

Approved 2-12-87  
Date

MINUTES OF THE House COMMITTEE ON Insurance

The meeting was called to order by Rep. Dale M. Sprague at  
Chairperson

3:30 ~~a.m.~~<sup>XX</sup>/p.m. on February 5, 1987 in room 521-S of the Capitol.

All members were present except:  
~~Rep. Beauchamp, Rep. Bryant, Rep. Littlejohn, Rep. Sawyer, Rep.~~  
~~Turnquist, all excused~~  
Rep. Cribbs, Rep. Schauf

Committee staff present:

Emalene Correll, Chris Courtwright, Research Department  
Bill Edds, Revisor's Office  
Deanna Willard, Committee Secretary

Conferees appearing before the committee:

~~Martin Dickinson, Great-West Life and Annuity Insurance Company~~  
Bud Cornish, Kansas Life Association  
Wayne Morris, Security Benefit Life  
Ralph Laster, American Investors Life  
Dick Brock, Kansas Insurance Department

The meeting was called to order by the Chairman.

Hearing on: HB 2123 - deposit of assets constituting reserves of life insurance companies

Staff briefed the Committee that the bill was requested by the Kansas Life Association. It amends K.S.A. 40-404 which requires that reserve assets must be deposited with the Commissioner of Insurance. This bill would amend the law so that depositing such capital in a custodian bank would be allowed. Banks could then redeposit the capital; the Commissioner would have authority to regulate security provisions.

Mr. Martin Dickinson, Great-West Life and Annuity Insurance Company, was the first conferee. His remarks are attached. (See Att. 1.) His further explanations spoke to the requirement that before securities can be sold, the Commissioner must physically sign off the transaction. The elimination of this requirement would allow annuity companies to be able to move quickly to obtain the best return on the customer's investment.

Mr. Dick Brock explained that this system would be an alternative for domestic companies to the physical deposit of assets in the vault. This is similar to a joint custody receipt; it is a trust agreement between the Commissioner and the custodian bank. This refers to Kansas insurance companies and banks. Iowa has had a similar provision in place since 1983.

Mr. Bud Cornish, Kansas Life Association, said the bill would affect only the 20 domestic life insurance companies in the state. It is not a major change; the policing of securities is not new. The method of moving securities in and out would be more efficient. Often there is a period of six or seven days during which the bank as custodian must physically remain in possession of the security. Lines 153-167 provide conditions for the Commissioner to set up requirements for the use of the system. A similar bill last year provided for a clearinghouse for securities and required that bonds be in Kansas banks. The vast majority of

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Insurance,  
room 521-S, Statehouse, at 3:30 ~~a~~XX.m./p.m. on February 5, 1987.

deposits are reserves of life insurance companies. This bill affects life companies as most of their reserves are long term.

Mr. Wayne Morris, Security Benefit Life, said that they strongly support the bill. His testimony is attached. (Att. 2.) He stated that it would be one way in which the efficiency of the state regulatory system could be improved in order to attract companies to Kansas.

Mr. Dick Brock said that the Insurance Department believes the interest of Kansas policyholders is adequately secured and they have no objections to the bill. The banks would have to meet the requirements now in existence regarding financial stability.

Mr. Ralph Laster, American Investors Life, said that the present system is inconvenient, even for his company which is only 1/2 block from the Commissioner's office. He explained that the bill calls for funds to be held in trust. No third party would have any claim against them in the event of a bank failure; they would not be subject to the FDIC.

Mr. Kurt Scott, Chief Examiner, Kansas Insurance Department, explained that when a company requests withdrawal of securities, it is a matter of verifying that the amount of reserves is still sufficient.

The Committee toured Room 531-N to determine the desirability of changing meeting rooms. The consensus was that 531-N would be better for our purposes, so the Committee will meet there, effective February 11, 1987.

The meeting was adjourned at 4:10 p.m.

House of Representatives  
Committee on Insurance  
February 5, 1987

STATEMENT IN SUPPORT OF HOUSE BILL NO. 2123

The purpose of House Bill No. 2123 is to modernize Kansas law governing the procedures used by Kansas life insurance companies to invest their reserve assets. It is modeled on a similar statute enacted in Iowa in 1982 (Iowa Code Annot. Section 511.8(21)). Other states have adopted similar procedures by statute or regulation.

The procedure permitted by this bill is essential to permit Kansas companies to compete effectively with companies in other states.

The bill permits a Kansas company to place reserve assets in trust with a Kansas bank under procedures approved by the Commissioner of Insurance. The Kansas bank, acting as trustee, invests the reserve assets as directed by the company and holds the proceeds of any sale of reserve assets.

This procedure simplifies the investment of reserve assets. It permits efficient execution of company orders to buy and sell instruments such as U.S. Government obligations. It eliminates the time-consuming process of obtaining signatures from the Department of Insurance as to sales of reserve assets. During the period between a sale and final settlement of the transaction, the full value of a company's assets can be counted toward its reserve obligations.

The bill has no effect on the statutes that define the assets in which reserves of a Kansas company may be invested. It does not diminish the company's reserve obligations. Nor does it change the methods used to value reserve assets. It changes only the procedure used to make investments.

The bill gives the Commissioner broad authority to regulate all aspects of the bank trustee arrangement and thereby assure the safety of reserve assets.

It is expected that Kansas companies will use the trustee arrangement for only a portion of their reserve assets--those as to which bank involvement will streamline the investment process. Therefore we expect a large portion of the reserves of Kansas companies to remain on deposit with the Commissioner in accord with K.S.A. 40-404(b) through (d).

The bill was developed after full discussion with the Commissioner of Insurance and his staff. We understand the Commissioner to believe that the bill and regulations to implement it will fully protect the interests of persons insured by Kansas companies.

The bill has the full support of the 17 major Kansas life insurance companies that constitute the Kansas Life Association.

Respectfully submitted,

Martin B. Dickinson, Jr.  
Member, Board of Directors  
Great-West Life & Annuity Ins. Co.



# Security Benefit Life Insurance Company

A Member of The Security Benefit Group of Companies

Date: February 5, 1987  
To: The Honorable Dale Sprague, Chairman, and Honorable  
Members, House Committee on Insurance  
From: Wayne Morris, Assistant Counsel  
Re: H.B. 2123 -- Kansas Deposit Laws

I am Wayne Morris, Assistant Counsel for Security Benefit Life Insurance Company.

Security Benefit Life joins with the other members of the Kansas Life Association in strong support of H.B. 2123. We believe that the amendments contained in H.B. 2123 will permit further efficiencies in the administration of our state's deposit requirements, while still maintaining prudent protection for the benefit of our policyholders.

Thank you for the opportunity to express our support of this bill. Either I, or Jim Woods, Security Benefit's Vice President for Investments, would be happy to attempt to answer any questions you may have.

WM/eda/lg

*- Wayne*

House Insurance Committee  
February 5, 1987  
Att. 2