

Testimony of Jeffrey P. Waldron
Before the Senate Financial Institutions and Insurance Committee

SB 304

January 30, 2020

Chairman Olson and Members of the Committee:

My name is Jeffrey Waldron. I am a lawyer and investment banker with the Pennsylvania-based firm, Griffin Financial Group, which consults with several reciprocal companies in the state of Kansas. I thank the committee for an opportunity to provide testimony regarding Senate Bill 304.

The proposed legislation has two purposes. First to provide optionality to Kansas' three reciprocal insurance companies and second to level the playing field between Kansas mutual and stock insurance companies, on the one hand, and Kansas reciprocals, on the other hand.

Article 40 of Chapter 40 of the Kansas Statutes provides an efficient way for mutual insurance companies to raise capital and become a stock company if a mutual chooses to do so. At the time this legislation was passed, there was only one reciprocal located in Kansas and, as a result, article 40 does not cover the three Kansas reciprocals that now exist. Therefore, reciprocals have no viable path toward raising capital. The proposed legislation merely allows a Kansas reciprocal to convert to a Kansas mutual insurance company, after application to, and approval of, both the Kansas Insurance Department and the reciprocal's policyholders. This then would allow the converted company to use article 40 to raise capital if it chose to do so.

It is important to note, that this legislation does not compel any action on the part of the three Kansas reciprocals. It merely creates an option for them if they ever choose to avail themselves of Kansas' existing capital formation option for mutual insurance companies.

The second purpose of the proposed legislation is to level the playing field. Under chapter 40, section 1620 of the Kansas statutes, any Kansas stock or mutual insurance company can convert to the reciprocal form of organization if it chooses to do so. Since the existence of reciprocals in Kansas is a relatively recent phenomena, there is no corresponding provision that permits a Kansas reciprocal to convert to a mutual insurance company. This proposed legislation corrects this disparity by allowing a reciprocal to convert to a mutual insurance company, which

then has the further option of converting to a stock company under article 40. Therefore, the proposed legislation levels the playing field among the different organizational forms of Kansas insurance companies.

In closing, KAPCIC, the state property and casualty association, supports this bill and the Kansas Department of Insurance has reviewed the legislation and has no objections.

At this time, I am happy to answer any questions the committee may have.