

Senate Study Bill 3179 - Introduced

SENATE/HOUSE FILE _____
BY (PROPOSED DEPARTMENT OF
INSURANCE AND FINANCIAL
SERVICES BILL)

A BILL FOR

1 An Act relating to captive insurance companies and life captive
2 reinsurance companies, and including civil penalties.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

unofficial

1 Section 1. Section 432.1, Code 2026, is amended by adding the
2 following new subsection:

3 NEW SUBSECTION. 7. a. A tax return filed under this section
4 shall not be subject to inspection under chapter 22. It shall
5 be unlawful for any present or former officer or employee of the
6 state to willfully or recklessly publish any tax return filed
7 under this section. A person who violates this paragraph shall
8 be guilty of a serious misdemeanor and, in addition to any other
9 penalty, shall be dismissed from state office or discharged from
10 state employment.

11 b. This section shall not be construed to prohibit the
12 department of revenue from turning over information and tax
13 returns in the department of revenue's possession pursuant to
14 this subsection to duly authorized officers of the United States,
15 or tax officials of other states, pursuant to an agreement
16 between the commissioner of insurance and any of the following:

17 (1) The secretary of the treasury of the United States, or
18 the secretary's delegate.

19 (2) The commissioner of insurance of another state.

20 Sec. 2. Section 432.1A, Code 2026, is amended by adding the
21 following new subsection:

22 NEW SUBSECTION. 9. a. A tax return filed under this section
23 shall not be subject to inspection under chapter 22. It shall
24 be unlawful for any present or former officer or employee of the
25 state to willfully or recklessly publish any tax return filed
26 under this section. A person who violates this paragraph shall
27 be guilty of a serious misdemeanor and, in addition to any other
28 penalty, shall be dismissed from state office or discharged from
29 state employment.

30 b. This section shall not be construed to prohibit the
31 department of revenue from turning over information and
32 tax returns in the department's possession pursuant to this
33 subsection to duly authorized officers of the United States, or
34 tax officials of other states, pursuant to an agreement between
35 the commissioner of insurance and any of the following:

1 (1) The secretary of the treasury of the United States, or
2 the secretary's delegate.

3 (2) The commissioner of insurance of another state.

4 Sec. 3. Section 490.905, subsection 1, Code 2026, is amended
5 to read as follows:

6 1. The secretary of state, upon a corporation complying with
7 this section and upon the filing of articles of incorporation
8 and upon receipt of the fees as provided in this chapter, shall
9 issue an acknowledgment of receipt of document as of the date of
10 the filing of the articles of incorporation with the secretary
11 of state. The acknowledgment of receipt of document shall state
12 on its face that it is issued in accordance with this section.
13 The secretary of state shall then notify the appropriate officer
14 of the state or country of the corporation's last domicile that
15 the corporation is now a domestic corporation domiciled in this
16 state. This section applies to life insurance companies, and
17 to insurance companies doing business under chapter 515, and to
18 captive companies doing business under chapter 521J.

19 Sec. 4. Section 521J.1, unnumbered paragraph 1, Code 2026, is
20 amended to read as follows:

21 As used in this ~~chapter~~ subchapter, unless the context
22 otherwise requires:

23 Sec. 5. Section 521J.1, subsections 2, 6, 7, 8, and 9, Code
24 2026, are amended to read as follows:

25 2. "Alien captive company" means a captive company formed
26 under the laws of an ~~alien jurisdiction~~ any country except the
27 United States that imposes statutory or regulatory standards in a
28 form acceptable to the commissioner on companies transacting the
29 business of insurance in such jurisdiction.

30 6. "Business entity" means a ~~corporation, a limited liability~~
31 ~~company, or other legal entity formed by an organizational~~
32 ~~document~~ legal entity permitted under Iowa law. "Business
33 entity" does not include a sole proprietorship.

34 7. "Captive company" means any pure captive company,
35 protected cell captive company, special purpose captive company,

1 or industrial insured captive company formed or authorized under
2 this ~~chapter~~ subchapter. "Captive company" does not include
3 a life captive reinsurance company as defined under section
4 521J.101.

5 8. "Captive reinsurance company" means a captive insurance
6 company in this state, as authorized by ~~the commissioner by rule~~
7 under this subchapter, that reinsures the risk ceded by any other
8 insurer. "Captive reinsurance company" does not include a life
9 captive reinsurance company as defined under section 521J.101.

10 9. "Captive risk retention group" means a captive insurance
11 risk retention group formed under this ~~chapter~~ subchapter and
12 that is subject to chapter 515E.

13 Sec. 6. Section 521J.1, Code 2026, is amended by adding the
14 following new subsection:

15 NEW SUBSECTION. 13A. "Foreign captive company" means a
16 captive company formed and licensed under the laws of any
17 jurisdiction within the United States except this state.

18 Sec. 7. Section 521J.1, subsection 22, Code 2026, is amended
19 to read as follows:

20 22. "Protected cell" means a separate account established
21 by a protected cell captive company formed or authorized under
22 this ~~chapter~~ subchapter in which an identified pool of assets
23 and liabilities are segregated and insulated, as provided in
24 section 521J.17, from the remainder of the protected cell captive
25 company's assets and liabilities in accordance with the terms of
26 one or more participant contracts to fund the liability of the
27 protected cell captive company with respect to the participants.

28 Sec. 8. Section 521J.1, subsection 24, paragraph b, Code
29 2026, is amended to read as follows:

30 b. The company is formed or authorized under this ~~chapter~~
31 subchapter.

32 Sec. 9. Section 521J.1, subsection 31, Code 2026, is amended
33 to read as follows:

34 31. "Special purpose captive company" means a captive company
35 that is formed or authorized under this ~~chapter~~ subchapter that

1 does not meet the definition of any other type of captive company
2 as defined in this ~~section~~ subchapter, or that is formed by,
3 on behalf of, or for the benefit of a political subdivision
4 ~~of this state.~~ "Special purpose captive company" may include
5 a reciprocal insurer. "Special purpose captive company" does
6 not include a life captive reinsurance company as defined under
7 section 521J.101.

8 Sec. 10. Section 521J.2, subsection 1, unnumbered paragraph
9 1, Code 2026, is amended to read as follows:

10 If permitted by its organizational document, a captive company
11 may apply to the commissioner for a certificate of authority to
12 provide property insurance, casualty insurance, life insurance,
13 disability income insurance, surety insurance, marine insurance,
14 health insurance, ~~or~~ a group health plan, or the ability to
15 accept or transfer risk by means of a parametric contract, with
16 the following exceptions:

17 Sec. 11. Section 521J.2, subsection 2, Code 2026, is amended
18 by adding the following new paragraph:

19 NEW PARAGRAPH. e. The captive company's organizational
20 documents, and any subsequent amendments, have been filed and
21 approved by the commissioner prior to being filed with the
22 secretary of state.

23 Sec. 12. Section 521J.2, subsections 3, 4, and 5, Code 2026,
24 are amended to read as follows:

25 3. a. Prior to receiving a certificate of authority, a
26 captive company applicant shall do all of the following:

27 (1) File with the commissioner all of the following:

28 (a) A ~~certified~~ copy of the business entity's organizational
29 document.

30 (b) A statement under oath of an officer of the business
31 entity showing the business entity's financial condition.

32 (c) Any other statement or document required by the
33 commissioner ~~as established by rule.~~

34 (2) Submit a description of coverages, deductibles, coverage
35 limits, rates, and any additional information requested by the

1 commissioner to the commissioner for approval.

2 (3) Provide a statement to the commissioner that describes
3 all of the following:

4 (a) The character, reputation, and financial standing of the
5 organizers of the business entity.

6 (b) The character, reputation, financial responsibility,
7 insurance experience, and business qualifications of all
8 officers, directors, and managing members of the business entity.

9 (4) Provide any other information required by the
10 commissioner as ~~established by rule.~~

11 b. If there is a subsequent material change in the
12 information provided to the commissioner under paragraph "a", the
13 captive company shall submit appropriate supporting documentation
14 to the commissioner for approval. The captive company shall
15 not offer any additional lines of insurance until on or after
16 the date on which the commissioner approves the supporting
17 documentation. The captive company shall inform the commissioner
18 of any change in rates within thirty calendar days of the captive
19 company's adoption of a change in rate.

20 c. In addition to the information required under paragraphs
21 "a" and "b", each applicant captive company shall file with the
22 commissioner evidence of all of the following:

23 (1) The amount and liquidity of the captive company's assets
24 relative to the risks to be assumed by the captive company.

25 (2) The adequacy of the expertise, experience, and character
26 of the persons who will manage the captive company.

27 (3) The overall soundness of the captive company's plan of
28 operation.

29 (4) The adequacy of the loss prevention program of the
30 captive company's parent, members, or industrial insureds, as
31 applicable.

32 (5) Any other factors deemed relevant by the commissioner to
33 ascertain if the proposed captive company will be able to meet
34 the company's policy obligations.

35 d. In addition to the information required under paragraph

1 "a", each applicant that is a protected cell captive company
2 shall file with the commissioner all of the following:

3 (1) A business plan that demonstrates, at a level of detail
4 deemed sufficient by the commissioner, how the applicant will
5 account for the loss and expense experience of each protected
6 cell, and how the applicant will report the loss and expense
7 experience of each protected cell to the commissioner.

8 (2) A statement that acknowledges that all financial records
9 of the protected cell captive company, including records
10 pertaining to any protected cells, shall be made available upon
11 request for inspection or examination by the commissioner or the
12 commissioner's designated agent.

13 (3) A copy of each participant contract.

14 (4) Evidence that expenses will be allocated to each
15 protected cell in a fair and equitable manner.

16 e. In addition to the requirements of paragraph "a", a
17 captive company formed as a reciprocal insurer shall file with
18 the commissioner a certified copy of the power of attorney
19 of the reciprocal insurer's attorney-in-fact, a certified copy
20 of the reciprocal insurer's subscribers' agreement, a statement
21 under oath of the reciprocal insurer's attorney-in-fact that
22 shows the reciprocal insurer's financial condition, and any
23 other statements or documents required by the commissioner as
24 established by rule.

25 ~~f.~~ 4. All documents, reports, and information submitted
26 pursuant to this ~~subsection~~ subchapter shall be confidential and
27 shall not be made public without the advance written consent of
28 the submitting company, with the following exceptions:

29 (1) a. The documents and information shall be discoverable
30 by a party in a civil action or in a contested case to which
31 the captive company that submitted the information is a party
32 upon a showing by the party seeking to discover the information
33 that the information sought is relevant to, and necessary for,
34 the furtherance of the action or case; the information sought
35 is unavailable from other nonconfidential sources; and that a

1 subpoena issued by a judicial or an administrative officer has
2 been submitted to the commissioner.

3 (2) b. The commissioner may, in the commissioner's
4 discretion, disclose the documents and information to a public
5 official having jurisdiction over the regulation of insurance in
6 another state, or to a public official of the federal government,
7 provided that the public official agrees in writing to maintain
8 the confidentiality of the information, and that the laws of
9 the state in which the public official serves require that the
10 information remain confidential.

11 4. 5. a. Each captive company, each individual series of
12 members of a limited liability company, and each protected cell
13 shall pay a nonrefundable fee to the commissioner of two hundred
14 dollars for the examination, investigation, and processing of its
15 application for a certificate of authority. The commissioner
16 shall be authorized to retain legal, financial, and examination
17 services from outside experts as necessary for review of the
18 application, the reasonable cost of which may be charged to the
19 applicant.

20 b. Each captive insurance company, each individual series of
21 members of a limited liability company, and each protected cell
22 shall pay ~~an initial registration fee, and~~ an annual renewal
23 registration fee, of three hundred dollars.

24 5. 6. If the commissioner is satisfied with the documents
25 and statements that an applicant captive company has filed in
26 compliance with this ~~chapter~~ subchapter, and the applicable
27 provisions of Title XIII, subtitle 1, the commissioner may grant
28 a certificate of authority to the captive company that permits
29 the company to do the business of insurance in this state.
30 The certificate of authority must be renewed annually and may
31 be renewed if the applicant is in compliance with this ~~chapter~~
32 subchapter.

33 Sec. 13. Section 521J.4, subsection 1, paragraphs d and e,
34 Code 2026, are amended to read as follows:

35 d. Is not less than ~~five~~ one hundred thousand dollars for a

1 protected cell captive company. ~~If, however, the protected cell~~
2 ~~captive company does not assume any risks, the risks insured by~~
3 ~~the protected cells are homogenous, and there are not more than~~
4 ~~ten cells, the commissioner may reduce the amount to an amount~~
5 ~~not less than two hundred fifty thousand dollars.~~

6 e. Is not less than the applicable amount of capital and
7 surplus required in paragraphs "a" through "d", as determined
8 based upon the organizational form of the alien captive company,
9 for a branch captive company. The minimum capital and surplus
10 shall be jointly held by the commissioner and the branch captive
11 company in a bank of the federal reserve system as approved by
12 the commissioner ~~by rule.~~

13 Sec. 14. Section 521J.4, subsection 3, Code 2026, is amended
14 to read as follows:

15 3. a. The capital and surplus required under subsection
16 1 and subsection 2, if applicable, shall be in the form of
17 cash, cash equivalent, marketable securities as approved by the
18 commissioner, or an irrevocable letter of credit on a form as
19 prescribed by the commissioner ~~by rule~~ and as issued by a bank
20 chartered by the state of Iowa, a member bank of the federal
21 reserve system, or a bank chartered by another state if approved
22 by the commissioner.

23 b. If a captive company elects to satisfy any portion of the
24 captive company's minimum capital and surplus requirements with
25 marketable securities, the commissioner may require the captive
26 company to file financial statements or other reports on a more
27 frequent basis than otherwise required under this subchapter.
28 The increased reporting frequency may be imposed to ensure the
29 commissioner can adequately monitor the liquidity, valuation, and
30 market risk associated with the marketable securities.

31 Sec. 15. Section 521J.5, subsection 1, Code 2026, is amended
32 to read as follows:

33 1. A Subject to the commissioner's approval, a captive
34 company ~~must~~ may be formed or organized as a business entity
35 as provided under this ~~chapter~~ subchapter, or as a reciprocal

1 insurer as provided under chapter 520.

2 Sec. 16. Section 521J.5, subsection 2, paragraph c, Code
3 2026, is amended to read as follows:

4 c. Organized as a reciprocal insurer as permitted by the
5 commissioner ~~by rule.~~

6 Sec. 17. Section 521J.5, subsection 5, paragraph c, Code
7 2026, is amended to read as follows:

8 c. A reciprocal insurer shall have at least one member of the
9 subscribers' advisory committee who is a resident of this state.
10 ~~A captive risk retention group formed as a reciprocal insurer~~
11 ~~shall have a minimum of five members of the subscribers' advisory~~
12 ~~committee who are residents of this state.~~

13 Sec. 18. Section 521J.5, subsections 6 and 7, Code 2026, are
14 amended to read as follows:

15 6. a. A captive company formed as a corporation or another
16 business entity shall have the privileges of, and shall
17 be subject to, state laws governing corporations or other
18 business entities, and the applicable provisions of this ~~chapter~~
19 subchapter.

20 b. In the event of a conflict between a state law governing
21 corporations or other business entities and this ~~chapter~~
22 subchapter, this ~~chapter~~ subchapter shall take precedence.

23 7. a. A subscribers' agreement, or other organizational
24 document of a captive company formed as a reciprocal insurer,
25 shall authorize a quorum of a subscribers' advisory committee to
26 consist of at least one-third of the number of members on the
27 advisory committee. In addition to this subchapter, a captive
28 company formed as a reciprocal insurer shall be subject to
29 chapter 520, unless exempt by approval of the commissioner in the
30 captive company's plan of operations. In the event of a conflict
31 between chapter 520 and this subchapter, this subchapter shall
32 take precedence.

33 b. In addition to this ~~chapter~~ subchapter, a captive risk
34 retention group shall be subject to chapter 515E. In the event
35 of a conflict between chapter 515E and this ~~chapter~~ subchapter,

1 this ~~chapter~~ subchapter shall take precedence.

2 Sec. 19. Section 521J.5, subsection 8, Code 2026, is amended
3 by striking the subsection.

4 Sec. 20. Section 521J.5, subsection 9, paragraph b, Code
5 2026, is amended to read as follows:

6 b. A branch captive company established under this ~~chapter~~
7 subchapter to write, in this state, only insurance or reinsurance
8 of the employee benefit business of the branch captive company's
9 parent and affiliated companies shall be subject to the federal
10 Employee Retirement Income Security Act of 1974, 29 U.S.C. §1001,
11 et seq.

12 Sec. 21. Section 521J.6, subsection 2, Code 2026, is amended
13 to read as follows:

14 2. The commissioner's approval of an ongoing plan for the
15 payment of dividends or other distributions shall be conditioned
16 upon retention, at the time of each payment, of capital and
17 surplus in excess of the amounts specified by, or determined in
18 accordance with, a formula approved by the commissioner ~~by rule~~.

19 Sec. 22. Section 521J.7, Code 2026, is amended to read as
20 follows:

21 **521J.7 Reports.**

22 1.—A Unless otherwise directed by the commissioner in
23 the first year of a captive company's licensure under this
24 subchapter, the captive company shall be required to file an
25 annual report with the commissioner that meets the following
26 requirements:

27 a. 1. Except as provided in ~~paragraph "b"~~ subsection 2, on
28 or before April 1 of each year, each captive company and each
29 captive risk retention group shall submit to the commissioner a
30 report on the company's financial condition as of December 31 of
31 the preceding year, as verified by oath of two of the company's
32 or group's executive officers. The report shall be submitted in
33 a form and manner as prescribed by the commissioner by rule.

34 b. 2. A captive company, other than a captive risk retention
35 group, may apply to the commissioner to file the report required

1 under ~~paragraph "a"~~ subsection 1 on a fiscal year-end basis.
2 If the commissioner approves reporting on a fiscal year-end
3 basis, the captive company shall comply with all of the following
4 requirements:

5 ~~(1)~~ a. Subject to ~~subparagraph (2)~~ paragraph "b", the
6 captive company's report shall be filed no later than ninety
7 calendar days after the close of the company's fiscal year.

8 ~~(2)~~ b. Prior to April 1, the captive company shall file
9 a report covering the immediately preceding calendar year with
10 the commissioner to provide sufficient information to support the
11 captive company's premium tax return under section 432.1A.

12 ~~e.~~ 3. Each captive company shall use generally accepted
13 accounting principles as used in the United States, unless the
14 commissioner requires, approves, or accepts the use of United
15 States statutory accounting principles or any other comprehensive
16 accounting principles for the company's report. The commissioner
17 may require, approve, or accept any appropriate or necessary
18 modifications of United States statutory accounting principles or
19 other comprehensive accounting principles based on the type of
20 insurance and kinds of insurers that are included in a captive
21 company's report. The report may include letters of credit that
22 are established, issued, or confirmed by any of the following:

23 ~~(1)~~ a. A bank chartered in this state.

24 ~~(2)~~ b. A member of the federal reserve system.

25 ~~(3)~~ c. A bank chartered by another state, if approved by the
26 commissioner.

27 ~~d.~~ 4. An actuarial opinion from a qualified actuary
28 regarding the adequacy of the company's required reserves to
29 make full provision for the company's liabilities, insured or
30 reinsured, shall be included in the report. The qualified
31 actuary shall submit a memorandum to the commissioner that
32 details the qualified actuary's support for the actuarial
33 opinion. The commissioner may require that additional
34 information be submitted to supplement the actuarial opinion.

35 ~~e.~~ 5. All captive companies shall be audited annually by an

1 independent certified public accountant and shall annually file
2 the audited financial report with the commissioner on or before
3 June 1, as a supplement to the annual report required under
4 ~~section 521J.7, subsection 1~~ this section.

5 ~~f.~~ 6. A captive company may request an extension to file
6 a report required by this section. A written request for an
7 extension must be received by the commissioner not less than ten
8 days before the filing due date, and the request must contain
9 sufficient details to enable the commissioner to make an informed
10 decision regarding the request. The commissioner may grant a
11 thirty-day extension upon a determination by the commissioner
12 that a captive company has good cause for the extension.

13 ~~g.~~ 7. A captive company may be required to file a report
14 on the captive company's financial condition on a semiannual,
15 quarterly, monthly, or other basis as determined by the
16 commissioner.

17 ~~h.~~ 8. Captive companies shall file all reports required
18 under this section in the form and manner prescribed by the
19 commissioner by rule.

20 ~~2. All reports filed pursuant to this section shall be~~
21 ~~considered confidential and shall not be a public record.~~

22 Sec. 23. Section 521J.8, subsection 1, paragraph a, Code
23 2026, is amended to read as follows:

24 a. Except for captive risk retention groups as provided
25 under paragraph "c", the commissioner may examine each captive
26 company's compliance with this ~~chapter~~ subchapter, and may
27 examine the affairs, transactions, accounts, records, and assets
28 of each captive company as the commissioner deems necessary.

29 Sec. 24. Section 521J.8, subsection 5, Code 2026, is amended
30 to read as follows:

31 5. The applicable provisions of chapter 507 shall apply to
32 examinations conducted under this ~~chapter~~ subchapter.

33 Sec. 25. Section 521J.9, subsection 1, paragraphs h and i,
34 Code 2026, are amended to read as follows:

35 h. Failure to submit or pay any fee under this ~~chapter~~

1 subchapter.

2 i. Failure to submit to or pay the cost of any examination
3 under this ~~chapter~~ subchapter.

4 Sec. 26. Section 521J.11, subsection 1, Code 2026, is amended
5 to read as follows:

6 1. A merger between captive stock insurers, or a merger
7 between captive mutual insurers, shall meet the requirements of
8 chapter 521 and section 521J.5, as applicable. The commissioner
9 may, at the commissioner's discretion, provide notice to the
10 public of a proposed merger prior to the commissioner's approval
11 or disapproval of a merger. Except as provided in this
12 section, applicable provisions of chapter 508B shall apply to
13 a merger, consolidation, conversion, mutualization, or voluntary
14 dissolution by a captive company.

15 Sec. 27. Section 521J.13, subsection 1, Code 2026, is amended
16 to read as follows:

17 1. a. Industrial insured captive companies and captive risk
18 retention groups shall comply with investment requirements
19 as ~~established~~ approved by the commissioner ~~by rule~~. The
20 commissioner may approve the use of alternative reliable methods
21 of valuation and rating.

22 b. If a captive company's ~~admitted~~ annual report filed
23 pursuant to section 521J.7 states total assets total of less than
24 five million dollars, the commissioner may approve an investment
25 of up to twenty percent of the captive company's admitted assets
26 in rated credit instruments in any one investment that meets
27 the requirements established by the commissioner by rule. For
28 purposes of this subsection, total assets shall be based on the
29 accounting basis approved by the commissioner, provided that all
30 assets included in such total assets must be reasonably liquid,
31 realizable, and available to support the obligations of the
32 captive.

33 Sec. 28. Section 521J.14, subsection 3, Code 2026, is amended
34 to read as follows:

35 3. Insurance by a captive company of any workers'

1 compensation qualified self-insured plan of the captive company's
2 parent and affiliates shall be deemed to be reinsurance under
3 this ~~chapter~~ subchapter.

4 Sec. 29. Section 521J.17, subsection 2, unnumbered paragraph
5 1, Code 2026, is amended to read as follows:

6 A protected cell captive company formed or authorized under
7 this ~~chapter~~ subchapter shall be subject to all of the following
8 requirements:

9 Sec. 30. Section 521J.17, subsection 2, paragraph a,
10 subparagraph (4), Code 2026, is amended to read as follows:

11 (4) Each protected cell shall be ~~incorporated~~.—An
12 ~~incorporated protected cell may be organized and operated in any~~
13 ~~form of business organization as authorized by the commissioner~~
14 by rule formed as a business entity, provided the business entity
15 is separate from the protected cell captive company of which the
16 business entity is a part. Each protected cell of a protected
17 cell captive company shall be treated as a captive insurance
18 company under this ~~chapter~~ subchapter, except that the limit
19 on maximum yearly aggregate taxes paid under section 432.1A,
20 subsection 4, shall not apply. Unless otherwise permitted by
21 the organizational document of a protected cell captive company,
22 each protected cell of the protected cell captive company must
23 have the same directors, secretary, and registered office as the
24 protected cell captive company.

25 Sec. 31. Section 521J.17, subsection 2, paragraph c, Code
26 2026, is amended to read as follows:

27 c. The establishment of a protected cell shall create, with
28 respect to the protected cell, a ~~legal person~~ business entity
29 separate from the protected cell captive company. Amounts
30 attributed to a protected cell under this ~~chapter~~ subchapter,
31 including assets transferred to a protected cell account, shall
32 be owned by the protected cell and the protected cell captive
33 company shall not be a trustee, or hold itself out to be a
34 trustee, with respect to the protected cell assets of that
35 protected cell account.

1 Sec. 32. Section 521J.18, Code 2026, is amended to read as
2 follows:

3 **521J.18 Sponsors — qualifications.**

4 A sponsor of a protected cell captive company may be any
5 person approved by the commissioner, based on the commissioner's
6 determination that the approval of such person as a sponsor
7 is consistent with the purposes of this ~~chapter~~ subchapter.
8 In evaluating the qualifications of a proposed sponsor, the
9 commissioner shall consider the type and structure of the
10 proposed sponsor entity, the sponsor's experience in financial
11 operations, the sponsor's financial stability, the sponsor's
12 business reputation, and any other factors deemed relevant by the
13 commissioner. A risk retention group shall not be a sponsor of a
14 protected cell captive company.

15 Sec. 33. Section 521J.22, subsection 3, paragraph a,
16 subparagraph (3), Code 2026, is amended to read as follows:

17 (3) The dormant captive company shall pay an annual one
18 thousand dollar dormancy tax, due on or before March 1, if
19 for any portion of the immediately preceding calendar year the
20 captive company held a certificate of dormancy. Each series of
21 members and each protected cell shall be considered separate for
22 purposes of paying the annual dormancy tax under a certificate of
23 dormancy. A dormant captive company is not otherwise liable for
24 any annual renewal as provided in section 521J.2, ~~subsection 4~~
25 subsection 5, paragraph "b".

26 Sec. 34. Section 521J.23, Code 2026, is amended to read as
27 follows:

28 **521J.23 Workers' compensation — compliance with state and**
29 **federal laws.**

30 1. This ~~chapter~~ subchapter shall not be construed to exempt
31 a captive company, a captive company's parent, or a captive
32 company's affiliated companies from compliance with applicable
33 state and federal laws governing workers' compensation insurance.

34 2. This ~~chapter~~ subchapter shall not be construed to divest
35 the division of workers' compensation of any jurisdiction, as

1 authorized by law, over workers' compensation self-insurance
2 plans.

3 Sec. 35. Section 521J.24, subsection 1, paragraph b, Code
4 2026, is amended to read as follows:

5 b. All books, records, documents, accounts, vouchers, and
6 agreements shall be kept in a manner that the commissioner
7 can readily ascertain the captive company's financial condition,
8 affairs, and operations; can readily verify the captive company's
9 financial statements; and can confirm the captive company's
10 compliance with this ~~chapter~~ subchapter.

11 Sec. 36. Section 521J.26, unnumbered paragraph 1, Code 2026,
12 is amended to read as follows:

13 The commissioner ~~shall~~ may adopt rules pursuant to chapter 17A
14 to implement and administer this ~~chapter~~ subchapter.

15 Sec. 37. NEW SECTION. 521J.27 Redomestication — premium
16 tax credits.

17 1. For taxes due pursuant to section 432.1A, a foreign
18 or alien captive company organized under this subchapter that
19 redomesticates into the state shall only be liable for taxes on
20 premiums paid to the captive company after redomestication.

21 2. A foreign or alien captive company that redomesticates
22 under this subchapter shall report to the commissioner all
23 premium taxes due under section 432.1A, but in either the captive
24 company's first or second year of operation after redomesticating
25 into the state may elect to forgo payment of the premium taxes.
26 A foreign or alien captive company that makes such election that
27 subsequently surrenders the foreign or alien captive company's
28 license or redomesticates to another jurisdiction within five
29 years from the date of redomestication into the state shall
30 immediately pay to the commissioner a tax in an amount equal to
31 the foregone premium tax plus ten percent per annum from the date
32 the foregone premium tax would have originally been due.

33 3. This section shall not apply to tax years beginning on or
34 after January 1, 2030.

35 Sec. 38. NEW SECTION. 521J.101 Definitions.

1 As used in this subchapter, unless the context otherwise
2 requires:

3 1. "*Affiliated company*" means the same as defined in section
4 521J.1.

5 2. "*Business entity*" means the same as defined in section
6 521J.1.

7 3. "*Ceding insurer*" means an affiliated company of a life
8 captive reinsurance company that cedes risk to the life captive
9 reinsurance company pursuant to a reinsurance contract.

10 4. "*Commissioner*" means the commissioner of insurance.

11 5. "*Dormant life captive reinsurance company*" means a life
12 captive reinsurance company that has ceased transacting the
13 business of insurance, including but not limited to ceasing
14 issuance of insurance policies, and does not have any remaining
15 liabilities associated with the life captive reinsurance
16 company's insurance business transactions or insurance policies
17 prior to the filing of an application for a certificate of
18 dormancy.

19 6. a. "*Insurance securitization*" or "*securitization*" means
20 a transaction or a group of related transactions, including
21 but not limited to capital market offerings, that are effected
22 through related risk transfer instruments and facilitation of
23 administrative agreements, in which any of the following proceeds
24 from the transaction or group of related transactions are used
25 to fund a life captive reinsurance company's obligations under a
26 reinsurance contract with a ceding insurer:

27 (1) Proceeds obtained by a life captive reinsurance company,
28 directly or indirectly, through the issuance of securities by the
29 life captive reinsurance company or any other person.

30 (2) Proceeds provided through one or more letter of credit
31 or other assets for the benefit of the life captive reinsurance
32 company, and which the commissioner authorizes the life captive
33 reinsurance company to treat as admitted assets for purposes of
34 the life captive reinsurance company's annual statement.

35 b. "*Insurance securitization*" or "*securitization*" does not

1 include the issuance of a letter of credit to satisfy all or part
2 of the life captive reinsurance company's capital and surplus
3 requirements under this subchapter.

4 7. "*Letter of credit*" means a clean, irrevocable,
5 unconditional letter of credit, issued or confirmed by a
6 qualified United States financial institution, as defined in
7 section 521B.104, subsection 1.

8 8. "*Life captive reinsurance company*" means a captive
9 insurance company in this state that is authorized under and
10 meets the requirements of this subchapter, and that reinsures the
11 risk ceded by a life insurance company.

12 9. "*NAIC*" means the national association of insurance
13 commissioners.

14 10. "*Organizational document*" means the same as defined in
15 section 521J.1.

16 11. "*Organizing company*" means a life insurance company or
17 an affiliated company that organizes a life captive reinsurance
18 company.

19 12. "*Parent*" means a person that owns an organizing company,
20 either directly or indirectly through one or more intermediaries.

21 13. "*Person*" means an individual, corporation, limited
22 liability company, business trust, estate, trust, partnership or
23 association, joint stock company, unincorporated organization, or
24 any other legal entity, or combination of the foregoing acting in
25 concert. "*Person*" does not include a joint venture partnership
26 exclusively engaged in owning, managing, leasing, or developing
27 real or tangible personal property.

28 14. "*Qualified actuary*" means the same as defined in section
29 521J.1.

30 15. "*Risk*" means a risk associated with life insurance
31 policies and contracts written by a ceding life insurance company
32 or assumed by a ceding life insurance company from an affiliated
33 company, which were written by the affiliated company and for
34 which the ceding life insurance company holds direct statutory
35 reserves as required by section 508.36.

1 16. "Risk-based capital instructions" means instructions
2 included in a risk-based capital report as adopted and amended
3 by the NAIC.

4 17. "Security" means the same as defined in section 502.102.
5 "Security" also includes any form of debt obligation, surplus
6 note, derivative, or other financial instrument that the
7 commissioner designates as a "security" for purposes of this
8 subchapter.

9 18. "Surplus note" means an unsecured subordinate debt
10 obligation possessing characteristics consistent with the NAIC
11 statutory accounting principles pursuant to the most recently
12 published NAIC accounting practices and procedures manual.

13 Sec. 39. NEW SECTION. **521J.102 Certificate of authority.**

14 1. A life captive reinsurance company issued a certificate
15 of authority shall only reinsure the risks of a ceding insurer
16 and shall not otherwise engage in the business of insurance.

17 A life captive reinsurance company may purchase retrocession to
18 cede the risks assumed under a reinsurance contract, subject to
19 prior approval of the commissioner.

20 2. A life captive reinsurance company shall not write any
21 insurance business unless the life captive reinsurance company
22 complies with all of the following:

23 a. The life captive reinsurance company obtains a certificate
24 of authority from the commissioner.

25 b. The life captive reinsurance company maintains its
26 principal place of business in the state.

27 c. The life captive reinsurance company's board of directors
28 holds at least one annual meeting in the state.

29 d. At least one member of the board of directors of the life
30 captive reinsurance company is a resident of the state.

31 e. The life captive reinsurance company designates a
32 registered agent to accept service of process, files the name
33 and contact information and any subsequent changes regarding the
34 registered agent with the commissioner, and agrees that if the
35 registered agent cannot be found with reasonable diligence, the

1 commissioner may act as an agent of the life captive reinsurance
2 company with respect to any action or proceeding, and the
3 commissioner may be served pursuant to section 505.30.

4 f. The life captive reinsurance company has filed a copy
5 of the life captive reinsurance company's articles and bylaws,
6 including any subsequent amendment to the articles or bylaws,
7 with the commissioner and with the secretary of state, and the
8 articles and bylaws have been approved by the commissioner and
9 the secretary of state.

10 3. a. Prior to receiving a certificate of authority, a life
11 captive reinsurance company shall do all of the following:

12 (1) File with the commissioner all of the following:

13 (a) A copy of the life captive reinsurance company's plan of
14 operation.

15 (b) An affidavit from the life captive reinsurance company's
16 president, vice president, treasurer, or chief financial officer
17 that includes all of the following:

18 (i) A statement that the proposed organization and operation
19 of the life captive reinsurance company complies with this
20 section.

21 (ii) The life captive reinsurance company's investment policy
22 reflects and accounts for the liquidity of assets and the
23 reasonable preservation, administration, and management of assets
24 with respect to the risks associated with the reinsurance
25 contract between the life captive reinsurance company and the
26 parent or ceding insurer.

27 (c) A statement under oath by an officer of the life captive
28 reinsurance company that attests to the life captive reinsurance
29 company's financial condition.

30 (d) Documentation that provides evidence of the amount and
31 liquidity of the life captive reinsurance company's assets
32 relative to the risks to be assumed by the life captive
33 reinsurance company.

34 (e) Documentation that provides evidence related to the
35 overall soundness of the life captive reinsurance company's plan

1 of operation.

2 (f) A certification from an actuarial officer of a ceding
3 insurer that complies with section 521J.104.

4 (g) A description of coverages, deductibles, coverage
5 limits, rates, and any additional information requested by the
6 commissioner.

7 (h) A copy of each reinsurance contract and each arrangement
8 that secures the life captive reinsurance company's obligations
9 under the reinsurance contract between the life captive
10 reinsurance company and the parent or ceding insurer, including
11 but not limited to any agreements or other documentation to
12 implement such reinsurance contract or arrangement.

13 (i) A legal opinion, in a form and manner approved by the
14 commissioner, that the offer and sale of life captive reinsurance
15 company securities comply with all applicable registration
16 requirements or applicable exemptions or exceptions to such
17 requirements under state and federal securities laws. The legal
18 opinion shall not be required as part of the life captive
19 reinsurance company's initial application for a certificate of
20 authority if the life captive reinsurance company includes a
21 statement in the company's plan of operation that the legal
22 opinion will be submitted to the commissioner prior to the offer
23 or sale of a captive reinsurance security.

24 (j) An opinion of a qualified actuary, approved by the
25 commissioner, confirming that the methodology and assumptions
26 to set and discount reserves sufficiently provide for the risk
27 assumed by the life captive reinsurance company, including
28 significant stress tests on key assumptions.

29 (k) A biographical affidavit for each officer and each
30 director of the life captive reinsurance company prepared on the
31 most recent template for biographical affidavits prescribed by
32 the NAIC.

33 (2) Provide the commissioner with any other statement or
34 document requested by the commissioner to evaluate the life
35 captive reinsurance company's application for a certificate of

1 authority.

2 (3) Pay a nonrefundable fee of two thousand five hundred
3 dollars to the commissioner for the examination, investigation,
4 and processing of the life captive reinsurance company's
5 application for a certificate of authority.

6 b. The commissioner shall be authorized to retain legal,
7 financial, and examination services from outside experts as
8 necessary for review of the application, the reasonable cost of
9 which may be charged to the applicant.

10 c. If there is a subsequent material change in the
11 information provided to the commissioner under paragraph "a", the
12 life captive reinsurance company shall inform the commissioner
13 within thirty calendar days of the date of the material change
14 and shall submit appropriate documentation as requested by the
15 commissioner for approval. The life captive reinsurance company
16 shall not write any insurance business until on or after the date
17 on which the commissioner approves the supporting documentation.

18 4. All documents and information submitted pursuant to this
19 subchapter shall be confidential and shall not be made public
20 without the advance written consent of the submitting life
21 captive reinsurance company, with the following exceptions:

22 a. The documents and information shall be discoverable by a
23 party in a civil action or in a contested case to which the
24 life captive reinsurance company that submitted the information
25 is a party upon a showing by the party seeking to discover
26 the information that the information sought is relevant to,
27 and necessary for, the furtherance of the action or case; the
28 information sought is unavailable from other nonconfidential
29 sources; and that a subpoena issued by a judicial or an
30 administrative officer has been submitted to the commissioner.

31 b. The commissioner may, in the commissioner's discretion,
32 disclose the documents and information to a public official
33 having jurisdiction over the regulation of insurance in another
34 state, or to a public official of the federal government,
35 provided that the public official agrees in writing to maintain

1 the confidentiality of the information, and that the laws of
2 the state in which the public official serves require that the
3 information remain confidential.

4 5. a. If an application filed by a life captive reinsurance
5 company is complete, the commissioner may issue to the life
6 captive reinsurance company a certificate of authority upon a
7 finding of all of the following:

8 (1) The life captive reinsurance company's proposed plan of
9 operation provides for a viable operation and is not hazardous to
10 any ceding insurer.

11 (2) The terms of any reinsurance contract and related
12 transactions of the life captive reinsurance company comply with
13 this subchapter and the insurance laws and rules of this state.

14 b. In conjunction with the issuance of the certificate of
15 authority to a life captive reinsurance company, the commissioner
16 may issue an order regarding any terms and conditions relating
17 to the organization, licensing, and operation of the life captive
18 reinsurance company that the commissioner deems appropriate and
19 that are not inconsistent with this subchapter.

20 6. A certificate of authority shall be valid for a period
21 of one year beginning on the date of initial issuance and the
22 certificate must be renewed annually. A certificate of authority
23 may be renewed if the applicant is in compliance with the
24 requirements of this subchapter and has paid an annual renewal
25 registration fee at the time of renewal in the amount of two
26 thousand five hundred dollars.

27 Sec. 40. NEW SECTION. **521J.103 Life captive reinsurance**
28 **companies — names.**

29 A life captive reinsurance company shall not adopt a name
30 that is the same, deceptively similar, or likely to be confused
31 with or mistaken for any other existing business name already
32 registered in this state.

33 Sec. 41. NEW SECTION. **521J.104 Actuarial officer —**
34 **certification.**

35 On the date a life captive reinsurance company files

1 an application for a certificate of authority under section
2 521J.102, and by March 15 of each succeeding year that a life
3 captive reinsurance company is in operation and is ceded new
4 business from a ceding insurer, a qualified actuary of each
5 ceding insurer shall file with the commissioner a certification
6 that the ceding insurer's transactions with the life captive
7 reinsurance company are not used to gain an unfair advantage
8 if pricing of policies and contracts reinsured by the life
9 captive reinsurance company reflect, at the time the policies
10 and contracts were issued, a reasonable long-term estimate of
11 the cost to the ceding insurer of an alternative third-party
12 transaction and utilize current pricing assumptions. The
13 ceding insurer shall have an ongoing responsibility to maintain
14 documentation detailing the process by which the qualified
15 actuary arrived at the conclusions in the certification in
16 preparation for an examination conducted pursuant to section
17 521J.110.

18 Sec. 42. NEW SECTION. **521J.105 Minimum capital and surplus**
19 **requirements.**

20 1. The commissioner shall not issue a certificate of
21 authority to a life captive reinsurance company unless the life
22 captive reinsurance company possesses and maintains unimpaired
23 paid-in capital and surplus that is not less than five million
24 dollars. The commissioner may require additional capital
25 and surplus based upon the type, volume, and nature of the
26 reinsurance business transacted by the life captive reinsurance
27 company. Minimum capital and surplus shall be in the form of
28 cash or other securities that are investment-grade at the time of
29 acquisition and are acceptable to the commissioner.

30 2. Except as otherwise provided in this section, chapter 521E
31 shall apply to a life captive reinsurance company.

32 Sec. 43. NEW SECTION. **521J.106 Plan of operation.**

33 A life captive reinsurance company must have a plan of
34 operation approved by the life captive reinsurance company's
35 board of directors, and, prior to assuming risks under a

1 reinsurance contract, shall submit the plan of operation to the
2 commissioner for approval. The commissioner may approve the
3 plan of operation upon finding that the plan of operation meets
4 the requirements of this section, and may require amendments to
5 the plan of operation as necessary to satisfy the requirements
6 of this section. Any change in the life captive reinsurance
7 company's plan of operation shall require prior approval of the
8 commissioner. The plan of operation must include, at a minimum,
9 all of the following:

10 1. A complete description of all reinsurance transactions,
11 reinsurance security arrangements, securitizations, and any other
12 material transactions or arrangements in which the life captive
13 reinsurance company engages.

14 2. The source and form of the life captive reinsurance
15 company's capital and surplus minimums as required under
16 521J.105.

17 3. The life captive reinsurance company's policy on
18 investments.

19 4. Pro forma balance sheets and income statements
20 illustrating one or more adverse case scenarios, as determined
21 under criteria established by the commissioner, for the
22 performance of the life captive reinsurance company under all
23 reinsurance contracts.

24 5. Risk-based capital requirements, that, at a minimum,
25 require the life captive reinsurance company to maintain
26 risk-based capital equal to the product of two and one-half and
27 the number determined under the life risk-based capital formula
28 in accordance with the risk-based capital instructions.

29 6. The life captive reinsurance company's procedures for
30 notice and reporting of material transactions.

31 7. The life captive reinsurance company's policies for
32 payments of dividends and other distributions to the organizing
33 company.

34 8. Copies of all contracts between the life captive
35 reinsurance company and affiliated companies.

1 Sec. 44. NEW SECTION. **521J.107 Life captive reinsurance**
2 **companies — formation.**

3 1. A life insurance company or an affiliated company may
4 organize a life captive reinsurance company pursuant to this
5 subchapter. A life captive reinsurance company must be formed
6 as a corporation and may only reinsure risks of the organizing
7 company, and may access alternative forms of financing.

8 2. An organizing company shall maintain a minimum of ten
9 percent voting interest and ten percent equity ownership in the
10 life captive reinsurance company unless otherwise approved by the
11 commissioner.

12 3. A life captive reinsurance company's organizational
13 documents must limit the life captive reinsurance company's
14 authority to transact the business of reinsurance to only
15 reinsure the risks of a ceding insurer.

16 4. An organizing company may invest funds from its surplus
17 in a life captive reinsurance company organized pursuant to this
18 subchapter.

19 5. An organizing company's officers and directors may serve
20 as officers and directors of a life captive reinsurance company
21 organized pursuant to subsection 1.

22 6. A life captive reinsurance company organized under this
23 subchapter shall be deemed to be licensed to transact the
24 business of reinsurance for the purposes of section 521B.102,
25 subsection 1, but shall only reinsure risks of the organizing
26 company and affiliated companies.

27 7. A life captive reinsurance company may, upon approval of
28 the commissioner, purchase reinsurance to cede the reinsurance
29 risks assumed by the life captive reinsurance company.

30 8. Admitted assets of a life captive reinsurance company
31 shall include assets approved by the commissioner which shall
32 be deemed to be, and reported as, admitted assets of the life
33 captive reinsurance company.

34 Sec. 45. NEW SECTION. **521J.108 Dividends and**
35 **distributions.**

1 1. A life captive reinsurance company shall not pay a
2 dividend out of, or other distribution with respect to, the
3 minimum capital or surplus required under section 521J.105
4 without the prior written approval of the commissioner.

5 2. The commissioner's approval of an ongoing plan for the
6 payment of dividends or other distributions shall be conditioned
7 upon retention, at the time of each payment, of capital and
8 surplus in excess of the amounts specified by, or determined in
9 accordance with, a formula approved by the commissioner.

10 Sec. 46. NEW SECTION. **521J.109 Reports and notifications.**

11 1. A life captive reinsurance company shall provide the
12 commissioner with a copy of documentation of an insurance
13 securitization no later than forty-five calendar days before the
14 closing on the transaction for the securitization.

15 2. In the event of a material change in the financial
16 condition or management of a life captive reinsurance company,
17 the company shall notify the commissioner in writing within two
18 business days of the material change.

19 3. A life captive reinsurance company shall notify the
20 commissioner within five business days of becoming aware of a
21 material event affecting the life captive reinsurance company's
22 parent, organizing company, or controlling entity that has not
23 previously been disclosed to the commissioner.

24 4. If a life captive reinsurance company's parent, organizing
25 company, or controlling entity is subject to group supervision in
26 another jurisdiction, the commissioner may request participation
27 in supervisory colleges or coordination calls with the lead
28 regulator of that jurisdiction. The life captive reinsurance
29 company shall facilitate the commissioner's participation to the
30 extent permitted by law.

31 5. A life captive reinsurance company shall immediately
32 notify the commissioner of an action by a ceding insurer or any
33 other person to foreclose on, or otherwise take possession of,
34 collateral provided by the life captive reinsurance company to
35 secure an obligation of the life captive reinsurance company.

1 6. A life captive reinsurance company shall not be required
2 to file any report, notice, or other document with the NAIC
3 unless required by the commissioner.

4 7. At the commissioner's request, a life captive reinsurance
5 company shall provide to the commissioner a copy of any financial
6 or risk-related filings submitted by the company's parent,
7 affiliate, organizing company, or controlling entity to the life
8 captive reinsurance company's domiciliary insurance regulator.
9 Upon request by the commissioner, such filings shall be provided
10 to the commissioner within ten business days of the submission to
11 the organizing company's domestic regulator.

12 8. A life captive reinsurance company shall file with the
13 commissioner all of the following:

14 a. On or before March 1 of each year, for the immediately
15 preceding calendar year, all of the following:

16 (1) A report of the company's risk-based capital level as of
17 the end of the immediately preceding calendar year that contains
18 the information required by the risk-based capital instructions.

19 (2) A supplemental compensation exhibit that discloses the
20 total annual compensation of the company's officers, directors,
21 and key employees. The supplemental exhibit must follow the
22 format and instructions adopted by the NAIC for life insurance
23 company filings.

24 b. (1) On or before March 1 of each year, for the
25 immediately preceding calendar year, an actuarial opinion from
26 the company's actuary on reserves for all risks assumed
27 by the life captive reinsurance company pursuant to the
28 company's reinsurance contracts and may discount the life captive
29 reinsurance company's reserves in accordance with the actuarial
30 opinion subject to approval by the commissioner. The company's
31 actuary shall submit a memorandum to the commissioner that
32 details the actuary's support for the actuarial opinion. The
33 commissioner may require additional information to be submitted
34 to supplement the actuarial opinion.

35 (2) Biennially on April 1, for the immediately preceding

1 calendar year, an opinion by an independent qualified actuary
2 concerning the methods and assumptions used to set reserves. The
3 independent qualified actuary must be deemed acceptable by the
4 commissioner prior to filing the opinion.

5 c. Completed quarterly and annual financial statement blanks
6 as are required by the NAIC for traditional life insurance
7 companies, including any supplements or interrogatories required
8 by the NAIC, in accordance with the NAIC statutory accounting
9 principles. The commissioner may require, approve, or accept
10 any appropriate or necessary modifications of the NAIC statutory
11 accounting principles based on the type of insurance and
12 kind of insurers included in the life captive reinsurance
13 company's report. The quarterly filings shall be filed with the
14 commissioner on or before May 15 for the first quarter, August 15
15 for the second quarter, and November 15 for the third quarter for
16 the current calendar year. The annual statement shall be filed
17 with the commissioner on or before March 1 of each year for the
18 immediately preceding calendar year.

19 d. On or before April 1 of each year, all of the following:

20 (1) For the immediately preceding calendar year, a written
21 management's discussion and analysis of the company's financial
22 condition and results of operations.

23 (2) For the immediately preceding tax year, a report
24 providing sufficient information to support the company's premium
25 tax return submitted pursuant to section 432.1A.

26 e. On or before June 1 of each year, for the immediately
27 preceding calendar year, a report of the company's financial
28 condition audited by an independent certified public accountant.
29 The report shall be presented in accordance with the NAIC
30 statutory accounting principles.

31 f. On or before August 1 of each year, a management report on
32 internal control over financial reporting with the commissioner
33 that describes the life captive reinsurance company's internal
34 control structure over financial reporting and identifies any
35 material weaknesses as of the end of the preceding calendar year.

1 9. Not less than ten business days prior to a filing due
2 date, a life captive reinsurance company may submit a written
3 request for an extension to file a report required under
4 subsection 8. The request must contain sufficient details
5 to enable the commissioner to make an informed decision about
6 the request. The commissioner may grant an extension upon a
7 determination that the life captive reinsurance company has good
8 cause for the extension.

9 Sec. 47. NEW SECTION. **521J.110 Examinations.**

10 1. a. The commissioner may examine each life captive
11 reinsurance company's compliance with this subchapter, and may
12 examine the affairs, transactions, accounts, records, and assets
13 of each life captive reinsurance company as the commissioner
14 deems necessary, but not less frequently than every five calendar
15 years.

16 b. The commissioner shall, upon the completion of an
17 examination under paragraph "a", or at such regular intervals
18 prior to completion of an examination as the commissioner
19 determines, prepare an account of the costs incurred in
20 performing and preparing the report of the examination which
21 shall be charged to and paid by the life captive reinsurance
22 company examined. If the life captive reinsurance company fails
23 or refuses to pay the charges, the charges may be recovered in an
24 action brought in the name of the state.

25 2. This section shall apply to all business written by a life
26 captive reinsurance company.

27 3. The applicable provisions of chapter 507 shall apply to
28 examinations conducted under this subchapter.

29 Sec. 48. NEW SECTION. **521J.111 Suspension or revocation.**

30 1. A life captive reinsurance company's certificate of
31 authority to conduct the business of insurance in this state
32 may be suspended or revoked by the commissioner for any of the
33 following reasons:

34 a. Insolvency or impairment of capital or surplus.

35 b. Failure to meet and maintain the minimum capital and

1 surplus requirements under section 521J.105.

2 c. Refusal or failure to submit an annual report pursuant to
3 section 521J.109, or to submit a report or statement required by
4 law or by lawful order of the commissioner.

5 d. Failure to comply with the life captive reinsurance
6 company's own charter, bylaws, or other organizational document.

7 e. Failure to submit to an examination under section
8 521J.110.

9 f. Use of methods that render the life captive reinsurance
10 company's operation detrimental, or the company's condition
11 unsound, with respect to the company's policyholders or to the
12 public.

13 g. Failure to pay tax on premiums as required under section
14 432.1A.

15 h. Failure to submit any fee required under this subchapter.

16 i. Failure to pay the cost of an examination under section
17 521J.110.

18 j. Failure to comply with the laws of this state.

19 2. a. If the commissioner finds upon examination, hearing,
20 or other review that a life captive reinsurance company has
21 committed an act specified in subsection 1, the commissioner
22 may suspend or revoke the life captive reinsurance company's
23 certificate of authority.

24 b. If the commissioner does not revoke a life captive
25 reinsurance company's certificate of authority during a
26 suspension imposed under paragraph "a", the life captive
27 reinsurance company's certificate of authority may be reinstated
28 if the commissioner finds that the cause of the suspension has
29 been rectified.

30 Sec. 49. NEW SECTION. **521J.112 Mergers.**

31 1. A merger between life captive reinsurance companies must
32 meet the requirements of chapter 521 and section 521J.107,
33 as applicable. The commissioner may, at the commissioner's
34 discretion, provide notice to the public of a proposed merger
35 prior to the commissioner's approval or disapproval of the

1 merger.

2 2. A plan for a merger must be fair and equitable to the
3 shareholders of the life captive reinsurance companies and shall
4 provide for the purchase of the shares of any nonconsenting
5 shareholder of a life captive reinsurance company.

6 Sec. 50. NEW SECTION. **521J.113 Investments.**

7 1. A life captive reinsurance company's investment program
8 shall take into account the safety of the company's assets,
9 investment yield and return, stability in the value of the
10 investment, and liquidity necessary to meet the company's
11 expected business needs and investment diversification. The
12 assets of a life captive reinsurance company shall be preserved
13 and administered by or on behalf of the life captive reinsurance
14 company to satisfy the liabilities and obligations of the life
15 captive reinsurance company incident to the reinsurance contract
16 between the life captive reinsurance company and the parent or
17 ceding insurer, any insurance securitizations, and other related
18 agreements. For the purposes of this section, assets do not
19 include letters of credit and guaranties of a parent.

20 2. At the discretion of the commissioner, a life captive
21 reinsurance company shall either comply with section 511.8 or
22 invest the life captive reinsurance company's assets in cash and
23 securities that are investment-grade at the time of acquisition,
24 provided that a life captive reinsurance company may invest up to
25 ten percent of the life captive reinsurance company's assets in
26 securities or other investments that are not investment-grade at
27 the time of acquisition, not to include any of the following:

28 a. Securities rated 5 or higher by the NAIC securities
29 valuation office at the time of acquisition.

30 b. Asset-based or mortgage-backed securities rated 3 or
31 higher by the NAIC securities valuation office at the time of
32 acquisition.

33 c. Convertible bonds.

34 d. Preferred or common stock.

35 e. Private equity or hedge funds.

1 3. a. A life captive reinsurance company securitization
2 shall include a disclosure that all or part of the proceeds
3 of such insurance securitization will be used to fund the life
4 captive reinsurance company's obligations to the ceding insurer.

5 b. For purposes of this subsection, "*life captive reinsurance*
6 *company securitization*" means the security-offering memorandum
7 or other document issued to prospective investors regarding the
8 offer and sale of a surplus note or other security.

9 4. A life captive reinsurance company's admitted assets must
10 include proceeds from a securitization, premium and other amounts
11 payable by a ceding insurer to the life captive reinsurance
12 company, letters of credit, guaranties of a parent, and any other
13 assets approved by the commissioner, which shall be deemed to be,
14 and reported as, admitted assets of the life captive reinsurance
15 company. The commissioner may reduce the amount of admitted
16 assets previously approved by the commissioner, other than assets
17 already covered by the most recent NAIC accounting practices and
18 procedures manual of the NAIC, if the commissioner determines
19 that the value of those assets has decreased. A minimum of
20 thirty calendar days prior to reducing the amount of admitted
21 assets previously approved, the commissioner shall notify the
22 life captive reinsurance company of the reduction and provide
23 the life captive reinsurance company an opportunity to remedy the
24 issues identified by the commissioner.

25 5. A life captive reinsurance company shall not make a loan
26 to or an investment in any person, other than as permitted in
27 the life captive reinsurance company's plan of operation, without
28 prior written approval of the commissioner, and any such loan
29 or investment must be evidenced by documentation approved by the
30 commissioner. A life captive reinsurance company shall not loan
31 minimum capital and surplus funds.

32 6. An organizing company shall report to the commissioner the
33 company's ownership in the life captive reinsurance company and
34 value the ownership equal to the audited statutory surplus of the
35 life captive reinsurance company.

1 Sec. 51. NEW SECTION. **521J.114 Permitted reinsurance.**

2 1. A life captive reinsurance company may reinsure, pursuant
3 to a reinsurance contract, only the risks of a ceding insurer.

4 2. Unless otherwise approved in advance by the commissioner,
5 a life captive reinsurance company shall not assume or retain
6 exposure to reinsurance losses for the life captive reinsurance
7 company's own account that are not funded by any of the
8 following:

9 a. Proceeds from a securitization.

10 b. Premium and other amounts payable by a ceding insurer to
11 the life captive reinsurance company pursuant to a reinsurance
12 contract.

13 c. Letters of credit.

14 d. Guaranties of a parent.

15 e. A return on investment of proceeds from either a
16 securitization or a premium, and other amounts payable by the
17 ceding insurer to the life captive reinsurance company pursuant
18 to the reinsurance contract.

19 3. A life captive reinsurance company may cede risks assumed
20 through a reinsurance contract to one or more reinsurers through
21 the purchase of retrocession, subject to prior approval of the
22 commissioner.

23 4. A life captive reinsurance company may enter into
24 contracts and conduct other commercial activities related or
25 incidental to and necessary to fulfill the purposes of a
26 reinsurance contract, an insurance securitization, and this
27 subchapter. Such contracts and commercial activities must
28 be included in the life captive reinsurance company's plan
29 of operation or otherwise be approved in advance by the
30 commissioner, and may include but are not limited to any of the
31 following:

32 a. Entering into reinsurance contracts or issuing life
33 captive reinsurance company securities, and complying with the
34 terms of the contracts and securities.

35 b. Entering into guaranty trust, guaranteed investment

1 contract, swap, or other derivative, tax, administration,
2 services reimbursement, or fiscal agent transactions.

3 c. Complying with trust indenture, reinsurance, or
4 retrocession.

5 5. A reinsurance contract shall not contain a provision for
6 payment by the life captive reinsurance company in discharge of
7 the life captive reinsurance company's obligations to a person
8 other than the ceding insurer or a receiver of the ceding
9 insurer, except upon prior approval of the commissioner.

10 Sec. 52. NEW SECTION. **521J.115 Rating organizations.**

11 A life captive reinsurance company shall not be required to
12 join a rating organization.

13 Sec. 53. NEW SECTION. **521J.116 Compulsory organizations.**

14 A life captive reinsurance company shall not join or
15 contribute financially to a plan, pool, association, or guaranty
16 or insolvency fund in this state.

17 Sec. 54. NEW SECTION. **521J.117 Dormant life captive
18 reinsurance companies.**

19 1. A life captive reinsurance company that is domiciled in
20 this state and complies with this section may apply to the
21 commissioner for a certificate of dormancy. A certificate of
22 dormancy shall be valid for five years from the date of issuance
23 and may not be renewed.

24 2. a. A life captive reinsurance company that has been
25 issued a certificate of dormancy shall comply with all of the
26 following:

27 (1) The dormant life captive reinsurance company shall
28 possess and maintain unimpaired, paid-in capital and surplus of
29 not less than twenty-five thousand dollars.

30 (2) A dormant life captive reinsurance company shall annually
31 submit to the commissioner, within ninety calendar days of the
32 end of the dormant life captive reinsurance company's fiscal
33 year, a report on the dormant life captive reinsurance company's
34 financial condition, verified under oath by two of the dormant
35 life captive reinsurance company's executive officers, in the

1 form and manner established by the commissioner by rule.

2 (3) If, for any portion of the immediately preceding calendar
3 year, the life captive reinsurance company held a certificate
4 of dormancy, the dormant life captive reinsurance company shall
5 pay an annual one thousand dollar dormancy tax, due on or before
6 March 1.

7 b. From the date a certificate of dormancy is issued through
8 the date the certificate expires, a dormant life captive
9 reinsurance company that has been issued the certificate shall
10 not be subject to section 432.1A.

11 3. At the discretion of the commissioner, a dormant life
12 captive reinsurance company may be subject to an annual
13 examination.

14 4. Prior to a dormant life captive reinsurance company
15 issuing an insurance policy, the company must apply to the
16 commissioner for approval to surrender the company's certificate
17 of dormancy and to resume conducting the business of insurance.

18 5. The commissioner shall revoke a dormant life captive
19 reinsurance company's certificate of dormancy if the company
20 violates this section.

21 Sec. 55. NEW SECTION. **521J.118 Books and records.**

22 1. a. Unless otherwise approved by the commissioner, a life
23 captive reinsurance company shall maintain the company's original
24 books, records, documents, accounts, vouchers, and agreements in
25 this state and make them available for examination and inspection
26 by the commissioner as requested by the commissioner. The
27 life captive reinsurance company may store and reproduce the
28 books, records, documents, accounts, vouchers, and agreements
29 electronically.

30 b. All books, records, documents, accounts, vouchers, and
31 agreements shall be kept in a manner that the commissioner
32 can readily ascertain the life captive reinsurance company's
33 financial condition, affairs, and operations; can readily verify
34 the life captive reinsurance company's financial statements; and
35 can confirm the life captive reinsurance company's compliance

1 with this subchapter.

2 2. Unless otherwise approved by the commissioner, all books,
3 records, documents, accounts, vouchers, and agreements maintained
4 by a life captive reinsurance company under subsection 1
5 shall remain available in the state until the commissioner
6 approves destruction or other disposition of the books, records,
7 documents, accounts, vouchers, and agreements.

8 Sec. 56. NEW SECTION. **521J.119 Material transactions.**

9 1. A life captive reinsurance company shall not take any
10 of the following actions unless the company provides the
11 commissioner at least thirty calendar days' prior written notice
12 and the commissioner expressly approves the action:

13 a. Dissolve the life captive reinsurance company.

14 b. Sell, exchange, lease, mortgage, assign, pledge, or
15 otherwise transfer or grant a security interest in over thirty
16 percent of the assets of the life captive reinsurance company.

17 c. Incur material indebtedness.

18 d. Make a material loan or other material extension of
19 credit.

20 e. Make a material payment out of capital and surplus other
21 than dividends or distributions paid in accordance with this
22 subchapter.

23 f. Conduct a merger or consolidation to which the life
24 captive reinsurance company is a constituent party.

25 g. Transfer to or redomesticate in a different jurisdiction.

26 h. Terminate all or a part of the life captive reinsurance
27 company's business.

28 2. A life captive reinsurance company shall submit to the
29 commissioner periodic written requests for authorization prior
30 to making payments of interest on, and repayments of principal
31 of, surplus notes and other debt obligations issued by a life
32 captive reinsurance company. The commissioner shall not approve
33 a payment or repayment if the commissioner determines that the
34 payment or repayment would jeopardize the ability of the life
35 captive reinsurance company or any other person to fulfill the

1 company's or person's obligations.

2 Sec. 57. NEW SECTION. **521J.120 Securities.**

3 A life captive reinsurance company security shall not be
4 subject to regulation as an insurance or reinsurance contract.
5 An investor in, or holder of, the security shall not be
6 considered to transact in the business of insurance in the state
7 solely based on such interest in the security. An underwriter's
8 placement agents, selling agents, partners, commissioners,
9 officers, members, managers, employees, agents, representatives,
10 and advisors involved in an insurance securitization by a
11 life captive reinsurance company shall not be considered
12 insurance producers or brokers, or to be conducting business
13 as an insurance company, as a reinsurance company, or as
14 an insurance agency, brokerage, intermediary, advisory, or
15 consulting business, solely based on underwriting activities in
16 connection with securitization.

17 Sec. 58. NEW SECTION. **521J.121 Rules.**

18 The commissioner may adopt rules pursuant to chapter 17A to
19 implement and administer this subchapter.

20 Sec. 59. CODE EDITOR DIRECTIVE. The Code editor is directed
21 to designate sections 521J.1 through 521J.27, as enacted and
22 amended by this Act, as subchapter I of chapter 521J entitled
23 "Captive Insurance Companies", and to designate sections 521J.101
24 through 521J.121, as enacted by this Act, as subchapter II of
25 chapter 521J entitled "Life Captive Reinsurance Companies".

26 **EXPLANATION**

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

29 This bill relates to captive insurance companies (captive
30 companies) and life captive reinsurance companies (LCRCs).

31 Under the bill, a tax return on gross premiums filed by an
32 insurance company or a captive company shall not be subject
33 to inspection under Code chapter 22, and it shall be unlawful
34 for any present or former officer or employee of the state
35 to willfully or recklessly publish such tax return. A person

1 who violates the bill shall be guilty of a serious misdemeanor
2 and, in addition to any other penalty, shall be dismissed from
3 state office or discharged from state employment. The bill
4 does not prohibit the department of revenue (DOR) from turning
5 over information and tax returns in the DOR's possession to duly
6 authorized officers of the United States, or tax officials of
7 other states, pursuant to an agreement between the commissioner
8 of insurance (commissioner) and either the secretary of the
9 treasury of the United States or the secretary's delegate, or the
10 commissioner of another state.

11 Under current law, Code section 409.905 (foreign insurance
12 companies becoming domestic) applies to life insurance companies,
13 and to insurance companies doing business under Code chapter 515.
14 Under the bill, Code section 409.905 also applies to captive
15 companies.

16 The bill amends the definitions of "alien captive company",
17 "business entity", "captive company", "captive reinsurance
18 company", "captive risk retention group", and "special purpose
19 captive company" under Code chapter 521J (captive companies).
20 The term "foreign captive company" is defined in the bill.

21 Under current law, if permitted by its organizational
22 document, a captive company may apply to the commissioner for a
23 certificate of authority to provide property insurance, casualty
24 insurance, life insurance, disability income insurance, surety
25 insurance, marine insurance, health insurance, or a group health
26 plan. Under the bill, a captive company may also apply for
27 a certificate of authority to have the ability to accept or
28 transfer risks by means of a parametric contract.

29 A captive company shall not write any insurance business
30 unless the captive company's organizational documents, and any
31 subsequent amendments, have been filed and approved by the
32 commissioner prior to being filed with the secretary of state.

33 Prior to receiving a certificate of authority, current law
34 requires a captive company to file with the commissioner a
35 certified copy of the business entity's organizational document.

1 The bill eliminates the requirement that the copy be certified.

2 The bill eliminates the requirements under current law of
3 Code sections 521J.2(3)(a)(1)(c), 521J.2(3)(a)(4), 521J.2(3)(e),
4 521J.4(1)(e), 521J.4(3), 521J.5(2)(c), 521J.6(2), 521J.13(1),
5 and 521J.13(1)(b) that requirements of the commissioner be
6 established by rule.

7 Under current law, all documents and information submitted by
8 a captive company prior to receiving a certificate of authority
9 shall be confidential and shall not be made public without the
10 advance written consent of the submitting company. The bill
11 includes reports as confidential information.

12 Current law requires that each captive company, individual
13 series of members of a limited liability company, and protected
14 cell pay an initial registration fee, and an annual renewal
15 registration fee, of \$300. The bill requires each captive
16 company, individual series of members of a limited liability
17 company, and protected cell pay an annual renewal registration
18 fee of \$300.

19 Under current law, the commissioner shall not issue a
20 certificate of authority to a captive company unless the captive
21 company possesses and maintains unimpaired paid-in capital and
22 surplus of no less than \$500,000 for a protected cell captive
23 company. If, however, the protected cell captive company does
24 not assume any risks, the risks insured by the protected cells
25 are homogenous, and there are not more than 10 cells, the
26 commissioner may reduce the amount to an amount not less than
27 \$250. Under the bill, the commissioner shall not issue a
28 certificate of authority to a captive company unless the captive
29 company possesses and maintains unimpaired paid-in capital and
30 surplus of no less than \$100,000 for a protected cell captive
31 company.

32 Under current law, the minimum capital and surplus
33 requirements for a captive company shall be in the form of cash,
34 cash equivalent, or an irrevocable letter of credit. Under the
35 bill, the minimum capital and surplus requirements may also be in

1 the form of marketable securities approved by the commissioner.
2 If the captive company elects to satisfy the minimum requirements
3 with marketable securities, the commissioner may require the
4 captive company to file financial statements or other reports on
5 a more frequent basis than otherwise required. The increased
6 reporting frequency may be imposed to ensure the commissioner
7 can adequately monitor the liquidity, valuation, and market risk
8 associated with the marketable securities.

9 Current law requires a captive company be formed or organized
10 as a business entity under Code chapter 521J. Under the bill,
11 subject to the commissioner's approval, a captive company may
12 also be formed as a reciprocal insurer under Code chapter 520.

13 The bill eliminates the requirement under current law that
14 a captive risk retention group formed as a reciprocal insurer
15 have a minimum of five members of the subscribers' advisory
16 committee who are residents of this state. Under the bill, a
17 captive company formed as a reciprocal insurer shall be subject
18 to Code chapter 520 (reciprocal or interinsurance contracts),
19 unless exempt by approval of the commissioner in the captive
20 company's plan of operation. The bill eliminates the requirement
21 under current law that applicable provisions of Code chapter
22 508B (conversion from mutual company to stock company) apply to
23 a merger, consolidation, conversion, mutualization, or voluntary
24 dissolution by a captive company.

25 Under current law, a captive company shall file an annual
26 report with the commissioner that meets the requirements of
27 current law. Under the bill, a captive company does not have
28 to file the annual report if directed by the commissioner in the
29 first year of a captive company's licensure.

30 The bill eliminates the requirement under current law that
31 all reports filed pursuant to Code section 521J.7 (reports) be
32 considered confidential and not a public record.

33 Under the bill, applicable provisions of Code chapter 508B
34 apply to a merger, consolidation, conversion, mutualization,
35 or voluntary dissolution by a captive company unless provided

1 otherwise.

2 Under current law, if a captive company's admitted assets
3 total less than \$5 million, the commissioner may approve an
4 investment of up to 20 percent of the captive company's admitted
5 assets in rated credit instruments in any investment. Instead of
6 admitted assets, the bill relies on the total assets disclosed
7 in a captive company's annual report. Total assets under
8 the bill shall be based on the accounting basis approved by
9 the commissioner, provided that all assets included must be
10 reasonably liquid, realizable, and available to support the
11 obligations of the captive company.

12 Current law requires that each protected cell captive company
13 formed or authorized by Code chapter 521J be incorporated, and an
14 incorporated protected cell may be organized and operated in any
15 form of business organization as authorized by the commissioner
16 by rule. The bill requires that each protected cell captive
17 company be formed as a business entity, provided the business
18 entity is separate from the protected cell captive company of
19 which the business entity is a part.

20 Under current law, the commissioner shall adopt rules to
21 implement and administer Code chapter 521J. Under the bill, the
22 commissioner may adopt rules.

23 For taxes due pursuant to Code section 432.1A (tax on premiums
24 — captive companies), a foreign or alien captive company that
25 redomesticates into the state shall only be liable for taxes
26 on premiums paid to the captive company after redomestication
27 and shall report to the commissioner all premium taxes due. In
28 either the captive company's first or second year of operation
29 after redomesticating into the state, the company may elect to
30 forego payment of the premium taxes. If the company that makes
31 such election subsequently surrenders the company's license or
32 redomesticates to another jurisdiction within five years, the
33 company shall immediately pay to the commissioner a tax in an
34 amount equal to the foregone premium tax plus 10 percent per
35 annum from the date the foregone premium tax would have been

1 originally due.

2 The bill makes conforming changes to Code sections
3 521J.1(u1), 521J.1(22), 521J.1(24)(b), 521J.5(6), 521J.5(7)(b),
4 521J.5(9)(b), 521J.8(1)(a), 521J.8(5), 521J.9(1)(h) and (i),
5 521J.14(3), 521J.17(2), 521J.17(2)(a)(4), 521J.17(2)(c), 521J.18,
6 521J.22(3)(a)(3), 521J.23, 521J.24(1)(b), and 521J.26.

7 An LCRC issued a certificate of authority shall only reinsure
8 the risks of a ceding insurer, shall not otherwise engage in
9 the business of insurance, and may purchase retrocession to cede
10 the risks assumed under a reinsurance contract. An LCRC shall
11 not write any insurance business unless the LCRC complies with
12 the requirements of the bill. All documents and information
13 submitted by an LCRC for purposes of an application for a
14 certificate of authority shall be confidential and shall not be
15 made public without the advance written consent of the submitting
16 LCRC, unless an exception detailed in the bill applies. If
17 the LCRC's application is complete, the commissioner may issue
18 a certificate of authority to the LCRC upon a finding that
19 the LCRC's proposed plan of operation provides for a viable
20 operation, is not hazardous to a ceding insurer, and the terms
21 of any reinsurance contract and related transactions of the LCRC
22 comply with the requirements of the bill and all applicable
23 insurance laws and rules of the state. In conjunction with
24 the issuance of the certificate of authority, the commissioner
25 may issue an order regarding any terms and conditions regarding
26 the organization, licensing, and operation of the LCRC that
27 the commissioner deems appropriate. "Ceding insurer" and "life
28 captive reinsurance company" are defined by the bill.

29 An LCRC shall not adopt a name that is the same, deceptively
30 similar, or likely to be confused with or mistaken for any other
31 existing business name already registered in the state.

32 On the date an LCRC files an application for a certificate of
33 authority, and by March 15 of each succeeding year that an LCRC
34 is in operation and is ceded new business, a qualified actuary
35 shall file with the commissioner a certification that the ceding

1 insurer's transactions with the LCRC are not used to gain an
2 unfair advantage if pricing of policies and contracts reinsured
3 by the LCRC reflect, at the time the policies and contracts
4 were issued, a reasonable long-term estimate of the cost to
5 the ceding insurer of an alternative third-party transaction
6 and utilize current pricing assumptions. The ceding insurer
7 shall maintain documentation detailing the process by which the
8 qualified actuary arrived at the conclusions in preparation for
9 an examination.

10 The commissioner shall not issue a certificate of authority
11 unless an LCRC possesses and maintains unimpaired paid-in
12 capital and surplus that is not less than \$5 million, and the
13 commissioner may require additional capital and surplus based
14 upon the reinsurance business transacted by the LCRC. Minimum
15 capital and surplus shall be in the form of cash or other
16 securities that are investment-grade at the time of acquisition
17 and are acceptable to the commissioner. Except as otherwise
18 provided, Code chapter 521E (risk-based capital requirements for
19 insurers) shall apply to an LCRC.

20 An LCRC must have a plan of operation approved by its board
21 of directors, and, prior to assuming risks under a reinsurance
22 contract, shall submit the plan of operation to the commissioner
23 for approval. The commissioner may approve the plan of operation
24 upon finding that the plan meets the requirements of the bill,
25 and may require amendments to the plan as necessary. Any change
26 in the LCRC's plan of operation shall require prior approval of
27 the commissioner. The plan of operation must include all of the
28 information detailed in the bill.

29 An LCRC or an affiliated company may organize an LCRC pursuant
30 to the bill, and an LCRC must be formed as a corporation, may
31 only reinsure risks of the organizing company, and may access
32 alternative forms of financing. An organizing company shall
33 maintain a minimum of 10 percent voting interest and 10 percent
34 equity ownership in the LCRC unless otherwise approved by the
35 commissioner. An LCRC's organizational documents shall limit

1 the company's authority to transact the business of reinsurance
2 to only reinsure the risks of a ceding insurer. An organizing
3 company may invest funds from its surplus in an LCRC, and the
4 organizing company's officers and directors may serve as officers
5 and directors of an LCRC. An LCRC shall be deemed to be licensed
6 to transact the business of reinsurance. An LCRC may, upon
7 approval of the commissioner, purchase reinsurance. Admitted
8 assets of an LCRC include assets approved by the commissioner
9 which shall be deemed to be, and reported as, admitted assets of
10 the LCRC.

11 An LCRC shall not pay a dividend out of, or other distribution
12 with respect to, the minimum capital or surplus without the
13 prior written approval of the commissioner. The commissioner's
14 approval of an ongoing plan for the payment of dividends or
15 other distributions shall be conditioned upon retention, at the
16 time of each payment, of capital and surplus in excess of the
17 amounts specified by, or determined in accordance with, a formula
18 approved by the commissioner.

19 The bill details the reports and notifications by an LCRC
20 required to be filed with the commissioner.

21 The commissioner may examine each LCRC's compliance with
22 the bill, and may examine the affairs, transactions, accounts,
23 records, and assets of each LCRC as necessary, but not less
24 frequently than every five years. Upon the completion of an
25 examination, or at regular intervals, the commissioner shall
26 prepare an account of the costs incurred in performing and
27 preparing the report of the examination which shall be charged
28 to and paid by the LCRC examined. If the LCRC fails or refuses
29 to pay, the charges may be recovered in an action brought in the
30 name of the state. Examination requirements shall apply to all
31 business written by an LCRC, and applicable provisions of Code
32 chapter 507 (examination of insurance companies) apply to such
33 examinations.

34 An LCRC's certificate of authority may be suspended or revoked
35 by the commissioner for any of the reasons described in the

1 bill. If the commissioner does not revoke an LCRC's certificate
2 of authority during a suspension, the LCRC's certificate of
3 authority may be reinstated if the commissioner finds that the
4 cause of the suspension has been rectified.

5 A merger between LCRCs must meet the requirements of Code
6 chapter 521 (consolidation, merger, and reinsurance) and Code
7 section 521J.107, as applicable. The commissioner may provide
8 notice to the public of a proposed merger prior to approving or
9 disapproving of a merger. A plan for a merger shall be fair and
10 equitable to the shareholders and provide for the purchase of the
11 shares of any nonconsenting shareholder.

12 An LCRC's investment program shall account for the safety of
13 the company's assets, investment yield and return, stability in
14 the value of the investment, and liquidity necessary to meet the
15 company's expected business needs and investment diversification.
16 The assets of an LCRC shall be preserved and administered to
17 satisfy the liabilities and obligations of the LCRC incident
18 to the reinsurance contract, any insurance securitizations, and
19 other related agreements. At the discretion of the commissioner,
20 an LCRC shall either comply with Code section 511.8 or invest
21 its assets in cash and securities that are investment-grade at
22 the time of acquisition, provided that an LCRC may invest up to
23 10 percent of its assets in securities or other investments that
24 are not investment-grade except for any of the assets detailed
25 in the bill. An LCRC securitization shall include a disclosure
26 that all or part of the proceeds of the securitization will be
27 used to fund the LCRC's obligations to the ceding insurer. The
28 commissioner may reduce the amount of admitted assets previously
29 approved if it is determined that the value of those assets has
30 decreased. A minimum of 30 days prior to reducing the amount
31 of admitted assets, the commissioner shall notify the LCRC and
32 provide an opportunity to remedy the issues. An LCRC shall
33 not make a loan to or an investment in any person, other than
34 as permitted in the plan of operation, without prior written
35 approval of the commissioner and evidenced by documentation

1 approved by the commissioner. An LCRC shall not loan minimum
2 capital and surplus funds. An organizing company shall report
3 its ownership in the LCRC and value the ownership equal to the
4 audited statutory surplus.

5 An LCRC shall not assume or retain exposure to reinsurance
6 losses for the LCRC's own account that are funded as detailed in
7 the bill. An LCRC may cede risks assumed through a reinsurance
8 contract to reinsurers through the purchase of retrocession,
9 subject to prior approval of the commissioner.

10 An LCRC may enter into contracts and conduct other commercial
11 activities related or incidental to and necessary to fulfill the
12 purposes of a reinsurance contract, an insurance securitization,
13 and the bill. Such contracts and commercial activities must
14 be included in the LCRC's plan of operation or otherwise be
15 approved in advance by the commissioner and may include the
16 contracts and activities detailed in the bill. Unless approved
17 by the commissioner, a reinsurance contract shall not contain a
18 provision for payment by the LCRC in discharge of its obligations
19 to a person other than the ceding insurer or a receiver of the
20 ceding insurer.

21 An LCRC shall not be required to join a rating organization
22 and shall not join or contribute financially to any plan, pool,
23 association, or guaranty or insolvency fund in this state.

24 An LCRC domiciled in the state may apply to the commissioner
25 for a certificate of dormancy, which shall be valid for five
26 years and may not be renewed. An LCRC issued a certificate
27 of dormancy shall comply with the requirements of the bill and
28 shall not be subject to Code section 432.1A. At the discretion
29 of the commissioner, a dormant LCRC may be subject to an annual
30 examination. A dormant LCRC must apply for approval to surrender
31 a certificate of dormancy and resume conducting business prior to
32 issuing an insurance policy.

33 Unless otherwise approved, an LCRC shall maintain the original
34 books, records, documents, accounts, vouchers, and agreements in
35 this state, make them available for examination and inspection by

1 the commissioner upon request, and keep them in the state until
2 the commissioner approves destruction or other disposition of the
3 books, records, documents, accounts, vouchers, and agreements.
4 The LCRC may store and reproduce the books, records, documents,
5 accounts, vouchers, and agreements electronically but shall also
6 be kept in a manner that the commissioner can readily ascertain
7 the LCRC's financial condition, affairs, and operations; can
8 readily verify the LCRC's financial statements; and can confirm
9 the LCRC's compliance with the bill.

10 An LCRC shall not take any of the actions detailed in the
11 bill unless the company provides the commissioner at least
12 30 days prior written notice and the commissioner expressly
13 approves the action. An LCRC shall submit to the commissioner
14 requests for authorization prior to making payments of interest
15 on, and repayments of principal of, surplus notes and other
16 debt obligations issued by an LCRC. The commissioner shall
17 not approve the payment or repayment if it would jeopardize
18 the ability of the LCRC or another person to fulfill their
19 obligations.

20 An LCRC security shall not be subject to regulation as an
21 insurance or reinsurance contract. An investor in, or holder of,
22 the security shall not be considered to transact in the business
23 of insurance solely based on such interest. An underwriter's
24 placement agents, selling agents, partners, commissioners,
25 officers, members, managers, employees, agents, representatives,
26 and advisors involved in an insurance securitization shall
27 not be considered to be insurance producers or brokers or to
28 be conducting business as an insurance company, a reinsurance
29 company, or an insurance agency, brokerage, intermediary,
30 advisory, or consulting business, solely by virtue of their
31 underwriting activities in connection with a securitization.

32 The commissioner may adopt rules to implement and administer
33 the bill.