

RULE 53

**TO DEFINE STANDARDS
AND COMMISSIONER'S AUTHORITY FOR COMPANIES
DEEMED TO BE IN HAZARDOUS FINANCIAL CONDITION**

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Section 1. Authority

This rule is adopted and promulgated by the Arkansas Insurance Commissioner pursuant to Ark. code Ann. §§ 23-61-108, 23-68-101, *et seq.*, and 25-15-101, *et seq.*

Section 2. Purpose and Scope

The purpose of this rule is to set forth the standards which the commissioner may use for identifying insurers found to be in such condition as to render the continuance of their business hazardous to their policyholders, creditors or the general public.

This rule shall not be interpreted to limit the powers granted the commissioner by any laws or parts of laws of this state, nor shall this rule be interpreted to supersede any laws or parts of laws of this state.

This Rule shall be applicable to all insurers, companies and other entities subject to the provisions of Ark. Code Ann. §§ 23-68-101, *et seq.*

Section 3. Standards

The following standards, either singly or a combination of two or more, may be considered by the commissioner to determine whether the continued operation of any insurer transacting insurance business in this state might be deemed to be hazardous to its policyholders, creditors or the general public. The commissioner may consider:

- A. Adverse findings reported in financial condition and market conduct examination reports, audit reports, actuarial opinions, actuarial reports or actuarial summaries;

- B. The National Association of Insurance Commissioners Insurance Regulatory Information System and its other financial analysis solvency tools and reports;
- C. For insurers not subject to standard NAIC reporting requirements, the ratios of commission expense, general insurance expense, policy benefits and reserve increases as to annual premium and net investment income which could lead to an impairment of capital and surplus;
- D. For insurers not subject to standard NAIC reporting requirements, the insurer's asset portfolio, when viewed in light of current economic conditions, is not of sufficient value, liquidity, or diversity to assure the company's ability to meet its outstanding obligations as they mature;
- E. Whether the insurer has made adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the insurer, when considered in light of the assets held by the insurer with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on such assets, and the considerations anticipated to be received and retained under such policies and contracts;
- F. The ability of an assuming reinsurer to perform and whether the insurer's reinsurance program provides sufficient protection for the insurer's remaining surplus after taking into account the insurer's cash flow and the classes of business written as well as the financial condition of the assuming reinsurer;
- G. Whether the insurer's operating loss in the last twelve-month period or any shorter period of time, including but not limited to net capital gain or loss, change in non-admitted assets, and cash dividends paid to shareholders, is greater than fifty percent (50%) of the insurer's remaining surplus as regards policyholders in excess of the minimum required;
- H. Whether the insurer's operating loss in the last twelve-month period or any shorter period of time, excluding net capital gains, is greater than twenty percent (20%) of the insurer's remaining surplus as regards policyholders in excess of the minimum required;
- I. Whether a reinsurer, obligor or any entity within the insurer's insurance holding company system, is insolvent, threatened with insolvency or delinquent in payment of its monetary or other obligations, and which in the opinion of the commissioner may affect the solvency of the insurer;
- J. Contingent liabilities, pledges or guaranties which either individually or collectively involve a total amount which in the opinion of the commissioner may affect the solvency of the insurer;

- K. Whether any “controlling person” of an insurer is delinquent in the transmitting to, or payment of, net premiums to the insurer;
- L. The age and collectability of receivables;
- M. Whether the management of an insurer, including officers, directors, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to serve the insurer in such position;
- N. Whether management of an insurer has failed to respond to inquiries relative to the condition of the insurer or has furnished false and misleading information concerning an inquiry;
- O. Whether the insurer has failed to meet financial and holding company filing requirements in the absence of a reason satisfactory to the commissioner;
- P. Whether management of an insurer either has filed any false or misleading sworn financial statement, or has released false or misleading financial statement to lending institutions or to the general public, or has made a false or misleading entry, or has omitted an entry of material amount in the books of the insurer;
- Q. Whether the insurer has grown so rapidly and to such an extent that it lacks adequate financial and administrative capacity to meet its obligations in a timely manner;
- R. Whether the insurer has experienced or will experience in the foreseeable future cash flow or liquidity problems;
- S. Whether management has established reserves that do not comply with minimum standards established by state insurance laws, rules, statutory accounting standards, sound actuarial principles and standards of practice;
- T. Whether management persistently engages in material under reserving that results in adverse development;
- U. Whether transactions among affiliates, subsidiaries or controlling persons for which the insurer receives assets or capital gains, or both, do not provide sufficient value, liquidity or diversity to assure the insurer's ability to meet its outstanding obligations as they mature;
- V. Any other finding determined by the commissioner to be hazardous to the insurer’s policyholders, creditors or general public.

Section 4. Commissioner’s Authority

- A. For the purposes of making a determination of an insurer's financial condition under this rule, the commissioner may:
- (1) Disregard any credit or amount receivable resulting from transactions with a reinsurer that is insolvent, impaired or otherwise subject to a delinquency proceeding;
 - (2) Make appropriate adjustments including disallowance to asset values attributable to investments in or transactions with parents, subsidiaries or affiliates consistent with the NAIC Accounting Practices and Procedures Manual, state laws and rules;
 - (3) Refuse to recognize the stated value of accounts receivable if the ability to collect receivables is highly speculative in view of the age of the account or the financial condition of the debtor;
 - (4) Increase the insurer's liability in an amount equal to any contingent liability, pledge, or guarantee not otherwise included if there is a substantial risk that the insurer will be called upon to meet the obligation undertaken within the next twelve (12) months.
- B. If the commissioner determines that the continued operation of the insurer licensed to transact business in this state may be hazardous to its policyholders, creditors or the general public, then the commissioner may, upon a determination, issue an order requiring the insurer to:
- (1) Reduce the total amount of present and potential liability for policy benefits by reinsurance;
 - (2) Reduce, suspend or limit the volume of business being accepted or renewed;
 - (3) Reduce general insurance and commission expenses by specified methods;
 - (4) Increase the insurer's capital and surplus;
 - (5) Suspend or limit the declaration and payment of dividend by an insurer to its stockholders or to its policyholders;
 - (6) File reports in a form acceptable to the commissioner concerning the market value of an insurer's assets;
 - (7) Limit or withdraw from certain investments or discontinue certain investment practices to the extent the commissioner deems necessary;
 - (8) Document the adequacy of premium rates in relation to the risks insured;

- (9) File, in addition to regular annual statements, interim financial reports on the form adopted by the National Association of Insurance Commissioners or in such format as promulgated by the commissioner.
- (10) Correct corporate governance practice deficiencies, and adopt and utilize governance practices acceptable to the commissioner.
- (11) Provide a business plan to the commissioner in order to continue to transact business in the state.
- (12) Notwithstanding any other provision of law limiting the frequency or amount of premium rate adjustments, adjust rates for any non-life insurance product written by the insurer that the commissioner considers necessary to improve the financial condition of the insurer.

If the insurer is a foreign insurer the commissioner's order may be limited to the extent provided by statute.

- C. An insurer subject to an order under Subsection B may request a hearing to review that order. The notice of hearing shall be served upon the insurer pursuant to Ark Code Ann. §§ 23-61-304 and 25-15-101, *et seq.* The notice of hearing shall state the time and place of hearing, and the conduct, condition or ground upon which the commissioner based the order. Unless mutually agreed between the commissioner and the insurer, the hearing shall occur not less than ten (10) days nor more than thirty (30) days after notice is served and shall be either in Pulaski County or in some other place convenient to the parties designated by the commissioner. The commissioner shall hold all hearings under this subsection privately, unless the insurer requests a public hearing, in which case the hearing shall be public.

Section 5. Judicial Review

Any order or decision of the commissioner shall be subject to review in accordance with Ark. Code Ann. §§ 23-61-307 and 25-15-101, *et seq.*, at the instance of any party to the proceedings whose interests are substantially affected.

Section 6. Separability

If any provisions of this rule be held invalid, the remainder shall not be affected.

Section 7. Effective Date

This rule shall become effective January 10, 2014.



JAY BRADFORD
INSURANCE COMMISSIONER
STATE OF ARKANSAS

12/11/13
DATE