



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

**ORDER**

After full consideration and review of the report of the financial examination of Chesterfield Reinsurance Company for the period ended December 31, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, territory and plan of operation, growth of company, loss experience, reinsurance, accounts and records, financial statements, analysis of examination changes, comments on the financial statements, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Chesterfield Reinsurance Company as of December 31, 2016 be and is hereby ADOPTED as filed and for Chesterfield Reinsurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 29<sup>th</sup> day of May, 2018.



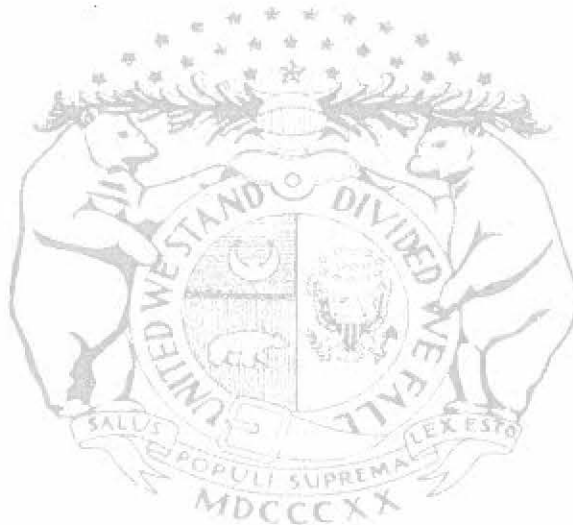
*Chlora Lindley-Myers*  
Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION

**FILED**  
JUN 08 2018  
DIRECTOR OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

# Chesterfield Reinsurance Company

As of:  
DECEMBER 31, 2016



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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March 15, 2018  
Chesterfield, Missouri

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

**Chesterfield Reinsurance Company**

hereinafter referred to as such or as "Chesterfield Re" or as the "Company." The Company's main administrative office is located at 16600 Swingley Ridge Road, Chesterfield, MO 63017-1706, telephone number (636) 736-7000. This examination began on March 6, 2017, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a single-state examination of Chesterfield Re. This is the first examination of Chesterfield Re. This examination covers the period from October 1, 2014, which is the date the Company commenced business, through December 31, 2016, and also includes material transactions or events occurring subsequent to December 31, 2016.

**Procedures**

This full-scope examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (Department or DIFP) or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

This examination was coordinated with the examinations of the other insurance company subsidiaries within the Reinsurance Group of America, Inc. group. The Department served as the lead state for the coordinated group examination, with the California Department of Insurance and South Carolina Department of Insurance also participating.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination

does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment is documented separately following the Company's financial statements. The following key activities were identified during the examination: Affiliated Companies, Capital and Surplus, Claims, Investments, Premiums, Reinsurance Assumed, Reinsurance Ceded, Reserves and Treasury.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues or material changes to the balance sheet or income statement identified during the examination.

### **SUBSEQUENT EVENTS**

There were no material subsequent events.

### **COMPANY HISTORY**

#### **General**

Chesterfield Re was incorporated on June 27, 2014, as a Missouri life insurance company. The Company was issued a Certificate of Authority to operate as a stock life insurance company under the provisions of Chapter 376 RSMo, (Life, Health and Accident Insurance), and commenced business on October 1, 2014. Chesterfield Re is a wholly owned subsidiary of Chesterfield Financial Holdings LLC (Chesterfield Financial).

The Company was created as part of an Embedded Value Securitization transaction. Chesterfield Re entered into a retrocession agreement whereby it assumed a specified quota share of a closed block of life reinsurance business from RGA Reinsurance Company on a yearly renewal term basis. Due to the nature of the transaction, Chesterfield Re will not assume any additional business or retrocede any risk until the termination of the transaction. Each quarter, the Company may request approval to pay a dividend to its parent, Chesterfield Financial, in an amount equal to statutory surplus (as measured by Total Adjusted Capital) in excess of 350% of Authorized Control Level RBC, after payment in full of any surplus note interest and principal then outstanding.

#### **Capital Stock and Paid In Surplus**

The articles of incorporation authorize the Company to issue two hundred thousand shares of capital stock with a par value of \$60 per share. Ten thousand shares of common stock were

issued and outstanding at December 31, 2016, for a balance of \$600,000 in the Company's capital account. Chesterfield Financial owns all outstanding shares.

Gross paid in and contributed surplus totaled \$345.9 million at December 31, 2016. This entire amount was contributed by Chesterfield Financial in 2014.

**Dividends**

Chesterfield Re made dividend payments of \$26.5 million in 2015 and \$48.1 million in 2016. The payments were made to the Company's parent, Chesterfield Financial.

**Acquisitions, Mergers and Major Corporate Events**

There were no acquisitions, mergers or major corporate events during the examination period.

**Surplus Debentures**

The Company has not issued any surplus debentures since inception.

**CORPORATE RECORDS**

The Company's articles of incorporation and bylaws were reviewed. Both the articles and bylaws were filed upon the Company's incorporation in 2014.

The minutes of the shareholder, board of directors, and relevant RGA, Inc. committee meetings were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

**MANAGEMENT AND CONTROL**

**Board of Directors**

The management of the Company is vested in a board of directors, which per the articles of incorporation and bylaws, will consist of not less than nine or more than twenty-one members. The Company had nine Directors serving at December 31, 2016. None of the Directors are independent.

<u>Name</u>	<u>Principal Occupation</u>
John W. Hayden	President
James P. Ash	Vice President, Global Valuation
Jeffrey A. Boyer	Vice President and Treasurer
Mark M. Hopfinger	Senior Vice President, Structured Finance
James M. Kellett	Senior Vice President, Valuation and Analysis
Douglas J. Knowling	Senior Vice President, Head of Global Support Team
Stephanie J. Koch	Senior Vice President, Global Analytics and Inforce Management
Timothy L. Rozar	Senior Vice President
David P. Wheeler	Executive Vice President, U.S. Mortality Markets

**Officers**

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2016, were as follows:

<u>Name</u>	<u>Position</u>
John W. Hayden	President
Mark M. Hopfinger	Senior Vice President
Dana C. Wiele	Senior VP, Associate General Counsel and Assistant Secretary
Kent P. Zimmerman	Senior Vice President, Tax
Jeffrey A. Boyer	Vice President and Treasurer

**Committees**

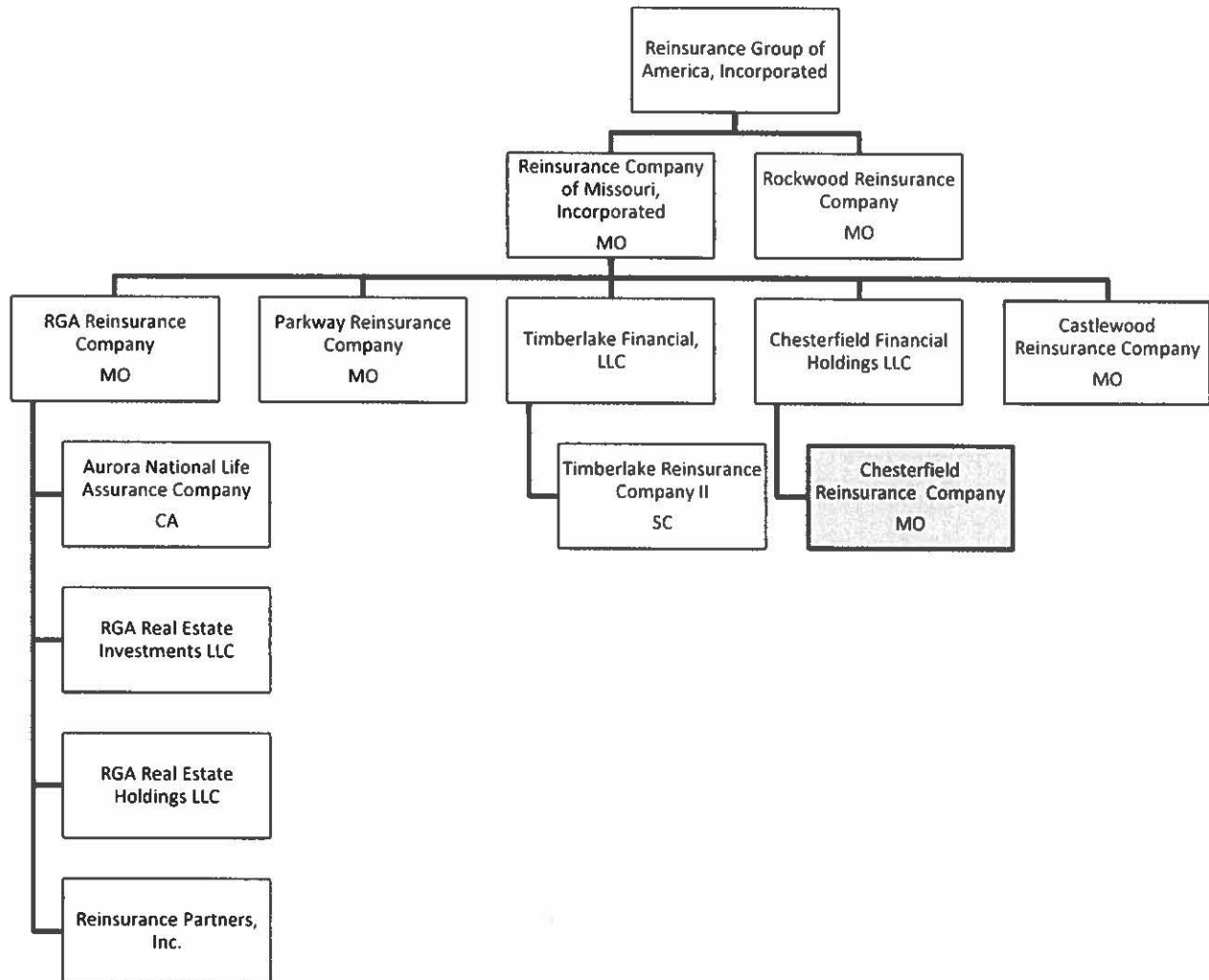
The Company had no active board committees as of December 31, 2016. Reinsurance Group of America, Inc. (RGA, Inc.) has an Audit Committee, Compensation Committee, Nominating & Corporate Governance Committee, and a Finance, Investment & Risk Management Committee, all of which provide management oversight to Chesterfield Re.

**Holding Company, Subsidiaries and Affiliates**

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Chesterfield Financial. RGA, Inc. is the ultimate parent of the holding company system. An Insurance Holding Company Registration Statement was filed by RGA, Inc. for each year under examination.

**Organization Chart**

The following organizational chart depicts a portion of the holding company system at December 31, 2016, of which the Company is directly a part, and includes other Missouri domestic insurance company affiliates and their subsidiaries. All subsidiaries are wholly owned.





## **Affiliated Transactions**

Chesterfield Re was party to the following intercompany agreements as of December 31, 2016:

### **Services Agreement**

**Parties:** Chesterfield Re and RGA Reinsurance Company (RGA Re). Effective January 1, 2016, all obligations of RGA Re were subcontracted to RGA Enterprise Service Company (ESC).

**Effective:** July 1, 2014. Subcontract Agreement effective January 1, 2016.

**Terms:** ESC provides certain administrative services to Chesterfield Re including marketing, securities, IT, finance, accounting, legal, tax, general administration, human resources and other ancillary services.

**Rate(s):** Chesterfield Re pays ESC a quarterly fee for all expenses determined to be attributable to Chesterfield Re plus a markup set out in Schedule A of the agreement. Chesterfield Re incurred fees of \$228,376 under this agreement in 2016. This fee can be increased at RGA Re's option by up to 3% annually.

### **Investment Management Agreement**

**Parties:** Chesterfield Re and RGA Re. Effective January 1, 2016, all obligations of RGA Re were subcontracted to ESC.

**Effective:** October 1, 2014. Sub-Advisor Agreement effective January 1, 2016.

**Terms:** ECS provides various investment related services to Chesterfield Re including investment management, legal, information technology, investment accounting, ancillary services and preparation of reports.

**Rate(s):** Chesterfield Re pays an annual fee of \$20,000 plus a quarterly fee based on the market value of the assets in the investment portfolio. Chesterfield Re incurred fees of \$105,319 under this agreement in 2016.

### **Tax Allocation Agreement**

**Parties:** RGA, Inc., Chesterfield Re and other affiliates.

**Effective:** January 1, 1998. Amendment #14 effective June 27, 2014 added Chesterfield Re. Amendment #15 effective December 4, 2015 is the most recent.

**Terms:** RGA, Inc. files on behalf of participants. The tax liability is computed on a separate return basis and provides that the members shall receive reimbursement to the extent their losses and other credits result in a reduction of the consolidated tax income. Participants will be paid for losses or credits used on consolidated tax return to the extent of the amounts previously paid to RGA, Inc.

**Rate(s):** Chesterfield Re did not earn or incur any fees under this agreement in 2016.

### **Surplus Note Purchase Agreement**

**Parties:** Chesterfield Re and RGA, Inc.

**Effective:** December 16, 2014

**Terms:** Chesterfield Re may issue, and RGA, Inc. agrees to purchase, surplus notes in the amount necessary to maintain the surplus of Chesterfield Re above 300% of Authorized Control Level RBC, subject to an aggregate outstanding principal amount of \$100 million.

**Rates:** The surplus note will pay interest at a fixed rate per annum of 3%. Payment of surplus note principal or interest is subject to Department approval. Chesterfield Re will pay a quarterly Commitment Fee to RGA, Inc. equal to (i) 0.25% times

(ii) the daily weighted average of (a) \$100 million minus (b) the principal amount of any issued and outstanding surplus notes.

The Company also has an intercompany reinsurance agreement in place which is summarized in the Reinsurance section of this report.

### **TERRITORY AND PLAN OF OPERATION**

The Company is only licensed in Missouri. The Company is licensed under Chapter 376 RSMo (Life, Health and Accident Insurance) to write life insurance, annuities and endowments, and accident and health insurance.

Chesterfield Re was established to reinsure a closed block of life reinsurance business from RGA Re, as part of the aforementioned Embedded Value Securitization transaction. No additional business will be assumed by the Company until this closed block of business runs off, or until the termination of the securitization transaction to which it is a party.

### **GROWTH OF COMPANY**

Written premium is an unreliable indicator of financial performance for reinsurance companies, as it is dependent on the mix of reinsurance agreements in place at a specific time. As a result the Company's financial performance is tracked by monitoring its capital and surplus and unassigned funds.

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and Surplus	\$ 98,762,118	\$ 106,854,756	\$ 91,166,190
Unassigned Funds	\$ (247,737,882)	\$ (239,645,244)	\$ (255,333,810)

On a quarterly basis, Chesterfield Re has paid dividends to its parent company in an amount that effectively reduced the Authorized Control Level RBC ratio to 350%. As a result, capital and surplus and unassigned funds remained steady during the examination period.

### **LOSS EXPERIENCE**

The following exhibit illustrates the Company's underwriting results during the examination period.

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net Premium Earned	\$ 244,271,340	\$ 191,245,093	\$ 193,931,533
Net Investment Income	\$ 81,023	\$ 3,017,572	\$ 2,939,429
Benefit and Expenses	\$ 494,375,175	\$ 169,090,827	\$ 174,580,795
Net Income	\$ (247,622,402)	\$ 34,988,050	\$ 32,502,075

After the initial securitization transaction in 2014, income, expenses and profits stabilized in 2015 and 2016. RBC has consistently remained above 350% resulting in dividend payments to Chesterfield Financial in each of the years.

## REINSURANCE

### General

The Company's premium activity on a direct, assumed, and ceded basis for the period under examination is detailed below:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct Business	\$ -	\$ -	\$ -
Reinsurance Assumed	244,271,340	191,245,093	193,931,533
Reinsurance Ceded	-	-	-
Net Premium Earned	<u>\$ 244,271,340</u>	<u>\$ 191,245,093</u>	<u>\$ 193,931,533</u>

### Assumed

Chesterfield Re currently has one assumed reinsurance agreement in place, a yearly renewal term agreement with RGA Re which became effective October 1, 2014. The business assumed consists of a 30% quota share of RGA Re's net retained U.S. non-permanent coinsurance with premium guarantees of no more than one year, and yearly renewal term policies. The reinsured policies were written by the direct writing companies and assumed by RGA Re from January 1, 2006 through December 31, 2010.

### Ceded

The Company did not have any reinsurance ceded during the examination period.

## ACCOUNTS AND RECORDS

### Independent Auditor

The Company's financial statements are audited annually by the accounting firm Deloitte & Touche LLP. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

### Actuarial Opinion

Reserves and related actuarial accounts reported in the financial statements were reviewed and certified by Jon T. Deuchler, ASA, MAAA, Executive Director, Transaction Models, Structured Finance.

Consulting actuary, Patricia Matson, FSA, MAAA, of Risk and Regulatory Consulting, Inc. was retained by the Missouri DIFP to review the adequacy of the Company's reserves. She concluded that the Company's reserves were reasonable as of the examination date.

### Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Missouri DIFP conducted a review of the Company's information systems.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements as filed by Chesterfield Re with the DIFP, and present the financial condition of the Company as of December 31, 2016, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences, if any, were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

Assets

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 81,665,411		\$ 81,665,411
Cash, cash equivalents, and ST	503,380		503,380
Investment income due and accrued	702,458		702,458
Funds held by or deposited with reins. cos	229,482,713		229,482,713
Net deferred tax asset	64,020,964	\$ 64,020,964	-
Other amounts receivable on reinsurance	8,593,847		8,593,847
Disallowed interest maintenance reserve	239,825	239,825	-
<b>TOTAL ASSETS</b>	<b><u>\$ 385,208,598</u></b>	<b><u>\$ 64,260,789</u></b>	<b><u>\$ 320,947,809</u></b>

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts	\$ 212,706,021
Life contract claims	16,776,692
General expenses due or accrued	1,684
Asset valuation reserve	278,422
Payable to parent; subsidiaries and affiliates	18,800
<b>TOTAL LIABILITIES</b>	<b><u>\$ 229,781,619</u></b>
Common capital stock	\$ 600,000
Gross paid in and contributed surplus	345,900,000
Unassigned funds (surplus)	(255,333,810)
<b>TOTAL CAPITAL AND SURPLUS</b>	<b><u>\$ 91,166,190</u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$ 320,947,809</u></b>

### Summary of Operations

Premiums and annuity considerations	\$ 193,931,533
Net investment income	2,939,429
Amortization of Interest Maintenance Reserve	(9,400)
Interest on funds withheld	10,221,308
Totals	<u>\$ 207,082,870</u>
Death benefits	\$ 169,626,513
Increase in aggregate reserves for life and A&H contracts	1,576,006
Commissions and expense allowances on reinsurance assumed	2,047,129
General insurance expenses	1,325,180
Insurance taxes, licenses and fees	5,967
Totals	<u>\$ 174,580,795</u>
Net Gain From Operations	\$ 32,502,075
Dividends to policyholders	-
Federal and foreign income taxes incurred (excluding tax on capital gains)	-
Net realized capital gains (losses)	-
<b>NET INCOME</b>	<b><u><u>\$ 32,502,075</u></u></b>

### Reconciliation of Capital and Surplus As of December 31, 2016

Capital and surplus, December 31, 2015	<u>\$ 106,854,756</u>
Net income	32,502,075
Change in net deferred income tax	64,019,192
Change in nonadmitted assets	(63,998,251)
Change in asset valuation reserve	(66,440)
Capital changes: Paid in	-
Surplus adjustment: Paid in	-
Dividends to stockholders	(48,145,142)
Capital and Surplus Change	<u>\$ (15,688,566)</u>
<b>Capital and surplus, December 31, 2016</b>	<b><u><u>\$ 91,166,190</u></u></b>

### **ANALYSIS OF EXAMINATION CHANGES**

No adjustments or reclassifications were made as a result of the examination.

### **COMMENTS ON THE FINANCIAL STATEMENTS**

There are no comments on the financial statements.

### **SUMMARY OF RECOMMENDATIONS**

There are no recommendations.





## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE  
Audit Manager, St. Louis  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration