

FILED

OCT 20 2020

INSURANCE REGULATION
Docketed by:



OFFICE OF INSURANCE REGULATION

DAVID ALTMAIER
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 263056-20-CO

GREAT WESTERN INSURANCE COMPANY
_____ /

CONSENT ORDER FOR CORRECTIVE ACTION PLAN

THIS CAUSE came on for consideration upon review of the financial condition of GREAT WESTERN INSURANCE COMPANY ("GREAT WESTERN") by the FLORIDA OFFICE OF INSURANCE REGULATION ("OFFICE"). After a complete review of the entire record, and upon consideration thereof, and being otherwise fully advised in the premises, the OFFICE hereby finds as follows:

1. The OFFICE has jurisdiction over the subject matter and the parties herein.
2. GREAT WESTERN is a foreign life insurer authorized to transact insurance business in the state of Florida pursuant to a Certificate of Authority issued by the OFFICE, in accordance with Chapter 624, Part III, Florida Statutes.
3. In June 2018, the OFFICE notified GREAT WESTERN that it was not in compliance with the surplus requirements set forth in Section 624.408, Florida Statutes.
4. GREAT WESTERN informed the OFFICE that it was a party to a modified coinsurance agreement with its parent company, AMERICAN REPUBLIC INSURANCE COMPANY ("ARIC"), and asserted that ARIC backed up all GREAT WESTERN liabilities via this agreement.

5. GREAT WESTERN submitted a corrective action plan (“CAP”) on April 14, 2020, and an amended CAP on May 6, 2020. The amended CAP, attached as Exhibit A, requests a reserve credit pursuant to Rule 69O-144.010, Florida Administrative Code, to avoid any finding of impairment under Section 624.408, Florida Statutes, and includes a plan to eliminate such reserve credit over time.

6. In the amended CAP, GREAT WESTERN makes the following representations, which are material to the OFFICE’s findings:

a. The liabilities at issue are held under a modified coinsurance arrangement between GREAT WESTERN and ARIC.

b. The book of business insured under the modified coinsurance agreement is in run-off status, wherein all liabilities will either be eliminated or largely transferred to a coinsurance agreement held between GREAT WESTERN and ARIC by year-end 2024.

c. Because of the structure of the modified coinsurance arrangement, GREAT WESTERN’s liabilities have, for all intents and purposes, been ceded to ARIC and assets backing any obligations of ARIC, as the reinsurer, reside on ARIC’s balance sheet.

d. ARIC holds more than sufficient assets to back any excess liabilities of GREAT WESTERN in the arrangement.

e. The block of business at issue primarily relates to a closed block of preneed insurance policies.

7. GREAT WESTERN acknowledges the importance of completing the CAP, as amended, and agrees to complete the amended CAP in its entirety. GREAT WESTERN additionally agrees to be bound by the following:

a. By December 31, 2024, GREAT WESTERN will remove from the modified coinsurance agreement a block of liabilities in an amount that is sufficient to achieve compliance

with Florida law. These liabilities will be transferred to a traditional coinsurance agreement between GREAT WESTERN and ARIC.

b. Until such time as compliance with Florida law is reached, GREAT WESTERN will provide a supplemental schedule with its quarterly and annual filings detailing the status of the remaining modified coinsurance reserves.

8. The OFFICE has thoroughly considered GREAT WESTERN's request for such reserve credit and, for the purpose of effectuating an orderly reporting of its liabilities and in order to permit the reserve credit for such time as is necessary, hereby APPROVES the amended CAP subject to the terms and conditions of this Consent Order.

9. GREAT WESTERN also hereby affirms that it is subject to Section 625.305, Florida Statutes, along with all the requirements of Parts I and II of Chapter 625, Florida Statutes, in the same manner as Florida domestic insurers and that non-qualifying assets or investments in excess of the limitations set forth in Parts I and II of Chapter 625, Florida Statutes, shall be non-admitted by the OFFICE, with GREAT WESTERN's surplus as to policyholders adjusted accordingly.

10. GREAT WESTERN acknowledges and agrees that failure to comply with any terms of this Consent Order would constitute an immediate danger to the public and the OFFICE may immediately suspend, revoke, or take other administrative action as it deems appropriate upon the Certificate of Authority of GREAT WESTERN in this state, in accordance with Sections 120569(2)(n) and 120.60(6), Florida Statutes.

11. GREAT WESTERN affirms that all explanations, representations, statements, and documents provided to the OFFICE in connection with this Consent Order, including all attachments and supplements thereto, are true and correct, and are material to the issuance of this Consent Order.

12. Any prior orders, consent orders, or corrective action plans that GREAT WESTERN has entered into with the OFFICE prior to the issuance of this Consent Order, shall remain in full force and effect for GREAT WESTERN, except where provisions of such orders, consent orders, or corrective action plans have expired; have been superseded by subsequent orders, consent orders, or corrective action plans; or are inconsistent with this Consent Order.

13. Any deadlines, reporting requirements, other provisions, or requirements set forth in this Consent Order may be altered or terminated by written approval of the OFFICE. Such written approval by the OFFICE is subject to statutory or administrative regulation limitations.

14. Each party to this action shall bear its own costs and fees.

15. GREAT WESTERN expressly waives its rights to a hearing in this matter, the making of findings of fact and conclusions of law by the OFFICE, and all further and other proceedings herein to which it may be entitled by law or rules of the OFFICE. GREAT WESTERN hereby knowingly and voluntarily waives all rights to challenge or contest this Consent Order in any forum available to it, now or in the future, including the rights to any administrative proceeding, state or federal court action, or any appeal.

16. GREAT WESTERN agrees that it has entered into this Consent Order voluntarily, without coercion from the OFFICE, or any agent, employee, or designee of the OFFICE, and that GREAT WESTERN has obtained legal counsel prior to entering into this Consent Order.

17. The parties agree that this Consent Order shall be deemed executed when the OFFICE has signed and docketed a copy of this Consent Order bearing the signature of the authorized representative of GREAT WESTERN, notwithstanding the fact that the copy may have been transmitted to the OFFICE electronically. Further, GREAT WESTERN agrees that the signature of its authorized representative as affixed to this Consent Order shall be under the seal of a Notary Public.

WHEREFORE, the agreement between GREAT WESTERN INSURANCE COMPANY and the FLORIDA OFFICE OF INSURANCE REGULATION, the terms and conditions of which are set forth above, is APPROVED. FURTHER, all terms and conditions contained herein are hereby ORDERED.

DONE and ORDERED this 20 day of October 2020.



David Altmaier

David Altmaier, Commissioner
Office of Insurance Regulation

By execution hereof, GREAT WESTERN INSURANCE COMPANY consents to entry of this Consent Order, agrees without reservation to all of the above terms and conditions, and shall be bound by all provisions herein. The undersigned represents that they have the authority to bind GREAT WESTERN INSURANCE COMPANY to the terms and conditions of this Consent Order. The undersigned also certifies that they have provided the signature below voluntarily and without coercion, based upon the assistance of legal counsel for GREAT WESTERN INSURANCE COMPANY.

GREAT WESTERN INSURANCE COMPANY

By: Eric Nemmers

[Corporate Seal]

Name: Eric Nemmers
(Please type or print)

Title: Vice President, General Counsel

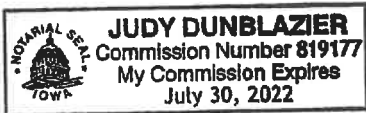
Date: October 7, 2020

STATE OF Iowa
COUNTY OF Polk

The foregoing instrument was acknowledged before me by means of physical presence

or online notarization, this 7th day of October 2020, by Judy Dunblazier

as Notary for Great Western Ins Company
(type of authority; e.g., officer, trustee, attorney in fact) (company name)



Judy Dunblazier
(Signature of the Notary)
Judy Dunblazier
(Print, Type or Stamp Commissioned Name of Notary)

Personally Known X OR Produced Identification _____

Type of identification produced _____

My Commission Expires July 30, 2022

COPIES FURNISHED TO:

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April 29, 2020

Sent Via Regulatory Electronic Filing System

Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399-0327

Re: Corrective Action Plan for Great Western Insurance Company (“GWIC”)

To Whom It May Concern:

We appreciate our collaboration with the Florida Office of Insurance Regulation (the “Office”). This letter provides an outline of GWIC’s proposed corrective action plan on the two areas of concern identified by the Office set forth below:

1. Treatment of GWIC liabilities under its Modified Coinsurance Agreement (“Modco”) with its parent company, American Republic Insurance Company (“ARIC”); and
2. Compliance with Fla. Stat. § 625.340 regarding commercial mortgage loans (“CMLs”) underwritten by GWIC.

1. Treatment of GWIC Liabilities Under Its Modco with ARIC

In June 2018, the Office notified GWIC that it was not in compliance with surplus requirements set forth in Fla. Stat. § 624.408. In September of 2018, the Office notified GWIC that based on this surplus inadequacy, GWIC may have been writing while impaired, in violation of Fla. Stat. § 626.9541(1)(w). After additional discussion, the Office reviewed the Modco between GWIC and ARIC, which accompanied ARIC’s acquisition of GWIC.

As we have discussed, GWIC believes that it has successfully mitigated surplus concerns via: A) the liabilities that have been transferred to ARIC, which has sufficient assets to back the liabilities; and B) the run-off status of this closed block of business, a sufficient block of which can be migrated from the Modco by year-end 2024:

- A. The liabilities, in effect, have been transferred to ARIC via the Modco.
 - a. All GWIC liabilities in effect prior to January 1, 2018, have been transferred to ARIC via the Modco.

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- b. An additional coinsurance agreement between the parties cedes liabilities from GWIC to ARIC for all policies issued on or after January 1, 2018.
 - c. Under modified coinsurance agreements, a reinsurer prepays its future obligations in the form of a modco deposit.
 - d. The ceded liabilities and supporting assets remain on the balance sheet of the ceding company, while capital backing any obligations of the reinsurer in excess of the modco deposit reside on the balance sheet of the reinsurer.
 - e. Under this modco framework, GWIC believes that the GWIC liabilities at issue have, for all intents and purposes, been ceded to ARIC – and assets backing any obligations of ARIC as the reinsurer reside on ARIC’s balance sheet.
 - f. As evidenced by ARIC’s balance sheet, ARIC has more than sufficient assets to back any excess liabilities.
 - g. GWIC is therefore seeking a reserve credit to account for its liabilities under the Modco.
- B. This block of business covered under the Modco primarily relates to a closed block of preneed insurance policies. These liabilities will endure for a considerable time period; however, by December 31, 2024, GWIC will remove from the Modco a block of liabilities in an amount to achieve compliance with Florida law.
- a. As noted, the Modco only affects policies written prior to January 1, 2018.
 - b. These policies are typically purchased by older individuals—average age of approximately 73—who are pre-planning end-of-life arrangements.
 - c. Attached is the requested timetable, including the estimated run off of GWIC’s Modco reserves (see Exhibit 1: Projected Modco Reserve Run Off).
 - i. It is projected that some of these policies will remain in force for a period exceeding 50 years.
 - ii. However, the majority of the reserve balance is projected to run off over the next 30 years, with a roughly \$50M reduction each year for the next five years.
 - iii. GWIC appreciates that the Office may be uncomfortable with a corrective action plan of this duration.
 - d. As stated above, GWIC has both the Modco and a traditional coinsurance agreement with ARIC. GWIC believes that a portion of the liabilities at issue can be transferred from the Modco to the coinsurance agreement by December 31, 2024.
 - i. In 2024, GWIC will be a part of the consolidated American Enterprise Mutual Holding Company (“AEMHC”) tax return with AEMHC and its subsidiary companies.
 - ii. Due to the duration of these reserves, GWIC proposes a migration of a meaningful block of these reserves from the Modco to the coinsurance agreement in 2024.
 - 1. At this point, GWIC would not incur significant adverse tax consequences from the migration of liabilities between the two coinsurance agreements.

2. The migration of a meaningful block of these reserves would then help GWIC achieve compliance with Florida law.
- iii. This proposal would remove these liabilities from GWIC's balance sheet by the end of 2024.
- iv. The reserves in the timetable represent those included on Line 1 of the Liability page in GWIC's Quarterly Statement, with a slight difference between year 0 in the timetable and GWIC's September 30, 2019, Quarterly Statement due to simplifications in the reserve model.
- v. Until such time as liabilities have been moved under the coinsurance Agreement, GWIC will provide a supplemental schedule with its quarterly and annual filing to the Office. This supplemental schedule will include all remaining Modco reserves.

Based on these mitigating factors and the proposed corrective action plan, GWIC requests that the Office issue a permitted practice that does not require GWIC to supplement any assets backing liabilities ceded to ARIC under the Modco.

GWIC believes that the Office has legal authority to issue this permitted practice, as supported by the following:

- A. Fla. Stat. 626.9541(1)(w)(1) explicitly gives the Office authority to permit an insurer to write new business while the insurer's surplus is impaired. "Impairment of surplus" means not complying with Fla. Stat. 624.408. (See Fla. Stat. 631.011(13)).
- B. Similar authority is found in Fla. Admin. Code r. 690-144.010, which is based on the NAIC's life and health reinsurance agreements model regulation. Subsection (2)(b) of the regulation states that, notwithstanding a reinsurance agreement's failure to comply with risk transfer requirements, "an insurer subject to this rule may, with the prior approval of the Office, take such reserve credit or establish such asset if the Office finds that the insurer would otherwise not meet the minimum surplus requirements of section 624.408, F.S., and if the insurer has submitted and the Office has approved a plan for eliminating such reserve credit or asset."

These provisions of Florida law provide the Office with clear regulatory authority to allow GWIC to maintain current operations in the state with existing surplus level. This permitted practice would be consistent with the Office's understanding of the Modco, the mitigating factors noted above, the relatively minimal duration of the corrective action plan, and Florida law.

2. Compliance with Fla. Stat. § 625.340 Regarding CMLs Underwritten by GWIC

In March of 2019, GWIC and representatives of the Office met to discuss the Office's position on GWIC's mortgage loan limitations. The Office's position is that Fl. Stat. § 625.340 applies. It states: "The investment portfolio of a foreign or alien insurer shall be as permitted by the laws of

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its domicile if of a quality substantially as high as that required under this chapter for similar funds of like domestic insurers.”

GWIC understands that the Office’s position is:

- A. This Section of Florida law applies to GWIC.
- B. The Office measures an insurance company’s investment portfolio “quality” by the description provided within Fl. Stat. § 625.305.
- C. Neither Utah (GWIC’s former state of domicile) nor Iowa (GWIC’s current state of domicile as of December 1, 2019) maintain laws in investment diversification that are as stringent or more stringent than Florida’s, and thus the Office believes Florida law controls.
- D. GWIC’s current assets are insufficient under Florida law, pursuant to this section.

The Office previously has provided a calculation of GWIC’s deficient assets that would need to be remedied for GWIC to maintain compliance with Fl. Stat. § 625.340. The Office’s calculation stipulated that a \$15 million capital infusion would remedy concerns under Florida law regarding asset sufficiency to support the CML portfolio.

GWIC agrees to abide by the Office’s interpretation of Florida law. GWIC’s parent company, ARIC, contributed \$10 million to GWIC in December 2019 to remedy any immediate asset deficiency. ARIC agrees to contribute another \$5 million to GWIC no later than May 15, 2020.

Notwithstanding the provisions of Section 625.340, Florida Statutes, GREAT WESTERN INSURANCE COMPANY understands and agrees that it shall be subject to the requirements of Parts I and II of Chapter 625, Florida Statutes, in the same manner as Florida domestic insurers, and that non-qualifying assets or investments in excess of the limitations set forth in Parts I and II of Chapter 625, Florida Statutes, shall be non-admitted by the OFFICE and GREAT WESTERN INSURANCE COMPANY 's surplus as to policyholders adjusted accordingly.

Again, GWIC greatly appreciates the Office’s collaboration on these two issues as we work to effectuate this corrective action plan. Please contact me with any questions or concerns going forward.

Sincerely,

Sara E. Lehan
Vice President and Controller

(515) 695-2393
sara.lehan@americanenterprise.com

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