

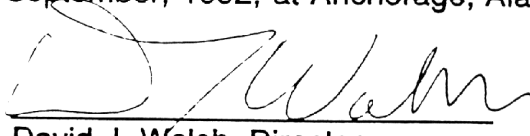
ORDER R 92-07 ADOPTING  
REGULATIONS OF THE DIVISION OF INSURANCE

The attached 8 pages of regulations, dealing with life reinsurance agreements for domestic life insurers of this state and other licensed life insurers not subject to similar requirements in their state of domicile, to implement and make specific AS 21.12.020, are hereby adopted and certified to be a correct copy of the regulations that the Division of Insurance adopts (3 AAC 21.600 -- 3 AAC 21.695) under the authority of AS 21.06.090 and after compliance with the Administrative Procedure Act (AS 44.62), specifically including notice under AS 44.62.190 and 44.62.200 and opportunity for public comment under AS 44.62.210.

This action is not expected to require an increased appropriation.

This order takes effect on the 30th day after it has been filed by the lieutenant governor, as provided in AS 44.62.180.

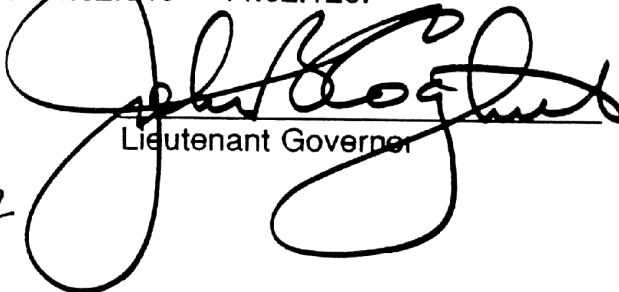
DATED this 15<sup>th</sup> day of September, 1992, at Anchorage, Alaska.



David J. Walsh, Director  
Division of Insurance  
Department of Commerce and  
Economic Development

FILING CERTIFICATION

I, John B. Coghill, Lieutenant Governor for the State of Alaska, certify that on Sept 21, 1992 at 8:46 A.M., I filed the attached regulations according to the provisions of AS 44.62.040 -- 44.62.120.



Lieutenant Governor

Effective

October 21, 1992

Register

124 January 1993

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TITLE 3. COMMERCE AND ECONOMIC DEVELOPMENT

PART 2. DIVISION OF INSURANCE

CHAPTER 21. INSURER -- FINANCIAL

3 AAC 21 is amended by adding new sections to read:

Article 5. Life Reinsurance Agreements

Section

600. Scope

610. Accounting requirements

620. Written agreements

630. Existing agreements

695. Definitions

3 AAC 21.600. SCOPE. 3 AAC 21.600 -- 3 AAC 21.695 apply to (1) domestic life insurers of this state; and (2) to other licensed life insurers that are not required to comply with substantially similar laws in their state of domicile or, if an alien insurer, in their state of entry. (Eff. 10/21/92, Register 124)

Authority:    AS 21.06.090

                 AS 21.12.020

3 AAC 21.610. ACCOUNTING REQUIREMENTS. (a) Except as provided in (c) of this section, or unless the director has given prior approval based on the director's determination that the ceding life insurer is otherwise in compliance with Alaska law applicable to operation as an insurer, a life insurer subject to 3 AAC 21.600 -- 3 AAC 21.695 may not, for reinsurance ceded, reduce a liability or establish an asset in a financial statement filed with the division if, by the terms of the reinsurance agreement, any of the following conditions exist in substance or effect:

(1) the primary effect of the reinsurance agreement is to transfer deficiency reserves or excess interest reserves to the books of the reinsurer for a fee and the agreement does not provide for significant participation by the reinsurer in a mortality, morbidity, investment, or surrender benefit risk;

(2) the amount of reserve credit taken by the ceding insurer is not in compliance with Alaska law and actuarial interpretations used by the director;

(3) the amount of reserve credit taken by the ceding insurer is greater than the underlying reserve of the ceding company supporting the policy obligations transferred under the reinsurance agreement;

(4) the ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement resulting in the elimination of the risk of loss to the assuming insurer; for purposes of this paragraph, neither offsetting experience refunds against prior years' losses nor payment by the ceding insurer of an amount equal to prior years' losses upon voluntary termination of in-force reinsurance by the ceding insurer will be considered a reimbursement to the reinsurer for negative experience;

(5) the ceding insurer can be deprived of surplus at the reinsurer's option or automatically upon the occurrence of a specified event, such as the insolvency of the ceding insurer; for the purposes of this paragraph, the termination of the reinsurance agreement by the reinsurer for non-payment of reinsurance premiums may not be considered to be a deprivation of surplus;

(6) at specific points in time scheduled in the agreement, the ceding insurer must terminate or automatically recapture all or part of the reinsurance ceded;

(7) no cash payment is due from the reinsurer throughout the lifetime of the reinsurance agreement with all

settlements before the termination date of the agreement made only in a reinsurance account and no money in that account is available for the payment of benefits; or

(8) the reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than premium reasonably expected from the reinsured policies.

(b) Notwithstanding (a) of this section, a life insurer subject to 3 AAC 21.600 -- 3 AAC 21.695 may, with prior written approval of the director, take reserve credit that the director determines is consistent with Alaska law and actuarial interpretations used by the director.

(c) Use of a reinsurance agreement containing a condition listed in (a) of this section for the purpose of reducing a liability or establishing an asset in a financial statement filed with the division does not require prior approval of the director if

(1) the ceding insurer is filing quarterly statements to comply with 3 AAC 21.400 and the quarterly filing includes a separate line in the statement of assets, statement of liabilities, and summary of operations for the effect of reinsurance agreements of the type described in (a) of this section; or, if the quarterly statement form does not make adequate provision for separately

disclosing the impact of each reinsurance agreement on the assets, liabilities, operations, and surplus of the ceding insurer, a report disclosing the separate impact is filed quarterly by the ceding insurer;

(2) the reinsurer and the ceding insurer are not affiliated, as defined in AS 21.22.200; and

(3) the reinsurer is otherwise qualified under AS 21.12.020.

(Eff. 10/21/92, Register 124)

Authority:    AS 21.06.090

                 AS 21.12.020

3 AAC 21.620. WRITTEN AGREEMENTS. (a) A reinsurance agreement or amendment to such an agreement may not be used to reduce a liability or to establish an asset in a financial statement filed with the division unless the agreement, the amendment, or a letter of intent has been executed by both parties, or other written evidence of the agreement from the reinsurer is held by the ceding insurer, not later than the "as of date" of the financial statement on which the entry will appear.

(b)    A reinsurance agreement or an amendment to a reinsurance agreement must be executed within 90 days after the execution date of a letter of intent or other written evidence of a reinsurance agreement in order for credit to be allowed for the reinsurance ceded. (Eff. 10/21/92, Register 124)

Authority:    AS 21.06.090

AS 21.12.020

3 AAC 21.630. EXISTING AGREEMENTS. Notwithstanding 3 AAC 21.610 and 3 AAC 21.620, a life insurer subject to 3 AAC 21.600 --

3 AAC 21.695 may continue to reduce liabilities or establish assets in financial statements filed with the division for reinsurance ceded under a reinsurance agreement that contains a condition listed in 3 AAC 21.610(a)(1)--(8) if

(1) the agreement was executed and in force before October 21, 1992;

(2) no new business is ceded under the agreement on or after October 21, 1992;

(3) the reduction of the liability or the asset established for the reinsurance ceded is reduced to zero by December 31, 1995, or by a later date

approved in writing by the director as a result of a written application made before December 31, 1992 by a ceding insurer;

(4) the reduction of the liability or the establishment of the asset is otherwise permissible under Alaska law and actuarial interpretations used by the director; and

(5) the director is notified in writing by January 19, 1993 of the existence of a reinsurance agreement and the corresponding credits taken in a ceding insurer's 1991 annual statement. (Eff. 10/21/92, Register 124)

Authority:    AS 21.06.090

                  AS 21.12.020

3 AAC 21.695.        DEFINITIONS. In 3 AAC 21.600 -- 3 AAC 21.695, unless the context requires otherwise,

(1) "as of date" means a specific measurement date for a set of financial statements;

(2) "deficiency reserves" means a supplemental reserve that a life insurer is required to show in the life insurer's balance sheet if the gross



premium charged on a class of those insured is less than the net level premium reserve or modified reserve;

(3) "excess interest reserve" means a supplemental reserve for interest credited to an insured's contract in excess of the amount guaranteed by the terms of the contract;

(4) "negative experience" means the condition that results from a contract of reinsurance before its termination date when, considering only the cash flows under that contract adjusted for the time value of money using the discount factor inherent in the contract, the total amount paid out by the reinsurer in losses, commission, and expense allowance exceeds the amount the reinsurer has received in premiums from the ceding company.

(Eff. 10/21/92, Register 124)

Authority:    AS 21.06.090

                 AS 21.12.020