

**40-3306. Material transactions by registered insurers with affiliates; standards; reasonableness of insurer's surplus; notification of certain transactions to commissioner; extraordinary dividends and distributions.** (a) Material transactions by registered insurers with their affiliates shall be subject to the following standards:

- (1) The terms shall be fair and reasonable;
  - (2) agreements for cost-sharing services and management shall include such provisions as required by rules and regulations adopted by the commissioner of insurance;
  - (3) the charges or fees for services performed shall be reasonable;
  - (4) expenses incurred and payment received with respect to such transactions shall be allocated to the insurer in conformity with the requirements of K.S.A. 40-225, and amendments thereto;
  - (5) the books, accounts and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information necessary to support the reasonableness of the charges or fees to the respective parties; and
  - (6) the insurer's surplus as regards policyholders following any transactions, dividends or distributions to shareholder affiliates shall be reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs.
- (b) The following transactions involving a domestic insurer and any person in such insurer's insurance holding company system may not be entered into unless the insurer has notified the commissioner of insurance in writing of such insurer's intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner of insurance may permit, and the commissioner of insurance has not disapproved such transaction within such period.
- (1) Sales, purchases, exchanges, loans or extensions of credit, guarantees or investments provided such transactions are equal to or exceed:
    - (A) With respect to nonlife insurers, the lesser of 3% of the insurer's admitted assets or 25% of surplus as regards policyholders; or
    - (B) with respect to life insurers, 3% of the insurer's admitted assets, each as of December 31 immediately preceding.
  - (2) Loans or extensions of credit to any person who is not an affiliate, where the insurer makes such loans or extensions of credit with the agreement or understanding that the proceeds of such transactions, in whole or in substantial part, are to be used to make loans or extensions of credit to, purchase assets of, or make investments in, any affiliate of the insurer making such loans or extensions of credit provided such transactions are equal to or exceed:
    - (A) With respect to nonlife insurers, the lesser of 3% of the insurer's admitted assets or 25% of surplus as regards policyholders;
    - (B) with respect to life insurers, 3% of the insurer's admitted assets, each as of December 31 immediately preceding.
  - (3) Reinsurance agreements or modifications thereto, including:
    - (A) All reinsurance pooling agreements; and
    - (B) agreements in which the reinsurance premium or a change in the insurer's liabilities, or the projected reinsurance premium or a projected change in the insurer's liabilities in any of the next three consecutive years equals or exceeds 5% of the insurer's surplus as regards policyholders, as of December 31 immediately preceding, including those agreements which may require as consideration the transfer of assets from an insurer to a nonaffiliate, if an agreement or understanding exists between the insurer and nonaffiliate that any portion of such assets will be transferred to one or more affiliates of the insurer;
  - (4) all management agreements, service contracts, tax allocation agreements and all cost-sharing arrangements; and
  - (5) any material transactions, specified by rules and regulations, which the commissioner of insurance determines may adversely affect the interests of an insurer's policyholders.

Nothing herein contained shall be deemed to authorize or permit any transactions which, in the case of an insurer not a member of the same insurance holding company system, would be otherwise contrary to law.

- (c) A domestic insurer may not enter into transactions which are part of a plan or series of like transactions with persons within the insurance holding company system if the purpose of those separate transactions is to avoid the threshold amount required under this section and thus avoid the review that would occur otherwise. If the commissioner of insurance determines that such separate transactions were entered into over any 12-month period for such purpose, the commissioner of insurance may exercise authority under K.S.A. 40-3311, and amendments thereto.
  - (d) The commissioner of insurance, in reviewing transactions pursuant to subsection (b), shall consider whether the transactions comply with the standards set forth in subsection (a), and whether such transactions may adversely affect the interests of policyholders.
  - (e) The commissioner of insurance shall be notified within 30 days of any investment of the domestic insurer in any one corporation if the total investment in such corporation by the insurance holding company system exceeds 10% of such corporation's voting securities.
  - (f) A transaction subject to approval by the commissioner of insurance pursuant to K.S.A. 40-3304, and amendments thereto, shall not be subject to the requirements of this section.
  - (g) (1) No insurer subject to registration under K.S.A. 40-3305, and amendments thereto, shall pay any extraordinary dividend or make any other extraordinary distribution to such insurer's shareholders until:
    - (A) Thirty days after the commissioner of insurance has received notice of the declaration thereof and has not within such period disapproved such payment; or
    - (B) the commissioner of insurance has approved such payment within such 30-day period.
  - (2) (A) For purposes of this section, an extraordinary dividend or distribution includes any dividend or distribution of cash or other property, the fair market value of which, together with that of other dividends or distributions made within the preceding 12 months exceeds the greater of:
    - (i) Ten percent of such insurer's surplus as regards policyholders as of December 31 immediately preceding; or
    - (ii) the net gain from operations of such insurer, if such insurer is a life insurer, or the net income, if such insurer is not a life insurer, not including realized capital gains for the 12-month period ending December 31 immediately preceding, but shall not include pro rata distributions of any class of the insurer's own securities.
  - (B) In determining whether a dividend or distribution is extraordinary, an insurer, other than a life insurer, may carry forward net income from the previous two calendar years that has not already been paid out as dividends. This carry-forward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediate preceding calendar years.
  - (C) An extraordinary dividend or distribution shall also include any dividend or distribution made or paid out of any funds other than earned surplus arising from the insurer's business, as defined in K.S.A. 40-233, and amendments thereto. The provisions of K.S.A. 40-233, and amendments thereto, shall not be construed so as to prohibit an insurer, subject to registration under K.S.A. 40-3305, and amendments thereto, from making or paying an extraordinary dividend or distribution in accordance with this section.
- (3) Notwithstanding any other provisions of law, an insurer may declare an extraordinary dividend or distribution which is conditional upon the approval of the commissioner of insurance. No declaration shall confer any rights upon shareholders until:
- (A) The commissioner of insurance has approved the payment of such dividend or distribution; or
  - (B) the commissioner of insurance has not disapproved such payment within the 30-day period referred to above.
- (h) (1) Notwithstanding the control of a domestic insurer by any person, the officers and directors of the insurer shall not thereby be relieved of any obligation or liability to which they would otherwise be subject by law, and the insurer shall be managed so as to assure its separate operating identity consistent with this act.
- (2) Nothing herein shall preclude a domestic insurer from having or sharing a common management or cooperative or joint use of personnel, property or services with one or more other persons under arrangements meeting the standards of K.S.A. 40-3306, and amendments thereto.
- (i) For purposes of this act, in determining whether an insurer's surplus as regards policyholders is reasonable in relation to the insurer's outstanding liabilities and adequate to such insurer's financial needs, the following factors, among others, shall be considered:
- (1) The size of the insurer as measured by such insurer's assets, capital and surplus, reserves, premium writings, insurance in force and other appropriate criteria;
  - (2) the extent to which the insurer's business is diversified among the several lines of insurance;
  - (3) the number and size of risks insured in each line of business;
  - (4) the extent of the geographical dispersion of the insurer's insured risks;
  - (5) the nature and extent of the insurer's reinsurance program;
  - (6) the quality, diversification, and liquidity of the insurer's investment portfolio;
  - (7) the recent past and projected future trend in the size and performance of the insurer's surplus as regards policyholders;

(8) the surplus as regards policyholders maintained by other comparable insurers;

(9) the adequacy of the insurer's reserves;

(10) the quality and liquidity of investments in affiliates. The commissioner of insurance may treat any such investment as a disallowed asset for purposes of determining the adequacy of surplus as regards policyholders whenever in the judgment of the commissioner of insurance such investment so warrants; and

(11) the quality of the insurer's earnings and the extent to which the reported earnings include extraordinary items.

**History:** L. 1974, ch. 183, § 6; L. 1988, ch. 164, § 1; L. 1991, ch. 138, § 5; L. 1992, ch. 288, § 4; L. 1993, ch. 45, § 3; L. 2013, ch. 15, § 6; July 1.