

EXAMINATION REPORT OF
TLIC WATERTREE REINSURANCE INC.
CEDAR RAPIDS, IOWA
AS OF DECEMBER 31, 2019

Cedar Rapids, Iowa
June 10, 2021

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an Examination has been made of the records, business affairs and financial condition of

TLIC WATERTREE REINSURANCE INC.

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2019

at its Home Office located at 4333 Edgewood Road, Northeast, Cedar Rapids, Iowa.

INTRODUCTION

TLIC Watertree Reinsurance Inc., hereinafter will be referred to as the “Company.” This is the initial examination of the Company, which was examined as of December 31, 2019, as part of a coordinated examination of eight life insurance companies and one property and casualty company of the Transamerica Corporation group. The state insurance departments of Iowa, New York, and Vermont participated in this coordinated examination.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from August 30, 2016, to the close of business on December 31, 2019, including any material transactions and events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include 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 will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was formed on August 30, 2016, as a limited purpose subsidiary life insurance company. On September 28, 2016, the Company received a capital contribution of \$122,500,000 from its parent Transamerica Life Insurance Company (TLIC).

CAPITAL STOCK AND DIVIDENDS

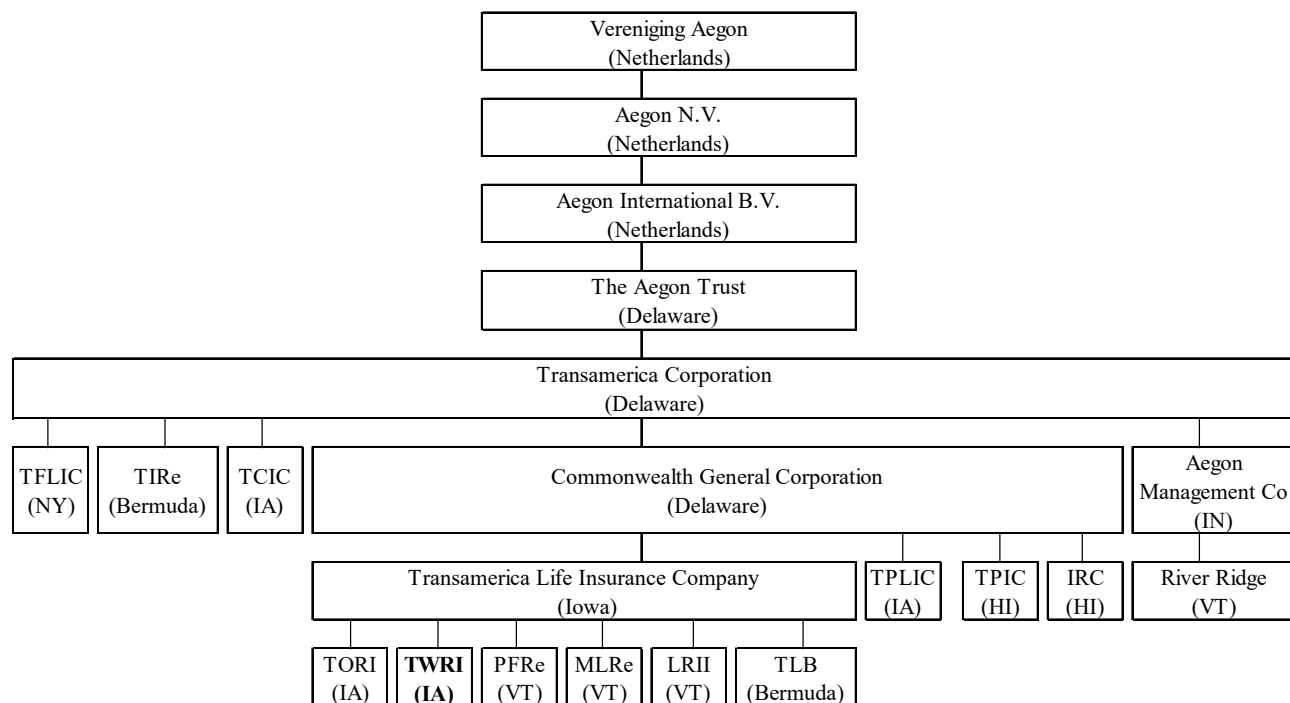
The Articles of Incorporation provide for authorized capital in the amount of \$2,500,000, consisting of 25,000 shares of common capital stock with a par value of \$100 per share. As of December 31, 2019, there were 25,000 common shares issued and outstanding representing \$2,500,000 in common capital stock. Issued and outstanding common shares did not change during the period under review. All shares of the Company's capital stock are owned by TLIC.

As of December 31, 2019, the Company reported a balance of gross paid-in and contributed surplus of \$122,500,000, which was received on September 28, 2016. There were no other capital changes during the examination period.

During the period under examination, the Company did not pay any shareholder dividends.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by Chapter 521A, Code of Iowa. A simplified organizational chart as of December 31, 2019, reflecting the ultimate parent and holding company system, is shown below:



Primary Regulated Entities (Abbreviated above)

TFLIC	Transamerica Financial Life Insurance Company
TIRe	Transamerica International Re (Bermuda) Ltd.
TCIC	Transamerica Casualty Insurance Company
TPLIC	Transamerica Premier Life Insurance Company
TPIC	Transamerica Pacific Insurance Company, Ltd.

IRC	Ironwood Re Corp.
River Ridge	River Ridge Insurance Company
TORI	TLIC Oakbrook Reinsurance, Inc.
TWRI	TLIC Watertree Reinsurance, Inc.
PFR	Pine Falls Re, Inc.
MLRe	MLIC Re I, Inc.
LRII	LIICA Re II, Inc.
TLB	Transamerica Life (Bermuda) Ltd.

Other significant affiliated organizations with whom the companies transact business include the following:

- AEGON USA Investment Management, LLC (Investment Management)
- Transamerica Capital, Inc. (Wholesaling Distribution)
- AEGON USA Realty Advisors, LLC (Mortgage Loan Operations)
- Transamerica Asset Management, Inc. (Administrative Services)

All ownership is 100%, with the exception of Vereniging Aegon, which owns 31.5% of Aegon N.V., and Transamerica Financial Life Insurance Company, which is owned 92.3% by Transamerica Corporation and 7.7% by Transamerica Life Insurance Company. No other person or entity was identified as owning or controlling 10% or more of Aegon, N.V. As of December 31, 2019, there were approximately 360 U.S. and international legal entities comprising the holding company system.

The Company, TPIC, IRC, TORI, PFR, MLRe and LRII are all reinsurers under Transamerica’s captive financing program, with each representing a specific business and/or solution type.

MANAGEMENT AND CONTROL

Shareholders

The Bylaws provide that the annual meeting of the stockholders shall be held in April in each year at the office of the Company in Cedar Rapids, Iowa or in such other place as the Board of Directors shall from time to time designate. Special meetings of the stockholders for any purpose or purposes other than those regulated by statute otherwise, may be called by the President upon written notice to be given not less than ten days nor more than thirty days before said special meeting is to be held. Special meetings shall also be called by the President or Secretary at the request, in writing, of stockholders owning at least one-third of the entire capital stock of the corporation issued and outstanding and entitled to vote. Such request shall state the purpose of the proposed meeting.

At any meeting of the stockholders, the holders of a majority of the shares of the capital stock of the corporation, issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum of the stockholders for all purposes.

Except as otherwise provided in the Certificate of Incorporation or by law, any action required or permitted to be taken at any annual or special meeting of the stockholders may be taken without a meeting, prior notice or a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of all the outstanding shares entitled to vote thereon.

Board of Directors

The Articles of Incorporation provide that the affairs of the Company shall be managed by a Board of Directors of not less than five nor more than twelve directors, who shall act as such until the next annual meeting of stockholders, or until their successors are duly chosen and qualify, which number may be increased or decreased pursuant to the Bylaws of the Corporation.

The Bylaws state that regular meetings of the Board of Directors shall be held at such times and locations as the Board of Directors may designate. The Secretary shall serve a written notice of each regular meeting addressed to the members of the Board of Directors not less than five days before the date set for such meeting unless the Board of Directors by resolution shall otherwise direct.

A majority of the Board of Directors shall constitute a quorum for the transaction of business, but if at any meeting of the Board there be less than a quorum present, a majority of those present may adjourn the meeting from time to time.

The directors serving as of December 31, 2019, were as follows.

<u>Name and Address</u>	<u>Primary Occupation</u>	<u>Term Expires</u>
James A. Beardsworth Cedar Rapids, IA	Senior Vice President Transamerica Corporation	2020
Gregory E. Miller-Breetz Baltimore, MD	Deputy General Counsel Transamerica Corporation	2020
Nik Godon Cedar Rapids, IA	Chief Actuary Transamerica Corporation	2020
Bonnie T. Gerst Cedar Rapids, IA	Vice President Transamerica Corporation	2020
Eric J. Martin Cedar Rapids, IA	Senior Vice President Transamerica Corporation	2020

Effective July 8, 2020, Eric J. Martin resigned as a Director and Frederick J. Gingerich was named as his replacement.

Committees

The Bylaws provide that the Board of Directors may designate three directors to constitute an Executive Committee of the Board of Directors, which committee shall have and may exercise all the powers of the Board of Directors. The Board of Directors shall not be required to constitute an Executive Committee and did not appoint one during the examination period.

Officers

The Bylaws of the Company provide that the executive officers of the corporation shall be a Chairman of the Board of Directors, a President, a Vice President, a Treasurer, and a Secretary. The Chairman of the Board and President are to be members of the Board of Directors.

Principal officers serving as of December 31, 2019, were as follows:

<u>Officer</u>	<u>Office</u>
Bonne T. Gerst	President & Chairman of the Board
Gregory E. Miller-Breetz	Secretary
Fredrick J. Gingerich	Controller

The salaries of the officers shown on the jurat page of the annual statement are contained in Exhibit A which will be found immediately following the signature page of this report.

CONFLICT OF INTEREST STATEMENTS

Transamerica Corporation has a Code of Conduct Policy, which addresses conflicts of interest and is acknowledged by key employees on an annual basis. No significant conflicts of interest were reported in the Conflict of Interest Statements reviewed by examiners.

CORPORATE RECORDS

The minutes of the shareholder and Board of Directors meetings were reviewed for the period under examination. The meeting minutes of the Board appeared to adequately document its meetings and approval of Company transactions and events.

The Articles of Incorporation and Bylaws were not amended during the examination period.

INTERCOMPANY AGREEMENTS

The Company is a party to a number of agreements with its affiliates. Where required, all agreements have been filed with and approved by the Iowa Insurance Division. Agreements considered to be significant are described in more detail in the following:

Administration Agreement

Effective September 30, 2016, the Company and TLIC entered into an agreement under which TLIC was to provide professional services including evaluation and management of financial risks and capital requirements; underwriting and actuarial services; contract amendments and maintenance; monitoring and selecting means of collateralization on reinsurance transaction; systems development; coordination and communication to and from interested U.S. governmental and regulatory agencies; coordination and communication with applicable rating agencies and investors; provide recommendations and advice regarding the subject business; and all such other services necessary or appropriate for the operation of the Company. Administrative services include premium collection, contract services and general administrative services, claim administrative services, accounting and record keeping services. The compensation provisions of the agreement include an expense cap limit that increases in two-year intervals beginning in 2017.

Investment Management Agreement

Effective September 30, 2016, the Company and Aegon USA Investment Management LLC (AUIM) entered into an investment management agreement under which AUIM provides advice and services necessary for the sound management of the designated assets, including supplying investment research portfolio management in accordance with Investment Guidelines attached to the agreement (including, the selection of securities to purchase, hold, sell or otherwise effect transactions, as well as the selection of brokers to execute portfolio transactions), directing the investment and reinvestment of the assets in securities, cash or cash equivalents, and periodic reporting to the Board of Directors.

Tax Allocation Agreement

Effective with the 2013 tax year, the Company's U.S. affiliates entered into a federal income tax allocation agreement. The Company became a party to the agreement via an amendment made effective September 30, 2016.

Transamerica Corporation agrees to file a consolidated federal income tax return and make payment on behalf of this affiliated group. Amounts payable by the Company will be equal to that which would be payable had the Company filed a separate income tax return. The Company will pay interim payments due within 15 days following the due date for estimated payment filings and within 30 days of the final federal income tax filing.

FIDELITY BONDS AND OTHER INSURANCE

The Company's parent, Transamerica Corporation, maintains fidelity bond coverage up to \$5,000,000, which adequately covers the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company is identified as a named insured in the fidelity bond policy.

The Company also maintains Errors and Omissions Liability, Professional Liability, Commercial General Liability, along with an overall Umbrella Limit of Liability in the amount of \$25,000,000.

EMPLOYEES' WELFARE

The Company has no employees. All administrative services necessary to conduct the Company's day-to-day operations are provided under agreements executed with affiliates.

REINSURANCE

General

All significant reinsurance agreements reviewed were noted to include an insolvency clause that is in compliance with Iowa Code section 521.B. In addition, treaty terms were reviewed to ensure that contract provisions allowed for the proper transfer of risk.

Assumed

Under the terms of an agreement with TLIC, made effective September 30, 2016, the Company assumed a 100% quota share liability on scheduled term life insurance policies. The agreement calls for the establishment of a funds withheld account whose balance shall be designated as a notional account on the book and records of TLIC.

Ceded

Effective September 30, 2016, the Company entered into an excess of loss reinsurance agreement with a non-affiliated third party. Pursuant to this agreement, the Company retroceded covered losses that exceeded a defined attachment point as set forth in the agreement. In accordance with Iowa Administrative Code 191.99.11(3), the Company is entitled to admit as an asset the value of the excess of loss reinsurance.

Under the terms of an agreement with TPLIC, made effective January 1, 2017, the Company retroceded a 100% quota share liability of accelerated death benefits on scheduled term life insurance policies.

STATUTORY DEPOSIT

The Company is licensed only in the State of Iowa and does not have a statutory deposit requirement.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed only in the State of Iowa as a limited purpose subsidiary life insurance company. The Company is only authorized to reinsure (assume) the risks of its parent.

GROWTH OF COMPANY

A summary of significant financial data (000's) for the past four years since the Company's inception is presented below:

Year	<u>Total Admitted Assets</u>	<u>Aggregate Life Reserves</u>	<u>Capital and Surplus</u>	<u>Life Premium</u>	<u>Life Insurance In-Force</u>
2016	\$ 635,448	\$ 412,622	\$ 188,313	\$ 96,667	\$ 73,555,531
2017	984,545	608,238	352,749	213,868	83,611,732
2018	1,319,479	799,597	493,278	206,167	78,428,951
2019	1,569,050	999,445	544,597	192,844	74,291,496

ACCOUNTS AND RECORDS

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Division.

During the course of the examination, no statutory compliance issues were noted nor were material aggregate surplus differences identified from the amount reflected in the financial statements, as presented in the annual statement as of December 31, 2019.

SUBSEQUENT EVENTS

COVID-19 Pandemic

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Division will continue to monitor COVID-19 developments.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

Note: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2019.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 541,118,092	\$ 0	\$ 541,118,092
Cash and cash equivalents	6,702,882		6,702,882
Subtotals, cash and invested assets	547,820,974	0	547,820,974
Investment income due and accrued	2,212,021		2,212,021
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	2,958,283		2,958,283
Reinsurance:			
Funds held by or deposited with reinsured companies	157,800,682		157,800,682
Net deferred tax asset	37,257,408	37,257,408	0
Excess of loss reinsurance asset	858,258,196		858,258,196
Disallowed IMR	62,245	62,245	0
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	1,606,369,809	37,319,653	1,569,050,156
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
Total	<u>\$ 1,606,369,809</u>	<u>\$ 37,319,653</u>	<u>\$ 1,569,050,156</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts		\$ 999,444,783
Contract claims:		
Life		17,920,015
Premiums and annuity considerations for life and accident and health contracts received in advance		1,652,362
Contract liabilities not included elsewhere:		
Other amounts payable on reinsurance, including \$3,459,765 assumed and \$642,996 ceded		4,102,760
General expenses due or accrued		493,498
Taxes, licenses and fees due or accrued, excluding federal income taxes		14,182
Current federal and foreign income taxes		308,316
Miscellaneous liabilities:		
Asset valuation reserve (AVR)		451,315
Payable to parent, subsidiaries and affiliates		65,539
Total Liabilities excluding Separate Accounts business		1,024,452,770
From Separate Accounts statement		0
Total liabilities		<u>1,024,452,770</u>
Common capital stock	\$ 2,500,000	
Gross paid in and contributed surplus	122,500,000	
Unassigned funds (surplus)	419,597,386	
Total capital and surplus		544,597,386
Total liabilities, capital and surplus		<u>\$ 1,569,050,156</u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health policies and contracts	\$ 192,843,942
Net investment income	13,731,105
Amortization of interest maintenance reserve (IMR)	(3,309)
Miscellaneous income:	
Funds withheld assumed investment income	5,112,448
Totals	<u>211,684,186</u>
Death benefits	78,842,898
Increase in aggregate reserves for life and accident and health contracts	199,847,285
Totals	<u>278,690,183</u>
Commissions and expense allowances on reinsurance assumed	19,513,797
General insurance expenses and fraternal expenses	1,959,325
Insurance taxes, licenses and fees, excluding federal income taxes	5,027
Increase in loading on deferred and uncollected premiums	(230,104)
Totals	<u>299,938,228</u>
Net gain from operations before dividends to policyholders and federal income taxes	(88,254,042)
Dividends to policyholders	0
Net gain from operations after dividends to policyholders and before federal income taxes	(88,254,042)
Federal and foreign income taxes incurred (excluding tax on capital gains)	(27,080,281)
Net gain from operations after dividends and taxes	(61,173,761)
Net realized capital gains (excluding gains (losses) transferred to the IMR) less capital gains tax of \$4,711 (excluding taxes of (\$26,114) transferred to the IMR)	(4,711)
Net income	<u>\$ (61,178,472)</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2018 \$ 493,277,905

GAINS AND (LOSSES) IN SURPLUS

Net income	\$ (61,178,472)
Change in net deferred income tax	(8,540,753)
Change in nonadmitted assets	8,478,508
Change in asset valuation reserve	(175,168)
Excess of loss reinsurance asset	<u>112,735,366</u>
Net change in capital and surplus for the year	51,319,481
Capital and surplus, December 31, 2019	<u>\$ 544,597,386</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ 193,012,634	
Net investment income	13,607,016	
Miscellaneous income	<u>5,112,448</u>	
Total		\$ 211,732,098
Benefit and loss related payments	140,830,976	
Commissions, expenses paid and aggregate write-ins for deductions	21,445,876	
Federal and foreign income taxes paid (recovered)	<u>(28,098,395)</u>	
Total		<u>134,178,457</u>
Net cash from operations		77,553,641

Cash from Investments

Proceeds from investments sold, matured, or repaid:		
Bonds	<u>11,118,789</u>	
Total investment proceeds		11,118,789
Cost of investments acquired (long-term only):		
Bonds	<u>108,481,523</u>	
Total investments acquired		<u>108,481,523</u>
Net cash from investments		(97,362,734)

Cash from Financing and Miscellaneous Sources

Cash provided (applied):		
Other cash provided (applied)	<u>13,123</u>	
Net cash from financing and miscellaneous sources		<u>13,123</u>

RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	(19,795,970)
Cash, cash equivalents and short-term investments:	
Beginning of year	<u>26,498,852</u>
End of year	<u>\$ 6,702,882</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

The following examiners from INS Regulatory Insurance Services, Inc., assisted the Iowa Insurance Division:

Sarah Lucibello	Field Manager
Jerry L. Kennedy, CFE, CPA	Lead Examiner-in-Charge
Robert J. Rodack, CFE	Financial Regulation Senior Specialist
Mary L. Rodack, CFE, CPA, CPCU	Financial Regulation Senior Specialist
Donna Letterio, CFE, CPA	Financial Regulation Senior Examiner
Dawn B. Harlow, CFE, CPA, CGMA	Financial Regulation Senior Examiner
James W. Davis, CFE, MBA	Financial Regulation Senior Examiner

A review of the information technology system was performed under the direction of David Gordon, of INS Services, Inc.

A review of the Company's reserves was performed under the direction of Frank Edwards, FSA, MAAA of INS Consultants, Inc.

Respectfully submitted,

/s/ Jerry Kennedy
Jerry L. Kennedy, CFE
Examiner-in-Charge
INS Regulatory Insurance Services, Inc. on behalf of the
Iowa Insurance Division

/s/ Daniel Mathis
Daniel Mathis, CFE
Assistant Chief Examiner
Iowa Insurance Division