

Kansas Administrative Regulations

Kansas Department of Insurance

Article 12.—Sale of Stock

40-12-16. Agents' production stock option plans.

In order to be authorized, each agent's stock option plan in a domestic insurer shall:

- (a) Be clear and unambiguous in its term and as simple as the subject matter permits;
- (b) provide that the plan shall be submitted to and approved by the company's directors and stockholders before it becomes effective;
- (c) provide that no securities shall be issued without a prior permit of the commissioner authorizing the issue. The company shall promptly and diligently endeavor to process the necessary authorization contemplated by the plan;
- (d) provide that business written shall serve as a basis for earning options only after the business shall have been in force and effect for two policy years and premiums for the same period shall have been fully paid in cash. A policy that shall terminate by a death claim prior to expiration of the persistency period shall be regarded as having run the full two years;
- (e) govern the earning of conditional rights to options and the grant of options by a conservative formula based on one of the following:
 - (1) Annual premiums written and paid on policies issued during a given calendar quarter;
 - (2) commissions earned per calendar quarter; or,
 - (3) another reliable criterion of production of business, per calendar quarter, having intensive value to the company;
- (f) provide for notifying each participating agent within 30 days after the close of each calendar quarter of the number of shares to which conditional rights have been earned by virtue of production for the calendar quarter, according to the stated formula. Notification shall constitute evidence of the conditional rights to receive options for an appropriate number of shares after expiration of the persistency period and subject to all

other conditions precedent. The notification form shall not be used without prior approval in writing by the commissioner;

(g) provide for the issuance of an option with reasonable promptness after expiration of the persistency period according to the formula chosen in subparagraph (e), and subject to fulfillment of all other conditions outlined in this section;

(h) specify that an option to be granted shall be exercisable for not longer than 180 days after issuance, after which they shall become null and void;

(i) specify that an option granted shall be nonassignable and nontransferable;

(j) limit the maximum number of shares optionable at any given time to a number equivalent to 10 percent of the company's then issued and outstanding or authorized shares;

(k) provide that options shall not be granted to any agent on the basis of personal or controlled business;

(l) provide in effect that agents appointed by the same company shall not transact insurance on each other or on each other's families for the purpose of avoiding the foregoing provision;

(m) provide that no agent shall be required to purchase any insurance personally, or that no agent's immediate family shall be required to participate;

(n) state that the price for issuance of the shares of stock shall be determined by the company's board of directors and approved by the commissioner;

(o) provide that rights to options for shares earned by an agent's production in accordance with the production formula shall abate pro rata at conclusion of the persistency period or prior to issuance of the actual options in any case where issuance of options would exceed the amount authorized by permit of the commissioner; and

(p) specify that after due notice to the persons concerned the commissioner may modify or terminate any or all of the following:

(1) The plan when continuation of the plan is inequitable;

(2) rights to options when issuance of options upon maturity is or shall be inequitable; and

(3) outstanding, issued but unexercised, options when issuance of shares is or shall be inequitable.

(Authorized by K.S.A. 40-103, 40-205; implementing K.S.A. 40-205; effective Jan. 1, 1968; amended May 1, 1980; amended May 1, 1981; amended May 1, 1986; amended May 1, 1987.)

***** Authenticated Kansas Administrative Regulation *****