

Exhibit 1

Rector & Associates, Inc. Modified Recommendations June 4, 2014
Exhibit 1—XXX/AXXX Reinsurance Framework

1. The Framework applies only to reinsurance involving certain types of XXX and AXXX policies (those required to be valued under Sections 6 or 7 of the NAIC Valuation of Life Insurance Policies Model Regulation).
2. The Framework does not materially change the ability of insurers to obtain credit for reinsurance ceded to professional “certified” reinsurers or to obtain credit for reinsurance ceded to “licensed” or “accredited” reinsurers that follow statutory accounting and RBC rules. (See “**Exemptions**” below).
3. As a practical matter, therefore, the new Framework requirements apply to reinsurance ceded to captive insurers, special purpose vehicles, reinsurers that are not eligible to become “certified” reinsurers, reinsurers that deviate from statutory accounting and/or RBC rules, etc. In those situations, the ceding insurer may receive credit for reinsurance if, but only if:
 - The ceding insurer establishes gross reserves, in full, using applicable reserving guidance (currently, the “formulaic” approach).
 - The ceding insurer satisfies the **Primary Security Requirement** (i.e., the ceding insurer receives as collateral **Primary Security** in at least the amount determined pursuant to the **Actuarial Method**).
 - Portions of the statutory reserve exceeding the Primary Security Requirement may be collateralized by **Other Security**.
 - At least one party to the financing transaction holds an appropriate **RBC “cushion”**.
 - The reinsurance arrangement is approved by the ceding insurer’s domestic regulator.
4. The Framework also includes provisions to police and enforce the new requirements, and to determine whether any “exemptions” relied upon are warranted, including:
 - An Actuarial Guideline adopted pursuant to the Actuarial Opinion Memorandum Regulation (**AOMR**) as an interim step, and subsequent amendment to the AOMR or other regulation, to require the opining actuary for the ceding insurer to issue a qualified opinion if the Framework is not followed (absent an exemption).
 - A **Note** to the annual audited statement requiring the ceding insurer, and its independent auditor, to indicate whether the Framework is being followed (absent an exemption).

[The entire Rector report is available at this link:
http://naic.org/documents/committees_ex_pbr_implementation_tf_140604_rector_report.pdf]

Exhibit 1 (Cont'd.)

The following is a summary of each of the terms in bold above:

1. **Exemptions.** Other than certain limited disclosure provisions, the new requirements generally do not apply to reinsurance ceded to an assuming reinsurer meeting the definition of Section 2.A. (authorized insurers), 2.B. (accredited insurers), or 2.C (insurers domiciled in another state) of the Credit for Reinsurance Model Law, as revised pursuant to our modified recommendation, or to reinsurance ceded pursuant to Sections 2.D (reinsurers maintaining trust funds) or 2.E (certified reinsurers) of the Model Law.
2. **Primary Security Requirement.** The ceding insurer would need to receive as collateral (on a funds withheld, trust or modified co-insurance basis) Primary Security in at least the amount determined pursuant to the Actuarial Method.
3. **Actuarial Method.** We recommend that the Actuarial Method consist of VM-20¹, modified to incorporate changes to mortality tables as developed by the American Academy of Actuaries and any other modifications suggested by LATF. *An open question is whether to alter or eliminate the “net premium reserve” component.*
4. **Primary Security.** We recommend that the types of assets listed in the Credit for Reinsurance Model Law Sections 3.A. (cash) and 3.B. (SVO-listed securities meeting certain characteristics) be allowed as Primary Security. *An open question is to what extent (if any) clean, irrevocable, unconditional “evergreen” letters of credit should be allowed as Primary Security.*
5. **Other Security.** We recommend that, so long as the Primary Security Requirement is satisfied, the ceding insurer may receive as collateral for the remainder of the statutory reserve any other security as to which the NAIC has developed an RBC “asset charge.” (We have recommended that the Capital Adequacy Task Force determine RBC “asset charges” for anticipated categories of Other Security and an appropriate “catch-all” charge to apply to assets that are not specifically listed.)
6. **RBC “cushion.”** This item is discussed further in our modified recommendations and in our February Report. We recommend that the details be worked out by the Capital Adequacy Task Force.
7. **AOMR.** This item is discussed in our modified recommendations. We recommend that the details be worked out by LATF.
8. **Note.** This item is discussed in our modified recommendations and in the February Report. We recommend that the details be worked out by the Statutory Accounting Principles Working Group.

¹ NAIC Valuation Manual, VM-20, Requirements for Principle-Based Reserves for Life Products.