

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:30 P.M. on February 3, 2000 in Room 527-S of the Capitol.

All members were present except: Representatives Cindy Empson, Robert Cox, Billie Vining, Gene O'Brien

Committee staff present: Dr. Bill Wolff, Research  
Ken Wilke, Revisor  
Mary Best, Secretary

Conferees appearing before the committee: Dennis Wilson, State Treasurers Office  
Bill Sneed, Am Vestors  
David Hanson Kansas Life Insurance Association  
Linda DeCoursey, Kansas Insurance Department

Others attending: See attached Committee Guest List

**HB 2648- Unclaimed property, canceled state warrants**

The order of the meeting was changed to work **HB 2648**. Upon bringing the bill before the committee, Mr. Dennis Wilson, Director Department of Unclaimed property, requested the committee consider a couple of options and stated the bill required more work before it went any farther. Mr. Wilson spoke on Section 1, bringing the state into compliance with the unclaimed property laws that deal with canceled warrant funds and bringing them into the unclaimed property funds. "They ran," he stated, "into a lot of issues they did not realize were out there." He informed the committee that the department had prepared two (2) or three (3) balloons for consideration. They are also requesting a stay on the bill while they work on the language over the next two (2) or three (3) months. They will then represent the bill to the committee next year. Mr. Wilson gave the committee a copy of the balloon(s), which are (Attachments #1) attached hereto and incorporated into the Minutes by reference.

Questions were posed by Chairman Tomlinson regarding his understanding of the issues. He also questioned whether they can take federal funding. It was decided more thought needed to go into the bill.

Questions were also asked by Representative Myers regarding Section 2 and the restoration of the bill.

A Motion was made to adopt the balloon presented by Mr. Wilson, by Representative Grant. The Motion was seconded by Representative Hummerickhouse. Votes were taken. Motion passed.

The balloon was discussed further in regards to eliminating the first six (6) Sections. Dr. Wolff explained Section 7 would become Section 1, Section 8 would become Section 2, Section 9 would become Section 3. Representative Grant made the Motion to accept the changes, with Representative Hummerickhouse seconding the Motion. Votes were taken and the Motion passed. With this business being completed the public discussions on the bill were closed.

**HB 2652-Life insurance company investments; financial futures contracts.**

Chairperson Tomlinson opened the public hearings on the bill by recognizing Mr. Bill Sneed, of American Investors Life Insurance Company. Mr. Sneed's client had requested the introduction of the bill. AmVestors deal "exclusively in issuance of "fixed" annuities." Mr. Sneed's clients introduced legislation previously that "set parameters for investments by life insurance companies as it relates to financial futures' contracts." Mr. Sneed's clients are now issuing annuities referred to "equity indexed" which is partially governed by K.S.A. 40-2b25. They are now requesting changes to these laws dealing directly "equity indexed annuities."

Mr. Sneed explained that EIAs have become a growing product in the insurance marketplace. These annuities "protect principal from market risk while providing the potential for higher returns than other savings instruments by basing a portion of the total interest it credits on the movements of an external equity index."

The Statute, K.S.A. 40-2b25 was enacted to limit purchasing “financial instruments that hedges an insurer’s general investment portfolio.”

AmVestors are now offering an amendment to this Statute which “seeks to exempt investments made to cover EIA liabilities from the limitations of subsections (c) and (d).” The definition of “EIA is a fixed annuity, either immediate or deferred, that earn interest or provide benefits that are linked to an external reference of index.” The amendment proposes “.....the only financial instrument transactions free from the restrictions are those *investments used only to hedge the crediting basis amount an insured receives on a particular insurance policy which is determined by an underlying index.*”

Mr. Sneed stated to the committee that his client has been meeting with the Kansas Insurance Department and negotiating the limitations to placed on these transactions. They reached the agreement at “10% of admitted assets for special investment made to cover EIA liabilities.” Mr. Sneed’s client feels this limitation is “a reasonable financial security benchmark to provide adequate regulatory protection while allowing life insurance companies the ability to make sound investments ...” With this Mr. Sneed stood for questions. A copy of Mr. Sneed’s testimony is (Attachment #2) attached hereto and incorporated into the Minutes by reference.

Questions were asked by Representatives Myers, Burroughs, Jenkins and the Chair.

Mr. David Hanson, Kansas Life Insurance Association, was then recognized by the Chair. Mr. Hanson offered Proponent Testimony to the committee. A copy of the testimony is (Attachment #3) attached hereto and incorporated into the Minutes by reference. Mr. Hanson expressed his support of this bill on behalf of his clients. There were no questions.

Ms. Linda DeCoursey of the Kansas Insurance Department offered the Department’s support of the amendment. She informed the committee that her department also “persuaded the proponent to include a provision that requires these hedging transactions to be made with financial institutions that have a “1” rating from the Securities Valuation office of the National Association of Insurance Commissioners.” This they feel will add further security for Kansas Consumers. Ms. DeCoursey stood for questions. There were none. With no further testimony or public discussions, the hearing on **HB 2652** was closed.

The committee adjourned at 4:04 p.m.

The next meeting will be held February 8, 2000



Session of 2000

# HOUSE BILL No. 2648

By Committee on Insurance

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9 AN ACT concerning unclaimed property; relating to canceled state war-  
10 rants; amending K.S.A. 10-812, 46-925, 58-3955 and 58-3968 and  
11 K.S.A. 1999 Supp. 10-811, 46-913, 46-924, 58-3935 and 58-3952 and  
12 repealing the existing sections; also repealing K.S.A. 46-921.  
13

14 *Be it enacted by the Legislature of the State of Kansas:*

15 ~~Section 1. All claims for state warrants which have been can-  
16 celed pursuant to K.S.A. 10-811, and amendments thereto, shall be ad-  
17 ministered under the Kansas unclaimed property act, K.S.A. 58-3934 et  
18 seq., and amendments thereto.~~

19 ~~Sec. 2. K.S.A. 1999 Supp. 10-811 is hereby amended to read as fol-  
20 lows: 10-811. (a) In every case in which the director of accounts and  
21 reports shall have drawn a warrant against the state treasurer and a period  
22 of one year shall have elapsed since the issuance of such warrant, during  
23 which time no person entitled thereto shall have appeared to claim such  
24 warrant from the director of accounts and reports, or to claim the money  
25 so authorized to be paid from the state treasurer, such warrant, at the  
26 discretion of the director of accounts and reports and state treasurer, may  
27 be canceled and set aside upon their records.~~

28 ~~(b) In the event that federal laws or regulations require the state to  
29 refund or credit money to the federal government because state warrants  
30 which were funded in whole or in part by federal funds remain uncashed  
31 or unclaimed after a specified period of time, the director of accounts  
32 and reports may cancel any such warrant after such specified period of  
33 time has elapsed. Such specified period of time shall be prominently  
34 stated on the face of the warrant.~~

35 ~~(c) Cancellations pursuant to this section shall show the date canceled  
36 and the records shall recite that they were unpaid but canceled by reason  
37 of this statute of limitation. Canceled warrants shall not be considered  
38 unclaimed property under the provisions of K.S.A. 58-3934 through 58-  
39 3979, and amendments thereto.~~

40 ~~Sec. 3. K.S.A. 10-812 is hereby amended to read as follows: 10-812.  
41 (a) Except as otherwise specifically provided by law, all balances accrued  
42 from unpaid canceled warrants under K.S.A. 10-811 and amendments  
43 thereto, shall be credited to the canceled warrants payment fund general~~

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1 fund and shall be so transferred upon the records of the director of ac-  
2 counts and reports and state treasurer.

3 (b) There is hereby established the canceled warrants payment fund  
4 in the state treasury. All expenditures from the canceled warrants pay-  
5 ment fund shall be for payment of claims under K.S.A. 46-921 and  
6 amendments thereto in accordance with the provisions of appropriations  
7 acts upon warrants of the director of accounts and reports pursuant to  
8 vouchers approved by the claimant pursuant to that statute or the claim-  
9 ant's legal representative or duly authorized agent.

10 (c) On July 1, 1954 and each July 1 thereafter the director of ac-  
11 counts and reports shall transfer any unencumbered balance in excess of  
12 \$100,000 in the canceled warrants payment fund from that fund to the  
13 state general fund. The canceled warrants fund is hereby abolished and  
14 any remaining balance in the fund shall be transferred to the state general  
15 fund.

16 Sec. 4. K.S.A. 1999 Supp. 46-913 is hereby amended to read as fol-  
17 lows: 46-913. (a) Any person wishing to present a claim shall file the same  
18 with the chairperson of the joint committee in writing upon a form to be  
19 provided by the joint committee stating the following information:

20 (1) The name and address of the claimant; the name and address of  
21 the claimant's principal, if the claimant is acting in a representative ca-  
22 pacity, and the name and address of the claimant's attorney, if the claim-  
23 ant is so represented;

24 (2) a concise statement of the basis of the claim (including the date,  
25 time, place and circumstances of the act or event complained of, if  
26 applicable);

27 (3) a statement itemizing the amount claimed; and

28 (4) any other pertinent information requested by the joint committee.

29 (b) Upon the filing of a claim, the joint committee shall inform the  
30 claimant in writing of any additional information it will require in order  
31 to take action upon the claim.

32 (c) No claim based upon a canceled state warrant shall be considered  
33 by the joint committee if such claim is filed more than five years after  
34 the date the warrant originally was issued.

35 Sec. 5. K.S.A. 1999 Supp. 46-924 is hereby amended to read as fol-  
36 lows: 46-924. The acceptance by the claimant of any payment made pur-  
37 suant to this act shall be final and conclusive and shall constitute a com-  
38 plete release of any claim against the state. Otherwise, the claimant shall  
39 proceed with a claim against the state as provided by K.S.A. 46-913, and  
40 amendments thereto. The joint committee shall have no authority to rec-  
41 ommend an award for payment of a claim based on a canceled state  
42 warrant if such claim is filed more than five years after the date the  
43 warrant originally was issued.

1 Sec. 6. K.S.A. 46-925 is hereby amended to read as follows: 46-925.

2 Any payment made pursuant to this act shall be reported to the director  
3 of accounts and reports along with appropriate documentation thereof  
4 of the payment as may be required by such director. Upon request of any  
5 legislator or legislative committee, the director of accounts and reports  
6 shall compile and maintain a report of all such payments and shall submit  
7 the same to the committee on ways and means of the senate and the  
8 committee on appropriations of the house of representatives and to the  
9 joint committee on special claims against the state at least 10 days prior  
10 to the convening of the regular session of the legislature and provide to  
11 such legislator or committee a report concerning all payments made pur-  
12 suant to this act.

13 Sec. 7. K.S.A. 1999 Supp. 58-3935 is hereby amended to read as  
14 follows: 58-3935. (a) Property is presumed abandoned if it is unclaimed  
15 by the apparent owner during the time set forth below for the particular  
16 property:

17 (1) Traveler's check, 15 years after its issuance;

18 (2) money order, seven years after issuance;

19 (3) except as provided in K.S.A. 58-3943, and amendments thereto,  
20 stock or other equity interest in a business association or financial organ-  
21 ization, including a security entitlement under article 8 of the uniform  
22 commercial code, five years after the earlier of:

23 (A) The date of the most recent dividend, stock split or other distri-  
24 bution unclaimed by the apparent owner; or

25 (B) the date of the second mailing of a statement of account or other  
26 notification or communication that was returned as undeliverable or after  
27 the holder discontinued mailings, notifications or communications to the  
28 apparent owner;

29 (4) debt of a business association or financial organization, other than  
30 a bearer bond or an original issue discount bond, five years after the date  
31 of the most recent interest payment unclaimed by the apparent owner;

32 (5) a demand, savings or time deposit, including a deposit that is  
33 automatically renewable, five years after the earlier of maturity or the  
34 date of the last indication by the owner of interest in the property, except  
35 that a deposit that is automatically renewable is deemed matured for  
36 purposes of this section upon its initial date of maturity, unless the owner  
37 has consented to a renewal at or about the time of the renewal and the  
38 consent is in writing or is evidenced by a memorandum or other record  
39 on file with the holder;

40 (6) money or credits owed to a customer as a result of a retail business  
41 transaction, five years after the obligation accrued;

42 (7) amount owed by an insurer on a life or endowment insurance  
43 policy or an annuity that has matured or terminated, three years after the

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## Memorandum

**TO:** The Honorable Bob Tomlinson, Chairman  
House Insurance Committee

**FROM:** William W. Sneed, Legislative Counsel  
American Investors Life Insurance Company

**RE:** H.B. 2652

**DATE:** February 3, 2000

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I represent American Investors Life Insurance Company, a Kansas domestic life insurance company. As you will recall, my client requested introduction of H.B. 2652, inasmuch as my client is involved exclusively in the issuance of "fixed" annuities throughout the United States.

As mentioned in our request, several years ago my client, in coordination with the Kansas Insurance Department, presented legislation that set the parameters for investments by life insurance companies as it relates to financial futures contracts. This law is now found at K.S.A. 40-2b25.

My client is now issuing an annuity commonly referred to as an "equity indexed" annuity, which is partially governed by K.S.A. 40-2b25. However, when K.S.A. 40-2b25 was created, this type of product was not encompassed, and as such, we are requesting some changes to the current law which will specifically deal with equity indexed annuities.

Equity indexed insurance products, especially equity indexed annuities (EIAs), have quickly become a growing insurance product since their introduction into the insurance

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marketplace five years ago. By the end of 1997, over 30 companies had begun to market these products, and new EIA premiums exceeded \$3 billion, according to The Advantage Group figures. In 1998, the sales of EIAs topped \$4 billion, and predicted sales for 1999 are expected to have exceeded \$5 billion. EIAs protect principal from market risk while providing the potential for higher returns than other savings instruments by basing a portion of the total interest it credits on the movements of an external equity index. EIAs, by definition, are a fixed annuity, either immediate or deferred, that earn interest or provide benefits that are linked to an external reference or index.

Generally, the majority of premiums received by the insurer for equity insurance products are used by the insurer to purchase investment-grade fixed income securities, in order to cover the minimum guaranteed value of in-force policies. Insurers will also use a smaller portion of the premiums received to purchase financial future contracts, mainly call options, to support the equity index interest or credits.

K.S.A. 40-2b25 was initially enacted to limit the purchase of financial instruments that hedge an insurer's general investment portfolio. The limits set forth in K.S.A. 40-2b25 restricting investments hedging an insurer's general portfolio are patterned after the NAIC Model Regulations.

Our proposed amendment to K.S.A. 40-2b25 seeks to exempt investments made to cover EIA liabilities from the limitations of subsections (c) and (d). For our current EIA product, my client purchases capped call options to credit the amount due to policyholders in excess of the minimum guaranteed value. The limitations in subsection (c) apply to these hedging transactions since we are buying call options. The limitations of subsection (d) applies to the transactions because we eventually sell the covered call options at a higher price—at the point where the policyholder's participation in the index ends (a bull spread). Our proposal will still keep in

place those limitations on hedging with respect to general portfolio hedging, but simply provides more discretion for EIAs.

The proposed revisions to the statute mandate that the only financial instrument transactions free from the restrictions are those *investments used only to hedge the crediting basis amount an insured receives on a particular insurance policy which is determined by an underlying index*. All other hedging transactions will be subject to the current statute's restrictions.

Prior to and after our request for this bill, we have been meeting with members of the Kansas Insurance Department. Inasmuch as some insurers may not have the sophisticated asset/liability matching program that my client has, they have requested a limitation of 10% of admitted assets for these special investment made to cover EIA liabilities. They have also requested some additional definitions to make clear the processes we are proposing. Attached is a balloon of the proposed amendments.

We believe this 10% limitation is a reasonable financial security benchmark to provide adequate regulatory protection while allowing life insurance companies the ability to make sound investments in order to credit policyholders amounts due under EIA's. Therefore, we support and request this Committee to incorporate the attached amendments.

Thus, on behalf of my client, I respectfully request that H.B. 2652 as amended be favorably considered in the House Insurance Committee. If you have any questions, please feel free to contact me.

Respectfully submitted,

William W. Sneed



HOUSE BILL No. 2652

By Committee on Insurance

1-19

9 AN ACT concerning insurance; relating to life insurance company in-  
10 vestments; financial futures contracts; amending K.S.A. 1999 Supp. 40-  
11 2b25 and repealing the existing section.

12  
13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 1999 Supp. 40-2b25 is hereby amended to read as  
15 follows: 40-2b25. (a) Any life insurance company heretofore or hereafter  
16 organized under any law of this state may use financial instruments under  
17 this section to engage in hedging transactions and certain income gener-  
18 ation transactions or as these terms may be further defined in regula-  
19 tions promulgated by the commissioner. The life insurance company shall  
20 be able to demonstrate to the commissioner the intended hedging char-  
21 acteristics and the ongoing effectiveness of the financial instrument trans-  
22 action or combination of the transactions through cash flow testing or  
23 other appropriate analysis.

24 (b) As used in this section:

25 (1) "Cap" means an agreement obligating the seller to make pay-  
26 ments to the buyer, each payment based on the amount by which a ref-  
27 erence price or level or the performance or value of one or more under-  
28 lying interest exceeds a predetermined number, sometimes called the  
29 strike rate or price.

30 (2) "Collar" means an agreement to receive payments as the buyer  
31 of an option, cap or floor and to make payments as the seller of a different  
32 option, cap or floor:

33 ~~(3)~~ *"Crediting basis amount" means the amount of interest credited*  
34 *to an insured's account value for the percentage of change on an under-*  
35 *lying index.*

36 ~~(3) (4)~~ (A) "Financial instrument" means an agreement, option, in-  
37 strument or any series or combination thereof:

38 (i) To make or take delivery of, or assume or relinquish, a specified  
39 amount of one or more underlying interests, or to make a cash settlement  
40 in lieu thereof; or

41 (ii) which has a price, performance, value or cash flow based primarily  
42 upon the actual or expected price, level, performance, value or cash flow  
43 of one or more underlying interests.

(3) 'Counterparty' means the business entity with which a life insurance company enters into financial instrument transactions.

(4)

(5)

- 1 (B) Financial instruments include options, warrants, caps, floors, col-  
 2 lars, swaps, forwards, future and any other agreements, options or instru-  
 3 ments substantially similar thereto, or any series or combination thereof.
- (6) → 4 → ~~(4)~~ ~~(5)~~ "Financial instrument transaction" means a transaction in-  
 5 volving the use of one or more financial instruments.
- (7) → 6 → ~~(5)~~ ~~(6)~~ "Floor" means an agreement obligating the seller to make  
 7 payments to the buyer in which each payment is based on the amount  
 8 that a predetermined number, sometimes called the floor rate or price,  
 9 exceeds a reference price, level, performance or value of one or more  
 10 underlying interests.
- (8) → 11 → ~~(6)~~ ~~(7)~~ "Forward" means an agreement (other than a future) to make  
 12 or take delivery of, or effect a cash settlement based on the actual or  
 13 expected price, level, performance or value of one or more underlying  
 14 interests.
- (9) → 15 → ~~(7)~~ ~~(9)~~ "Future" means an agreement traded on a qualified exchange,  
 16 to make or take delivery of, or effect a cash settlement based on the actual  
 17 or expected price, level, performance or value of one or more underlying  
 18 interests.
- (10) → 19 → ~~(8)~~ ~~(9)~~ "Hedging transaction" means a financial instrument transac-  
 20 tion which is entered into and maintained to reduce:  
 21 (A) The risk of a change in the value, yield, price, cash flow or quan-  
 22 tity of assets or liabilities which the insurer has acquired or incurred or  
 23 anticipates acquiring or incurring; or  
 24 (B) the currency exchange-rate risk or the degree of exposure as to  
 25 assets or liabilities which an insurer has acquired or incurred or anticipates  
 26 acquiring or incurring.
- (11) → 27 → ~~(9)~~ ~~(10)~~ "Income generation transaction" means a financial instru-  
 28 ment transaction involving the writing of covered call options which is  
 29 intended to generate income or enhance return.
- (12) → 30 → ~~(10)~~ ~~(11)~~ "Option" means an agreement giving the buyer the right to  
 31 buy or receive, sell or deliver, enter into, extend or terminate, or effect  
 32 a cash settlement based on the actual or expected price, level, perform-  
 33 ance or value of one or more underlying interests.
- (13) → 34 → ~~(11)~~ ~~(12)~~ "Potential exposure" means:  
 35 (A) As to a futures position, the amount of the initial margin required  
 36 for that position; or  
 37 (B) as to swaps, collars and forwards, .5% times the notional amount  
 38 times the square root of the remaining years to maturity.
- (15) → 39 → ~~(12)~~ ~~(13)~~ "Swap" means an agreement to exchange for net payments  
 40 at one or more times based on the actual or expected price, level, per-  
 41 formance or value of one or more underlying interests.
- (16) → 42 → ~~(14)~~ "Underlying index" means the index, market or financial futures  
 43 contract used to determine the crediting basis amount.

(14) 'SVO' means the securities valuation office of the National Association of Insurance Commissioners or any successor office established by the National Association of Insurance Commissioners.

22

(17) 1 → ~~(13)~~ ~~(15)~~ "Underlying interest" means the assets, other interests, or  
2 a combination thereof, underlying a financial instrument, such as any one  
3 or more securities, currencies, rates, indices, commodities or financial  
4 instruments.

(18) 5 → ~~(14)~~ ~~(16)~~ "Warrants" means an option to purchase or sell the under-  
6 lying securities or investments at a given price and time or at a series of  
7 prices and times outlined in the warrant agreement. Warrants may be  
8 issued alone or in connection with the sale of other securities, as part of  
9 a merger or recapitalization agreement, or to facilitate divestiture of the  
10 securities of another corporation.

11 (c) A life insurance company may enter into financial instrument  
12 transactions for the purpose of hedging except that the transaction shall  
13 not cause any of the following limits to be exceeded:

14 (1) The aggregate statement value of options, caps, floors and war-  
15 rants not attached to any other security or investment purchase in hedging  
16 transactions may not exceed 110% of the excess of such insurer's capital  
17 and surplus as shown on the company's last annual or quarterly report  
18 filed with the commissioner of insurance over the minimum requirements  
19 of a new stock or mutual company to qualify for a certificate of authority  
20 to write the kind of insurance which the insurer is authorized to write;

21 (2) the aggregate statement value of options, caps and floors written  
22 in hedging transactions may not exceed 3% of the life insurance com-  
23 pany's admitted assets; and

24 (3) the aggregate potential exposure of collars, swaps, forwards and  
25 futures used in hedging transactions may not exceed 5% of the life in-  
26 surance company's admitted assets.

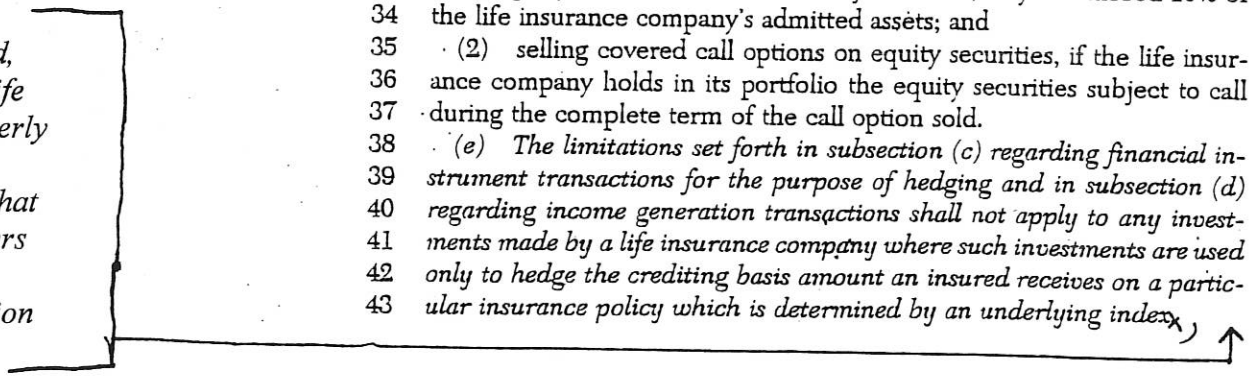
27 (d) A life insurance company may enter into the following types of  
28 income generation transactions if:

29 (1) Selling covered call options on noncallable fixed income securities  
30 or financial instruments based on fixed income securities, but the aggre-  
31 gate statement value of assets subject to call during the complete term of  
32 the call options sold, plus the face value of fixed income securities un-  
33 derlying any financial instrument subject to call, may not exceed 10% of  
34 the life insurance company's admitted assets; and

35 (2) selling covered call options on equity securities, if the life insur-  
36 ance company holds in its portfolio the equity securities subject to call  
37 during the complete term of the call option sold.

38 (e) The limitations set forth in subsection (c) regarding financial in-  
39 strument transactions for the purpose of hedging and in subsection (d)  
40 regarding income generation transactions shall not apply to any invest-  
41 ments made by a life insurance company where such investments are used  
42 only to hedge the crediting basis amount an insured receives on a partic-  
43 ular insurance policy which is determined by an underlying index.

*provided,  
however, that such investments shall not in the aggregate amount exceed 10% of the life  
insurance company's admitted assets as shown on the company's last annual or quarterly  
report, without the prior written approval of the commissioner of insurance. All  
investments made pursuant to this subsection shall only be made with counterparties that  
have a rating designated as "1" by the national association of insurance commissioners  
(NAIC) in its most recently published valuations of securities manual or supplement  
thereto, or its equivalent rating by a nationally recognized statistical rating organization  
recognized by the SVO.*



- 1 ~~(e)~~ (f) Upon request of the life insurance company, the commissioner  
2 may approve additional transactions involving the use of financial instru-  
3 ments in excess of the limits of subsection (c) or for other risk manage-  
4 ment purposes, excluding replication transactions, pursuant to regulations  
5 promulgated by the commissioner.
- 6 ~~(f)~~ (g) For the purposes of this section, the value or amount of an  
7 investment acquired or held under this section, unless otherwise specified  
8 in this code, shall be the value at which assets of an insurer are required  
9 to be reported for statutory accounting purposes as determined in ac-  
10 cordance with procedures prescribed in published accounting and valu-  
11 ation standards of the ~~national association of insurance commissioners~~  
12 ~~(NAIC)~~; including the purposes and procedures of the securities valuation  
13 office, the valuation of securities manual, the accounting practices and  
14 procedures manual, the annual statement instructions or any successor  
15 valuation procedures officially adopted by the NAIC.
- 16 ~~(g)~~ (h) Prior to engaging in transactions in financial instruments, an  
17 insurer shall develop and adequately document policies and procedures  
18 regarding investment strategies and objectives, recordkeeping needs and  
19 reporting matters. Such policies and procedures shall address authorized  
20 investments, investment limitations, authorization and approval proce-  
21 dures, accounting and reporting procedures and controls and shall pro-  
22 vide for review of activity in financial instruments by the insurer's board  
23 of directors or such board's designee.
- 24 Recordkeeping systems must be sufficiently detailed to permit internal  
25 auditors and insurance department examiners to determine whether op-  
26 erating personnel have acted in accordance with established policies and  
27 procedures, as provided in this section. Insurer records must identify for  
28 each transaction the related financial instruments contracts.
- 29 Sec. 2. K.S.A. 1999 Supp. 40-2b25 is hereby repealed.
- 30 Sec. 3. This act shall take effect and be in force from and after its  
31 publication in the statute book.

**David A. Hanson**  
**Kansas Life Insurance Association**

**TESTIMONY ON HB 2652**  
**February 3, 2000**

**TO: House Insurance Committee**

**RE: House Bill No. 2652**

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to appear before the Committee. I am David Hanson and am appearing on behalf of the Kansas Life Insurance Association, whose members are domestic insurance companies in Kansas.

We would like to express our support for the bill and would ask you to consider it favorably for passage.

Respectfully,



DAVID A. HANSON

*House Ins. Comm*  
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