

Approved April 9, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by Sen. Neil H. Arasmith at
Chairperson

8:00 a.m./~~pm~~ on March 31, 1988 in room 529-S of the Capitol.

All members were present except:

Senators Kerr, Reilly, and Werts - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bill Edds, Revisor of Statutes

Conferees appearing before the committee:

John Hanna, National Fraternal Congress of America
Jess Taylor, Kansas Fraternal Congress
Ron Calbert, United Transportation Union
Doug Mays, Securities Commissioner

The minutes of March 29 were approved.

The hearing began on HB 3056 relating to insurance and concerning the formation, operation, and regulation of fraternal benefit societies. John Hanna, National Fraternal Congress of America, testified in support of the bill. (See Attachment I.) Sen. Warren asked if this is an all new bill. Dick Brock of the Insurance Department answered that the fraternal code was last adopted in 1927, and no changes have been made since then. This bill modernizes the language and brings uniformity from state to state. Also, the Insurance Commissioner is given more authority than has existed in the past.

Jess Taylor, Kansas Fraternal Congress, stood to state his support of the bill.

Ron Calbert, United Transportation Union, also stood in support of the bill.

Sen. Harder made a motion to report HB 3056 favorable for passage, Sen. Gordon seconded, and the motion carried.

The hearing began on HB 2976 relating to the Securities Commissioner with regard to fees for broker-dealers, agents, and investment advisers. Doug Mays, Securities Commissioner, testified in support of the bill. He said the fees were a part of his request in his budget so the bill was introduced by the Ways and Means Committee. The bill would amend K.S.A. 17-1254 to allow the Securities Commissioner to raise the fees of broker-dealers and agents. He had a pass out of an analysis of registration fees. (See Attachment II.) Mr. Mays noted that there has not been a fee increase in these areas in thirty years.

The Chairman asked how the fees would be used, and Mr. Mays answered that the fees would pay for the three examiners for brokers. Sen. Karr asked if these fees are the only fees Mr. Mays' office has to operate on. Mr. Mays said there were other fees also. Sen. Karr asked what the size of Mr. Mays' budget is. Mr. Mays said it would be \$3 million with the three additional field examiners. However, the budget will not be approved unless this bill is passed because it was felt that the money for the examiners should not come from the general fund but from fees. Mr. Mays added that approximately 90% of this money will come from out-of-state. Sen. Karr asked further if the banking legislation of this session where banks are allowed to take on securities will come under this bill. Mr. Mays said his office will examine these the same as other brokers, however, he does not feel that banks are going to stampede into this area.

Sen. Gordon made a motion to report HB 2976 favorable for passage, Sen. Burke seconded, and the motion carried.

The meeting was adjourned.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3/31/88	Doug Mays	Tapekan	Securities Commission
"	Steve Wasson	"	" "
"	RON Todd	"	Ins. Dept.
"	DICK BROCK	"	Ins Dept
"	John P. Hanna	Naperville, Ill	Nat'l. Fraternal Congress ^{of Amer.}
"	JESS W. TAYLOR	TODEKA	KANSAS FRATERNAL CONGRESS
	RON CALBERT	NEWTON	UNITED TRANSPORTATION UNION

SENATE FINANCIAL INSTITUTIONS and INSURANCE COMMITTEE HEARING

ON HOUSE BILL NO. 3056 - KANSAS FRATERNAL CODE

March 31, 1988

Mr. Chairman and members of the Committee.

My name is John P. Hanna. I am Consulting Counsel to the National Fraternal Congress of America which represents 100 fraternal benefit societies operating throughout the United states.

[Introductions -]

The National Fraternal Congress of America wholeheartedly endorses House Bill 3056, a part of Insurance Commissioner Fletcher Bell's recommended legislative packages this year. This Bill incorporates the major features of the Revised Fraternal Code adopted by the NFCA in October, 1983 and which has been enacted in thirteen states, including your neighboring state of Nebraska in 1985. This Bill, of course, has been tailored by Commissioner Bell and his staff to meet specific requirements in Kansas.

While there are no NFCA member-societies domiciled in Kansas, there are 32 member-societies licensed and operating in this State with about 122,000 members statewide. A list of those societies having the most members in Kansas are:

AAL	North American Benefit Association
Independent Order of Foresters	Royal Neighbors of America
Knights of Columbus	Western Fraternal Life Association
Lutheran Brotherhood	Woodmen of the World Life Insurance
Modern Woodmen of America	Society

Before describing some of the specifics of this Bill, I would like to describe briefly a fraternal benefit society and summarize the reasons why the National Fraternal Congress of America feels that this Bill is important to the citizens of Kansas, to the Insurance Department, and to the membership of fraternalists in the state.

Fraternal benefit societies are self-help membership organizations formed by people of common ethnic, religious, or vocational backgrounds, or by people holding similar patriotic or moral beliefs. It is a concept of organization brought to the United States over 100 years ago by our ancestors from abroad. In fact, some of these groups could not get commercial insurance, the railroad workers, for instance, and thus they banded together for common interests.

Fraternal benefit societies operate today in the same manner as they have in the past. Each society brings together, through membership requirements, people of common ethnic, religious or vocational backgrounds, or patriotic or moral beliefs. Each society has such purposes for which it was established, and each society creates and administers programs and activities to carry out those purposes. Each society operates on a lodge or branch system where local members meet regularly to identify and meet the needs of lodge members and their local communities through their programs and activities. They have a representative form of government, and each society is required to provide life, health, or disability insurance benefits to its members.

The volume and substance of self-help activities, charitable and benevolent programs, local lodge and branch meetings, time of volunteers, disaster relief and other programs is very substantial in Kansas, involving millions of dollars, hundreds of thousands of person hours, and thousands of meetings and events.

Why is this revised fraternal code needed?

The laws governing fraternal benefit societies in Kansas were last extensively revised in 1927 with only three amendments to that law since then, plus additions of sections relating to mutualization in 1931 and for conversion to a stock life insurance company in 1959. Provisions relating to insurance of children were added in 1943.

This Bill updates the law into a comprehensive regulatory article for fraternal benefit societies in Kansas.

Fraternal benefit societies have unique organizational and operational features. These include a lodge system, a representative form of government, the concept of membership with certain rights and privileges attached, specific purposes for which each fraternal exists, and programs and activities to carry out those purposes, including insurance and other benefits.

Current Kansas law governing fraternal benefit societies, Article 7 of Chapter 40, includes and requires these unique characteristics. This Bill addresses all of these characteristics in a clear and direct manner, clarifying the definition of a fraternal benefit society and making it easier for the Insurance Department to determine whether or not a fraternal is in compliance with these requirements.

Current Kansas law uses some terms which seem to be confusing or contradictory. This Bill contains a section on definitions to remove any such confusion [Section 4]. The Bill also has been made gender-neutral.

The Bill clarifies provisions regarding juvenile insurance contracts, designation of irrevocable beneficiaries, assignment of insurance contracts, and the use of insurance contracts for third party situations. Current Kansas law either does not address these situations or does so in an incomplete manner. These provisions are important to our members in their personal, financial and tax planning.

The Bill subjects fraternal organizations operating in Kansas to the same examination and reporting requirements with which stock and mutual insurers are required to comply [Section 20]. This gives the Insurance Department a means to monitor the financial solvency of fraternal organizations. Also contained in the Bill is a feature unique to fraternal organizations whereby anytime the financial reserves of a fraternal organization become impaired, a fraternal organization has the authority to levy an additional assessment against its members by cash, policy loan, or reduced benefits, until the reserves are restored [Section 12(d)]. This feature alone will prevent a Baldwin-United situation from happening to fraternal organizations.

The Bill also contains provisions subjecting fraternal organizations to the same consumer protection provisions that apply to stock and mutual insurers, such as agent's licensing, policy form filing, minimum valuation and financial standards and mandated benefits in insurance contracts, and, for the first time, specifically requires that fraternal certificates be filed with and approved by the Insurance Commissioner, and within one year to meet the standard provision requirements for life, accident and health insurance policies. Fraternal organizations and their field representatives would be subject to the unfair trade practices act, Article 24, the same as now.

Present law does not require fraternal agents to be licensed. This Bill would require all full-time fraternal agents to be licensed the same as for insurance company agents, but regular salaried officers, employees or members who do not engage in the business of soliciting insurance and receive no commissions would be exempted, as would part-time agents as defined. No examination would be required of any person acting as a fraternal agent prior to enactment of this bill, but this exception would apply only for the particular kind of insurance for which such person was acting as agent.

The Bill continues present law to subject fraternal to the same investment laws that apply to stock or mutual insurers. The Bill authorizes fraternal to issue, with prior approval of the insurance department, new types of interest-sensitive or variable insurance products [Section 15(c)]. Current Kansas law does not provide for what is called separate account authority. It is needed, however, so that fraternal will be authorized to provide the types of insurance products of value to their members and perhaps of significance to the future of the insurance industry.

In conclusion, this Bill substantially revises the body of law governing fraternal in a modern, up-to-date approach. It restates the rights and responsibilities of members of fraternal societies. It improves the regulatory process for fraternal so that the Insurance Department can do a thorough job of regulating. It affirmatively retains and clarifies the unique characteristics of fraternal so that you can be assured that fraternal will live up to their necessary role in our society. It continues certain limitations and requirements of operations and products, i.e., no group insurance, membership qualifications, and other structural features that I have mentioned.

As a practical matter, this Bill does not substantially increase or broaden the authority of fraternal, or give them any special treatment that they do not have under

present law, except for internal separate account authority, and the authority to issue new forms of life, accident and health insurance as they are developed. The Bill does considerably strengthen the authority of the Insurance Department in the regulation of fraternal.

Our experience in other states has been that the insurance companies and the life and health underwriter groups in each state have had no objection to this revised fraternal code.

On behalf of the National Fraternal Congress of America, I thank you for this opportunity to explain this revised Fraternal Code for Kansas. We urge you to vote favorably on House Bill 3056, and will gladly respond to any questions you may have.

National Fraternal Congress of America

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OFFICE OF THE SECURITIES COMMISSIONER
SURVEY AND ANALYSIS OF REGISTRATION FEES

Survey of States	Broker-Dealers		Agents	
	Original	Renewal	Original	Renewal
Oklahoma	\$300	\$300	\$50	\$50
Missouri	\$200	\$100	\$50	\$50
Iowa	\$200	\$200	\$30*	\$20
Nebraska	\$100	\$100	\$20*	\$15
Average	\$200	\$175	\$37.50	\$33.75

Analysis of Kansas fees	Estimated Volume	Fees at Various rates			
		Current	Alternatives**		
Broker-Dealers:		@\$100/\$50	@\$100	@\$200	@\$300
Original	150	15,000	15,000	30,000	45,000
Renewal	850	42,500	85,000	170,000	255,000
Total		<u>\$57,500</u>	<u>\$100,000</u>	<u>\$200,000</u>	<u>\$300,000</u>
Increase			<u>\$ 42,000</u>	<u>\$142,500</u>	<u>\$242,500</u>
Agents:		@\$15/\$10	@\$20	@\$30	@\$50
Original	11,500	\$172,500	\$230,000	\$345,000	\$ 575,000
Renewal	21,500	215,000	430,000	645,000	1,075,000
Total		<u>\$387,500</u>	<u>\$660,000</u>	<u>\$990,000</u>	<u>\$1,650,000</u>
Increase			<u>\$272,500</u>	<u>\$602,500</u>	<u>\$1,262,500</u>
Range of Increase Combinations:			<u>\$42,500</u>	to	<u>\$1,505,000</u>

Note: Estimated volumes are based on annualized actual data for FY 1988 (Rounded).

- * Includes Examination Fee for Original Registrations.
** Originals and Renewals at same Rates.