

HOUSE COMMITTEE ON INSURANCE

Testimony on House Bill 2510

January 26, 2022

By: Chris Swickard, Vice President and Associate General Counsel

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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. 2510.

If approved, this bill will modernize the Kansas statutes that govern the investment by Kansas life insurance companies in preferred stock and other equity interests, and in doing so, will help Kansas insurers grow their businesses, serve their customers and compete more effectively with insurers from other states.

I’ll start off by outlining what the current statutes, K.S.A. 40-2b06 and K.S.A. 40-2b07, allow with respect to preferred stock and other equity investments, and then discuss how the bill would amend those statutes.

K.S.A. 40-2b06 allows Kansas life insurance companies to invest up to 25% of admitted assets in preferred stock, but only if a lengthy list of conditions are met – which are set out in detail in Appendix A of my testimony – only some of which I’ll highlight here for brevity:

1. Obligations of the issuer must be investment grade or satisfy other tests set out in the statute,
2. The issuer must not be in arrears on dividends or it must have paid full dividends over the last three years, depending on the type of preferred stock issued,
3. The issuer’s net earnings to fixed charges ratio must be at least 1.25x for the most recently completed three years, and
4. The issuer must have been in existence for at least five years.

K.S.A. 40-2b07 allows Kansas life insurance companies to invest up to 15% of admitted assets in equity securities, separated into two different categories. Specifically, it permits investments up to:

1. 7.5% of admitted assets in unlisted equities (or listed equities that don’t meet the requirements below in number 2); and

2. 7.5% of admitted assets in listed equities, but again, only if a lengthy list of conditions are met – which are again set out in detail in Appendix A of my testimony – only some of which I’ll highlight here:
 - a. Obligations of the issuer must be investment grade or satisfy other tests in the statute,
 - b. The issuer must have paid cash dividends for each of the last three years and had earnings for three of the last five years prior to the date of the investment, unless the issuer satisfies certain net assets, net worth and aggregate market value tests, and
 - c. The insurance company can invest no more than:
 - i. 5% of the equity interests of any one issuer; and
 - ii. 2% of the insurance company’s admitted assets in the equity interests of any one issuer

We believe these existing statutes’ limitations, restrictions and requirements are outdated, cumbersome, overly restrictive and difficult to use at a time when yields on investment grade and high yield debt are around all-time lows – and as you know, have been for some time. When we compare the Kansas preferred and equity investment statutes to a number of other states, including states with a larger number of insurers than Kansas, we find that their statutes are more flexible and allow a greater percentage of an insurer’s assets to be invested in preferred stock and equity securities. See Appendix A for details.

The bill before you would amend K.S.A. 40-2b06 to allow Kansas life insurance companies to invest up to 25% of admitted assets (i.e., no increase in the overall percentage amount) in preferred stock, but without the additional requirements in the current statute (which I just summarized and are outlined in detail in Appendix A). The bill would also amend K.S.A. 40-2b07 to allow Kansas life insurance companies to invest up to 20% of admitted assets (a slight increase over the existing statute) in equity interests without the current list of additional requirements I summarized (and which are outlined in detail in Appendix A). However, it would maintain the requirement that no more than 2% of an insurance company’s admitted assets be invested in the equity interests of any one issuer.

We believe the revised statutes, if adopted, would:

- Provide Kansas life insurance companies a more current construct with appropriate guardrails;
- Permit Kansas life insurance companies to more readily adapt their investment portfolios to market changes as needed; and
- Allow Kansas life insurance companies to grow their businesses, serve their customers and compete more effectively and efficiently against companies located in states with less restrictive preferred stock and other equity interest investment statutes, such as Oklahoma, New York, Louisiana, Connecticut, Michigan, Pennsylvania and Texas. See Appendix A for charts comparing the requirements in Kansas under existing statutes with those of the aforementioned states.

It should be noted that these amendments in no way dilute or change the responsibility of the Kansas Insurance Department to supervise Kansas domiciled insurers, including their investment activity. Security Benefit has discussed the proposed bill with the Kansas Insurance Department and they have no objection to it. We are not aware of any opposition to the changes proposed in the bill before you.

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.

Appendix A
Comparison Chart – K.S.A. 40-2b06 (Preferred Stock) and K.S.A. 40-2b07 (Equity Interests) to other states

	Preferred Stock					
	Kansas	Oklahoma	New York	Connecticut	Louisiana	Pennsylvania
Percent of admitted assets that may be invested in preferred stock	25%	No limit	No limit	No limit	25%	25%
Limit on the percent of admitted assets that can be invested in the preferred stock any one issuer	No	No	No	Yes, 5%	Yes, 2%	Yes, 5%
Obligations of Issuer must be investment grade or satisfy other tests similar to those set forth in (a)-(d) of K.S.A. 40-2b05	Yes	No	No	No	No	No
Issuer must not be in arrears on dividends (if the preferred is cumulative) or issuer has paid full dividends in each of the last three years (if the preferred is noncumulative)	Yes	Yes (but no look back as in KS)	No	No	Yes (but no look back as in KS)	No
Sinking fund payments are on a current basis	Yes	No	No	No	No	No
Issuer's net earnings to fixed charges is at least 1.25x for last three years	Yes	No	No	No	No	No
Issuer must have been in existence for at least five years	Yes	No	No	No	No	No

Equity Interests					
	Kansas	New York	Connecticut	Michigan	Texas
Percent of admitted assets that may be invested in equities	15%	20%	25%	No limit	25%
Must be registered with a national securities exchange or regularly traded on a national or regional basis^	Yes	No	No	No	No
Obligations of Issuer must be investment grade or satisfy other tests in (a)-(d) of K.S.A. 40-2b05^	Yes	No	No	No	No
The issuer has paid cash dividends for each of the three years prior to the date of the investment^*	Yes	No	No	No	No
The issuer has earnings in three of the last five years prior to the date of the investment^*	Yes	No	No	No	No
The insurance company can invest no more than:	Yes	No	Yes	Yes	No
i. 5% of the equity interests of any one issuer^; and					
ii. 2% of the insurance company's admitted assets in the equity interests of any one issuer^	Yes	No	No	No	Limited to 15% of capital and surplus in any one issuer

^Applies to 7.5% of the 15% of admitted assets that the statute permits to be invested in equity securities.

*Does not apply if the issuer has (i) net assets of \$10mm or more, (ii) a net worth of \$1mm or more and (iii) an aggregate market value of \$500mm or more.