

Senate Study Bill 1040 - Introduced

SENATE/HOUSE FILE _____
BY (PROPOSED DEPARTMENT OF
COMMERCE/INSURANCE DIVISION
BILL)

A BILL FOR

1 An Act relating to provisions applicable to life insurance
2 companies and associations, and credit for reinsurance, and
3 including retroactive applicability provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 511.8, subsection 22, paragraph b,
2 subparagraph (2), subparagraph division (b), Code 2017, is
3 amended to read as follows:

4 (b) Financial instruments used in hedging transactions
5 between an insurer and a conduit which are collateralized by
6 obligations eligible under subsection 5 or by cash equivalents
7 eligible under subsection 24, other than a ~~class-one rule~~
8 2a-7 money market fund, are eligible only to the extent that
9 such securities deposited as collateral are not in excess
10 of ten percent of the legal reserve, less any obligations
11 eligible under subsection 5 or cash equivalents eligible under
12 subsection 24, other than a ~~class-one rule~~ 2a-7 money market
13 fund, owned by the insurer or which are the subject of hedging
14 transactions by the insurer, that are included in the insurer's
15 legal reserve.

16 Sec. 2. Section 511.8, subsection 23, paragraph c, Code
17 2017, is amended to read as follows:

18 c. If the loan is collateralized by cash or cash
19 equivalents, the cash or cash equivalent collateral may be
20 reinvested by the life insurance company or association in
21 ~~class-one~~ rule 2a-7 money market funds as defined in subsection
22 24, individual securities which are eligible for inclusion in
23 the legal reserve of the life insurance company or association,
24 or in repurchase agreements fully collateralized by such
25 securities if the life insurance company or association takes
26 delivery of the collateral either directly or through an
27 authorized custodian or pooled fund comprised of individual
28 securities which are eligible for inclusion in the legal
29 reserve of the life insurance company or association. If such
30 reinvestment is made in individual securities or in repurchase
31 agreements, the individual securities or the securities which
32 collateralize the repurchase agreements shall mature in less
33 than two hundred seventy days. If such reinvestment is made
34 in a pooled fund, the average maturity of the securities
35 comprising such pooled fund must be one hundred eighty days or

1 less and the individual maturities of the securities comprising
2 such pooled fund must be three hundred ninety-seven days or
3 less. Individual securities and securities comprising the
4 pooled fund shall be investment grade. As used in this
5 paragraph, "maturity" means the earlier of the fixed date on
6 which the holder of the security is unconditionally entitled to
7 receive principal and interest in full or the date on which the
8 holder of the security is unconditionally entitled upon demand
9 to receive principal and interest in full.

10 Sec. 3. Section 511.8, subsection 24, paragraph a,
11 subparagraph (2), Code 2017, is amended to read as follows:

12 (2) ~~"Class one "~~Rule 2a-7 money market fund" means
13 investments in an open-end management investment company
14 registered with the federal securities and exchange commission
15 under the federal Investment Company Act of 1940, 15 U.S.C.
16 §80a-1 et seq., and operated in accordance with 17 C.F.R.
17 §270.2a-7, ~~that qualifies for investment using the bond class~~
18 ~~one reserve factor under the purposes and procedures of the~~
19 ~~national association of insurance commissioners' securities~~
20 ~~valuation office.~~

21 Sec. 4. Section 511.8, subsection 24, paragraphs b and c,
22 Code 2017, are amended to read as follows:

23 b. Cash equivalents include a ~~class one~~ rule 2a-7 money
24 market fund.

25 c. Cash equivalents, other than a ~~class one~~ rule 2a-7 money
26 market fund, are not eligible in excess of two percent of the
27 legal reserve in the obligations of any one corporation, and
28 are not eligible in excess of ten percent of the legal reserve.

29 Sec. 5. Section 521B.102, unnumbered paragraph 1, Code
30 2017, is amended to read as follows:

31 Credit for reinsurance shall be allowed a domestic ceding
32 insurer as either an asset or a reduction from liability on
33 account of reinsurance ceded only when the reinsurer meets
34 the requirements of subsection 1, 2, 3, 4, 5, or 6. The
35 commissioner may adopt rules pursuant to section 521B.105

1 specifying additional requirements related to the valuation of
2 assets or reserve credits, the amount and forms of security
3 supporting reinsurance arrangements described in section
4 521B.105, and the circumstances pursuant to which credit shall
5 be reduced or eliminated. Credit shall be allowed under
6 subsection 1, 2, or 3 only respecting cessions of those kinds
7 or classes of business which the assuming insurer is licensed
8 or otherwise permitted to write or assume in the insurer's
9 state of domicile or, in the case of a United States branch
10 of an alien assuming insurer, in the state through which the
11 insurer is entered and licensed to transact insurance or
12 reinsurance. Credit shall be allowed under subsection 3 or 4
13 only if the applicable requirements of subsection 7 have been
14 satisfied.

15 Sec. 6. Section 521B.103, subsection 1, Code 2017, is
16 amended to read as follows:

17 1. An asset or a reduction from liability for reinsurance
18 ceded by a domestic insurer to an assuming insurer not meeting
19 the requirements of section 521B.102, shall be allowed in an
20 amount not exceeding the liabilities carried by the ceding
21 insurer. The commissioner may adopt rules pursuant to section
22 521B.105 specifying requirements related to the valuation of
23 assets or reserve credits, the amount and forms of security
24 supporting reinsurance arrangements described in section
25 521B.105, and the circumstances pursuant to which credit shall
26 be reduced or eliminated. The reduction shall be in the amount
27 of funds held by or on behalf of the ceding insurer, including
28 funds held in trust for the ceding insurer, under a reinsurance
29 contract with the assuming insurer as security for the payment
30 of obligations under the contract, if the security is held
31 in the United States subject to withdrawal solely by, and
32 under the exclusive control of, the ceding insurer, or in the
33 case of a trust, held in a qualified United States financial
34 institution as defined in section 521B.104, subsection 2.

35 Sec. 7. Section 521B.105, Code 2017, is amended to read as

1 follows:

2 **521B.105 Rules.**

3 1. The commissioner may adopt rules, pursuant to chapter
4 17A, as necessary or convenient to administer this chapter.

5 2. The commissioner is further authorized to adopt rules
6 pursuant to chapter 17A that are applicable to reinsurance
7 arrangements as follows:

8 a. A rule adopted pursuant to this subsection is applicable
9 only to reinsurance arrangements relating to the following:

10 (1) Life insurance policies with guaranteed nonlevel gross
11 premiums or guaranteed nonlevel benefits.

12 (2) Universal life insurance policies with provisions
13 allowing a policyholder to keep a policy in force over a
14 secondary guarantee period.

15 (3) Variable annuities with guaranteed death or living
16 benefits.

17 (4) Long-term care insurance policies.

18 (5) Other life and health insurance and annuity products as
19 to which the national association of insurance commissioners
20 adopts model regulatory requirements with respect to credit for
21 reinsurance.

22 b. A rule adopted pursuant to paragraph "a", and applicable
23 to policies described in paragraph "a", subparagraph (1) or (2),
24 is applicable to any reinsurance contract containing either of
25 the following:

26 (1) Policies issued on or after January 1, 2015.

27 (2) Policies issued prior to January 1, 2015, if risk
28 pertaining to such policies is ceded in connection with the
29 reinsurance contract, in whole or in part, on or after January
30 1, 2015.

31 c. A rule adopted pursuant to this subsection may require
32 the ceding insurer, in calculating the amounts or forms of
33 security required to be held under rules adopted under this
34 subsection, to use the valuation manual as defined in section
35 508.36, including all amendments adopted by the national

1 association of insurance commissioners and in effect on
2 the date as of which the calculation is made, to the extent
3 applicable.

4 3. A rule adopted pursuant to this section is not applicable
5 to cessions to an assuming insurer that meets either of the
6 following requirements:

7 a. Is certified in Iowa.

8 b. Maintains at least two hundred fifty million dollars
9 in capital and surplus when determined in accordance with the
10 accounting practices and procedures manual of the national
11 association of insurance commissioners, including all
12 amendments adopted by the national association of insurance
13 commissioners, but excluding the impact of any permitted
14 or prescribed practices; and meets either of the following
15 requirements:

16 (1) Is licensed in at least twenty-six states.

17 (2) Is licensed in at least ten states, and is licensed or
18 accredited in a total of at least thirty-five states.

19 4. The commissioner's authority to adopt rules pursuant
20 to subsection 2 does not limit the commissioner's general
21 authority to adopt rules pursuant to subsection 1.

22 Sec. 8. RETROACTIVE APPLICABILITY. The following provision
23 of this Act applies retroactively to January 1, 2015, as to
24 specified reinsurance contracts described in section 521B.105,
25 subsection 2, paragraph "b", as enacted in this Act:

26 1. The section of this Act amending section 521B.105.

27 EXPLANATION

28 The inclusion of this explanation does not constitute agreement with
29 the explanation's substance by the members of the general assembly.

30 This bill relates to provisions applicable to life insurance
31 companies and associations and credit for reinsurance, and
32 contains a retroactive applicability provision.

33 The bill makes changes in Code section 511.8 by renaming a
34 money market fund that is referred to in the provision.

35 The bill makes changes in several provisions of Code

1 chapter 521B, giving the commissioner of insurance specific
2 authorization to adopt rules applicable to reinsurance
3 arrangements, in addition to the commissioner's existing
4 authorization to adopt rules to administer the Code chapter.

5 The amendments to Code section 521B.105 are made
6 retroactively applicable to January 1, 2015, as to rules that
7 are adopted and are applicable to certain specified life
8 insurance policies with reinsurance contracts containing
9 policies issued on or after January 1, 2015, or policies issued
10 prior to January 1, 2015, if risk pertaining to the policies is
11 ceded in connection with the reinsurance contract on or after
12 January 1, 2015.