

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:30 P.M. on February 3, 2000 in Room 527-S of the Capitol.

All members were present except: Representatives Cindy Empson, Robert Cox, Billie Vining, Gene O'Brien

Committee staff present: Dr. Bill Wolff, Research
Ken Wilke, Revisor
Mary Best, Secretary

Conferees appearing before the committee: Dennis Wilson, State Treasurers Office
Bill Sneed, Am Vestors
David Hanson Kansas Life Insurance Association
Linda DeCoursey, Kansas Insurance Department

Others attending: See attached Committee Guest List

The order of the meeting was changed to work **HB 2648- Unclaimed property, canceled state warrants.** Upon bringing the bill before the committee, Mr. Dennis Wilson, Director Department of Unclaimed property, requested the committee consider a couple of options and stated the bill required more work before it went any farther. Mr. Wilson spoke on Section 1, bringing the state into compliance with the unclaimed property laws that deal with canceled warrant funds and bringing them into the unclaimed property funds. "They ran," he stated, "into a lot of issues they did not realize were out there." He informed the committee that the department had prepared two (2) or three (3) balloons for consideration. They are also requesting a stay on the bill while they work on the language over the next two (2) or three (3) months. They will then represent the bill to the committee next year. Mr. Wilson gave the committee a copy of the balloon(s), which are (Attachments #1) attached hereto and incorporated into the Minutes by reference.

Questions were posed by Chairman Tomlinson regarding his understanding of the issues. He also questioned whether they can take federal funding. It was decided more thought needed to go into the bill. Questions were also asked by Representative Myers regarding Section 2 and the restoration of the bill.

A Motion was made to adopt the balloon presented by Mr. Wilson, by Representative Grant. The Motion was seconded by Representative Hummerickhouse. Votes were taken. Motion passed.

The balloon was discussed further in regards to eliminating the first six (6) Sections. Dr. Wolff explained Section 7 would become Section 1, Section 8 would become Section 2, Section 9 would become Section 3. Representative Grant made the Motion to accept the changes, with Representative Hummerickhouse seconding the Motion. Votes were taken and the Motion passed. With this business being completed the public discussions on the bill were closed.

HB 2652-Life insurance company investments; financial futures contracts.

Chairperson Tomlinson opened the public hearings on the bill by recognizing Mr. Bill Sneed, of American Investors Life Insurance Company. Mr. Sneed's client had requested the introduction of the bill. AmVestors deal "exclusively in issuance of "fixed" annuities." Mr. Sneed's clients introduced legislation previously that "set parameters for investments by life insurance companies as it relates to financial futures' contracts." Mr. Sneed's clients are now issuing annuities referred to "equity indexed" which is partially governed by K.S.A. 40-2b25. They are now requesting changes to these laws dealing directly "equity indexed annuities."

Mr. Sneed explained that EIAs have become a growing product in the insurance marketplace. These annuities "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 Statute, K.S.A. 40-2b25 was enacted to limit purchasing "financial instruments that hedges an insurer's

general investment portfolio.”

AmVestors are now offering an amendment to this Statute which “seeks to exempt investments made to cover EIA liabilities from the limitations of subsections (c) and (d).” The definition of “EIA is a fixed annuity, either immediate or deferred, that earn interest or provide benefits that are linked to an external reference of index.” The amendment proposes “.....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.*”

Mr. Sneed stated to the committee that his client has been meeting with the Kansas Insurance Department and negotiating the limitations to placed on these transactions. They reached the agreement at “10% of admitted assets for special investment made to cover EIA liabilities.” Mr. Sneed's client feels this limitation is “a reasonable financial security benchmark to provide adequate regulatory protection while allowing life insurance companies the ability to make sound investments ...” With this Mr. Sneed stood for questions.

Questions were asked by Representatives Myers, Burroughs, Jenkins and the Chair.

Mr. David Hanson, Kansas Life Insurance Association, was then recognized by the Chair. Mr. Hanson offered Proponent Testimony to the committee. A copy of the testimony is (Attachment #3) attached hereto and incorporated into the Minutes by reference. Mr. Hanson expressed his support of this bill on behalf of his clients. There were no questions.

Ms. Linda DeCoursey of the Kansas Insurance Department offered the Department's support of the amendment. She informed the committee that her department also “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.” This they feel will add further security for Kansas Consumers. Ms. DeCoursey stood for questions. There were none. With no further testimony or public discussions, the hearing on **HB 2652** was closed.

The committee adjourned at 4:04 p.m.

The next meeting will be held February 8, 2000

