

40-3008. Powers and duties of association; limitations of liability of association; mandatory payment of certain claims. (a) If a member insurer is an impaired insurer, the association may, in its discretion and subject to any conditions imposed by the association that do not impair the contractual obligations of the impaired insurer and that are approved by the commissioner that:

(1) Guarantee, assume or reinsure, or cause to be guaranteed, assumed or reinsured, any or all of the policies or contracts of the impaired insurer; and

(2) provide such moneys, pledges, loans, notes, guarantees or other means as are proper to effectuate the provisions of paragraph (1) and assure payment of the contractual obligations of the impaired insurer pending action under paragraph (1).

(b) If a member insurer is an insolvent insurer, the association shall, in its discretion, either: (1) (A) (i) Guarantee, assume or reinsure, or cause to be guaranteed, assumed or reinsured, the policies or contracts of the insolvent insurer; or

(ii) assure payment of the contractual obligations of the insolvent insurer; and

(B) provide such moneys, pledges, loans, notes, guarantees or other means as are reasonably necessary to discharge such duties; or

(2) with respect to life and health insurance policies and annuities, provide benefits and coverages in accordance with subsection (c).

(c) When proceeding under paragraph (2) of subsection (b), the association shall: (1) Assure payment of benefits for premiums identical to the premiums and benefits, except for terms of conversion and renewability, that would have been payable under the policies or contracts of the insolvent insurer, for claims incurred: (A) With respect to group policies and contracts, not later than the earlier of the next renewal date under such policies or contracts or 45 days, but in no event less than 30 days, after the date on which the association becomes obligated with respect to such policies and contracts;

(B) with respect to nongroup policies, contracts and annuities not later than the earlier of the next renewal date, if any, under such policies or contracts or one year, but in no event less than 30 days, from the date on which the association becomes obligated with respect to such policies or contracts;

(2) make diligent efforts to provide all known insureds, annuitants or group policyholders with respect to group policies and contracts, 30 days' notice of the termination of the benefits provided; and

(3) with respect to nongroup life and health insurance policies and annuities, make available to each known insured or annuitant, or owner if other than the insured or annuitant, and with respect to an individual formerly an insured or an annuitant under a group policy who is not eligible for replacement group coverage, make available substitute coverage on an individual basis in accordance with the provisions of paragraph (4), if the insureds or annuitants had a right under law or the terminated policy or annuity to convert coverage to individual coverage or to continue an individual policy or annuity in force until a specified age or for a specified time, during which the insurer had no right unilaterally to make changes in any provision of the policy or annuity or had a right only to make changes in premium by class;

(4) (A) in providing the substitute coverage required under paragraph (3), the association may offer either to reissue the terminated coverage or to issue an alternative policy;

(B) alternative or reissued policies shall be offered without requiring evidence of insurability, and shall not provide for any waiting period or exclusion that would not have applied under the terminated policy; and

(C) the association may reinsure any alternative or reissued policy;

(5) (A) alternative policies adopted by the association shall be subject to the approval of the commissioner. The association may adopt alternative policies of various types for future issuance without regard to any particular impairment or insolvency;

(B) alternative policies shall contain at least the minimum statutory provisions required in this state and provide benefits that shall not be unreasonable in relation to the premiums charged. The association shall set the premiums in accordance with a table of rates which it shall adopt. The premiums shall reflect the amount of insurance to be provided and the age and class of risk of each insured, but shall not reflect any changes in the health of the insured after the original policy was last underwritten;

(C) any alternative policy issued by the association shall provide coverage of a type similar to that of the policy issued by the impaired or insolvent insurer, as determined by the association;

(6) if the association elects to reissue the insured's terminated coverage at a premium rate different from that charged under the terminated policy, the premium shall be set by the association in accordance with the amount of insurance provided and the age and class of risk, subject to approval of the domiciliary insurance commissioner and the receivership court.

(d) The association's obligations with respect to coverage under any policy of the impaired or insolvent insurer or under any reissued or alternative policy shall cease on the date such coverage or policy is replaced by another similar policy by the policyholder, the insured or the association.

(e) When proceeding under paragraph (2) of subsection (b) with respect to any policy or contract carrying guaranteed minimum interest rates, the association shall assure the payment or crediting of a rate of interest consistent with subsection (n)(3).

(f) Nonpayment of premiums within 31 days after the date required under the terms of any guaranteed, assumed, alternative or reissued policy or contract or substitute coverage shall terminate the association's obligations under such policy or coverage under this act with respect to such policy or coverage, except with respect to any claims incurred or any net cash surrender value which may be due in accordance with the provisions of this act.

(g) Premiums due after entry of an order of liquidation of an insolvent insurer shall belong to and be payable at the direction of the association, and the association shall be liable for unearned premiums due to policy or contract owners arising after the entry of such order.

(h) The protection provided by this act shall not apply where any guaranty protection is provided to residents of this state by the laws of the domiciliary state or jurisdiction of the impaired or insolvent insurer other than this state.

(i) In carrying out its duties under subsection (b), the association may, subject to approval by a court in this state: (1) Impose permanent policy or contract liens in connection with any guarantee, assumption or reinsurance agreement, if the association finds that the amounts which can be assessed under this act are less than the amounts needed to assure full and prompt performance of the association's duties under this act, or that the economic or financial

conditions as they affect member insurers are sufficiently adverse to render the imposition of such permanent policy or contract liens to be in the public interest; and

(2) impose temporary moratoriums or liens on payments of cash values and policy loans, or any other right to withdraw funds held in conjunction with policies or contracts, in addition to any contractual provisions for deferral of cash or policy loan value.

(j) If the association fails to act within a reasonable period of time as provided in subsections (b) and (c), the commissioner shall have the powers and duties of the association under this act with respect to impaired or insolvent insurers.

(k) The association may render assistance and advice to the commissioner, upon request, concerning rehabilitation, payment of claims, continuance of coverage or the performance of other contractual obligations of any impaired or insolvent insurer.

(l) (1) The association shall have standing to appear or intervene before any court in this state with jurisdiction over:

(A) An impaired or insolvent insurer concerning which the association is or may become obligated under this act; or

(B) any person or property against which the association may have rights through subrogation or otherwise.

(2) Such standing shall extend to all matters germane to the powers and duties of the association, including, but not limited to, proposals for reinsuring or guaranteeing the covered policies of the impaired or insolvent insurer and the determination of the covered policies or contracts and contractual obligations.

(3) The association shall also have the right to appear or intervene before a court in another state with jurisdiction over an impaired or insolvent insurer for which the association is or may become obligated or with jurisdiction over a third party against whom the association may have rights through subrogation of the insurer's policyholders.

(m) (1) Any person receiving benefits under this act shall be deemed to have assigned the rights under any cause of action relating to the covered policy or contract to the association to the extent of the benefits received because of this act, whether the benefits are payments of or on account of contractual obligations, continuation of coverage or provision of substitute or alternative coverages. The association may require an assignment to it of such rights and cause of action by any payee, policy or contract owner, beneficiary, insured or annuitant as a condition precedent to the receipt of any right or benefits conferred by this act upon such person.

(2) The subrogation rights of the association under this subsection shall have the same priority against the assets of the impaired or insolvent insurer as that possessed by the person entitled to receive benefits under this act.

(3) In addition to paragraphs (1) and (2), the association shall have all common-law rights of subrogation and any other equitable or legal remedy which would have been available to the impaired or insolvent insurer or holder of a policy or contract with respect to such policy or contracts.

(n) The contractual obligations of the impaired or insolvent insurer for which the association becomes, or may become, liable shall be as great as but no greater than the contractual obligations of the impaired or insolvent insurer would have been in the absence of an impairment or insolvency unless such obligations are reduced as permitted by this act but the association shall not provide coverage for: (1) Any portion of a policy or contract not guaranteed by the insurer, or under which the risk is borne by the policy or contract holder;

(2) any policy or contract of reinsurance, unless assumption certificates have been issued;

(3) any portion of a policy or contract to the extent that the rate of interest on which it is based, or the interest rate, crediting rate or similar factor determined by use of an index or other external reference stated in the policy or contract employed in calculating returns or changes in value: (A) Averaged over the period of four years prior to the date on which the association becomes obligated with respect to such policy or contract, exceeds a rate of interest determined by subtracting two percentage points from Moody's corporate bond yield average averaged for that same four-year period or for such lesser period if the policy or contract was issued less than four years before the association became obligated; and

(B) on and after the date on which the association becomes obligated with respect to such policy or contract, exceeds the rate of interest determined by subtracting three percentage points from Moody's corporate bond yield average as most recently available;

(4) any plan or program of an employer, association or similar entity to provide life, health or annuity benefits to its employees or members to the extent that such plan or program is self-funded or uninsured, including, but not limited to, benefits payable by an employer, association or similar entity under: (A) A multiple employer welfare arrangement as defined in section 3 (40) of the employee retirement income security act of 1974 (29 U.S.C. § 1002(40));

(B) a minimum premium group insurance plan;

(C) a stop-loss group insurance plan; or

(D) an administrative services only contract;

(5) any portion of a policy or contract to the extent that it provides dividends or experience rating credits, or provides that any fees or allowances be paid to any person, including the policy or contract holder, in connection with the service to or administration of such policy or contract;

(6) any policy or contract issued in this state by a member insurer at a time when it was not licensed or did not have a certificate of authority to issue such policy or contract in this state;

(7) any unallocated annuity contract, except as provided in subsection (b) of K.S.A. 40-3003, and amendments thereto;

(8) a policy or contract providing any hospital, medical, prescription drug or other health care benefits pursuant to part C or part D of subchapter XVIII, chapter 7 of title 42 of the United States code (commonly known as medicare part C & D) or any regulations issued pursuant thereto; or

(9) (A) Any portion of a policy or contract:

(i) To the extent it provides for interest or other changes in value to be determined by the use of an index or other external reference stated in the policy or contract, but which have not been credited to the policy or contract; or

(ii) as to which the policy or contract owner's rights are subject to forfeiture, as of the date the member insurer becomes an impaired or insolvent insurer under this act; whichever is earlier.

(B) If a policy's or contract's interest or changes in value are credited less frequently than annually, then for purposes of determining the values that have been credited and which are not subject to forfeiture under this paragraph, the interest or change in value determined by using the procedures defined in the policy or contract shall be credited as if the contractual date of crediting interest or changing values was the date of impairment or insolvency, whichever is earlier, and shall not be subject to forfeiture.

(o) The benefits for which the association may become liable shall in no event exceed the lesser of: (1) The contractual obligations for which the insurer is liable or would have been liable if it were not an impaired or insolvent insurer; or

(2) with respect to any one life, regardless of the number of policies or contracts: (A) \$300,000 in life insurance death benefits, but not more than \$100,000 in net cash surrender and net cash withdrawal values for life insurance;

(B) in health insurance benefits:

(i) \$100,000 for coverages not defined as disability insurance or basic hospital, medical and surgical insurance or major medical insurance or long-term care insurance including any net cash surrender and net cash withdrawal values;

(ii) \$300,000 for disability insurance and \$300,000 for long-term care insurance;

(iii) \$500,000 for basic hospital, medical and surgical insurance or major medical insurance;

(C) \$250,000 in the present value of annuity benefits, including net cash surrender and net cash withdrawal values;

(D) with respect to each payee of a structured settlement annuity (or beneficiary or beneficiaries of the payee if deceased), \$250,000 in present value annuity benefits, in the aggregate, including net cash surrender and net cash withdrawal values;

(E) however, in no event shall the association be obligated to cover more than:

(1) An aggregate of \$300,000 in benefits with respect to any one life as provided in paragraphs (A), (B), (C) and (D) of this subsection except with respect to benefits for basic hospital, medical and surgical insurance and major medical insurance under (o)(2)(B)(iii) of this subsection, in which case the aggregate liability of the association shall not exceed \$500,000 with respect to any one individual; or

(2) with respect to one owner of multiple nongroup policies of life insurance, whether the policy owner is an individual, firm, corporation or other person, and whether the persons insured are officers, managers, employees or other persons, more than \$5,000,000 in benefits, regardless of the number of policies and contracts held by the owner;

(F) the limitations set forth in this paragraph are limitations on the benefits for which the association is obligated before taking into account either its subrogation and assignment rights or the extent to which those benefits could be provided out of the assets of the impaired or insolvent insurer attributable to covered policies. The costs of the association's obligations under this act may be met by the use of assets attributable to covered policies or reimbursed to the association pursuant to its subrogation and assignment rights;

(G) the guaranty association's limits of liability with respect to the obligations of any impaired or insolvent insurer shall be the limits of liability in effect under this act on the date the guaranty association became liable for that impaired or insolvent insurer;

(H) in performing its obligations to provide coverage under this section, the association shall not be required to guarantee, assume, reinsure or perform, or cause to be guaranteed, assumed, reinsured or performed, the contractual obligations of the insolvent or impaired insurer under a covered policy or contract that do not materially affect the economic values or economic benefits of the covered policy or contract.

The provisions of subsection (o) shall not apply to annuity contracts for future economic loss procured pursuant to a judgment or settlement agreement in a medical malpractice liability action.

(p) The association may: (1) Enter into such contracts as are necessary or proper to carry out the provisions and purposes of this act;

(2) sue or be sued, including taking any legal actions necessary or proper to recover any unpaid assessments under K.S.A. 40-3009, and amendments thereto, and to settle claims or potential claims against it;

(3) borrow money to effect the purposes of this act. Any notes or other evidence of indebtedness of the association not in default shall be legal investments for domestic insurers and may be carried as admitted assets;

(4) employ or retain such persons as are necessary to handle the financial transactions of the association, and to perform such other functions as become necessary or proper under this act;

(5) take such legal action as may be necessary to avoid payment of improper claims; or

(6) exercise, for the purposes of this act and to the extent approved by the commissioner, the powers of a domestic life or health insurer, but in no case may the association issue insurance policies or annuity contracts other than those issued to perform its obligations under this act.

(q) The association may join an organization of one or more other state associations of similar purposes to further the purposes and administer the powers and duties of the association.

(r) The association shall pay any and all persons who, as a provider, may have claims as a result of a member insurer being found insolvent between March 1, 1999 and June 1, 1999.

(s) Regarding covered policies for which the association becomes obligated after an entry of an order of liquidation, to the extent such contract provides coverage for losses occurring after the date of the order of liquidation, the association may elect to succeed to the rights of the insolvent insurer arising after the order of liquidation under any contract of reinsurance to which the insolvent insurer was a party. As a condition to making such election, the association must pay all unpaid premiums due under the contract for coverage relating to periods before and after the date on which the order of liquidation was entered.

(t) In carrying out its duties in connection with guaranteeing, assuming or reinsuring policies or contracts under subsections (a) or (b), subject to approval of the receivership court, the association may issue substitute coverage for a policy or contract that provides an interest rate, crediting rate or similar factor determined by use of an index or other external reference stated in the policy or contract employed in calculating returns or changes in value by issuing an alternative policy or contract in accordance with the following provisions:

(1) In lieu of the index or other external reference provided for in the original policy or contract, the alternative policy or contract provides for:

(i) A fixed interest rate;

(ii) payment of dividends with minimum guarantees; or

(iii) a different method for calculating interest or changes in value.

(2) There is no requirement for evidence of insurability, waiting period or other exclusion that would not have applied under the replaced policy or contract; and

(3) the alternative policy or contract is substantially similar to the replaced policy or contract in all other material

History: L. 1972, ch. 190, § 8; L. 1986, ch. 180, § 6; L. 1993, ch. 130, § 1; L. 1998, ch. 19, § 2; L. 2001, ch. 21, § 3; L. 2009, ch. 83, § 26; L. 2011, ch. 17, § 3; July 1.