

Approved April 1, 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 31, 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, Revisor of Statutes

Conferees appearing before the committee:

William Sneed, AmVestors Financial Corporation  
Ron Todd, Kansas Insurance Department  
Jerry Slaughter, Kansas Medical Society

The minutes of March 30 were approved.

The hearing began on HB 2456 regarding authorized investments of life insurance companies. William Sneed, AmVestors Financial Corporation, testified in support of the bill, focusing on the second of his pass outs as the simplest way to go through the bill. (See Attachments I and II.)

The chairman asked what the effect of the first change is, going from annual to quarterly reports. Mr. Sneed said that quarterly statements allow them to take into account surplus when they make investments and works in reverse for those companies having trouble.

Ron Todd of the Kansas Insurance Department testified that the Department has reviewed at length the proposed changes and has no objections to the bill.

Sen. Kerr made a motion to report HB 2456 favorable for passage, Sen. Gordon seconded, and the motion carried.

Attention was turned to bills previously heard, HB 2408, a banking measure, being the first one considered. The bill had been referred to the banking subcommittee, and Sen. Werts made the report of the subcommittee. He said that staff had prepared a balloon of the proposed amendments. The subcommittee was satisfied with the bill, but it was difficult to figure out the amendments. Sen. Werts proceeded to explain the amendments. The amendment on page two reinstates the existing definition of "time deposits". On line 53, all of the House committee amendments are stricken and subsection 1 and 2 on pages two and three. The language on the bottom of page three is reinstated as new (i) with the exception of lines 115, 118, 120, and 126 where "14 days" is changed to "7 days". On page four, lines 141 and 142, language is stricken in subsection (k) in order that the state could conform with federal regulation Q. On page seven, "stockholders" is returned to singular possessive. On page fourteen, the last phrase on line 494 beginning after "bank" is stricken because the meaning of the phrase is unclear. On page seventeen, lines 612 and 621, "state bank regulatory agencies" is used rather than "state banks".

Upon conclusion of his explanation of the amendments, Sen. Werts made a motion to adopt the recommendations of the subcommittee, Sen. Burke seconded, and the motion carried.

The chairman asked if he were correct in saying that the theory for the bill is to combine various statutes into one, and staff confirmed this.

Sen. Gannon had a question regarding page 19, line 695, as to if "either of the deputies" should be changed to "any of the deputies" as had been discussed at the hearing on the bill. Sen. Werts agreed. Sen. Gannon made a motion to change "either" to "any" on line 695, Sen. Werts seconded, and the motion carried.

Regarding page 26, the chairman said he had staff prepare an amendment for lines 27

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 31, 1987

through 40 dealing with the proviso being stricken as to the size of the communities of banking board members. (See Attachment III.) He explained that the Kansas Bankers Association has said the language was so restrictive that there are four vacancies on the board now, and they are having difficulty in filling the board. Sen. Werts made a motion to adopt the amendment on page 26, Sen. Burke seconded, and the motion carried.

The chairman asked if there were further amendments, and Jim Maag of the Kansas Bankers Association reminded the committee of a suggested amendment changing the effective date to on publication in the Kansas Register. Sen. Burke made a motion to change the effective date to publication in the Kansas Register, Sen. Werts seconded, motion carried.

Sen. Werts made a motion to recommend HB 2408 favorably as amended, Sen. Gannon seconded, and the motion carried.

The next bill to be considered was HB 2418 dealing with medical malpractice. The chairman referred to a balloon of the bill prepared by the Kansas Medical Society which had been previously passed out. Jerry Slaughter of the Kansas Medical Society explained each of the amendments which are all technical amendments. The first technical change is on page 10, line 346. The next is on page 16 which is a clean-up of what the House did. When striking the language on line 410, page 11, this change should have been made at the same time. The change on page 27 was recommended by the hospitals for a clean-up of the definition of "health care provider". The change on page 28 is an amendment by the Board of Healing Arts to clean up awkward language regarding "appropriate licensing agency". The change on page 30 also comes from the Board of Healing Arts intended to clarify language. The change on page 32 rearranges stricken language by putting it in the section below as a clean-up of the construction of the statute. At this time, Sen. Werts questioned the change on page 28 as to if it would include mental trauma, and Mr. Slaughter said it would. The last change is on page 31 coming from the Board of Healing Arts to make this section apply to earlier technical amendments.

The chairman asked for an explanation of the purpose for the bill. Mr. Slaughter said it is a follow up to the medical malpractice bill of last year. Some provisions of the law were left out which caused problems. Incongruities were found because it amended so many statutes.

As to new Section 4, Sen. Gannon asked if it reads the way Mr. Slaughter had wanted it to read because it reads awkwardly. Mr. Slaughter said it reads awkwardly because it has to apply not only to individuals but also to institutions. With regard to page 27, Sen. Gannon had questions as to what latitude there would be to make a physician involved in peer review want to testify. Mr. Slaughter said the intention is to encourage the peer review process by saying that what you cannot get directly, you cannot get indirectly either. This encourages open discussion because the proceedings will stay in the peer review committee. Mr. Slaughter thinks this is a public policy question, and they are trying to close a loophole. The information will be channeled correctly. This process has to be protected in order to operate correctly. Sen. Gannon said he is still uncomfortable with these lines. The chairman said when the information gets to the Healing Arts Board, it becomes public information, and Mr. Slaughter agreed, the information is no longer protected.

Sen. Werts questioned the stricken language on page 31 relating to disciplinary action. Mr. Slaughter said this is technical and ties back to earlier amendments.

Sen. Werts made a motion to adopt the amendments to HB 2418, Sen. Gordon seconded, and the motion carried.

Sen. Werts made a motion to recommend HB 2418 favorable for passage as amended, Sen. Burke seconded, and the motion carried.

The chairman reminded the committee that there would be a meeting tomorrow to discuss bills previously heard.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS  
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3/3/87	Cary Pauley	Springfield, Ill.	State Farm Ins. Co.
"	Ron Todd	Topeka	Ins. Dept
"	Bill Sneed	TOPEKA	Am. Inv. Life Ins. Co.
"	Ron Smith	"	KBA
"	Joe Armstrong	"	State Banking Dept.
"	John Peters	"	Chateau Hotel
"	Jim Miller	"	KBA
"	Richard Hanson	"	ICTCA
3/3/87	Richard Hanson	Hutchinson	Alliance

KANSAS SENATE

FINANCIAL INSTITUTIONS AND INSURANCE

The Honorable Neil H. Arasmith, Chairman

March 31, 1987

STATEMENT

OF

WILLIAM W. SNEED

On behalf of AmVestors Financial Corporation and its wholly owned subsidiary, American Investors Life Insurance Company, we are pleased to support House Bill 2456.

The amendments of the investment statutes are necessary to facilitate orderly safe investment operations in the current investment market place. There are three basic amendments: (1) an amendment to 40-2b05 which would provide for the acquisition and holding of investment grade bonds without requiring the interest coverage requirements of 40-2b05 as currently written and changing the current requirement that the issuing company must have had a 1 1/2 times coverage one of the last two years, replacing the requirement with a requirement that the issuing company must have had a profit two of the last three fiscal years; (2) amend 40-2b24 aggregating the amount that a company can invest under 40-2b24 and 40-2b07; and (3) amend the statutes to provide that the various percentage limits pertaining to a company's admitted assets be based on the last financial report as filed with the commissioner.

The specific reasons for the three proposed amendments are covered in the next three paragraphs. We have numbered the paragraphs to correspond with the item numbers of the preceding paragraph.

(1) 40-2b05, as currently written, oftentimes restricts a company from being able to own a bond which is rated investment grade by Standard and Poor's and/or Moody's. These rating agencies take more than just interest coverages into account when rating issuers, and an investment grade rating from either of these companies is an indication of a company's overall stability. We believe that the coverage

requirement should be maintained for "non-investment-grade" bonds. We would recommend though, that the requirement that a company have 1 1/2 times coverage in one of the last two years be replaced with a requirement that the issuer have shown a profit in two of the last three years. We believe that this change is needed to reduce the emphasis on short term profitability while still requiring that the issuer have good long term coverage. In recent years, we have seen several industries struck by tremendous hardships. With the current requirements we must wait for the companies in such an industry to recover to a year of 1 1/2 times coverage before we can buy their bonds. These changes would allow Kansas companies to acquire any investment grade bond while still applying strict coverage requirements on the unrated or lower grade bonds and thus the change should improve the overall quality of bonds owned.

(2) The amendments to 40-2b24 are requested to allow a company which chooses not to invest 15% of its assets in the direct ownership of common stocks to use the portion of the portfolio which could be so invested to invest in the stock of open-end investment companies. This change would not allow any more of a company's portfolio to be in stocks than is presently allowed but would simply aggregate the 15% limit of 40-2b07 and the 10% limit of 40-2b24 so that companies which prefer to invest through open-end investment companies may do so. In American Investors' case, we believe investment through the open-end investment companies provides professional management and greater liquidity on these funds. We would further recommend that the current restrictions as to the amount which may be acquired in one investment company (5%) and the amount of insurance company admitted assets which may be invested in any one investment company (2%) be changed to 15% and 10% respectively. With over \$300,000,000 in investments, to not be able to put more than \$6,000,000 in any one investment company results in our having to have too many different accounts in order to have any meaningful amount invested in such accounts.

(3) As a rapidly growing company, we have found that all percentage ownership requirements being based on prior year-end assets are very restrictive to sound investment practices. For example: if sound practice provides that 15% of our assets should be invested in common stocks during 1986 the 15% at January 1, 1986, would have been reduced to a 5% position at December 31, 1986. This kind of restrictive legislation could result in a company being forced to make investment decisions which are detrimental to the company's policyholders and stockholders. We would like to see restrictive provisions tied to admitted assets at the time of acquisition. We believe that management is clearly aware of total assets on an ongoing basis. However, since this is not

considered practical from the department's viewpoint, we believe that total assets as per last financial report filed with the commissioner is an acceptable alternative.

In addition, you should be advised that my client has worked with the Kansas Insurance Department on the proposed amendment encompassed in House Bill 2456. It is our understanding that the Insurance Department is satisfied that these changes would not adversely affect our policyholders or the general public.

Finally, after reviewing the bill further, we believe that the language found on line 0053 may not be specific enough, and therefore are suggesting the following amendment:

0053 Poor's (at least BBB-) or Moody's (at least Baa3) corporate bond guides at the

With the above addition, it would negate any confusion as to whether or not you could only invest in those types of bonds. It was our intent when designing the amendment that insurance companies be allowed to invest in those rated investments which are rated BBB-, Baa3 or above.

I appreciate the opportunity to appear before the Committee, and would be happy to answer any questions.

Respectfully submitted,



William W. Sneed

1. All amendments to Property and Casualty Sections (40-2a04, 40-2a05, 40-2a07, 40-2a08, 40-2a13, 40-2a22) were done by the Revisors Staff. During the hearing the conceptual motion was made to apply AmVestor's proposed amendment to the P&C companies. The Revisor did that but they also changed any other inconsistencies. For example, the life companies have always been allowed to invest up to 5% of their admitted assets in bonds. The P&C companies were allowed to invest up to 2% of their admitted assets. Thus, when the Revisors Office applied our change in the bond statute, they applied to the P&C companies both our change and increasing the amount they can invest in bonds. Therefore, our changes are as follows:

Statue	Current Law	Proposed Change
40-2b04 40-2b05 40-2b06 40-2b07 40-2b10 40-2b24	Determining what Percent of Admitted Assets are available for investment purposes is determined by the company's last annual report as filed with the KS Insurance Dept.	Keeps current allow but also provides that the percentage can be determined on a quarterly basis if company files quarterly reports.
40-2b05	Allows the investment in bonds if the corporation with the underlying debt meets certain earnings and interest coverage tests.	Keeps current law but also allows such an investment (a) if the bonds are rated as investment grade by Standard & Poors or Moodys or (b) changes the current requirement that the issuing company must have had a 1 1/2 times coverage one of the last two years with a requirement that the issuing company must have had a profit two of the last three fiscal years.

Statute	Current Law	Proposed Change
40-2b07 40-2b24	Allows the insurance company to invest 15% of its admitted assets in common stock (40-2b07) and 10% of its admitted assets in Mutual Funds (40-2b24) subject to the limitations that the acquisition is no more than 5% of the total outstanding shares of the Mutual Fund Company and the investment in any one Mutual Fund is no more than 2% of the admitted assets of the insurance company.	Keeps current law but allows an insurance company the ability to combine the 15% for common stock and the 10% for Mutual Funds but not to exceed 25%. Thus, the total percent has not changed but the amendment provides the insurance company the flexibility to invest in various amounts in either common stock or Mutual Funds. The amendment also changes the limitations of 5% of the total outstanding shares of the Mutual Fund Company to 15% and that the investment in any one Mutual Fund is changed from 2% to 10%.



Proposed Amendment to HB 2408  
(As Amended by House Committee of the Whole)

On page 26, in line 40, after the stricken language by inserting a new sentence to read as follows: "Appointment of nonbanker members shall be made with due consideration for achieving representation of the various geographic sectors of the state.";