

MINUTES OF THE House COMMITTEE ON Insurance

The meeting was called to order by Representative Turnquist at  
Chairperson

3:30 ~~x.m.~~/p.m. on March 23, 1992 in room 531 N of the Capitol.

All members were present except:

Representative Sebelius - Excused  
Representative Ensminger - Excused

Committee staff present:

Mr. Fred Carman, Revisor  
Mr. Chris Courtwright, Research  
Mrs. Nikki Feuerborn, Secretary

Conferees appearing before the committee:

Representative Clyde Graeber  
Colonel Tom Giboney, Armed Forces Insurance Exchange  
Mr. Dick Brock, Insurance Department  
Mr. David Hanson, National Association of Independent Insurers

**Hearing on SB 679 - Mergers of Armed Forced Cooperative Insuring Association into Armed Forces Insurance Exchange**

Representative Clyde Graeber introduced Colonel Tom Giboney, Chairman of the Board of the Armed Forces Insurance Exchange, Leavenworth, Kansas, who introduced the bill.

This bill will provide Armed Forces Insurance Exchange the ability to accomplish a "statutory merger" with its predecessor--the Armed Forces Cooperative Insuring Association--on the same basis and with the same tax treatment as mergers of other Kansas companies. Colonel Giboney gave the history of the companies and an overview of the business they conduct. (See Attachment 1).

Mr. Dick Brock of the Insurance Department supports enactment of the bill. This merger is a unique situation in the state of Kansas and the bill will not harm any current policy holder of the Armed Forces Cooperative Insuring Association because the majority of the policyholders in the Association have been rewritten in the Armed Forces Insurance Exchange. (See Attachment 2).

Representative Flower moved for the favorable passage of SB 679 to the consent calendar. Representative Wells seconded the motion. Motion carried.

**Hearing on SB 518 - Medicare supplement policies, standards for provisions**

Mr. Dick Brock of the Insurance Department appeared before the committee as a proponent of the bill. This bill is simply a house-keeping amendment necessitated by the Omnibus Reconciliation Act of 1990 (OBRA 90). The Kansas enabling act relating to minimum Medicare supplement standards needs to be amended to identify the current applicable federal law. (See Attachment 3).

Representative Helgeson moved for the favorable passage of SB 518 to the consent calendar. Representative Gilbert seconded the motion. Motion carried.

**Hearing on SB 509 - Reports of insurance companies writing product liability policies**

Mr. David Hanson, National Association of Independent Insurers, appeared as a proponent of the bill. This bill changes the due date of annual reports prepared by liability insurance companies to the Insurance Commissioner from March 15 to May 1 of each year. This date is consistent with a majority of the other states which require similar reports. (See Attachment 4).

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Insurance,  
room 531 N Statehouse, at 3:30 ~~am~~/p.m. on March 23, 1992

Representative Cornfield moved for the favorable passage of SB 509 to the consent calendar. Representative Flower seconded the motion. Motion carried.

Representative Helgerson moved to adopt the minutes of the March 17 meeting. Representative Neufeld seconded the motion. Motion carried.

The meeting adjourned at 4:00 p.m.



TESTIMONY IN SUPPORT OF  
SB 679

HOUSE COMMITTEE ON INSURANCE

MARCH 23, 1992

BY COLONEL TOM GIBONEY

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INTRODUCTION

Good morning, Mr. Chairman. My name is Tom Giboney and I appear today in my capacity as Chairman of the Board of the Armed Forces Insurance Exchange located in Leavenworth, Kansas.

First, I would like to thank you and the other members of this Committee for this opportunity today to speak in support of Senate Bill 679. I appreciate your time and attention as you consider its passage.

In a nutshell, SB 679 will provide Armed Forces Insurance Exchange the ability to accomplish a "statutory merger" with its

predecessor -- the Armed Forces Co-operative Insuring Association -- on the same basis and with the same tax treatment as mergers of other Kansas companies. Only because of the very unique circumstances surrounding the development of our companies is this legislation necessary to maintain consistent treatment.

#### OVERVIEW OF BUSINESS & HISTORICAL BACKGROUND

A brief overview of our company and its historical development will help to explain the need for SB 679.

The insurance entities addressed in SB 679 write property and casualty insurance exclusively for officers and senior NCO's, active, retired, reserve and guard, of the uniformed services of the United States.

The original entity, Armed Forces Co-operative Insuring Association, operated at Fort Leavenworth from 1887 to 1982 without having ever been licensed as an insurer. In order to comply with the Kansas Insurance Code, a second entity, Armed Forces Insurance Exchange, was created, domiciled and licensed in Kansas and subsequently in all other states with the express purpose of assuming the business of the unlicensed Association. The final step in this effort is the merger of the two entities.

The problem that necessitates passage of this Legislation is that neither the Kansas Insurance Code nor the Kansas Corporate Code currently authorize such a merger of an unincorporated association and an unincorporated reciprocal exchange. SB 679 provides that authority.

Simply stated, it provides the same merger capabilities enjoyed by all Kansas corporations to our unique entities.

However, as you will note, SB 679 is narrowly drafted, specifically naming the entities involved, so as to not open the door for other transactions which may be less desirable than this one. It recognizes the unique nature of the situation. It was drafted after consultation with Commissioner Todd and Secretary of State Graves and has their support. It does not work a disadvantage on any other Kansas domestic insurance company since we do not compete with other carriers because of our restrictive membership eligibility rules. What SB 679 does do is to allow us to complete our reorganization, continue our growth, and in turn, continue our contributions to the economics of the City of Leavenworth and the State of Kansas.

Armed Forces Insurance Exchanges has over 104,000 policyholders throughout the United States, with 2,230 of those residing in Kansas. In 1991 we wrote \$44,674,000 of premiums and had policyholders surplus of \$51,800,218 at year end. The merger will substantially strengthen the Exchange, increasing

its policyholders to around 110,000, its premium written to \$46,202,000, and its policyholders surplus to \$89,587,218.

Armed Forces Insurance currently employs 177 persons. In 1991, it contributed \$3,526,355 in payroll and \$437,000 in purchases and contracts to the Leavenworth area economy. The merger will facilitate growth and expansion into new lines of business, providing added economic benefit to the area.

#### CONCLUSION

In conclusion, SB 679 will facilitate the continued growth of Armed Forces Insurance Exchange by allowing a statutory merger of these entities in the same manner all Kansas corporations are able to merge related entities.



This Legislation is needed because the Corporate and Insurance Code simply do not address such a unique situation.

I respectfully ask for your support.

Testimony by  
Dick Brock, Kansas Insurance Department  
Before the House Committee on Insurance  
Senate Bill No. 679

The Kansas Insurance Department supports enactment of Senate Bill No. 679. This statute is needed to permit the Armed Forces Cooperative Insuring Association to merge into and become part of the Armed Forces Insurance Exchange. The Armed Forces Cooperative Insuring Association has existed as an unincorporated association operating within the federal enclave of Fort Leavenworth, Kansas. This entity has been in existence since 1887 and wrote only commissioned officers and the top three non-commissioned officer grades of military personnel, insuring them against loss or damage to their personal property on a worldwide basis. The Armed Forces Cooperative Insuring Association was never specifically authorized to do business within the state of Kansas since it insured only employees of the same employer (U.S. Government) and therefore was exempted from the Kansas Insurance Code pursuant to K.S.A. 40-202.

The Armed Forces Insurance Exchange was formed in 1982 and became licensed as an unincorporated reciprocal exchange operating from Leavenworth, Kansas under the laws of the state of Kansas. The Armed Forces Insurance Exchange conducts its business by means of an attorney-in-fact by the name of Armed Forces Insurance Corporation. The Armed Forces Insurance Corporation is incorporated under the laws of the state of Kansas and is the entity which exchanges insurance contracts on behalf of the Armed Forces Insurance Exchange. The Armed Forces Insurance Exchange was created for the specific purpose of forming an insurance company that could be licensed in each of the 50 states of the United States and to provide a recognized acceptable means for officers in military service to obtain coverage from a licensed insurer.

*Waver Insurance*  
*Attachment 2*  
*3-23-92*

Currently there is no provision in the Kansas Insurance Code that would permit a non-regulated insurance entity to merge into and become part of a licensed Kansas domestic reciprocal inter-insurance exchange. This bill will authorize a merger to occur subject to the approval of the commissioner of insurance and by virtue of the merger all in-force policies of Armed Forces Cooperative Insuring Association will be assumed by the Armed Forces Insurance Exchange.

The Armed Forces Insurance Exchange has become legally authorized to do business under the laws of each of the 50 states within the United States. This bill will not have a significant effect upon any existing policyholder insured in the Armed Forces Insurance Exchange. The bill does, however, provide a legal means for combining the remaining assets of the Armed Forces Cooperative Insuring Association into the assets of the Armed Forces Insurance Exchange.

We know of no other situation within the state of Kansas which is similar to the situation between Armed Forces Cooperative Insuring Association and the Armed Forces Insurance Exchange. This bill will not harm any current policyholder of the Armed Forces Cooperative Insuring Association because the majority of the policyholders in the Association have been rewritten in the Armed Forces Insurance Exchange.

The Kansas Insurance Department supports Senate Bill No. 679 and we will be happy to answer any questions the committee may have in regard to this proposed legislation.

Testimony by  
Dick Brock, Kansas Insurance Department  
Before the House Committee on Insurance  
Senate Bill No. 518

Senate Bill No. 518 is simply a housekeeping amendment necessitated by the Omnibus Reconciliation Act of 1990 (OBRA 90). Since 1981 insurance policies designed to supplement Medicare have been subject to a federal certification program whereby if the Medicare supplement policies sold in a state do not conform to certain federal standards, the Health Care Financing Administration could, in effect, assume regulatory control over the policies issued in that state. Although a clear misnomer, this was considered to be a voluntary certification program prior to the 1990 change. However, OBRA 90 materially changed the process and, for that reason, the Kansas enabling act relating to minimum Medicare supplement standards needs to be amended to identify the current applicable federal law.

*Kansas Insurance*  
*Attachment 3*  
*3-23-92*

TESTIMONY ON S.B. 509

March 23, 1992

The House Insurance Committee

Re: Senate Bill No. 509

Chairman Turnquist and Members of the Committee:

On behalf of the National Association of Independent Insurers, we would request your favorable consideration of Senate Bill 509. Current law requires all insurance companies that provide product liability insurance to file annual reports with the Commissioner of Insurance by March 15. These reports require a substantial amount of information for each policy year from 1977 on. Senate Bill 509 simply changes the due date and allows these reports to be filed by May 1 of each year. This date is consistent with a majority of the other states which require similar reports. In fact, of the 21 states that require similar product liability reports, 17 states have a due date of May 1st or later. This additional time will help relieve the current pressure of trying to prepare the reports and our annual financial statements at the same time by allowing some additional time for insurers to prepare and submit the product liability reports. We understand that the Commissioner of Insurance is not opposed to this amendment. We would therefore request your passage of Senate Bill 509.

Thank you for your consideration.

Respectfully,



DAVID A. HANSON

DAH:ryp 3138K

*Hanson Insurance  
Attachment 4  
3-23-92*