

REPORT ON EXAMINATION
OF
KEY INSURANCE COMPANY
8595 COLLEGE BLVD., SUITE 200
OVERLAND PARK, KANSAS 66210
AS OF
DECEMBER 31, 2020

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Overland Park, KS
April 21, 2022

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:

KEY INSURANCE COMPANY

with its statutory home office and main administrative office at:

**8595 COLLEGE BLVD., SUITE 200
OVERLAND PARK, KANSAS 66210**

hereinafter referred to as the "Company" or "Key". The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of Key Insurance Company, a Kansas domiciled property and casualty insurance company. The last examination covered the five-year period from January 1, 2011 through December 31, 2015. This examination covers the five-year period from January 1, 2016 through December 31, 2020.

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 MarksNelson, Kansas City, Missouri, for the years ending December 31, 2016 through December 31, 2020. 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, 2020 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

The Company's Appointed Actuary who issued the December 31, 2020 Statement of Actuarial Opinion was Eric M. Mann, FCAS, MAAA, Principal Consulting Actuary of Streff Insurance Services, Overland Park, Kansas.

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were noted during the examination.

COMPANY HISTORY

General

The Company was incorporated on March 22, 2007, as a stock property and casualty insurance company under the provisions of K.S.A. 40-301 et seq., and K.S.A. 40-1101 et seq. Key was organized as a for-profit company as set forth in its articles of incorporation ("articles"). The articles provide for a perpetual existence.

Capital Stock

The Company's articles authorize the issuance of 10,000 shares of \$1,000 par value common stock. As of December 31, 2020, 2,500 shares had been issued and were outstanding, resulting in a total paid-up common capital stock amount of \$2,500,000. Med James, Inc. ("MJ") owns 100% of the issued and outstanding shares of the Company.

Capital Contributions

The Company issued a \$1,500,000 surplus note on December 22, 2016 to MJ.

Principal and interest will be repaid out of the Company's earned surplus. All surplus note interest and/or principal payments require prior approval from the Department pursuant to SSAP No. 41R. No payments have been made to date.

CORPORATE RECORDS

A review of the Company's bylaws and articles of incorporation determined there were no amendments made during the period under examination.

MANAGEMENT AND CONTROL

Stockholder

The Company is controlled by its sole stockholder, MJI, and managed by a Board of Directors ("Board").

Board of Directors

Key's bylaws consist of nine articles that provide the framework for the operation, management and control of this domestic stock property and casualty insurance company. The Board consists of no less than five and no more than fifteen persons, the majority of whom are residents of Kansas. The directors are to hold office until successors are elected and qualified to serve. If a vacancy occurs, a majority of the directors in office will elect a successor to serve until the next annual meeting, or a special shareholder meeting will be called at which time a successor will be elected to fill the unexpired term. Members of the Board also serve as members of the audit committee. The following is a listing of directors and their position(s) held as of December 31, 2020:

<u>Name</u>	<u>Position(s) Held</u>
Med David James, III	President and Chief Executive Officer/Chairman, Med James, Inc.

Melanie Denise French	Senior Vice President & Chief Operating Officer, Key Insurance Company
Leonard James Gragson	Vice President, Claims, Key Insurance Company
Jonas Franklin Hummer*	Retired Med James, Inc.
David Scott Karpowich	Treasurer, Chief Financial Officer and Secretary, Med James, Inc.
John Velmar Spain	Retired Supermarket Insurance Group

*Note: Jonas Hummer retired from the Board as of April 2021.

Committees

The Company's bylaws indicate that the Board may designate one or more committees of the Board. The Board has established an audit committee. The full membership of the Board of Directors serves on the audit committee.

Officers

Pursuant to the bylaws, the officers of the Company are to be a chairman of the board, a president, one or more vice presidents, a secretary, a treasurer, one or more assistant secretaries and one or more assistant treasurers. The following is a listing of officers and their position(s) held as of December 31, 2020.

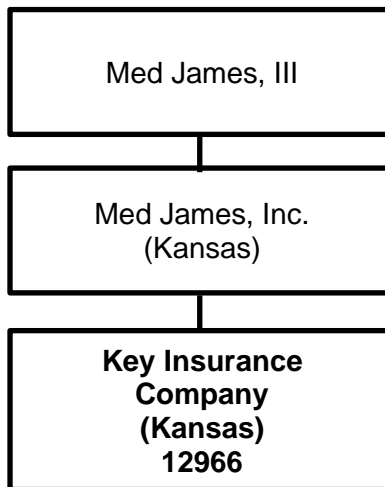
Name	<u>Position(s) Held</u>
Med David James, III	President, Chief Executive Officer & Chairman
David Scott Karpowich	Treasurer, Chief Financial Officer & Secretary
Melanie Denise French	Senior Vice President & Chief Operating Officer
Leonard James Gragson	Vice President, Claims

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 following organizational chart below illustrates and identifies the intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2020:



Key is a Kansas company wholly-owned directly by Med James, Inc. (MJI) and ultimately owned by Med James III, a private individual, with offices located in Overland Park, Kansas.

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, 2020:

Surplus Note: On December 22, 2016, the Company issued a surplus note to MJI for \$1,500,000, with interest accruing at 4.5%. In accordance with the surplus note, all payments of principal and interest are subject to the Commissioner's approval. No payments can be made without prior consent from the Department. In accordance with

SSAP No. 41R, the surplus note qualified as a component of capital and surplus. No payments have been made to date. The surplus note agreement maturity date was extended to December 31, 2023.

Management Service Agreement: Effective January 1, 2010, amended January 1, 2016 and July 1, 2020, MJJ and Key entered into a management service agreement whereby MJJ provides various services to Key, including general supervisory and management, human resources, accounting, marketing services, IT services, technologies, and premium processing services. For these services, Key pays MJJ a management fee based on the estimated amount of hours necessary to perform the services. As fees are re-evaluated periodically, an amendment is made to the service agreement and submitted to the Department for approval. Fee adjustments were made in 2016 and 2020. The fee related to the agreement at December 31, 2020 was \$1,440,000. At December 31, 2020, the Company had net payables to the parent of \$177,043.

Tax Sharing Agreement: Effective June 12, 2007, the Company entered into a tax sharing agreement with its parent company, MJJ. Under the tax sharing agreement, Key files a consolidated federal tax return with its parent. Pursuant to the agreement terms, MJJ receives from Key the taxes they would pay if they had filed a separate return and pays to Key the amount of tax benefit realized by the consolidated group through utilization of their net losses. Any expense or benefit so derived is recognized in Key's current year tax provision and settled within fifteen days of the annual tax computations.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Company is authorized to transact business in

Alabama, Arizona, Kansas, Missouri, Nevada, and Oklahoma. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

Key specializes in writing non-standard personal automobile insurance, including liability and personal damage. Minimum coverage requirements vary by state. The Company's maximum liability for bodily injury is \$25,000 for each person injured with a limit of \$50,000 for each accident. Property limits are a maximum of \$25,000 each accident.

As of December 31, 2020, the Company's largest lines of business were other private passenger auto liability, making up 92.5% of direct written premium; and private passenger auto physical damage, making up 7.5% of direct written premium. All business is written by independent insurance agents.

The Company was subject to a targeted market conduct examination as of June 30, 2018, by the Kansas Insurance Department resulting from a number of complaints received by the Department regarding the Company's business practices. The examination did not result in any material financial impact to the Company.

SELECT FINANCIAL INFORMATION

The exhibit below shows the Company's financial results for the period of December 31, 2016 through December 31, 2020. The financial amounts were obtained from annual statements filed by the Company.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<i>(in thousands)</i>					
Admitted Assets	\$ 34,104	\$ 37,801	\$ 49,304	\$ 65,751	\$ 74,843
Liabilities	26,141	30,752	40,245	49,807	60,853
Capital and Surplus	7,963	7,049	9,059	12,944	13,990
Net Underwriting Gain/(Loss)	(2,546)	(1,830)	1,505	3,673	45
Net Income (Loss)	(1,401)	(717)	1,786	3,837	980
Net Premiums Written	52,657	57,863	62,895	77,579	79,385

REINSURANCE

General

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

<i>(\$000 omitted)</i>					
Premium Type	2016	2017	2018	2019	2020
Direct Written Premium	\$52,657	\$70,290	\$88,988	\$92,602	\$87,023
Reinsurance Assumed	0	0	0	0	0
Reinsurance Ceded	0	(12,427)	(26,093)	(15,023)	(7,638)
Net Premiums Written	<u>\$52,657</u>	<u>\$57,863</u>	<u>\$62,895</u>	<u>\$77,579</u>	<u>\$79,385</u>

Assumed Reinsurance

The Company assumes no business from other insurance carriers.

Ceded Reinsurance

Key Insurance Company entered in to an 8% quota share reinsurance agreement with PoolRe Insurance Corp. on July 1, 2019, with an expiration date of June 30, 2020. The terms of this agreement outline an eight percent ceding of written premium and fees and allow for a 34% ceding commission. Under this agreement, Key holds the ceded funds as collateral that would otherwise be due to the reinsurer and collateralized in a different manner. This agreement was renewed for another year on July 1, 2020;

however, the new agreement was a 10% quota share arrangement. All reinsurance agreements reviewed provided for the transfer of risk.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that 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, 2020. 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.

KEY INSURANCE COMPANY STATEMENT OF ASSETS AS OF DECEMBER 31, 2020

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 66,015,365	\$ -	\$ 66,015,365
Cash and short-term investments	7,340,757		7,340,757
Investment income due & accrued	376,572		376,572
Amounts recoverable from reinsurers	446,551		446,551
Net deferred tax asset	552,245		552,245
Electronic data processing equipment and software	83,970		83,970
Furniture and equipment	66,761	66,761	-
Receivables from parent	22,401		22,401
Aggregate write-ins for other than invested assets	9,163	4,203	4,960
	\$ 74,913,785	\$ 70,964	\$ 74,842,821

**KEY INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2020**

Losses	\$45,528,291
Loss adjustment expense	6,396,000
Commissions Payable	738,021
Other expenses	120,010
Taxes, licenses and fees	460,946
Current federal and foreign income taxes	234,469
Borrowed money	842,787
Unearned premiums	2,688,055
Advance premiums	269,526
Ceded reinsurance premiums payable	(451)
Funds held by company under reinsurance treaties	3,376,074
Payable to parent, subsidiaries and affiliates	199,444
Total liabilities	<u>60,853,172</u>
Common capital stock	2,500,000
Surplus notes	1,500,000
Gross paid in and contributed surplus	2,864,899
Unassigned funds	7,124,750
Surplus as regards policyholders	<u>13,989,649</u>
Totals	<u><u>\$74,842,821</u></u>

**KEY INSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020**

Premiums earned	\$ 79,800,522
Losses incurred	57,276,075
Loss adjustment expenses incurred	8,008,776
Other underwriting expenses incurred	14,471,050
Total underwriting deductions	<u>79,755,901</u>
Net underwriting gain	<u>44,621</u>
Net investment income earned	1,319,180
Net realized capital losses	<u>(3,436)</u>
Net investment gain	<u>1,315,744</u>
Net income after dividends to policyholders and before federal income taxes	<u>1,360,365</u>
Federal income taxes incurred	<u>380,684</u>
Net income	<u><u>\$ 979,681</u></u>

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

Surplus as regards policyholders, December 31, 2015			<u>\$ 7,791,167</u>
Net income (loss)	2016	\$ (1,400,761)	
	2017	(717,171)	
	2018	1,786,218	
	2019	3,836,966	
	2020	<u>979,681</u>	4,484,933
Change in net deferred income tax	2016	\$ 72,407	
	2017	(144,339)	
	2018	212,887	
	2019	43,091	
	2020	<u>100,467</u>	284,513
Change in nonadmitted assets	2016	\$ -	
	2017	-	
	2018	10,840	
	2019	4,901	
	2020	<u>(34,246)</u>	(18,505)
Change in provision for reinsurance	2016	\$ -	
	2017	(52,459)	
	2018	-	
	2019	-	
	2020	<u>-</u>	(52,459)
Change in surplus notes	2016	\$ 1,500,000	
	2017	-	
	2018	-	
	2019	-	
	2020	<u>-</u>	1,500,000
Surplus as regards policyholders, December 31, 2020			<u><u>\$ 13,989,649</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, 2020, was \$13,989,649, which was the same amount reported by the Company in its 2020 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.

SUBSEQUENT EVENTS

The annual statement for December 31, 2020 was amended in May 2021 to reflect provisions for two bad faith claims known to pose a risk to Key. At the time the statement was amended, one of the claims had been paid and judgment had been entered on the second claim. The amended annual statement showed an increase to reserves of \$4,309,000 for the two claims. In addition to the claims previously noted, in the third quarter of 2021, Key received a judgment on a third bad faith claim which was properly reserved for with the amended filing. It is, however, projected that the amended reserve level for 2020 will be sufficient to settle all judgements known at this time. The financial statements in this report reflect the amended filed annual statement balances for December 31, 2020.

The COVID-19 pandemic has continued to develop throughout 2020, 2021 and into 2022, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. However, the Department will continue to closely monitor the impact of the

pandemic on the Company and will take necessary action if concerns arise.

On July 29, 2021, the Company was granted approval by the Small Business Administration for forgiveness of the Company's Paycheck Protection Program ("PPP") loan in the amount of \$842,787. The Company recognized the loan forgiveness as a capital gain pursuant to SSAP 15, paragraph 25 on their financial statements as of September 31, 2021.

On December 3, 2021, the Company filed a Form D with a proposed Subordinated Promissory Note Extension Agreement between Key Insurance Company and Med James, Inc., requesting an extension of the maturity date until December 31, 2023. The proposed transaction was approved on December 27, 2021. The Subordinated Promissory Note Extension Agreement was signed and executed on December 27, 2021.

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, Joseph Jenkins, ACAS, MAAA, David Macesic, ACAS, MAAA, Peter Vuong, FCAS, MAAA, John Pedrick, FCAS, MAAA, and Michael Morro, ACAS, MAAA, all of whom are INS Consultants, Inc. associates and actuaries, and Shane Mead, CISA, CISM, CRISC, IT Examiner with the Kansas Insurance Department, participated in this examination.

Respectfully submitted,



Cecilee Diamond-Houdek, CFE
Examiner-in-Charge
INS Regulatory Insurance Services, Inc.,
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 Financial Condition Examiners Handbook has been confirmed except where practices, procedures and applicable regulations of the Department and statutes of the State of Kansas prevailed.



Levi Nwasoria, CPA, CFE
Chief Examiner
Kansas Insurance Department

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

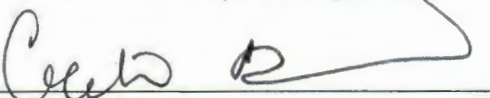
State of Kansas,

County of Shawnee,

Cecilee Houdek, being duly sworn, states as follows:

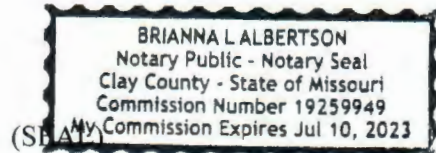
1. I have authority to represent the Kansas Insurance Department in the examination of Key Insurance Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination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

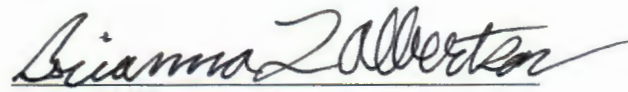
The affiant says nothing further.



Examiner's Signature

Subscribed and sworn before me by Cecilee Diamond-Houdek on this 13th day of May, 2022.





Notary Public

My commission expires 07/10/2023 [date].