

Approved: March 23, 1993  
Date

## MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson William Bryant at 3:30 p.m. on March 22, 1993 in Room 527-S of the Capitol.

All members were present except:

Committee staff present: William Wolff, Legislative Research Department  
Bruce Kinzie, Revisor of Statutes  
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Dick Brock, Insurance Department  
Bud Cornish, Kansas Life Insurance Association

Others attending: See attached list

### Hearing on SB 306: Life and health guaranty fund limits

Dick Brock, Insurance Department, reviewed the history of the Life and Health Insurance Guaranty Association Act and legislation since its inception (Attachment 1). Enactment of this legislation would return the death benefit and aggregate limits to the amount originally proposed, make Kansas limits conform to the NAIC model, and bring Kansas into line with almost all other states.

Bud Cornish, Kansas Life Insurance Association, voiced support of the legislation.

Representative King moved for an amendment to SB 104 (Attachment 2). Representative Neufeld seconded the motion. Comments during discussion included whether Bank IV would become a target for acquisition and if the bill was in the best interest to Kansas. Representative Neufeld made a substitute motion to table the bill. The motion was seconded by Representative King. The motion failed.

Representative Wagle made a substitute motion to Representative King's original motion for an amendment to SB 104 (Attachment 3). Representative Gilbert seconded the motion. This amendment would bring savings and loans under the cap provisions and reduce the proposed 18% cap to 15%. The amendment was discussed in two parts: cap provisions for savings and loans and raising the cap to 15% from the original 12%. It was determined that the savings and loan question was not part of the original bill and not enough information had been made available to committee members to make a decision. The savings and loan portion of the amendment failed.

Upon a vote on the portion of the proposed amendment which would provide for a 15% cap, the motion passed. Representative Helgerson moved that SB 104 be passed as amended. Representative Watson seconded the motion. Representative King moved for a substitute motion to include his first amendment (Attachment 2) which would limit out of state ownership of banks only to 12%. The motion was seconded by Representative Neufeld. The motion carried.

Representative Neufeld moved to amend SB 104 by striking after the word "state" on page 1 line 22 through line 24 after the word "state." This amendment would change the whole formula and Bank IV would now be over the 12% cap. Representative Wagle made a substitute motion to strike the above language and add savings and loans and holding companies as suggested in the first box of Attachment 3. Representative King seconded the motion. Again committee members spoke against the suggested amendment due to lack of prior information and study by members. Growth by acquisition rather than actual growth was discussed and its ramifications on the state banking business. The motion failed.

Representative Allen moved that the bill be passed as amended with technical changes to be made by the Revisor. Representative Helgerson seconded the motion. The motion carried with Representatives King and Neufeld asking to be recorded as "no" votes.

Representative Crabb moved to amend SB 179 on Line 27 of page 1 to delete "anywhere" and add "any city

## CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,  
Room 527-S Statehouse, at 3:30 p.m. on March 22, 1993.

with a population of more than 20,000." Representative King seconded the motion . The motion carried.  
Representative King moved that the bill be passed as amended. Representative Minor seconded the motion.  
The motion carried.

Representative King moved that SB 36 be passed favorably out of committee. Representative Weiland  
seconded the motion. The motion carried.

Representative Bruns moved that the minutes of March 16 and 18 be approved. Representative Correll  
seconded the motion . The motion carried.

The meeting adjourned at 4:45 p.m. The next meeting is scheduled for March 23, 1993.

# GUEST LIST

COMMITTEE: \_\_\_\_\_

DATE: 3/22

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Check Stokes	Topeka	KBA
L.M. CORNISH	"	Ks. Dept. of Assn.
BILL SNEED	"	Am. Ind. Life
David A. Ross	"	Ks. Assn. of Life Underwriters
BILL HENRY	TOPEKA	Trust Company of Kansas
K. Bahr	"	4th Financial Corp.
Christina Hahn	Lawrence	Intern. for Rep. Grober
Roger Francisco	Topeka	Ks. Gov. Consulting
Dick Broca	"	Ins. Dept.
William Grant	"	BANK DEPT.
John Peterson	"	Fourth Financial Corp.
Linda McGill	"	CBA
Sue Anderson	"	Community Bankers Assn. of Kansas
Kathy Lovelace	Topeka	Community Bankers Association of Kansas
Christine Zoller	Topeka	Office of the State Bank Commissioner
Judi Stork	✓	✓
Kevin Glendening	✓	✓
BRAD JENNETT	Topeka	Bank IV
Jim Mazy	"	KBA
ANDERSON OLIVOLER	"	FIDELITY BANK
Camela J. Byl	"	KSNA
Pete McKee	Topeka	CBA
GARY SHERRE	WICHITA	Fourth Financial Corp.

Testimony on  
Senate Bill No. 306

by

Dick Brock

Kansas Insurance Department

The Life and Health Insurance Guaranty Association Act creates a mechanism to protect policyowners, insureds, beneficiaries and others against losses which might otherwise occur due to an impairment or insolvency of an insurance company authorized to transact life and/or health insurance in Kansas. A similar but separate act provides for a property and casualty guaranty association.

As originally enacted by the 1972 Kansas legislature, the Life and Health Insurance Guaranty Association Act provided that, subject to certain exceptions unrelated to Senate Bill 306, the guaranty association would be liable for all the contractual insurance obligations of an impaired or insolvent insurer except the death benefit coverage on a single life was limited to an aggregate of \$300,000. In the early 1980s, the difficulties of a financial services conglomerate known as Baldwin United made it quite obvious that the then current guaranty fund statutes were inadequate to address the complexities produced by emerging interest sensitive insurance products, leveraged buy-outs and other creative changes generated by the high interest rates and high yielding financial instruments that became available in the late 1970s and early 80s.

Consequently, in 1984 and 1985 the National Association of Insurance Commissioners (NAIC) addressed a number of regulatory issues that were exposed by the Baldwin United experience. One of these was the need to redesign the guaranty fund laws including the need to selectively limit the fund's liability depending on the insurance product involved. As a result, significant amendments were adopted by the NAIC in December 1985 and were incorporated in a legislative proposal recommended by the Department to the 1986 Kansas legislature. Among other significant changes, this proposal included a separate, specific limit of guaranty

*Lawrence F. Brock*  
*Attachment 1*  
*3-22-93*

fund coverage of \$300,000 in life insurance death benefits; \$100,000 in cash surrender values; \$100,000 in health insurance benefits; \$100,000 in the present value of allocated annuity benefits; and an aggregate limit of \$300,000 with respect to any one life regardless of the number of contracts or kinds of policies involved. During the legislative process, the death benefit was reduced from \$300,000 to \$100,000 and the aggregate limit was reduced from \$300,000 to \$200,000. That is the law today.

The original 1986 proposal included the coverage limits contained in the NAIC model at that time and are still current. Therefore, enactment of Senate Bill No. 306 would return the death benefit and aggregate limits to the amount originally proposed, make Kansas limits conform to the NAIC model, and, as indicated on the table attached to my testimony, bring Kansas into line with almost all of the other states.

The Senate committee amendment which appears on page 7 of the bill specifies that the increased limit of liability for death benefits and/or the aggregate benefit will apply only to the claims of impaired or insolvent insurers for which the guaranty association becomes liable after July 1, 1993.



# Basic Provisions of State Life/health Guaranty Funds

State	Scope of coverage	Unallocated annuities covered?	Blue Cross/ Blue Shield covered?
NAIC model act	Residents only	Yes	No <sup>a</sup>
Alabama	All policyholders	Silent <sup>b</sup>	No
Alaska	Residents only	Yes	No
Arizona	Residents only	Silent <sup>b</sup>	No
Arkansas	Residents only	Yes	Yes <sup>c</sup>
California <sup>c</sup>	Residents only	No	No
Colorado	Residents only	No	No
Connecticut	Residents only	Yes	Yes <sup>c</sup>
Delaware	Residents only	Yes	No
Florida	Residents only	Silent <sup>b</sup>	Yes <sup>c</sup>
Georgia	Residents only	Yes	No
Hawaii	Residents only	No	No
Idaho	Residents only <sup>a</sup>	No	No
Illinois	Residents only	Yes	Yes
Indiana	Residents only <sup>a</sup>	Yes	Yes <sup>c</sup>
Iowa	Residents only	Yes	No
Kansas	Residents only	No	No
Kentucky	Residents only	No	Yes <sup>c</sup>
Louisiana	Residents only	No <sup>a</sup>	No
Maine	Residents only	Silent <sup>b</sup>	No
Maryland	Residents only <sup>a</sup>	Silent <sup>b</sup>	Yes
Massachusetts	Residents only	No	No
Michigan	Residents only	Yes	No
Minnesota	Residents only <sup>a</sup>	Yes <sup>b</sup>	Yes
Mississippi	Residents only	Yes	No
Missouri	Residents only	No	Yes
Montana	Residents only	Silent <sup>b</sup>	No
Nebraska	Residents only <sup>a</sup>	Silent <sup>b</sup>	Yes <sup>c</sup>
Nevada	Residents only	No	No
New Hampshire	All Policyholders	Silent <sup>b</sup>	No
New Jersey	Residents only	Yes	No
New Mexico	All Policyholders	Silent <sup>b</sup>	No
New York	Residents only <sup>a</sup>	Yes	No
North Carolina	Residents only	Yes	No
North Dakota	Residents only	Yes	No <sup>a</sup>
Ohio	Residents only	Yes	Yes <sup>c</sup>
Oklahoma	Residents only	No	No
Oregon	Residents only	No	No
Pennsylvania	All Policyholders	Silent <sup>b</sup>	No

Limits of Guaranty Fund Liability					
Life benefits	Health benefits	All annuities	Benefits	Policy cash value	Unallocated annuities
\$300,000	\$100,000	\$100,000	\$300,000	\$100,000	\$5,000,000
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	5,000,000
Not specified	Not specified	100,000	300,000	100,000	Not applicable
100,000	100,000	100,000	300,000	100,000	1,000,000
250,000	200,000	100,000	250,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	300,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	1,000,000
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
300,000	300,000	100,000	300,000	100,000	5,000,000
Not specified	Not specified	Not specified	300,000	100,000	100,000
Not specified	Not specified	Not specified	300,000	100,000	1,000,000
100,000	100,000	100,000	200,000	100,000	Not applicable
300,000	100,000	100,000	Not specified	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
No limit	No limit	No limit	No limit	No limit	No limit
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	5,000,000
Not specified	Not specified	Not specified	300,000	100,000	100,000
300,000	100,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable
300,000	Not specified	100,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
500,000	No limit	500,000	500,000	100,000	2,000,000
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	500,000	Not specified	1,000,000
Not specified	Not specified	Not specified	300,000	Not specified	Not specified
300,000	100,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	1,000,000
300,000	300,000	300,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable

(continued)

Appendix IV  
Basic Provisions of State Life/health Guaranty  
Funds

State	Scope of coverage	Unallocated annuities covered?	Blue Cross/ Blue Shield covered?
Rhode Island	Residents only <sup>a</sup>	Silent <sup>b</sup>	No
South Carolina	All Policyholders	Silent <sup>b</sup>	Yes <sup>c</sup>
South Dakota	Residents only	No	No
Tennessee	Residents only	No <sup>d</sup>	No
Texas	Residents only <sup>e</sup>	Yes	Yes
Utah	Residents only	Yes	Yes
Vermont	All Policyholders	Silent <sup>b</sup>	No
Virginia	Residents only	No <sup>f</sup>	Yes <sup>c</sup>
Washington	Residents only <sup>g</sup>	Yes	No
West Virginia	Residents only <sup>h</sup>	Silent <sup>b</sup>	Yes
Wisconsin	Residents only	Silent <sup>b</sup>	No
Wyoming	Residents only	Silent <sup>b</sup>	No
District of Columbia	NO LIFE AND HEALTH GUARANTY FUND		
Puerto Rico	Residents only	Silent <sup>b</sup>	Yes

Appendix IV  
Basic Provisions of State Life/health Guaranty  
Funds

Limits of Guaranty Fund Liability					
Life benefits	Health benefits	All annuities	Benefits	Policy cash value	Unallocated annuities
300,000	100,000	100,000	300,000	100,000	Not applicable
Not specified	Not specified	Not specified	300,000	Not specified	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	200,000	100,000	300,000	100,000	5,000,000
300,000	100,000	100,000	300,000	100,000	5,000,000
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable
Not specified	Not specified	Not specified	300,000	100,000	Not applicable
500,000	500,000	500,000	500,000	Not specified	5,000,000
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable
Not specified	Not specified	Not specified	300,000	Not specified	Not applicable
300,000	100,000	100,000	300,000	100,000	Not applicable
300,000	Not specified	Not specified	Not specified	Not specified	Not applicable

Notes: Not all states' laws specify separate limits for life, health, annuities, and cash values.

<sup>a</sup>The model act does not provide coverage for non-profit medical service organizations such as Blue Cross/Blue Shield plans.

<sup>b</sup>Guaranty fund law neither includes nor excludes unallocated annuities.

<sup>c</sup>Several states do not treat Blue Cross/Blue Shield as a non-profit organization, but license it as a mutual insurance company. In this situation, it is covered under the state's guaranty fund.

<sup>d</sup>California has two separate funds: one for health insurance, and one for life and annuity policies.

<sup>e</sup>Guaranty fund covers state residents only, but does not conform to the NAIC model act.

<sup>f</sup>Guaranty fund law is silent on coverage of unallocated annuities. Guaranty fund coverage was ordered by court decision.

<sup>g</sup>According to NAIC, unallocated annuities are covered only if qualified under provisions of the Employee Retirement and Income Security Act.

<sup>h</sup>According to NAIC, unallocated annuities are not covered except amounts guaranteed to individuals by insurer.

Source: National Association of Insurance Commissioners and the National Organization of Life and Health Guaranty Associations

## SENATE BILL No. 104

By Committee on Financial Institutions and Insurance

1-27

8 AN ACT concerning banks and banking; ownership limitations;  
9 amending K.S.A. 9-520 and repealing the existing section.  
10

11 *Be it enacted by the Legislature of the State of Kansas:*

12 Section 1. K.S.A. 9-520 is hereby amended to read as follows:  
13 9-520. (a) Excluding shares held under the circumstances set out in  
14 paragraph (2) of subsection (a) of K.S.A. 9-519, and amendments  
15 thereto, no bank holding company or any subsidiary thereof shall  
16 directly or indirectly acquire ownership or control of, or power to  
17 vote, any of the voting shares of any bank domiciled in this state  
18 if, after such acquisition, all banks domiciled in this state, in which  
19 the bank holding company or any subsidiary thereof has ownership  
20 or control of, or power to vote, any voting shares, would have, in  
21 the aggregate, more than ~~12%~~ 18% of the total deposits of all banks  
22 in this state plus the total deposits, savings deposits, shares and  
23 other accounts in savings and loan associations, federal savings banks  
24 and building and loan associations in this state as determined by the  
25 state bank commissioner on the basis of the most recent reports to  
26 supervisory authorities which are available at the time of the  
27 acquisition. ←

28 (b) This section shall not prohibit a bank holding company or  
29 any subsidiary thereof from acquiring ownership or control of, or  
30 power to vote, any of the voting shares of any bank domiciled in  
31 this state if the state bank commissioner, in the case of a bank  
32 organized under the laws of this state, or the comptroller of the  
33 currency, in the case of a national banking association, determines  
34 that an emergency exists and that the acquisition is appropriate in  
35 order to protect the public interest against the failure or probable  
36 failure of the bank.

37 Sec. 2. K.S.A. 9-520 is hereby repealed.

38 Sec. 3. This act shall take effect and be in force from and after  
39 its publication in the statute book.

Except that no bank holding company located in a state other than Kansas shall directly or indirectly acquire ownership or control of, or power to vote, any of the voting shares of any bank domiciled in this state in which the bank holding company or any subsidiary thereof has ownership or control of, or power to vote, any voting shares, would have in the aggregate, more than 12% of the total deposits of all banks in this state plus the total deposits, savings deposits, shares and other accounts in savings and loan associations in this state as determined by the state bank commissioner on the basis of the most recent reports to supervisory authorities which are available at the time of the acquisition.

3-22-93  
Attachment 2  
James F. Hall



## SENATE BILL No. 104

By Committee on Financial Institutions and Insurance

1-27

8 AN ACT concerning banks and banking; ownership limitations;  
9 amending K.S.A. 9-520 and repealing the existing section.

10

11 *Be it enacted by the Legislature of the State of Kansas:*

12 Section 1. K.S.A. 9-520 is hereby amended to read as follows:

13 9-520. (a) Excluding shares held under the circumstances set out in  
14 paragraph (2) of subsection (a) of K.S.A. 9-519, and amendments  
15 thereto, no bank holding company or any subsidiary thereof shall  
16 directly or indirectly acquire ownership or control of, or power to  
17 vote, any of the voting shares of any bank domiciled in this state  
18 if, after such acquisition, all banks domiciled in this state, in which  
19 the bank holding company or any subsidiary thereof has ownership  
20 or control of, or power to vote, any voting shares, would have, in  
21 the aggregate, more than ~~12% 18%~~ of the total deposits of all banks  
22 in this state plus the total deposits, savings deposits, shares and  
23 other accounts in savings and loan associations, federal savings banks  
24 and building and loan associations in this state as determined by the  
25 state bank commissioner on the basis of the most recent reports to  
26 supervisory authorities which are available at the time of the  
27 acquisition.

28 (b) This section shall not prohibit a bank holding company or  
29 any subsidiary thereof from acquiring ownership or control of, or  
30 power to vote, any of the voting shares of any bank domiciled in  
31 this state if the state bank commissioner, in the case of a bank  
32 organized under the laws of this state, or the comptroller of the  
33 currency, in the case of a national banking association, determines  
34 that an emergency exists and that the acquisition is appropriate in  
35 order to protect the public interest against the failure or probable  
36 failure of the bank.

37 Sec. 2. K.S.A. 9-520 is hereby repealed.

38 Sec. 3. This act shall take effect and be in force from and after  
39 its publication in the statute book.

No holding company which has as a subsidiary a state or federally chartered savings and loan or a federally chartered savings bank shall directly or indirectly acquire ownership or control of, or power to vote, any of the voting shares of any bank of federally chartered savings and loan or a federally chartered savings bank domiciled in this state if, after such acquisition, all banks or federally chartered savings and loan or a federally chartered savings bank domiciled in this state in which the holding company or any subsidiary thereof has ownership or control of, or power to vote, any voting shares, would have, in the aggregate, more than 15% of the total deposits of all banks in this state plus the total deposits, savings deposits, shares and other accounts in savings and loan associations, federal savings banks and building and loan associations in this state as determined by the state bank commissioner on the basis of the most recent reports to supervisory authorities which are available at the time of the acquisition.

15%

Sharon T. Hall  
Attachment 3  
3-22-93