



AUTHORITY: sections 374.045, RSMo 2000 and 375.246.4, RSMo Supp. 2003. * This rule was previously filed as 4 CSR 190-II.350. Original rule filed Jan. 8, 1991, effective Jan. 1, 1992. Amended: Filed July 2, 1991, effective Jan. 1, 1992. Amended: Filed Oct. 15, 1992, effective June 7, 1993. Amended: Filed April 7, 2004, effective Nov. 30, 2004.

*Original authority: 374.045, RSMo 1967, amended 1993, 1995; and 375.246.4, RSMo 1967, amended 1990, 1991, 1994, 2002.

20 CSR 200-2.200 Reinsurance—Lloyd’s, London, England

PURPOSE: This rule describes conditions for reinsuring with underwriters at Lloyd’s, London, England. This rule was adopted pursuant to the provisions of section 374.045, RSMo and implements section 375.241, RSMo.

It is permissible to reinsure with underwriters at Lloyd’s, London, England provided that the underwriters must be admitted to do business in some state of the United States or the District of Columbia. Credit will be allowed for premiums ceded in calculating the unearned premium reserve and for unpaid reinsured losses. All companies must retain a reasonable portion of each risk reinsured.

AUTHORITY: sections 374.045, RSMo Supp. 1993 and 375.241, RSMo 1986. * This rule was previously filed as 4 CSR 190-II.070. Original rule filed July 27, 1964, effective Aug. 6, 1964. Amended: Filed Dec. 5, 1969, effective Dec. 15, 1969. Amended: Filed Aug. 5, 1974, effective Aug. 15, 1974.

*Original authority: 374.045, RSMo 1967, amended 1993 and 375.241, RSMo 1939, amended 1967, 1975.

20 CSR 200-2.300 Life Reinsurance Agreements

PURPOSE: This rule effectuates or aids in the interpretation of sections 375.246, 375.560, 375.881 and 376.350, RSMo.

(1) Authority. This rule is adopted and promulgated by the director of the Department of Insurance pursuant to section 374.045.1(3), RSMo. This rule effectuates or aids in the interpretation of sections 375.246, 375.560, 375.881 and 376.350, RSMo.

(2) Ceding Insurers.

(A) The Missouri Department of Insurance (MDI) recognizes that life insurers routinely

enter into reinsurance agreements that yield legitimate relief to the ceding insurer from strain to surplus.

(B) However, it is improper for a licensed insurer, in the capacity of ceding insurer, to enter into reinsurance agreements for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business being reinsured. In substance or effect, the expected potential liability to the ceding insurer remains basically unchanged by the reinsurance transaction, notwithstanding certain risk elements in the reinsurance agreement, such as catastrophic mortality or extraordinary survival. The terms of the agreements referred to in this rule and described in section (4) would violate—

1. Section 376.350, RSMo relating to financial statements which do not properly reflect the financial condition of the ceding insurer;

2. Section 375.246.1., RSMo relating to reinsurance reserve credits, thus resulting in a ceding insurer improperly reducing liabilities or establishing assets for reinsurance ceded; and

3. Sections 375.560.1(5), 375.881.1(3), 375.1160.2(1), 375.1165(1) and 375.1175(3), RSMo relating to creating a situation that may be hazardous to policyholders and the people of this state.

(3) This rule shall apply to all domestic life and accident and health insurers and to all other licensed life insurers who are not subject to a substantially similar rule in their domiciliary state. This rule also shall similarly apply to licensed property and casualty insurers with respect to their accident and health business. This rule shall not apply to assumption reinsurance, yearly renewable term reinsurance or certain nonproportional reinsurance such as stop-loss or catastrophe reinsurance.

(4) Accounting Requirements.

(A) No life insurer subject to this rule for reinsurance ceded shall reduce any liability or establish any asset in any financial statement filed with the division if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

1. Renewal expense allowances provided or to be provided to the ceding insurer by the reinsurer in any accounting period are not sufficient to cover anticipated allocable renewal expenses of the ceding insurer on the portion of the business reinsured, unless a liability is established for the present value of the shortfall (using assumptions equal to the

applicable statutory reserve basis on the business reinsured). Those expenses include commissions, premium taxes and direct expenses including, but not limited to, billing, valuation, claims and maintenance expected by the company at the time the business is reinsured;

2. The ceding insurer is required to reimburse for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years’ losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years’ losses under the agreement upon voluntary termination of in force reinsurance by that ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding company to prematurely terminate the reinsurance treaty;

3. The ceding insurer can be deprived of surplus at the reinsurer’s option or automatically upon the occurrence of some event, such as the insolvency of the ceding insurer, except that termination of the reinsurance agreement by the reinsurer for nonpayment of reinsurance premiums or other amounts due, such as modified coinsurance reserve adjustments, interest and adjustments on funds withheld, and tax reimbursements, shall not be considered to be a deprivation of surplus or assets;

4. The ceding insurer, at specific points in time scheduled in the agreement, must terminate or automatically recapture all or part of the reinsurance ceded;

5. The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income reasonably expected from the reinsured policies. For example, it is improper for a ceding company to pay reinsurance premiums, greater than the direct premiums collected by the ceding company;

6. The treaty does not transfer all of the significant risks inherent in the business being reinsured. The following table identifies for a representative sampling of products or type of business, the risks which are considered to be significant. For products not specifically included, the risks determined to be significant shall be consistent with this table:



Risk Categories:

- a=Morbidity
- b=Mortality
- c=Lapse

This is the risk that a policy will voluntarily terminate prior to the recoupment of any statutory surplus strain experienced at issue of the policy.

d=Credit Quality (C1)

This is the risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.

e=Reinvestment (C3)

This is the risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will therefore earn less than expected. If asset durations are less than liability durations, the mismatch will increase.

f=Disintermediation (C3)

This is the risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than the liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

+ = significant 0=insignificant

RISK CATEGORY

	a	b	c	d	e	f
Health Insurance—						
Other Than LTC/LTD*	+	0	+	0	0	0
Health Insurance—						
LTC/LTD*	+	0	+	+	+	0
Immediate Annuities	0	+	0	+	+	0
Single Premium Deferred Annuities	0	0	+	+	+	+
Flexible Premium						
Deferred Annuities	0	0	+	+	+	+
Guaranteed Interest						
Contracts	0	0	0	+	+	+
Other Annuity Deposit						
Business	0	0	+	+	+	+
Single Premium Whole Life	0	+	+	+	+	+
Traditional Non-Par Permanent	0	+	+	+	+	+
Traditional Non-Par Term	0	+	+	0	0	0

Traditional Par

Permanent	0	+	+	+	+	+
Traditional Par Term Adjustable Premium	0	+	+	0	0	0
Permanent	0	+	+	+	+	+
Indeterminate Premium						
Permanent	0	+	+	+	+	+
Universal Life Flexible Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
Universal Life Fixed Premium (Dump-In Premiums Allowed)	0	+	+	+	+	+

*LTC=Long-Term Care Insurance
LTD=Long-Term Disability Insurance

7. The credit quality, reinvestment or disintermediation risk is significant for the business reinsured and the ceding company does not either transfer the underlying assets to the reinsurer or legally segregate these assets in a trust or escrow account or otherwise establish a mechanism satisfactory to the director which legally segregates, by contract or contract provision, the underlying assets; the assets supporting the reserves for the following classes of business and any classes of business which do not have a significant credit quality, reinvestment or disintermediate risk may be held by the ceding company without segregation of these assets:

- Health Insurance—LTC/LTD
- Traditional Non-Par Permanent
- Traditional Par Permanent
- Adjustable Premium Permanent
- Indeterminate Premium Permanent
- Universal Life Fixed Premium (no dump-in premiums allowed)

The associated formula for determining the reserve interest rate adjustment must use a formula which reflects the ceding company's investment earnings and incorporates all realized and unrealized gains and losses reflected in the statutory statement. The following is an acceptable formula:

$$\text{Rate} = 2(I + CG) / (X + Y - I - CG)$$

Where:

- I=the net investment income (Exhibit 2, Line 7);
- CG=capital gains less capital losses (Exhibit 4, Line 10, Column 6);
- X=the current year cash and invested assets (Page 2, Column 1, Line 10A) plus investment income due and accrued (Line 16) less borrowed money (Page 3, Line 22); and
- Y=the same as X, but for the prior year.

8. Settlements are made less frequently than quarterly or payments due from the reinsurer are not made in cash within ninety (90) days of the settlement date.

9. The ceding insurer is required to make representations or warranties not reasonably related to the business being reinsured.

10. The ceding insurer is required to make representations or warranties about future performance of the business being reinsured.

11. The reinsurance agreement is entered into for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business reinsured and, in substance or effect, the expected potential liability to the ceding insurer remains basically unchanged.

(B) Notwithstanding subsection (4)(A), an insurer subject to this rule, with the prior approval of the director, may take reserve credit or establish such asset as the director may deem consistent with the insurance statutes or regulations of this state, including actuarial interpretations or standards adopted by the department.

(C) Agreements after May 6, 1993.

1. Agreements entered into after May 6, 1993 which involve the reinsurance of business issued prior to the effective date of the agreements, along with any subsequent amendments, shall be filed by the ceding company with the director within thirty (30) days from its date of execution. Each such filing shall include data detailing the financial impact of the transaction. The ceding insurer's actuary who signs the financial statement actuarial opinion with respect to valuation of reserves shall consider this rule and any applicable Actuarial Standards of Practice when determining the proper credit in financial statements filed with this department. The actuary should maintain adequate documentation and be prepared upon request to describe the actuarial work performed for inclusion in the financial statement and to demonstrate that the work conforms to this rule.

2. Any increase in surplus net of federal income tax resulting from arrangements described in paragraph (4)(C)1. shall be identified separately on the insurer's statutory financial statement as a surplus item (aggregate write-ins for gains and losses in surplus in the Capital and Surplus Account, Page 4 of the annual statement) and recognition of the surplus increase as income shall be reflected on a net of tax basis in the Reinsurance Ceded line, Page 4 of the annual statement, as



earnings emerge from the business reinsured. (For example, on the last day of calendar year N, company XYZ pays a \$20 million initial commission and expense allowance to company ABC for reinsuring an existing block of business. Assuming a 34% tax rate, the net increase in surplus at inception is \$13.2 million (\$20 million–\$6.8 million) which is reported on the Aggregate write-ins for gains and losses in surplus line in the Capital and Surplus account. \$6.8 million (34% of \$20 million) is reported as income on the commissioner's and expense allowances on reinsurance ceded line of the Summary of Operations. At the end of the year N+1 the business has earned \$4 million. ABC has paid \$.5 million in profit and risk charges in arrears for the year and has received a \$1 million experience refund. Company ABC's annual statement would report \$1.65 million (66% of (\$4 million–\$1 million–\$5 million) up to a maximum of \$13.2 million) on the commissions and expense allowance on reinsurance ceded line of the Summary of Operations, and–\$1.65 million on the Aggregate write-ins for gains and losses in surplus line of the Capital and Surplus account. The experience refund would be reported separately as a miscellaneous income item in the Summary of Operations.)

(5) Written Agreements.

(A) No reinsurance agreement or amendment to any agreement may be used to reduce any liability or to establish any asset in any financial statement filed with the MDI, unless the agreement, amendment or a letter of intent has been duly executed by both parties no later than the *as of date* of the financial statement.

(B) In the case of a letter of intent, a reinsurance agreement or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding ninety (90) days from the execution date of the letter of intent, in order for credit to be granted for the reinsurance ceded.

(C) The reinsurance agreement shall contain provisions which provide that the agreement shall constitute the entire agreement between the parties with respect to the business being reinsured and that there are no understandings between the parties other than as expressed in the agreement, and that any change or modification to the agreement shall be null and void unless made by amendment to the agreement and signed by both parties.

(6) Existing Agreements. Insurers subject to this rule shall reduce to zero (0) by December 31, 1994, any reserve credits or assets established with respect to reinsurance agree-

ments entered into prior to May 6, 1993, which, under the provisions of this rule, would not be entitled to recognition of reserve credits or assets; provided, however, that the reinsurance agreements shall have been in compliance with laws or rules in existence immediately preceding May 6, 1993.

AUTHORITY: sections 375.045, 375.560, 375.881, 376.350, RSMo 1986, 375.246, 375.1165 Supp. 1991, 375.1160 and 375.1175, RSMo Supp. 1992. This rule was previously filed as 4 CSR 190-II.300. Original rule filed Jan. 26, 1990, effective June 1, 1990. Amended: Filed Aug. 4, 1992, effective May 6, 1993.*

**Original authority: 374.045, RSMo 1967; 375.246, RSMo 1967, amended 1990, 1991; 375.560, RSMo 1939, amended 1967; 375.881, RSMo 1967, amended 1985; 375.1160 and 375.1175, RSMo 1991, amended 1992; 375.1165, RSMo 1991; and 376.350, RSMo 1939.*

20 CSR 200-2.400 Insurance, Reinsurance and Assumption

(Rescinded September 30, 1994)

20 CSR 200-2.500 Reinsurance Requiring Three-Commissioner Hearing

(Rescinded September 30, 1994)

20 CSR 200-2.600 Reinsurance Intermediary License

(Moved to 20 CSR 700-7.100)

20 CSR 200-2.700 Reinsurance Mirror Image Rule

PURPOSE: This rule effectuates or aids in the interpretation of a law related to the business of insurance, section 375.246.5., RSMo.

(1) Credit taken by a ceding insurer for reinsurance ceded to an assuming reinsurer shall be deemed "reinsurance entered into principally for the purposes of deception" within the meaning of section 375.246.5, RSMo, unless the credit taken complies with sections (2) and (3) of this rule.

(2) Mirror Image, Proof.

(A) When reinsurance is effected under subsections 375.246.1, 2 or 3, RSMo, the ceding insurer, other than a life insurer, shall after that be charged on the gross premium basis with an unearned premium liability and a life insurer shall be charged after that with a reserve liability. Both this unearned premium and reserve liability shall represent the proportion of the obligation retained by the

ceding insurer. The insurer with which the reinsurance is effected (the assuming insurer) shall be charged after that in like manner with the proportionate share of the obligation assumed by it. Both the ceding and assuming insurers shall together carry the same unearned premium liability or reserve which the ceding insurer would have carried had it not reinsured the risk.

(B) In order to receive any credit for reinsurance ceded, the ceding insurer must be able to show to the satisfaction of the director of the Department of Insurance, the liability amount established by the assuming insurer with respect to this reinsurance. This showing may be made by any proof deemed reasonable by the director, but this proof must, at a minimum, consist of—at the ceding insurer's option—either a report obtained by the ceding insurer from the assuming insurer as to the gross unearned premium reserve or gross reserve liability held by it or a report obtained by the ceding insurer from the assuming insurer and from each retrocessionaire with respect to the net unearned premium reserve or net reserve liability held by each of them. Each such report shall be:

1. In writing, signed by an officer of the assuming insurer or the retrocessionaire providing it and obtained by the ceding insurer prior to the filing date of the ceding insurer's annual and quarterly statement; and

2. Maintained by the ceding insurer for three (3) years or until the conclusion of the next regular examination conducted by this state's insurance department, whichever is later. If the proof provided fails to meet the standards of subsection (2)(A) of this rule, the ceding insurer will be required to amend its financial statements by making adjustments to its credits for reinsurance as provided in subsections (2)(A) and (C) of this rule and subsections (3)(A) and (D).

(C) If the liability amount established by the assuming insurer, as shown under subsection (2)(B) of this rule, is less than the credit taken by the ceding insurer, as required under subsection (2)(A) of this rule, then this credit taken will be disallowed to the extent it exceeds such liability amount.

(D) Notwithstanding the provisions of this rule, credit taken by a ceding insurer for reinsurance ceded shall not exceed the amount of the reserve the ceding insurer would have set up if it had retained the business.

(3) A ceding insurer shall not be required to comply with section (2), if and only if the ceding insurer can meet one (1) of the following exceptions:

(A) The difference between 1) the life insurer's reserve liability carried together by