

Approved: March 24, 1999
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE .

The meeting was called to order by Chairperson Senator Don Steffes at 9:00 a.m. on March 18, 1999, in Room 529 S of the Capitol.

All members were present except:

Committee staff present: Dr. Bill Wolff, Research
 Ken Wilke, Office of Revisor
 Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Scott Gates, Office of State Treasurer
 Mark Heitz, AmVestors
 Roger Viola, Security Benefit Group
 Bill Sneed, AmVestors
 David Hanson, Insurance Association
 Linda DeCoursey, Kansas Insurance Department
 Paul Davis, Kansas Insurance Department

Others attending: See Attached

Chairman Steffes updated the Committee on banking bills **SB 260** and **SB 271** as they are making their way through the House. **SB 260** was tabled in the House Financial Institutions Committee and **SB 271** was re-referred to Governmental Organizations, stripped, and another bill on campaign reform was inserted. **SB 240** has survived with the remaining qualifications for the State Bank Commissioner to be a banker with at least five years managerial experience in either a national or state-chartered Kansas bank, not currently employed by a bank, and that the position be considered full-time.

Discussion and Action on SB 117-Unclaimed Property Act

Chairman Steffes thanked Senator Clark and his subcommittee for the hard work and outcome of their work on the bill. Senator Clark walked the FI&I Committee members through the bill and the subcommittee's recommended changes (Attachment 1 available in FI&I Office). Primary changes included not requiring filing of reports unless the aggregate value is over \$100 and gift certificates were removed from the list of property requiring filing. Scott Gates, speaking on behalf of the State Treasurer's Office, said they were in opposition to a few points but these could be discussed in the House.

Senator Clark moved to adopt a Substitute SB 117 containing all the recommended changes and to report the bill favorably for passage. Motion was seconded by Senator Biggs. Motion carried.

Continued Hearing on HB 2266 and Action: Insurance; mutual holding companies' redomestication

Linda DeCoursey, Kansas Insurance Department, read testimony prepared by Commissioner Sebelius in opposition to the bill (Attachment 2). Lowering the equity interests of policy holders below the 51% threshold allows the company to sell the equity interest of the policy holders in the market but not compensate the owners for their economic value. Commissioner Sebelius requests that the current law be left alone or add her prepared amendment in order to protect the public.

Mark Heitz and Bill Sneed, representing AmVestors, asked the Committee to view the bill from a fundamental fairness issue: Why was Security Benefit Group granted this request by the Insurance Commissioner and Amerus cannot be guaranteed the same treatment should they attempt to redomesticate to Kansas? Why is the Commissioner reluctant to place the language within the original order into statutes. The economic interest of the policy holders was addressed by explained that raising capital brings in cash which may lower the percentage owned, but "the pie becomes bigger." Policy holder dividends are protected because they have a greater value. Mr. Heitz requested that a law be put firmly in place because no big companies would be willing to risk redomestication if such important decisions regarding definition of voting rights and equity are left to the discretion of the Insurance Commissioner.

Roger Viola, Security Benefit Group, adoption of the proposed amendment from the Insurance Commissioner could be responsible for a \$250 million loss to their company when they try to raise capital. If growth does

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not occur for smaller companies such as SBG, they will be gobbled up by larger companies in the marketplace. One share of stock is never equaled to one vote when a company is public.

Paul Davis of the Insurance Department reminded the Committee that if this bill does not pass, the Amerus company could come to the Insurance Commissioner and ask for the same provisions which were made for SBG as the regulatory function of the Insurance Commissioner is granted by the Legislature.

David Hanson, Kansas Insurance Association, said there are 35-40 insurance companies domiciled in Kansas at this time. There has been a loss in numbers but part of that was due to mergers, consolidations, etc.

Committee members expressed concern regarding the vulnerability of market regarding growth and the importance of having a stable regulatory environment for companies making long range plans to redomesticate to Kansas. The fair and protective reputation of the Insurance Commissioner was discussed but this would still not alleviate the uncertainty which may exist for new companies coming into the state.

Senator Praeger moved to report the bill favorably without the proposed amendment. Motion was seconded by Senator Brownlee. Motion carried with two dissenting votes by Senator Biggs and Senator Feleciano.

The meeting was adjourned at 9:55 a.m. The next meeting is scheduled for Monday, March 22, 1999.

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE GUEST LIST

DATE: 3-18-99

NAME	REPRESENTING
Kathy Olsen	KBA
MARK HEITZ	AMVESTORS
Bill Sneed	Am Fam Life
John MUGLER	Am VESTORS
Jim Bran	m.d - Am Unibank
Stacey Soldan	Hein + Weir
Dehly Fleming	Federica Consulting
Tom WHITAKER	Ks MOTOR CARRIERS ASSN
Steve Richards	Yellow Corporation
Roger Viola	SBGI
Trish Hein	SBGI
Chris Swickard	SBGI
Rebecca Sanders	Kansas Insurance Dept
Maggie Keating	Kansas Insurance Dept.
Linda Delcoursy	" " "
Paul Davis	" " "
Scott Gates	
Neyssa Thomas	Treasurer Office
David Hanson	Ks Insur Assoc



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

March 18, 1999

To: Chairman Steffes and members of the Committee
From: Kathleen Sebelius
Re: HB 2266

I apologize for not being with you today, but I have a long-standing scheduled day in Wichita, and it was impossible to rearrange. I would like to respond to some of the statements from the proponents and again urge the Committee to report HB 2266 unfavorably because we don't need to change the Kansas law.

Mr. Heitz told you that the reason the 51% needed to be changed was to allow the company to sell more stock in the market, which would result in shareholders owning more of the company than the policyholders. He asked what difference it made to have more equity in the market?

The difference is that a "mutual insurance company" is owned by the policyholders, by definition. There is a law that provides a method for companies to "demutualize", to switch from a mutual company to a stock company. That law, passed in 1985 and referenced in my testimony yesterday, provides a method of compensating each policyholder for the economic value of his or her proportionate ownership rights.

I would argue that lowering the equity interests of policyholders below the 51% threshold, (as suggested by the proposed industry amendment), allows the company to sell the equity interests of the policyholders in the market, but not compensate the owners for their economic value.

Bottom line: if a company wants to become a stock company, then follow the law on demutualization, and pay the policyholder/owners for their interests. If the company wants to access capital and remain a mutual insurance company, current Kansas law provides that opportunity. Passing HB 2266 would allow a company to move most or all of the equity into the

market, owned by shareholders, and never compensate the original owners of the company.

It's my understanding that Security Benefit Company, who drafted the current legislation, be here today, to join us in urging the Committee to leave the current structure in place. My staff will be available to respond to questions.