion of the date on which the bill would take effect. He feels that the extra time given is not necessary. Sen. Harder made a motion to change the date of effect by deleting "January 1, 1986". Sen. Reilly seconded, and the motion carried.

Sen. Werts asked for a definition of "verbal threshhold". Staff referred to page 6, line 216, in explaining that it is not a money figure but is described in words.

Sen. Karr moved to replace the language that was stricken on lines 216 and 217 regarding fractures. The chairman reminded the committee that the reason for removal of this language was shown in testimony and that it would not affect the ability to collece on medical expense or the ability to go to court. There was no second to Sen. Karr's motion.

Sen. Karr felt that the bill as is will meet with resistence from the Governor as he vetoed the raising of the threshhold to $1500 last year, and the $3000 this year would certainly be likely to be vetoed. The chairman said that the Governor had indicated to himself and others that he wants a no-fault bill, but he is not ready to make up his mind as to what form he wants it until he has had more time to study it. He might agree to some form of this bill, and letting the bill go into conference committee will give the Governor the time allowance he needs.

Sen. Werts made a motion to report HB 2422 favorably as amended, Sen. Reilly seconded.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,

room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on April 1, 1985.

Sen. Karr made a substitute motion to strike all changes in the PIP area and to provide a threshhold of $1250 as a pattern for negotiating. Sen. Gannon seconded the motion. The motion failed.

The chairman called for a vote on the original motion, and the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
4-1	ROBERT BURSTEIN	700 HARRISON, TOPEKA	SBL
4-1	Jane Tedder	"	"
"	Wayne Morris	" "	SBC
	John Grace	500 ½ Kansas	Ks Assn Home Health Agcy
	Clayton Davis	700 Ks ave Topeka	
	Lee WRIGHT	MISSION, Ks.	FIG
	Dick Scott	O. P.	State Farm Ins
	LARRY MAGILL	TOPEKA	IIAK
(APRIL FOOL'S DAY)	John Hancock	PHILADELPHIA	CONTENENTAL CONGRESS

Security Benefit Life Insurance Company
A Member of The Security Benefit Group of Companies

Date: April 1, 1985

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

From: Wayne Morris, Assistant Counsel

Re: H.B. 2464 -- Money Market Mutual Funds

H.B. 2464 is one of the two bills dealing with investments by insurance companies that were introduced at the request of the entire domestic insurance industry.

In 1983 the Kansas Legislature amended the investment statutes by enacting KSA 40-2a22 and 40-2b24, which allow insurance companies to invest up to ten percent of their admitted assets in "open-end regulated investment companies" or mutual funds. H.B. 2464 would amend these two sections to permit companies to invest an unlimited amount in certain money market mutual funds, with no more than 20 percent of assets in any one money market mutual fund. These investments could be made in any money market mutual fund that invests only in investments authorized under: 1) 40-2a01 and 2b01 (U.S. bonds); 2) 40-2a02 and 2b02 (state or local bonds); 3) 40-2a03 and 2b03 (Canadian bonds); 4) 40-2a04 and 2b04 (foreign government bonds, limited to 5 percent); 40-2a05 and 2b05 (certain corporate bonds); and the fund must have assets of at least $25 million.

I have asked Jane Tedder, Portfolio Manager for Security Benefit, to briefly explain the difference between "ordinary" mutual funds and money market mutual funds, the safe nature of investments in money market mutual funds, and the reasons why this investment authority is necessary.

Thank you for the opportunity to explain this bill, we will be happy to answer any questions you may have.

WM/ccd

4/1/85
Attachment I

Memo

Date: April 1, 1985

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

From: Jane Tedder, Portfolio Manager, Security Benefit Group of Companies

Re: H. B. 2464 -- Money Market Mutual Funds

I. Definition of terms

A. Mutual Funds: professionally managed, diversified portfolios of securities assembled to meet specific investment objectives such as growth or income.

B. Money Market Mutual Funds: mutual funds that invest in short-term money market securities (such as U.S. Treasury bills, Federal agency securities, or corporate debt obligations maturing in less than one year) in order to provide relatively risk-free investments that give a daily payment of competitive short-term interest rates.

II. Twofold purpose of the amended section

A. To clarify the status of money market mutual funds as investment vehicles in a separate category because of:

1. their short term nature.
2. their liquidity.
3. their freedom from market risk (the net asset value remains constant)

B. To allow for unlimited investment in money market mutual funds when prudent, such as:

1. when economic conditions warrant holding short-term liquid investments.
2. when cash inflows must be invested temporarily while a suitable, more permanent investment is found.

NB/abg

4/1/85
Attachment II

Security Benefit Life Insurance Company
A Member of The Security Benefit Group of Companies

Date: April 1, 1985

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

From: Wayne Morris, Assistant Counsel

Re: H.B. 2465 -- Investments by Insurance Companies

H.B. 2465 would enact two new sections (one for life insurance companies and one for all other insurance companies) which would allow companies to enter into financial futures contracts for hedging purposes. The investment authority that would be granted by the bill is quite conservative and would allow companies to reduce the risk in their investment portfolios.

Protections offered by the bill include: 1) investment would be limited to "financial futures," rather than futures in commodities; 2) the contracts must be limited to "hedging," rather than speculative purposes; and 3) the investments may be made only in accordance with established procedures subject to review by the company's board of directors and the Insurance Department's examiners. Furthermore, these types of investments are allowed in a majority of other states. Financial futures contracts are also a common investment tool of other financial institutions such as banks and savings and loan associations.

Because many of these terms may be as new to you as they were to me, I have again asked Jane Tedder, Portfolio Manager, to explain the terms used in the bill and examples of such contracts.

Thank you for your consideration.

WM/dgh

700 Harrison, Topeka, Kansas 66636 (913) 295-3000 Founded 1892

4/1/85
Attachment III

MEMO

Date: April 1, 1985

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

From: Jane Tedder, Portfolio Manager, Security Benefit Group of Companies

Re: H. B. 2465 -- Use of Financial Futures Contracts for Hedging Purposes

I. Purpose of Hedging: Reduction of risk created by fluctuations in interest rates.

II. Definitions

A. Financial Futures Contracts: agreements to buy or sell a financial instrument (i.e., Treasury Bills or Treasury Bonds) at a set time, at an agreed-upon price.

B. Hedging: the creation of a futures position that offsets risk exposure in the cash position.

III. Most Common Hedging Uses

A. "Locking in" today's rates for anticipated investments.

B. Protecting market value of investment portfolio.

IV. Features of Bill

A. Definitions of terms.

B. Requirement of approval of Board of Directors.

C. Limits on hedging activities.

D. Accounting procedures.

V. Conclusion

A. The use of financial futures contracts for hedging purposes has been in practice by financial institutions for many years: The Comptroller of the currency first approved their use for national banks in 1976.

B. Thirty-five states now allow insurance companies to hedge using financial futures contracts.

NB/aee

4/1/85
Attachment IV