

SESSION OF 2014

SUPPLEMENTAL NOTE ON SENATE BILL NO. 306

As Amended by Senate Committee on Financial
Institutions and Insurance

Brief*

SB 306 would update statutes applying to investments of insurance companies to allow certain types of equity investments. The bill would further specify that insurance companies are prohibited from investing more than 5.0 percent of the outstanding equity interests of any one business entity and from investing an amount of more than 2.0 percent of the investing company's assets in any one business.

Definitions

In its updates to the investment statutes, the bill would replace the term "corporation" with "business entity" and provide that a "business entity" would include a sole proprietorship, corporation, limited liability company, association, partnership, joint stock company, joint venture, mutual fund, trust, joint tenancy or other similar form of business organization, whether organized for profit or not-for-profit.

The bill also would replace the term "common stock" with "equity interest" which would include, among other things, common stock; trust certificates; ownership interest in minerals, oil or gas; or the rights, limited partnership interest, and member interests in limited liability companies.

*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>

Investment Provisions

Under current law, investments are subject to a requirement that includes being listed on an exchange and a limitation on the amount of these investments of the lesser of 15.0 percent of the company's admitted assets or its combined capital and surplus. The bill would instead allow up to 7.5 percent of the overall 15.0 percent of admitted assets to be invested in equity interests without being subject to other requirements.

The bill would expand the permissible investments that could be used as collateral in securing a loan. Specifically, the bill would replace the term "securities" with "asset" in a provision that includes an 80.0 percent loan-to-value requirement. (KSA 40-2a14, KSA 40-2b12)

The bill would delete a limitation on the investment of insurance companies in asset-backed securities that had restricted an investing company's aggregate investment to 20.0 percent of the admitted assets of the company. Under the continuing law, asset-backed securities must, at the time of acquisition, be designated as a "1" or "2" by the National Association of Insurance Commissioners and the investment in any one issue cannot exceed 2.0 percent of the admitted assets of the investing insurance company. (KSA 40-2a28; KSA 40-2b29)

The bill also would remove the application of the leeway clause (KSA 40-2a16; KSA 40-2b13) to investments in certain instruments. Under current law, an insurance company would be prohibited from putting certain assets (*i.e.*, lower grade debt instruments) in leeway.

The bill also would make technical amendments to update the use of terms and references to investment laws.

Background

The bill was introduced at the joint request of the Security Benefit Life Insurance Company (investments, life insurance companies) and the Kansas Insurance Department (investments, other than life insurers). A representative of the Security Benefit Life Insurance Company testified in support of the bill at the Senate Committee hearing. The representative indicated the bill modernizes certain investment statutes applicable to domestic insurance companies, provides added flexibility in managing an insurer's assets, and helps Kansas insurers serve their customers and compete more effectively with insurers from other states. A representative of the American Council on Life Insurers indicated the bill would promote uniformity and modernization in state insurance company investment laws. Written only testimony in support of the bill was submitted by a representative of the Kansas Insurance Department. There was no neutral or opponent testimony.

The Senate Financial Institutions and Insurance Committee amendments are technical in nature.

The fiscal note prepared by the Division of the Budget states that, according to the Kansas Insurance Department, enactment of the bill would have no fiscal effect on the Department.