

Testimony of Kurt Seelbach
Before the Senate Financial Institution and Insurance Committee
SB 304
January 30, 2020

Chairman Olson and Members of the Committee:

My name is Kurt Seelbach, I am the CEO at Armed Forces Insurance Exchange. I have been employed by Armed Forces Insurance for approximately 12 years, the past 10 as CEO. My professional designations include Certified Public Accountant (CPA), Chartered Property Casualty Underwriter (CPCU), and Associate in Reinsurance (ARe). I have 35 years of experience in the Property Casualty Insurance industry with 30 of those being at the Executive Level.

Background on Armed Forces Insurance Exchange:

Our company was founded in February 1887 in Fort Leavenworth, Kansas to insure the personal property of Army officers against losses due to fire. For our entire 133 history we have been based in Leavenworth, Kansas.

While the scope of who we insure (all branches and all ranks of the military) and the products we provide have expanded, we are still exclusively focused on serving the property casualty insurance needs of our military personnel. We provide insurance products in all 51 US jurisdictions. We currently employ approximately 205 people, the vast majority are both based in Leavenworth, Kansas and are Kansas residents.

In the early 1980's the Kansas Legislature and the Kansas Insurance Department were instrumental in helping Armed Forces Insurance become the first Reciprocal Exchange in the State of Kansas. It was a critical time in the company's history as we had operated on an unlicensed basis since 1887 and had been served a cease and desist order due to our corporate status.

As you can imagine, the focus at the time was to quickly create a path for our company to become a licensed insurance company and based on our philosophy of our members insuring each other, the Kansas Insurance Department recommended that a Reciprocal Exchange was the best fit for Armed Forces Insurance.

With the help of many individuals in both the Kansas Legislature and the Kansas Insurance Department, legislation was quickly passed to create a path for Armed Forces Insurance to become the first Reciprocal Exchange in Kansas.

In the 1990's Federated Rural Electric Insurance Company realized that their corporate structure of rural electric cooperatives was much more suited to the Reciprocal Exchange structure and once again with the support of the Kansas Legislature and the Kansas Insurance Department a path was created for Stock or Mutual Companies to become a Reciprocal Exchange. Since that time there are now multiple domestic Kansas Insurance companies that are Reciprocal Exchanges.

This was the last significant legislation passed related to converting to/from different insurance structures and with the existing legislation in place, regulations allow Stock and Mutual companies to become a Reciprocal Exchange. Legislation currently allows a Mutual Company to become a Stock Company. The

only movement that is not allowed is for a Reciprocal Exchange company to become a Mutual Company (and thus also be allowed to further transition to a Stock Company). So basically any company can become a Reciprocal Exchange, but a Reciprocal Exchange cannot change to any other form of Insurance Company.

While the Reciprocal Exchange structure does have certain advantages, it also has one significant limitation – severe restrictions on the ability to raise capital without giving up governance/ control of the company.

While Armed Forces Insurance Exchange has no immediate plans to convert to a Mutual Insurance entity, if allowed, it would provide financial flexibility to address several long term concerns. Among these concerns are:

- In the current environment where insurance results, particularly in the P&C industry, have become more volatile related to catastrophic losses (tornado/hail, hurricanes, wildfires...) the ability to be able to raise additional capital when necessary is critical.
- The insurance industry is also “innovating” at a rapid pace. These innovations heavily involve technology and new tools, which can be quite expensive and require capital. We believe investing in these new technologies and tools is vital to our continued success and viability.
- We have identified new strategies/ approaches to accelerate our growth and expand our reach in the military insurance market. These will provide enhanced career opportunities for our existing employees and require a significant number of new employees as well. This will again require capital.

In conclusion, we believe the legislation while leveling the playing field for Kansas Insurance entities also may have benefit to insurance policyholders, Kansas Residents included.

The Kansas State Property Casualty Insurance Association (KAPCIC) supports this bill. The Kansas Department of Insurance has reviewed the proposed legislation and has no objections.

Thank you for your time and attention to this important issue.