R590. Insurance, Administration.
R590-116. Valuation of Assets.
R590-116-1. Authority.

This rule is adopted pursuant to Subsection 31A-2-201(3), which authorizes rules to implement the Insurance Code, Subsection 31A-17-401(3)(a)(ii), which requires the commissioner to adopt a rule to determine the present value of future income derived from securities issued by an insurer's insurance subsidiaries, and Subsection 31A-17-401(4), which requires the commissioner to adopt rules for the valuation of insurer assets.

R590-116-2. Purpose and Scope.

A. The purpose of this rule is to comply with the statutory requirement of Subsection 31A-17-401(4), to adopt a rule for the valuation of insurer assets. The values established under this rule shall be used to determine compliance with other financial requirements of the Insurance Code.

B. This rule shall apply to all persons transacting insurance under the Utah Insurance Code.

R590-116-3. Definitions.

In addition to the definitions of Section 31A-1-301, the following definitions shall apply for the purposes of this rule:

A. "Valuation of Securities" shall mean the publication of the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC).

B. "Amortizable" shall mean having been accorded that rating in "Valuation of Securities".

C. "In Good Standing" shall mean having been accorded that rating in "Valuation of Securities".

D. "Purchase Money Mortgages" shall mean mortgages or liens received as consideration, either in whole or part, on the disposal of real estate which secures such mortgage or liens.

E. "Burial Certificate" or "Burial Contract" if issued by an insurer shall be defined as an insurance contract and not as a security.

R590-116-4. Rule.

A. Assets of insurers transacting insurance under the Utah Insurance Code shall be valued as follows:

1. Bonds.

a. All obligations having a fixed term and rate, if not in default as to principal or interest, shall be valued

(i) At the par value, if purchased at par, or

(ii) If purchased above or below par, at the value to par at maturity and so as to yield in the meantime the effective rate of interest at which the purchase was made. For valuation purposes, the purchase price may not be higher than actual market value at the date of acquisition, including brokerage and other related fees. The bonds may not be carried at a value greater than the call price at which the entire issue may be called.

b. Obligations subject to amortization under the published findings of the NAIC shall be carried at their amortized values. Obligations which do not qualify for amortization under the published findings of the NAIC shall be carried at their market value or book value, whichever is lower.

c. Demand deposits and certificates of deposit in solvent banks and savings and loan institutions shall be valued at the account or certificate balance. Negotiable certificates of deposits with maturity terms less than three years shall be valued at face value. Negotiable certificates of deposit with maturity terms more than three years shall be valued at face value or market value whichever is less.

d. Obligations of insurance subsidiaries are to be valued in accordance with the requirements of Section 31A-17-401(3)(a), U.C.A., and Section (4)(B) of this rule.

2. Equipment Trust Certificates. Equipment trust certificates subject to amortization under the published findings of the NAIC shall be carried at their amortized values. Equipment trust certificates which are not listed as qualified for amortization under the published findings of the NAIC shall be carried at a value not to exceed the certificate's proportionate part of the aggregate principal amount of the equipment obligations outstanding times 70% of the net depreciated value of the equipment pledged.

3. Loans Secured By Real Estate Interest. Loans, other than purchase money mortgages, which are adequately secured by real estate interests and are not in default as to principal or interest, shall be valued at the unpaid principal balance if the acquisition was at par. Further, mortgage loans acquired at a premium or at a discount are to be valued at amortized cost. Procedures relating to the amortization of premiums and accrual of discounts on mortgage loans are as follows:

a. Federal Housing Administration (FHA) and Veterans Administration (VA) Mortgages. Premiums shall be amortized and discounts accrued over a five year period from date of acquisition. Companies may adjust the asset values of these mortgages to their face amounts, but any excess of aggregate permissive amortized value, cost of mortgages less repayments of principal, adjusted for amortization of premiums and accrual of discounts on a five year basis, shall be treated as a nonadmitted asset.

b. Mortgages other than FHA and VA Mortgages. The book value of real estate mortgages acquired at a premium shall be reported at values reflecting write-offs of such premiums over a three year period from date of acquisition. Real estate mortgages purchased at a discount shall be carried at the amortized value.

c. Premium amortization or discount accretion as required in R590-116-4.A.3.a. or 3.b. above shall be on the straight-line method of computation.

d. Adequately secured purchase money mortgages shall be valued at the unpaid principal balance of the lien reduced by a reserve for unrealized gain on the sale of real estate. The reserve shall maintain the same proportionate relationship between the unpaid principal balance as the original gain on the sale bore to the original note principal balance.

e. For loans that are in default or in foreclosure proceedings the carrying values may be adjusted for additional expenses such as taxes, insurance, and legal fees that have been incurred to protect the investment or to obtain clear title to the property. To the extent that such costs are to be recoverable from the ultimate disposition of the property, these costs may be added to the carrying value of the mortgage loans. However, such costs that cannot reasonably be expected to be recovered shall be expensed when incurred.

f. Loans with any of the following provisions may be valued, at the option of the commissioner, at discounted values which approximate market values of the loans at the valuation date:

i. Payments other than in equal installments;

ii. Payment periods less often than annually;

iii. Interest below conventional rates of return on the date the loan is granted.

4. Loans Secured By Pledged Securities Or Evidences Of Debt Eligible For Investment Under Section 31A-18-105 Loans which are adequately secured by pledge of securities or evidences of debt eligible for investment under Section 31A-18-105 shall be valued at par, if the acquisition was at par. Further, such loans acquired at a premium or at a discount are to be valued at the unpaid principal balance or cost, whichever is less.

5. Preferred and Guaranteed Stocks.

a. Preferred or guaranteed stocks in good standing are to be valued at cost by companies which are maintaining a mandatory securities valuation reserve. Companies not maintaining a mandatory securities valuation reserve shall value such stocks at market value.

b. Preferred or guaranteed stocks not in good standing are to be valued at market value.

c. Market value as used for valuation of preferred or guaranteed stocks means in accordance with the values listed in "Valuation of Securities". For securities which are traded on a registered national securities exchange, but are not listed in that publication, market value may be established at the most recent published trade value. Securities not listed and not actively traded on a major stock exchange shall have a market value in an amount that the insurer can justify to the commissioner.

d. Preferred or guaranteed stocks of insurance subsidiaries are to be valued in accordance with the requirements of Subsection 31A-17-401(3)(a), and Subsection R590-116-4.B. of this rule.

6. Common Stocks.

a. Common stocks are to be valued at market value. Market value as used for valuation of common stocks means in accordance with the values listed in "Valuation of Securities". For securities which are traded on a registered national securities exchange, but are not listed in that publication, market value may be established at the most recent published trade value. Securities not listed in and not actively traded on a registered national securities exchange shall have a market value in an amount that the insurer can justify to the commissioner.

b. Common stocks of insurance subsidiaries are to be valued in accordance with the requirements of Subsection 31A-17-401(3)(a).

7. Real Estate.

a. An investment in real estate will be valued at not more than its reasonable cost plus capitalized permanent improvements less depreciation spread evenly over the life of the property or, at the option of the company, less depreciation computed on any basis permitted under the Internal Revenue Code and regulations.

b. Property acquired in satisfaction of a debt shall be valued at its fair market value or the amount of debt, including interest, taxes, and expenses incurred as cost in foreclosure, whichever is less.

8. Loans Upon the Security of the Insurer's Own Policies. Loans upon the security of the insurer's own policies shall be valued at the unpaid loan balance or the policy reserves securing such loan, whichever is less.

9. Financial Futures Contracts. Financial futures contracts, if approved by Insurance Department rule, shall be valued in the manner set forth by the commissioner.

10. Investment in Foreign Securities. Foreign securities permitted under Subsection 31A-18-105(11), shall be valued as follows:

a. Where information is available, at the value published by the NAIC. If the security is payable in a foreign currency the value shall reflect the currency exchange rate.

b. Where information is not available, the security shall have a market value that the insurer can justify to the commissioner. If the security is payable in a foreign currency the value shall reflect the currency exchange rate.

11. Separate Account Assets. Separate account assets shall have a value as required under Subsection 31A-18-102(4).

B. Value of Securities Other Than Common Stock Issued by an Insurance Subsidiary. The following provisions shall supplement Subsection 31A-17-401(3)(a), in controlling the manner in which assets of insurance subsidiaries are valued on the books of the parent insurer:

1. A parent insurer may attribute value to the security of an insurance subsidiary only if dividends or interest are being paid and payment can reasonably be anticipated to continue.

2. The value of securities other than common stock issued by an insurance subsidiary is the lesser of:

a. The present value of future income to be derived under the securities, or

b. The amount the parent would receive following liquidation of the subsidiary with payment, in full, of all creditors and holders with senior priority.

3. The present discounted value of future income under Subsection R590-116-4.B.2.a. of this rule shall be determined as follows:

$NPV = ((CF_1)/((1 + i)^1)) + ((CF_2)/((1 + i)^2)) + (CF_3)/((1 + 3)^3)) + ... ((CF_n)/((1 + i)^n))$

NPV = Net present value

CF = Cash flow

i = Assumed interest rate per period

n = Number of periods

If cash flows remain constant, the following formula may be used:

$NPV = CF(1-(1 / (1 + i)^n) / i)$

4. The interest rate used shall be equal to Moody's AA Bond rate given for securities of substantially equal duration, or other rate which can be justified by the insurer and is accepted by the commissioner.

R590-116-5. Separability.

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 provision to other persons or circumstances will not be affected.

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