

SESSION OF 2010

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2609**

As Amended by House Committee on  
Financial Institutions

**Brief\***

HB 2609, as amended, would amend a provision of the Banking Code governing the general powers of state chartered banks. Under the bill, banks would be permitted to purchase and hold life insurance policies in a manner consistent with the parameters outlined in the Interagency Statement of the Purchase and Risk Management of Life Insurance Letter 127-2004 (effective December 7, 2004), subject to the limitations specified in statute, as amended further by the bill. The limitations specified in the current statute are on the cash surrender value of a life insurance policy (cannot exceed 15 percent of the bank's capital stock, surplus, undivided profits, allowance for loan and lease losses [new law, replaces the term "loan loss reserve"], capital notes and debentures and reserve for contingency). The limitation also is placed on the cash surrender value in the aggregate from all companies (cannot exceed 25 percent). These limitations would not apply to policies in place prior to July 1, 1993.

Additionally, the bill would amend a provision that currently allows banks to subscribe to, buy, and own stock in a state or federally chartered bankers' bank. Instead, under the bill, banks would be allowed to invest in bankers' banks organized under the laws of the United States, Kansas, or any other state.

**Background**

The bill was introduced by the House Committee on Financial Institutions. A representative of the Office of the State

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\*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>

Bank Commissioner testified in support of the bill, noting that in 2005, the Bank Commissioner issued Special Order 2005-1 that granted parity for state banks with national banks with regard to the purchase of life insurance; the Special Order, the representative continued, allows banks to purchase life insurance for the same reasons and to the same extent as national banks. An example cited was allowing a bank to purchase insurance in connection with current employee benefit plans – Kansas statute only allows for deferred compensation and benefit plans. The representative also indicated that the bill serves to codify the authority Kansas banks have had for five years under the Special Order. Written testimony submitted by the Kansas Bankers Association notes that the bill retains the state-imposed limits on life insurance per insurance company (15 percent) and as an aggregate (25 percent) of the bank's capital, surplus, undivided profits, allowance for loan and lease losses, capital notes and debentures, and reserve for contingency. The Community Bankers Association of Kansas also submitted written testimony in support of the bill. There were no opponents present at the time of the Committee hearing.

The House Committee on Financial Institutions recommended amendments to the bill to clarify the federal agencies' association with the interagency statement on the purchase and risk management of life insurance and to expand the investment into bankers' banks to include bankers' banks organized (chartered) in other states. The amendment pertaining to the issuers of the interagency statement was requested by the Office of the State Bank Commissioner.

The fiscal note prepared by the Division of the Budget on the original bill states that the Office of the State Bank Commissioner indicates the bill would have no fiscal effect on its operations. The fiscal note indicates that since 2005, the agency has allowed banks to invest in life insurance for limited purposes by special order.