

REPORT ON EXAMINATION
OF
ADVANCE INSURANCE COMPANY OF KANSAS
1133 SW TOPEKA BOULEVARD
TOPEKA, KANSAS 66629
AS OF
DECEMBER 31, 2018

FILED

OCT 06 2020

VICKI SCHMIDT
Commissioner of Insurance

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE NUMBER</u>
SALUTATION.....	1
SCOPE OF EXAMINATION	1
Independent Audit Reports.....	2
Actuarial Review.....	3
SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	4
Capital Stock	4
MANAGEMENT AND CONTROL.....	5
Board of Directors.....	5
Committees	6
Officers	6
INSURANCE HOLDING COMPANY SYSTEM	6
Intercompany/Cost Sharing Agreements	8
TERRITORY AND PLAN OF OPERATION.....	8
SELECT FINANCIAL INFORMATION.....	8
REINSURANCE	9
FINANCIAL STATEMENTS	10
Assets.....	11
Liabilities, Surplus and Other Funds.....	12
Summary of Operations.....	13
Capital and Surplus Account	14
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....	15
COMMENTS ON FINANCIAL STATEMENTS	15
SUBSEQUENT EVENTS	15
SUMMARY OF RECOMMENDATIONS.....	15
CONCLUSION	16

Topeka, Kansas
June 24, 2020

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

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 and main administrative office at:

**1133 SW 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 performed a single state financial examination of Advance Insurance Company of Kansas, a Kansas domiciled life insurance company. The last examination covered the four-year period from January 1, 2011, through December 31, 2014. This examination covers the four-year period from January 1, 2015, through December 31, 2018. Concurrent financial examinations were performed as of December 31, 2018, on Blue Cross and Blue Shield of Kansas, Inc. ("BCBSKS"), the ultimate parent company, and BlueCross BlueShield Kansas Solutions, Inc. ("Solutions"), an affiliated company.

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. 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 for the years ending December 31, 2015, through December 31, 2018. 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, the results of its operations, and its cash flows in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners; whereby significant reliance was placed on select work papers during the course of this examination.

Actuarial Review

The Department retained the services of Risk and Regulatory Consulting, LLC ("RRC"), in order to perform a review of the Company's actuarial practices. RRC's review consisted of evaluating certain assumptions, methodologies, and calculations utilized by the Company in the reserve setting process.

SUMMARY OF SIGNIFICANT FINDINGS

1. The Company did not notify the Commissioner of Insurance ("Commissioner") of its entry into an administrative services agreement with another member of its insurance holding company system, BCBSKS, in accordance with K.S.A. 40-3306(b)(4). The Company entered into an administrative services agreement with its ultimate controlling person, BCBSKS, effective July 7, 2014; however, they failed to notify the Commissioner in writing of their intent to enter into this transaction at least 30 days prior to doing so as is required under K.S.A. 40-3306(b)(4). The agreement remains unfiled with the Commissioner as of the filing of this report.

The Company shall file the noted agreement with the Commissioner to obtain proper approval. Additionally, the Company shall comply with K.S.A. 40-3306(b)

by providing proper notification to the Commissioner prior to entering into any future transactions subject to the requirements of the statute.

COMPANY HISTORY

Advance Insurance Company of Kansas, is a capital stock life insurance company that was incorporated on June 24, 2004, and commenced business July 22, 2004. The Company 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 also owned by BCBSKS, was transferred via a reinsurance assumption agreement to the Company. All non-Kansas business produced by AIC in other states was cancelled. Those assets and liabilities connected to the reinsurance assumption, including AIC's investment in KGIS, were transferred to the Company as a result of the reinsurance transaction, with no gain or loss being reported by either party. The Company sent novation notices to all policyholders of the assumed contracts, thereby concluding further liability by AIC. Concurrent with the reinsurance transaction, BCBSKS transferred its investment in AIC to the Company as an additional noncash capital contribution. On June 30, 2006, the Company sold its interest in AIC to The Wellcare Management Group, Inc.

Capital Stock

The Company's articles of incorporation authorize the issuance of six million (6,000,000) shares of common capital stock at \$2.00 par value per share and two hundred eighty thousand (280,000) shares of preferred stock at \$100.00 par value per share. As of December 31, 2018, the Company had three hundred thousand (300,000) shares of common stock issued and outstanding, contributing an initial paid-up capital of \$600,000

with a gross paid-in and contributed surplus of \$17,710,218. All outstanding shares are owned by BCBSKS. As of December 31, 2018, no shares of preferred stock were issued and outstanding.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the Company's bylaws, the business and affairs of the Company shall be managed by its board of directors ("board"). The board is to be comprised of at least five (5) directors who are to be elected by the shareholders. Each director holds office until the next annual meeting of the shareholders and until his successor has been elected and qualified.

The following is a listing of directors and their position(s) held as of December 31, 2018:

<u>Name</u>	<u>Position(s) Held</u>
Gregory V. Binns	President and Chief Operating Officer First National Bank of Hutchinson
Carolyn R. Banning	Member Smoll & Banning, CPA, LLC
Jennifer L. Brull, M.D.	Chief Executive Officer Prairie Star Family Practice
Jena K. Lysen	Vice President of Human Resources Allen, Gibbs & Houlik, LC
Angela N. Wilson, D.D.S.	Partner Edwards & Wilson Periodontics, PA
Kenneth W. Winter	General Manager Lariat Feeders, LLC

Committees

The Company has not established any committees of its own as of December 31, 2018. However, the Company may delegate certain matters to the committees established by its parent, BCBSKS.

Officers

Pursuant to the Company's bylaws, the officers of the Company are to be a chairman, president, and vice president, who shall be elected by the board; and a secretary and treasurer to be appointed by the board. The bylaws allow for the board to appoint other officers and assistant officers as may be deemed necessary. All officers are appointed on an annual basis.

The following is a listing of officers and their position(s) held as of December 31, 2018:

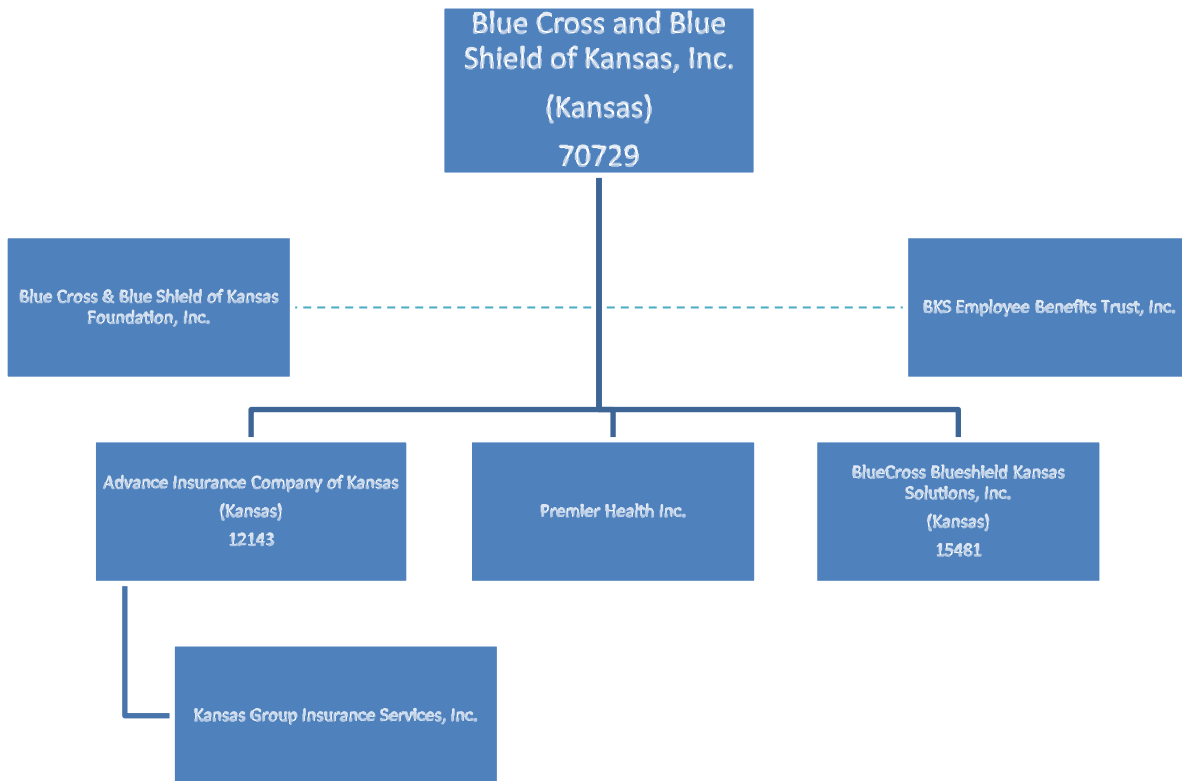
<u>Name</u>	<u>Position(s) Held</u>
Matthew D. All	Chairman
Treena S. Mason	President
Michael G. Eichten	Vice President & Chief Operating Officer
Ronald D. Simmons	Treasurer
Shelley H. King	Secretary

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 Form "B" and "C" registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute with the exception of the issue noted in the "Summary of Significant Findings" section above.

BCBSKS is the ultimate parent of the insurance holding company system, of which the Company, is a part. The Company is a wholly-owned subsidiary of BCBSKS. BCBSKS is the direct parent of Solutions, Premier Health, Inc., an inactive corporation, and is the indirect parent of KGIS. BCBSKS is also affiliated 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, and BKS Employee Benefits Trust, Inc., a voluntary employee beneficiary association, which provides medical, prescription drug, and dental coverage to eligible members.

The organizational chart below illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2018.



Intercompany/Cost Sharing Agreements

Effective July 7, 2014, the Company entered into an Administrative Services Agreement 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. For the services provided, the Company reimburses BCBSKS monthly, based on a budgeted pre-set amount, in addition to the reimbursement for other miscellaneous expenses directly incurred.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company is authorized to transact business only in the state of Kansas. AICK provides a full array of life, short and long-term disability coverages, and the voluntary counter parts for each of these products primarily for the group ancillary market. As of December 31, 2018, the Company's largest lines of business by percentage of direct premium written are as follows: group life (54%), group accident and health (34%), and ordinary life business (12%).

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2014, through December 31, 2018. The financial amounts were obtained from annual statements filed by the Company.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<i>(in thousands)</i>					
Admitted Assets	53,515	53,972	56,008	59,730	58,287
Liabilities	9,564	8,638	9,170	9,997	8,355
Capital and Surplus	43,951	45,334	46,838	49,733	49,932
Net Income	2,925	2,164	1,315	2,714	1,818
Net Premium Earned	9,878	10,570	10,775	10,925	10,873

REINSURANCE

As of December 31, 2018, 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% on a 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. The agreement with Swiss Re also 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.

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, 2018. Any accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Statement and should be considered an integral part of the financial statements.

ADVANCE INSURANCE COMPANY OF KANSAS
ASSETS
AS OF DECEMBER 31, 2018

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 38,615,545	\$ -	\$ 38,615,545
Common stocks	17,399,458	-	17,399,458
Cash and cash equivalents	1,567,467	-	1,567,467
Receivable for securities	88,080	-	88,080
Investment income due & accrued	234,593	-	234,593
Uncollected premiums and agents' balances in the course of collection	(20,172)	-	(20,172)
Deferred premiums agents' balances and installments booked but deferred and not yet due	278,839	-	278,839
Amounts recoverable from reinsurers	39,492	-	39,492
Amounts receivable relating to uninsured plans	9,161	-	9,161
Net deferred tax asset	16,256	-	16,256
Guaranty funds receivable or on deposit	36,231	-	36,231
Health care and other amounts receivable	8,186	8,186	-
Aggregate write-ins for other than invested assets	36,212	13,685	22,527
Totals	<u>\$ 58,309,348</u>	<u>\$ 21,871</u>	<u>\$ 58,287,477</u>

**ADVANCE INSURANCE COMPANY OF KANSAS
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2018**

Aggregate reserve for life contracts	\$ 1,311,477
Aggregate reserve for accident and health contracts	733,948
Contract claims - life	878,816
Contract claims - accident and health	318,211
Premiums and annuity considerations for life and accident and health contracts received in advance	319,891
Interest maintenance reserve	481,070
Commissions to agents due to accrued	22,773
General expenses due to accrued	338,935
Taxes, licenses and fees due or accrued	3,616
Current federal and foreign income taxes	66,621
Remittances and items not allocated	79,556
Asset valuation reserve	3,543,581
Liability for amounts held under uninsured plans	9,075
Payable for securities	247,879
Total liabilities	<u>\$ 8,355,449</u>
Common capital stock	\$ 600,000
Gross paid in and contributed surplus	17,710,218
Unassigned funds	31,621,810
Total capital and surplus	<u>\$ 49,932,028</u>
Total liabilities, capital and surplus	<u><u>\$ 58,287,477</u></u>

**ADVANCE INSURANCE COMPANY OF KANSAS
SUMMARY OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Premiums and annuity considerations for life and accident and health contracts	\$ 10,873,096
Net investment income	1,223,769
Amortization of interest maintenance reserve	114,923
Commissions and expense allowances on reinsurance ceded	9,363
Aggregate write-ins for miscellaneous income	3,961
Totals	<u>\$ 12,225,112</u>
Death benefits	\$ 5,006,638
Disability benefits and benefits under accident and health contracts	1,598,355
Surrender benefits and withdrawals for life contracts	8,951
Increase in aggregate reserves for life and accident and health contracts	(41,045)
Totals	<u>\$ 6,572,899</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 245,938
General insurance expenses	3,499,404
Insurance taxes, licenses and fees	418,180
Increase in loading on deferred and uncollected premiums	(5,671)
Totals	<u>\$ 10,730,750</u>
Net gain from operations after dividends to policyholders and before federal income taxes	\$ 1,494,362
Federal income taxes incurred	277,373
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	\$ 1,216,989
Net realized capital gains	600,869
Net income	<u>\$ 1,817,858</u>

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

Surplus as regards policyholders, December 31, 2014			<u>\$43,951,632</u>
Net income	2015	2,163,902	
	2016	1,315,280	
	2017	2,713,918	
	2018	<u>1,817,858</u>	8,010,958
Change in net unrealized capital gains or (losses)	2015	(1,525,896)	
	2016	392,615	
	2017	589,838	
	2018	<u>(1,972,201)</u>	(2,515,644)
Change in net deferred income tax	2015	491,081	
	2016	(94,746)	
	2017	148,197	
	2018	<u>29,937</u>	574,469
Change in nonadmitted assets	2015	(18,806)	
	2016	11,417	
	2017	12,488	
	2018	<u>1,103</u>	6,202
Change in reserve on account of change in valuation basis	2015	-	
	2016	(28,326)	
	2017	-	
	2018	<u>-</u>	(28,326)
Change in asset valuation reserve	2015	271,623	
	2016	(92,310)	
	2017	(569,011)	
	2018	<u>322,435</u>	<u>(67,263)</u>
Surplus as regards policyholders, December 31, 2018			<u><u>\$49,932,028</u></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, 2018, was \$49,932,028, which was the same amount reported by the Company in its 2018 Annual Statement filed with the Department.

COMMENTS ON FINANCIAL STATEMENTS

No comments on the financial statements were identified that warranted inclusion in this Report on Examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the spreading coronavirus (“COVID-19”) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets. The full effect of COVID-19 on the Company is still unknown at the time of releasing this report.

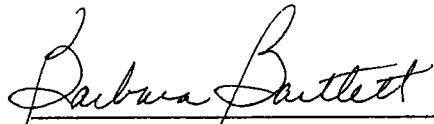
SUMMARY OF RECOMMENDATIONS

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

CONCLUSION

The officers of the Company provided the required assistance and cooperation during the course of this examination. In addition to the undersigned, Jan Moenck, CFE, CIA, CBA, CFSA – Partner and Exam Supervisor; Alex Pirie, CFE, CPA, CMA, CIA, CFE (Fraud) – Financial Examiner; Wyatt Sample, CFE, CPA – Financial Examiner; Sara Schumacher, CPA, CFE, CPCU, CIE, MCM – Financial Examiner; Natalie Henley, AFE, CPA – Financial Examiner; Michael Maertz, CISA, CRISC – Manager and IT Specialist; David Hall, CISA, CPA – Manager and IT Specialist; LeeAnne Creevy, CPA, CISA, CITP, CRMA, MCM – Partner and IT Review; Becky Sheppard, FSA, MAAA – Actuarial Specialist; and Tricia Matson, FSA, MAA – Partner and Actuarial Review; all from RRC, representing the Kansas Insurance Department, participated in this examination.

Respectfully submitted,



Barbara Bartlett, CPA, MBA, CFE
Manager
Examiner-in-Charge
Risk & Regulatory Consulting, LLC



Joseph McGarry, CFE, CPCU, CIA, CFE, PIR
Department Designee
Chief Examiner
Kansas Insurance Department

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

State of Missouri,

County of Caldwell,

Barbara A. Bartlett, 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.

Barbara A. Bartlett
Examiner's Signature

Subscribed and sworn before me by Jessica E. Green on this 25 day of Sept., 2020.

(SEAL)

Jessica E. Green
Notary Public

My commission expires July 19, 2022 [date].



JESSICA E. GREEN
My Commission Expires
July 19, 2022
Caldwell County
Commission #14996514