

Approved 2/26/92 Date _____

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

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

9:09 a.m./~~p.m.~~ on Tuesday, February 25, 1992 in room 529-S of the Capitol.

All ~~xx~~ members ~~xxxx~~ present ~~except~~: Senators Bond, Francisco, Kerr, Moran, Parrish, Reilly, Salisbury, Strick, and Ward.

Committee staff present:

Fred Carman, Revisor
Bill Wolff, Research
June Kossover, Committee Secretary

Conferees appearing before the committee:

Colonel John Orndorff, President and CEO, Armed Forces Insurance Exchange
Ray Rathert, Kansas Insurance Department

The meeting was called to order by Chairman Bond at 9:09 a.m.

The hearing scheduled on **SB 702**, a bill requested by the Pharmacy Association, was cancelled at their request. The bill will be left in committee.

The Chairman opened the hearing on **SB 679**. This bill had been requested by Senator Reilly and deals with the Armed Forces Cooperative.

Colonel John Orndorff, President and Chief Executive Officer of the Armed Forces Insurance Exchange, appeared before the committee to testify in support of **SB 679**. (Attachment #1.) In response to a question from Senator Reilly, Colonel Orndorff clarified that this bill will, in effect, allow Armed Forces Insurance Exchange to merge with its predecessor, the Armed Forces Cooperative Insuring Association and to write all types of insurance, including automobile.

Ray Rathert, Kansas Insurance Department, appeared before the committee to testify in support of **SB 679**. (Attachment #2.) Mr. Carman clarified with Mr. Rathert that the resulting entity will be a corporation, the Armed Forces Insurance Corporation.

There being no further conferees, Chairman Bond declared the hearing on **SB 679** closed. Senator Reilly made a motion, seconded by Senator Strick, to move SB 679 favorably. The motion carried. The bill will be carried by Senator Reilly.

On a motion by Senator Salisbury, seconded by Senator Reilly, the minutes of the meeting of February 20, 1992, were approved as submitted.

The post audit report on Financial Regulatory Agencies requested in the discussion of **ERO 24** in the meeting of February 20, 1992, was made available to members of the committee by Dr. Bill Wolff.

Chairman Bond announced that the major parties in **SB 480** and **SB 482** have arrived at a compromise and a balloon has been prepared. A meeting is scheduled at 3:45 p.m. today in the West Lounge to review the balloon and compromise. It is anticipated that the bills can be brought back to the committee for action on Thursday, February 27, 1992.

The committee adjourned at 9:24 a.m.

TESTIMONY IN SUPPORT OF
SB 679

SENATE COMMITTEE ON FINANCIAL
INSTITUTIONS & INSURANCE

FEBRUARY 25, 1992

BY COLONEL JOHN ORNDORFF

INTRODUCTION

Good morning, Mr. Chairman. My name is John Orndorff and I appear today in my capacity as President and Chief Executive Officer of the Armed Forces Insurance Exchange located in Leavenworth, Kansas.

First, I would like to thank you and the other Senators 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

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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 NCOs, 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.

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Testimony by
Raymond E. Rathert, Kansas Insurance Department
Before the Senate Committee on Financial Institutions and Insurance
Senate Bill No. 679

February 25, 1992

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.

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.

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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.

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