



**SECURITY BENEFIT®**

One Security Benefit Place · Topeka, KS 66636-0001  
800.888.2461 · SecurityBenefit.com

**HOUSE INSURANCE COMMITTEE**  
***Testimony on House Bill 2066***

***February 2, 2015***

***By: Chris Swickard, Vice President and Associate General Counsel***  
***Security Benefit Life Insurance Company***

Mr. Chairman and members of the Committee:

Thank you for the opportunity to be here today. My name is Chris Swickard and I am Vice President and Associate General Counsel for Security Benefit Life Insurance Company (“Security Benefit”). I am here to testify in favor of House Bill No. 2066.

Although the bill is 19 pages long, at a high level, it does only two basic things (1) unifies language used in Article 2a and 2b of Chapter 40 so that they are easier to use for both insurers and regulators and (2) modernizes certain of the investment statutes applicable to Kansas insurers in a manner consistent with what nearby states allow. Article 2b of Chapter 40 governs investments by life insurance companies, such as Security Benefit, and Article 2a of Chapter 40 governs investments by all other types of insurance companies, such as property and casualty insurers. Many of the statutes in Article 2a and 2b mirror each other such that in order to make a change for all Kansas insurers, changes must be made to both Article 2a and to 2b. We believe these changes will help Kansas insurers grow their businesses, serve their customers and compete more effectively with insurers from other states. The last page of my testimony is a chart which shows how Article 2a and 2b compare. For example, it shows that KSA 40-2a05 is the corollary to KSA 40-2b05.



As noted, many of the changes merely unify language used in various places in Articles 2a and 2b. For example, currently the term “corporation” is used in some of the investment statutes and in other places, the more modern term “business entity” is used. The bill would change Articles 2a and 2b so that they uniformly use the term “business entity” which is the preferred term because it recognizes that businesses take many different forms, from corporations, to limited liability companies to partnerships. Unifying changes of this type appear in Sections 1, 3, 4, 5, 6, 7, 9, 11, 12, 13, 14 and 15. Additionally the definitions of “business entity”, “NAIC”, and “SVO” are included in various Sections as necessary for clarification. There are several other technical and stylistic changes made by the Revisor’s office.

As mentioned, the bill also modernizes certain of the investment statutes applicable to Kansas insurers in a manner consistent with what nearby states allow. In particular, the bill modernizes KSA 40-2b04 (Section 8, page 8) which permits foreign investments by life insurers and modernizes KSA 40-2a12 and KSA 40-2b09 (Section 2, page 2 and Section 10, page 12) that permit investment in real estate bonds and mortgages, though in each case, the changes we are asking for are permitted in other nearby states.

Foreign Investments - currently the statute only authorizes certain types of investments to be made on a foreign basis. In other words, the investment statutes set forth the universe of investments a life insurer may make domestically and then the foreign investment statute sets forth a subset of that universe that is permitted on a foreign basis. For example, life insurers are permitted to invest in real estate bonds and mortgages in the United States, but not in foreign jurisdictions. On the other hand, states such as Missouri and Nebraska, as well as the NAIC model investment law, allow an insurer to make any investment on a foreign basis that it can make



domestically. The proposed change would allow Security Benefit to invest on a foreign basis in the same types of things it can invest in domestically.

Real Estate Bonds and Mortgage – currently the Kansas statutes (1) do not permit investment in second lien mortgages and (2) require that loan-to-value ratios not exceed 80%. So, for example, if the value of a property is \$1 million, we could lend \$800,000 against the property. Iowa, where many of our competitors are located, permits investment in second lien mortgages and loan-to-value ratios of up to 90%. Texas also permits 90% loan-to-value ratios. We propose to change the Kansas statute to follow the Iowa statute by permitting second liens and loan-to-value ratios of 90%. In addition, Security Benefit will sometimes invest alongside other insurance companies or other investors in certain real estate transactions. When that happens, we will frequently create a separate entity, such as a limited liability company, to make the investment and hold the mortgage. Security Benefit and its co-investors will then lend to that entity. Thus, Security Benefit will not directly hold the mortgage. It is unclear whether being indirectly secured by a mortgage in this manner is permitted under the statute and the amendments proposed in Section 10 allow for that type of investment. The laws of Missouri and the NAIC model investment law allow an insurer to be indirectly secured as we propose here.

**Key Take Aways** - This bill (1) unifies language used in Article 2a and 2b of Chapter 40 and (2) modernizes certain of the investment statutes applicable to Kansas insurers in a manner consistent with what nearby states allow. In doing so, the bill helps Kansas insurers grow their businesses, serve their customers and compete more effectively with insurers from other states.

It should be noted that these amendments in no way dilute the responsibility of the Kansas Insurance Department to supervise Kansas domiciled insurers, including their investment activity. This bill has been prepared in consultation with the Kansas Insurance Department and they are a



co-sponsor of it. We also understand that the American Council of Life Insurers is in support of this bill. We are not aware of any opposition.

Thank you for the opportunity to appear here today and I respectfully request the passage of this bill. I would be happy to answer any questions at this time.



## HB 2066 COMPARISON CHART – KANSAS INVESTMENT STATUTES

Other Than Life Companies K.S.A. 40-2a Sections	Life Companies K.S.A. 40-2b Sections
None comparable	Section 8, page 8 40-2b04. Investments in foreign jurisdictions and currencies; definitions
Section 1, page 1 40-2a05. Corporate obligations; definitions	Section 9, page 10 40-2b05. Corporate obligations; definitions
Section 2, page 2 40-2a12. Real estate bonds and mortgages	Section 10, page 12 40-2b09. Real estate bonds, mortgages, tax lien certificates
Section 3, page 4 40-2a16. Leeway clause	Section 11, page 14 40-2b13. Leeway clause
Section 4, page 4 40-2a25. Mortgage related securities	Section 12, page 14 40-2b26. Mortgage related securities
Section 5, page 6 40-2a26. Medium and lower grade obligations; definitions	Section 13, page 16 40-2b27. Medium and lower grade obligations; definitions
Section 6, page 6 40-2a27. Same; limitations; exceptions; insurance company required to adopt written investment plan	Section 14, page 17 40-2b28. Same; limitations; exceptions; insurance company required to adopt written investment plan
Section 7, page 8 40-2a28. Investment in asset-backed securities; conditions; definitions	Section 15, page 18 40-2b29. Investment in asset-backed securities; conditions; definitions

