

CHAPTER 7

INSURANCE — LIFE INSURANCE COMPANY INVESTMENTS — CREDIT FOR REINSURANCE

H.F. 311

AN ACT relating to provisions applicable to life insurance companies and associations, and credit for reinsurance, and including retroactive applicability provisions.

Be It Enacted by the General Assembly of the State of Iowa:

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

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

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

c. If the loan is collateralized by cash or cash equivalents, the cash or cash equivalent collateral may be reinvested by the life insurance company or association in ~~class one rule 2a-7~~ money market funds as defined in [subsection 24](#), individual securities which are eligible for inclusion in the legal reserve of the life insurance company or association, or in repurchase agreements fully collateralized by such securities if the life insurance company or association takes delivery of the collateral either directly or through an authorized custodian or pooled fund comprised of individual securities which are eligible for inclusion in the legal reserve of the life insurance company or association. If such reinvestment is made in individual securities or in repurchase agreements, the individual securities or the securities which collateralize the repurchase agreements shall mature in less than two hundred seventy days. If such reinvestment is made in a pooled fund, the average maturity of the securities comprising such pooled fund must be one hundred eighty days or less and the individual maturities of the securities comprising such pooled fund must be three hundred ninety-seven days or less. Individual securities and securities comprising the pooled fund shall be investment grade. As used in this paragraph, "maturity" means the earlier of the fixed date on which the holder of the security is unconditionally entitled to receive principal and interest in full or the date on which the holder of the security is unconditionally entitled upon demand to receive principal and interest in full.

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

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

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

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

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

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

Credit for reinsurance shall be allowed a domestic ceding insurer as either an asset or a reduction from liability on account of reinsurance ceded only when the reinsurer meets the requirements of [subsection 1, 2, 3, 4, 5, or 6](#). The commissioner may adopt rules pursuant to [section 521B.105](#) specifying additional requirements related to the valuation of assets or reserve credits, the amount and forms of security supporting reinsurance arrangements described in [section 521B.105](#), and the circumstances pursuant to which credit shall be reduced or eliminated. Credit shall be allowed under [subsection 1, 2, or 3](#) only respecting cessions of those kinds or classes of business which the assuming insurer is licensed or otherwise permitted to write or assume in the insurer's state of domicile or, in the case of a United States branch of an alien assuming insurer, in the state through which the insurer is entered and licensed to transact insurance or reinsurance. Credit shall be allowed under [subsection 3 or 4](#) only if the applicable requirements of [subsection 7](#) have been satisfied.

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

1. An asset or a reduction from liability for reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements of [section 521B.102](#), shall be allowed in an amount not exceeding the liabilities carried by the ceding insurer. The commissioner may adopt rules pursuant to [section 521B.105](#) specifying requirements related to the valuation of assets or reserve credits, the amount and forms of security supporting reinsurance arrangements described in [section 521B.105](#), and the circumstances pursuant to which credit shall be reduced or eliminated. The reduction shall be in the amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the ceding insurer, under a reinsurance contract with the assuming insurer as security for the payment of obligations under the contract, if the security is held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer, or in the case of a trust, held in a qualified United States financial institution as defined in [section 521B.104, subsection 2](#).

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

521B.105 Rules.

1. The commissioner may adopt rules, pursuant to [chapter 17A](#), as necessary or convenient to administer [this chapter](#).

2. The commissioner is further authorized to adopt rules pursuant to [chapter 17A](#) that are applicable to reinsurance arrangements as follows:

a. A rule adopted pursuant to [this subsection](#) is applicable only to reinsurance arrangements relating to the following:

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

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

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

(4) Long-term care insurance policies.

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

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

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

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

c. A rule adopted pursuant to [this subsection](#) may require the ceding insurer, in calculating the amounts or forms of security required to be held under rules adopted under [this subsection](#), to use the valuation manual as defined in [section 508.36](#), including all amendments adopted by the national association of insurance commissioners and in effect on the date as of which the calculation is made, to the extent applicable.

3. A rule adopted pursuant to [this section](#) is not applicable to cessions to an assuming insurer that meets either of the following requirements:

a. Is certified in Iowa.

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

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

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

4. The commissioner's authority to adopt rules pursuant to [subsection 2](#) does not limit the commissioner's general authority to adopt rules pursuant to [subsection 1](#).

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

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

Approved March 16, 2017