

### **IC 27-1-12.1**

#### **Chapter 12.1. Limited Purpose Subsidiary Life Insurance Companies**

### **IC 27-1-12.1-1**

#### **Affiliate**

Sec. 1. As used in this chapter, "affiliate" means a domestic life insurance company that is a wholly owned subsidiary of the parent of a limited purpose subsidiary.

*As added by P.L.11-2011, SEC.7.*

### **IC 27-1-12.1-2**

#### **Limited purpose subsidiary**

Sec. 2. As used in this chapter, "limited purpose subsidiary" means a subsidiary life insurance company that is organized under this chapter.

*As added by P.L.11-2011, SEC.7.*

### **IC 27-1-12.1-3**

#### **Organizing domestic life insurance company**

Sec. 3. As used in this chapter, "organizing domestic life insurance company" refers to a life insurance company that organizes a limited purpose subsidiary under this chapter.

*As added by P.L.11-2011, SEC.7.*

### **IC 27-1-12.1-4 Version a**

#### **Parent**

*Note: This version of section effective until 5-9-2011. See also following version of this section, effective 5-9-2011.*

Sec. 4. As used in this chapter, "parent" means a person that through at least one (1) intermediary wholly owns an organizing domestic life insurance company.

*As added by P.L.11-2011, SEC.7.*

### **IC 27-1-12.1-4 Version b**

#### **Parent**

*Note: This version of section effective 5-9-2011. See also preceding version of this section, effective until 5-9-2011.*

Sec. 4. As used in this chapter, "parent" means a person that through at least one (1) intermediary wholly owns a limited purpose subsidiary.

*As added by P.L.11-2011, SEC.7. Amended by P.L.115-2011, SEC.1.*

### **IC 27-1-12.1-5**

#### **Risk**

Sec. 5. As used in this chapter, "risk" means a risk:

- (1) that is associated with a life insurance policy that is:
  - (A) written by a ceding domestic life insurance company; or
  - (B) assumed by a ceding domestic life insurance company from an affiliate; and

(2) for which a ceding domestic life insurance company holds direct statutory reserves for the policy as required under IC 27-1-12-10.5.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-6**

##### **Organization of limited purpose subsidiary**

Sec. 6. A domestic life insurance company that is authorized to engage in the business of insurance in Indiana may organize a limited purpose subsidiary under this chapter.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-7 Version a**

##### **Requirements for assumption of risk**

*Note: This version of section effective until 5-9-2011. See also following version of this section, effective 5-9-2011.*

Sec. 7. Before assuming risk under a reinsurance contract, a limited purpose subsidiary must do all of the following:

- (1) Comply with IC 27-1-6.
- (2) File with the commissioner an affidavit, signed by the limited purpose subsidiary's president, vice president, treasurer, or chief financial officer, including all of the following to the best of the individual's knowledge after reasonable inquiry:
  - (A) That the proposed organization and operation of the limited purpose subsidiary complies with this chapter.
  - (B) That the limited purpose subsidiary's investment policy reflects and considers the liquidity of assets and the reasonable preservation, administration, and management of the assets with respect to the risks associated with reinsurance contracts issued by the limited purpose subsidiary.
  - (C) That the reinsurance contract and any arrangement intended to secure the limited purpose subsidiary's obligations under the reinsurance contract (including an agreement to implement the arrangement) comply with this chapter.
- (3) File with the commissioner the opinion of a qualified independent actuary approved by the commissioner that the methodology and assumptions (including significant stress tests of key assumptions) used to establish and discount reserves held by the limited purpose subsidiary are sufficient to provide for the risk assumed by the limited purpose subsidiary.
- (4) File with the commissioner the limited purpose subsidiary's plan of operation, including the following:
  - (A) A statement that the limited purpose subsidiary will, before each offer and sale of securities of or by the limited purpose subsidiary, file with the commissioner, in a form acceptable to the commissioner, a legal opinion that the offering and sale of securities:
    - (i) of the limited purpose subsidiary complies with all

federal securities laws; and

(ii) by the limited purpose subsidiary complies with all Indiana securities laws.

(B) A complete description of all reinsurance transactions, reinsurance security arrangements, securitizations, and any other material transactions or arrangements of the limited purpose subsidiary.

(C) The source and form of the limited purpose subsidiary's capital and surplus.

(D) The investment policy of the limited purpose subsidiary.

(E) Pro forma balance sheets and income statements that illustrate at least one (1) adverse case scenario, as determined using criteria required by the commissioner, for the performance of the limited purpose subsidiary under all reinsurance contracts.

(F) Risk-based capital requirements, including a requirement that the limited purpose subsidiary must maintain risk-based capital equal to the product of two and one half (2 1/2) and the number determined under the life risk-based capital formula in accordance with the National Association of Insurance Commissioners' risk-based capital instructions.

(G) Notice and reporting of material transactions.

(H) Policies for payment of dividends and other distributions to the organizing domestic life insurance company.

(I) Copies of all contracts between the limited purpose subsidiary and affiliates.

(J) Other documentation or information required by the commissioner.

(5) Obtain from the commissioner a certificate of authority to engage in the business of reinsurance in Indiana.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-7 Version b**

##### **Requirements for assumption of risk**

*Note: This version of section effective 5-9-2011. See also preceding version of this section, effective until 5-9-2011.*

Sec. 7. Before assuming risk under a reinsurance contract, a limited purpose subsidiary must do all of the following:

(1) Comply with IC 27-1-6.

(2) File with the commissioner an affidavit, signed by the limited purpose subsidiary's president, vice president, treasurer, or chief financial officer, including all of the following to the best of the individual's knowledge after reasonable inquiry:

(A) That the proposed organization and operation of the limited purpose subsidiary complies with this chapter.

(B) That the limited purpose subsidiary's investment policy reflects and considers the liquidity of assets and the reasonable preservation, administration, and management of the assets with respect to the risks associated with reinsurance contracts issued by the limited purpose

subsidiary.

(C) That the reinsurance contract and any arrangement intended to secure the limited purpose subsidiary's obligations under the reinsurance contract (including an agreement to implement the arrangement) comply with this chapter.

(3) File with the commissioner the opinion of a qualified actuary that the methodology and assumptions (including significant stress tests of key assumptions) used to establish reserves held by the limited purpose subsidiary are sufficient to provide for the risk assumed by the limited purpose subsidiary.

(4) File with the commissioner the limited purpose subsidiary's plan of operation, including the following:

(A) A statement that the limited purpose subsidiary will, before an offer and sale of securities of or by the limited purpose subsidiary, file with the commissioner, in a form acceptable to the commissioner, a legal opinion that the offering and sale of securities:

(i) of the limited purpose subsidiary complies with all federal securities laws; and

(ii) by the limited purpose subsidiary complies with all Indiana securities laws.

For purposes of this clause, the issuance of stock by the limited purpose subsidiary to the organizing domestic life insurance company is not the offer and sale of securities requiring a legal opinion.

(B) A complete description of the material terms of all proposed reinsurance transactions, reinsurance security arrangements, securitizations, and any other material transactions or arrangements of the limited purpose subsidiary.

(C) A description of the source and form of the limited purpose subsidiary's capital and surplus.

(D) The investment policy of the limited purpose subsidiary.

(E) Pro forma balance sheets and income statements that illustrate at least one (1) adverse case scenario, as determined using criteria required by the commissioner, for the performance of the limited purpose subsidiary under all reinsurance contracts.

(F) Policies for payment of dividends and other distributions to the organizing domestic life insurance company.

(G) Copies of all contracts between the limited purpose subsidiary and affiliates.

(H) Other documentation or information required by the commissioner.

(5) Obtain from the commissioner a certificate of authority to engage in the business of reinsurance in Indiana.

*As added by P.L.11-2011, SEC.7. Amended by P.L.115-2011, SEC.2.*

**Certificate of authority; conditions; production and disclosures to commissioner**

Sec. 8. (a) The commissioner may issue a certificate of authority to a limited purpose subsidiary upon a finding by the commissioner of all of the following:

- (1) That the proposed plan of operation provides for a viable operation of the limited purpose subsidiary.
- (2) That the terms of all proposed reinsurance contracts and related transactions of the limited purpose subsidiary comply with this chapter and any other applicable insurance laws.
- (3) That the proposed plan of operation is not hazardous to any ceding insurer.

(b) The commissioner may, in conjunction with the issuance of a certificate of authority to a limited purpose subsidiary, issue an order containing any terms or conditions applying to the limited purpose subsidiary's authority to engage in the business of reinsurance, including terms or conditions concerning the organization, licensing, or operation of the limited purpose subsidiary, consistent with this chapter and determined necessary by the commissioner.

(c) A limited purpose subsidiary shall produce or disclose its plan of operation, amendments, and records, books, documents, reports, and other information that the commissioner requires the limited purpose subsidiary to produce or disclose under:

- (1) this chapter;
- (2) rules adopted under section 15 of this chapter; or
- (3) an order under IC 27-1-3.1.

(d) The commissioner has the powers enumerated in IC 27-1-3.1 with respect to a limited purpose subsidiary.

*As added by P.L.11-2011, SEC.7.*

**IC 27-1-12.1-9 Version a**

**Authority of limited purpose subsidiary**

*Note: This version of section effective until 5-9-2011. See also following version of this section, effective 5-9-2011.*

Sec. 9. A limited purpose subsidiary that is granted a certificate of authority by the commissioner under this chapter:

- (1) is wholly owned by the organizing domestic life insurance company;
- (2) is authorized to engage in the business of reinsurance for purposes of IC 27-6-10 only for the lines of insurance for which the:
  - (A) organizing domestic life insurance company; and
  - (B) affiliates of the organizing domestic life insurance company;are authorized;
- (3) may reinsure only risks of:
  - (A) the organizing domestic life insurance company; and
  - (B) affiliates of the organizing domestic life insurance company; and
- (4) may access alternative forms of financing.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-9 Version b**

##### **Authority of limited purpose subsidiary**

*Note: This version of section effective 5-9-2011. See also preceding version of this section, effective until 5-9-2011.*

Sec. 9. A limited purpose subsidiary that is granted a certificate of authority by the commissioner under this chapter:

(1) is authorized to engage in the business of reinsurance for purposes of IC 27-6-10 only for the lines of insurance for which the:

(A) organizing domestic life insurance company; and

(B) affiliates of the organizing domestic life insurance company;

are authorized;

(2) may reinsure only risks of:

(A) the organizing domestic life insurance company; and

(B) affiliates of the organizing domestic life insurance company; and

(3) may access alternative forms of financing.

*As added by P.L.11-2011, SEC.7. Amended by P.L.115-2011, SEC.3.*

#### **IC 27-1-12.1-10**

##### **Investment of organizing domestic life insurance company**

Sec. 10. An organizing domestic life insurance company may invest funds from the organizing domestic life insurance company's surplus in a limited purpose subsidiary that is organized by the organizing domestic life insurance company.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-11**

##### **Officers and directors**

Sec. 11. The officers and directors of an organizing domestic life insurance company may serve as officers and directors of a limited purpose subsidiary organized by the organizing domestic life insurance company.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-12**

##### **Purchase of reinsurance**

Sec. 12. A limited purpose subsidiary may, upon approval of the commissioner, purchase reinsurance to cede the reinsurance risks assumed by the limited purpose subsidiary.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-13 Version a**

##### **Admitted assets**

*Note: This version of section effective until 5-9-2011. See also following version of this section, effective 5-9-2011.*

Sec. 13. Assets of a limited purpose subsidiary that are approved

by the commissioner as admitted assets must:

- (1) comply with requirements established by the commissioner under section 14 of this chapter; and
- (2) be reported as admitted assets of the limited purpose subsidiary.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-13 Version b**

##### **Admitted assets**

*Note: This version of section effective 5-9-2011. See also preceding version of this section, effective until 5-9-2011.*

Sec. 13. (a) If approved by the commissioner, the following are considered to be and must be reported as admitted assets of a limited purpose subsidiary:

- (1) Proceeds from a securitization, premiums, and other amounts payable by an affiliate to the limited purpose subsidiary.
- (2) Letters of credit.
- (3) Guarantees of the parent.
- (4) Other assets.

(b) If the commissioner determines that the value of admitted assets that:

- (1) were previously approved by the commissioner under subsection (a); and
- (2) are not assets that are addressed by the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners;

has decreased, the commissioner may require the limited purpose subsidiary to provide additional security or collateral.

(c) The commissioner shall, at least thirty (30) days before taking action under subsection (b):

- (1) notify the limited purpose subsidiary of the action; and
- (2) provide to the limited purpose subsidiary an opportunity to remedy the issues identified by the commissioner.

*As added by P.L.11-2011, SEC.7. Amended by P.L.115-2011, SEC.4.*

#### **IC 27-1-12.1-14 Version a**

##### **Duties of limited purpose subsidiary**

*Note: This version of section effective until 5-9-2011. See also following version of this section, effective 5-9-2011.*

Sec. 14. (a) A limited purpose subsidiary shall do the following:

- (1) Provide to the commissioner, not later than forty-five (45) days after the closing date of the transactions of an insurance securitization, a copy of a complete set of executed documentation of the insurance securitization.
- (2) Notify the commissioner, not later than two (2) business days after any material change in the financial condition or management of the limited purpose subsidiary, written notice of the material change.
- (3) Annually file with the commissioner the actuarial opinion

of the limited purpose subsidiary's internal actuary concerning reserves held by the limited purpose subsidiary for all risks assumed by the limited purpose subsidiary under the limited purpose subsidiary's reinsurance contracts.

(4) Biennially file with the commissioner the actuarial opinion:

(A) of a qualified independent actuary approved by the commissioner; and

(B) concerning the methodology and assumptions used by the limited purpose subsidiary in establishing the reserves held by the limited purpose subsidiary.

(5) Annually file with the commissioner a report of the limited purpose subsidiary's risk-based capital level as of the end of the immediately preceding calendar year, including the information required by the risk-based capital instructions of the National Association of Insurance Commissioners.

(6) Immediately notify the commissioner concerning any action by a ceding insurer or other person to foreclose on or otherwise take possession of collateral provided by the limited purpose subsidiary to secure an obligation of the limited purpose subsidiary.

(b) A limited purpose subsidiary may, after approval of the commissioner, discount the reserves held by the limited purpose subsidiary in accordance with an actuarial opinion filed under subsection (a)(3).

(c) Unless otherwise required by the commissioner, a limited purpose subsidiary is not required to file a report, notice, or other document with the National Association of Insurance Commissioners.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-14 Version b**

##### **Duties of limited purpose subsidiary**

*Note: This version of section effective 5-9-2011. See also preceding version of this section, effective until 5-9-2011.*

Sec. 14. (a) A limited purpose subsidiary shall do the following:

(1) Provide to the commissioner, not later than forty-five (45) days after the closing date of the transactions of an insurance securitization, a copy of a complete set of executed documentation of the insurance securitization.

(2) Notify the commissioner, not later than two (2) business days after any material change in the financial condition or management of the limited purpose subsidiary, written notice of the material change.

(3) Annually file with the commissioner the actuarial opinion of the limited purpose subsidiary's internal actuary concerning reserves held by the limited purpose subsidiary for all risks assumed by the limited purpose subsidiary under the limited purpose subsidiary's reinsurance contracts.

(4) Biennially file with the commissioner the actuarial opinion of a qualified actuary concerning the methodology and

assumptions used by the limited purpose subsidiary in establishing the reserves held by the limited purpose subsidiary.

(5) Immediately notify the commissioner concerning any action by a ceding insurer or other person to foreclose on or otherwise take possession of collateral provided by the limited purpose subsidiary to secure an obligation of the limited purpose subsidiary.

(6) Comply with IC 27-1-23 and IC 27-1-36.

(b) Unless otherwise required by the commissioner, a limited purpose subsidiary is not required to file a report, notice, or other document with the National Association of Insurance Commissioners.

*As added by P.L.11-2011, SEC.7. Amended by P.L.115-2011, SEC.5.*

#### **IC 27-1-12.1-15 Version a**

##### **Administrative rules; emergency rulemaking**

*Note: This version of section effective until 5-9-2011. See also following version of this section, effective 5-9-2011.*

Sec. 15. (a) The commissioner shall, before approving a limited purpose subsidiary under this chapter, adopt rules under IC 4-22-2 to implement this chapter.

(b) The rules adopted under subsection (a) must specify the following concerning limited purpose subsidiaries:

- (1) Requirements for reserves, including actuarial certification.
- (2) Requirements for securities.
- (3) Authorized investments.
- (4) Requirements with respect to reinsurance ceded or assumed by the limited purpose subsidiary.
- (5) Requirements for dividends and distributions.
- (6) Requirements for operations.
- (7) Conditions of, forms for, and approval of the financing of a limited purpose subsidiary.

(c) The commissioner may adopt emergency rules under IC 4-22-2-37.1 to implement this section if the commissioner determines that:

- (1) the need for a rule is so immediate and substantial that rulemaking procedures under IC 4-22-2-23 through IC 4-22-2-36 are inadequate to address the need; and
- (2) an emergency rule is likely to address the need.

*As added by P.L.11-2011, SEC.7.*

#### **IC 27-1-12.1-15 Version b**

##### **Administrative rules; emergency rulemaking**

*Note: This version of section effective 5-9-2011. See also preceding version of this section, effective until 5-9-2011.*

Sec. 15. (a) The commissioner may adopt rules under IC 4-22-2 to implement this chapter.

(b) The rules adopted under subsection (a) may specify the following concerning limited purpose subsidiaries:

- (1) Requirements for reserves, including actuarial certification.

- (2) Requirements for securities.
- (3) Authorized investments.
- (4) Requirements with respect to reinsurance ceded or assumed by the limited purpose subsidiary.
- (5) Requirements for dividends and distributions.
- (6) Requirements for operations.
- (7) Conditions of, forms for, and approval of the financing of a limited purpose subsidiary.

(c) The commissioner may adopt emergency rules under IC 4-22-2-37.1 to implement this section if the commissioner determines that:

- (1) the need for a rule is so immediate and substantial that rulemaking procedures under IC 4-22-2-23 through IC 4-22-2-36 are inadequate to address the need; and
- (2) an emergency rule is likely to address the need.

*As added by P.L.11-2011, SEC.7. Amended by P.L.115-2011, SEC.6.*