

SESSION OF 2005

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2325

As Amended by House Committee on
Insurance

Brief*

HB 2325 would amend KSA 40-401, KSA 40-436, and KSA 40-3641 to allow stock and mutual life insurance companies to issue:

- funding agreements;
- guaranteed investment contracts; and
- synthetic guaranteed investment contracts.

Specifically, KSA 40-401 concerns the powers, organization, and administration of insurance companies. KSA 40-436 provides for the establishment of separate accounts by domestic life insurance companies. KSA 40-3641 relates to the priority of distribution of claims against impaired or insolvent insurers.

Background

HB 2325 was requested by the Security Benefit Life Insurance Company whose representative stated that the proposed changes would modernize the Kansas Insurance Code to more fully reflect what is occurring in the marketplace regarding funding agreements, guaranteed investment contracts, and synthetic guaranteed investment contracts. The representative defined these products as:

- Funding agreement – an agreement under which an insurer accepts one or more deposits, typically from an institutional investor; provides for the deposits to be accumulated at a fixed or floating rate of interest; and, provides for one or more future payments to be made by the insurer to the policyholder. Typical

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

purchasers of funding agreements are mutual funds and large business entities.

- Guaranteed investment contract – a contract under which an insurer accepts one or more deposits and guarantees the return of principal, plus a fixed or floating rate of interest, to the owner for a predetermined period of time. Typical purchasers of guaranteed investment contracts are defined benefit or defined contribution retirement plans.
- Synthetic guaranteed investment contract – a contract under which the insurer's obligation is established by reference to a portfolio of assets that the insurer does not own. Typically, the insurer agrees to purchase from a policyholder such as a benefit retirement plan, securities owned by the policyholder at the price the policyholder paid.

A representative of the Kansas Life and Health Insurance Association presented testimony in support of the bill stating that the bill would help provide clarity in identifying and regulating these types of contracts. Currently, these products are not specified in the Kansas Insurance Code.

The House Insurance Committee adopted a technical amendment proposed by the Security Benefit Life Insurance Company representative which inserted the word "guaranteed" into the synthetic guaranteed investment contract name.

The fiscal note prepared by the Division of the Budget stated that the bill would not have a fiscal impact on state operations but could affect the business operations of stock and mutual life insurance companies. However, the effect on these companies could not be estimated.