

REPORT ON EXAMINATION
OF
ADVANCE INSURANCE COMPANY OF KANSAS
1133 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS 66629
AS OF
DECEMBER 31, 2022

FILED

February 28, 2024

VICKI SCHMIDT
Commissioner of Insurance

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Topeka, Kansas
February 6, 2024

Honorable Vicki Schmidt
Commissioner of Insurance
Kansas Insurance Department
1300 SW Arrowhead Rd
Topeka, Kansas 66604-4019

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222, an examination has been conducted of the financial condition and business affairs of:

ADVANCE INSURANCE COMPANY OF KANSAS

with its statutory home office and main administrative office at:

**1133 SOUTHWEST TOPEKA BOULEVARD
TOPEKA, KANSAS 66629**

hereinafter referred to as the “Company” or “AICK.” The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a single-state financial examination of the Company, a Kansas-domiciled life insurance company. The last examination covered the four-year period from January 1, 2015, through December 31, 2018. This examination covers the four-year period from January 1, 2019, through December 31, 2022. Concurrent financial examinations were performed as of December 31, 2022, on the Company’s affiliates: Blue Cross and Blue Shield of Kansas, Inc. (“BCBSKS”), BlueCross BlueShield Kansas Solutions, Inc. (“Solutions”), and Cerulean Vega Captive, Inc. (“Vega”).

The examination was conducted in accordance with the rules, regulations, and

directives of the Kansas Insurance Department (“Department”) and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that the examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles.

Those activities considered in the examination as key or critical to AICK included Capital and Surplus, Claims and Reserving, Investments, Premium/Underwriting, Reinsurance, and Related Party. The examination also included a review and evaluation of information technology general controls.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment is documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Independent Audit Reports

Financial statements of the Company were audited by Eide Bailly LLP of Fargo, North Dakota for the years ending December 31, 2019, through December 31, 2022. In each of the years under examination, the auditors concluded that the financial statements of the Company present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2022, and the results of its operations and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Department.

The independent auditor's workpapers were reviewed and analyzed by the examiners. Significant reliance was placed on select workpapers during this examination.

Actuarial Review

Michael E. Weilant, FSA, MAAA, of Milliman, Inc. of Tampa, Florida was retained as the appointed actuary to perform a review of the Company's actuarial practices and reserves as of December 31, 2022. The appointed actuary's review consisted of evaluating assumptions, methodologies, and calculations utilized by the Company in its reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings of fact that warranted inclusion in this Report of Examination.

COMPANY HISTORY

General

Advance Insurance Company of Kansas, a capital stock life insurance company, was incorporated on June 24, 2004, and commenced business July 22, 2004. AICK is a wholly owned subsidiary of BCBSKS and is the direct parent of Kansas Group Insurance Services, Inc. (“KGIS”), a life insurance agency.

On October 1, 2004, the Kansas business of Advance Insurance Company (“AIC”), an Arizona domiciled life insurance company owned by BCBSKS, was transferred via a reinsurance assumption agreement to AICK. All non-Kansas business produced by AIC in other states was cancelled. The assets and liabilities subject to the reinsurance assumption were transferred to AICK, including AIC’s investment in KGIS, with no gain or loss being reported by either party. AICK sent novation notices to all policyholders of the assumed contracts, thereby extinguishing any further liability by AIC. Concurrent with the reinsurance transaction, BCBSKS transferred its investment in AIC to AICK as an additional noncash capital contribution. On June 30, 2006, AICK sold its interest in AIC to The Wellcare Management Group, Inc.

Capital Stock

As of December 31, 2022, the Company had 6,000,000 shares of common stock authorized, and 300,000 shares issued and outstanding, with a par value of \$2.00 per share. The Company has 280,000 shares of preferred stock authorized at \$100.00 par value per share with none issued and outstanding.

As of December 31, 2022, BCBSKS owns 100% of the Company’s outstanding common stock.

Dividends and Capital Contributions

There were no capital contributions made nor dividends paid during the examination period.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the articles of incorporation or the bylaws during the examination period.

MANAGEMENT AND CONTROL

Ownership

AICK is a capital stock life insurance company organized under the Laws of Kansas. AICK is a wholly owned subsidiary of BCBSKS.

Board of Directors

The Company's bylaws consist of nine (9) articles that provide the framework for the operation, management, and control of the Company. The Company is managed under the direction of its board of directors ("Board").

Pursuant to the Company's bylaws, the Board should consist of at least five (5) directors. At the annual meeting, the stockholders shall elect directors, each of whom will hold office for a term of one year or until a successor is elected and qualified or until such director's earlier resignation or removal.

The directors elected and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Principal Occupation and Business Affiliation</u>
Carolyn R. Banning	CPA/PFS - CWS (Retired) Smoll & Banning, CPAs, LLC

Gregory V. Binns	President and Chief Operating Officer (Retired) First National Bank of Hutchinson
Jennifer L. Brull, M.D.	Chief Executive Officer and Owner Prairie Star Family Practice
Jena K. Lysen	Director, Human Resources Martin, Pringle, Oliver, Wallace & Bauer, LLP
Kenneth W. Winter	General Manager Lariat Feeders, LLC
Angela N. Wilson, D.D.S.	Founding Partner Southwind Periodontics & Dental Implants, P.A.

Committees

The Company has not established any committees of its own as of December 31, 2022. However, AICK may delegate certain matters to the committees established by its parent, BCBSKS.

Officers

Pursuant to the bylaws, the Company will have a Chairman, President, and Vice-President, who shall be elected by the Board; and a Secretary and Treasurer who shall be appointed by the Board and such other officers and assistant officers as may be deemed necessary may be appointed by the Board. The bylaws direct the Board to elect and appoint the officers at the first meeting of the Board held after each annual meeting of the shareholders. Each officer shall hold office until his successor is elected or appointed, or until his death, resignation, or removal.

The Board members elected and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Office</u>
Matthew D. All	Chairman
Treena S. Mason	President
Jeffrey C. Bergman	Treasurer

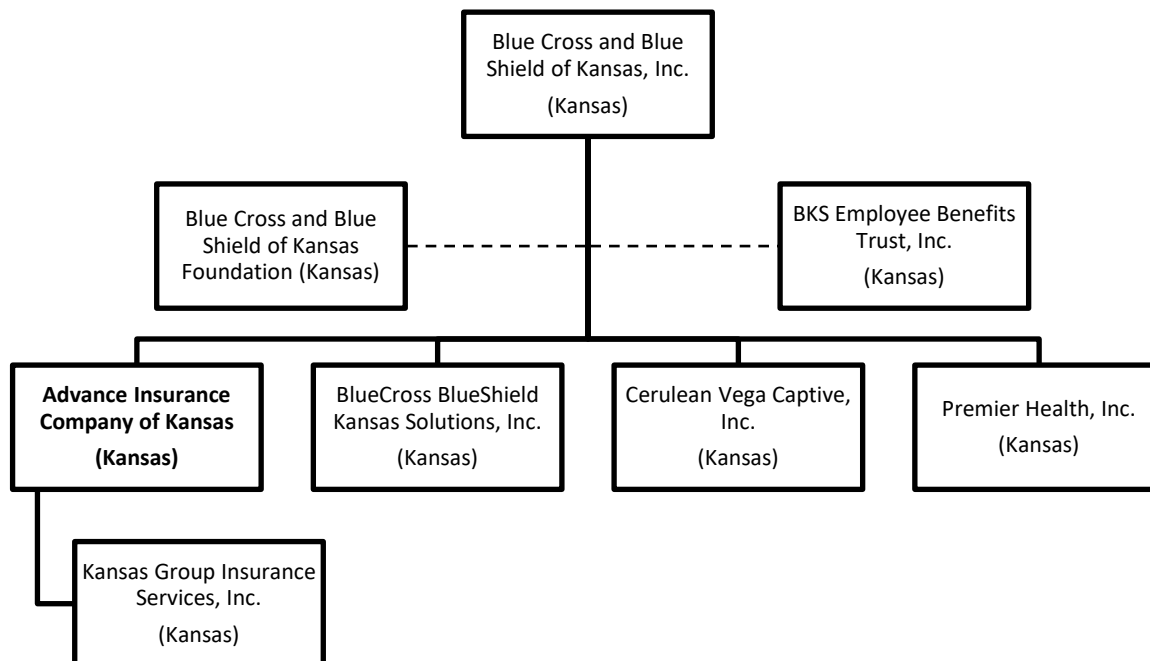
Shelley H. King Secretary
Michael G. Eichten Chief Operating Officer and Vice President

INSURANCE HOLDING COMPANY SYSTEM

K.S.A. 40-3305 requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Forms “B” and “C” registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the items and events pertaining to the Company were properly reported as required by statute.

The Company is a wholly owned subsidiary of BCBSKS and wholly owns Kansas Group Insurance Services, Inc., a non-insurer Kansas corporation. BCBSKS, the ultimate controlling person of the insurer holding company system, has three direct wholly owned insurance subsidiaries: Solutions, AICK, and Vega. BCBSKS directly owns Premier Health, Inc., a Kansas non-profit entity that is currently inactive, and is also indirectly associated with Blue Cross and Blue Shield of Kansas Foundation, Inc., a charitable organization with a mission to promote health and well-being in the state of Kansas. BCBSKS has no ownership interest in the Foundation. BCBSKS sponsors the BKS Employee Benefits Trust, Inc., a voluntary employee beneficiary association, which provides medical, prescription drug, and dental coverage to eligible members. Vega was established to insure the risks of BCBSKS.

The abbreviated organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2022. All entities are wholly owned by the parent, BCBSKS. The Kansas domiciled insurer is bolded below.



Intercompany/Cost Sharing Agreements

The following is a brief description of significant agreements executed with affiliated entities that were in effect as of December 31, 2022.

Administrative Services Agreement

Effective July 1, 2014, the Company entered into an Agreement for Services and Reimbursement of Costs with BCBSKS. Under the terms of the agreement, BCBSKS provides various services, including but not limited to, data processing, marketing enrollment, legal, financial, actuarial, underwriting, investing, and claims adjudication. The Company reimburses BCBSKS monthly for the services provided, based on a budgeted pre-set amount, in addition to the reimbursement for other miscellaneous expenses directly incurred. Pursuant to the agreement, the Company paid \$3,418,908, \$3,564,575, \$3,668,067, and \$3,703,500 to BCBSKS in 2019, 2020, 2021, and 2022 respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company is authorized to transact business only in Kansas. AICK provides life, short and long-term disability coverages, and the voluntary counterparts for each of these products primarily for the group ancillary market. As of December 31, 2022, the Company's largest lines of direct written premium were group life at 53.6%, group accident and health at 35.7%, and ordinary life business at 10.7%. The Company utilizes a combination of an internal sales team, independent agents, and commercial brokers to generate premium.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2019, through December 31, 2022. The financial amounts were obtained from annual statements filed by the Company.

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<i>(\$000 omitted)</i>				
Admitted Assets	\$65,689	\$71,923	\$78,412	\$72,839
Liabilities	10,401	13,338	14,903	8,305
Capital and Surplus	55,287	58,585	63,510	64,534
Net Income (Loss)	2,941	1,418	5,380	1,675
Net Premium Written	\$11,149	\$11,335	\$11,621	\$11,857

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2019	2020	2021	2022
Direct Premiums Written	\$ 12,057	\$ 12,297	\$ 12,683	\$ 12,919
Reinsurance Assumed	0	0	0	0
Reinsurance Ceded:	(909)	(961)	(1,062)	(1,061)
Net Premiums Written	\$ 11,148	\$ 11,336	\$ 11,621	\$ 11,858

Assumed Reinsurance

The Company did not assume any business during the period under examination.

Ceded Reinsurance

As of December 31, 2022, the Company cedes business to two reinsurance carriers, Hartford Life & Accident Insurance Company (“Hartford”) and Swiss Re Life & Health America, Inc. (“Swiss Re”).

Hartford assumes an 80% quota share of the Company’s fully insured group long-term disability (“LTD”) plans up to \$5,000 per month per covered insured, plus 100% quota share of the contracted liability beyond the \$5,000 limitation. Hartford has provided the claims administration of this business since the inception of the agreement on January 1, 2000, pursuant to a separate administrative services agreement.

The Company also has an automatic group reinsurance agreement with Swiss Re. Pursuant to the agreement, the Company cedes 100% of the excess over their retention up to the specified automatic acceptance limit of \$1,000,000 for the following products: group life, group accidental death and dismemberment, group voluntary life, and group voluntary accidental death and dismemberment. The Company retains \$250,000 on group life and group accidental death and dismemberment policies, and \$100,000 on group voluntary life and group voluntary accidental death and dismemberment policies. The Company also cedes 90% of the first dollar quota share basis up to a maximum automatic accepted limit of \$500,000 on their stand-alone voluntary accidental death and

dismemberment policies. Additionally, the agreement with Swiss Re provides for facultative cessions of coverage which do not qualify for automatic acceptance or in cases where the Company does not wish to cede on an automatic basis.

All reinsurance agreements in effect during the examination contained insolvency and cancellation clauses as required by K.S.A. 40-221a. All reinsurance agreements reviewed provided for the transfer of risk. However, the Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event an assuming reinsurer fails to perform its obligations under the reinsurance contract.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2022. There were no adjustments to the Company's filed statutory financial statements as a result of this examination.

ADVANCE INSURANCE COMPANY OF KANSAS
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2022

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$44,498,736	\$ -	\$44,498,736
Common stocks	23,671,707	-	23,671,707
Cash and cash equivalent	3,924,447	-	3,924,447
Receivables for securities	2,910	-	2,910
Investment income due and accrued	243,527	-	243,527
Uncollected premiums, and agents' balances in the course of collection	(26,832)		(26,832)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	295,374		295,374
Amounts recoverable from reinsurers	44,679		44,679
Amounts receivable relating to uninsured plans	9,112		9,112
Current federal and foreign income tax recoverable and interest	133,362		133,362
Guaranty funds receivable or on Deposit	8,737	-	8,737
Health care and other amounts Receivable	5,998	5,998	-
Aggregate write-ins for other-than invested assets	107,260	74,335	32,925
Total	\$72,919,017	\$80,333	\$72,838,684

**ADVANCE INSURANCE COMPANY OF KANSAS
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2022**

Aggregate reserve life contracts	\$ 981,179
Aggregate reserve for accident and health contracts	1,036,159
Contract claims:	
Life	1,067,060
Accident and health	344,469
Premiums and annuity considerations for life and accident and health contracts received in advance	312,100
Interest maintenance reserve	818,833
Commissions to agents due or accrued	14,692
General expenses due or accrued	39,390
Taxes, licenses and fees	6,353
Net deferred tax liability	246,277
Remittances and items not allocated	109,862
Asset valuation reserve	2,389,209
Payable to parent, subsidiaries, and affiliates	308,833
Liability for amounts held under uninsured plans	11,380
Payable for securities	618,867
Total liabilities	<u>8,304,663</u>
Common capital stock	600,000
Gross paid in and contributed surplus	17,710,218
Unassigned funds (surplus)	46,223,803
Surplus	<u>63,934,021</u>
Totals	<u>64,534,021</u>
Total liabilities, surplus and other funds	<u><u>\$72,838,684</u></u>

**ADVANCE INSURANCE COMPANY OF KANSAS
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Premiums and annuity considerations for life and accident and health contracts	\$11,857,063
Net investment income	1,181,920
Amortization of Interest Maintenance Reserve	109,907
Commissions and expenses allowances on reinsurance ceded	10,952
Totals	<u>13,159,842</u>
Death benefits	6,051,166
Disability benefits and benefits under accident and health contracts	1,879,172
Increase in aggregate reserves for life and accident and health contracts	(300,951)
Totals	<u>7,629,387</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds	333,912
General insurance expenses and fraternal expenses	3,385,775
Insurance taxes, licenses and fees, excluding federal income taxes	424,566
Increase in loading on deferred and uncollected premiums	(3,421)
Totals	<u>11,770,219</u>
Net gain from operations before dividends to policyholders, refunds to members and federal income taxes	1,389,623
Net gain from operations after dividends to policyholders, refunds to members and before federal income taxes	1,389,623
Federal and foreign income taxes incurred	197,750
Net gain from operations after dividends to policyholders, refunds to members and federal income taxes and before realized capital gains or (losses)	<u>1,191,873</u>
Net realized capital gains (losses)	483,112
Net income	<u>\$ 1,674,985</u>

**ADVANCE INSURANCE COMPANY OF KANSAS
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Capital and surplus, December 31, prior year	\$49,932,028	\$55,287,160	\$58,585,484	\$63,509,723
Net income (loss)	2,941,168	1,417,669	5,380,175	1,674,985
Change in net unrealized capital gains or (losses)	3,377,765	2,606,246	637,381	(4,548,787)
Change in net deferred income tax	(10,846)	13,571	14,036	2,720
Change in nonadmitted assets	3,917	(24,473)	(63,297)	25,391
Change in asset valuation reserve	(956,872)	(714,689)	(1,044,056)	3,869,989
Net change in capital and surplus for the year	<u>5,355,132</u>	<u>3,298,324</u>	<u>4,924,239</u>	<u>1,024,298</u>
Capital and surplus, December 31, current year	<u>\$55,287,160</u>	<u>\$58,585,484</u>	<u>\$63,509,723</u>	<u>\$64,534,021</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

No adjustments were made to surplus as a result of this examination. The capital and surplus of the Company as of December 31, 2022, was \$64,534,021, which was the same amount reported by the Company in its 2022 filed Annual Statement.

COMMENTS ON FINANCIAL STATEMENTS

There were no significant or material findings resulting from the examination that warranted inclusion in this Report on Examination.

SUMMARY OF RECOMMENDATIONS

No recommendations for the Company were identified that warranted inclusion in this Report on Examination.

CONCLUSION

The assistance and cooperation by the officers of the Company during this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kyra Brown, MBA, ARC, Senior Examiner; Delia Geyer, Staff Examiner; Dennis Schaeffer, CISSP, CISA, IT Supervising Senior Manager; TJ Helm, CPA, CISA, Senior IT Examiner; Chandini Kannan, IT Examiner; Neal Freedman, FSA, MAAA, Actuarial Manager; Jake Powell, Senior Actuary Consultant; Nathan Bolles, Actuary Consultant all of whom are Baker Tilly, US, LLP associates, participated in this examination.


Respectfully submitted,



Kelsey Barlow, MBA, CFE, PIR
Examiner-in-Charge
Baker Tilly, US, LLP., representing the Kansas
Insurance Department

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.

A handwritten signature in black ink, reading "Levi Nwasoria", written in a cursive style. The signature is positioned above a horizontal line.

Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance
Department

EXHIBIT S
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

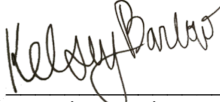
State of Pennsylvania ,

County of Philadelphia ,

Kelsey Barlow , being duly sworn, states as follows:

1. I have authority to represent the Kansas Insurance Department in the examination of Advance Insurance Company of Kansas.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Advance Insurance Company of Kansas was performed in a manner consistent with the standards and procedures required by K.S.A 40-222.

The affiant says nothing further.

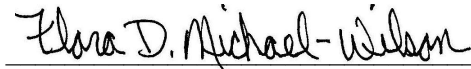


Examiner's Signature

Subscribed and sworn before me by Kelsey Barlow on this 22nd day of February, 20 24 .

(SEAL)

Commonwealth of Pennsylvania - Notary Seal
FLORA D MICHAEL-WILSON - Notary Public
Philadelphia County
My Commission Expires July 18, 2024
Commission Number 1221007



Flora D. Michael-Wilson, Notary Public

My commission expires July 18, 2024 [date].