## NOTICE OF PROPOSED RULE

**TYPE OF RULE:** New ___; Amendment _x_; Repeal ___; Repeal and Reenact ____

<table>
<thead>
<tr>
<th>Title No. - Rule No. - Section No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah Admin. Code Ref (R no.): R590-143</td>
</tr>
<tr>
<td>Changed to Admin. Code Ref. (R no.): R</td>
</tr>
</tbody>
</table>

### Agency Information

1. **Department:** Insurance  
   **Agency:** Administration  
   **Room no.:** Suite 2300  
   **Building:** Taylorsville State Office Building  
   **Street address:** 4315 S. 2700 W.  
   **City, state and zip:** Taylorsville, UT 84129  
   **Mailing address:** PO Box 146901  
   **City, state and zip:** Salt Lake City, UT 84114-6901  
   **Contact person(s):**  
   **Name:** Steve Gooch  
   **Phone:** 801-957-9322  
   **Email:** sgooch@utah.gov

Please address questions regarding information on this notice to the agency.

### General Information

2. **Rule or section catchline:** R590-143. Life and Health Reinsurance Agreements

3. **Purpose of the new rule or reason for the change** (Why is the agency submitting this filing?):  
The rule is being changed in compliance with Executive Order 2021-12. During the review of this rule, the department discovered a number of minor issues that needed to be amended.

4. **Summary of the new rule or change** (What does this filing do? If this is a repeal and reenact, explain the substantive differences between the repealed rule and the reenacted rule):  
The majority of the changes are being done to fix style issues to bring the rule text more in line with current rulewriting standards. Other changes make the language of the rule more clear, remove the "Existing Agreements" section because it is outdated, and update the Severability section to use the department's current language. The changes do not add, remove, or change any regulations or requirements.

### Fiscal Information

5. **Provide an estimate and written explanation of the aggregate anticipated cost or savings to:**

   **A) State budget:**  
   There is no anticipated cost or savings to the state budget. The changes are largely clerical in nature, and will not change how the department functions.

   **B) Local governments:**  
   There is no anticipated cost or savings to local governments. The changes are largely clerical in nature, and will not affect local governments.

   **C) Small businesses** ("small business" means a business employing 1-49 persons):  
   There is no anticipated cost or savings to small businesses. The changes are largely clerical in nature, and will not affect small businesses.

   **D) Non-small businesses** ("non-small business" means a business employing 50 or more persons):
There is no anticipated cost or savings to non-small businesses. The changes are largely clerical in nature, and will not affect non-small businesses.

E) Persons other than small businesses, non-small businesses, state, or local government entities ("person" means any individual, partnership, corporation, association, governmental entity, or public or private organization of any character other than an agency):

There is no anticipated cost or savings to any other persons. The changes are largely clerical in nature.

F) Compliance costs for affected persons (How much will it cost an impacted entity to adhere to this rule or its changes?):

There are no compliance costs for any affected persons. The changes are largely clerical in nature.

G) Comments by the department head on the fiscal impact this rule may have on businesses (Include the name and title of the department head):

After conducting a thorough analysis, it was determined that this proposed rule amendment will not result in a fiscal impact to businesses. — Jonathan T. Pike, Insurance Commissioner

6. A) Regulatory Impact Summary Table (This table only includes fiscal impacts that could be measured. If there are inestimable fiscal impacts, they will not be included in this table. Inestimable impacts will be included in narratives above.)

<table>
<thead>
<tr>
<th>Regulatory Impact Table</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Cost</td>
</tr>
<tr>
<td>FY2022</td>
</tr>
<tr>
<td>FY2023</td>
</tr>
<tr>
<td>FY2024</td>
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<tr>
<td>State Government</td>
</tr>
<tr>
<td>Local Governments</td>
</tr>
<tr>
<td>Small Businesses</td>
</tr>
<tr>
<td>Non-Small Businesses</td>
</tr>
<tr>
<td>Other Persons</td>
</tr>
<tr>
<td>Total Fiscal Cost</td>
</tr>
<tr>
<td>Fiscal Benefits</td>
</tr>
<tr>
<td>FY2022</td>
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<tr>
<td>FY2023</td>
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<tr>
<td>FY2024</td>
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<tr>
<td>State Government</td>
</tr>
<tr>
<td>Local Governments</td>
</tr>
<tr>
<td>Small Businesses</td>
</tr>
<tr>
<td>Non-Small Businesses</td>
</tr>
<tr>
<td>Other Persons</td>
</tr>
<tr>
<td>Total Fiscal Benefits</td>
</tr>
<tr>
<td>Net Fiscal Benefits</td>
</tr>
</tbody>
</table>

B) Department head approval of regulatory impact analysis:

The Commissioner of Insurance, Jonathan T. Pike, has reviewed and approved this fiscal analysis.

Citation Information

7. Provide citations to the statutory authority for the rule. If there is also a federal requirement for the rule, provide a citation to that requirement:

Section 31A-2-201

Section 31A-17-404

Section 31A-17-404.3

Incorporations by Reference Information

(If this rule incorporates more than two items by reference, please include additional tables.)

8. A) This rule adds, updates, or removes the following title of materials incorporated by references (a copy of materials incorporated by reference must be submitted to the Office of Administrative Rules; if none, leave blank):

<table>
<thead>
<tr>
<th>First Incorporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official Title of Materials Incorporated (from title page)</td>
</tr>
<tr>
<td>Publisher</td>
</tr>
<tr>
<td>Date Issued</td>
</tr>
</tbody>
</table>
R590. Insurance, Administration.
R590-143. Life [A]nd Health Reinsurance Agreements.
R590-143-1. Authority.

This rule is [adopted and] promulgated by the commissioner pursuant to Sections 31A-2-201, 31A-17-404, and 31A-17-404.3.

R590-143-2. Purpose and Scope.

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

(1) The purpose of this rule is to:

c) recognize that a licensed insurer may enter into a reinsurance agreement that yields legitimate relief to a ceding insurer; and

d) establish criteria for a licensed insurer to enter into a reinsurance agreement.

(2)(a) This rule applies to:

d) a domestic life insurer;

e) a domestic accident and health insurer;

(3) a foreign life insurer not subject to a similar rule in its domiciliary state;

(4) a foreign accident and health insurer not subject to a similar rule in its domiciliary state; and

(5) a property and casualty insurer with respect to its accident and health insurance business.

(b) This rule does not apply to:
(i) assumption reinsurance;
(ii) yearly renewable term reinsurance; and
(iii) certain nonproportional reinsurance, such as stop-loss or catastrophe reinsurance.

R590-143-3. Definitions.
Terms used in this rule are defined in Section 31A-1-301. Additional terms are defined as follows:

(1)(a) "Credit Quality (C1)" means the risk that invested assets supporting the reinsured business will decrease in value due to:
(i) default; or
(ii) a decrease in earning power.

(b) Credit Quality (C1) does not include a change in interest rate.

(2) "Disintermediation (C3)" means the risk that interest rates rise and policy loans and surrenders increase, or that maturing contracts do not renew at anticipated rates of renewal where:
(i) there will be an increasing mismatch due to asset durations being greater than liability durations;
(ii) policyholders will move their funds into new products offering higher rates; and
(iii) the company may have to sell assets at a loss to provide for these withdrawals.

(3) "Lapse" means the risk that a policy will voluntarily terminate before the recoupment of a statutory surplus strain experienced at issue of the policy.

(4) "Reinvestment (C3)" means 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 and there will be an increasing mismatch if asset durations are less than liability durations.

R590-143-4. Accounting Requirements.

(A) No insurer subject to this rule may not, for reinsurance ceded, reduce any liability or establish any asset in financial statement filed with the department if, by the terms of any reinsurance agreement, any of the following conditions exist:

(1)(a) Renewal expense allowances provided to a ceding insurer by a reinsurer in any accounting period are not sufficient to cover anticipated allocable renewal expenses 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, including:
(i) commissions;
(ii) premium taxes; and
(iii) direct expenses, including but not limited to:
(A) billing;
(B) valuation;
(C) claims; and
(D) maintenance expected by the company at the time the business is reinsured;

(2) The ceding insurer may be deprived of surplus or assets at the reinsurer's option or automatically upon the occurrence of an event, such as the insolvency of the ceding insurer, except that it is not a deprivation of surplus or assets to terminate a reinsurance agreement by the reinsurer for nonpayment of reinsurance premiums or other amounts due, such as:

(i) modified coinsurance reserve adjustments;
(ii) interest and adjustments on funds withheld; and
(iii) tax reimbursements is not considered to be such a deprivation of surplus or assets;

(3) The ceding insurer is required to reimburse the reinsurer for negative experience under a reinsurance agreement. Negative experience does not include:

(i) modified coinsurance reserve adjustments;
(ii) interest and adjustments on funds withheld; and
(iii) interest and adjustments on funds withheld;

(ii) Virtual termination does not include a situation where termination occurs because of an unreasonable provision which allows the reinsurer to reduce its risk under an agreement, including a provision granting the reinsurer the right to increase reinsurance premiums or risk and expense charges to excessive levels, thereby forcing the ceding company to prematurely terminate the reinsurance treaty. 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.

(4) The ceding insurer must, at specific points in time scheduled in the agreement, 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 amounts other than income realized from the reinsured policies. For example, it is improper for a ceding company to pay reinsurance premiums, or other fees or charges to a reinsurer which are greater than the direct premiums collected by the ceding company.
ceding insurer to a reinsurer involving payment of an amount that is not solely from income realized from the reinsured policy.

(i) The following table identifies for a representative sampling of products or type of business, the significant risks which are considered to be significant. For products not specifically included, the risks determined to be significant shall be consistent with this table.

<table>
<thead>
<tr>
<th>Risk categories:</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Morbidity</td>
<td>+</td>
<td>0</td>
<td>+</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>(b) Mortality</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>(c) Lapse</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

This is the risk that a policy will voluntarily terminate prior to the recoupment of a 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.
<table>
<thead>
<tr>
<th>Traditional Par Term</th>
<th>0</th>
<th>+</th>
<th>+</th>
<th>0</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustable Premium</td>
<td>0</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Permanent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indeterminate Premium</td>
<td>0</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
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<tr>
<td>Permanent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universal Life Flexible</td>
<td>0</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Premium</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universal Life Fixed</td>
<td>0</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Premium</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universal Life Fixed</td>
<td>0</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Premium</td>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>+ Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Insignificant</td>
</tr>
</tbody>
</table>

* LTC = Long-term care insurance; LTD = Long-term disability insurance

(ii) The significant risk categories in the table in Subsection (1)(f)(i) are as follows:

(A) morbidity;
(B) mortality;
(C) lapse;
(D) credit quality (C1);
(E) reinvestment (C3); and
(F) disintermediation.

(iii) Products not specifically included in the table in Subsection (1)(f)(i) shall be determined consistent with the significant risk categories in Subsection (1)(f)(ii).

(7)(a) The credit quality, reinvestment, or disintermediation risks are significant for the business reinsured and the ceding company does not, other than for the classes of business exempt under Subsection (1)(g)(ii), transfer the underlying assets to the reinsurer or legally segregate such assets in a trust or escrow account or otherwise establish a mechanism satisfactory to the commissioner which legally segregates, by contract or contract provision, the underlying assets.

(b) Notwithstanding the requirements of Paragraph (7)(a) and Subsection (1)(g)(i), the assets supporting the reserves for the following classes of business and any class of business that does not have a significant credit quality, reinvestment, or disintermediation risk may be held by the ceding company without segregation of such assets:

- Health insurance - LTC/LTD
- Traditional Non-Par Permanent
- Traditional Par Permanent
- Adjustable Premium Permanent
- Indeterminate Premium Permanent
- Universal Life Fixed Premium
- Universal Life Fixed Premium - no dump-in premiums allowed
- Health insurance - LTC/LTD;
- Traditional non-par permanent;
- Traditional par permanent;
- Adjustable premium permanent;
- Indeterminate premium permanent; and
- Universal life fixed premium, no dump-in premiums are allowed.

[(iii)(A) A formula for determining the reserve interest rate adjustment must use a formula which reflects the ceding company's investment earnings and incorporate all realized and unrealized gains and losses reflected in the statutory statement.]

(B) The following is an acceptable formula:  Rate = 2 (I + CG)/(X + Y - I - CG); Where:

(I) I is the net investment income;
(II) CG is capital gains less capital losses;
(III) X is the current year cash and invested assets plus investment income due and accrued less borrowed money; and
(IV) Y is the same as X but for the prior year.

(h) Settlement[s are] is made less frequently than quarterly or payment[s due from the reinsurer] is not made in cash within 90 days of the settlement date.

(9) The [i] A ceding insurer is required to make [representations or warranties] a representation or warranty not reasonably related to the business being reinsured.

(10) The [i] A ceding insurer is required to make [representations or warranties] a representation or warranty about future performance of the business being reinsured.

(11) The [k] A 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)(2) Notwithstanding Subsection [A](1), an insurer subject to this rule may, with the prior approval of the commissioner,
take such reserve credit or establish such an asset as the commissioner may deem consistent with Title 31A, Insurance Code, and Rules Title R590 including actuarial interpretations or standards adopted by the [D]epartment.

[3](a) An agreement involving the reinsurance of business issued prior to the effective date of the agreements, along with any subsequent amendments thereto, shall be filed by the ceding company with the commissioner within 30 days from its date of execution. Each filing and shall include data detailing the financial impact of the transaction.

(b) A ceding insurer's actuary who signs the financial statement actuarial opinion regarding valuation of reserves shall comply with this rule and any applicable actuarial standards of practice when determining the proper credit in a financial statement filed with this department.

(c) The actuary should maintain adequate documentation and be prepared upon request to:
   
   (i) Describe the actuarial work performed for inclusion in the financial statement(s) filed with this department.
   
   (ii) Demonstrate that such work conforms to this rule.

[4] An increase in surplus, net of federal income tax resulting from arrangements described in Subsection (3)(a), 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.

[5] 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 calculated by multiplying $20 million by 1 minus 0.34, resulting in $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. The 34% of $20 million, or $6.8 million, is reported as income on the "Commissions and expense allowances on reinsurance ceded" line of the Summary of Operations.

At the end of year N+1 the business has earned $4 million. ABC has paid $0.5 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, calculated by taking 66% of the total of $20 million minus $1 million minus $0.5 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.

R590-143-4(1) A reinsurer agreement or an amendment to any agreement may not be used to reduce any liability or to establish any asset in a financial statement filed with the department, unless the agreement, amendment, or a binding 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 binding letter of intent, a reinsurance agreement, or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding 90 days from the execution date of the letter of intent, for credit to be granted for the reinsurance ceded.

C. The agreement shall contain the following provisions which provide that:

(1) The agreement constitutes the entire agreement between the parties with respect to the business being reinsured thereunder and that there are no understandings between the parties other than as expressed in the agreement; and

(2) A binding letter of intent is void unless made by amendment to the agreement and signed by both parties.

R590-143-5. Existing Agreements.

Insurers subject to this rule shall reduce to zero by June 30, 1997 any reserve credits or assets established with respect to reinsurance agreements entered into prior to the effective date of this rule which, under the provisions of this rule would not be entitled to recognition of the reserve credits or assets provided, however, that the reinsurance agreements shall have been in compliance with laws or rules in existence immediately preceding the effective date of this rule.

R590-143-6. Severability.

If any provision of this rule or its application to any person or circumstance is for any reason held to be invalid, the remainder of the rule and the application of such provisions is not affected. If any provision of this rule, R590-143, or its application to any person or situation is held invalid, such invalidity does not affect any other provision or application of this rule which can be given effect without the invalid provision or application. The remainder of this rule shall be given effect without the invalid provision or application.

KEY: insurance law