

Approved: Jan. 21, 1997
Date

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Don Steffes at 9:00 a.m. on January 14, 1997 in Room 529-S of the Capitol.

All members were present except:

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list

Committee members and staff were introduced and welcomed by Senator Steffes. He reviewed his banking and career experiences which have prepared him for this position (Attachment 1). He discussed his philosophies regarding the regulation of industry, especially banking, in that deregulation usually creates competition and stimulates economic growth within a community.

Staff members explained their roles and general guidelines were given to the Committee.

The meeting adjourned at 10:03 a.m.

SENATE FINANCIAL INSTITUTIONS & INSURANCE
COMMITTEE GUEST LIST

DATE: 1/14/97

NAME	REPRESENTING
Jane Stiffes	general public
Judi Storer	OSBC
John Federico	Pete McGill + Assoc
William SNEED	Am Vectors
Jim Mace	KBA
Paul W. [unclear]	Farmers Ins. Group
CHAD TRENSTER	KS Rest Hosp Assn. Insurance Fund
Bill Caton	KDFA
Buddy Smoot	BCBS
Alene [unclear]	State Farm
Callie Denton	Peterson's Assoc.
Roni Ceelehan	kammico
Roger Franke	KGC
Matthew Goddard	Heartland Community Bankers
Chris Keeshan	Kansas Trial Lawyers
Marlin Hamner	Hamner's Capitol Report
Kathy Taylor	Kansas Bankers Assn.
Chuck Stokes	~
Pat Morris	K.A.I.A.

REMARKS
CHAIRMAN DON STEFFES
FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
JANUARY 14, 1996

It appears to me that there are a few occasions when it is appropriate to make a "statement". This seems like one of those times. Since I have devoted a lifetime to Kansas business, banking and politics, I do have opinions on some of the issues which this committee will be discussing. It may be of value to the committee members, staff and other interested parties to review some of my thoughts on these matters.

First of all, I feel very honored and grateful to have been selected Chairman of this important committee and, at the same time, I am apprehensive concerning my ability to do a good job. Succeeding Senator Dick Bond does not make my task an easy one. You can be sure that I do not expect my Chairmanship to result in my election to the Presidency of the Senate. I am very grateful to Senator Bond for the tutoring he gave me during the last four years. I had the opportunity to make or second numerous motions - many at his direction. One of my obvious short-comings is my lack of the legal experience which he possessed and which is of enormous value in this particular position and to this committee. But, I do bring many years of practical banking experience which may offset some lack of technical knowledge.

Fortunately, I am not alone. I am pleased that Senator Praeger will be serving as Vice Chairman. As you all know, Sandy is the expert on Health Care Insurance issues and, as I have discovered, this committee should really be called Insurance and Banking because of the massive amount of insurance legislation which is reviewed each year.

*Senate I.D.S.
Attachment 1
1-14-97*

Since much of the insurance industry revolves around health care matters, I will be looking to Sandy for guidance, counsel and assistance.

I am pleased that Senator Feleciano will be the ranking Minority member. Senator Feleciano brings to the committee many years of legislative experience having served on numerous committees. His candidacy for Insurance Commissioner gave him an opportunity to gain many additional insights into this vital segment of the Kansas economy.

Of course, none of us would look good without good staff. As soon as Senator Bond had been elected President of the Senate and prior to my selection as Chairman, I began immediately to see who I might get to help in this job should I be asked to move up from Vice chairman to Chairman. Needless to say, I could not be happier with the staff who will be with us. I immediately contacted Dr. Wolff to see if he was going to continue serving us even though he has taken on many new responsibilities. I was delighted to hear that he would be with us. I then checked with Fred Carman and found that he too would be providing us with his vast knowledge and skills and an institutional memory which we all need. Fred is a delight to work with and epitomizes what a dedicated public servant should be. The returning Senators, the regulatory staffs and the industry representatives know that we have the best committee help the Kansas Legislature has to offer.

However, of most importance, as everyone in this room knows, the Chairman is only as good as his Secretary. Because of my lack of experience and knowledge of the duties of a Chairman and the operation of a Committee, I knew that I needed the best. I persuaded Nikki Feuerborn who has six years of banking and insurance experience as Secretary to Chairman Bill Bryant to continue on our behalf. Most of you are familiar

with Nikki and I know that she will be of enormous help to me, both from a technical standpoint, and keeping our committee from becoming too serious. I assured her, and I want to assure all of you, that, just as Senator Bond did, I hope that we can make this 9:00 hour a lively, interesting and sometimes fun time where we will get our job done in a businesslike manner, but realizing that it is also possible to sometimes enjoy what we are doing.

Realizing that habits are very comfortable, I am pleased that we will have a staff that we all know. Even more, I have been fortunate enough to have been assigned the office Senator Bond occupied for the past four years. None of you will have to think very hard to know where to find both Nikki and I as you have spent a lot of time in that office with Senator Bond. This particular area has been a "bee-hive" of activity in the past. I'm sure this was caused primarily by the occupant and not the location. I encourage each of you to contact me in regard to insurance and banking matters.

Not only am I asking for the help of the staff and committee members in making this Committee work well, I earnestly solicit the help and advice of the industry representatives who are intensely interested in the outcome of our discussions. I certainly also need the help of Commissioners Sebelius and Male and other regulatory officials and their staffs. We need to all work together for the benefit of the State. Also, I am dependent upon the others of you who represent the many companies affected by the decisions we make. It is obvious that we cannot always please you, but we will promise that we will listen to your concerns and try to make the right judgment for the people of Kansas.

I feel that a few thoughts on both the banking and insurance industries and my views might be helpful. First, let's talk about banking, a field with which I am very

familiar. As some of you know, I was involved in the lending of money to businesses and the people of Kansas beginning in 1965 and, for many years, served as Chairman of the Board, President and CEO of a large community bank until my early retirement in 1991. During this time and prior years serving as a Chamber of Commerce manager, I have spent a lifetime involved in community service. During the mid 1980's, I was President of the Kansas Bankers Association during the debate on Multi-Bank Holding Co's, a very interesting period to have been on this Senate committee.

These experiences, along with many others, have formed my opinions, just as your experiences have yours. I think that every action we take must keep the banking customer in mind and that should be our first consideration. We must think long-term and not just to next year or the next election. I am a firm believer in the power and wisdom of the "silent and invisible hand" of competition and am very suspect of the "heavy" hand of regulation. Over the long run, competition serves the people much better than the planned economies interested in protecting the people. The free market movement is now a world wide movement and the power of planned economies and total regulation has proven to be ineffective and counter-productive.

I had the opportunity to work in the banking community when we had regulatory "price-fixing". It was called Regulation Q and set the interest rate we could pay for deposits. It was a wonderful time to be a banker. We worked with the 3-6-3 rule. Banks paid 3% for funds, charged the borrower 6% for loans and played golf at 3:00 P.M. Banks were also granted exclusive territories through the chartering process. But in time, these anti-competitive practices distorted the market place and caused significant economic problems. There are many who believe artificial interest rates were a major cause of the S & L catastrophe and also the farm crisis of the 1980's. And since I was the CEO of the largest bank in Kansas which was classed as an Ag Bank during this period, I

can assure you that none of the problems which we encounter in this committee can begin to compare to the stress of repossessing family farms from third generation farmers who were caught in this impossible situation. During this same period, I had the opportunity to serve on the state banking board, as Governor Carlin's appointee, and was involved in the closing of up to one bank a week because of uncollectable farm loans. Sooner or later, an over-regulated industry will cause both the industry and the customers it serves, distress and problems.

During the last ten to twenty years we all have been participants in a great, and painful, restructuring of the American economy. First, the airlines, then banking, recently the telephone systems and, soon, our electric utilities will have gone through the turmoil of de-regulation. Banking is far different than we knew it only a few short years ago. The big railroad companies just about failed because they thought they were in the railroad business rather than transportation providers. They were so over-regulated, beaurocratic and complacent that the up-start trucking industry almost eliminated them. The big banks are trying to avoid this situation. They consider themselves providers of financial services and we probably will not recognize them a few years from now. I believe that the momentum of these trends is so great that we in Kansas can do little to stop it. But we can and should continue to be involved to ensure that the people of Kansas are well served.

It has been my experience, during the last thirty years of my involvement, that most of the disagreements concerning banking legislation has been between bankers and, generally, the banking public has not been very concerned. Many of the changes which have occurred were opposed by bankers, but, in the long run, I am convinced that both the bankers and their customers have benefited. Certainly, this genie cannot be put back in the bottle and more changes are sure to come. I'm hopeful banking regulators will be

increasingly devoted to issues of "Safety and Soundness" and let the customer shop for the most convenient, cost-effective banking service which they desire. The Kansas public now has a choice between very large and very small banks and both have definite advantages. It is our good fortune to be discussing banking issues in a year when bank profits are at record levels and troubled banks are almost non-existent. As always, banking competition is not from other banks but with other financial service providers and as this competition heats up, the customer will benefit. It seems to me that the Committee will continue to be concerned with the much discussed "level playing field".

During my later banking years, there was great interest in "Full Disclosure". This came about because of the problems caused by conflicts of interest. In the spirit of "full disclosure", it is appropriate that I advise the committee and others that a significant portion of the net worth of my wife and I consists of stock in Boatman's Bank which has just been converted to NationsBank. Our percent of ownership is infinitesimal.

Some of this stock was purchased almost thirty years ago in McPherson & Citizens State Bank and was accumulated over many years. All of the stock we own was purchased at the market price, except a small amount through a stock option plan from Bank IV and none was inherited. There remains substantial debt on this stock and the debt is owed to the brokerage firm of Stiffel-Nicolaus, a non-banking institution. This debt could be transferred to many other similar brokerages with a phone call.

We would very much like to diversify our holdings in this stock, but because of the capital gains tax which would be required, it is my opinion, that this is too great an additional sacrifice to ask of my family to pay for my being involved in public service.

Virtually every vote which I cast on banking issues carries with it this potential conflict of interest. Of course, this applies to many votes which are cast by many legislators on many issues.

However, as I previously stated, I will keep the banking customer as my first priority. Over the long run, in an competitive environment, an efficient and well

managed financial institution will benefit but even more importantly, the banking customer will be well served. I plan to vote on banking issues with this criteria in mind.

And now, some thoughts on Insurance. When I first joined this committee four years ago, I was amazed to discover that there are over 400 pages of Kansas Statutes concerning the insurance industry and less than 100 pages on banking. I had the mistaken opinion that the world revolved around banks and banking. And then I discovered during the past four years that this committee spends much more time on insurance than on banking.

It could be that the Insurance industry has been over-regulated. But more on that later. In this regard, I applaud the commissioner for her goal of reviewing the insurance statutes and regulations to see what can be eliminated. In this regard, it is not my opinion that this committee's measure of success is to pass more laws or impose more regulations. The exact opposite would please me very much. If we could go through the session with few new laws, I would think we would be successful and we would be applauded by the general public.

Of great concern to me is the decline of the Kansas Insurance industry. I was very close to one of the early giants of the industry, Gene Mingenback, past President of the Farmers Alliance Mutual Insurance Co. of McPherson. His legacy lives on through a Foundation which he funded and which I now serve as President. When he was a Kansas insurance leader, it was difficult to find facilities in Kansas large enough to handle their annual conventions. Now, just about any community in Kansas would have a facility large enough to hold them. In my working career, we have watched this industry continue to shrink. I was pleased that one of the goals of the interim Joint Committee on Insurance was to form a task force to study this matter, to review both the regulatory environment and the Kansas tax laws to determine if they were the cause of this situation.

It is possible that the industry itself was the cause of its own decline. It is also possible that the industry was at a disadvantage during these years because of a banking environment which discouraged the concentration of assets essential in the financing of large enterprises. In any event, Kansas has suffered and, if our committee could do anything to reverse this trend, all of Kansas would benefit.

With the advent of the magic of telecommunications, fax machines, massive computers, airlines, banking technology allowing money to move worldwide with the speed of light, insurance companies can be located anywhere. These high-paying service industry jobs could be of great benefit to all of Kansas. Perhaps we have already lost the opportunity to have the home offices of large insurance companies but we could very easily be considered as a branch location. We already have some branches, but we should make a major effort to move more insurance jobs to Kansas.

As with banking, I think one of the major tasks of the Insurance Department is to protect the public from scoundrels. They will always be with us. Senator Praeger and I co-authored a Fraud bill several years ago and I applaud the commissioner and the companies continuing commitment and efforts to stop this activity which costs all of us billions of dollars each year - a shifting of funds from honest people to the unscrupulous. I am convinced that anything that can be done to let the free market work with the invisible hand of honest competition is in the best interests of the Kansas insurance buying public. I am eager to work with the Insurance Commissioner to achieve these goals.

Finally, in a bi-partisan spirit, I will close by quoting both Lincoln and Jefferson. Lincoln was right when he said that you can not help the poor by tearing down the rich. In this vein, you can not help the banking or insurance customer (the people of Kansas)

by restricting the banks or insurance companies serving Kansas from making an adequate return on their invested capital. And, competitive pressures should determine what is an "adequate" return and not some arbitrary amount selected by an official or committee who is attempting to protect the public. Such arbitrary figures are self-defeating, distorting and disrupting the market place and, in the long run, hurt the very people they should protect.

In our deliberations we will not agree on some issues. In this regard, I particularly like the quote of Jefferson's in his first Inaugural Address. Among many brilliant thoughts he said, "Every difference of opinion is not a difference of principle". I think we should all remember this as we disagree on various issues.

By working together, we will be of service to all of the people of Kansas, to our District and to the banking and insurance industries. That is about as much as we can hope to accomplish. Thanks for your patience as I have reviewed some of my thoughts as we begin this journey.