

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:08 a.m./~~p.m.~~ on Monday, February 10, 19⁹² in room 529-S of the Capitol.

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

Senators Bond, Francisco, McClure, Parrish, Reilly, Strick, Ward, and Yost.

Committee staff present:

Fred Carman, Revisor
Bill Wolff, Research
Richard Ryan, Research
June Kossover, Secretary

Conferees appearing before the committee:

Jeffery Sonnich, Kansas-Nebraska League of Savings Institutions
Jim Maag, Kansas Bankers Association

The meeting was called to order by Chairman Bond at 9:08 a.m.

Senator Strick made a motion, seconded by Senator Yost, to approve the minutes of the meeting of February 6, 1992. The motion carried.

Chairman Bond reopened the hearing on SB 480 and SB 482.

Jeffery Sonnich, Kansas-Nebraska League of Savings Institutions, appeared before the committee in opposition to SB 480 in its original form, and in support of the amendments offered by the Kansas Bankers Association. (Attachment #1.)

Jim Maag, Kansas Bankers Association, appeared before the committee to explain the amendments proposed by the KBA. Mr. Maag explained that the significant changes would be:

- Set maturity limits on investments by the PMIB.
- Set time limits for money to remain in the pool.
- Set statutory safeguards (it may be difficult for the PMIB to review and authorize all local government investment policies on an annual basis).
- Establish a penalty for local units who do not adhere to investment guidelines.
- Set investment rate so that financial institutions would be willing to pay equivalent rate.
- Make it more flexible so banks could use existing assets of real estate mortgages as security for idle funds.
- Reinstate existing language for distribution of state inactive monies.

Mr. Maag suggested that the legislature might want to establish statutory safeguards and decide in what the PMIB should invest directly. Mr. Maag also stated that the KBA has no opposition to SB 482 as drafted; however, the Community Bankers Association is recommending that at least two members of the PMIB come from non-urban areas.

Chairman Bond appointed a subcommittee to work on the various issues raised by the conferees on SB 480, consisting of Senator Yost (chair), Senator Moran and Senator Strick. Any comments or suggestions should be given to them. The subcommittee will work with the State Treasurer and interested parties to smooth out the technical points and issues, such as market rate vs. investment rate, how much authority should be given to local units to invest directly, the issue of phasing out over four years the current formula of investing with banks, etc. Chairman Bond declared the hearing on SB 480 and SB 482 closed, pending the report from the subcommittee.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:08 a.m./~~p.m.~~ on Monday, February 10, 19⁹².

Richard Brock, State Insurance Department, distributed balloon notes on SB 519 for the committee members to review prior to considering the amendments, which had been requested by the committee. (Attachment #2.)

Senator Bond announced that the committee will meet in Room 313-S on Wednesday and Thursday, February 12 and 13 for the hearings on SB 561, small group coverage.

The committee adjourned at 10:03 a.m.

**Kansas-Nebraska
League of
Savings
Institutions**

Jeffrey D. Sonnich, Vice-President

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February 5, 1992

TO: SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE
FROM: JEFFREY SONNICH, VICE PRESIDENT KNLSI
RE: S.B. 480, PUBLIC FUNDS INVESTMENT

Mr. Chairman. Members of the Committee. The Kansas-Nebraska League of Savings Institutions appreciates the opportunity to appear before the Committee on Financial Institutions and Insurance and express some concerns we have with S.B. 480.

While the State Treasurer should be commended for her initiative in seeking enhanced revenue streams for state and local units, we have some concerns with the new definition of the market rate outlined in Section 10; Sub. (k). This new market rate would replace the 91-day T-Bill rate as the minimum acceptable rate financial institutions could offer for deposits of local and state idle funds. We feel that the new market rate would result in a higher cost of funds and ultimately an outflow of these funds from the institutions. Savings institutions by and large reinvest these funds in the community through consumer and mortgage loans.

During hearings before the Legislative Budget Committee Treasurer Thompson indicated that the yields on state and local idle funds were below current market rates. She also said that in some cases local units were unable to find institutions willing to accept deposits. We suggest that the current low interest rate market has as much to do with the low yields and fund acceptance as does the method in which they are invested. Also, the costs associated with maintaining these funds have increased over the last year. Currently, banks and savings institutions must pay a 23 basis point premium for deposit insurance.....this is equal to 23 cents per \$100 dollars of deposits. This is a substantial increase from rates paid just a few years ago. Additionally, the state requires financial institutions who hold public funds to pledge securities against deposits in excess of the \$100 thousand covered by the F.D.I.C. These additional costs were essentially a trade-off for receiving public funds at the below market T-bill rate. The state and local units in return were insured for the full amount of their deposits.

FI & I 2-10-92

Attachment #1



Senate Committee on Financial Institutions and Insurance
February 5, 1992
Page 2

Certainly, we understand that if there are difficulties in placing funds in local financial institutions, greater investment flexibility must be given to local units. S.B. 480 would create a municipal investment pool fund that would be administered by the Pooled Money Investment Board. Local units could place those funds not accepted by local financial institutions into the pool fund for investment. Moneys placed in the municipal investment pool fund would primarily be invested in Government and GSE securities, and repurchase agreements.

Possibly a better way to approach the problem of increasing yields and deposit acceptance would be to drop all artificial rate floors and allow competitive bidding on current market rates. In this way funds will flow to areas of the state that have a need for it. While this may not be the best way to uniformly reinvest in local communities it is certainly preferable to allowing funds to flow out of the state in the form of government security investments.

In closing we would just point out that many of the problems local units face with respect to deposit of funds are a result of poor economic conditions. Financial institutions are experiencing record low loan demands that in turn reduce the need and the rate paid for deposits. As the loan demand increases we expect interest rates will rise and the need for deposits to increase. This will hopefully relieve some of the problems that S.B. 480 attempts to correct.

Jeffrey Sonnich
Vice President

SENATE BILL No. 519

By Committee on Financial Institutions and Insurance

1-22

8 AN ACT concerning life insurance; purchase of policy benefits; notice
9 to beneficiary; cancellation of transaction.

10
11 *Be it enacted by the Legislature of the State of Kansas:*

12 Section 1. As used in this act "person" means an individual,
13 partnership, corporation or other entity that purchases life insurance
14 policies ~~or becomes a beneficiary under life insurance policies by~~ _____, any rights thereunder
15 paying the policyowner a percentage of the expected policy benefits.

16 Sec. 2. Any person purchasing ~~a life insurance policy already in~~ _____ any interest in
17 force or beneficiary rights under any such life insurance policy from
18 an existing policyowner ~~for less than 90% of the expected policy~~ _____ (See attached)

19 benefits at maturity shall provide notice of the transaction to the
20 last known address of the first beneficiary named on the life insurance
21 policy that is the subject of the transaction. The notice must be sent
22 by certified mail to such address no later than midnight of the day
23 the policyowner ~~receives payment~~, and the policyowner shall have
24 until midnight of the third business day after the day on which the
25 policyowner signs the agreement, to cancel the transaction.

26 Sec. ~~3~~. This act shall not apply to an insurance company in the _____ 13
27 course of exercising ~~existing~~ contractual provisions ~~which permit the~~ _____ under a life insurance policy
28 acceleration of life or annuity benefits in advance of the time they _____ Delete
29 would otherwise be payable or to any assignee of a life insurance
30 policy that has been used to collateralize a loan.

31 Sec. ~~4~~. This act shall take effect and be in force from and after _____ 14
32 its publication in the Kansas register.

FI+I 2-10-92
Attachment #2

shall, at least 90 days prior to doing any act toward the transaction of such business in this state, file an application for a license in the form prescribed by the commissioner of insurance. Such application shall be accompanied by a non-refundable fee of \$1,000 and the applicant shall provide any information the commissioner may require including a copy of any discount rates, contracts or other forms used in the transactions described in section 1 of this act.

Sec. 3. Whenever it appears to the commissioner that it is contrary to the interests of the public for a person licensed pursuant to this act to transact or continue to transact the business in this state, he or she may deny the issuance or continuation of a license. If, after a hearing conducted in accordance with the Kansas administrative procedures act, the commissioner concludes that it is contrary to the interests of the public for the person to continue to transact such business, he or she may revoke the person's license, or issue an order suspending the license for a period as determined by the commissioner.

Sec. 4. Any license issued pursuant to section 2 of this act shall continue in force until revoked, suspended or otherwise terminated by the commissioner upon payment of an annual continuation fee of \$500 on or before May 1 of each year.

Sec. 5. Any person which intends to discontinue transacting business in this state shall so notify the commissioner, and shall surrender his or her license.

Sec. 6. All persons shall disclose or advise any policyowner at the time of solicitation of all of the following:

- (a) Possible alternatives to the sale of their life insurance policy or any interest therein for policyowners with catastrophic or life threatening illness, including, but not limited to, accelerated benefits options that may be offered by the life insurer;
- (b) tax consequences that may result from entering into a living benefits contract;
- (c) consequences for interruption of public assistance as provided by medicaid or other public assistance programs; and
- (d) the policyowner has an absolute right to rescind the contract within 15 days of its execution.

Sec. 7. The commissioner may, whenever he or she deems it reasonably necessary to protect the interests of the public, examine the business and affairs of any licensee or applicant for a license. The commissioner shall have the authority to order any licensee or applicant to produce any records, books, files, or other information as is reasonably necessary to ascertain whether or not the licensee or applicant is acting or has acted in violation of the law or otherwise contrary to the interests of the public. The expenses incurred in conducting any examination shall be paid by the licensee or applicant.

Sec. 8. The commissioner may investigate the conduct of any person whenever the commissioner has reason to believe the person may have acted, or may be acting, in violation of the law, or otherwise contrary to the interests of the public. The commissioner may initiate an investigation on his or her own, or upon a complaint filed by any other person.

Sec. 9. No person who is not a resident of Kansas may receive or maintain a license unless a written designation of an agent for service or process is filed and maintained with the commissioner or has filed in the insurance department, his or her written, irrevocable consent that any action may be commenced against such person by the service of process on the commissioner of insurance.

Sec. 10. Any policyowner who enters into a contract with a person shall have the absolute right to rescind the contract within 15 days of execution of the contract, and any waiver or contract language contrary to this subdivision shall be void.

Sec. 11. All medical information solicited or obtained by any person shall be subject to the applicable provisions of Kansas law relating to the confidentiality of medical information.

Sec. 12. The commissioner may adopt rules and regulations reasonably necessary to administer the provisions of this act. This authority includes, but is not limited to, regulation of discount rates used to determine the amount paid in exchange for assignment, transfer, sale, devise, or bequest of a benefit under a life insurance policy.