

Justin L. McFarland, KS#24247
Philip R. Michael, KS#26072
Kansas Insurance Department
1300 SW Arrowhead Road
Topeka, KS 66604
785-296-7847
785-338-0959 (cell)
Justin.L.McFarland@ks.gov
ATTORNEYS FOR PETITIONER

**IN THE DISTRICT COURT OF SHAWNEE COUNTY, KANSAS
DIVISION 15**

VICKI SCHMIDT,)	
COMMISSIONER OF)	
INSURANCE,)	
<i>In her Official Capacity</i>)	
)	
Petitioner,)	Case No. 2023 CV 494
)	
vs.)	
)	
MutualAid eXchange)	
)	
Respondent.)	

SECOND SEMI-ANNUAL REPORT

COMES NOW Commissioner of Insurance, Vicki Schmidt, in her capacity as Liquidator (“**Liquidator**”) of MutualAid eXchange (“**MAX**”), by and through counsel, and pursuant to ¶ 14 of the Court’s Judgment, Decree and Order of Liquidation with Finding of Insolvency (the “**Liquidation Order**”) in the above captioned matter and K.S.A. §§ 40-3605 *et seq.* (the “Act”), submits this Second Semi-Annual Report (“**Report**”).

On August 8, 2023, this Court granted plaintiff’s Petition for Rehabilitation and appointed Vicki Schmidt, the Commissioner of Insurance and her successors in office as Rehabilitator of

MAX, and Jodi Adolf and Bruce Baty as Special Deputy Receivers (“**SDRs**”) of MAX. The SDRs, along with consultants immediately reviewed the financial situation of MAX and determined that it was insolvent and plaintiff petitioned the Court to place MAX into liquidation.

A. Background

On February 27, 2024, the Liquidator, by and through counsel, submitted her First Semi-Annual Report to this Court, which set forth (1) MAX’s background and events leading up to entry of the Liquidation Order; (2) a summary of actions taken in the first six months of the liquidation; (3) a summary of MAX’s policies and related practices; and (4) the transition of claims to the State Guaranty Associations.

This Report provides an update to the Court, as required by the Liquidation Order. This report includes an update on the work the Liquidator and her staff carried out from the date of the First Semi-Annual Report. This Report also provides a balance sheet as of June 30, 2024. This Report is based only on the knowledge that the Liquidator and her staff have gained from the work performed since the issuance of the Rehabilitation Order and the Liquidation Order. Facts may exist that the Liquidator is unaware of that may have a material effect on the information provided in this Report. The Liquidator will update the information in future semi-annual reports as additional facts are discovered.

B. MAX Property

The Liquidator has taken possession of all known assets and property of MAX in accordance with the Liquidation Order. The Liquidator, through the SDRs, control and continue to monitor all bank accounts and investment operations of MAX and its wholly-owned subsidiary and attorney-in-fact, MII Management Group, Inc. (“**MIIMG**”).

A. Unearned Commissions

MAX policies were written on an annual basis, and MAX collected the entire annual premium at issuance. Agent commissions were calculated and paid monthly prior to liquidation. Pursuant to the Liquidation Order and Kansas law, all policies terminated within 30 days of the Liquidation Order. This resulted in many policies terminating prior to their expiration dates. The premium for the period of the date of cancellation until the expiration date became “unearned premium.”¹ To the extent an agent had previously been paid commissions on that unearned premium, the commission became unearned and due to the MAX Estate. These “unearned commissions” are a significant asset to the MAX Estate. The policy cancellations resulted in unearned premiums in the amount of approximately \$17,192,086, which in turn resulted in unearned commissions in the amount of \$1,650,319.²

To date, the Liquidator has collected \$1,500,286.42 from agents with unearned commission balances. The total outstanding balance of unearned commission due to the MAX Estate is \$148,792.89.

B. Reinsurance

MAX managed its insurance risk with several property and catastrophe reinsurance agreements, all of which were written on an excess of loss basis. At the Liquidation Date, potential reinsurance recoverables totaled over \$4.1 million with an additional \$6.1 million in recoverables added during the period from the Liquidation Date through June 30, 2024. Reinsurance collections from the Liquidation Date to December 31, 2023, were \$1.264 million. Reinsurance collections

¹ As discussed below, this resulted in an “unearned premium claim” for each policyholder.

² Because of the administrative cost to recover unearned commissions, the Liquidator wrote off unearned commission balances that were less than \$100. The total written off was \$1,239.96.

from January 1, 2024 to June 30, 2024 were \$3 million. The SDRs note that MAX collected an additional \$3.9 million in July and August 2024, following discussions with the reinsurance intermediary.

C. State Guaranty Associations

The State Guaranty Associations³ (“SGAs”) where MAX was authorized to write business continue to administer certain claims related to MAX’s insurance policies, including unearned premium claims and claims under homeowner and farm owner policies.

Pursuant to K.S.A. § 40-3623, all policies and insurance contracts issued by MAX in effect on the Liquidation Date, terminated the earlier of (1) 30 days from the date of entry of the Liquidation Order, (2) the expiration of the policy coverage, or (3) the date when the insured has replaced the insurance coverage with equivalent insurance in another insurer or otherwise terminated the policy.

1. Unearned Premium Claims

When a policy terminated prior to its expiration date, but premium had been collected from a policyholder, MAX calculated the unearned premium (“UEP”) due to that policyholder and transferred all UEP claims to the affected SGAs. Total UEP on December 31, 2023, was \$17,192,086.

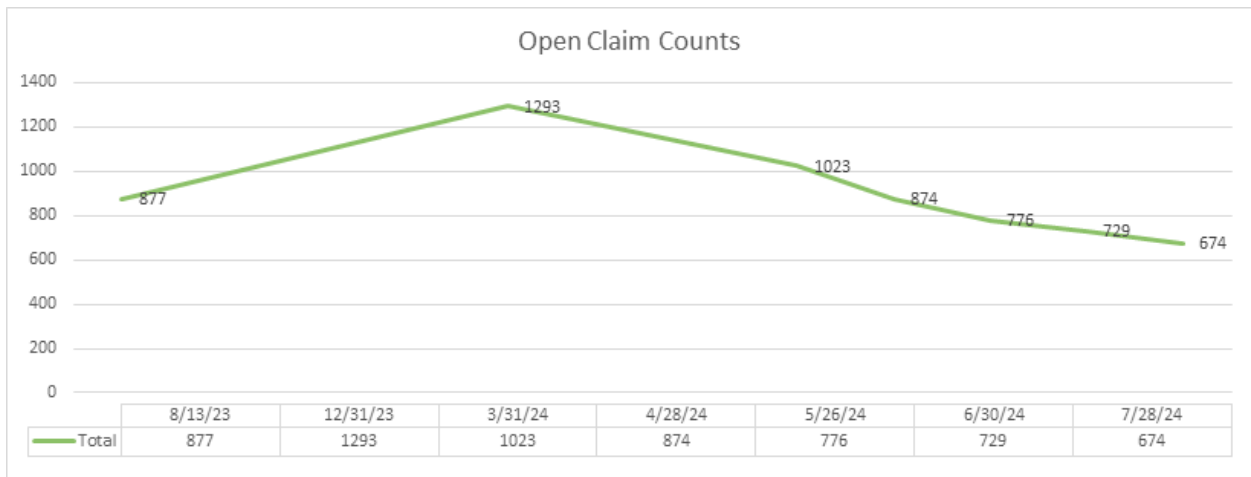
The SGAs have been paying covered UEP claims to the policyholders. In some states, the statute provides that the SGA will pay 100% of the UEP claim, and in other states, the statute provides for either a deductible, a minimum or a maximum payment by the SGA for UEP claims.

³ Arizona, Iowa, Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Ohio, Oklahoma, Pennsylvania, South Dakota, Utah, Virginia and West Virginia.

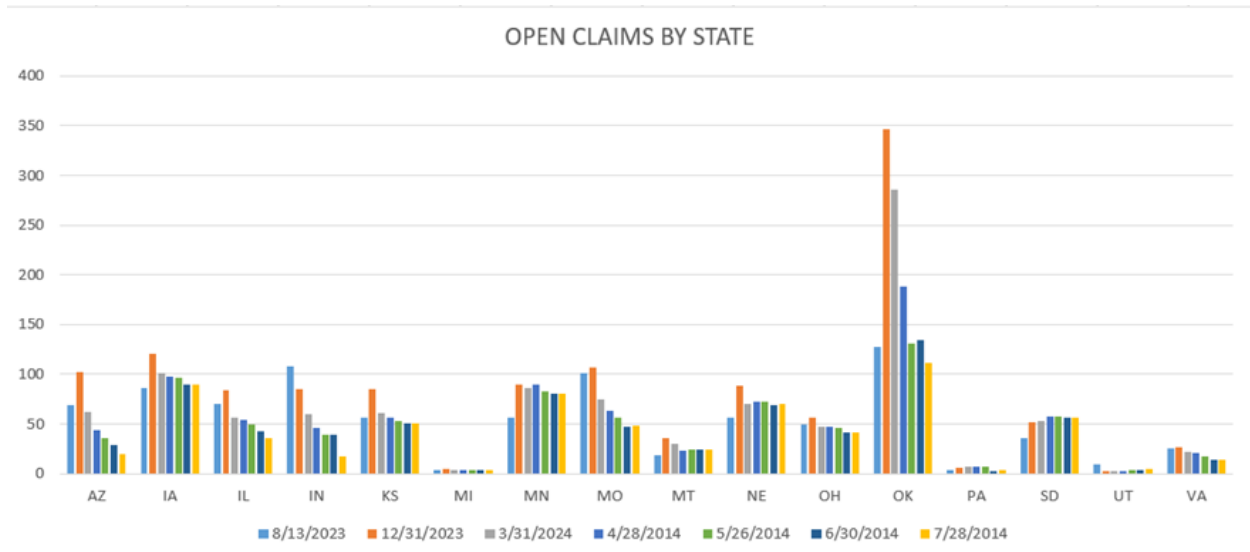
The SGAs report the amount they paid for each UEP claim to MAX via UDS records. In some instances, after MAX transferred the UEP claims to the SGAs, policyholders informed MAX that they had obtained replacement insurance and changed the cancellation date to an earlier date. To account for the additional UEP due the policyholder, MAX transferred the additional information to the SGAs.

2. Policy Claims

At the time of liquidation, MAX wrote Homeowners, Farmowners, and Dwelling Property insurance. MAX transferred all open and new claims to the SGAs. The chart below depicts the claim count totals by month from August 2023 through July 2024.



The following chart depicts claim count by state for the same period.



Although MAX has not received August data, the open claims is expected to be approximately 550 for August.

D. Operations

The Liquidator continues her evaluation of resource costs and needs, and reducing expenses where appropriate. Prior to receivership, the attorney-in-fact MIIMG had approximately 41 employees. MIIMG currently has three full-time employees and three part-time employees,⁴ who work with and report to the SDRs.

As previewed in February, MIIMG notified the landlord for its Overland Park lease that it would not renew the lease. The lease terminates on September 30, 2024. The SDRs and staff transferred certain records to the Kansas Department of Insurance, liquidated items with value, and disposed of items with no value.

⁴ Two of the part-time employees are former MIIMG IT staff. They each work 6 to 10 hours per week assisting with processing UDS records and performing other critical IT functions.

The new address for MAX, effective **September 13, 2024** is:

**MutualAid eXchange
c/o Kansas Department of Insurance
1300 SW Arrowhead Rd.
Topeka, KS 66604**

1. Liquidation Accounting

Pursuant to the Liquidation Order, the Liquidator submits to the Court a statement of assets and liabilities, as of June 30, 2024. *See* Statement of Assets and Liabilities, attached hereto as **Exhibit A**.

E. Proof of Claim Process

In the Liquidation Order, the Court approved a form of Proof of Claim and set a Bar Date of August 23, 2024. The Liquidator published the Liquidation Notice as set forth in the Liquidation Order, and mailed Liquidation Notices to known creditors or potential creditors. As of the Bar Date, the Liquidator has received 799 Proofs of Claim.

The SDRs and staff have commenced review of the Proofs of Claim and the Liquidator's Claim Review Report has been filed simultaneously with this Report.

WHEREFORE, the Liquidator submits this Second Semi-Annual Report of MAX.

Respectively submitted,

/s/Justin L. McFarland

Justin L. McFarland, KS#24247
General Counsel
Philip R. Michael, KS #26072
Lead Regulatory Counsel
Kansas Insurance Department
1300 SW Arrowhead Road
Topeka, KS 66612
785-296-7847

785-338-0959 (cell)
Justin.L.McFarland@ks.gov

Jodi M. Adolf, KS#20741
Norton Rose Fulbright US LLP
7676 Forsyth Blvd., Suite 2230
St. Louis, MO 63105
314-505-8805
jodi.adolf@nortonrosefulbright.com

ATTORNEYS FOR PETITIONER
Vicki Schmidt, Commissioner of Insurance

Exhibit A

MUTUAL AID EXCHANGE IN LIQUIDATION STATEMENT OF ASSETS AND LIABILITIES AS OF JUNE 30, 2024

ASSETS:

Type of Asset	Subtotal Column	Total
Cash		(221,950)
Short-term Investments		<u>9,354,108</u>
Deposits Held for States - at market		<u>3,016,837</u>
Bonds:		
U.S. Government, including mortgage backed	<u>1,392,951</u>	
U.S States, Political Subdivision, Special Revenue	<u>2,632,339</u>	
Industrial and Misc.	<u>10,799,833</u>	
MVA on Bonds	<u>(737,959)</u>	
Total Bonds		<u>14,087,164</u>
Stocks:		
Preferred	<u>-</u>	
Common	<u>5,005,686</u>	
MVA	<u>(3,426,555)</u>	
Total Stock		<u>1,579,131</u>
Advances to Guaranty Associations		<u>-</u>
Recoverable from Reinsurers:		
Paid Losses and LAE	<u>5,966,520</u>	
Known Case Loss and LAE Reserves	<u> </u>	
IBNR Loss and LAE Reserves	<u> </u>	
Unearned Ceded Premiums	<u>-</u>	
Contingent Commissions (If not claims)	<u> </u>	
MVA	<u> </u>	
Total Recoverable from Reinsurers		<u>5,966,520</u>
Federal Income Tax Recoverable		<u> </u>
Other Taxes Recoverable		<u> </u>
Salvage and Subrogation Recoverables		<u> </u>
Premiums Due and Accrued		<u> </u>
Agents' Balances		<u>178,714</u>
Receivable from Affiliates		<u> </u>
Accrued Investment Income		<u>92,151</u>
Total Unrestricted Assets		<u>34,052,675</u>
Restricted Assets		<u>34,960</u>
(Cash in escrow)		
Total Assets		<u>34,087,635</u>

MVA -- Market value adjustment.

**MUTUAL AID EXCHANGE IN LIQUIDATION
STATEMENT OF ASSETS AND LIABILITIES
AS OF JUNE 30, 2024**

LIABILITIES:

Type of Liability	Subtotal Column	Total
Secured claims		
Class 1 Administrative Claims:		
General Administrative Estimated Expenses	1,258,606	
Guaranty Association DCC	554,581	
Total Class 1 Claims		1,813,187
Class 2 Policy Benefit Claims:		
Unearned Premium	17,204,830	
Guaranty Fund Covered (claims)	19,371,792	
Guaranty Association Estimated Expenses	1,792,243	
Ancillary (Reserves)	4,601,080	
Total Class 2 Claims		42,969,946
Class 3 Federal Government		-
Class 4 Employee Compensation		-
Class 5 General Creditor Claims:		
Reinsurance Ceded	397,123	
Other General Creditor	601,413	
Total Class 5 Claims		998,536
Class 6 State & Local Government		
Class 7 Late Filed		
Class 8 Surplus Notes		-
Class 9 Ownership Related		-
 Total Liabilities		45,781,669
 Excess (Deficiency) of Assets Over Liabilities		(11,694,034)
 Total		34,087,635

Notes: The classifications shown above are from Kansas Insurance Code 40-3641.

MUTUAL AID EXCHANGE IN LIQUIDATION
STATEMENT OF ASSETS
AS OF AUGUST 22, 2023

ASSETS:

Type of Asset	Subtotal Column	Total
Cash		(780,753)
Short-term Investments		<u>4,376,390</u>
Deposits Held for Other States		<u>2,963,934</u>
Bonds:		
U.S. Government, including mortgage backed	5,352,729	
Industrials and Misc.	<u>8,888,508</u>	
Municipal/Non-revenue		
MVA on Bonds	<u>(1,896,829)</u>	
Total Bonds		<u>12,344,408</u>
Stocks:		
Preferred	-	
Common	<u>5,005,686</u>	
MVA	<u>(1,844,784)</u>	
Total Stock		<u>3,160,902</u>
Advances to Guaranty Associations		<u>-</u>
Recoverable from Reinsurers:		
Paid Losses and LAE	<u>4,175,990</u>	
Known Case Loss and LAE Reserves		
IBNR Loss and LAE Reserves		
Unearned Ceded Premiums	<u>4,463,836</u>	
Contingent Commissions (If not claims)		
MVA		
Total Recoverable from Reinsurers		<u>8,639,826</u>
Federal Income Tax Recoverable		
Other Taxes Recoverable		
Salvage and Subrogation Recoverables		
Premiums Due and Accrued		<u>2,137,724</u>
Agents' Balances		<u>-</u>
Receivable from Affiliates		
Accrued Investment Income		<u>104,216</u>
Other Assets:		
Asset 1		
Asset 2		
Asset 3		
Any applicable MVA or adj. for uncollectible		
Total Other Assets		
Total Unrestricted Assets		<u>32,946,648</u>
Restricted Assets		<u>-</u>
(Cash in escrow)		
Total Assets		<u>32,946,648</u>

MVA -- Market value adjustment.

Notes to the Financial Statements

Cash

Balance represents deposit accounts held at Commerce Bank, N.A.

Short-term Investments

Balance consists of two Exempt Money Market Mutual funds, one which is held in an account at Commerce Bank, N.A. and one at Fifth Third Bank

Deposit Held for Other States

Balance represents Bonds held as qualifying deposits for the benefit of policyholders in the following states: Kansas, Georgia, New Mexico, North Carolina, Virginia (stated at Market value)

Bonds

Bonds carried at fair market value held in custody at Fifth Third Bank

Stocks

MutualAid eXchange owns two common stocks:

30 shares of NAMIC Insurance Company Class B common stock purchased 7/24/2009 whose fair value at 6/30/2024 is \$10,265

Fully owned subsidiary, MII Management Group, Inc. which is carried at statutory equity value of \$2,655,465, less administrative expenses paid on behalf of MAX of \$1,086,599

Advances to Guaranty Associations

For the one month period from the date of liquidation of MutualAid eXchange until 9/22/2023, MAX was ordered to issue some loss and loss adjustment expenses payments that have been classified as Hardship payments. These payments were considered advances made to 15 state guaranty associations. Payments have been received from all.

Recoverable from Reinsurers

Recoverables from 25 reinsurers on the following reinsurance agreements:

Multiline Excess of Loss - 2019, 2022, 2023

Catastrophe Coverage - 2019, 2020, 2021, 2022, 2023

Quota Share - 2017-2023

Equipment Breakdown and Service Line

Aggregate Excess of Loss - 2020, 2021, 2022

Agent Balances

Balances due back from independent agents for direct written unearned commissions

Accrued Investment Income

Accrued interest on bonds

Restricted Cash

Balance held in escrow at Commerce Bank, N.A. related to sale of MAX Insurance Agency for future tax liabilities

Class 1 Administrative Claims

General Administrative Estimated Expenses - Accrued direct expenses of MAX for taxes in relation to sale of MAX Insurance Agency, Bank and investment fees, fees in association with the management of the liquidation of MAX (consulting, Deputy Receivers) and estimated expenses for the administration of the company through 2025.

Guaranty Association DCC Expenses - This line item represents Defense and Cost Containment expenses incurred as part of the settlement of individual claims as reported to the company by the State Guaranty funds

Class 2 Policy Benefit Claims

Unearned Premium - Return policyholder premiums paid directly by state guaranty associations or due for payment to direct policyholders

Guaranty Fund Covered Claims - Loss paid directly to claimants by state guaranty associations

Guaranty Association Estimated Expenses - This line item is under review and represents expenses expected to be reimbursed to state guaranty associations for the following:

Employee contractor expenses, legal, professional fees, travel/meeting expenses
office/rent/utilities, general office expenses, investment manager fees

Ancillary (Reserves) - Case outstanding loss and loss adjustment expenses including IBNR loss and loss adjustment expenses

Class 5 General Creditor Claims

Reinsurance ceded

Return ceded unearned premiums owed to reinsurers for the following reinsurance agreements:

2023 Multiline Excess of Loss

2023 Facultative

2023 Catastrophe

Reinstatement premium due reinsurers for 2020-2023 Catastrophe reinsurance agreements

Funds held balances received and held as funding from 4 unauthorized reinsurers

Other General Creditor

Amount of Proofs of Claim submitted and estimated State Insurance Bureaus TLF