



ADMINISTRATIVE RULES OF MONTANA



6.6.6724 THE ACTUARIAL METHOD

- (1) The actuarial method to establish the required level of primary security for each reinsurance treaty subject to ARM 6.6.6720 through 6.6.6727 shall be VM-20, applied on a treaty-by-treaty basis, including all relevant definitions, from the Valuation Manual as then in effect, applied as follows:
 - (a) For covered policies described in ARM 6.6.6723(2)(a), the actuarial method is the greater of the deterministic reserve or the net premium reserve (NPR) regardless of whether the criteria for exemption testing can be met. However, if the covered policies do not meet the requirements of the stochastic reserve exclusion test in the Valuation Manual, then the actuarial method is the greatest of the deterministic reserve, the stochastic reserve, or the NPR. In addition, if such covered policies are reinsured in a reinsurance treaty that also contains covered policies described in ARM 6.6.6723(2)(b), the ceding insurer may elect to instead use (1)(b) below as the actuarial method for the entire reinsurance agreement. Whether (1)(a) or (1)(b) are used, the actuarial method must comply with any requirements or restrictions that the Valuation Manual imposes when aggregating these policy types for purposes of principle-based reserve calculations.
 - (b) For covered policies described in ARM 6.6.6723(2)(b), the actuarial method is the greatest of the deterministic reserve, the stochastic reserve, or the NPR regardless of whether the criteria for exemption testing can be met.
 - (c) Except as provided in (a), the actuarial method is to be applied on a gross basis to all risks with respect to the covered policies as originally issued or assumed by the ceding insurer.
 - (d) If the reinsurance treaty cedes less than 100% of the risk with respect to the covered policies then the required level of primary security may be reduced as follows:
 - (i) If a reinsurance treaty cedes only a quota share of some or all of the risks pertaining to the covered policies, the required level of primary security, as well as any adjustment under (iii) below, may be reduced to a pro rata portion in accordance with the percentage of the risk ceded;
 - (ii) If the reinsurance treaty in a non-exempt arrangement cedes only the risks pertaining to a secondary guarantee, the required level of primary security may be reduced by an amount determined by applying the actuarial method on a gross basis to all risks, other than risks related to the secondary guarantee, pertaining to the covered policies, except that for covered policies for which the ceding insurer did not elect to apply the provisions of VM-20 to establish statutory reserves, the required level of primary security may be reduced by the statutory reserve retained by the ceding insurer on those covered policies, where the retained reserve of those covered policies should be

reflective of any reduction pursuant to the cession of mortality risk on a yearly renewable term basis in an exempt arrangement;

- (iii) If a portion of the covered policy risk is ceded to another reinsurer on a yearly renewable term basis in an exempt arrangement, the required level of primary security may be reduced by the amount resulting by applying the actuarial method including the reinsurance section of VM-20 to the portion of the covered policy risks ceded in the exempt arrangement, except that for covered policies issued prior to January 1, 2017, this adjustment is not to exceed $[c_x / (2 * \text{number of reinsurance premiums per year})]$ where c_x is calculated using the same mortality table used in calculating the net premium reserve ; and
 - (iv) For any other treaty ceding a portion of risk to a different reinsurer, including but not limited to stop loss, excess of loss, and other non-proportional reinsurance treaties, there will be no reduction in the required level of primary security.
- (e) It is possible for any combination of (d)(i), (ii), (iii), and (iv) above to apply. Such adjustments to the required level of primary security will be done in the sequence that accurately reflects the portion of the risk ceded via the treaty. The ceding insurer should document the rationale and steps taken to accomplish the adjustments to the required level of primary security due to the cession of less than 100% of the risk.
- (f) The adjustments for other reinsurance will be made only with respect to reinsurance treaties entered into directly by the ceding insurer. The ceding insurer will make no adjustment as a result of a retrocession treaty entered into by the assuming insurers.
- (g) If a reinsurance treaty subject to ARM 6.6.6720 through 6.6.6727 cedes risk on both covered and non-covered policies, credit for the ceded reserves shall be determined as follows:
- (i) The actuarial method shall be used to determine the required level of primary security for the covered policies, and ARM 6.6.6725 shall be used to determine the reinsurance credit for the covered policy reserves; and
 - (ii) Credit for the non-covered policy reserves shall be granted only to the extent that security, in addition to the security held to satisfy the requirements of (i) above, is held by or on behalf of the ceding insurer in accordance with 33-2-1216 and 33-2-1217, MCA. Any primary security used to meet the requirements of this subsection may not be used to satisfy the required level of primary security for the covered policies.
- (h) In no event will the required level of primary security resulting from application of the actuarial method exceed the amount of statutory reserves ceded.
- (i) If the ceding insurer cedes risks with respect to covered policies, including any riders, in more than one reinsurance treaty subject to ARM 6.6.6720 through 6.6.6727, in no event will the aggregate required level of primary security for those reinsurance treaties be less than the required level of primary security calculated using the actuarial method as if all risks ceded in those treaties were ceded in a single treaty subject to ARM 6.6.6720 through 6.6.6727.
- (2) For the purposes of both calculating the required level of primary security pursuant to the actuarial method and determining the amount of primary security and other security, as applicable, held by or on behalf of the ceding insurer, the following shall apply:

- (a) For assets, including any such assets held in trust, that would be admitted under the NAIC Accounting Practices and Procedures Manual if they were held by the ceding insurer, the valuations are to be determined according to statutory accounting procedures as if such assets were held in the ceding insurer's general account and without taking into consideration the effect of any prescribed or permitted practices; and
- (b) For all other assets, the valuations are to be those that were assigned to the assets for the purpose of determining the amount of reserve credit taken. The tables of asset spreads and asset default costs shall be incorporated into the actuarial method in the manner specified in VM-20.

Authorizing statute(s): 33-1-313, 33-2-1517, MCA

Implementing statute(s): 33-2-1216, 33-2-1217, MCA

History: NEW, 2022 MAR p. 1691, Eff. 9/1/22.