

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 21, 1986 in room 529-S of the Capitol.

All members were present except:

Senators Werts and Strick - Excused

Committee staff present:

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

Conferees appearing before the committee:

George Lehner, U. S. council for the African Development Bank (Washington, D.C.)
Ron Todd, Kansas Insurance Department

The minutes of March 20 were approved.

The hearing began on HB 2741 dealing with investments of insurance companies in the African Development Bank. George Lehner, U. S. council for the African Development Bank, testified in support of the bill. He gave some background of the bank saying that it is an international financial institution which the United States joined in 1983 and of which South Africa is not a member. His firm has been traveling to various states to get this legislation passed, and approximately thirty states have passed it. The bank is composed of member countries who subscribe to capital shares which are in sound, secure financial investments. He feels Kansas should be interested in it because it is a good opportunity to participate in an important concern of the United States; as a result of U. S. membership, companies can participate in bank procurement; and Kansas' agricultural interest is an indirect link to what will be taking place in African development.

Sen. Gannon asked why state legislation is needed for this. Mr. Lehner said that each state treats insurance companies differently. He added that Kansas legislation has already included two other international banks in their legislation. He also explained to the chairman that his firm will be working for authorization in all states where legislation is necessary which will be 40-45 states by the time they are finished.

Sen. Harder asked what the rating on the bonding is, and Mr. Lehman said it is AAA.

Sen. Kerr asked if there should not be concern about the ability to repay loans made through this bank as past history of other banks have shown. Mr. Lehner said African Development Bank is different from commercial banks. The ownership of the bank is by member governments which will never borrow more than the capital reserves at one time. His understanding is that it will never go beyond two-thirds of its borrowing capacity. Sen. Kerr questioned further if the pledges are sound. Mr. Lehner said they are because most of this money is already paid into this bank. The bonds that are going to be issued to the United States will be paid out of money out of non-regional members. The bank has been operating for twenty years and has never had a loss. The chairman asked how much the United States pledged, and Mr. Lehner answered \$300 million.

Sen. Reilly noted that the bill is to be effective upon publication in the Kansas Register and asked if there is an urgency for the bill. Mr. Lehner said there is no urgency and he would have no objection to using July 1 as the effective date.

Sen. Anderson briefly spoke to the committee telling them that this was attempted in an amendment last year without success. He was glad to see that it has been made clear in the House bill.

Ron Todd, Kansas Insurance Department, informed the committee that his department has researched the bill and has found no problem with it. He added that this would allow companies specific authorization to invest outside the current lea-way clause. With this, the hearing on HB 2741 was concluded.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 a.m. ~~xxxx~~ on March 21, 1986

Attention was turned to HB 2499 dealing with insurance companies with regard to special deposits, examination costs, and regulatory information system. Ron Todd testified explaining first that the bill had been introduced very late last session. The purpose of the bill is to give the commissioner more flexibility in regard to 40-222b dealing with insurance companies that the commissioner feels are in hazardous condition. With the growing need in recent years to explore avenues to avoid insolvency, the department began conferences with companies to find more ways for earlier detection of possible insolvency.

Mr. Todd said the first change is on line 35 which allows the commissioner to reduce the volumn of new and renewal business being accepted. A similar change occurs on line 42 regarding companies reinsuring. The main change in intent is on pages two and three where existing language is stricken and replaced with new language relative to deposits that may be required. This section would now apply to domestic companies as well as foreign companies desiring to do business in Kansas. The change on line 79 makes clear that securities that are held on deposit by the commissioner be valued at market value. The change on line 107 requires that in cases of the commissioner holding one of these deposits for an insolvent company, he would transfer the securities being held immediately to the guarantee fund of the company. This is done now, but it is necessary to go to court to do it, and if in the statute, this would no longer be necessary. The final change explained by Mr. Todd is in Section 2 which is new language requiring a company to participate in NAIC requirements.

The chairman asked for the significance of the stricken language on pages four and five. Mr. Todd said it was deleted by the House committee this session at the department's request. It puts in the procedure whereby the department could examine a nearly insolvent company and waive the examination costs.

Sen. Gordon asked how the department determines a company to be in "hazardous condition." Mr. Todd said there is no percentage or formula requirement in the determination. The department watches losses incurred by companies in relation to their surplus as a key to determining the need for an examination. This concluded the hearing on HB 2499.

The chairman returned the committee's attention to HB 2741. The committee was in agreement with him that it would not be worth the cost to change the effective date from "on publication in the Kansas Register" to "July 1."

Sen. Gordon made a motion to recommend HB 2741 favorable for passage. Sen. Karr seconded, and the motion carried.

Sen. Reilly made a motion to recommend HB 2499 favorable for passage. Sen. Kerr seconded, and the motion carried.

Attention was turned to HB 3088 dealing with the Kansas life and health insurance guaranty association act which had been heard yesterday. The chairman said he had studied the bill since the hearing and found no problem with it. He reminded the committee of the amendment offered by the commissioner which would change the House amendment, which changed the amount from \$300,000 to \$100,000, back to \$300,000. He noted that reducing it would have less impact in the guaranty fund and, consequently, less impact on the premium offset, and, consequently, less impact on the state general fund.

Sen. Kerr made a motion to approve the three amendments offered by the Commissioner. Sen. Harder seconded, and the motion carried.

Sen. Kerr made a motion to recommend HB 3088 as amended favorable for passage. Sen. Gordon seconded, and the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3/21	GEORGE LEHNER	1050 CONN. WASH. D.C.	AFRICAN INV. BK.
"	Dan Cunningham	Lawrence,	"
"	LM CORNISH	Topeka	Ks Ins Cos
✓	Ron Smith	"	Ks Bar Assoc
"	Lee WRIGHT	MISSION	FARMERS INS GROUP
"	Ron Todd	Topeka	Ins. Dept.
"	Wayne Minis	"	Security Benefit Life