

MINUTES OF THE HOUSE INSURANCE COMMITTEE

The meeting was called to order by Chairman Clark Shultz at 3:30 p.m. on January 27, 2009, in Room 784 of the Docking State Office Building.

All members were present.

Committee staff present:

Bruce Kinzie, Office of the Revisor of Statutes
Melissa Calderwood, Kansas Legislative Research Department
Cindy Lash, Kansas Legislative Research Department
Sue Fowler, Committee Assistant

Conferees appearing before the committee:

Bill Sneed, American Investors Life,
Cindy Hermes, Kansas Insurance Department

Others attending:

See attached list.

Introduction of Bills:

Cindy Hermes, Kansas Insurance Department, requested a committee bill introduction regarding an update in the Risk Based Capital (RBC) requirements. Representative Dillmore moved for introduction of the bill. Seconded by Representative Grant. Motion passed.

Representative Hawk requested two committee bill introductions to protect home owners funds being released. Representative Dillmore moved for introduction of the two bills. Seconded by Representative Peck. Motion passed.

Representative Anthony Brown moved for introduction of a bill in regard to temporary gap insurance. Seconded by Representative Hermanson. Motion passed.

Hearing on:

HB 2052 **Life and health insurance guaranty association, claims.**

Melissa Calderwood, Kansas Legislative Research Department, gave an overview for **HB 2052**.

Proponents:

Bill Sneed, American Investors Life, (Attachment 1), appeared before the committee in support of **HB 2052**.

Cindy Hermes, Kansas Insurance Department, (Attachment 2), gave testimony before the committee in support of **HB 2052**.

Hearing closed on **HB 2052**.

Representative Grant made a motion to pass **HB 2052** and place on the Consent Calendar. Seconded by Representative Olson. Representative Dillmore made a substitution motion to pass **HB 2052** favorably. Seconded by Representative Brunk. Motion passed.

Representative Olson moved to accept the January 20 and January 22 committee minutes. Seconded by Representative DeGraaf. Motion passed.

Next meeting will be Tuesday, February 3, 2009, at 3:30 P.M., in Room 784, Docking Building.

Meeting adjourned at 4:05 P.M.

House Insurance Committee
 Guest Sign In Sheet
 Tuesday, January 27, 2009

Name	Representing
Bill Sneed	Am. Inu life Ins Co
John DeHemberg	Am. Inu life Ins Co.
KEITH D. PANGBURN	KEARNEY & ASSOCIATES
Judy Schrock	KSNA
Alex Kotovantz	P.I.A.
Chris Gigstad	Federico Consulting
TERRY TIEDE	Aviva USA
Natalie Haag	Security Benefit
Kathryn Lutgen	KGC
Ligh Keel	Hein law firm
SEAN MILLER	CAPITOL STRATEGIES
JARROD FORBES	United Health Group
Bruce Witt	PHS
Mike Reese	Sachse Braden
Maree Carpenter	KAHP

Polsinelli

Shalton | Flanigan | Suelthaus PC

Memorandum

TO: THE HONORABLE CLARK SHULTZ, CHAIR
HOUSE INSURANCE COMMITTEE

FROM: WILLIAM W. SNEED, LEGISLATIVE COUNSEL
AMERICAN INVESTORS LIFE INSURANCE COMPANY

RE: H.B. 2052

DATE: JANUARY 27, 2009

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for American Investors Life Insurance Company ("AIL"). AIL is a member of Aviva USA, one of the largest sellers of fixed annuities in the United States. AIL is a Kansas domestic insurer located in Topeka, Kansas. At our request, this Committee graciously introduced H.B. 2052, and we appreciate the opportunity to request favorable passage of the bill.

This proposal makes a slight amendment to the Kansas Life and Health Insurance Guaranty Association statutes. Before getting to the meat of the bill, please allow me the opportunity to give the Committee a brief overview of Guaranty Association laws and how they operate within a given state.

Insurance companies are regulated by the states—companies must be licensed in each state in which they do business, and state insurance departments monitor their financial stability. The states also oversee the guaranty association safety net—each state, along with the District of Columbia and Puerto Rico, has a life and health insurance guaranty association to protect its residents if an insurance company fails. All companies licensed to do business in the state are required to be members of the guaranty association (in other words, a company that does business in 25 states would be a member of 25 guaranty associations).

If an insurance company is found to be financially unstable, the insurance department in its home state (also known as its domiciliary state) can step in and take control of the company. This begins what is known as the "receivership process," and in this first stage, the company is considered to be in "rehabilitation" (some states use a different term) as the insurance department attempts to improve the company's financial status. The state insurance commissioner becomes the "receiver" for the troubled company, although commissioners often appoint special deputy receivers to oversee the company's operations.

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House Insurance
Date: 1-27-09
Attachment # 1

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If the attempt to rehabilitate the company is successful, the receivership process for the company ends. If the company's financial difficulties are too great to overcome, however, the commissioner declares the company insolvent, and the receivership process moves into the next stage—liquidation. In this stage, the receiver or deputy receiver attempts to maximize the company's assets to pay off as many creditors as possible—including policyholders.

When a company is liquidated, state life and health insurance guaranty associations are triggered to provide continuing coverage and benefits to policyholders of the company living in their state. Policyholders who reside in states where the insolvent insurer was not licensed are covered, in most cases, by the guaranty association of the company's domiciliary state.

If the company does not have enough funds to meet its obligations to policyholders (a common occurrence with insolvent insurance companies), each state guaranty association assesses the member insurers in its state a share of the amount required to meet the claims of resident policyholders. The amount assessed is based on the amount of premiums each company collects in that state on the kind of business for which benefits are required.

In 1972 the Kansas Legislature enacted the Kansas Life and Health Insurance Guaranty Association Act ("Guaranty Association Act"). The Kansas Life and Health Guaranty Association ("Guaranty Association") is composed of all insurers licensed to sell life insurance, health insurance, and individual annuities in the state of Kansas. In the event that a member insurer is found to be insolvent and is ordered to be liquidated by a court, the Guaranty Association Act enables the Guaranty Association to provide protection (up to the limits spelled out in the Act) to Kansas residents who are holders of life and health insurance policies and individual annuities with the insolvent insurer.

Specifically, when a member insurer is found to be insolvent and is ordered liquidated, a special deputy receiver takes over the insurer under court supervision and administers the assets and liabilities through liquidation. The task of servicing the insurance company's policies and providing coverage to Kansas resident policyholders becomes the responsibility of the Guaranty Association. The protection provided by the Guaranty Association is based on Kansas law and the language of the insolvent company's policies at the time of insolvency.

The last time our Guaranty Association laws saw a major overhaul was in 1986. Currently, the National Association of Insurance Commissioners ("NAIC") has been working on updating the Guaranty Association laws for the individual states. My client has been an active participant in this process. It is anticipated that the final model bill will be approved by the Commissioners at their March meeting. However, once the uniform laws are approved it will take some time for the Kansas Commissioner and the Kansas domestics to draft the model bill for Kansas in such a way so as to not conflict with other Kansas laws. Thus, we do not anticipate bringing major changes to the Guaranty Association laws to the Legislature until the 2010 session.

Notwithstanding that, because of the current economic situation, my client believes that the Legislature should move forward on one particular point that is included in this proposal. That is to increase the coverage of the Guaranty Act on annuities from \$100,000 to \$250,000. In many respects, annuities are looked upon by consumers similarly to products issued by banks. As you know, the federal government has recently increased its insurance coverage from

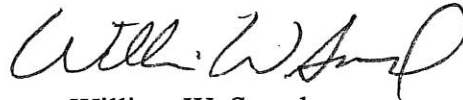
\$100,000 to \$250,000. Although one never wants to anticipate problems in a given industry, we believe it is important for consumer confidence to have this increase put into place.

In order to avoid any concerns that the implantation of this proposal might increase coverages immediately, we have also included two other changes in the bill. On page 6, beginning on line 43, and page 7, lines 1-6, we make it perfectly clear that the increase in coverage under the Act will only apply to those insurers who become impaired or insolvent after the effective date of this bill. Additionally, you will note on page 7, lines 35-36, that we made the effective date January 1, 2010, thus adding additional protection against any increase in coverage unanticipated during 2009.

We believe H.B. 2052 provides another form of consumer confidence in some very precarious economic times. We believe this bill is good for consumers, and as such, continues to support the health of the insurance industry. Thus, we respectfully request that when the House Insurance Committee reviews this bill that it act favorably on H.B. 2052.

I am happy to answer questions at your convenience.

Respectfully submitted,



William W. Sneed

WWS:kjb
Attachment

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Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

TESTIMONY ON HB 2052

HOUSE INSURANCE COMMITTEE January 27, 2009

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear in support of HB 2052. This bill increases the maximum annuity benefits from \$100,000 to \$250,000 for which the guaranty association would be liable in the event of insurer insolvency. This change is being proposed in response to actions taken by the Federal Deposit Insurance Corporation (FDIC) that now insure deposits up to \$250,000, up from the previous limit of \$100,000. The change came about as a result of current financial crisis in the hopes of creating more consumer confidence in the banking industry.

The FDIC change has created a situation where state regulated annuities no longer carry the same assurances as a bank deposit. Under current law if an insurance company selling annuities were to become insolvent then annuity policies with that company would be insured by the state life and health guaranty association up to \$100,000. HB 2052 would raise the limit that can be paid for annuity contracts to \$250,000, thus assuring annuities at the same level as a standard bank deposit.

The Kansas Insurance Department supports HB 2052 in an effort to make state regulated annuities as attractive as they were before the FDIC rule change.

Thank you for the opportunity to appear today I would now stand for questions.

Cindy Hermes
Director of Government and Public Affairs

House Insurance
Date: 1-27-09
Attachment # 2