Approved 2/14/91
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by SENATOR RICHARD L. BOND at
Chairperson

9:00 a.m./~~p.m.~~ on WEDNESDAY, FEBRUARY 13, 1991 in room 529-S of the Capitol.

~~All~~ members ~~were~~ present ~~except~~:

Senators Anderson, Francisco, Kerr, McClure, Parrish, Reilly, Salisbury, Strick and Yost.

Committee staff present:
Bill Wolff, Research Department
Fred Carman, Revisors Office
Louise Bobo, Secretary

Conferees appearing before the committee:

Ron Todd, Commissioner of Insurance

Chairman Bond called the meeting to order at 9:08 a. m.

SB 67 - Relating to insurance holding company systems.

Ron Todd, Commissioner of Insurance, advised the committee that Kansas law relating to holding company systems has not been materially changed since its inception in 1974 and that SB 67 is an attempt to update Kansas law by incorporating National Association of Insurance Commissioners (NAIC) amendments. Mr. Todd continued by stating that there were three major amendments which would : (1) authorize the Commissioner to exercise oversight with respect to acquisitions involving non-domiciliary companies doing business in Kansas, (2) establish requirements for more information on registration statements, and (3) replace current penalty provisions for violations of the holding company act with more specific penalties including increased monetary penalties and providing guidelines for criminal action within the court system. Mr. Todd further informed the committee that SB 67 was one of three bills, requested by the Commissioner this year, designed to meet the financial regulation standards adopted by the NAIC. (Attachment 1)

Discussion followed. A committee member inquired if NAIC would suffer any damage from a federal study being made by Congressman Dingel and Senator Metzenbaum. Mr. Todd replied that the federal study was designed to increase federal control which some thought might help to avoid a disaster similar to the savings and loan debacle. Mr. Todd said that the NAIC had made a decision to address and establish national regulation standards.

Mr. Todd further explained to the committee that the real crunch is that, in the future, states not accredited by the NAIC will not have their examinations accepted by accredited states. Mr. Todd said that the only two states now accredited are New York and Florida. He also advised the committee that he had at least two more bills to be introduced--probably not until next session and both very technical in content--to continue to meet NAIC standards. Mr. Todd concluded by stating that all of the bills requested by the Department were independent of one another but that they were all part of a package and the Department needs the package.

There being no further conferees, the Chairman pronounced the hearing on SB 67 closed.

Senator Reilly made a motion to move SB 67 out of committee favorably. Senator Strick seconded the motion. The motion carried.

The committee agreed that it would be helpful for the Insurance Department to prepare a summary of the bills requested by the Department, how many have passed, and how many need to be passed. Chairman Bond requested Mr. Todd to have this information prepared.

The minutes of Tuesday, February 12, 1991, were approved on a motion by Senator Reilly with Senator Strick seconding the motion. The motion carried.

The meeting adjourned at 9:47 a.m.

GUEST LIST

COMMITTEE: FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE DATE: Wed Feb 13, 1991

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Bill Sneed	Topeka	Am. Inv. Life
Nancy Zogleman	Topeka	BC/BS of Ks
Ron Todd	"	Ins Comm.
Dave Hanson	Topeka	Ks Insur Assocs.
Rick Wilson	McPher	Alliance Ins Co's
Jim Oliver	Top	Prof Ins Agents
Jim Maag	"	KS Bankers

Testimony By

Ron Todd, Commissioner of Insurance

Before the Senate Financial Institutions and Insurance Committee

Senate Bill No. 67

February 13, 1991

In the late 1960s and early '70s, the American business community discovered the advantages of diversification. Some observers at the time were suspicious of the motives of those seeking to acquire ownership and control of insurance companies believing that the primary purpose of such activity was to circumvent many of the statutes that regulate the formation, management, investments and other operations of insurance companies. Others were less suspicious in that the acquisition of insurance companies by non-insurance interests would produce more access to capital markets, enhance profitability through new lines of business, and better serve expanding public needs through a more comprehensive range of financial services.

Regardless of which view was correct, it became evident that the interests of policyholders could be adversely affected if control of an insurer was sought for nefarious reasons, such acquisition would substantially lessen competition and/or, more important, the assets of the insurer were depleted or its financial condition otherwise jeopardized by transactions or relationships over which there was inadequate or no regulatory oversight or control.

Therefore, to meet the regulatory needs revealed by the acquisition and merger of insurance companies, the National Association of Insurance Commissioners developed and adopted the Insurance Holding Company System Regulatory Act.

With the exception of a section relating to permissible investments, Kansas substantively enacted this act in 1974. The original and

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continuing purpose of the Holding Company Act is to protect the interests of the policyholders insured by a domestic insurance company, the controlling interest in which is acquired by a new person or entity. Aside from some fairly technical amendments such as removing the act's application to securityholders, removal of some notification requirements and assigning responsibility for the payment of some of the costs incurred when formal hearings are conducted, the Kansas law relating to holding company systems has not been materially changed since its inception.

Senate Bill No. 67 is intended to update Kansas law by incorporating subsequent NAIC amendments in order that we will be able to exercise some regulatory control over acquisitions, mergers and other holding company transactions not addressed in current statutes. In addition, the bill and the present NAIC model include provisions allowing access to assets of a parent or controlling interest in a holding company system in the event of insolvency of an insurance affiliate; provides for penalties and sanctions that are more compatible with regulatory needs; and, several amendments requiring more information to be provided the Commissioner.

Generally, the proposed changes will:

(1) Authorize the Commissioner to exercise oversight with respect to acquisitions involving non-domiciliary companies doing business in Kansas by giving him or her the authority to take corrective action when an acquisition or merger adversely impacts competition in Kansas.

Kansas policyholders can be greatly effected by acquisitions of a non-domestic insurer or by acquisition of the business of any insurer if the result has a significant impact on the Kansas insurance marketplace. Therefore, New Section 1 authorizes the Commissioner to

issue an order requiring an involved insurer to cease and desist from doing business in this state with respect to the line or lines of business or denying an application to do such business in Kansas where an acquisition is determined to have an anticompetitive impact unless the insurer submits a plan or proposal that will eliminate the problem.

(2) The provisions of New Section 3 extend important authority to the receiver of an insolvent insurer to recover a distribution of assets that may have been made solely for the purpose of moving them beyond the reach of the receiver or otherwise take advantage of the financial condition of the distressed insurer.

(3) The amendments appearing in section 4 pertain to the information required to be provided on registration statements required to be filed with the Commissioner. Specifically, requirements for more information relating to dividends to shareholders, tax allocation agreements and a pledge of the registering insurer's stock will be required on registration statements. Subsection (j) is deleted because the subject matter is now covered by the new penalty provisions proposed in section 6 of the bill.

(4) Section 5 suggests the addition of some provisions to current law which will elicit information or assure the availability of additional information to more clearly determine what constitutes an "extraordinary" dividend and its reasonableness in relation to the insurer's financial condition.

This section also includes new language which provides for prenotification and disapproval authority regarding various specific

transactions involving a domestic company and any person in its holding company system.

(5) Section 6 replaces the current penalty provisions for violations of the holding company act with more specific penalties. Rather than attempt to accommodate all violations of the holding company act regardless of their nature under a single blanket provision, the new penalty provisions provide for the imposition of a penalty more appropriate to a particular violation.

As I believe Dick Brock mentioned when he testified on Senate Bill No. 53 dealing with insurance company examinations and Ted Fay discussed yesterday with respect to Senate Bill No. 111 relating to liquidation and rehabilitation, Senate Bill No. 67 is the third of the three legislative measures the Department proposed this session to meet the financial regulation standards adopted by the National Association of Insurance Commissioners. Therefore, not only will the amendments proposed by Senate Bill No. 67 fulfill a definite regulatory need and serve the public interest but its enactment will also move us another step forward in our quest for national accreditation.