

**PROPOSED REGULATION OF THE
COMMISSIONER OF INSURANCE**

LCB FILE NO. R154-20I

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**PROPOSED PERMANENT REGULATION OF
THE COMMISSIONER OF INSURANCE**

LCB File No. R____ - ____

EXPLANATION – Matter in *italics* is new; matter in brackets [~~omitted material~~] is material to be omitted.

AUTHORITY: NRS 679B.130; NRS 681A.145

A REGULATION relating to insurance; establish uniform, national standards governing reserve financing arrangements pertaining to life insurance policies containing guaranteed non-level gross premiums, guaranteed non-level 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 this regulation, are held by or on behalf of ceding insurers in the forms and amounts required herein.

Section 1. Chapter 681A of NAC is hereby amended by adding thereto the provisions set forth as sections 2 to 29, inclusive, of this regulation.

Sec. 2. *The purpose and intent of this regulation is to establish uniform, national standards governing reserve financing arrangements pertaining to life insurance policies containing guaranteed non-level gross premiums, guaranteed non-level benefits and universal life insurance policies with secondary guarantees; and to ensure that, with respect to each financing arrangement, funds consisting of Other Security, and Primary Security, as defined in sections 15 and 17, respectively, are held by or on behalf of ceding insurers in the form and amounts required herein. In general, reinsurance ceded for reserve financing purposes, has one or more of the following characteristics: some or all of the assets used to secure the reinsurance treaty or to capitalize the reinsurer (1) are issued by the ceding insurer or its affiliates; or (2) are not unconditionally available to satisfy the general account obligations of the ceding insurer; or (3) 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).

Sec. 3. *This regulation shall apply to reinsurance treaties that cede liabilities pertaining to Covered Policies, as that term is defined in Section 10, issued by any life insurance company domiciled in this state. This regulation, NAC 681A.140 to 240, inclusive, and regulation R079-16 shall apply to such reinsurance treaties; provided, that in the event of a direct conflict between the provisions of this regulation, NAC 681A.140 to 240, and regulation R 079-16, the provisions of this regulation shall apply, but only to the extent of the conflict.*

Sec. 4.

The requirements of this regulation do not apply to the situations described in subsections 1 to 6, inclusive:

1. Reinsurance of:

(a) Policies that satisfy the criteria set forth in subparagraphs (1), (2) or (3) and which are issued before the later of the effective date of this regulation and 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.

(1) Attained-Age-Based Yearly Renewable Term Life Insurance Policies.

(2) Policies that become Attained-Age-Based Yearly Renewable Term Life Insurance Policies after an initial period of coverage if the following conditions are met:

(i) The initial period is constant for all insureds of the same sex, risk class and plan of insurance; or

(ii) The initial period runs to a common attained age for all insureds of the same sex, risk class

and plan of insurance; and

(iii) After the initial period of coverage, the policy meets the conditions of subparagraph (1).

(3) N-Year Renewable Term Life Insurance Policies if:

(i) The policy consists of a series of n-year periods, including the first period and all renewal periods, where n is the same for each period, except for the final renewal period, n may be truncated or extended to reach the expiry age, provided that this final renewal period is less than 10 years and less than twice the size of the earlier n-year periods, and for each period, the premium rates on both the initial current premium scale and the guaranteed maximum premium scale are level.

(ii) The guaranteed gross premium in all n-year periods are not less than the corresponding net premiums based upon the 1980 CSO Table with or without the ten-year select mortality factors, and

(iii) There are no cash surrender values in any policy year.

(b) Portions of policies that are Yearly Renewable Term Reinsurance and which are issued before the later of:

(1) The effective date of this regulation, and

(2) 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;

For purposes of this regulation, a reinsurance agreement shall be considered to be yearly renewable term reinsurance if only the mortality risk is reinsured.

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

(1) Secondary guarantee period, if any, is five (5) years or less;

(2) 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

(3) The initial surrender charge is not less than one hundred percent (100%) of the first year annualized specified premium for the secondary guarantee period;

(d) Credit life insurance;

(e) 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

(f) 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.

2. Reinsurance ceded to an assuming insurer that meets the applicable requirements of NRS 681A.180 and NRS 681A.190; or

3. Reinsurance ceded to an assuming insurer that meets the applicable requirements of NRS 681A.155, NRS 681A.160 and NRS 681A.170, and that, in addition:

(a) 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

(b) Is not in a Company Action Level Event, a Regulatory Action Level Event, Authorized

Control Level Event, or Mandatory Control Level Event as those terms are defined in sections 9, 19, 8 and 13, respectively, when its risk-based capital 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

4. Reinsurance ceded to an assuming insurer that meets the applicable requirements of NRS 681A.155, NRS 681A.160 or NRS 681A.170, and that, in addition:

(a) Is not an affiliate, as that term is defined in NRS 692C.030, of:

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

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

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

(c) Is both:

(1) Licensed or accredited in at least 10 states (including its state of domicile), and

(2) 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

(d) Is not, or would not be, below 500% of the Authorized Control Level as that term is defined in NAC 681B.405 when its risk-based capital 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 admission or valuation of assets or liabilities that increase the assuming insurer's reported surplus; or

5. *Reinsurance ceded to an assuming insurer that meets the requirements of NRS 681A.145; or*

6. *Reinsurance not otherwise exempt under Subsections 1 through 5 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:*

(a) *The risks are clearly outside of the intent and purpose of this regulation (as described in section 2);*

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

(c) *The application of this regulation to those risks is not necessary to provide appropriate protection to policyholders. The Commissioner shall publicly disclose any decision made pursuant to this subsection to exempt a reinsurance treaty from this regulation, as well as the general basis therefor (including a summary description of the treaty).*

Sec. 5. *As used in sections 2 to 29, inclusive, unless the context otherwise requires, the words and terms defined in sections 6 to 24, inclusive, have the meanings ascribed to them in those sections.*

Sec. 6. *“Actuarial Method” means the methodology used to determine the Required Level of Primary Security, as described in Section 25.*

Sec. 7. *A Yearly Renewable Term Life Insurance Policy is an “Attained-Age-Based Yearly Renewable Term Life Insurance Policy” if:*

(i) *the premium rates (on both the initial current premium scale and the guaranteed maximum premium scale) are based upon the attained age of the insured such that the rates for any given policy at a given attained age of the insured is independent of the year the policy was issued;*

and,

(ii) The premium rates (on both the initial current premium scale and the guaranteed maximum premium scale) are the same as the premium rates for policies covering all insureds of the same sex, risk class, plan of insurance and attained age.

Sec. 8. *“Authorized Control Level Event” means an event that requires authorized control, pursuant to NAC 681B.530.*

Sec. 9. *“Company Action Level Event” means an event that requires company action pursuant to NAC 681B.490.*

Sec. 10. *“Covered Policies” means the following: Subject to the exemptions described in Section 4, Covered Policies are those policies, of the following policy types:*

- 1. Life insurance policies with guaranteed non-level gross premiums and/or guaranteed non-level benefits, except for flexible premium universal life insurance policies; or*
- 2. 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.*

Sec. 11. *“Deterministic Reserve” has the meaning ascribed to it in VM-20.*

Sec. 12. *“Grandfathered Policies” means policies of the types described in section 10 and that were:*

- 1. Issued prior to January 1, 2015, and*
- 2. 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.*

Sec. 13. *“Mandatory Control Level Event” means an event that requires mandatory control, pursuant to NAC 681B.545.*

Sec. 14. *“Non-Covered Policies” means any policy that does not meet the definition of Covered*

Policies.

Sec. 15. *“Other Security” means any security acceptable to the Commissioner other than security meeting the definition of Primary Security.*

Sec. 16. *“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.*

Sec. 17. *“Primary Security” means the following forms of security:*

- 1. Cash meeting the requirements of NRS 681A.240(1);*
- 2. Securities listed by the Securities Valuation Office meeting the requirements of NRS 681A.240(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*
- 3. For security held in connection with funds-withheld and modified coinsurance reinsurance treaties:*
 - (a) Commercial loans in good standing of commercial mortgage category 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.*

Sec. 18. *“Policy with a secondary guarantee” means a policy with a guarantee that the policy will remain in force at the original schedule of benefits, subject only to the payment of specified premiums.*

Sec. 19. *“Regulatory Action Level Event” means an event that requires regulatory action*

pursuant to NAC 681B.510.

Sec. 20. *“Secondary guarantee period” means the period for which a policy is guaranteed to remain in force subject only to a secondary guarantee.*

Sec. 21. *“Stochastic Reserve” has the meaning ascribed to it in VM-20.*

Sec. 22 *“Universal life insurance policy” means any individual life insurance policy under the provisions of which separately identified interest credits (other than in connection with dividend accumulations, premium deposit funds, or other supplementary accounts) and mortality or expense charges are made to the policy.*

Sec. 23. *“Valuation Manual” means the valuation manual adopted by the NAIC as described in NRS 681B.0071, with all amendments adopted by the NAIC that are effective for the financial statement date on which credit for reinsurance is claimed.*

Sec. 24. *“VM-20” means “Requirements for Principle-Based Reserves for Life Products,” including all relevant definitions, from the Valuation Manual.*

Sec. 25. 1. *The Actuarial Method to establish the Required Level of Primary Security for each reinsurance treaty subject to this regulation shall 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:*

(a) For Covered Policies described in subsection 1 of section 10, 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 2 of Section 10, the ceding insurer may elect to instead use paragraph (b) as the Actuarial Method for the entire reinsurance agreement. Whether the provisions of this paragraph or paragraph (b) is 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.

(b) For Covered Policies described in subsection 2 of section 10, 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.

(c) Except as provided in paragraph (d), 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.

(d) If the reinsurance treaty cedes less than one hundred percent (100%) of the risk with respect to the Covered Policies then the Required Level of Primary Security may be reduced as follows:

(1) 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 subparagraph (3), may be reduced to a pro rata portion in accordance with the percentage of the risk ceded;

(2) If the reinsurance treaty in a non-exempt 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;

*(3) 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 $[c_x / (2 * \text{number of reinsurance premiums per year})]$ where c_x is calculated using the same mortality table used in calculating the Net Premium Reserve; and*

(4) 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 non-proportional reinsurance treaties, there will be no reduction in the Required Level of Primary Security.

➡ It is possible for any combination of subparagraphs (1), (2), (3), and (4) 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 (100%) 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.

(e) In no event will the Required Level of Primary Security resulting from application of the Actuarial Method exceed the amount of statutory reserves ceded.

(f) 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;

(g) If a reinsurance treaty subject to this regulation cedes risk on both Covered and Non-Covered Policies, credit for the ceded reserves shall be determined as follows:

(1) The Actuarial Method shall be used to determine the Required Level of Primary Security for the Covered Policies, and Section 26 shall be used to determine the reinsurance credit for the Covered Policy reserves; and

(2) Credit for the Non-Covered Policy reserves shall be granted only to the extent that security, in addition to the security held to satisfy the requirements of subparagraph (1), is held by or on behalf of the ceding insurer in accordance with NRS 681A.140 to NRS 681A.240, inclusive and regulation R079-16. Any Primary Security used to meet the requirements of this subparagraph may not be used to satisfy the Required Level of Primary Security for the Covered Policies.

2. 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 shall apply:

(a) 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

(b) 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 shall 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 shall be incorporated into the Actuarial Method in the manner specified in VM-20.

Sec. 26.

1. Subject to the exemptions described in Section 4 and the provisions of subsection 2, credit for reinsurance shall be allowed with respect to ceded liabilities pertaining to Covered Policies pursuant to NRS 681A.140 to 240, inclusive, and regulation R079-16 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:

(a) 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 NRS 681B.110 to 540, inclusive, 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; and

(b) 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; and

(c) 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 NRS 681A.240, on a funds withheld, trust, or modified coinsurance basis; and

(d) 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 paragraph (c), are held by or on behalf of the ceding insurer as security under the reinsurance treaty within the meaning of NRS 681A.240; and

(e) Any trust used to satisfy the requirements of this section shall comply with all of the conditions and qualifications of NAC 681A.250 to 335, except that:

(1) Funds consisting of Primary Security or Other Security held in trust, shall for the purposes identified in subsection 2 of section 25, be valued according to the valuation rules set forth in subsection 2 of section 25, as applicable; and

(2) 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 paragraph (c); and

(3) 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 paragraph (c)) below 102% of the level required by paragraph (c) above at the time of the withdrawal or substitution; and

(4) The determination of reserve credit under NAC 681A.330 shall be determined according to the valuation rules set forth in subsection 2 of section 25, as applicable; and

(f) The reinsurance treaty has been approved by the Commissioner.

2. (a) The requirements of subsection 1 must be satisfied as of the date that risks under Covered Policies are ceded (if such date is on or after the effective date of this regulation) 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 paragraph (c) or (d) of subsection 1, 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 shall use its best efforts to arrange for the deficiency to be eliminated as expeditiously as possible.

(b) Prior to the due date of each Quarterly or Annual Statement, each life insurance company that has ceded reinsurance within the scope of section 3 shall 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 paragraphs (c) and (d) of subsection 1 were satisfied. The ceding insurer shall establish a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held pursuant to paragraph (c) of subsection 1, unless either:

(1) The requirements of paragraphs (c) and (d) of subsection 1 were fully satisfied as of the valuation date as to such reinsurance treaty; or

(2) 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 paragraphs (c) and (d) of subsection 1 to be fully satisfied as of the valuation

date.

(c) Nothing in paragraph (b) shall be construed to allow a ceding company to maintain any deficiency under paragraphs (c) or (d) of subsection 1 for any period of time longer than is reasonably necessary to eliminate it.

Sec. 27. If any provision of this regulation is held invalid, the remainder shall not be affected.

Sec. 28. No insurer that has covered policies as to which this regulation applies (as set forth in section 3) 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 2.

Sec. 29. This regulation shall become effective January 1, 2019, and shall pertain to all covered policies in force as of and after that date.