

Approved: March 9, 1993

Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Richard Bond at 9:09 a.m. on February 24, 1993 in Room 529-S of the Capitol.

Members present: Senators Corbin, Lawrence, Lee, Moran, Petty, Praeger, and Steffes

Committee staff present: William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
June Kossover, Committee Secretary

Conferees appearing before the committee: Senator Alicia Salisbury
Richard Brock, Insurance Department
L. M. Cornish, Kansas Life Insurance Association

Others attending: See attached list

Senator Steffes made a motion to approve the minutes of the meeting of February 23, 1993 as submitted. Senator Corbin seconded the motion. The motion carried.

The hearing was opened on **SB 306**, life and health guaranty fund limits. Senator Salisbury, who sponsored the bill, appeared before the committee to explain that this legislation will increase from \$100,000 to \$300,000 the Guaranty Fund's liability per policy should insurance companies become insolvent. The Insurance Commissioner recommended in 1987 that the limit be set at \$300,000; however, a floor amendment in the House reduced the figure to \$100,000. Although the cost will be assessed to insurance companies, it is expected to be minimal. In response to Senator Bond's question, Senator Salisbury clarified that the limit would be \$300,000 for life and \$100,000 for health.

Richard Brock, Insurance Department, also appeared as a proponent of this bill. (Attachment #1.) In response to Senator Bond's request, Mr. Brock explained how the Guaranty Fund works. Mr. Brock stated that after a company is declared insolvent, an assessment is levied against insurance companies doing business in Kansas to pay the claims of the insolvent carrier. Senator Petty asked if there were other instances where Kansas has deviated from the NAIC model and Mr. Brock replied that there are; however, where the NAIC model affects or enhances the insurance industry in Kansas, Kansas laws closely follow the NAIC model. In response to Senator Moran's question, Mr. Brock explained that although there are a dozen or so companies currently being processed by the Guaranty Fund Board, only 2 are domestic companies; the remainder are non-domestic companies. Mr. Brock also explained the tax off-set provision contained in the legislation. Senator Bond requested Mr. Brock's opinion on an amendment to be proposed by a later conferee which will establish the effective date of July 1, 1993 and Mr. Brock advised that the Insurance Commissioner's office approves of the amendment. Senator Praeger questioned whether there is a disclosure to purchasers of policies and Mr. Brock advised that it is illegal to use the Guaranty Fund for marketing purposes.

Bud Cornish, Kansas Life Association, appeared before the committee to request an amendment to **SB 306**. Mr. Cornish proposed adding a new section (E) to state, "Any increased limits of liability of the guaranty association shall not apply to an impaired or insolvent insurer for which the guaranty association becomes liable prior to July 1, 1993." (Attachment #2.) Fred Carman, Revisor, suggested adding "...limits of liability of the guaranty association by this act shall not apply..."

Mr. Brock clarified that a company is declared insolvent by an order from the Insurance Commissioner or from the courts and the guaranty fund becomes operational only after a company is declared insolvent. Mr. Brock also advised that it would not be possible to prepare a fiscal note on this bill because there is no way to determine how many claims may be filed against an insolvent company.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
Room 529-S Statehouse, at 9:09 a.m. on February 24, 1993.

There were no further questions and no other conferees. The hearing on **SB 306** was closed. Senator Praeger made a motion, seconded by Senator Petty, to amend the bill as suggested by the KLA and the Revisor of Statutes, Mr. Carman. The motion carried.

Senator Lawrence made a motion to recommend the bill favorably as amended. Senator Praeger seconded the motion. The motion carried. The bill will be carried by Senator Salisbury.

The committee adjourned at 9:50 a.m

The committee is scheduled to resume meetings during the week of March 1, 1993.

GUEST LIST

SENATE

COMMITTEE: FINANCIAL INSTITUTIONS AND INSURANCE

DATE: 2/24/93

[illegible]

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

Senate 7141
2-24-93
Attachment #1

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 and 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.

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 ^a
Alabama	All policyholders	Silent ^b	No
Alaska	Residents only	Yes	No
Arizona	Residents only	Silent ^b	No
Arkansas	Residents only	Yes	Yes ^c
California ^c	Residents only	No	No
Colorado	Residents only	No	No
Connecticut	Residents only	Yes	Yes ^c
Delaware	Residents only	Yes	No
Florida	Residents only	Silent ^b	Yes ^c
Georgia	Residents only	Yes	No
Hawaii	Residents only	No	No
Idaho	Residents only ^e	No	No
Illinois	Residents only	Yes	Yes
Indiana	Residents only ^e	Yes ^f	Yes ^c
Iowa	Residents only	Yes	No
Kansas	Residents only	No	No
Kentucky	Residents only	No	Yes ^c
Louisiana	Residents only	No ^g	No
Maine	Residents only	Silent ^b	No
Maryland	Residents only ^e	Silent ^b	Yes
Massachusetts	Residents only	No	No
Michigan	Residents only	Yes	No
Minnesota	Residents only ^e	Yes ^b	Yes
Mississippi	Residents only	Yes	No
Missouri	Residents only	No	Yes
Montana	Residents only	Silent ^b	No
Nebraska	Residents only ^e	Silent ^b	Yes ^c
Nevada	Residents only	No	No
New Hampshire	All Policyholders	Silent ^b	No
New Jersey	Residents only	Yes	No
New Mexico	All Policyholders	Silent ^b	No
New York	Residents only ^e	Yes	No
North Carolina	Residents only	Yes	No
North Dakota	Residents only	Yes	No
Ohio	Residents only	Yes	Yes ^c
Oklahoma	Residents only	No	No
Oregon	Residents only	No	No
Pennsylvania	All Policyholders	Silent ^b	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)

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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 ^e	Silent ^b	No
South Carolina	All Policyholders	Silent ^b	Yes ^c
South Dakota	Residents only	No	No
Tennessee	Residents only	No ^g	No
Texas	Residents only ^a	Yes	Yes
Utah	Residents only	Yes	Yes
Vermont	All Policyholders	Silent ^b	No
Virginia	Residents only	No ^h	Yes ^c
Washington	Residents only ^e	Yes ^c	No
West Virginia	Residents only ^e	Silent ^b	Yes
Wisconsin	Residents only	Silent ^b	No
Wyoming	Residents only	Silent ^b	No
District of Columbia	NO LIFE AND HEALTH GUARANTY FUND		
Puerto Rico	Residents only	Silent ^b	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 ⁱ	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.

^aThe model act does not provide coverage for non-profit medical service organizations such as Blue Cross/Blue Shield plans.

^bGuaranty fund law neither includes nor excludes unallocated annuities.

^cSeveral 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.

^dCalifornia has two separate funds: one for health insurance, and one for life and annuity policies.

^eGuaranty fund covers state residents only, but does not conform to the NAIC model act.

^fGuaranty fund law is silent on coverage of unallocated annuities. Guaranty fund coverage was ordered by court decision.

^gAccording to NAIC, unallocated annuities are covered only if qualified under provisions of the Employee Retirement and Income Security Act.

^hAccording 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

Kansas Life Association

OFFICERS:

President

Howard R. Fricke
Topeka

Vice President

John R. Atchley
Topeka

Secretary-Treasurer

Chuck Blankenship
Topeka

L. M. Cornish

General Counsel

900 Merchants Natl. Bank Bldg.

Topeka, Kansas 66612

February 23, 1993

LEGISLATIVE COMMITTEE:

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Topeka

Keith Hawkins
Shawnee Mission

Jerry Banaka
Manhattan

Roger Viola
Topeka

Mark Heitz
Topeka

SENATOR RICHARD BOND

CHAIRMAN

FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

STATEHOUSE

TOPEKA, KANSAS

RE: SB 306

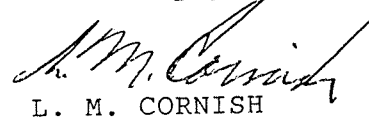
Dear Sir:

We wish to offer a clarification to SB 306.

We understand there are currently eight or more insolvent or impaired insurance companies for which the Kansas life/health guaranty association has liability. We are uncertain as to the amounts at risk, but do believe there are some liabilities in the "pipeline" which are still to be processed. We suggest a clarification of SB 306 by adding the following on page 7 at line 15:

(E) Any increased limits of liability of the guaranty association shall not apply to an impaired or insolvent insurer for which the guaranty association becomes liable prior to July 1, 1993.

Cordially yours,



L. M. CORNISH

LMC:sah/5868A

The American Home Life Insurance Co.
Topeka

American Investors Life Insurance Co.
Topeka

The Centennial Life Insurance Co.
Mission

Blue Cross and Blue Shield of Kansas, Inc.
Topeka

The Pyramid Life Insurance Co.
Shawnee Mission

Kansas Group Life Insurance Co.
Topeka

Kansas Farm Bureau Insurance Co.
Manhattan

Security Benefit Life Insurance Co.
Topeka

The Victory Life Insurance Co.
Topeka

Employers Reassurance Corp.
Overland Park

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Attachment #2