

SESSION OF 2004

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 546**

As Amended by Senate Committee on  
Financial Institutions and Insurance

**Brief\***

SB 546, as amended, enacts new law establishing a formal process by which one insurance carrier may transfer business to another carrier, and establishes terms and conditions for transferring a group life insurance product issued through one trust to a new trust.

Concerning the transfer of insurance from one carrier to another, the bill requires a transferring insurer to give notice, in the form that substantially conforms to that set out in the bill, to each policyholder by first class mail of its intention to transfer the policyholder's contract of insurance to an assuming insurer. Prior approval by the Insurance Commissioner is required for any transaction where an insurer domiciled in Kansas assumes or transfers obligations or risks, or both, on contracts of insurance under an assumption reinsurance agreement.

Policyholders shall have the right to reject the transfer and novation. (Novation, in this case, is the substitution of one insurer for another whereby the assuming insurer also assume all the risks and obligations of the transferring insurer.) Any policyholder who rejects the transfer and novation must return the notice to the transferring insurer. Any payment of premium to the assuming company during the 24-month period following receipt of the notice shall be deemed to indicate acceptance of the transfer.

After the initial 24 months, if no positive consent or rejection of the transfer has been received, the transferring insurer must send a second (final) notice of the intention to transfer. If, during the next one-month period, the policyholder does not accept or reject the transfer, the policyholder's consent will be deemed to have occurred and the novation of the contract will be effected, *i.e.*, the transferring insurer shall be relieved of all insurance obligations or risks, or both, and the assuming insurer shall become directly and solely liable to the

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

policyholders for those insurance obligations or risks, or both.

Regarding the transfer of group life insurance, SB 546 amends the law to allow the issuance of a voluntary term life insurance policy on a group basis without the employer having to contribute a portion of the premium. (Current Kansas law for the issuance of such policies requires an employer contribution.) Further, the bill removes the requirement that at least 75 percent of the eligible employees for the group coverage elect the coverage and make the required contribution. Last, the bill removes the limitation on the amount of coverage the employee can purchase for dependents. (Current law limits dependent coverage to not more than 50 percent of the insurance on the life of the insured employee.)

The Senate Committee amendments are technical and clarifying.

## **Background**

SB 546 was requested by Blue Cross and Blue Shield of Kansas whose representative explained that the bill will allow the company to establish a new Kansas domestic life insurance company and transfer to it the business of Advance Insurance Company, a life insurance company domiciled in Arizona and owned by Blue Cross and Blue Shield of Kansas. Additionally, the bill will allow the transfer of group life insurance issued through a Missouri trust under Missouri law to the new Kansas company.

The bill is supported by the Kansas Life Insurance Association.

The fiscal note prepared by the Division of the Budget indicates passage of the bill would have no fiscal effect on the Office of the Insurance Commissioner.