

## MINUTES

### SPECIAL COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

October 18, 2012  
Room 152-S—Statehouse

#### Members Present

Representative Richard Proehl, Co-chairperson  
Representative Clark Shultz, Co-chairperson  
Senator Ruth Teichman, Vice-chairperson  
Senator Jeff Longbine  
Senator Ty Masterson  
Senator Allen Schmidt  
Senator Vicki Schmidt  
Representative Rick Billinger  
Representative Tom Burroughs  
Representative Gail Finney  
Representative Gene Sullentrop  
Representative Vern Swanson

#### Member Absent

Representative Phil Hermanson

#### Staff Present

Melissa Calderwood, Kansas Legislative Research Department  
Heather O'Hara, Kansas Legislative Research Department  
David Wiese, Office of the Revisor of Statutes  
Ken Wilke, Office of the Revisor of Statutes  
Jan Lunn, Committee Secretary

#### Conferees

Kris Kellim, Kansas Insurance Department  
Ken Abitz, Kansas Insurance Department  
Mark Johnston, National Association of Mutual Insurance Companies (NAMIC)  
Jeff Bottenberg, Security Benefit Life Insurance Company  
Jim Hall, American Council of Life Insurers (ACLI)  
Phillip Carson, American Insurance Association (AIA) [written only]  
Sandra M. Sigler, Kansas Association of Property and Casualty Insurance Companies (KAPCIC) [written only]  
William W. Sneed, Polsinelli Shughart, PC, representing various insurance companies [written only]

## **Morning Session**

Co-chairperson Shultz called the meeting to order at 9:37 a.m. and welcomed those attending. Co-chairperson Shultz noted that Co-chairperson Proehl would be assuming the chair during the afternoon portion of the meeting. Co-chairperson Shultz recognized Vice-chairperson Senator Ruth Teichman and expressed gratitude for her hard work and dedication to the legislative process.

### **Committee Charge**

Melissa Calderwood, Kansas Legislative Research Department (KLRD), stated the Special Committee on Financial Institutions and Insurance is one of five special committees authorized by the Legislative Coordinating Council (LCC) during the interim session. The charge to the Special Committee on Financial Institutions and Insurance is the following ([Attachment 1](#)):

- Review the impact of 2012 SB 349 on the Office of the Securities Commission, including its function and the role of the agency, amount of fee revenue currently collected by the Securities Commissioner, the impact of receipts currently transferred by the agency to the State General Fund (SGF) pursuant to existing law, and the allocation of funds, otherwise intended for transfer to the SGF, to support economic development and “corporate formation”;
- Study the modernization of the laws governing insurance holding companies in Kansas, including the adoption of uniform standards consistent with the National Association of Insurance Commissioner’s (NAIC) model act; and
- Review streamlining state regulation, the role of the supervisory college and future oversight of the Kansas Insurance Department, anticipated costs for the state regulator and insurers, and the issues non-adoption of the model law create for accreditation and domestic insurance companies subject to other states’ laws.

### **Information Concerning Insurance Holding Company Legislation**

Ms. Calderwood distributed a memorandum, “Insurance Holding Company Legislation” ([Attachment 2](#)), and provided a summary of the House Committee on Insurance’s consideration of 2012 HB 2508 related to the LCC assigned topics reflected in the second and third bullet points above. HB 2508 was requested by the Kansas Insurance Department to “ensure that holding company operations outside of the domestic insurance industry do not pose a hazard to the sound operation of the domestic company, and ultimately to protect Kansas insurance consumers from such hazards.” The House Committee on Insurance heard the proposed legislation on February 6, 2012. After much discussion and specific questions outlined in the third bullet point above, the House Committee later voted to request an interim study, in lieu of working the bill.

The Senate Committee on Financial Institutions and Insurance held an informational hearing on insurance holding companies on March 14, 2012. The Senate Committee agreed to delete the contents of HB 2077 ([Attachment 3](#)), as amended by the Senate Committee (2011

Session), and to insert provisions that would create and amend the Insurance Holding Company Act (HB 2508) and provisions pertaining to the combination sale of life insurance coverage with certain health care riders (HB 2373, as amended by the House Committee on Insurance). The Senate Committee also inserted amendments to HB 2508, as introduced, to delete certain references to “affiliates” and decrease a penalty amount. These amendments were submitted by the Kansas Insurance Department (KID).

HB 2077 (as amended by Senate Committee, 2012 Session), among other provisions, would establish the Insurance Holding Company Act and amend the Insurance Code to modify existing provisions governing insurance holding companies.

Ms. Calderwood summarized provisions contained in the Insurance Holding Company Act (New Section 1), which enacts new law and amends existing provisions in the Insurance Code; under the new Act, the Insurance Commissioner is granted the power to participate in a supervisory college for any domestic insurance company (insurer) that is part of an insurance holding company system with international operations. Pertinent highlights contained in HB 2077 (sections noted) include:

- The supervisory college oversight and powers assigned to the Commissioner;
- The added definition for “enterprise risk” contained in KSA 40-3302 (Section 3);
- The added requirements related to statements filed with the Insurance Commissioner and public hearings contained in KSA 40-3304 (Section 4);
- The amendments to the required information to be filed with registration statements under KSA 40-3305 (Section 5);
- The addition of a standard to the regulation of material transactions by registered insurers with their affiliates contained in KSA 40-3306 (Section 6);
- The clarification concerning examination, information requests, and subpoena power included in KSA 40-3307 (Section 7); and
- The specifications concerning confidential information and disclosure provisions under KSA 40-3308 (Section 8).

Ms. Calderwood included a fiscal note for HB 2508; however, a fiscal note was unavailable for the relevant contents of HB 2077.

In order to familiarize Committee members with the bill’s section numbers and general subject matter, Ms. Calderwood explained the contents of HB 2077 (Attachment 3) prior to KID representatives presenting testimony related to the bill, the NAIC model law, and terms such as “supervisory college.”

In response to Committee questions, Ms. Calderwood indicated:

- HB 2373—Combining life insurance with certain other riders such as for specific illness or disease coverage was discussed in the insurance conference committee; however, it was excluded from any conference report.
- The amendments apply to the existing Insurance Holding Company Act and include life insurance carriers; other carriers, including Property and Casualty and HMOs may also have holding companies (discussed further by the Kansas Insurance Department representatives).
- The Senate Committee on Financial Institutions and Insurance inserted amendments to HB 2508 deleting references to “affiliates,” which was requested by the industry in paragraph 2 on page 16 of HB 2508 or (2) on page 21 of the handout “House Bill 2077”; the deletion of “affiliates” was specific to the paragraph cited. In addition, the penalty was reduced from \$5,000 daily to \$1,000 daily.

Kris Kellim, KID, distributed his testimony and presentation ([Attachment 4](#)). He stated Kansas has been regulating insurance holding companies since 1974. The purpose of regulation is to ensure the domestic insurer is able to pay policyholders’ claims. He defined an insurance holding company as:

- A company (called a parent company) that owns other companies’ outstanding stock and consists of two or more business entities including at least one insurer;
- A company could hold non-insurance companies or subsidiaries such as retailers, manufacturing, railroads, and other types of businesses;
- Subsidiaries under the ownership or common control of a parent are referred to as affiliates; and
- Collectively, the parent and subsidiaries are referred to as the holding company system.

Mr. Kellim reviewed the history of insurance holding company systems and their regulations and provided various examples of international and domestic insurance holding companies. He reported that under the state-based insurance regulation in the U.S., the need for holding company supervision was recognized by the NAIC in 1969 at which time a model law was created. In Kansas, insurance holding company law was enacted in 1974 based on the NAIC model. Mr. Kellim described the purpose and need for regulations to ensure holding company operations outside of an insurer incorporated in the United States do not jeopardize the solvency of the domestic insurer. The approach of “windows” and “walls” was discussed, which means regulators have “windows” to scrutinize group activity and assess its potential impact on the ability of the insurer to pay its claims and “walls” to protect the capital of the insurer by requiring the insurance commissioner’s approval of material related-party transactions.

The paradigm of “windows” and “walls” and examples of each were discussed:

- Windows represent access to information (KSA 40-3305) and examination authority (KSA 40-3307).

- Walls represent requirements for prior approval to acquire an insurer (KSA 40-3304) and prior approval of certain material transactions (KSA 40-3306).

Mr. Kellim discussed the recent financial crisis involving AIG, which resulted in insurance regulators re-evaluating their holding company system regulatory framework. Given the complexity of many holding company systems, the need was demonstrated to maintain the regulatory “walls” in place and to enhance the “windows” of the system.

The 2012 historical legislation summary relating to insurance holding companies included the following:

- Amendments proposed in 2012 HB 2508;
- HB 2508 language amended into Senate Sub. for HB 2077, as further amended, by the Senate Committee on Financial Institutions and Insurance; and
- Senate Sub. for HB 2077 language was the same as HB 2508, except for two changes to (b) (2) of Section 7, which struck references to “affiliates” and reduced the daily penalty from \$5,000 to \$1,000.

In anticipation of the 2013 Legislative Session, KID anticipates introducing language the same as Senate Sub. for HB 2077, with the following changes:

- Broaden confidentiality under Section 8 for documents filed pursuant to KSA 40-3304; and
- Delay the initial compliance date and create premium volume-based exemption from the new enterprise risk report requirement under Section 5.

With regard to a question concerning the rationale for reducing the penalty from \$5,000 to \$1,000 daily, Mr. Kellim responded saying the recommendation resulted through collaboration from insurance industry representatives and KID.

Ken Abitz, KID Director of Financial Surveillance, discussed the substantive provisions in the insurance holding company legislation, which includes a “supervisory college.” The “supervisory college” serves as a forum for cooperation and information sharing among regulators within an international insurance holding company system. Regulators could include state, federal, and international regulators. This model is needed to ensure domestic insurers are solvent to pay Kansas policyholders’ claims and to assess potential risks posed to domestic insurers by other activities within the holding company system. Mr. Abitz reviewed the authority the Insurance Commissioner would have related to supervisory colleges and provided an example of a supervisory college environment and discussion agenda. Considerable discussion was heard concerning the supervisory college infrastructure, its overarching objective to assist its members in developing a better understanding of the risk profile of the insurance holding companies, and “reasonable expenses” to participate in meetings convened within or outside the United States. In response to a question concerning the definition of “reasonable expense,” Mr. Abitz indicated KID representatives attending a supervisory college meeting would comply with current travel guidelines for state employees.

Mr. Abitz stated supervisors have found that a range of communication channels are required for effective functioning of colleges. These include physical meetings, video or audio conferences, secure online communication tools, e-mail infrastructure and official letters; supervisory colleges are typically held once yearly and are designed to share appropriate information with respect to the principal risks and risk management practices of the group. Information shared at supervisory colleges is confidential. Usually, the host state where an insurance company is located (typically with the most premium volume) would provide coordination of supervisory college meetings.

Mr. Abitz emphasized the supervisory college does not delegate any authority of the Kansas Insurance Commissioner.

In response to questions, Mr. Abitz answered that federal agencies do not regulate life, health, or insurance carriers; they could regulate an affiliate. For example, in the case of a bank owned by an insurance company, the federal agency would regulate the bank; the Insurance Commissioner regulates the insurance company. Variable annuity products are regulated by the Securities and Exchange Commission (SEC); the actual company is regulated by the Insurance Commissioner.

Mr. Abitz discussed the proposed amendments related to various sections within Senate Sub. for HB 2077 as outlined below:

- Registration and enterprise risk reporting;
- Rationale for enhancing enterprise risk regulations;
- Form F (required for risk reporting);
- Recommended change for an initial enterprise report to be filed from May 1, 2014 to May 1, 2015;
- Recommended change to exempt an insurer with total direct and assumed annual premiums of less than \$300 million from submitting an enterprise risk report (a list was provided of Kansas companies meeting that threshold ,which is part of Mr. Abitz's Attachment 4);
- Financial statement reporting requirements;
- Statements the insurer must provide to ensure the company has developed proper governance and internal controls;
- Enhancements to align procedures for acquisitions and mergers involving a domestic insurer that is subject to registration with enterprise risk reporting requirements;
- Requirement of prior approval (by KID) for specific material transactions for a domestic insurer or insurer's insurance holding company system;

- Strengthening of the Commissioner's authority to examine a registered insurer's affiliates; and
- Changes that include enhanced confidentiality provisions.

Mr. Abitz responded to additional questions as follows:

- For a non-life insurance company, the KID will review any agreement that would impact three percent or more of an insurer's admitted assets or 25 percent of capital and surplus; for a life-insurance company, the threshold is three percent of an insurer's admitted assets. Should these thresholds be unmet, prior approval by the KID is not required for specific material transactions (Section 6 of Senate Sub. for HB 2077).
- There is a provision within the Insurance Holding Company System Act that requires prior approval for extraordinary dividends. As a state regulator, KID could forbid a state-operated insurance company to pay ordinary dividends to its parent holding company should harm to the insurance company be identified.
- The supervisory college functions as an information-gathering entity and holds no authority.
- With regard to the "windows" and "walls" concept, there is some resistance from insurance holding companies because more information, openness, and transparency are required. However, enhanced protection of confidential and privileged information was created to offset some of the concern. The KID uses information from the "windows" to evaluate whether the "walls" require revision or enhancement (protecting Kansas policyholders).
- In Kansas, a statutory provision sets minimum capital requirements for an insurance company; a risk-based capital (RBC) guideline exists which mandates action by KID should a life, health, or accident insurer's RBC fall below 200 percent. The State works within a model from the NAIC and has been adopted by State regulators in cooperation with industry representatives.
- Form D is required for prior notice of a transaction by the KID. It involves financial inter-company agreements, reinsurance, loans or extensions of credit to a non-affiliate, management agreements, service agreements, cost sharing agreements, loans, sales, purchases and other financial arrangements. It is required to be filed by the parent insurance holding company on behalf of its domestic insurer in each state of operation. Each state's Insurance Commissioner is accountable to approve such transactions.
- With regard to acquisitions and mergers, an acquiring party may be required to maintain or restore the capital of the insurer to the level required by law within 60 days after a change in control. The KID has the responsibility to invoke certain requirements to ensure capital solvency; KID controls the acquisition approval.

- The KID reviews and validates five years of financial statements for companies requesting acquisition approval to ensure financial soundness of the acquiring party.
- The Insurance Holding Company System Act does not allow the KID to require capitalization changes of the in-state, operating company until the capital (RBC) falls beneath the statutory minimum requirements. The Act provides “windows” to request additional information from the holding company.
- The proposed legislation presents no additional costs to KID outside of its existing budget; the next NAIC accreditation review is scheduled for 2016, which is the deadline for implementing the Model Holding Company System Act. It is possible that Kansas’ NAIC accreditation could be jeopardized without implementation of the Kansas Insurance Holding Company System Act.
- During the 2012 Legislative Session, there were no industry or non-industry representatives in opposition to the bill. The bill did not progress through the House Committee on Insurance due to timing and educational issues.
- With regard to confidentiality, the Commissioner or other persons cannot be required to testify in a private, civil action, which is common within the industry.
- When an affiliate is asked for additional information by KID, the affiliate is accountable to gather requested information from its parent holding company; if the information is not forthcoming, the affiliate is penalized \$1,000 daily.

Mr. Abitz summarized his presentation and requested the Committee’s support of the Kansas Insurance Holding Company System Act and proposed amendments.

Upon a Committee member’s question concerning the proposed legislation adding more governmental regulation, Kevin Davis, General Counsel, KID, responded that there was no opposition from consumers and industry representatives and there was continued collaboration within the industry to adjust proposed amendments for the 2013 Legislative Session. He stated this is a modernization and efficiency issue that enhances insurance holding companies’ ability to operate in several states.

Mark Johnston, State Affairs Manager, National Association of Mutual Insurance Companies, testified in support of the amendments to the Insurance Holding Company System Act ([Attachment 5](#)). He advocated for retaining state-based insurance regulation and the amendment exempting small companies from the “enterprise risk” report. Mr. Johnston stated that while some may conclude the Kansas Insurance Holding Company System Act is “more government”; his members believe the Act and its amendments constitute “better government.”

Jeff Bottenberg, Assistant Counsel for Security Benefit Life Insurance Company, spoke in support of introducing appropriate legislation and amendments during the 2013 Legislative Session ([Attachment 6](#)). He indicated the legislation is necessary to ensure the KID maintains its NAIC accreditation. Without the legislation, an insurer would be required to undergo multiple, duplicative financial condition examinations in each state in which the parent company holds domiciled companies. In addition, the amendments will prevent highly confidential financial documents from being disclosed and inappropriately available to competitors.



Jim Hall, Regional Vice President, American Council of Life Insurers (ACLI), testified that the proposed amendments enhance the Insurance Commission's ability to monitor and protect the financial strength of Kansas insurers while strengthening and preserving state-based regulation. He urged favorable recommendation for the legislation during the 2013 Legislative Session ([Attachment 7](#)).

Written testimony supporting the amendments to the Kansas Insurance Holding Company System Act was submitted by:

- Phillip Carson, Associate General Counsel, American Insurance Association ([Attachment 8](#));
- Sandra M. Sigler, Kansas Association of Property and Casualty Insurance Companies ([Attachment 9](#)); and
- William W. Sneed, Polsinelli Shughart, PC ([Attachment 10](#)).

Co-chairperson Shultz recessed the meeting at 11:30 a.m.

### **Afternoon Session**

Co-chairperson Proehl reconvened the meeting at 1:30 p.m.

### **SB 349 and Related Legislation**

Melissa Calderwood, KLRD, reviewed the Committee's charge related to SB 349. The topic was requested by the Senate Financial Institutions and Insurance Committee after its review of SB 349. Ms. Calderwood reviewed testimony provided at the February 14th Senate Committee hearing, and provided a copy of the bill and its fiscal note. See ([http://kslegislature.org/li/b2011\\_12/asures/sb349/](http://kslegislature.org/li/b2011_12/asures/sb349/)). Ms. Calderwood reviewed the fiscal impact of SB 349.

Ms. Calderwood explained the bill would amend the Kansas Uniform Securities Act and a statutory provision governing employment under the Office of the Securities Commissioner to describe the purposes and intentions of the Act, amend existing special revenue funds requirements, establish two new fee funds, and authorize the Commissioner to appoint certain staff in the unclassified service ([Attachment 11](#)).

Ms. Calderwood delivered a comprehensive review of the bill; highlights of which included:

- Inserting a statement of intent and purpose to the Kansas Uniform Securities Act [a preamble to the Act];
- Amending current statute to authorize annual fees of \$300 to require notice filings for exemptions from registration requirements;
- Deleting provisions that allowed a carry-forward balance in the Securities Fee Fund of \$50,000 on the first day of each fiscal year.;

- Broadening the investor education programming;
- Deleting certain requirements for the Investor Education Fund;
- Authorizing transfers from the Securities Act Fee Fund to the Investor Education Fund, the Securities Litigation Fund, or the Securities Restitution Fund;
- Authorizing transfers to other state agencies in the Executive Branch that provides funding related to investment of capital, creation of jobs, or other programs. Transfers would be required to benefit securities regulation and preserve the integrity of the capital formation process;
- Establishing a Securities Litigation Fund and a Securities Restitution Fund;
- Authorizing the Securities Commissioner to appoint professional staff in the unclassified service; and
- Creating technical amendments to the Kansas Uniform Securities Act.

Ms. Calderwood reviewed other similar legislation from the 2012 Session:

- HB 2882 was introduced by the House Committee on Commerce and Economic Development and referred to the House Committee on Financial Institutions and subsequently re-referred to the House Committee on General Government Budget. The provisions are identical to SB 349. The bill did not receive a hearing.
- HB 2770 was introduced by the House Committee on Appropriations and referred to the House Committee on Agriculture and Natural Resources Budget. The contents are similar to the contents of SB 349 and SB 2582, with some exceptions (can be reviewed in Ms. Calderwood's testimony on page 5 ([Attachment 11](#))).

Copies of these bills can be found at: <http://kslegislature.org/>

A Committee member inquired how the term "reasonably related" appearing in Section 5 (5) (can be found on page 10, line 34) of SB 349 is defined. Ms. Calderwood responded when a similar question was asked during the Senate Committee hearing; questions were heard concerning which executive branch agencies would be appropriate to receive funding related to capital formation, creation of jobs, or other programs. Ms. Calderwood indicated transfers would be made at the discretion of Securities Commissioner because it is permissive rather than mandatory; in line 38 (page 10 of SB 349), it states ". . . by the administrator in consultation with heads of such other agencies." The fiscal note estimates \$8.7 million in FY 2012 that would not otherwise be directed to a Securities Act Fee Fund.

Ms. Calderwood responded to other questions as follows:

- The Office of the Securities Commissioner brought the bill to the Senate Committee indicating the current version of SB 349 could be revised.

- Previously, the Office of the Securities Commission transferred from the Securities Act Fee Fund to the SGF funds for accounting, auditing, budgeting, legal payroll and other governmental services; the agency would be excepting themselves out of that practice and increasing their carry-forward balance to \$250,000 from \$50,000.
- No state agencies opposed the proposed legislation during the hearing.
- The Securities Commissioner changed the purpose of the Investor Education Fund from detection and prevention of securities fraud to a focus on personal financial literacy and investments; the new language retains up to \$500,000 in any fiscal year in the Securities Act Fee Fund for the purpose of replenishing funds in either the Securities Litigation Fund or the Investor Education Fund.
- Local radio advertisements relating to investor education are tagged with a message that they are not paid for with taxpayer money.

Heather O'Hara, KLRD, provided Committee members with background information on the Office of the Securities Commissioner, including the agency's responsibilities and the laws the agency administers ([Attachment 12](#)). She described the Securities Act Fee Fund noting that current law provides that 90 percent of fees received from agents of broker-dealers, investment advisers investment companies, and other issuers of securities that offer investment capital in Kansas is retained in the Fund while 10 percent is transferred to the SGF (up to a yearly maximum of \$100,000). Remaining, unencumbered funds over \$50,000 are allowed to be transferred or "swept" for reimbursement of services provided to the agency by the Department of Administration.

Ms. O'Hara reviewed the Investor Education Fee Fund and provided a historical summary of revenue, expenditures, and transfers from FY 2007 to FY 2011. In addition historical revenue, expenditure, and transfers information was provided for the Office of the Securities Commissioner, the Office of the State Bank Commissioner, the Department of Credit Unions, and the Kansas Insurance Department.

When asked how much of the revenue stream (from the Office of the Securities Commissioner) comes from Kansas domiciled companies and how much is received from out-of-state, Ms. O'Hara responded she would gather that information and report to Committee members at a later time. In addition, another Committee member requested that the information furnished include a breakdown of revenue from fees, fines and settlements for a five-year period.

Patricia Lightner, Director of Government Relations, Office of the Securities Commissioner (audience) commented that 95 to 97 percent of Securities Act Fee Fund revenue comes from out-of-state.

A Committee member inquired whether the end-of-year sweep affected the operations expenditures from the Securities Act Fee Fund. Ms. O'Hara responded that in FY 2011, the Securities Act Fee Fund realized expenditures of \$2.6 million; the sweep occurs on the last day of the fiscal year and involves unencumbered fee funds over \$50,000.

When asked concerning the current position of the Office of the Securities Commissioner on SB 349, Ms. Lightner (from the audience, no written testimony submitted)

responded that, at the current time, the Securities Commissioner does not support SB 349 nor are plans being considered to continue pursuit of legislation for the 2013 Legislative Session. Ms. Lightner commented that the Commissioner will not proceed in support of HB 2582 or HB 2770 nor does the Commissioner anticipate any further proposed legislation from the Office of the Securities Commissioner in 2013.

A Committee member asked Ms. Lightner whether the Commissioner had appointed professional staff within the Office of the Securities Commissioner to an unclassified service category (See Section 6, (b) of SB 349, page 13, line 33). Ms. Lightner deferred to Josh Ney, Staff Attorney, Office of the Securities Commissioner, to respond to the question. Mr. Ney responded that any switch of classification involved hiring of attorneys and promotion of staff members to a director level; Mr. Ney will furnish additional information concerning how many positions were switched from classified to unclassified or unclassified to classified since the Commissioner was appointed.

A Committee member inquired how the Office of the Securities Commissioner is configured in other states. For example, do other states combine the Securities Commission with the Banking Commission, Credit Unions, or other such Commissions. Ms. Calderwood responded that the Division of Post Audit performed an audit several years ago (prior to introduction of 2009 SB 230) that related to consolidation of the Office of the Securities Commissioner, Office of the State Bank Commissioner, and Department of Credit Unions (the 2008 audit will be provided to Committee members). Since the Kansas Insurance Commissioner is an elected official, that agency was excluded from the audit. Ms. Calderwood noted that (at the time of the audit) there were at least 30 states with some form of consolidated regulatory agencies.

### **Recommendation for 2013 Legislature Report and Possible Introduction of Legislation**

Representative Burroughs praised the KID for its educational presentation, noted the importance of accreditation with NAIC, and commented concerning the bill's components of transparency, financial verification, and consumer protection. *He moved to favorably pass out Senate Sub. for HB 2077, as further amended and presented; Senator Teichman seconded the motion.*

During discussion, Ken Wilke, Office of the Revisor of Statutes, brought to the Committee's attention that Section 13 of HB 2077 does not pertain to insurance holding companies and is outside the scope of the Committee's charge. Mr. Wilke asked the Committee to determine whether to include or to strike that Section in the bill.

Representative Shultz agreed with the spirit of the motion and suggested that the recommendation include that a prefile bill be drafted in collaboration with staff and KID staff to ensure inclusion of all proposed amendments.

Discussion was heard concerning whether special committees are authorized to introduce pre-filed bills and past LCC approval practices, which have resulted in approval of special committee recommendations to introduce legislation. Mr. Wilke confirmed that in past years, bill introductions recommended by special committees were approved by the LCC. A Committee member further suggested, should the LCC not approve the Special Committee on Financial Institutions and Insurance recommendations, the bill should be introduced and heard concurrently in each respective chamber's appropriate committees by February 1, 2013.

*Representative Burroughs amended his motion to recommend introduction of a bill to be drafted as a prefile with collaboration from the Office of the Revisor of Statutes, KID staff, and industry representatives. The bill, HB 2077, is to be comprised of relevant insurance holding company provisions and conceptual amendments presented during the Special Committee on Financial Institutions and Insurance Review. Senator Teichman seconded the amended motion, which passed unanimously.*

It was recommended to include a statement that should the LCC not approve the Special Committee's recommendation, the bill should be introduced and heard concurrently in the Senate Financial Institutions and Insurance Committee and the House Insurance Committee, as previously discussed.

*With regard to SB 349—Securities Commissioner; litigation and restitution funds created, appointment of professional staff, Senator Teichman moved that the Special Committee on Financial Institutions and Insurance make no recommendation; Senator Longbine seconded the motion, which passed unanimously.*

*Upon a motion by Senator Teichman to send the Report of the Special Committee on Financial Institutions and Insurance to the House Committee on Insurance and to the Senate Committee on Financial Institutions and Insurance by January 31, 2013, and a second by Senator Longbine; the motion passed unanimously.*

The meeting was adjourned at 2:26 p.m.

Prepared by Jan Lunn  
Edited by Melissa Calderwood and  
Heather O'Hara

Approved by the Committee on:

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January 16, 2013  
(Date)