

DRAFT - NOT FOR FILING

3901-11-05 Special purpose financial captive alternative reserve methodologies.

(A) Purpose

The purpose of this rule is to amplify section 3964.03 of the Revised Code and establish acceptable information to be submitted to the superintendent when a special purpose financial captive requests to use an alternative reserve methodology pursuant to division (E)(2) of section 3964.03 of the Revised Code.

(B) Authority

This rule is promulgated pursuant to the authority vested in the superintendent under section 3901.041 of the Revised Code and division (E)(2) of section 3964.03 of the Revised Code.

(C) Scope

This rule applies to all requests made pursuant to division (E)(2) of section 3964.03 of the Revised Code, by a special purpose financial captive to use a reserve basis other than that found in "Statements on Statutory Accounting Principles" as set out in the "National Association of Insurance Commissioner's" (NAIC) "Accounting Practices and Procedures Manual".

(D) Life insurance policy and annuity contract reserves

For its reserve basis on risks reinsured through the special purpose financial captive, an Ohio domiciled special purpose financial captive is required to hold reserves either based upon the "Statements on Statutory Accounting Principles" as set out in the NAIC "Accounting Practices and Procedures Manual" or an alternative principle-based valuation method acceptable to the superintendent. A request to use an alternative principle-based valuation method shall be accompanied by a written actuarial opinion that is signed by the appointed actuary for the special purpose financial captive insurance company and the ceding insurer.

(E) Alternative principle-based valuation method

(1) An alternative methodology shall be a principle-based valuation method that uses one or more methods or one or more assumptions proposed by the special purpose financial captive insurance company and shall be in compliance with the following:

(a) Address all material risks:

(i) Associated with the contracts being valued, and their supporting assets; and

(ii) Determined capable of materially affecting the valuation of its obligations with respect to the risks assumed.

Examples of risks to be included in the principle-based valuation method include but are not limited to risks associated with policyholder behavior

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(such as lapse and utilization risk), mortality risk, interest rate risk, asset default risk, separate account fund performance, and the risk related to the performance of indices for contractual guarantees.

(b) Be consistent with current actuarial standards of practice;

(c) Consider the risk factors, risk analysis methods, and models that are incorporated in the company's overall risk assessment process. The overall risk assessment process may include but is not limited to the following analysis processes: asset adequacy testing, GAAP analysis, internal capital evaluation process and internal risk management and solvency assessments; and

(d) Incorporate appropriate margins for uncertainty and/or adverse deviation for any assumptions not stochastically modeled.

(2) The special purpose financial captive shall provide any information the superintendent may require to assess the proposed alternative methodology for approval or disapproval.

(3) If such an alternative methodology is approved by the superintendent, then the captive is required to use such alternative methodology until, and unless, the superintendent approves an alternative method.

(F) Independent qualified actuary

Upon the superintendent's request, the special purpose financial captive requesting an alternative reserve methodology, shall secure the affirmation of an independent qualified actuary that the alternative methodology is compliant with paragraph (E) of this rule. The independent qualified actuary shall be approved by the department and provide a written actuarial opinion detailing their affirmation and a report supporting that opinion to the superintendent. The report supporting the opinion shall comply with the provisions of division (E)(3) of section 3964.03 of the Revised Code.

(G) Severability

If any paragraph, term or provision of this rule is adjudged invalid for any reason, the judgment shall not affect, impair or invalidate any other paragraph, term or provision of this rule, but the remaining paragraphs, terms and provisions shall be and continue in full force and effect.