

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairman Ruth Teichman at 9:30 A.M. on February 28, 2007 in Room 234-N of the Capitol.

All members were present.

Committee staff present:

Melissa Calderwood, Kansas Legislative Research Department  
Terri Weber, Kansas Legislative Research Department  
Ken Wilke, Office of Revisor of Statutes  
Bev Beam, Committee Secretary

Conferees appearing before the committee:

John Campbell, General Counsel, KID; Kathy Damron, Prudential Insurance; John Meetz, Legislative Liaison, KID

Others attending:

See attached list.

The Chair called the meeting to order.

Hearing on:

**HB 2108 - relating to insurance; concerning unfair trade practices.**

John Campbell, General Counsel, Kansas Insurance Department, testified in support of Substitute for HB 2108. Mr. Campbell testified that the language for the HB 2108 comes from Military Sales Working Group of the National Association of Insurance Commissioners. The original language has now been refined by the Working Group. He said a Kansas specific version of the new language has been developed by the Insurance Department and is Substitute for HB 2108. (Attachment 1)

Kathy Damron testified on behalf of Prudential Financial in support of HB 2108. Ms. Damron testified that Prudential Financial is the long time administrator of the federal Servicemembers Group Life Insurance (SGLI) program that provides life insurance coverage to military personnel. She said Prudential is concerned that Kansas HB 2108, as currently drafted, could potentially permit the state of Kansas to regulate elements of the federal SGLI program. She said Prudential respectfully requests that HB 2108 be amended to include the following language: Line 19 "Except for federal insurance programs under subchapter III of chapter 19 of title 38 United States Code and any other provisions of law and ...." This amendment would permit the Kansas Insurance Commissioner to regulate dishonest and predatory insurance sales practices in Kansas without interfering with the Federal SGLI program. (Attachment 2)

The Chair closed the hearing on HB 2108.

Hearing on:

**HB 2110 - concerning insurance companies, pertaining to merger authority**

John Meetz, Legislative Liaison, Kansas Insurance Department, testified in support of HB 2110. He said K.S.A. 40-309 was written before the advent of Health Maintenance Organizations (HMO's), thus HMOs are not subject to the same merger requirements as insurance companies. HB 2110 would explicitly add HMO's to the law that outlines merger requirements for all other insurance companies. The Kansas Insurance Department does not feel it is prudent to allow the possibility of an unauthorized merger to take place in the future. (Attachment 3)

The Chair closed the hearing on HB 2110.

CONTINUATION SHEET

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on February 28, 2007 in Room 234-N of the Capitol.

Hearing on:

**HB 2112 - concerning insurance companies; relating to corporate seals.**

John Meetz testified in support of HB 2112. He said K.S.A. 40-218 requires that each company must submit forms that have been authenticated by the seal of the corporation. HB 2112 deletes this requirement. The Kansas Insurance Department feels this is an antiquated requirement that is unnecessary for purposes of approving insurance companies to do business in the state of Kansas, he said. The use of electronic signatures for authentication has proven to be a secure and reliable method for the purpose of online filings.  
(Attachment 4)

The Chair closed the hearing on HB 2112.

The meeting adjourned at 10:05 a.m.

FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: 2-28-07

NAME	REPRESENTING
Alex Kotoyantz	P. I. A.
John Meede	KID
Bill Sead	Am. Investors
Ron Coches	CBA - KAIFA - AIG
Beth Dinger	Prudential
Henry Van Hoven	KAHP
Sam Jones	Vnkl Haller
Dan Murray	Federico Consultg



# Kansas Insurance Department

**Sandy Praeger**

COMMISSIONER OF INSURANCE

**Senate Committee on Financial Institutions and Insurance**

Testimony in Support of Substitute for HOUSE BILL No. 2108

February 28, 2007

Madame Chairperson, members of the Committee, my name is John Campbell, I am the General Counsel for the Kansas Insurance Department. I am here today in support of Substitute for House Bill 2108.

On September 29, 2006, the President signed into law the Military Personnel Financial Services Protection Act. The purpose of the Act is to protect members of the Armed Forces from unscrupulous practices regarding sales of insurance, financial, and investment products.

The events which lead to the passage of the Act involved more than 70,000 service members who were the victims of these unfair trade practices. Service members were sold products designed more to generate commissions than to provide for financial security. In addition, younger members of the service were often under the false impression that the military had endorsed the products being sold.

Fortunately, national settlements have recovered over \$70 million in cash and other benefits for those members of our Armed Forces who were the victims of these unfair trade practices. The issue now is how to prevent future abuses.

Congress has asked the states to take primary jurisdiction over complaints of unfair insurance sales practices on military installations. Working with the Secretary of Defense, the states are developing rules and regulations that will provide protection for our service members. In Kansas, in order for the Commissioner of Insurance to adopt rules and regulation she must be authorized by the Legislature to do so. Recently the courts have construed this requirement very strictly. In order to be sure that Kansas can protect its service members we need HB 2108.

The basis for the language for the HB 2108 comes from Military Sales Working Group of the National Association of Insurance Commissioners. The original language received in December has now been refined by the Working Group. A Kansas specific version of the new language has been developed by the Insurance Department and is Substitute for House Bill No. 2108.

Thank you for your consideration of this matter. I will be happy to take any questions.

*FI&I  
2-28-07  
Attachment 1*



Frances K. Hackett  
Vice President, Administration and OSGLI  
Group Insurance

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290 W Mount Pleasant Ave, Livingston NJ 07039  
Tel 973 548-6541 Fax 973 548-6589  
fran.hackett@prudential.com

Senator Ruth Teichman  
Chair, Senate Financial Institutions and Insurance Committee  
Room 241E South  
State House  
Topeka, Kansas 66612

Dear Senator Teichman,

Prudential wholeheartedly supports legislation aimed at giving state insurance commissioners the tools necessary to address dishonest and predatory life insurance sales practices targeted at our military personnel. We are the long time administrator of the federal Servicemembers Group Life Insurance (SGLI) program that provides up to \$400,000 in life insurance coverage to military personnel.

Nevertheless, we are concerned that Kansas HB 2108, as currently drafted, could potentially permit the state of Kansas to regulate elements of the federal SGLI program. We are currently working with the NAIC Military Sales Working Group regarding standards to protect service members from predatory sales practices. The draft Model law and regulations that have been developed by this NAIC Working Group specifically excludes the SGLI program from its regulation and this federal program has never been the focus of Congressional concern. It is important to note that no agents of any insurer are involved in SGLI solicitations. We respectfully request that HB 2108 be amended to include the following language which is contained in the NAIC draft Model on Military Sales Practices.

Line 19

Except for federal insurance programs under subchapter III of chapter 19 of title 38, United States Code and any other provisions of law and...

This amendment would permit the Kansas insurance commissioner to regulate dishonest and predatory insurance sales practices in Kansas without interfering with the Federal SGLI program. We ask that you join other states, such as Indiana and Iowa, that have agreed to this amendment in their pending legislation.

Thank you

FI&I  
2-28-07  
Attachment 2

Offering securities products and services as a  
Registered Principal of Pruco Securities, LLC (Pruco),  
located at 751 Broad Street, Newark, NJ 07102  
(973) 367-5590. The Prudential Insurance Company of  
America and Pruco are Prudential Financial Companies.



## LIFE INSURANCE

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### Servicemembers' & Veterans' Group Life Insurance

#### History of Servicemembers' and Veterans' Group Life Insurance

##### Origins of the SGLI Program

Although the United States Government has provided life insurance coverage to the Armed Forces since World War I, the SGLI program of protection was a decidedly different approach. The origins of SGLI date back to the Vietnam War. As the armed forces began to suffer significant casualties, the private life insurance companies were unwilling to underwrite the coverage for members of the service. While actuaries are extremely accurate in predicting deaths during peacetime, it is almost impossible to estimate how many deaths there will be during a war. This created the need for a government sponsored life insurance program to cover servicemembers placed in harms way. Servicemembers' Group Life Insurance (SGLI) was instituted in 1965 to meet this need.

Although they were not able to meet the insurance needs of the armed forces, commercial insurers lobbied for a role in providing coverage, and wanted to prevent the government from providing coverage indefinitely after servicemembers separated from the service. As a result, the law creating SGLI provided for group coverage administered by the commercial insurance industry, instead of the Government. Thus, the establishment of SGLI in 1965 resulted in VA purchasing a group life insurance policy from the Prudential Insurance Company of America. To administer the policies, Prudential established the Office of Servicemembers' Group Life Insurance (OSGLI), which is currently located in Livingston, NJ.

SGLI initially covered only active duty personnel, but it has expanded over the years to cover reservists, National Guard members and several other groups. All service members are automatically covered by SGLI unless they decline the coverage in writing. The maximum amount of protection has increased significantly since the program's inception. Originally, the coverage was limited to \$10,000. It has gradually increased over the years through legislation to its current maximum coverage level of \$400,000. However, coverage expires 120 days after separation from the service.

##### Establishment of the VGLI Program

In order to help service members maintain insurance coverage during their transition to civilian life, a second program was established in 1974 to cover recently separated veterans. This new program was called Veterans' Group Life Insurance (VGLI). VGLI allowed servicemembers to convert their SGLI to five-year non-renewable term coverage. At the end of the five-year period, VGLI was convertible to a commercial permanent plan policy. In December 1992, it became indefinitely renewable as a term insurance policy with a conversion option at the end of each five-year term period. Presently, veterans can convert their VGLI at any time.

In 1997, legislation changed the program name from Servicemembers' to Servicemembers' in recognition of increasing number of women serving in the Armed Forces.

## Family Coverage

The year 2001 marked a large expansion in the SGLI program. This program expansion, called Family Coverage, took effect on November 1, 2001. It provides insured service members' spouses with automatic coverage of \$100,000, or the coverage level of the service member, whichever is less. Dependent children are also automatically insured, at no cost to the service member, for a set amount of \$10,000 per child.

## Traumatic Injury Coverage

In December 2005, the SGLI program will begin providing protection against traumatic injury. Traumatic Injury Coverage will be automatically provided to all servicemembers enrolled in SGLI for an additional premium of \$1.00 per month. Service members who experience specific traumatic injuries or lengthy hospital stays will receive between \$25,000 and \$100,000. The coverage is designed to provide severely injured servicemembers with financial assistance to allow their family members to support them throughout their recovery.

The SGLI program is an example of how government and private industry can work together to serve the financial needs of a large segment of the population.

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Reviewed/Updated Date: February 20, 2007



# K a n s a s I n s u r a n c e D e p a r t m e n t

**Sandy Praeger** COMMISSIONER OF INSURANCE

COMMENTS  
ON  
HB 2110—HMO MERGER AUTHORIZATION  
SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE  
February 28, 2007

Madam Chair and Members of the Committee:

Thank you for the opportunity to visit with you regarding House Bill 2110. K.S.A 40-309 outlines merger standards for insurance companies, however, K.S.A. 40-309 was written before the advent of Health Maintenance Organizations (HMOs). Thus, HMOs are not subject to the same merger requirements as insurance companies.

HB 2110 would explicitly add HMO's to the law that outlines merger requirements for all other insurance companies.

There have, in fact, been HMO mergers since HMOs were created and in each case the HMOs have voluntarily submitted to the merger requirements. However, the Kansas Insurance Department does not feel it is prudent to allow the possibility of an unauthorized merger to take place in the future.

Thank you for your time and I will now stand for any questions from the committee.

John Meetz  
Government Affairs Liaison

*FI&I  
2-28-07  
Attachment 3*



# Kansas Insurance Department

**Sandy Praeger** COMMISSIONER OF INSURANCE

COMMENTS  
ON  
HB 2112—ELIMINATING CORPORATE SEAL REQUIREMENT  
SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE  
February 28, 2007

Madam Chair and Members of the Committee:

Thank you for the opportunity to visit with you regarding House Bill 2112. K.S.A. 40-218 requires that each company must submit forms that have been “authenticated by the seal of the corporation.” House Bill 2112 simply deletes this requirement.

The Kansas Insurance Department feels that this is an antiquated requirement that is unnecessary for purposes of approving insurance companies to do business in the state of Kansas. Furthermore, the Kansas Insurance Department has taken recent steps to have company filings done in an electronic form with the intention of reducing our use of paper materials.

The use of electronic signatures for authentication has proved to be a secure and reliable method for the purpose of online filings. Physically stamping and signing documents prevents us from exclusively filing and storing our documents electronically.

Thank you for your time and I will now stand for any questions you may have.

John Meetz  
Government Affairs Liaison

*FI&I  
2-28-07  
Attachment 4*