

Approved: _____

Date March 6, 2000

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 2, 2000 in Room 231-N of the Capitol.

All members were present except:

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

Conferees appearing before the committee: Dennis Wilson, Office of the State Treasurer
Scott Gates, Department of Administration
Bill Sneed, AmVestors
Dave Hanson, Kansas Life Insurance Association
Linda DeCoursey, Kansas Insurance Department

Others attending: (See Attached)

Chairman Steffes appointed a subcommittee to study the issues in **SB 619—Insurance, health maintenance organization insolvency**. Appointees are Senator Steffes, Chairman, Senators Praeger and Feleciano.

Hearing on HB 2648 – Unclaimed property, canceled state warrants

Dennis Wilson, Director of Unclaimed Property for the Office of State Treasurer, explained how the bill would bring all state agencies into compliance with state law regarding the transfer of unclaimed property (Attachment 1). He explained the different sections of the bill with the primary issue being that the State Treasurer should be allowed to sell all securities within one year which would mean transferring the immediate cash to the general fund. A recent sale of stock was in the amount of \$15 million. He reminded the Committee that the State does not receive the stock until it has been declared unclaimed or lost for at least five years. By decreasing the amount of time the stock is held by the state, it eliminates the possibility of the state having to pay a found heir the difference between the sale of the stock and the face value if the sale was less. United Missouri Bank handles all stock sales for the State of Kansas.

Scott Gates, Department of Administration, explained that the letters to legislators listing the last known address of persons with unclaimed property in their districts were for their use only. These lists were not to be given to the media for publication. This is a safety feature to protect persons from unscrupulous “heir hunters.”

Senator Clark moved that the bill be reported favorably as presented. The motion was seconded by Senator Biggs. Motion carried with one dissenting vote.

Hearing on HB 2652 – Insurance; life insurance company investments; financial futures contracts

Bill Sneed, AmVestors, explained that they were requesting a change to the current law K.S.A. 40-2b25 regarding equity indexed annuities (Attachment 2). EIA's 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 proposed legislation seeks to exempt investments made to cover EIA liability from the limitations which restrict investments hedging an insurer's general portfolio. It would provide more discretion for EIA's. At this point, the only domestic life insurance company which is involved in this type of annuity is AmVestors.

Dave Hanson, Kansas Life Insurance Association, presented testimony in support of the bill (Attachment 3).

Linda DeCoursey, Kansas Insurance Department, explained the Department's view of this being a moderate approach to keeping insurance companies solvent (Attachment 4). Although the bill keeps the general 3% cap on hedging transactions in place, along with the other limitations on hedging transactions, it allows an insurance company to devote an amount of up to 10% of its admitted assets toward hedging transactions so long as this additional 10% comprises investments made as part of the company's equity indexed annuities.

Senator Barone moved that the bill be reported favorably. Motion was seconded by Senator Feleciano. Motion carried.

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

GUEST LIST

DATE: 3-2-00

NAME	REPRESENTING
David Hanson	K's Insur Assns
Danielle Noe	DFA
Bill Sneed	Am Iow Life
Kevin Barone	Hempner chrd.
John Mugler	Am Veterans
Dennis Wilson	
Scott Pater	



STATE OF KANSAS

Tim Shallenburger
TREASURER

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TELEPHONE
(785) 296-3171

March 2, 2000

Chairman Steffes
Senate Finance & Insurance Committee

RE: HB 2648

Mr. Chairman and Committee Members:

Thank you once again, for allowing the State Treasurer's office this time to explain some changes to the unclaimed property law. These changes will be helpful in clarifying the current law in cases where interpretation is important.

First, you will notice this bill was amended in the House. This was done at the request of the State Treasurer's office. We were attempting to bring all state agencies into compliance with state law regarding the transfer of unclaimed property. All agencies agreed that this should be done, but after studying the transfer of all files it would be almost impossible to do and comply with the law when it went into effect. Therefore, we asked the House to amend and give us one year to plan a strategy to administer all state unclaimed property.

Section 1 & 2, deal with technical clean up on the 1999 bill changes from last year. One section dealing with banks was left out. There was also some duplicate language that needed to be taken out. The revisors and our legal staff have agreed on this clean up language.

Section 3, requires the Treasurer to sell securities within one year after they are delivered to the Treasurer. This eliminates the discretion previously found in K.S.A. 58-3955.

Section 4, gives the Treasurer the authority to require heir finders to produce an agreement signed by the claimant before the Treasurer will release any information concerning unclaimed property to the heir finder. This simply codifies our current policy on this issue.

Thank you for this opportunity to testify and I will be glad to stand for questions.

Dennis Wilson
Director of Unclaimed Property

Senate Financial Institutions & Insurance

Date 3/2/00

Attachment

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POLSINELLI
WHITE
VARDEEMAN &
SHALTON

Memorandum

TO: The Honorable Don Steffes, Chairman
Senate Financial Institutions and Insurance Committee

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

RE: H.B. 2652

DATE: March 2, 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. 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. After hearings in the House, the bill was passed 122-0.

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

One AmVestors Place
555 Kansas Avenue, Suite 301

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Attachment

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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, the Department requested an amendment that included a limitation of 10% of admitted assets for these special investment made to cover EIA liabilities. They also requested some additional definitions to make clear the processes we are proposing. We had no objections to the amendments, and they were added to the bill.

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

Respectfully submitted,



William W. Sneed

Kansas Life Insurance Association

David A. Hanson, Legislative Counsel
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800 S.W. Jackson
Topeka Kansas 66612-1259

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March 1, 2000

To: Senate Financial Institutions and Insurance Committee

Re: House Bill No. 2652

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to express our support for House Bill 2652. I am David Hanson and am appearing on behalf of the Kansas Life Insurance Association, whose members are domestic insurance companies in Kansas.

We agree with the comments already presented on behalf of American Investors Life Insurance Company in support of the bill and would ask you to consider it favorably for passage.

Respectfully,



DAVID A. HANSON

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Senate Financial Institutions & Insurance
Date

3/2/00

Attachment

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Member Companies

American Home Life Insurance Company, Topeka
American Investors Life Insurance Company, Topeka
Employers Reassurance Corporation, Overland Park
First Life America Corporation

Kansas Blue Cross/Blue Shield, Topeka
Kansas Farm Bureau Life Insurance Company, Manhattan
The Pyramid Life Insurance Company, Shawnee Mission
Security Benefit Life Insurance Company, Topeka



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: Senate Committee on Financial Institutions & Insurance
FROM: Linda J. De Coursey, Director of Government Affairs Division
RE: Hedging Limitations – Equity Indexed Annuities
DATE: March 2, 2000

Mr. Chairman and members of the committee:

Thank you for the opportunity to discuss this bill with you. As other proponents have already discussed, this bill removes equity indexed annuities from the general limitation in the insurance code on the amount of an insurance company's assets may be devoted to hedging transactions. Under current law, the aggregate statement value of options, caps, floors, and warrants written in hedging transactions may not exceed 3% of a life insurance company's admitted assets. This limitation is in place to ban an insurance company from devoting an unduly high proportion of its assets toward hedging transactions. A high ratio of hedging transactions to admitted assets may put the company's solvency at risk, which can create market disruption and harm Kansas consumers.

Because some insurance companies, however, are investing portions of products called "equity indexed annuities" in hedging transactions, the 3% cap may be lower than necessary to protect these companies' solvency. We have seen proposals to lift the cap on hedging transactions altogether, and others to lift it as high as 25%. The proposal before you is a more

moderate approach that we find sufficient to protect Kansas consumers from company insolvency. Although it keeps the general 3% cap on hedging transactions in place, along with the other limitations on hedging transactions, it allows an insurance company to devote an amount of up to 10% of its admitted assets toward hedging transactions, so long as this additional 10% comprises investments made as part of the company's equity indexed annuities.

In addition, we 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. We are confident that this will provide further security for Kansas consumers.

Because of the substantially different risks involved in general hedging and hedging for the purpose of products such as equity indexed annuities, and because of our confidence that this change will not compromise the solvency of Kansas insurance companies, the Kansas Insurance Department is willing to support this bill as it passed the House of Representatives.