

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:

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

3 NEW SUBSECTION. 7. *a.* A tax return filed under this
4 section shall not be subject to inspection under chapter 22.
5 It shall be unlawful for any present or former officer or
6 employee of the state to willfully or recklessly publish any
7 tax return filed under this section. A person who violates
8 this paragraph shall be guilty of a serious misdemeanor and, in
9 addition to any other penalty, shall be dismissed from state
10 office or discharged from 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
14 to this subsection to duly authorized officers of the United
15 States, or tax officials of other states, pursuant to an
16 agreement between the commissioner of insurance and any of the
17 following:

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

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

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

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

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

1 the commissioner of insurance and any of the following:

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

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

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

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

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

23 As used in this ~~chapter~~ subchapter, unless the context
24 otherwise requires:

25 Sec. 5. Section 521J.1, subsections 2, 6, 7, 8, and 9, Code
26 2026, are amended to read as follows:

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

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

1 7. "*Captive company*" means any pure captive company,
2 protected cell captive company, special purpose captive
3 company, or industrial insured captive company formed or
4 authorized under this ~~chapter~~ subchapter. "*Captive company*"
5 does not include a life captive reinsurance company as defined
6 under section 521J.101.

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

13 9. "*Captive risk retention group*" means a captive insurance
14 risk retention group formed under this ~~chapter~~ subchapter and
15 that is subject to [chapter 515E](#).

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

18 NEW SUBSECTION. 13A. "*Foreign captive company*" means a
19 captive company formed and licensed under the laws of any
20 jurisdiction within the United States except this state.

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

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

32 Sec. 8. Section 521J.1, subsection 24, paragraph b, Code
33 2026, is amended to read as follows:

34 *b.* The company is formed or authorized under this ~~chapter~~
35 subchapter.

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

3 31. *“Special purpose captive company”* means a captive
4 company that is formed or authorized under this ~~chapter~~
5 subchapter that does not meet the definition of any other type
6 of captive company as defined in this ~~section~~ subchapter,
7 or that is formed by, on behalf of, or for the benefit of a
8 political subdivision ~~of this state~~. “Special purpose captive
9 company” may include a reciprocal insurer. “Special purpose
10 captive company” does not include a life captive reinsurance
11 company as defined under section 521J.101.

12 Sec. 10. Section 521J.2, subsection 1, unnumbered paragraph
13 1, Code 2026, is amended to read as follows:

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

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

23 NEW PARAGRAPH. e. The captive company’s organizational
24 documents, and any subsequent amendments, have been filed and
25 approved by the commissioner prior to being filed with the
26 secretary of state.

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

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

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

32 (a) A ~~certified~~ copy of the business entity’s
33 organizational document.

34 (b) A statement under oath of an officer of the business
35 entity showing the business entity’s financial condition.

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

3 (2) Submit a description of coverages, deductibles,
4 coverage limits, rates, and any additional information
5 requested by the commissioner to the commissioner for approval.

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

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

10 (b) The character, reputation, financial responsibility,
11 insurance experience, and business qualifications of all
12 officers, directors, and managing members of the business
13 entity.

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

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

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

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

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

32 (3) The overall soundness of the captive company's plan of
33 operation.

34 (4) The adequacy of the loss prevention program of the
35 captive company's parent, members, or industrial insureds, as

1 applicable.

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

5 *d.* In addition to the information required under paragraph
6 "a", each applicant that is a protected cell captive company
7 shall file with the commissioner all of the following:

8 (1) A business plan that demonstrates, at a level of detail
9 deemed sufficient by the commissioner, how the applicant will
10 account for the loss and expense experience of each protected
11 cell, and how the applicant will report the loss and expense
12 experience of each protected cell to the commissioner.

13 (2) A statement that acknowledges that all financial
14 records of the protected cell captive company, including
15 records pertaining to any protected cells, shall be made
16 available upon request for inspection or examination by the
17 commissioner or the commissioner's designated agent.

18 (3) A copy of each participant contract.

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

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

30 ~~§.~~ 4. All documents, reports, and information submitted
31 pursuant to this ~~subsection~~ subchapter shall be confidential
32 and shall not be made public without the advance written
33 consent of the submitting company, with the following
34 exceptions:

35 ~~(1)~~ a. The documents and information shall be discoverable

1 by a party in a civil action or in a contested case to which
2 the captive company that submitted the information is a party
3 upon a showing by the party seeking to discover the information
4 that the information sought is relevant to, and necessary for,
5 the furtherance of the action or case; the information sought
6 is unavailable from other nonconfidential sources; and that a
7 subpoena issued by a judicial or an administrative officer has
8 been submitted to the commissioner.

9 ~~(2)~~ b. The commissioner may, in the commissioner's
10 discretion, disclose the documents and information to a public
11 official having jurisdiction over the regulation of insurance
12 in another state, or to a public official of the federal
13 government, provided that the public official agrees in writing
14 to maintain the confidentiality of the information, and that
15 the laws of the state in which the public official serves
16 require that the information remain confidential.

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

26 *b.* Each captive insurance company, each individual series of
27 members of a limited liability company, and each protected cell
28 shall pay ~~an initial registration fee,~~ and an annual renewal
29 registration fee~~,~~ of three hundred dollars.

30 ~~5.~~ 6. If the commissioner is satisfied with the documents
31 and statements that an applicant captive company has filed in
32 compliance with this ~~chapter~~ subchapter, and the applicable
33 provisions of Title XIII, subtitle 1, the commissioner may
34 grant a certificate of authority to the captive company that
35 permits the company to do the business of insurance in this

1 state. The certificate of authority must be renewed annually
2 and may be renewed if the applicant is in compliance with this
3 ~~chapter~~ subchapter.

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

6 *d.* Is not less than ~~five~~ one hundred thousand dollars for
7 a protected cell captive company. ~~If, however, the protected~~
8 ~~cell captive company does not assume any risks, the risks~~
9 ~~insured by the protected cells are homogenous, and there are~~
10 ~~not more than ten cells, the commissioner may reduce the amount~~
11 ~~to an amount not less than two hundred fifty thousand dollars.~~

12 *e.* Is not less than the applicable amount of capital and
13 surplus required in paragraphs "a" through "d", as determined
14 based upon the organizational form of the alien captive
15 company, for a branch captive company. The minimum capital
16 and surplus shall be jointly held by the commissioner and the
17 branch captive company in a bank of the federal reserve system
18 as approved by the commissioner ~~by rule~~.

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

21 3. *a.* The capital and surplus required under subsection
22 1 and subsection 2, if applicable, shall be in the form of
23 cash, cash equivalent, marketable securities as approved by
24 the commissioner, or an irrevocable letter of credit on a form
25 as prescribed by the commissioner ~~by rule~~ and as issued by
26 a bank chartered by the state of Iowa, a member bank of the
27 federal reserve system, or a bank chartered by another state if
28 approved by the commissioner.

29 *b.* If a captive company elects to satisfy any portion of the
30 captive company's minimum capital and surplus requirements with
31 marketable securities, the commissioner may require the captive
32 company to file financial statements or other reports on a more
33 frequent basis than otherwise required under this subchapter.
34 The increased reporting frequency may be imposed to ensure the
35 commissioner can adequately monitor the liquidity, valuation,

1 and market risk associated with the marketable securities.

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

4 1. A Subject to the commissioner's approval, a captive
5 company ~~must~~ may be formed or organized as a business entity
6 as provided under this ~~chapter~~ subchapter, or as a reciprocal
7 insurer as provided under chapter 520.

8 Sec. 16. Section 521J.5, subsection 2, paragraph c, Code
9 2026, is amended to read as follows:

10 c. Organized as a reciprocal insurer as permitted by the
11 commissioner ~~by rule~~.

12 Sec. 17. Section 521J.5, subsection 5, paragraph c, Code
13 2026, is amended to read as follows:

14 c. A reciprocal insurer shall have at least one member
15 of the subscribers' advisory committee who is a resident
16 of this state. ~~A captive risk retention group formed as a~~
17 ~~reciprocal insurer shall have a minimum of five members of~~
18 ~~the subscribers' advisory committee who are residents of this~~
19 ~~state.~~

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

22 6. a. A captive company formed as a corporation or another
23 business entity shall have the privileges of, and shall be
24 subject to, state laws governing corporations or other business
25 entities, and the applicable provisions of this ~~chapter~~
26 subchapter.

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

30 7. a. A subscribers' agreement, or other organizational
31 document of a captive company formed as a reciprocal insurer,
32 shall authorize a quorum of a subscribers' advisory committee
33 to consist of at least one-third of the number of members on
34 the advisory committee. In addition to this subchapter, a
35 captive company formed as a reciprocal insurer shall be subject

1 to chapter 520, unless exempt by approval of the commissioner
2 in the captive company's plan of operations. In the event
3 of a conflict between chapter 520 and this subchapter, this
4 subchapter shall take precedence.

5 *b.* In addition to this ~~chapter~~ subchapter, a captive risk
6 retention group shall be subject to **chapter 515E**. In the event
7 of a conflict between **chapter 515E** and this ~~chapter~~ subchapter,
8 this ~~chapter~~ subchapter shall take precedence.

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

11 Sec. 20. Section 521J.5, subsection 9, paragraph b, Code
12 2026, is amended to read as follows:

13 *b.* A branch captive company established under this
14 ~~chapter~~ subchapter to write, in this state, only insurance or
15 reinsurance of the employee benefit business of the branch
16 captive company's parent and affiliated companies shall be
17 subject to the federal Employee Retirement Income Security Act
18 of 1974, 29 U.S.C. §1001, et seq.

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

21 2. The commissioner's approval of an ongoing plan for
22 the payment of dividends or other distributions shall be
23 conditioned upon retention, at the time of each payment, of
24 capital and surplus in excess of the amounts specified by,
25 or determined in accordance with, a formula approved by the
26 commissioner ~~by rule~~.

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

29 **521J.7 Reports.**

30 ~~1.~~ A Unless otherwise directed by the commissioner in
31 the first year of a captive company's licensure under this
32 subchapter, the captive company shall be required to file an
33 annual report with the commissioner that meets the following
34 requirements:

35 ~~a.~~ 1. Except as provided in ~~paragraph "b"~~ subsection

1 2, on or before April 1 of each year, each captive company
2 and each captive risk retention group shall submit to the
3 commissioner a report on the company's financial condition as
4 of December 31 of the preceding year, as verified by oath of
5 two of the company's or group's executive officers. The report
6 shall be submitted in a form and manner as prescribed by the
7 commissioner by rule.

8 ~~b.~~ 2. A captive company, other than a captive risk
9 retention group, may apply to the commissioner to file the
10 report required under ~~paragraph "a"~~ subsection 1 on a fiscal
11 year-end basis. If the commissioner approves reporting on a
12 fiscal year-end basis, the captive company shall comply with
13 all of the following requirements:

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

17 ~~(2)~~ b. Prior to April 1, the captive company shall file a
18 report covering the immediately preceding calendar year with
19 the commissioner to provide sufficient information to support
20 the captive company's premium tax return under [section 432.1A](#).

21 ~~e.~~ 3. Each captive company shall use generally accepted
22 accounting principles as used in the United States, unless
23 the commissioner requires, approves, or accepts the use
24 of United States statutory accounting principles or any
25 other comprehensive accounting principles for the company's
26 report. The commissioner may require, approve, or accept
27 any appropriate or necessary modifications of United States
28 statutory accounting principles or other comprehensive
29 accounting principles based on the type of insurance and kinds
30 of insurers that are included in a captive company's report.
31 The report may include letters of credit that are established,
32 issued, or confirmed by any of the following:

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

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

35 ~~(3)~~ c. A bank chartered by another state, if approved by

1 the commissioner.

2 ~~d.~~ 4. An actuarial opinion from a qualified actuary
3 regarding the adequacy of the company's required reserves to
4 make full provision for the company's liabilities, insured or
5 reinsured, shall be included in the report. The qualified
6 actuary shall submit a memorandum to the commissioner that
7 details the qualified actuary's support for the actuarial
8 opinion. The commissioner may require that additional
9 information be submitted to supplement the actuarial opinion.

10 ~~e.~~ 5. All captive companies shall be audited annually by an
11 independent certified public accountant and shall annually file
12 the audited financial report with the commissioner on or before
13 June 1, as a supplement to the annual report required under
14 ~~section 521J.7, subsection 1~~ this section.

15 ~~f.~~ 6. A captive company may request an extension to file
16 a report required by this section. A written request for an
17 extension must be received by the commissioner not less than
18 ten days before the filing due date, and the request must
19 contain sufficient details to enable the commissioner to make
20 an informed decision regarding the request. The commissioner
21 may grant a thirty-day extension upon a determination by the
22 commissioner that a captive company has good cause for the
23 extension.

24 ~~g.~~ 7. A captive company may be required to file a report
25 on the captive company's financial condition on a semiannual,
26 quarterly, monthly, or other basis as determined by the
27 commissioner.

28 ~~h.~~ 8. Captive companies shall file all reports required
29 under this section in the form and manner prescribed by the
30 commissioner by rule.

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

33 Sec. 23. Section 521J.8, subsection 1, paragraph a, Code
34 2026, is amended to read as follows:

35 a. Except for captive risk retention groups as provided

1 under paragraph "c", the commissioner may examine each captive
2 company's compliance with this ~~chapter~~ subchapter, and may
3 examine the affairs, transactions, accounts, records, and
4 assets of each captive company as the commissioner deems
5 necessary.

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

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

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

12 *h.* Failure to submit or pay any fee under this ~~chapter~~
13 subchapter.

14 *i.* Failure to submit to or pay the cost of any examination
15 under this ~~chapter~~ subchapter.

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

18 1. A merger between captive stock insurers, or a merger
19 between captive mutual insurers, shall meet the requirements
20 of chapter 521 and section 521J.5, as applicable. The
21 commissioner may, at the commissioner's discretion, provide
22 notice to the public of a proposed merger prior to the
23 commissioner's approval or disapproval of a merger. Except
24 as provided in this section, applicable provisions of chapter
25 508B shall apply to a merger, consolidation, conversion,
26 mutualization, or voluntary dissolution by a captive company.

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

29 1. *a.* Industrial insured captive companies and captive
30 risk retention groups shall comply with investment requirements
31 as ~~established~~ approved by the commissioner ~~by rule~~. The
32 commissioner may approve the use of alternative reliable
33 methods of valuation and rating.

34 *b.* If a captive company's ~~admitted~~ annual report filed
35 pursuant to section 521J.7 states total assets total of less

1 than five million dollars, the commissioner may approve an
2 investment of up to twenty percent of the captive company's
3 admitted assets in rated credit instruments in any ~~one~~
4 investment that meets the requirements established by the
5 commissioner ~~by rule~~. For purposes of this subsection, total
6 assets shall be based on the accounting basis approved by the
7 commissioner, provided that all assets included in such total
8 assets must be reasonably liquid, realizable, and available to
9 support the obligations of the captive.

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

12 3. Insurance by a captive company of any workers'
13 compensation qualified self-insured plan of the captive
14 company's parent and affiliates shall be deemed to be
15 reinsurance under this ~~chapter~~ subchapter.

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

18 A protected cell captive company formed or authorized
19 under this ~~chapter~~ subchapter shall be subject to all of the
20 following requirements:

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

23 (4) Each protected cell shall be ~~incorporated~~. ~~An~~
24 ~~incorporated protected cell may be organized and operated~~
25 ~~in any form of business organization as authorized by the~~
26 ~~commissioner by rule~~ formed as a business entity, provided the
27 business entity is separate from the protected cell captive
28 company of which the business entity is a part. Each protected
29 cell of a protected cell captive company shall be treated as
30 a captive insurance company under this ~~chapter~~ subchapter,
31 except that the limit on maximum yearly aggregate taxes paid
32 under [section 432.1A, subsection 4](#), shall not apply. Unless
33 otherwise permitted by the organizational document of a
34 protected cell captive company, each protected cell of the
35 protected cell captive company must have the same directors,

1 secretary, and registered office as the protected cell captive
2 company.

3 Sec. 31. Section 521J.17, subsection 2, paragraph c, Code
4 2026, is amended to read as follows:

5 c. The establishment of a protected cell shall create, with
6 respect to the protected cell, a ~~legal person~~ business entity
7 separate from the protected cell captive company. Amounts
8 attributed to a protected cell under this ~~chapter~~ subchapter,
9 including assets transferred to a protected cell account, shall
10 be owned by the protected cell and the protected cell captive
11 company shall not be a trustee, or hold itself out to be a
12 trustee, with respect to the protected cell assets of that
13 protected cell account.

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

16 **521J.18 Sponsors — qualifications.**

17 A sponsor of a protected cell captive company may be
18 any person approved by the commissioner, based on the
19 commissioner's determination that the approval of such person
20 as a sponsor is consistent with the purposes of this ~~chapter~~
21 subchapter. In evaluating the qualifications of a proposed
22 sponsor, the commissioner shall consider the type and structure
23 of the proposed sponsor entity, the sponsor's experience in
24 financial operations, the sponsor's financial stability, the
25 sponsor's business reputation, and any other factors deemed
26 relevant by the commissioner. A risk retention group shall not
27 be a sponsor of a protected cell captive company.

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

30 (3) The dormant captive company shall pay an annual one
31 thousand dollar dormancy tax, due on or before March 1, if
32 for any portion of the immediately preceding calendar year
33 the captive company held a certificate of dormancy. Each
34 series of members and each protected cell shall be considered
35 separate for purposes of paying the annual dormancy tax under

1 a certificate of dormancy. A dormant captive company is not
2 otherwise liable for any annual renewal as provided in section
3 521J.2, ~~subsection 4~~ subsection 5, paragraph "b".

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

6 **521J.23 Workers' compensation — compliance with state and**
7 **federal laws.**

8 1. This ~~chapter~~ subchapter shall not be construed to exempt
9 a captive company, a captive company's parent, or a captive
10 company's affiliated companies from compliance with applicable
11 state and federal laws governing workers' compensation
12 insurance.

13 2. This ~~chapter~~ subchapter shall not be construed to divest
14 the division of workers' compensation of any jurisdiction, as
15 authorized by law, over workers' compensation self-insurance
16 plans.

17 Sec. 35. Section 521J.24, subsection 1, paragraph b, Code
18 2026, is amended to read as follows:

19 b. All books, records, documents, accounts, vouchers, and
20 agreements shall be kept in a manner that the commissioner can
21 readily ascertain the captive company's financial condition,
22 affairs, and operations; can readily verify the captive
23 company's financial statements; and can confirm the captive
24 company's compliance with this ~~chapter~~ subchapter.

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

27 The commissioner ~~shall~~ may adopt rules pursuant to chapter
28 17A to implement and administer this ~~chapter~~ subchapter.

29 Sec. 37. NEW SECTION. **521J.27 Redomestication — premium**
30 **tax credits.**

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

35 2. A foreign or alien captive company that redomesticates

1 under this subchapter shall report to the commissioner all
2 premium taxes due under section 432.1A, but in either the
3 captive company's first or second year of operation after
4 redomesticating into the state may elect to forgo payment of
5 the premium taxes. A foreign or alien captive company that
6 makes such election that subsequently surrenders the foreign or
7 alien captive company's license or redomesticates to another
8 jurisdiction within five years from the date of redomestication
9 into the state shall immediately pay to the commissioner a tax
10 in an amount equal to the foregone premium tax plus ten percent
11 per annum from the date the foregone premium tax would have
12 originally been due.

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

15 Sec. 38. NEW SECTION. 521J.101 **Definitions.**

16 As used in this subchapter, unless the context otherwise
17 requires:

18 1. "*Affiliated company*" means the same as defined in section
19 521J.1.

20 2. "*Business entity*" means the same as defined in section
21 521J.1.

22 3. "*Ceding insurer*" means an affiliated company of a life
23 captive reinsurance company that cedes risk to the life captive
24 reinsurance company pursuant to a reinsurance contract.

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

26 5. "*Dormant life captive reinsurance company*" means a life
27 captive reinsurance company that has ceased transacting the
28 business of insurance, including but not limited to ceasing
29 issuance of insurance policies, and does not have any remaining
30 liabilities associated with the life captive reinsurance
31 company's insurance business transactions or insurance policies
32 prior to the filing of an application for a certificate of
33 dormancy.

34 6. a. "*Insurance securitization*" or "*securitization*" means
35 a transaction or a group of related transactions, including

1 but not limited to capital market offerings, that are effected
2 through related risk transfer instruments and facilitation
3 of administrative agreements, in which any of the following
4 proceeds from the transaction or group of related transactions
5 are used to fund a life captive reinsurance company's
6 obligations under a reinsurance contract with a ceding insurer:

7 (1) Proceeds obtained by a life captive reinsurance
8 company, directly or indirectly, through the issuance of
9 securities by the life captive reinsurance company or any other
10 person.

11 (2) Proceeds provided through one or more letter of credit
12 or other assets for the benefit of the life captive reinsurance
13 company, and which the commissioner authorizes the life captive
14 reinsurance company to treat as admitted assets for purposes of
15 the life captive reinsurance company's annual statement.

16 *b. "Insurance securitization" or "securitization" does not*
17 *include the issuance of a letter of credit to satisfy all or*
18 *part of the life captive reinsurance company's capital and*
19 *surplus requirements under this subchapter.*

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

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

28 9. "*NAIC*" means the national association of insurance
29 commissioners.

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

32 11. "*Organizing company*" means a life insurance company or
33 an affiliated company that organizes a life captive reinsurance
34 company.

35 12. "*Parent*" means a person that owns an organizing

1 company, either directly or indirectly through one or more
2 intermediaries.

3 13. "*Person*" means an individual, corporation, limited
4 liability company, business trust, estate, trust, partnership
5 or association, joint stock company, unincorporated
6 organization, or any other legal entity, or combination of the
7 foregoing acting in concert. "*Person*" does not include a joint
8 venture partnership exclusively engaged in owning, managing,
9 leasing, or developing real or tangible personal property.

10 14. "*Qualified actuary*" means the same as defined in section
11 521J.1.

12 15. "*Risk*" means a risk associated with life insurance
13 policies and contracts written by a ceding life insurance
14 company or assumed by a ceding life insurance company from
15 an affiliated company, which were written by the affiliated
16 company and for which the ceding life insurance company holds
17 direct statutory reserves as required by section 508.36.

18 16. "*Risk-based capital instructions*" means instructions
19 included in a risk-based capital report as adopted and amended
20 by the NAIC.

21 17. "*Security*" means the same as defined in section 502.102.
22 "*Security*" also includes any form of debt obligation, surplus
23 note, derivative, or other financial instrument that the
24 commissioner designates as a "*security*" for purposes of this
25 subchapter.

26 18. "*Surplus note*" means an unsecured subordinate debt
27 obligation possessing characteristics consistent with the NAIC
28 statutory accounting principles pursuant to the most recently
29 published NAIC accounting practices and procedures manual.

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

31 1. A life captive reinsurance company issued a certificate
32 of authority shall only reinsure the risks of a ceding insurer
33 and shall not otherwise engage in the business of insurance. A
34 life captive reinsurance company may purchase retrocession to
35 cede the risks assumed under a reinsurance contract, subject to

1 prior approval of the commissioner.

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

5 a. The life captive reinsurance company obtains a
6 certificate of authority from the commissioner.

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

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

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

13 e. The life captive reinsurance company designates a
14 registered agent to accept service of process, files the name
15 and contact information and any subsequent changes regarding
16 the registered agent with the commissioner, and agrees that if
17 the registered agent cannot be found with reasonable diligence,
18 the commissioner may act as an agent of the life captive
19 reinsurance company with respect to any action or proceeding,
20 and the commissioner may be served pursuant to section 505.30.

21 f. The life captive reinsurance company has filed a copy
22 of the life captive reinsurance company's articles and bylaws,
23 including any subsequent amendment to the articles or bylaws,
24 with the commissioner and with the secretary of state, and the
25 articles and bylaws have been approved by the commissioner and
26 the secretary of state.

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

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

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

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

35 (i) A statement that the proposed organization and

1 operation of the life captive reinsurance company complies with
2 this section.

3 (ii) The life captive reinsurance company's investment
4 policy reflects and accounts for the liquidity of assets and
5 the reasonable preservation, administration, and management
6 of assets with respect to the risks associated with the
7 reinsurance contract between the life captive reinsurance
8 company and the parent or ceding insurer.

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

12 (d) Documentation that provides evidence of the amount
13 and liquidity of the life captive reinsurance company's
14 assets relative to the risks to be assumed by the life captive
15 reinsurance company.

16 (e) Documentation that provides evidence related to the
17 overall soundness of the life captive reinsurance company's
18 plan of operation.

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

21 (g) A description of coverages, deductibles, coverage
22 limits, rates, and any additional information requested by the
23 commissioner.

24 (h) A copy of each reinsurance contract and each arrangement
25 that secures the life captive reinsurance company's obligations
26 under the reinsurance contract between the life captive
27 reinsurance company and the parent or ceding insurer, including
28 but not limited to any agreements or other documentation to
29 implement such reinsurance contract or arrangement.

30 (i) A legal opinion, in a form and manner approved by
31 the commissioner, that the offer and sale of life captive
32 reinsurance company securities comply with all applicable
33 registration requirements or applicable exemptions or
34 exceptions to such requirements under state and federal
35 securities laws. The legal opinion shall not be required

1 as part of the life captive reinsurance company's initial
2 application for a certificate of authority if the life captive
3 reinsurance company includes a statement in the company's
4 plan of operation that the legal opinion will be submitted
5 to the commissioner prior to the offer or sale of a captive
6 reinsurance security.

7 (j) An opinion of a qualified actuary, approved by the
8 commissioner, confirming that the methodology and assumptions
9 to set and discount reserves sufficiently provide for the risk
10 assumed by the life captive reinsurance company, including
11 significant stress tests on key assumptions.

12 (k) A biographical affidavit for each officer and each
13 director of the life captive reinsurance company prepared on
14 the most recent template for biographical affidavits prescribed
15 by the NAIC.

16 (2) Provide the commissioner with any other statement or
17 document requested by the commissioner to evaluate the life
18 captive reinsurance company's application for a certificate of
19 authority.

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

24 *b.* The commissioner shall be authorized to retain legal,
25 financial, and examination services from outside experts as
26 necessary for review of the application, the reasonable cost of
27 which may be charged to the applicant.

28 *c.* If there is a subsequent material change in the
29 information provided to the commissioner under paragraph
30 "a", the life captive reinsurance company shall inform the
31 commissioner within thirty calendar days of the date of the
32 material change and shall submit appropriate documentation as
33 requested by the commissioner for approval. The life captive
34 reinsurance company shall not write any insurance business
35 until on or after the date on which the commissioner approves

1 the supporting documentation.

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

6 a. The documents and information shall be discoverable by
7 a party in a civil action or in a contested case to which the
8 life captive reinsurance company that submitted the information
9 is a party upon a showing by the party seeking to discover
10 the information that the information sought is relevant to,
11 and necessary for, the furtherance of the action or case; the
12 information sought is unavailable from other nonconfidential
13 sources; and that a subpoena issued by a judicial or an
14 administrative officer has been submitted to the commissioner.

15 b. The commissioner may, in the commissioner's discretion,
16 disclose the documents and information to a public official
17 having jurisdiction over the regulation of insurance in another
18 state, or to a public official of the federal government,
19 provided that the public official agrees in writing to maintain
20 the confidentiality of the information, and that the laws of
21 the state in which the public official serves require that the
22 information remain confidential.

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

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

30 (2) The terms of any reinsurance contract and related
31 transactions of the life captive reinsurance company comply
32 with this subchapter and the insurance laws and rules of this
33 state.

34 b. In conjunction with the issuance of the certificate
35 of authority to a life captive reinsurance company, the

1 commissioner may issue an order regarding any terms and
2 conditions relating to the organization, licensing, and
3 operation of the life captive reinsurance company that the
4 commissioner deems appropriate and that are not inconsistent
5 with this subchapter.

6 6. A certificate of authority shall be valid for a period
7 of one year beginning on the date of initial issuance and
8 the certificate must be renewed annually. A certificate of
9 authority may be renewed if the applicant is in compliance with
10 the requirements of this subchapter and has paid an annual
11 renewal registration fee at the time of renewal in the amount
12 of two thousand five hundred dollars.

13 Sec. 40. NEW SECTION. 521J.103 **Life captive reinsurance**
14 **companies — names.**

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

19 Sec. 41. NEW SECTION. 521J.104 **Actuarial officer —**
20 **certification.**

21 On the date a life captive reinsurance company files an
22 application for a certificate of authority under section
23 521J.102, and by March 15 of each succeeding year that a life
24 captive reinsurance company is in operation and is ceded new
25 business from a ceding insurer, a qualified actuary of each
26 ceding insurer shall file with the commissioner a certification
27 that the ceding insurer's transactions with the life captive
28 reinsurance company are not used to gain an unfair advantage
29 if pricing of policies and contracts reinsured by the life
30 captive reinsurance company reflect, at the time the policies
31 and contracts were issued, a reasonable long-term estimate of
32 the cost to the ceding insurer of an alternative third-party
33 transaction and utilize current pricing assumptions. The
34 ceding insurer shall have an ongoing responsibility to maintain
35 documentation detailing the process by which the qualified

1 actuary arrived at the conclusions in the certification in
2 preparation for an examination conducted pursuant to section
3 521J.110.

4 Sec. 42. NEW SECTION. 521J.105 **Minimum capital and surplus**
5 **requirements.**

6 1. The commissioner shall not issue a certificate of
7 authority to a life captive reinsurance company unless the life
8 captive reinsurance company possesses and maintains unimpaired
9 paid-in capital and surplus that is not less than five million
10 dollars. The commissioner may require additional capital
11 and surplus based upon the type, volume, and nature of the
12 reinsurance business transacted by the life captive reinsurance
13 company. Minimum capital and surplus shall be in the form of
14 cash or other securities that are investment-grade at the time
15 of acquisition and are acceptable to the commissioner.

16 2. Except as otherwise provided in this section, chapter
17 521E shall apply to a life captive reinsurance company.

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

19 A life captive reinsurance company must have a plan of
20 operation approved by the life captive reinsurance company's
21 board of directors, and, prior to assuming risks under a
22 reinsurance contract, shall submit the plan of operation to the
23 commissioner for approval. The commissioner may approve the
24 plan of operation upon finding that the plan of operation meets
25 the requirements of this section, and may require amendments to
26 the plan of operation as necessary to satisfy the requirements
27 of this section. Any change in the life captive reinsurance
28 company's plan of operation shall require prior approval of
29 the commissioner. The plan of operation must include, at a
30 minimum, all of the following:

31 1. A complete description of all reinsurance transactions,
32 reinsurance security arrangements, securitizations, and any
33 other material transactions or arrangements in which the life
34 captive reinsurance company engages.

35 2. The source and form of the life captive reinsurance

1 company's capital and surplus minimums as required under
2 521J.105.

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

5 4. Pro forma balance sheets and income statements
6 illustrating one or more adverse case scenarios, as determined
7 under criteria established by the commissioner, for the
8 performance of the life captive reinsurance company under all
9 reinsurance contracts.

10 5. Risk-based capital requirements, that, at a minimum,
11 require the life captive reinsurance company to maintain
12 risk-based capital equal to the product of two and one-half and
13 the number determined under the life risk-based capital formula
14 in accordance with the risk-based capital instructions.

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

17 7. The life captive reinsurance company's policies for
18 payments of dividends and other distributions to the organizing
19 company.

20 8. Copies of all contracts between the life captive
21 reinsurance company and affiliated companies.

22 Sec. 44. NEW SECTION. 521J.107 **Life captive reinsurance**
23 **companies — formation.**

24 1. A life insurance company or an affiliated company may
25 organize a life captive reinsurance company pursuant to this
26 subchapter. A life captive reinsurance company must be formed
27 as a corporation and may only reinsure risks of the organizing
28 company, and may access alternative forms of financing.

29 2. An organizing company shall maintain a minimum of ten
30 percent voting interest and ten percent equity ownership in the
31 life captive reinsurance company unless otherwise approved by
32 the commissioner.

33 3. A life captive reinsurance company's organizational
34 documents must limit the life captive reinsurance company's
35 authority to transact the business of reinsurance to only

1 reinsure the risks of a ceding insurer.

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

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

8 6. A life captive reinsurance company organized under this
9 subchapter shall be deemed to be licensed to transact the
10 business of reinsurance for the purposes of section 521B.102,
11 subsection 1, but shall only reinsure risks of the organizing
12 company and affiliated companies.

13 7. A life captive reinsurance company may, upon approval of
14 the commissioner, purchase reinsurance to cede the reinsurance
15 risks assumed by the life captive reinsurance company.

16 8. Admitted assets of a life captive reinsurance company
17 shall include assets approved by the commissioner which shall
18 be deemed to be, and reported as, admitted assets of the life
19 captive reinsurance company.

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

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

25 2. The commissioner's approval of an ongoing plan for
26 the payment of dividends or other distributions shall be
27 conditioned upon retention, at the time of each payment, of
28 capital and surplus in excess of the amounts specified by,
29 or determined in accordance with, a formula approved by the
30 commissioner.

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

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

1 2. In the event of a material change in the financial
2 condition or management of a life captive reinsurance company,
3 the company shall notify the commissioner in writing within two
4 business days of the material change.

5 3. A life captive reinsurance company shall notify the
6 commissioner within five business days of becoming aware of a
7 material event affecting the life captive reinsurance company's
8 parent, organizing company, or controlling entity that has not
9 previously been disclosed to the commissioner.

10 4. If a life captive reinsurance company's parent,
11 organizing company, or controlling entity is subject to group
12 supervision in another jurisdiction, the commissioner may
13 request participation in supervisory colleges or coordination
14 calls with the lead regulator of that jurisdiction. The life
15 captive reinsurance company shall facilitate the commissioner's
16 participation to the extent permitted by law.

17 5. A life captive reinsurance company shall immediately
18 notify the commissioner of an action by a ceding insurer or any
19 other person to foreclose on, or otherwise take possession of,
20 collateral provided by the life captive reinsurance company to
21 secure an obligation of the life captive reinsurance company.

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

25 7. At the commissioner's request, a life captive
26 reinsurance company shall provide to the commissioner a copy
27 of any financial or risk-related filings submitted by the
28 company's parent, affiliate, organizing company, or controlling
29 entity to the life captive reinsurance company's domiciliary
30 insurance regulator. Upon request by the commissioner, such
31 filings shall be provided to the commissioner within ten
32 business days of the submission to the organizing company's
33 domestic regulator.

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

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

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

7 (2) A supplemental compensation exhibit that discloses the
8 total annual compensation of the company's officers, directors,
9 and key employees. The supplemental exhibit must follow the
10 format and instructions adopted by the NAIC for life insurance
11 company filings.

12 *b.* (1) On or before March 1 of each year, for the
13 immediately preceding calendar year, an actuarial opinion from
14 the company's actuary on reserves for all risks assumed by the
15 life captive reinsurance company pursuant to the company's
16 reinsurance contracts and may discount the life captive
17 reinsurance company's reserves in accordance with the actuarial
18 opinion subject to approval by the commissioner. The company's
19 actuary shall submit a memorandum to the commissioner that
20 details the actuary's support for the actuarial opinion. The
21 commissioner may require additional information to be submitted
22 to supplement the actuarial opinion.

23 (2) Biennially on April 1, for the immediately preceding
24 calendar year, an opinion by an independent qualified actuary
25 concerning the methods and assumptions used to set reserves.
26 The independent qualified actuary must be deemed acceptable by
27 the commissioner prior to filing the opinion.

28 *c.* Completed quarterly and annual financial statement blanks
29 as are required by the NAIC for traditional life insurance
30 companies, including any supplements or interrogatories
31 required by the NAIC, in accordance with the NAIC statutory
32 accounting principles. The commissioner may require, approve,
33 or accept any appropriate or necessary modifications of the
34 NAIC statutory accounting principles based on the type of
35 insurance and kind of insurers included in the life captive

1 reinsurance company's report. The quarterly filings shall be
2 filed with the commissioner on or before May 15 for the first
3 quarter, August 15 for the second quarter, and November 15 for
4 the third quarter for the current calendar year. The annual
5 statement shall be filed with the commissioner on or before
6 March 1 of each year for the immediately preceding calendar
7 year.

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

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

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

15 *e.* On or before June 1 of each year, for the immediately
16 preceding calendar year, a report of the company's financial
17 condition audited by an independent certified public
18 accountant. The report shall be presented in accordance with
19 the NAIC statutory accounting principles.

20 *f.* On or before August 1 of each year, a management
21 report on internal control over financial reporting with the
22 commissioner that describes the life captive reinsurance
23 company's internal control structure over financial reporting
24 and identifies any material weaknesses as of the end of the
25 preceding calendar year.

26 9. Not less than ten business days prior to a filing due
27 date, a life captive reinsurance company may submit a written
28 request for an extension to file a report required under
29 subsection 8. The request must contain sufficient details to
30 enable the commissioner to make an informed decision about
31 the request. The commissioner may grant an extension upon a
32 determination that the life captive reinsurance company has
33 good cause for the extension.

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

35 1. *a.* The commissioner may examine each life captive

1 reinsurance company's compliance with this subchapter, and
2 may examine the affairs, transactions, accounts, records,
3 and assets of each life captive reinsurance company as the
4 commissioner deems necessary, but not less frequently than
5 every five calendar years.

6 *b.* The commissioner shall, upon the completion of an
7 examination under paragraph "a", or at such regular intervals
8 prior to completion of an examination as the commissioner
9 determines, prepare an account of the costs incurred in
10 performing and preparing the report of the examination which
11 shall be charged to and paid by the life captive reinsurance
12 company examined. If the life captive reinsurance company
13 fails or refuses to pay the charges, the charges may be
14 recovered in an action brought in the name of the state.

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

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

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

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

24 *a.* Insolvency or impairment of capital or surplus.

25 *b.* Failure to meet and maintain the minimum capital and
26 surplus requirements under section 521J.105.

27 *c.* Refusal or failure to submit an annual report pursuant to
28 section 521J.109, or to submit a report or statement required
29 by law or by lawful order of the commissioner.

30 *d.* Failure to comply with the life captive reinsurance
31 company's own charter, bylaws, or other organizational
32 document.

33 *e.* Failure to submit to an examination under section
34 521J.110.

35 *f.* Use of methods that render the life captive reinsurance

1 company's operation detrimental, or the company's condition
2 unsound, with respect to the company's policyholders or to the
3 public.

4 *g.* Failure to pay tax on premiums as required under section
5 432.1A.

6 *h.* Failure to submit any fee required under this subchapter.

7 *i.* Failure to pay the cost of an examination under section
8 521J.110.

9 *j.* Failure to comply with the laws of this state.

10 2. *a.* If the commissioner finds upon examination, hearing,
11 or other review that a life captive reinsurance company has
12 committed an act specified in subsection 1, the commissioner
13 may suspend or revoke the life captive reinsurance company's
14 certificate of authority.

15 *b.* If the commissioner does not revoke a life captive
16 reinsurance company's certificate of authority during a
17 suspension imposed under paragraph "a", the life captive
18 reinsurance company's certificate of authority may be
19 reinstated if the commissioner finds that the cause of the
20 suspension has been rectified.

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

22 1. A merger between life captive reinsurance companies must
23 meet the requirements of chapter 521 and section 521J.107,
24 as applicable. The commissioner may, at the commissioner's
25 discretion, provide notice to the public of a proposed merger
26 prior to the commissioner's approval or disapproval of the
27 merger.

28 2. A plan for a merger must be fair and equitable to
29 the shareholders of the life captive reinsurance companies
30 and shall provide for the purchase of the shares of any
31 nonconsenting shareholder of a life captive reinsurance
32 company.

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

34 1. A life captive reinsurance company's investment program
35 shall take into account the safety of the company's assets,

1 investment yield and return, stability in the value of the
2 investment, and liquidity necessary to meet the company's
3 expected business needs and investment diversification.
4 The assets of a life captive reinsurance company shall be
5 preserved and administered by or on behalf of the life captive
6 reinsurance company to satisfy the liabilities and obligations
7 of the life captive reinsurance company incident to the
8 reinsurance contract between the life captive reinsurance
9 company and the parent or ceding insurer, any insurance
10 securitizations, and other related agreements. For the
11 purposes of this section, assets do not include letters of
12 credit and guaranties of a parent.

13 2. At the discretion of the commissioner, a life captive
14 reinsurance company shall either comply with section 511.8
15 or invest the life captive reinsurance company's assets in
16 cash and securities that are investment-grade at the time of
17 acquisition, provided that a life captive reinsurance company
18 may invest up to ten percent of the life captive reinsurance
19 company's assets in securities or other investments that are
20 not investment-grade at the time of acquisition, not to include
21 any of the following:

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

24 b. Asset-based or mortgage-backed securities rated 3 or
25 higher by the NAIC securities valuation office at the time of
26 acquisition.

27 c. Convertible bonds.

28 d. Preferred or common stock.

29 e. Private equity or hedge funds.

30 3. a. A life captive reinsurance company securitization
31 shall include a disclosure that all or part of the proceeds
32 of such insurance securitization will be used to fund the
33 life captive reinsurance company's obligations to the ceding
34 insurer.

35 b. For purposes of this subsection, "life captive

1 *reinsurance company securitization* means the security-offering
2 memorandum or other document issued to prospective investors
3 regarding the offer and sale of a surplus note or other
4 security.

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

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

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

33 Sec. 51. NEW SECTION. 521J.114 Permitted reinsurance.

34 1. A life captive reinsurance company may reinsure,
35 pursuant to a reinsurance contract, only the risks of a ceding

1 insurer.

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

7 a. Proceeds from a securitization.

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

11 c. Letters of credit.

12 d. Guaranties of a parent.

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

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

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

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

33 b. Entering into guaranty trust, guaranteed investment
34 contract, swap, or other derivative, tax, administration,
35 services reimbursement, or fiscal agent transactions.

1 c. Complying with trust indenture, reinsurance, or
2 retrocession.

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

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

9 A life captive reinsurance company shall not be required to
10 join a rating organization.

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

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

15 Sec. 54. NEW SECTION. 521J.117 **Dormant life captive
16 reinsurance companies.**

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

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

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

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

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

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

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

13 4. Prior to a dormant life captive reinsurance company
14 issuing an insurance policy, the company must apply to
15 the commissioner for approval to surrender the company's
16 certificate of dormancy and to resume conducting the business
17 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
23 life captive reinsurance company shall maintain the company's
24 original books, records, documents, accounts, vouchers,
25 and agreements in this state and make them available for
26 examination and inspection by the commissioner as requested by
27 the commissioner. The life captive reinsurance company may
28 store and reproduce the books, records, documents, accounts,
29 vouchers, and agreements 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
34 verify the life captive reinsurance company's financial
35 statements; and can confirm the life captive reinsurance

1 company's compliance with this subchapter.

2 2. Unless otherwise approved by the commissioner, all
3 books, records, documents, accounts, vouchers, and agreements
4 maintained by a life captive reinsurance company under
5 subsection 1 shall remain available in the state until the
6 commissioner approves destruction or other disposition of the
7 books, records, 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
12 notice 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
33 approve a payment or repayment if the commissioner determines
34 that the payment or repayment would jeopardize the ability of
35 the life captive reinsurance company or any other person to

1 fulfill the company's or person's obligations.

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

3 A life captive reinsurance company security shall not
4 be subject to regulation as an insurance or reinsurance
5 contract. An investor in, or holder of, the security shall
6 not be considered to transact in the business of insurance
7 in the state solely based on such interest in the security.
8 An underwriter's placement agents, selling agents, partners,
9 commissioners, officers, members, managers, employees,
10 agents, representatives, and advisors involved in an insurance
11 securitization by a life captive reinsurance company shall
12 not be considered insurance producers or brokers, or to be
13 conducting business as an insurance company, as a reinsurance
14 company, or as an insurance agency, brokerage, intermediary,
15 advisory, or consulting business, solely based on underwriting
16 activities in 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
21 directed to designate sections 521J.1 through 521J.27, as
22 enacted and amended by this Act, as subchapter I of chapter
23 521J entitled "Captive Insurance Companies", and to designate
24 sections 521J.101 through 521J.121, as enacted by this Act,
25 as subchapter II of chapter 521J entitled "Life Captive
26 Reinsurance Companies".

27 **EXPLANATION**

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

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

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

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

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

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

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

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

35 Prior to receiving a certificate of authority, current

1 law requires a captive company to file with the commissioner
2 a certified copy of the business entity's organizational
3 document. The bill eliminates the requirement that the copy
4 be certified.

5 The bill eliminates the requirements under current law
6 of Code sections 521J.2(3)(a)(1)(c), 521J.2(3)(a)(4),
7 521J.2(3)(e), 521J.4(1)(e), 521J.4(3), 521J.5(2)(c), 521J.6(2),
8 521J.13(1), and 521J.13(1)(b) that requirements of the
9 commissioner be established by rule.

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

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

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

35 Under current law, the minimum capital and surplus

1 requirements for a captive company shall be in the form of
2 cash, cash equivalent, or an irrevocable letter of credit.
3 Under the bill, the minimum capital and surplus requirements
4 may also be in the form of marketable securities approved by
5 the commissioner. If the captive company elects to satisfy
6 the minimum requirements with marketable securities, the
7 commissioner may require the captive company to file financial
8 statements or other reports on a more frequent basis than
9 otherwise required. The increased reporting frequency may
10 be imposed to ensure the commissioner can adequately monitor
11 the liquidity, valuation, and market risk associated with the
12 marketable securities.

13 Current law requires a captive company be formed or
14 organized as a business entity under Code chapter 521J. Under
15 the bill, subject to the commissioner's approval, a captive
16 company may also be formed as a reciprocal insurer under Code
17 chapter 520.

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

30 Under current law, a captive company shall file an annual
31 report with the commissioner that meets the requirements of
32 current law. Under the bill, a captive company does not have
33 to file the annual report if directed by the commissioner in
34 the first year of a captive company's licensure.

35 The bill eliminates the requirement under current law that

1 all reports filed pursuant to Code section 521J.7 (reports) be
2 considered confidential and not a public record.

3 Under the bill, applicable provisions of Code chapter 508B
4 apply to a merger, consolidation, conversion, mutualization,
5 or voluntary dissolution by a captive company unless provided
6 otherwise.

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

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

26 Under current law, the commissioner shall adopt rules to
27 implement and administer Code chapter 521J. Under the bill,
28 the commissioner may adopt rules.

29 For taxes due pursuant to Code section 432.1A (tax on
30 premiums — captive companies), a foreign or alien captive
31 company that redomesticates into the state shall only be
32 liable for taxes on premiums paid to the captive company after
33 redomestication and shall report to the commissioner all
34 premium taxes due. In either the captive company's first or
35 second year of operation after redomesticating into the state,

1 the company may elect to forego payment of the premium taxes.
2 If the company that makes such election subsequently surrenders
3 the company's license or redomesticates to another jurisdiction
4 within five years, the company shall immediately pay to the
5 commissioner a tax in an amount equal to the foregone premium
6 tax plus 10 percent per annum from the date the foregone
7 premium tax would have been originally due.

8 The bill makes conforming changes to Code sections
9 521J.1(u1), 521J.1(22), 521J.1(24)(b), 521J.5(6), 521J.5(7)(b),
10 521J.5(9)(b), 521J.8(1)(a), 521J.8(5), 521J.9(1)(h) and (i),
11 521J.14(3), 521J.17(2), 521J.17(2)(a)(4), 521J.17(2)(c),
12 521J.18, 521J.22(3)(a)(3), 521J.23, 521J.24(1)(b), and 521J.26.

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

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

4 On the date an LCRC files an application for a certificate
5 of authority, and by March 15 of each succeeding year that an
6 LCRC is in operation and is ceded new business, a qualified
7 actuary shall file with the commissioner a certification that
8 the ceding insurer's transactions with the LCRC are not used to
9 gain an unfair advantage if pricing of policies and contracts
10 reinsured by the LCRC reflect, at the time the policies and
11 contracts were issued, a reasonable long-term estimate of
12 the cost to the ceding insurer of an alternative third-party
13 transaction and utilize current pricing assumptions. The
14 ceding insurer shall maintain documentation detailing
15 the process by which the qualified actuary arrived at the
16 conclusions in preparation for an examination.

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

27 An LCRC must have a plan of operation approved by its
28 board of directors, and, prior to assuming risks under a
29 reinsurance contract, shall submit the plan of operation to
30 the commissioner for approval. The commissioner may approve
31 the plan of operation upon finding that the plan meets the
32 requirements of the bill, and may require amendments to the
33 plan as necessary. Any change in the LCRC's plan of operation
34 shall require prior approval of the commissioner. The plan of
35 operation must include all of the information detailed in the

1 bill.

2 An LCRC or an affiliated company may organize an LCRC
3 pursuant to the bill, and an LCRC must be formed as a
4 corporation, may only reinsure risks of the organizing company,
5 and may access alternative forms of financing. An organizing
6 company shall maintain a minimum of 10 percent voting interest
7 and 10 percent equity ownership in the LCRC unless otherwise
8 approved by the commissioner. An LCRC's organizational
9 documents shall limit the company's authority to transact the
10 business of reinsurance to only reinsure the risks of a ceding
11 insurer. An organizing company may invest funds from its
12 surplus in an LCRC, and the organizing company's officers and
13 directors may serve as officers and directors of an LCRC. An
14 LCRC shall be deemed to be licensed to transact the business of
15 reinsurance. An LCRC may, upon approval of the commissioner,
16 purchase reinsurance. Admitted assets of an LCRC include
17 assets approved by the commissioner which shall be deemed to
18 be, and reported as, admitted assets of the LCRC.

19 An LCRC shall not pay a dividend out of, or other
20 distribution with respect to, the minimum capital or surplus
21 without the prior written approval of the commissioner. The
22 commissioner's approval of an ongoing plan for the payment
23 of dividends or other distributions shall be conditioned
24 upon retention, at the time of each payment, of capital and
25 surplus in excess of the amounts specified by, or determined in
26 accordance with, a formula approved by the commissioner.

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

29 The commissioner may examine each LCRC's compliance with
30 the bill, and may examine the affairs, transactions, accounts,
31 records, and assets of each LCRC as necessary, but not less
32 frequently than every five years. Upon the completion of an
33 examination, or at regular intervals, the commissioner shall
34 prepare an account of the costs incurred in performing and
35 preparing the report of the examination which shall be charged

1 to and paid by the LCRC examined. If the LCRC fails or refuses
2 to pay, the charges may be recovered in an action brought in
3 the name of the state. Examination requirements shall apply to
4 all business written by an LCRC, and applicable provisions of
5 Code chapter 507 (examination of insurance companies) apply to
6 such examinations.

7 An LCRC's certificate of authority may be suspended or
8 revoked by the commissioner for any of the reasons described
9 in the bill. If the commissioner does not revoke an LCRC's
10 certificate of authority during a suspension, the LCRC's
11 certificate of authority may be reinstated if the commissioner
12 finds that the cause of the suspension has been rectified.

13 A merger between LCRCs must meet the requirements of Code
14 chapter 521 (consolidation, merger, and reinsurance) and Code
15 section 521J.107, as applicable. The commissioner may provide
16 notice to the public of a proposed merger prior to approving or
17 disapproving of a merger. A plan for a merger shall be fair and
18 equitable to the shareholders and provide for the purchase of
19 the shares of any nonconsenting shareholder.

20 An LCRC's investment program shall account for the safety of
21 the company's assets, investment yield and return, stability
22 in the value of the investment, and liquidity necessary to
23 meet the company's expected business needs and investment
24 diversification. The assets of an LCRC shall be preserved
25 and administered to satisfy the liabilities and obligations
26 of the LCRC incident to the reinsurance contract, any
27 insurance securitizations, and other related agreements. At
28 the discretion of the commissioner, an LCRC shall either
29 comply with Code section 511.8 or invest its assets in cash
30 and securities that are investment-grade at the time of
31 acquisition, provided that an LCRC may invest up to 10 percent
32 of its assets in securities or other investments that are not
33 investment-grade except for any of the assets detailed in
34 the bill. An LCRC securitization shall include a disclosure
35 that all or part of the proceeds of the securitization will

1 be used to fund the LCRC's obligations to the ceding insurer.
2 The commissioner may reduce the amount of admitted assets
3 previously approved if it is determined that the value of those
4 assets has decreased. A minimum of 30 days prior to reducing
5 the amount of admitted assets, the commissioner shall notify
6 the LCRC and provide an opportunity to remedy the issues. An
7 LCRC shall not make a loan to or an investment in any person,
8 other than as permitted in the plan of operation, without
9 prior written approval of the commissioner and evidenced by
10 documentation approved by the commissioner. An LCRC shall not
11 loan minimum capital and surplus funds. An organizing company
12 shall report its ownership in the LCRC and value the ownership
13 equal to the audited statutory surplus.

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

19 An LCRC may enter into contracts and conduct other
20 commercial activities related or incidental to and necessary to
21 fulfill the purposes of a reinsurance contract, an insurance
22 securitization, and the bill. Such contracts and commercial
23 activities must be included in the LCRC's plan of operation
24 or otherwise be approved in advance by the commissioner and
25 may include the contracts and activities detailed in the bill.
26 Unless approved by the commissioner, a reinsurance contract
27 shall not contain a provision for payment by the LCRC in
28 discharge of its obligations to a person other than the ceding
29 insurer or a receiver of the ceding insurer.

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

33 An LCRC domiciled in the state may apply to the commissioner
34 for a certificate of dormancy, which shall be valid for five
35 years and may not be renewed. An LCRC issued a certificate of

1 dormancy shall comply with the requirements of the bill and
2 shall not be subject to Code section 432.1A. At the discretion
3 of the commissioner, a dormant LCRC may be subject to an
4 annual examination. A dormant LCRC must apply for approval
5 to surrender a certificate of dormancy and resume conducting
6 business prior to issuing an insurance policy.

7 Unless otherwise approved, an LCRC shall maintain the
8 original books, records, documents, accounts, vouchers, and
9 agreements in this state, make them available for examination
10 and inspection by the commissioner upon request, and keep them
11 in the state until the commissioner approves destruction or
12 other disposition of the books, records, documents, accounts,
13 vouchers, and agreements. The LCRC may store and reproduce the
14 books, records, documents, accounts, vouchers, and agreements
15 electronically but shall also be kept in a manner that the
16 commissioner can readily ascertain the LCRC's financial
17 condition, affairs, and operations; can readily verify the
18 LCRC's financial statements; and can confirm the LCRC's
19 compliance with the bill.

20 An LCRC shall not take any of the actions detailed in the
21 bill unless the company provides the commissioner at least
22 30 days prior written notice and the commissioner expressly
23 approves the action. An LCRC shall submit to the commissioner
24 requests for authorization prior to making payments of interest
25 on, and repayments of principal of, surplus notes and other
26 debt obligations issued by an LCRC. The commissioner shall
27 not approve the payment or repayment if it would jeopardize
28 the ability of the LCRC or another person to fulfill their
29 obligations.

30 An LCRC security shall not be subject to regulation as
31 an insurance or reinsurance contract. An investor in, or
32 holder of, the security shall not be considered to transact
33 in the business of insurance solely based on such interest.
34 An underwriter's placement agents, selling agents, partners,
35 commissioners, officers, members, managers, employees,

1 agents, representatives, and advisors involved in an insurance
2 securitization shall not be considered to be insurance
3 producers or brokers or to be conducting business as an
4 insurance company, a reinsurance company, or an insurance
5 agency, brokerage, intermediary, advisory, or consulting
6 business, solely by virtue of their underwriting activities in
7 connection with a securitization.

8 The commissioner may adopt rules to implement and administer
9 the bill.