

Steven A. Karrer, KS # 19366  
Philip R. Michael, KS # 26072  
Kansas Department of Insurance  
1300 SW Arrowhead Road  
Topeka, KS 66604  
785-296-7847  
[Steve.Karrer@ks.gov](mailto:Steve.Karrer@ks.gov)  
[Philip.Michael@ks.gov](mailto:Philip.Michael@ks.gov)

Jodi M. Adolf, KS # 20741  
Bruce E. Baty, KS # 30488  
Norton Rose Fulbright US LLP  
7676 Forsyth Blvd., Suite 2230  
St. Louis, MO 63105  
314-505-8805  
314-505-8804  
[jodi.adolf@nortonrosefulbright.com](mailto:jodi.adolf@nortonrosefulbright.com)  
[bruce.baty@nortonrosefulbright.com](mailto:bruce.baty@nortonrosefulbright.com)

ATTORNEYS FOR PETITIONER

**IN THE DISTRICT COURT OF SHAWNEE COUNTY, KANSAS  
DIVISION 15**

VICKI SCHMIDT,	)	
COMMISSIONER OF	)	
INSURANCE,	)	
<i>In her Official Capacity,</i>	)	
	)	
Petitioner,	)	Case No. 2025 CV 151
	)	
vs.	)	
	)	
KEY INSURANCE COMPANY,	)	
	)	
Respondent.	)	

**FIRST SEMI-ANNUAL REPORT**

COMES NOW Commissioner of Insurance, Vicki Schmidt, in her capacity as Liquidator (“**Liquidator**”) of Key Insurance Company (“**Key**”), by and through counsel, and pursuant to ¶ 14

of the Court’s Judgment, Decree and Order of Liquidation with Finding of Insolvency (the “**Liquidation Order**”) in the above captioned matter and KSA 40-3605 *et seq.* (the “Act”), submits this First Semi-Annual Report (“**Report**”).

On March 3, 2025, this Court granted plaintiff’s Petition for Rehabilitation and appointed Vicki Schmidt, the Commissioner of Insurance and her successors in office as Rehabilitator of Key, and Jodi Adolf and Bruce Baty as Special Deputy Receivers (“**SDRs**”) of Key. The Rehabilitator, SDRs, and consultants reviewed the financial situation of Key and determined that it was insolvent and did not have sufficient liquidity to continue paying claims. Plaintiff petitioned the Court to place Key into liquidation. This Court entered the Liquidation Order with an effective date of April 1, 2025.

This Report provides an update to the Court, as required by the Liquidation Order. This Report also provides Key’s financial balance sheet as of June 30, 2025. This Report is based only on the knowledge that the Liquidator and her staff have gained from the work performed since Key was placed into receivership. Facts may exist that the Liquidator is unaware of that may have a material effect on the information provided in this Report. The Liquidator will update the information in future semi-annual reports as additional facts are discovered.

#### **A. Background**

Key was incorporated on March 22, 2007, as a stock property and casualty insurance company under the laws of Kansas, particularly KSA 40-301 *et seq.* and KSA 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.

Key was wholly-owned directly by Med James, Inc. (“**MJI**”), and ultimately owned by Med James, III, a private individual. Key and MJI were parties to a Management Service Agreement (“**MSA**”), which had an initial effective date of January 1, 2010. Pursuant to the MSA, MJI provided the following services to Key in exchange for a monthly fee that was modified via amendment to the MSA, from time-to-time:

- a) General supervisory and management services
- b) Human resources services
- c) Accounting services
- d) Marketing services
- e) Information technologies services
- f) Premium processing services

Prior to Rehabilitation, Key was paying MJI \$85,000 per month for services. The fee included rent at MJI’s office building in Overland Park, Kansas.

## **B. Insurance Product and Related Practices**

### **1. Policy Forms**

Key marketed and issued substandard automobile policies through appointed agents. Most policies were issued for 30-day terms, and provided \$25,000 per person coverage, with an aggregate of \$50,000. Key also sold policies on an “equity” basis, meaning that a policyholder could purchase a longer coverage period by paying the full amount of premium for the desired coverage period at the outset. Key also issued policies for shorter coverage periods if the premium paid was less than the 30-day premium rate. Key wrote policies in five states.

Kansas policies generally provided coverage for bodily injury liability at \$25,000 per person coverage with an aggregate of \$50,000, property damage liability at \$25,000, medical payments, personal injury protection, uninsured/underinsured motorist coverage, and

comprehensive and collision coverages if selected. On January 1, 2017, HB 2446 increased the minimum property damage limit from \$10,000 to the current \$25,000.

Alabama policies provided coverage for bodily injury liability at \$25,000 per person coverage with an aggregate of \$50,000, property damage liability at \$25,000, medical payments, uninsured motorist, and comprehensive and collision coverages if selected. Key stopped writing in the state of Alabama in 2016.

Arizona policies provided coverage for bodily injury liability at \$15,000 per person coverage with an aggregate of \$30,000, property damage liability at \$10,000, medical payments, uninsured motorist, underinsured motorist, and comprehensive and collision coverages if selected. Key stopped writing in the state of Arizona in 2014 and no open claims remained at the date of Liquidation.

Nevada policies provided coverage for bodily injury liability at \$25,000 per person coverage with an aggregate of \$50,000, property damage liability at \$20,000, uninsured/underinsured motorist, medical payments, and comprehensive and collision coverages if selected. In 2018, Nevada SB308 increased the minimum liability limits for bodily injury and uninsured/underinsured from \$15,000 per person coverage with an aggregate of \$30,000 to the current \$25,000 per person coverage with an aggregate of \$50,000. Nevada SB308 also increased the minimum liability limit for property damage from \$10,000 to the current \$20,000.

Oklahoma policies provided coverage for bodily injury liability at \$25,000 per person coverage with an aggregate of \$50,000, property damage liability at \$25,000, uninsured motorist, medical payments, and comprehensive and collision coverages if selected.

## **2. Underwriting**

Key developed an underwriting manual available to contracted agents, which provided criteria as to what was and was not acceptable to issue a policy. These guidelines were available to agents online and were provided to the comparative raters and Key's internal rater.

The independent, contracted agents quoted insureds and uploaded each application to Key based on the information provided by the applicant. Agents submitted the applications via a comparative rater or the internal rater, called Keynect. Applications were imported into Key's policy issuing system the following business day. Key ran a Motor Vehicle Report as part of the application review process and made acceptability decisions based on driving record, prior policies, prior claims, vehicle, and overall risk.

Roughly 25% of the applications were reviewed and issued by the automated underwriting process. The remaining applications were reviewed and issued by the internal underwriters. When a policy was issued, Key sent policy documents to insureds through mail, email or an app, advising whether Key accepted or cancelled the policy.

## **3. Territory**

At the date of Liquidation, Key was authorized to transact business in six states. Key was domiciled in Kansas. The Kansas Department of Insurance ("KDOI") issued a Certificate of Authority to Key in June 2007, and Key began writing business in Kansas in July 2008. Key was subsequently authorized in Alabama (July 2009), Arizona (March 2009), Missouri (June 2009), Nevada (April 2009), New Mexico (June 2009) and Oklahoma (December 2008). Key did not write any business in Missouri or New Mexico. Immediately prior to Rehabilitation, Key was only

writing business in Kansas, Nevada and Oklahoma. Although not writing business in Alabama, three open claims remained at the date of Rehabilitation.

### **C. Events Leading to Receivership**

The KDOI had been aware that Key was experiencing declining financial performance dating back at least to 2023. The financial statements Key submitted to KDOI pursuant to K.S.A. 40-225 and K.A.R. 40-1-42(c), for the period ending June 30, 2023, triggered certain hazardous financial condition standards set forth in KDOI's Policy and Procedure for Companies Deemed to Be in Hazardous Financial Condition as adopted by K.A.R. 40-1-38. As a result of these triggers, KDOI required Key to submit a Corrective Action Plan, monthly statutory financial statements, and monthly RBC ratio estimates to address its concerns.

On December 4, 2024, management for Key met with KDOI to discuss Key's deteriorating financial condition and a recent final judgment issued against Key that had resulted from a bad faith action in Kansas. KDOI learned at that meeting that Key had been negotiating a sale of its Nevada business with a third party. Key had been experiencing significant losses in Nevada and had several significant bad faith actions pending against it in Nevada and Kansas. After the sale of the Nevada business, Key would cease transacting business in Nevada.

Even with the pending sale, Key's financial condition did not improve. On January 17, 2025, KDOI issued a Notice and Order of Confidential Administrative Supervision pursuant to K.S.A. 40-3613(b). During the course of Administrative Supervision, Key's financial condition continued to deteriorate and KDOI determined that the further transaction of business would be hazardous to Key's policyholders, creditors, or the public. On February 28, 2025, at KDOI's request, the Board of Directors of Key consented to rehabilitation. On March 3, 2025, this Court

entered the Rehabilitation Order. Upon entry of the Rehabilitation Order, the Board of Directors' and management's authority was suspended and their power vested in the Rehabilitator.

The Rehabilitator quickly determined that Key was insolvent and did not have sufficient liquidity to continue paying claims. This Court entered a Final Order and Judgment of Liquidation with Finding of Insolvency of Key Insurance Company ("**Liquidation Order**") placing Key into liquidation effective April 1, 2025 (the "**Liquidation Date**"). The Liquidation Order found Key to be insolvent and terminated the rehabilitation proceedings. The Court appointed the Commissioner as Liquidator and approved the Liquidator's appointment of Jodi M. Adolf and Bruce E. Baty as SDRs. Pursuant to the Liquidation Order and the Act, the Liquidator acts for and on behalf of Key and is vested by operation of law with title to all of the property, contracts, rights of action, books and records of Key, and is administering them under the general supervision of the Court.

#### **D. Key Policies and State Guaranty Associations**

Immediately prior to entry of the Rehabilitation Order, Key wrote substandard automobile insurance policies in Kansas, Nevada and Oklahoma. Key stopped issuing or renewing policies on March 3, 2025, when it was placed into rehabilitation. Key stopped paying claims on the Liquidation Date. At the Liquidation Date, Key had open claims in Alabama, Kansas, Nevada and Oklahoma.

As a result of the finding of insolvency in the Liquidation Order, the affected State Guaranty Associations<sup>1</sup> ("**SGAs**") where Key was authorized to write business became obligated to pay certain claims related to Key's insurance policies. The Liquidator and the SGAs have

---

<sup>1</sup> Alabama, Kansas, Nevada and Oklahoma.

worked together to ensure that all policy and claim information was transmitted to the SGAs consistent with the NAIC's Uniform Data Standards ("UDS") Operations Manual.

Pursuant to K.S.A. 40-3623, all policies and insurance contracts issued by Key in effect on the Liquidation Date, terminated the earlier of (1) 30 days from the date of entry of the Liquidation Order, (2) the expiration of the policy coverage, or (3) the date when the insured has replaced the insurance coverage with equivalent insurance in another insurer or otherwise terminated the policy.

### **1. Unearned Premium Claims**

When a policy terminated prior to its expiration date, but premium had been collected from a policyholder, Key calculated the unearned premium ("UEP") due to that policyholder and transferred all UEP claims to the affected SGAs. Because the majority of policies issued were written for a 30-day term, most terminated within 30 days of the Liquidation Date. Nevertheless, approximately 981 policies terminated prior to the policy's expiration date and resulted in an UEP claim. The Liquidator expects that the SGAs will pay 100% of the UEP claims to these policyholders.

### **2. Policy Claims**

Key transferred all open to the affected SGAs, and continues to transfer new claims reported since the Liquidation Date to the affected SGAs. The highest limit per policy under a Key policy was \$25,000 per person and \$50,000 aggregate; accordingly, the Liquidator does not anticipate any "over limit" claims.

The SGAs have indicated that, pursuant to the relevant guaranty association statutes in each state, they do not provide coverage if a claimant has "other insurance." In such incidences, the

other insurance carrier would be required to pay the claim and that carrier could file a Proof of Claim for its claim against the Key estate.

### **3. Early Access**

K.S.A. 40-3635 requires “within 120 days of a determination of insolvency of an insurer by a court of competent jurisdiction of this state, the liquidator shall make application to the court for approval of a proposal to disburse assets out of marshaled assets, from time to time as such assets become available, to a guaranty association or foreign guaranty association having obligations because of such insolvency. If the liquidator determines that there are insufficient assets to disburse, the application required by this section shall be considered satisfied by a filing by the liquidator stating the reasons for this determination.”

In this estate, the Liquidator has determined that there are insufficient assets for an early access disbursement. Moreover, the Liquidator expects that the Key estate will be resolved relatively quickly because the claims are considered short-tail claims. Additionally, pursuant to K.S.A. 40-3641, the “reasonable expenses of a guaranty association or foreign guaranty association in the handling of claims” are Class 1 administrative expenses. The Liquidator has not yet received sufficient information from the SGAs to estimate the SGAs’ reasonable expenses in the handling of Key claims.

### **E. Operations**

The Liquidator has been evaluating resource costs and needs and reducing expenses. Prior to receivership, Key had approximately 75 employees and, as discussed above, MJI provided certain management services, including HR and IT, and office space. Several employees worked remotely, but the majority worked in the Overland Park office.

Following entry of the Rehabilitation Order, the SDRs determined that the services provided by MJI pursuant to the MSA were not required long-term. The functions were transitioned to Key employees and consultants, and, as of June 30, 2025, Key had five employees all of whom work remotely.<sup>2</sup> Key also is utilizing IT and HR consultants. The SDRs will continue to monitor staffing needs.

The majority of Key's records are maintained electronically. However, Key has 497 boxes of records in a storage unit in Nevada, and approximately 100 boxes of closed claim and case files stored with MJI. None of the hardcopy documents appear to be useful to the estate. Nevertheless, the Liquidator entered into a Memorandum of Understanding with MJI regarding the documents stored with MJI whereby MJI will continue to maintain the records for the pre-receivership retention period, and then destroy the records. The Liquidator shall have access to the records upon reasonable notice to MJI. The Liquidator also will retain the boxes at the Nevada facility until a later date in the event that any of the records may be useful to the estate.

#### **F. Accounting**

When Key was placed into Rehabilitation, MJI provided accounting support to Key. During Rehabilitation, the primary accountant transitioned from MJI to become a Key employee and is working with the Liquidator's consultant, Fred Heese, to transition to liquidation accounting, stream-line internal and external reporting, reduce costs and monitor cash-flow.

Pursuant to the Liquidation Order, the Liquidator submits to the Court a statement of assets and liabilities, as of June 30, 2025. *See* Statement of Assets and Liabilities, attached hereto as

---

<sup>2</sup> One employee gave notice and terminated employment with Key in July. Currently, Key has four employees.

**Exhibit A.** The Liquidator notes that the Statement of Liabilities is estimated at this time because Key has not received sufficient data from the SGAs to provide accurate information.

Prior to rehabilitation, Key did not purchase reinsurance in any material amount, and it is not anticipated that reinsurance recoveries will be a significant asset of the estate (less than \$100,000).

**G. Proof of Claim Process**

In the Liquidation Order, the Court approved a form of Proof of Claim and set a Bar Date of April 1, 2026. The Liquidator published the Liquidation Notice as set forth in the Liquidation Order, and mailed Liquidation Notices to known creditors or potential creditors. To date, the Liquidator has received more than 560 Proofs of Claim. When Proofs of Claim are received, Key staff ensures they are completed correctly, and enters each on a log. The Liquidator is developing a review process through which the Proofs of Claim will be categorized by priority class and investigated as needed.

WHEREFORE, the Liquidator submits this First Semi-Annual Report of Key.

Respectively submitted,

/s/ Steven A. Karrer  
Steven A. Karrer, KS # 19366  
Philip R. Michael, KS # 26072  
Kansas Department of Insurance  
1300 SW Arrowhead Road  
Topeka, KS 66612  
785-296-7847  
[Steve.Karrer@ks.gov](mailto:Steve.Karrer@ks.gov)  
[Philip.Michael@ks.gov](mailto:Philip.Michael@ks.gov)

Jodi M. Adolf, KS # 20741  
Bruce E. Baty, KS # 30488

Norton Rose Fulbright US LLP  
7676 Forsyth Blvd., Suite 2230  
St. Louis, MO 63105  
314-505-8805  
314-505-8804  
[jodi.adolf@nortonrosefulbright.com](mailto:jodi.adolf@nortonrosefulbright.com)  
[bruce.baty@nortonrosefulbright.com](mailto:bruce.baty@nortonrosefulbright.com)

ATTORNEYS FOR PETITIONER  
Vicki Schmidt, Commissioner of Insurance

# Exhibit A

## KEY INSURANCE COMPANY IN LIQUIDATION STATEMENT OF ASSETS 30-Jun-25

### ASSETS:

Type of Asset	Subtotal Column	Total
Cash		5,913,822
Short-term Investments		-
Deposits Held for States	1,719,243	
MVA on State Deposits	(17,695)	
Total State Deposits	<u>1,701,548</u>	<u>1,701,548</u>
Bonds:		
Investment Bonds	42,567,919	
MVA on Bonds	(1,628,277)	
Total Bonds	<u>40,939,642</u>	<u>40,939,642</u>
Recoverable from Reinsurers:		
Paid Losses	21,556	
Known Case Loss Reserves		
Retro Reinsurance Ceded	306,412	
Total Recoverable from Reinsurers		<u>21,556</u>
Salvage and Subrogation Recoverables		130,000
Premiums Due and Accrued		
Agent's Balances		1,123
Receivable from Affiliates		60,311
Accrued Investment Income		376,688
Other Assets:		
Auto Data Direct Prefunded Acct	18	
Any applicable MVA or adj. for uncollectible		
Total Other Assets		<u>18</u>
Total Assets		<u>49,144,709</u>
Restricted Assets		
Market Value of State Deposits		<u>1,701,548</u>
Total Unrestricted Assets		<u><u>47,443,161</u></u>

# Exhibit A

KEY INSURANCE COMPANY IN LIQUIDATION  
STATEMENT OF ASSETS AND LIABILITIES  
30-Jun-25

LIABILITIES:

Type of Liability	Subtotal Column	Total
Secured claims		<hr/>
<b>Class 1 Administrative Claims:</b>		
General Admin. Estimated Expenses* (see tab)	984,231	
Guaranty Association Estimated DCC Expenses (Should have GA estimated DCC soon)		
Total Class 1 Claims	<hr/>	<hr/> 984,231
<b>Class 2 Policy Benefit Claims:</b>		
Guaranty Association Paid Claims		
Key Allowed Policy Claims		
Key Claim Reserves		
Guaranty Association Claim Reserves**	55,084,324	
Guaranty Association Estimated Expenses**	4,638,000	
Unearned Premium**	100,143	
Total Class 2 Claims	<hr/>	<hr/> 59,822,467
Other Liabilities:		
<b>Class 3 Federal Government</b>		<hr/> -
<b>Class 4 Employee Compensation</b>		<hr/> -
<b>Class 5 General Creditor Claims:</b>		
Commissions	70,153	
Reinsurance Ceded	30,523	
Other	648,933	
Subrogation claims		
Total Class 5 Claims	<hr/>	<hr/> 749,609
<b>Class 6 State &amp; Local Government</b>		<hr/> 424,320
<b>Class 7 Late Filed</b>		<hr/>
<b>Class 8 Surplus Notes</b>		<hr/> 1,500,000
<b>Class 9 Ownership Related - Capital Stock</b>		<hr/> 2,500,000
Total Liabilities		<hr/> 63,480,627
Excess (Deficiency) of Assets Over Liabilities		<hr/> (14,337,042)
Total		<hr/> 49,143,585

Notes: The classifications shown above are from Kansas Insurance Code 40-3641.

\* In process of being determined

\*\* These amounts are per company -GA's have not yet provided.