

Approved March 23, 1987
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 March 20, 1987 in room 529-S of the Capitol.

All members were present except:

Committee staff present:

Bill Wolff, Legislative Research
Myrta Anderson, Legislative Research
Bill Edds, Rvisor of Statutes

Conferees appearing before the committee:

Lynn Van Aalst, Kansas League of Savings Institutions
Mike Majors, Franklin Savings
Ken Schafermeyer, Kansas Pharmacists Association

The meeting began with the hearing on HB 2390 dealing with negotiable certificate accounts of saving and loan associations. Lynn Van Aalst, Kansas League of Savings Institutions, testified in support of the bill. (See Attachment I.) She introduced Mike Majors of Franklin Savings who had come to answer questions.

The chairman asked what the advantage is of going into a pool as opposed to going to a broker. Ms. Van Aalst said that you may get a better interest rate, and it is assured in a pool, but it isn't from a broker.

Sen. Warren asked if it would be a registered instrument. Mr. Majors said the master certificate on the pool would be on file at the savings and loan and registered to individuals through the brokerage firm for the savings and loan. Sen. Warren asked further if the pool would remain intact if the savings and loan fails. Mr. Majors said the pool would be insured individually for \$100,000.

Sen. Strick questioned the negotiability of CDs. Mr. Majors said the negotiability is necessary for liquidity for brokerage firms.

Sen. Werts asked if an institution "issues" an account or "establishes" it with regard to the language of the bill. Mr. Majors said it does both, establishes it on records and issues a certificate. Sen. Werts asked if the language shouldn't read "time deposit certificates" instead of "time deposit accounts". Ms. Van Aalst said this language conforms with Kansas statute language.

Sen. Gannon had questions as to how the borkerage firm invests the pool of money. Ms. Van Aalst said it takes the pool and buys a CD for a specific amount of time. The name on the certificate is the brokerage firm representing individuals. Mr. Jim Turner, also of Kansas League of Savings Institutions, added that it allows a brokerage firm to pool the CDs, but he money goes back to the savings and loan. Sen. Werts said these are issued at a fixed interest rate but may be traded at a higher market. After short discussion of interest rates, the hearing on HB 2390 was concluded.

The minutes of March 19 were approved.

The hearing began on HB 2404 dealing with non-profit pharmacy service corporations. Ken Schafermeyer of the Kansas Pharmacists Association testified in support of the bill. (See Attachment II) after the chairman reminded the committee that this bill had been in committee last year, but there had been no time to work it.

The chairman questioned why the language regarding a \$25 fee on page 9 is repeated on page 13, and Mr. Schafermeyer was uncertain why. Staff explained that one section is for domestic companies and the other is for non-domestic companies.

Sen. Werts said the bill is all new language and wanted to know more about it. The

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 a.m. ~~pm~~ on March 20, 1987.

chairman said it is the HMO language reprinted; it amends the HMO language into pharmaceutical statutes. Mr. Schafermeyer said the language is in the insurance statutes for the non-profit dental act and the optometric act. This bill is identical except for the three changes he pointed out in his testimony. Sen. Werts asked what the bill does. Mr. Schafermeyer answered that it will allow a contract with an employer group and allow them, under the jurisdiction of the Commissioner, to accept capitation contracts. He explained that capitation is an arrangement where the employer pays for an individual each month, and the provider provides to the individual no matter what the cost. It puts the risk that falls on insurance companies on the providers.

Sen. Werts asked why not for profit. Mr. Schafermeyer said it's the way others are doing it. Sen. Werts asked what if the income is greater than the expense? Mr. Schafermeyer explained that in this case the money is distributed to the providers and is taxable income.

Sen. Karr expressed concerns about the three changes from the other areas. He said an interim committee this summer had suggested that the language be made to work together, and wondered if the language in this bill could not go in this direction. Mr. Schafermeyer was agreeable to this. However, he stressed that the one significant change he feels needs to be left in is the second one regarding the 50% provision. With this, the hearing on HB 2404 was concluded.

Attention was returned to HB 2390. Sen. Harder made a motion to report HB 2390 favorably, Sen. Werts seconded, and the motion carried.

As to HB 2404, Sen. Karr said he had reservations because there is an attempt to combine this into another bill in committee which has not been heard yet, HB 2167. He would like all the different corporations to have a similar pattern in their statutes. The chairman said he has no problem with the 50% provision but could understand Sen. Karr's concern. Sen. Harder said he had no problem with the 50% or the number of directors. Sen. Karr said then maybe the others need to be changed. The chairman said HB 2167 is not scheduled for hearing since there are so many bills in committee and not enough time.

Sen. Harder made a motion to report HB 2404 favorable for passage, Sen. Burke seconded.

Sen. Werts had a question regarding line 51 as to the use of "pharmacies" as directors. The chairman said this is correct, they would be directors who then would designate a member. Staff explained further that in the House committee hearing it was determined that this would be referring to a owner-proprietor.

On a call for a vote on Sen. Harder's motion, the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3-20-87	MICHAEL W. MASTERS	BALDWIN KS	FRANKLIN SAVINGS
"	Lynn Van Oalst	Topeka	KLSI
"	Ken Schafermeyer	"	KS Pharmacists Assoc
"	MARVIN STEINERT	"	S + L Dept
"	Jim Jumer	Topeka	KLSI
"	LARRY MAGILL	"	I.I.A.K.

KLSI Kansas
League of
Savings
Institutions

LYNN G. VAN AALST, Vice President • Suite 612 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

March 20, 1987

TO: SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE
FROM: LYNN VAN AALST, KANSAS LEAGUE OF SAVINGS INSTITUTIONS
RE: H.B. 2390 (NEGOTIABLE CDs; STATE CHARTERED S&Ls)

The Kansas League of Savings Institutions appreciates the opportunity to appear before the Senate Financial Institutions & Insurance Committee in support of H.B. 2390, a conformity bill which would allow state chartered savings and loan associations to offer negotiable certificates of deposit. Federally chartered associations already have the authority to offer this type of instrument.

Under federal regulations, a copy of which is attached, a federal association may enter into a negotiated agreement with a brokerage firm to act as the depository for a pool of CDs marketed by the broker to individuals and/or institutions. The pooled CDs are held in the name of the broker as agent, with the individual component parts insured up to \$100,000 by the FSLIC.

State chartered associations are not authorized by current statute to offer this type of instrument, which places them at a competitive disadvantage with Federally-chartered associations with respect to source of funds. To correct this inequity, the State Savings & Loan Commissioner issued a special order on February 4, 1987, a copy of which is attached.

H.B. 2390 would establish statutory authority to equalize the powers of state chartered institutions to those granted federally chartered associations. We respectfully request that the committee report H.B. 2390 favorably for passage.

Lynn Van Aalst, Vice President
Kansas League of Savings Institutions

LVA:bw
Encl.

Attachment I
Senate F I & I - 3/20/87

¶ 3412

§ 545.13 Account records.

(a) Evidence of ownership and account.

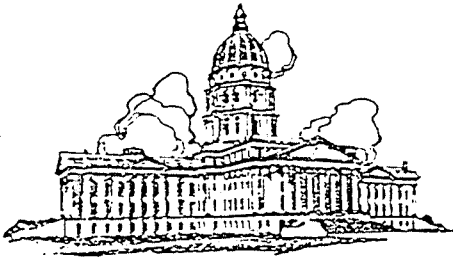
An association shall comply with the requirements found at §§ 563.1 and 563.17-1(c)(8) of the Chapter. Accounts must be evidenced by a written agreement with transactions confirmed by issuance of a receipt or advice.

(b) Ownership of record.

(1) GENERAL RULE. An association may treat the holder of record of an insured account as the owner, regardless of any notice to the contrary, until the account is transferred on the association's books. Insured accounts shall be transferable only on the association's books on proper application by the transferee and acceptance of the transferee as a member on terms approved by the board of directors.

(2) EXCEPTION. Paragraph (b)(1) of this section notwithstanding, an association may issue negotiable certificate accounts in bearer form without recording ownership on the books of the association: *Provided*, That any provisions of the association's charter regarding membership and voting shall not apply to such certificates.

(c) Use of collecting and paying agent. An association may authorize any bank that is a member of the Federal Deposit Insurance Corporation or any institution that is a member of the Federal Savings and Loan Insurance Corporation to prepare, sign and deliver evidence of accounts, to collect and transmit funds obtained from those accounts, and to maintain records with respect to such accounts. The association may provide for issuance of duplicate certificates, bond, security and other protection in connection with such activities. An association may also authorize any such institution to pay an account according to its terms.



Savings and Loan Department

Room 509
Landon State Office Building
900 Jackson

TOPEKA, KANSAS 66612-1220

MIKE HAYDEN, *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 federal savings and loan associations may issue time deposit accounts in negotiable form; 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 may, without limitation, issue time deposit accounts in negotiable form. Any provisions of the associations bylaws and state statutes regarding membership and voting shall not apply to such certificates.

Signed and sealed this 4th Day of February, 1987 at
Topeka, Kansas.

Marvin S. Steinert
Savings and Loan Commissioner
State of Kansas

SEAL

STATEMENT TO THE SENATE COMMITTEE ON
FINANCIAL INSTITUTIONS AND INSURANCE

MARCH 20, 1987

SUBJECT: HB 2404, REGARDING NON-PROFIT PHARMACY SERVICE
CORPORATIONS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE;

MY NAME IS KEN SCHAFERMEYER AND I AM EXECUTIVE DIRECTOR OF
THE KANSAS PHARMACISTS ASSOCIATION--AN ORGANIZATION REPRESENTING
APPROXIMATELY 1,000 PRACTICING PHARMACISTS IN THE STATE OF
KANSAS. I APPRECIATE THE OPPORTUNITY TO ADDRESS YOU ON HOUSE
BILL 2404 REGARDING THE ESTABLISHMENT OF NON-PROFIT PHARMACY
SERVICE CORPORATIONS.

THIS BILL IS AN ENABLING ACT WHICH WOULD ALLOW THE
ESTABLISHMENT OF A NON-PROFIT PHARMACY SERVICE CORPORATION UNDER
THE JURISDICTION OF THE KANSAS INSURANCE DEPARTMENT. THIS "NON-
PROFIT PHARMACY SERVICE CORPORATION ACT" IS IDENTICAL TO THE NON-
PROFIT DENTAL AND OPTOMETRIC SERVICE CORPORATION ACTS WITH A FEW
MINOR EXCEPTIONS:

1. THE BOARD OF DIRECTORS IS COMPRISED OF 11 MEMBERS RATHER
THAN 10. IT IS GENERALLY ACCEPTED THAT AN ODD-NUMBERED
BOARD OF DIRECTORS IS PREFERABLE TO AN EVEN-NUMBERED
BOARD. THE MAJORITY OF THE MEMBERS OF THE BOARD OF
DIRECTORS WOULD BE PUBLIC MEMBERS APPOINTED BY THE
GOVERNOR (2) AND THE INSURANCE COMMISSIONER (4).
2. WE HAVE REMOVED THE PROVISION REQUIRING 50% OF THE
PROVIDERS IN THE STATE TO PARTICIPATE BEFORE THE
CORPORATION CAN BECOME OPERATIONAL. IT IS OUR
FEELING THAT THIS PROVISION IS UNNECESSARY..

3. WE HAVE ADDED "PREFERRED PROVIDER ORGANIZATIONS" ON
LINES ⁷⁹~~75~~ AND ¹⁰⁵~~102~~ IN ORDER TO CLEARLY INDICATE THAT PPOs
ARE AMONG THE GROUPS WHICH THE SERVICE CORPORATION
MAY CONTRACT WITH. THIS MAKES SENSE SINCE HMOs ARE
SPECIFICALLY MENTIONED AND THE LEGISLATURE HAS
CONSIDERED A BILL TO LICENSE PPOs.

THE PURPOSE OF ESTABLISHING A NON-PROFIT PHARMACY SERVICE
CORPORATION IS TO ALLOW A STATE-CONTROLLED ORGANIZATION WITH
PHARMACY REPRESENTATION TO ACCEPT CERTAIN CONTRACTS WHICH INVOLVE
RISK SHARING AND DISTRIBUTION OF FUNDS BASED UPON EXPERIENCE OF
THE GROUP. WITHOUT THIS ACT, SUCH AN ORGANIZATION WOULD HAVE TO
BE LICENSED AS AN INSURANCE COMPANY OR A HEALTH MAINTENANCE
ORGANIZATION.

THIS BILL ALSO ALLOWS SMALL PHARMACIES AN EQUAL OPPORTUNITY
TO COMPETE WITH LARGE CHAINS. (A LARGE CHAIN, AS A SINGLE
CORPORATION, IS ABLE TO ACCEPT RISK THROUGH A CAPITATION PROGRAM
WITHOUT FALLING UNDER THE INSURANCE LAWS; A GROUP OF PHARMACIES
COULD ALSO DO SO UNDER THE PROVISIONS OF THIS BILL.)

THE LEGISLATURE HAS DEEMED THAT THESE ARRANGEMENTS ARE
APPROPRIATE FOR HOSPITAL, DENTAL AND OPTOMETRIC SERVICE
CORPORATIONS. THE MANY CHANGES SWEEPING THE HEALTH CARE
INSURANCE INDUSTRY ALSO AFFECT PHARMACY AND IT IS TIME FOR THE
STATUTES TO REFLECT THIS. WE WOULD APPRECIATE YOUR SUPPORT OF
THIS BILL.