

Approved _____

Date

3/28/91

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 TUESDAY, MARCH 26, 19⁹¹ in room 529-S of the Capitol.

All members were present ~~XXXXX~~.

Committee staff present:

Bill Wolff, Research Department
Fred Carman, Revisors Office
Louise Bobo, Secretary

Conferees appearing before the committee:

Representative Kent Campbell
David Hanson, Kansas Life Association
Mike Culbertson, Kansas Credit Union League
Wayne Warfel, Kansas State Department of Credit Unions

Chairman Bond called the meeting to order at 9:10 a.m.

HB 2116 - Term life insurance.

Representative Kent Campbell addressed the committee in support of this bill which he is sponsoring. Representative Campbell explained that he was not aware of the need for this legislation until last Fall when he sold a replacement policy to an individual who then was unable to get a refund on his cancelled term life insurance policy. The Insurance Department informed him that this complaint is heard once or twice a month. Under this bill, term life insurance cancellation refunds would be required as they are now on cancellation of automobile, fire, health and accident policies. (Attachment 1)

David Hanson, Kansas Life Association, rose in support of this bill but requested two changes in the bill. The first change is technical in nature and the second would make the new law applicable only to those policies issued after the effective date of the bill. (Attachment 2)

During discussion which followed, a committee member asked why this proposal did not apply to groups also. Representative Campbell replied that the constant changing of group contracts would make it impractical. Members asked about the formula for determining the refund. Mr. Hanson answered that the formula was based on what the quarterly rate for the premium would be divided by three and multiplied by the length of time the policy had been in effect. This amount would be subtracted from the annual premium paid in advance by the subscriber. If the insured paid his premium by the month, then this bill would not be needed or applicable. Staff questioned the language in Mr. Hanson's balloon. Mr. Hanson reiterated that his intent was that refunds would be made on existing policies but that the new law would not require companies to print new policies before the effective date of this bill. He explained that not having to print new policies, incorporating the new language, would save the companies thousands of dollars.

Chairman Bond announced the hearing on HB 2116 closed and asked for a conceptual motion to adopt the amendments as offered by Mr. Hanson.

Senator Salisbury made a motion to adopt the amendments, conceptually, and Senator Reilly seconded the motion. The motion carried.

Senator Parrish made a motion to recommend HB 2116, as amended, favorable for passage. Senator Strick seconded the motion. The motion carried.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 a.m./XX p.m. on TUESDAY, MARCH 26, 1991.

HB 2355 - Credit unions: share insurance.

Mike Culbertson, President of the Kansas Credit Union League, spoke to the committee in support of this bill. Mr. Culbertson explained that, since 1982, sixty-six Kansas credit unions had been a part of Mutual Guarantee Corporation (MGC) in Tennessee and that this had worked well for them. He advised the committee that the climate was changing, however, and that the public was beginning to feel safe only with federal insurance. Thus, the reason for this bill which would require credit unions to seek federal insurance coverage before a forced conversion is mandated. (Attachment 3)

During the discussion, Chairman Bond commended the credit unions for taking the initiative to effect an orderly conversion from private to federal insurance instead of waiting for the Legislature to initiate the change.

Wayne Warfel, Administrator, Kansas State Department of Credit Unions, appeared before the committee in total agreement with Mr. Culbertson and stressing the importance of initiating the process before being forced to do so.

Chairman Bond suggested that he would like to see the time shortened from 24 months to 18 months with an 18 month extension which can be granted by the administrator for credit unions to qualify for federal insurance. Mr. Culbertson and Mr. Warfel both stated that they would have no problem with this change.

Senator Strick made a motion to shorten the period of conversion from 24 months to 18 months. Senator McClure seconded the motion. The motion carried.

Senator Strick made a motion to recommend HB 2355, as amended, favorable for passage. Senator Reilly seconded the motion. The motion carried.

The meeting adjourned at 10:02 a.m.

KENT CAMPBELL
REPRESENTATIVE, 107TH DISTRICT
CLOUD, OTTAWA COUNTIES
AND PART OF LINCOLN COUNTY
ROUTE 1, BOX 62
MILTONVALE, KANSAS 67466



TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
CHAIRMAN: JOINT ADMINISTRATIVE RULES
AND REGULATIONS
VICE-CHAIRMAN: INSURANCE
TRANSPORTATION
MEMBER: LEGISLATIVE, JUDICIAL AND
CONGRESSIONAL APPORTIONMENT
TAXATION

HB 2116

March 26, 1991

Testimony before the
Senate Financial Institutions and Insurance Committee

by

Representative Kent Campbell

Thank you, Mr. Chairman, and members of the committee.

I appear today to brief you on the provisions of HB 2116
and to give some background regarding the origin of the bill.

Provisions of the bill:

1. Requires refund of term premiums upon
cancellation.
2. Defines the formula by which the refund is
calculated.
3. Requires refund provision to be explained in
policy provision section.
4. Allows exceptions for provision of refunds
under terms "more favorable" to insureds.
5. Applies only to individual term policies,
not group.

Attachment 1
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Current law leaves it optional on the part of the company as to whether or not term premiums are returned upon cancellation. You can probably guess which option they choose.

I was not aware of this until this past fall when I sold a replacement policy to an individual who then tried, unsuccessfully, to get a refund on the policy he was replacing. In checking with the Commissioner's office, I was informed of the current law and was told this matter comes up once or twice a month.

Since we had changed the law to require refunds upon cancellation of automobile, fire, health and accident policies only two or three years ago, I thought this change would be consistent with other insurance law.

David Hanson

1 death of the insured, settlement shall be made upon receipt of due
2 proof of death.

3 (11) A table showing the amount of installments, if any, in which
4 the policy may provide its proceeds may be payable.

5 (12) Title on the face and on the back of the policy, briefly
6 describing its form.

as defined and

7 (13) A provision with respect to the company's obligation to re-
8 fund unearned premiums upon cancellation of a term life insurance
9 policy) in accordance with the requirements of section 1, and amend-
10 ments thereto.]

However, this provision
will only be required
in term life insurance
policies with an
original issue date after
the effective date of
this act.

11 Any of the foregoing provisions or portions thereof not applicable
12 to single-premium or nonparticipating or term policies shall to that
13 extent not be incorporated therein; and any such policy may be
14 issued or delivered in this state which in the opinion of the insurance
15 commissioner contains provisions on any one or more of the several
16 foregoing requirements more favorable to the policyholder than
17 hereinbefore required. The provisions of this section shall not apply
18 to policies of reinsurance, or to policies issued or granted in ex-
19 change for lapsed or surrendered policies, or to policies of group
20 insurance.

21 Sec. 3. K.S.A. 40-420 is hereby repealed.

22 Sec. 2 4. This act shall take effect and be in force from and after
23 its publication in the statute book.

Attachment 2
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TESTIMONY ON HB 2355

AN ACT concerning credit unions

Presented to the

SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE

MARCH 26, 1991

by the

KANSAS CREDIT UNION LEAGUE

Mr. Chairman, members of the Committee:

I am Michael D. Culbertson, President of the Kansas Credit Union League. Our association enjoys the voluntary membership of all but 3 of the 188 credit unions in Kansas. The credit unions of Kansas have long believed in the principles of both dual charters for credit unions and the practice of exercising the right to have an alternative share insurance provider in Kansas.

Currently, of the 188 credit unions in Kansas, 147 are state charters. Of those 147 state-chartered credit unions, 66 are privately insured by Mutual Guarantee Corporation (MGC) in Tennessee. These credit unions represent \$231,900,000 in assets of the total \$1,631,000,000 credit union assets in Kansas. National Deposit Insurance Corporation (NDIC) is also authorized to offer share insurance to Kansas credit unions although no Kansas credit unions are currently covered by NDIC insurance.

The history of private insurance in Kansas includes a major change in 1982. Before that time, the alternative to Federal deposit insurance was provided by a private insurance fund that limited its coverage to Kansas credit unions. In an effort to address the issue of risk diversification, the Kansas credit unions decided to pursue the merger of its fund into a fund that enjoyed a broader market and therefore a broader risk base that would not be vulnerable to the economic conditions of one geographical or industrial area. At that time MGC was approached and after successful negotiations, the Kansas fund was merged into this much stronger fund.

The Kansas credit unions have experienced the benefits of this arrangement since that time and the Kansas Credit Union League has continued to endorse both dual chartering and dual insurance. The developments in recent months have caused the League to reassess the practicality of this position and today's testimony indicates

*Attachment 3
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a major change in our position. This decision was not an easy decision or one that was made lightly. It is our assessment that the issue of the future of private insurance no longer relies on the relative strength or weakness of any private insurance fund. It is our conclusion that the issue is now a matter of public perception that any financial institution is safe only if they are federally insured. This perception is gaining momentum throughout the states that have the alternative insurance option available.

Of the nineteen states that still allow private insurance with over \$20 billion of assets, 7 states representing nearly 50 % of those assets have already moved toward conversion to federal insurance or are putting a legislative or voluntary plan to convert into effect. This group includes Rhode Island that experienced a collapse of their fund in January of this year.

It is our conclusion that the most positive steps that can be taken in Kansas to avoid the negative effects of a forced conversion over a short period is the approach that is being outlined in the proposed legislation. We feel that the orderly transition that is assured by this bill will result in the maximum number of Kansas credit unions being able to qualify for federal insurance. As stated earlier, this policy decision was not an easy one to make.

The cost to Kansas credit unions will be substantial. Current estimates of direct costs to Kansas credit unions total about \$4 million. This cost is due to the fact that as credit unions convert to federal insurance, their current deposits with MGC may be forfeited. Although this is a substantial cost for conversion, we feel that this cost will not go down.

The credit unions of Kansas have a strong history of addressing adversity and overcoming hardships. This situation will certainly pose an economic challenge to Kansas credit unions that currently have private insurance. It is our feeling that this issue must be addressed with aggressive and positive action. The profile of Kansas credit unions after this process is complete will be one of strength and responsiveness to its members. The need for a strong State Department of Credit Unions will be even more important to assure the ongoing dual chartering system that continues to be very successful. Based on this information, we respectfully ask the committee to support HB 2355, as amended which was approved earlier this session by the House of Representatives on a vote of 120 - 0.

I have a short summary which outlines the provisions of HB 2355.

Mr. Chairman, I would stand for any questions from the committee.

SUMMARY

HOUSE BILL 2355--CU Share Insurance

Section 1

EXISTING LAW

(a)(1)

Requires all state-chartered credit unions in Kansas to have share deposit insurance with the national credit union share insurance fund (NCUSIF) or with an insurer approved by the insurance commissioner or the credit union administrator.

(2)

Allowed administrator to give extension of time to comply.

(3)

Required CU to give notice if shares were uninsured.

NEW PROVISIONS

(b)(1)

Requires all state-chartered, privately-insured CUs to apply for insurance with the NCUSIF within 120 days.

(2)

CU shall send the application to the state credit union department to be forwarded to the NCUA.

(3)

Any newly chartered CU shall have NCUSIF insurance.

(4)

CU administrator has the authority to merge or close any CU which fails to comply with this section or loses coverage.

(c)(1)

CU shall qualify for NCUSIF insurance within 24 months.

(2)

Allows administrator to extend qualification period up to 12 months.

(3)

Administrator to close CU which is unable to qualify.

(4)

CU shall maintain current insurance until converted to NCUSIF.

(House C&FI removed language to allow CU to continue to operate if current insurer discontinues business in this state.)

(d)

CU shall mail a copy of their NCUSIF certificate of insurance to the department of credit unions.

(e)(1)

CU shall maintain NCUSIF insurance and do nothing to cause termination of the insurance.

(2)

Administrator to close CU which loses NCUSIF insurance.

(f)

CU not affected by non-federal insurer's bylaw amendments unless approved by administrator.

Section 2

Repealer

Section 3

Effective date...Kansas Register