

WAC 284-13-53903 Credit for reinsurance—Term and universal life insurance reserve financing. (1) Pursuant to section 5, chapter 138, Laws of 2021, the purpose and intent of this section is to establish uniform, national standards governing reserve financing arrangements pertaining to life insurance policies containing guaranteed nonlevel gross premiums, guaranteed nonlevel benefits and universal life insurance policies with secondary guarantees; and to ensure that, with respect to each such financing arrangement, funds consisting of primary security and other security, as defined in subsection (4) of this section, are held by or on behalf of ceding insurers in the forms and amounts required herein. In general, reinsurance ceded for reserve financing purposes has one or more of the following characteristics:

(a) Some or all of the assets used to secure the reinsurance treaty or to capitalize the reinsurer are issued by the ceding insurer or its affiliates;

(b) Some or all of the assets used to secure the reinsurance treaty or to capitalize the reinsurer are not unconditionally available to satisfy the general account obligations of the ceding insurer; or

(c) Some or all of the assets used to secure the reinsurance treaty or to capitalize the reinsurer create a reimbursement, indemnification or other similar obligation on the part of the ceding insurer or any of its affiliates (other than a payment obligation under a derivative contract acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance treaty).

(2) This section will apply to reinsurance treaties that cede liabilities pertaining to covered policies, as that term is defined in subsection (4)(b) of this section, issued by any life insurance company domiciled in this state. This section and WAC 284-13-500 through 284-13-59509 will both apply to such reinsurance treaties; provided, that in the event of a direct conflict between the provisions of this regulation and WAC 284-13-500 through 284-13-59509, the provisions of this regulation will apply, but only to the extent of the conflict.

(3) This section does not apply to:

(a) Reinsurance of:

(i) Policies that satisfy the criteria for exemption set forth in WAC 284-74-350(7); and which are issued before the later of:

(A) The effective date of this regulation; and

(B) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than January 1, 2020;

(ii) Portions of policies that satisfy the criteria for exemption set forth in WAC 284-74-350(6) and which are issued before the later of:

(A) The effective date of this regulation; and

(B) The date on which the ceding insurer begins to apply the provisions of VM-20 to establish the ceded policies' statutory reserves, but in no event later than January 1, 2020;

(iii) Any universal life policy that meets all of the following requirements:

(A) Secondary guarantee period, if any, is five years or less;

(B) Specified premium for the secondary guarantee period is not less than the net level reserve premium for the secondary guarantee period based on the commissioners standard ordinary (CSO) valuation

tables and valuation interest rate applicable to the issue year of the policy; and

(C) The initial surrender charge is not less than one hundred percent of the first year annualized specified premium for the secondary guarantee period;

(iv) Credit life insurance;

(v) Any variable life insurance policy that provides for life insurance, the amount or duration of which varies according to the investment experience of any separate account or accounts; or

(vi) Any group life insurance certificate unless the certificate provides for a stated or implied schedule of maximum gross premiums required in order to continue coverage in force for a period in excess of one year.

(b) Reinsurance ceded to an assuming insurer that meets the applicable requirements of RCW 48.12.425; or

(c) Reinsurance ceded to an assuming insurer that meets the applicable requirements of RCW 48.12.410, 48.12.415, or 48.12.420, and that, in addition:

(i) Prepares statutory financial statements in compliance with the *NAIC Accounting Practices and Procedures Manual*, without any departures from NAIC statutory accounting practices and procedures pertaining to the admissibility or valuation of assets or liabilities that increase the assuming insurer's reported surplus and are material enough that they need to be disclosed in the financial statement of the assuming insurer pursuant to statement of statutory accounting principles No. 1 (SSAP 1); and

(ii) Is not in a company action level event, regulatory action level event, authorized control level event, or mandatory control level event as those terms are defined in RCW 48.05.440 through 48.05.455 when its RBC is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation; or

(d) Reinsurance ceded to an assuming insurer that meets the applicable requirements of RCW 48.12.410, 48.12.415, or 48.12.420, and that, in addition:

(i) Is not an affiliate, as that term is defined in RCW 48.31B.005, of:

(A) The insurer ceding the business to the assuming insurer; or

(B) Any insurer that directly or indirectly ceded the business to that ceding insurer;

(ii) Prepares statutory financial statements in compliance with the *NAIC Accounting Practices and Procedures Manual*;

(iii) Is both:

(A) Licensed or accredited in at least ten states (including its state of domicile); and

(B) Not licensed in any state as a captive, special purpose vehicle, special purpose financial captive, special purpose life reinsurance company, limited purpose subsidiary, or any other similar licensing regime; and

(iv) Is not, or would not be, below five hundred percent of the authorized control level RBC as that term is defined in RCW 48.05.440 when its risk-based capital (RBC) is calculated in accordance with the life risk-based capital report including overview and instructions for companies, as the same may be amended by the NAIC from time to time, without deviation, and without recognition of any departures from NAIC statutory accounting practices and procedures pertaining to the admis-

sion or valuation of assets or liabilities that increase the assuming insurer's reported surplus; or

(e) Reinsurance ceded to an assuming insurer that meets the requirements of section 5(5), chapter 138, Laws of 2021; or

(f) Reinsurance not otherwise exempt under this section if the commissioner, after consulting with the NAIC Financial Analysis Working Group (FAWG) or other group of regulators designated by the NAIC, as applicable, determines under all the facts and circumstances that all of the following apply:

(i) The risks are clearly outside of the intent and purpose of this regulation, as described in subsection (1) of this section;

(ii) The risks are included within the scope of this regulation only as a technicality; and

(iii) The application of this regulation to those risks is not necessary to provide appropriate protection to policyholders.

(4) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Actuarial method" means the methodology used to determine the required level of primary security, as described in subsection (5) of this section.

(b) "Covered policies" means the following: Subject to the exemptions described in subsection (3) of this section, covered policies are those policies, other than grandfathered policies, of the following policy types:

(i) Life insurance policies with guaranteed nonlevel gross premiums and/or guaranteed nonlevel benefits, except for flexible premium universal life insurance policies; or

(ii) Flexible premium universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period.

(c) "Grandfathered policies" means policies of the types described in (a) and (b) of this subsection that were:

(i) Issued prior to January 1, 2015; and

(ii) Ceded, as of December 31, 2014, as part of a reinsurance treaty that would not have met one of the exemptions set forth in Section 4 had that section then been in effect.

(d) "Noncovered policies" means any policy that does not meet the definition of covered policies including grandfathered policies as defined in this section.

(e) "Required level of primary security" means the dollar amount determined by applying the actuarial method to the risks ceded with respect to covered policies, but not more than the total reserve ceded.

(f) "Primary security" means the following forms of security:

(i) Cash meeting the requirements of RCW 48.12.460(1);

(ii) Securities listed by the Securities Valuation Office meeting the requirements of RCW 48.12.460(2), but excluding any synthetic letter of credit, contingent note, credit-linked note or other similar security that operates in a manner similar to a letter of credit, and excluding any securities issued by the ceding insurer or any of its affiliates; and

(iii) For security held in connection with funds withheld and modified coinsurance reinsurance treaties:

(A) Commercial loans in good standing of CM3 quality and higher;

(B) Policy loans; and

(C) Derivatives acquired in the normal course and used to support and hedge liabilities pertaining to the actual risks in the policies ceded pursuant to the reinsurance treaty.

(g) "Other security" means any security acceptable to the commissioner other than security meeting the definition of primary security.

(h) "Valuation manual" means the *Valuation Manual* adopted by the NAIC as described in RCW 48.74.100 (2) (a) and WAC 284-74-610, with all amendments adopted by the NAIC that are effective for the financial statement date on which credit for reinsurance is claimed.

(i) "VM-20" means requirements for principle-based reserves for life products, including all relevant definitions, from the *Valuation Manual*.

(5) (a) The actuarial method to establish the required level of primary security for each reinsurance treaty subject to this regulation must be VM-20, applied on a treaty-by-treaty basis, including all relevant definitions, from the *Valuation Manual* as then in effect, applied as follows:

(i) For covered policies described in subsection (4) (b) (i) of this section, the actuarial method is the greater of the deterministic reserve or the net premium reserve (NPR) regardless of whether the criteria for exemption testing can be met. However, if the covered policies do not meet the requirements of the stochastic reserve exclusion test in the *Valuation Manual*, then the actuarial method is the greatest of the deterministic reserve, the stochastic reserve, or the NPR. In addition, if such covered policies are reinsured in a reinsurance treaty that also contains covered policies described in subsection (4) (b) (ii) of this section, the ceding insurer may elect to instead use (a) (ii) of this subsection as the actuarial method for the entire reinsurance agreement. Whether this subsection (5) (a) (i) or (ii) of this section are used, the actuarial method must comply with any requirements or restrictions that the *Valuation Manual* imposes when aggregating these policy types for purposes of principle-based reserve calculations.

(ii) For covered policies described in subsection (4) (b) (ii) of this section, the actuarial method is the greatest of the deterministic reserve, the stochastic reserve, or the NPR regardless of whether the criteria for exemption testing can be met.

(iii) Except as provided in (a) (iv) of this subsection, the actuarial method is to be applied on a gross basis to all risks with respect to the covered policies as originally issued or assumed by the ceding insurer.

(iv) If the reinsurance treaty cedes less than one hundred percent of the risk with respect to the covered policies, then the required level of primary security may be reduced as follows:

(A) If a reinsurance treaty cedes only a quota share of some or all of the risks pertaining to the covered policies, the required level of primary security, as well as any adjustment under (a) (iv) (C) of this subsection, may be reduced to a pro rata portion in accordance with the percentage of the risk ceded;

(B) If the reinsurance treaty in a nonexempt arrangement cedes only the risks pertaining to a secondary guarantee, the required level of primary security may be reduced by an amount determined by applying the actuarial method on a gross basis to all risks, other than risks related to the secondary guarantee, pertaining to the covered policies, except that for covered policies for which the ceding insurer did not elect to apply the provisions of VM-20 to establish statutory reserves, the required level of primary security may be reduced by the

statutory reserve retained by the ceding insurer on those covered policies, where the retained reserve of those covered policies should be reflective of any reduction pursuant to the cession of mortality risk on a yearly renewable term basis in an exempt arrangement;

(C) If a portion of the covered policy risk is ceded to another reinsurer on a yearly renewable term basis in an exempt arrangement, the required level of primary security may be reduced by the amount resulting by applying the actuarial method including the reinsurance section of VM-20 to the portion of the covered policy risks ceded in the exempt arrangement, except that for covered policies issued prior to January 1, 2017, this adjustment is not to exceed $[cx / (2 * \text{number of reinsurance premiums per year})]$ where cx is calculated using the same mortality table used in calculating the net premium reserve; and

(D) For any other treaty ceding a portion of risk to a different reinsurer including, but not limited to, stop loss, excess of loss and other nonproportional reinsurance treaties, there will be no reduction in the required level of primary security.

It is possible for any combination of (a)(iv) of this subsection to apply. Such adjustments to the required level of primary security will be done in the sequence that accurately reflects the portion of the risk ceded via the treaty. The ceding insurer should document the rationale and steps taken to accomplish the adjustments to the required level of primary security due to the cession of less than one hundred percent of the risk.

The adjustments for other reinsurance will be made only with respect to reinsurance treaties entered into directly by the ceding insurer. The ceding insurer will make no adjustment as a result of a retrocession treaty entered into by the assuming insurers.

(v) In no event will the required level of primary security resulting from application of the actuarial method exceed the amount of statutory reserves ceded.

(vi) If the ceding insurer cedes risks with respect to covered policies, including any riders, in more than one reinsurance treaty subject to this regulation, in no event will the aggregate required level of primary security for those reinsurance treaties be less than the required level of primary security calculated using the actuarial method as if all risks ceded in those treaties were ceded in a single treaty subject to this regulation;

(vii) If a reinsurance treaty subject to this regulation cedes risk on both covered and noncovered policies, credit for the ceded reserves will be determined as follows:

(A) The actuarial method must be used to determine the required level of primary security for the covered policies and subsection (6) of this section must be used to determine the reinsurance credit for the covered policy reserves; and

(B) Credit for the noncovered policy reserves will be granted only to the extent that security, in addition to the security held to satisfy the requirements of (a)(vii)(A) of this subsection, is held by or on behalf of the ceding insurer in accordance with section 2, chapter 138, Laws of 2021 and RCW 48.12.410 through 48.12.460. Any primary security used to meet the requirements of this subsection may not be used to satisfy the required level of primary security for the covered policies.

(b) For the purposes of both calculating the required level of primary security pursuant to the actuarial method and determining the amount of primary security and other security, as applicable, held by or on behalf of the ceding insurer, the following will apply:

(i) For assets, including any such assets held in trust, that would be admitted under the *NAIC Accounting Practices and Procedures Manual* if they were held by the ceding insurer, the valuations are to be determined according to statutory accounting procedures as if such assets were held in the ceding insurer's general account and without taking into consideration the effect of any prescribed or permitted practices; and

(ii) For all other assets, the valuations are to be those that were assigned to the assets for the purpose of determining the amount of reserve credit taken. In addition, the asset spread tables and asset default cost tables required by VM-20 must be included in the actuarial method if adopted by the NAIC's Life Actuarial (A) Task Force no later than the December 31st on or immediately preceding the valuation date for which the required level of primary security is being calculated. The tables of asset spreads and asset default costs must be incorporated into the actuarial method in the manner specified in VM-20.

(6) Requirements applicable to covered policies to obtain credit for reinsurance - Opportunity for remediation:

(a) Requirements are subject to the exemptions described in subsection (3) of this section and the provisions of (b) of this subsection, credit for reinsurance will be allowed with respect to ceded liabilities pertaining to covered policies pursuant to section 2, chapter 138, Laws of 2021 and RCW 48.12.410 through 48.12.460 if, and only if, in addition to all other requirements imposed by law or regulation, the following requirements are met on a treaty-by-treaty basis:

(i) The ceding insurer's statutory policy reserves with respect to the covered policies are established in full and in accordance with the applicable requirements of chapter 48.74 RCW and related regulations and actuarial guidelines, and credit claimed for any reinsurance treaty subject to this regulation does not exceed the proportionate share of those reserves ceded under the contract;

(ii) The ceding insurer determines the required level of primary security with respect to each reinsurance treaty subject to this regulation and provides support for its calculation as determined to be acceptable to the commissioner;

(iii) Funds consisting of primary security, in an amount at least equal to the required level of primary security, are held by or on behalf of the ceding insurer, as security under the reinsurance treaty within the meaning of RCW 48.12.460, on a funds withheld, trust, or modified coinsurance basis;

(iv) Funds consisting of other security, in an amount at least equal to any portion of the statutory reserves as to which primary security is not held pursuant to (a)(iii) of this subsection, are held by or on behalf of the ceding insurer as security under the reinsurance treaty within the meaning of RCW 48.12.460;

(v) Any trust used to satisfy the requirements of this section must comply with all of the conditions and qualifications of WAC 284-13-550, except that:

(A) Funds consisting of primary security or other security held in trust, will for the purposes identified in subsection (5)(b) of this section, be valued according to the valuation rules set forth in subsection (5)(b) of this section, as applicable;

(B) There are no affiliate investment limitations with respect to any security held in such trust if such security is not needed to satisfy the requirements of (a)(iii) of this subsection;

(C) The reinsurance treaty must prohibit withdrawals or substitutions of trust assets that would leave the fair market value of the primary security within the trust (when aggregated with primary security outside the trust that is held by or on behalf of the ceding insurer in the manner required by (a)(iii) of this subsection below one hundred two percent of the level required by (a)(iii) of this subsection at the time of the withdrawal or substitution; and

(D) The determination of reserve credit under WAC 284-13-550(5) must be determined according to the valuation rules set forth in subsection (5)(b) of this section, as applicable; and

(vi) The reinsurance treaty has been approved by the commissioner.

(b) Requirements at inception date and on an ongoing basis - Remediation:

(i) The requirements of (a) of this subsection must be satisfied as of the date that risks under covered policies are ceded on or after the effective date of this subsection and on an ongoing basis thereafter. Under no circumstances shall a ceding insurer take or consent to any action or series of actions that would result in a deficiency under (a)(iii) or (iv) of this subsection with respect to any reinsurance treaty under which covered policies have been ceded, and in the event that a ceding insurer becomes aware at any time that such a deficiency exists, it will use its best efforts to arrange for the deficiency to be eliminated as expeditiously as possible.

(ii) Prior to the due date of each quarterly or annual statement, each life insurance company that has ceded reinsurance within the scope of subsection (2) of this section must perform an analysis, on a treaty-by-treaty basis, to determine, as to each reinsurance treaty under which covered policies have been ceded, whether as of the end of the immediately preceding calendar quarter (the valuation date) the requirements of (a)(iii) and (iv) of this subsection were satisfied. The ceding insurer will establish a liability equal to the excess of the credit for reinsurance taken over the amount of primary security actually held pursuant to (a)(iii) of this subsection, unless either:

(A) The requirements of (a)(iii) and (iv) of this subsection were fully satisfied as of the valuation date as to such reinsurance treaty; or

(B) Any deficiency has been eliminated before the due date of the quarterly or annual statement to which the valuation date relates through the addition of primary security and/or other security, as the case may be, in such amount and in such form as would have caused the requirements of (a)(iii) and (iv) of this subsection to be fully satisfied as of the valuation date.

(iii) Nothing in (b)(ii) of this subsection will be construed to allow a ceding company to maintain any deficiency under (a)(iii) or (iv) of this subsection for any period of time longer than is reasonably necessary to eliminate it.

(7) If any provision of this section is held invalid, the remainder shall not be affected.

(8) No insurer that has covered policies as to which this regulation applies as set forth in section (2) of this section shall take any action or series of actions, or enter into any transaction or arrangement or series of transactions or arrangements if the purpose of such action, transaction or arrangement or series thereof is to avoid the requirements of this regulation, or to circumvent its purpose and intent, as set forth in section (1) of this section.

[Statutory Authority: RCW 48.02.060, 48.12.480; 2021 c 139 § 2 and 2021 c 138 § 4. WSR 21-20-042 (Matter R 2021-05), § 284-13-53903, filed 9/27/21, effective 1/1/22.]

Reviser's note: The brackets and enclosed material in the text of the above section occurred in the copy filed by the agency.