



September 1, 2003

## **The 2003 Canadian Reinsurance Guidelines**

The Canadian Reinsurance Guidelines were last updated in 1997. Since then, there have been many changes in the industry and in the way reinsurance is conducted, to the extent that the Executive of the CRC decided that another update was required. A Committee was formed to include representation from direct insurance companies, reinsurers and retrocessionaires as well as expertise from various disciplines including underwriting, actuarial and treaty.

The Committee members are:

Lloyd Steinke, Executive Vice President, Munich Re – Committee Chairman  
Audrey De Freitas, Manager, Treaty, Sun Life Reinsurance  
Diane Hare, Senior Treaty Analyst, Manulife Reinsurance  
Elizabeth Saler, Actuarial Associate, Marketing Actuarial, National Life  
John Luimes, Consulting Actuary  
Josée Malboeuf, Vice-President, Underwriting and Claims, RGA  
Karim Nanji, Director, Individual Life, Munich Re  
Paul Chiarvesio, Manager, Treaties, Gerling Global Re  
Richard Houde, Vice-President, Actuarial Services, Optimum Re  
Ruth Cossar, Assistant Vice President, Treaty Services, Swiss Re  
Yana Gagne, Vice President, Business Development, ERC

The Committee's approach to updating the guidelines was inspired by the results of a survey conducted among insurance companies, indicating a strong preference for a format offering suggested treaty wordings rather than just "guidelines". In the course of our meetings, we found that the many recent changes in industry practice, such as the growing popularity of quota share versus excess reinsurance arrangements, led to substantial changes from the current guidelines including:

- the "once fac always fac" rule now reflects the move to a limited period by the industry
- the effect of quota share arrangements on recapture, reduction and retention articles
- the addition of the Canadian Reinsurance Administration Committee's (CRAC) reporting requirements
- clarifying the effect of increasing plans on treaty limits
- inclusion of Compliance and Extra-Contractual damages wording
- updating Confidentiality to address Privacy laws

The new guidelines offer suggested treaty wording for Individual Life business only, on a YRT or Coinsurance basis and reflect what the Committee feels to be common industry practice. The "footnotes" shown in various articles suggest additional considerations or wordings where industry practice varies.

In deciding how your company will use these new guidelines, please note they have not had any type of legal review. Therefore, prior to adapting any portion of this document in your own treaties, the Committee strongly recommends review and input by your company's legal advisor.

Both, the English and French versions of the guidelines are available via the CRC website @ <http://www.crconline.ca>.

Lloyd Steinke  
Chairman

### **Instructions for Using the Template Treaty:**

The Template Treaty is comprised of two parts:

The **Terms and Conditions** section outlines the specific terms of the Agreement while the **General Treaty Provisions** contain generic reinsurance treaty wording.

Since various sections are referenced throughout the Template Treaty, the **Hyperlink** feature will automatically link you to the referenced section.

Hyperlinks appear in blue, bold, underlined typeface.

To activate the hyperlink, place the cursor anywhere over the hyperlink and click on the hyperlink. You will automatically be linked to the referenced section.



**CANADIAN REINSURANCE  
GUIDELINES**

**TEMPLATE TREATY**

**2003**

# REINSURANCE TREATY

(hereinafter referred to as **this Agreement**)

entered into by and between

**<FULL NAME OF CEDING COMPANY>**

**of <City, Province>**,

(hereinafter referred to as **the Company**)

AND

**<FULL NAME OF REINSURANCE COMPANY>**

**of <City, Province>**,

(hereinafter referred to as **the Reinsurer**)

**Treaty Effective Date:** < >

**Treaty Reference No.:** < >

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# **Terms and Conditions**



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## **EXECUTION OF AGREEMENT**

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We the undersigned hereby agree to the terms and conditions contained herein.

Signed at < *City, Province* >

this < *Day* > day of < *Month* >, < *Year* >

### **<LEGAL NAME OF THE COMPANY>**

By \_\_\_\_\_  
Title

By \_\_\_\_\_  
Title

Signed at < *City, Province* >

this < *Day* > day of < *Month* >, < *Year* >

### **<LEGAL NAME OF THE REINSURER>**

By \_\_\_\_\_  
Title

By \_\_\_\_\_  
Title

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## COMMENCEMENT OF AGREEMENT

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This Agreement will take effect at *< time >* on *< date >*.

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*Footnote:*

*Agreements may include wording to indicate that eligible policies are determined by the policy issue date or application date of the policy.*

*In setting an effective date, consider that insurance policies are often backdated to save age. If backdating is included, the following wording may be added:*

*Eligible policies applied for on, or after such date, that were backdated for up to six (6) months to save age are also included.*

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## SCOPE OF AGREEMENT

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This Agreement relates to reinsurance resulting from the issue of individually underwritten insurance policies arising from the Canadian operations of the Company for lives resident in Canada. The Company warrants that it is properly licensed to conduct business in this jurisdiction.

This Agreement will be construed in accordance with the laws of the province of *< Province >*.

---

*Footnote:*

*The laws of the province where the Company is domiciled shall prevail.*

The following plans, riders, other benefits and options are covered under this Agreement:

**Base Plans:** *< list Base plans here >*

**Riders:** *< list Riders here >*

**Other Benefits:** *< list Other benefits here >*

**Options:** *< list Options here >*

**Contingent Life Coverage:** *< select: >*

Single Lives

Joint First (to a maximum of *< >* lives)

Joint Last (to a maximum of *< >* lives) with Premiums to Last Death

Joint Last (to a maximum of *< >* lives) with Premiums to First Death

## **Coverage:**

### **On Death:**

The Reinsurer will pay the Company its proportionate share of the Net Amount at Risk (NAAR).

For YRT Agreements, the NAAR is defined as the Death Benefit less any applicable accumulation account value, side fund account value or agreed upon decrement schedule. The decrement schedule has been provided in [Exhibit \\_\\_\\_](#).

For Coinsurance Agreements, the NAAR is defined as the Death Benefit less any applicable accumulation account value or side fund account value.

Under no circumstances will the Reinsurer pay more than the amount indicated under the Treaty Capacity as outlined in the [REINSURANCE PREMIUMS AND ALLOWANCES](#) section.

### **On Lapse or Partial Lapse (Reduction):**

The Reinsurer will refund to the Company the unearned Net Reinsurance Premium, exclusive of any cession fee, corresponding to the amount of reinsurance lapsed.

For Coinsurance Agreements, the Reinsurer will also reimburse the Company for its proportionate share of the Cash Value (excluding accumulation account or side fund account values), payable by the Company, without consideration of any policy loans. A table of Cash Values has been provided in [Exhibit \\_\\_\\_](#).

### **On Maturity:**

For Coinsurance Agreements, the Reinsurer will reimburse the Company for its proportionate share of the maturity value.

### **On Simultaneous Death (Joint Coverage):**

The Reinsurer will pay the Company the same multiple of the amount payable On Death (as stated above) as the multiple paid by the Company under the policy.

### **On Waiver for Disability or for Death:**

The Reinsurer will reimburse the Company for the reinsured portion of the policyholder premium waived.

**On Accidental Death:**

The Reinsurer will pay its proportionate share of the NAAR.

**On Dismemberment:**

The Reinsurer will pay its proportionate share of the NAAR.

**On Policy Rescission in the first 2 years:**

If the Company returns premiums to the policyholder or beneficiary as a result of a policy rescission within the first 2 years, the Reinsurer will refund the Net Reinsurance Premiums to the Company.

**On Suicide during the Suicide Period:**

If the Company returns premiums to the policyholder or beneficiary as a result of suicide within the suicide period, the Reinsurer will refund the Net Reinsurance Premiums to the Company.

< Or >

In the case where the policy contract has specified a Modified Death Benefit payable upon suicide during the suicide period, the Reinsurer will pay its proportionate share of this benefit to the Company.

**Other:** < Nil. >

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*Footnote:*

***For Plans with Increasing Risk Patterns***

*It should be noted that there are a number of products (plans, riders, dividend options) today which can result in significant increasing risk patterns. These include:*

- regular paid-up additions on par policies*
- paid-up addition riders*
- various forms of cost of living/inflation riders or option features*
- indexation options, and*
- risk increases to preserve the exempt status of the policy.*

*The actual risk pattern is rarely known at issue as it may vary by dividend guarantees, mortality rate guarantees, inflation/consumer index factors, and increases in death benefit to maintain tax exempt status due to the growth of accumulation accounts and side funds associated with variable life products. Moreover, this actual risk is often tied to funds dependant on external investment indexes which can increase or decrease. It is important that both the Company and the Reinsurer know how it will determine if reinsurance is required, what plans/riders will be reinsured, and what amounts will be used in considering automatic and treaty capacity limits.*

*A procedure/rule needs to be developed to determine the changing amount at risk of the policy contract. The actual risk amounts are usually adjusted at the contract anniversary to reflect indexed increases, tax exempt increases, or changes in dividends credited to the contracts. This changing amount of risk is then used to determine the portion retained by the Company and the portion reinsured by the*

*Reinsurer(s). The portion of changing amount at risk ceded to the Reinsurer is usually subject to the Treaty Automatic Capacity Limit and/or the Treaty Capacity Limit. The Company must ensure that its reinsurer(s) know their potential maximum exposure so the reinsurer(s) don't risk being over their own retention. It is the Reinsurer's responsibility to indicate any limitation to the ceded portion of the changing amount at risk the Reinsurer requires to impose. If no explicit Agreement is made the presumption is likely to be that the proportion of the initial risk retained and reinsured will be the proportion of ultimate risk that is expected subject to the limits defined in the treaty. For example, if the initial risk is 2 Million, the ultimate risk 5 Million and the Company's retention 3 Million then 60% of the initial risk should be retained and 40% reinsured. If there is more than one Reinsurer they should have a proportionate share of the initial risk reinsured.*

**Issue Ages:** < > to < >

**Min. Automatic Cession:** < \$ >

**Maximum Temporary Insurance Agreement / Conditional Insurance Agreement Liability:**

The Reinsurer's maximum liability is limited to its proportionate share for a standard risk, of A minus B, where

A is the lesser of:

- i. the policy face amount, or
- ii. the TIA/CIA maximum published limit of < insert \$ limit >.

B is the Company's available retention, by life, as stipulated in the **BASIS OF REINSURANCE** section of this Agreement.

The duration of liability will be the earlier of:

- a) the published TIA/CIA duration, or
- b) 90 days from the date the TIA/CIA is signed

**Currency:**

All payments will be made in the same currency as that of the respective Principal Policies issued by the Company, limited to Canadian or U.S. dollars.

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## BASIS OF REINSURANCE

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**Reinsurance Basis:** < *select:* >  
Yearly Renewable Term (YRT), or  
Coinsurance, or  
Other < *specify* >

**Retention:** The retention limit of the Company is shown in the retention schedule outlined in Exhibit \_\_\_\_.

< *insert retention methodology for Joint Lives* >

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*Footnote:*

*The treaty should state the retention of term riders and supplementary benefits, if applicable.*

*The method of applying retention among basic and benefit coverages should be stated (e.g. The Company may fill its retention with the basic amount then cede any excess Accidental Death Benefit to the Reinsurer).*

*Joint Life retention methods may vary by insurer.*

### **Reinsurance Structure for Automatic Business:**

Alpha Split: < *insert letters* >

Joint lives will be placed according to the first letter of the surname based on:

< *select:* >  
the primary life insured  
the youngest life  
the oldest life

### **Excess Agreements:**

The Reinsurer's share will be < %> of the excess over the Company's retention specified in the Retention section above. This amount will not exceed the Automatic Binding Limit Terms specified in the **UNDERWRITING** section.

<Or>

### **First Dollar Quota Share Agreements:**

The Reinsurer's share will be < %> [*select either:* of the total ceded amount, *or:* of the total face amount on each policy] on a first dollar quota share basis. This amount will not exceed the Automatic Binding Limit Terms specified in the **UNDERWRITING** section. When the Company reaches its maximum limit of retention on a per life basis, the Reinsurer will assume < %> of the excess, subject to the Automatic Binding Limit Terms.

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## UNDERWRITING

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### **Underwriting:**

The normal underwriting standards and practices of the Company for individual life insurance will be applied to this business. Any material changes to the underwriting procedures and evidence rules will be subject to approval by the Reinsurer before being applied to policies and benefits covered under this Agreement.

Underwriting requirements will be based on the total amount of insurance to be placed with the Company within a six-month period prior to the receipt of the application.

### **Age & Amount Requirements:**

The Company's age and amount requirements are provided in [Exhibit \\_\\_\\_](#).

### **Preferred Underwriting Criteria and Flexibility Guidelines, if applicable:**

The Company's preferred underwriting criteria are outlined in [Exhibit \\_\\_\\_](#).

The Company's flexibility guidelines are outlined in [Exhibit \\_\\_\\_](#).

### **Automatic Binding Limit Terms [Per Life/Across All Treaties]**

Automatic Binding Limit will be available only if:

- the Company has kept its retention on the life insured according to its current retention schedule as set out in the [BASIS OF REINSURANCE](#) section, and
- The application is on a life that has not been submitted facultatively to the Reinsurer or any reinsurer within the last *< insert number of years >*, and
- The total amount of reinsurance required and the amount already reinsured on that life under this Agreement and all other Agreements between the Reinsurer and the Company, does not exceed the Automatic Binding Limit outlined below, and
- The amount of life insurance in force in all companies, including any coverage to be replaced, plus the amount currently applied for on that life in all companies, does not exceed the Jumbo Limit listed below, and
- The Company's new issue underwriting requirements for the age and amount applied for and delivery requirements are followed, and

- The suicide exclusion clause and the contestability period apply

If any of the above conditions are not met, the case must be submitted on a facultative basis.

**AUTOMATIC BINDING LIMIT**  
(also known as Automatic Capacity)

**Regular Life Risks:**

**Based on Reinsured Amount**

Issue Age	MORTALITY RATING		
	Std to < %> FE: <\$ >/K	< %> to < %> FE: <\$ >/K	> < %> FE: <\$ >/K
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >

FE: Flat Extra

**Special Risks**

**Includes: aviation (standard, substandard & exclusions), professional athletes and entertainers.**

**Based on Reinsured Amount**

Issue Age	MORTALITY RATING		
	Std to < %> FE: <\$ >/K	< %> to < %> FE: <\$ >/K	> < %> FE: <\$ >/K
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >
< to >	<\$ >	<\$ >	<\$ >

FE: Flat Extra

---

*Footnote:*

*Where a plan is designed to allow future increases in coverage, the potential increase should be factored into the above Automatic Binding Limits.*

*For Quota Share agreements, the Automatic Binding Limit can be expressed in terms of Face Amount of the policy, including the Company's retention.*



**Automatic Binding Limit (ADB):**        <\$ >

**Jumbo Limit:**

	<b>Ages</b>	<b>Amount</b>
<b>Regular Life Risks:</b>	< to >	<\$ >
<b>Special Life Risks:</b>	< to >	<\$ >
<b>ADB Risks:</b>	< to >	<\$ >

---

*Footnote:*

*The current definition of Jumbo Limit is any amount in force and applied for. The new trend is to define Jumbo Limit as any amount in force and to be placed including any replacements. For clarification purposes the following example has been provided:*

*A life insured has \$10 million of insurance in force and intends to replace \$6 million of this with a new application for another \$10 million so that in total there will be \$14 million in force. Under the new definition, the Jumbo limit would be based on the amount inforce including any replacements (\$10 million) and the amount to be placed (\$10 million) for a Jumbo limit of \$20 million. This avoids the risk of the in force policy not being replaced and thus leaving the reinsurer without adequate capacity to cover this risk.*

*Where there is a combination of both Flat Extras and Mortality Ratings on a cession, a method to incorporate both should be stated in order to determine the appropriate Automatic Binding Limit.*

**Smoker to Non Smoker Changes:**

Smoker to Non Smoker changes will be subject to underwriting evidence including, but not limited to:

- MIB
- Non-Smoker Questionnaire
- Short form Non-Medical
- Cotinine Test
- Current Part II or change form which includes health questions
- Urine Sample

Such changes will require the Reinsurer's underwriting approval if the original case was ceded on a facultative basis.

## REINSURANCE PREMIUMS AND ALLOWANCES

### Treaty Capacity [Per life / Across All Treaties]:

The reinsurance premiums and allowances will be available up to the limits outlined in the following table, provided the policy does not exceed the [Jumbo Limit](#):

### TREATY CAPACITY

#### Regular Life Risks

##### Initial Reinsured Amount

##### Maximum Reinsured Amount (for Increasing Plans)

MORTALITY RATING			
Issue Age	Std - < % > FE: < \$ > / K	< % > - < % > FE: < \$ > / K	> < % >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >

MORTALITY RATING			
Issue Age	Std - < % > FE: < \$ > / K	< % > - < % > FE: < \$ > / K	> < % >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >

FE: Flat Extra

#### Special Risks

Includes: aviation (standard, substandard & exclusions), professional athletes or entertainers.

##### Initial Reinsured Amount

##### Maximum Reinsured Amount (for Increasing Plans)

MORTALITY RATING			
Issue Age	Std - < % > FE: < \$ > / K	< % > - < % > FE: < \$ > / K	> < % >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >

MORTALITY RATING			
Issue Age	Std - < % > FE: < \$ > / K	< % > - < % > FE: < \$ > / K	> < % >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >
< to >	< \$ >	< \$ >	< \$ >

FE: Flat Extra

### Increasing Plans:

For Plans designed to allow future increases in coverage, the "Maximum Reinsured Amount" limits above will apply. The initial amounts at risk for both the Company and the Reinsurer should be set to achieve proportionate future increases in coverage for both parties.

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*Footnote:*

*For YRT Agreements, the last sentence of this paragraph may be replaced by: "The initial amounts at risk for both the Company and the Reinsurer should be set to achieve proportionate future increases in coverage for both parties up to the full retention of the Company, beyond which any excess will be reinsured under this Agreement."*

### **Reinsurance Premiums and Allowances:**

The Reinsurance Premiums and Allowances are provided in **Exhibit \_\_\_**.

---

*Footnote:*

*The following items should be addressed for the Base Plan, Riders, Options and Supplementary Benefits:*

- *Age Basis*
- *Gross Reinsurance Premiums*
- *Allowances, if applicable*
- *Chargebacks on Policy Lapse and Reduction*
- *Percentage and Flat Table Extras for Substandard Lives*
- *Rate Guarantees*
- *Joint Life Methodology*
- *Premiums on first death of a Joint Last to Die Plan*
- *Cession Fees*
- *YRT terms for Conversions, if applicable*

**Premium Payment:** Reinsurance premiums will be paid annually in advance on the anniversary of the Principal Policy regardless of the mode of payment applicable to the Principal Policy.

---

*Footnote:*

*Reinsurance premiums may be payable more frequently than annually such as monthly or quarterly, and in advance or in arrears. For example, if reinsurance premiums are payable on a monthly basis and in advance, the treaty may state: Reinsurance premiums will be paid monthly in advance. The monthly premiums will be equal to the annual premiums multiplied by a modal factor of e.g., 8.7%.*

### **Refund of Unearned Premium:**

Upon lapse or surrender of the Principal Policy, all reinsurance premiums and allowances are adjusted for the exact number of days/months of coverage. No adjustment will be made for other terminations.

**Premium Tax:** The Reinsurer will reimburse the Company for its proportionate share of the premium tax that the Company is required to pay, based on the Gross Reinsurance Premiums if the Company cannot take a deduction for reinsurance.

*< Or >*

The Reinsurer will not be responsible for the reimbursement of any premium taxes under this Agreement.

**Other Taxes:** The Reinsurer will not be responsible for the reimbursement of any taxes other than those outlined above.

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## TERM CONVERSIONS

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< There are two possible approaches to handle conversions: Original Treaty Terms (the approach prescribed in former Canadian Reinsurance Guidelines) and Other than Original Treaty Terms. Suggested treaty wording for these two approaches are provided below. >

< Original Treaty Terms Apply >

In the event that a term conversion option is exercised, the reinsurance will continue on a YRT basis using the Gross Reinsurance premium rates outlined in the [REINSURANCE PREMIUMS AND ALLOWANCES](#) section. Premiums will be based on the original issue age and class of risk. The duration for premiums will be measured from the date the original policy was issued (point-in-scale). The reinsurance amount converted will not exceed the original plan reinsured amount.

<Or>

< Other than Original Treaty Terms Apply >

In the event that a term conversion option is exercised, the reinsurance will continue on the basis described below. The reinsurance amount converted will not exceed the original plan reinsured amount.

**(a) If the converted plan is reinsured under an Automatic Reinsurance Treaty between the Company and the Reinsurer:**

The reinsurance will be replaced by the terms of the Reinsurance Treaty covering the particular plan being converted to. Premiums will be based on the original issue age and class of risk. Duration for premiums and allowances, if any, will be measured from the date the original policy was issued (point-in-scale).

**(b) If the converted plan is not reinsured under an Automatic Reinsurance Treaty between the Company and the Reinsurer:**

The reinsurance will continue on a YRT basis using the premium rates outlined for conversions in the [REINSURANCE PREMIUMS AND ALLOWANCES](#) section. Premiums will be based on the original issue age and class of risk. Duration for premiums will be measured from the date the original policy was issued (point-in-scale).

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## OTHER REINSURANCE BENEFITS

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- Policy Loan:** The Reinsurer will have no involvement in or responsibility for the provision of policy loans with respect to any Principal Policy issued by the Company.
- Policy Split Option:** < *attach policy conditions* >
- Survivor Option:** < *attach policy conditions* >
- Dividends:** The Reinsurer will have no involvement in or responsibility for the provision of dividends in respect of any Principal Policy issued by the Company on a participating basis.
- Experience Refund:** There will be no experience refund payable to the Company.

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## ADMINISTRATION, CLAIMS AND OTHER ITEMS

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<b>Reporting Frequency:</b>	< select: > Monthly Quarterly Semi-Annually Annually
<b>Method of Reporting:</b>	< select: > Electronic Data Interchange Bulk Individual Paper
<b>Billing Prepared by:</b>	< select: > Company Reinsurer
<b>Billing Frequency:</b>	< select: > Monthly Quarterly Semi-Annually Annually
<b>Billing Summary:</b>	Premiums and allowances will be summarized for all coverages, including any applicable benefits and riders, by the following categories: Automatic and Facultative, First year and Renewals
<b>Reporting Information:</b>	Please refer to <a href="#">EXHIBIT A: CRAC MINIMUM DATA REQUIREMENTS</a> for Minimum Reporting Requirements as set by the Canadian Reinsurance Administration Committee.
<b>Settlement of Accounts:</b>	30 days from receipt of account summary
<b>Interest Chargeable:</b>	60 days after receipt of account summary
<b>Interest Rate:</b>	Prime Business Loan Rate (as of the date of receipt of account summary) Source: Bank of Canada Website, Reference Table: B14020
<b>Claim Reporting Frequency:</b>	< select: > As incurred Monthly Quarterly Semi-Annually Annually
<b>Claim Authority:</b>	<\$ > (Initial Face Amount of the Policy)
<b>Rescission Authority:</b>	<\$ > (Initial Face Amount of the Policy)

**Trivial Amount:** <\$ > (the Reinsurer's share)

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## RECAPTURE

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***If recapture is not allowed:***

Other than recapture due to Trivial Amounts and Insolvency (Refer to the [GENERAL PROVISIONS, INSOLVENCY](#) section), recapture of any other reinsurance ceded to the Reinsurer will not be allowed.

< Or >

***If recapture is allowed:***

Recapture of any reinsurance ceded to the Reinsurer under this Agreement may be requested by the Company subject to the following conditions:

- a) The amount of reinsurance eligible for recapture is based on the current Net Amount at Risk as of the date of recapture, and
- b) The cession has been in force for a period of < > years or longer from the effective date of the original cession(s), and the Company has increased its maximum retention for new business during that time, and
- c) A recapture charge of < > will be payable by the Company to the Reinsurer, and
- d) The Company will not cede the recaptured business for a period of < > years, and
- e) The Company recaptures up to its new maximum retention, and
- f) The Company kept its maximum retention initially, and
- g) The Company recaptures all eligible reinsurance including a proportionate share of supplementary benefits, unless otherwise specified, and
- h) The Company gives the Reinsurer a minimum of 90 days notice of its intention to recapture, and
- i) The Company has not obtained or increased stop loss reinsurance coverage as justification for the increase in retention limit

If a cession eligible for recapture has been overlooked by the Company, the liability of the Reinsurer will be limited to the amount of premiums accepted by the Reinsurer after the date of recapture, less expense allowances, if any.

If more than one Reinsurer is on risk on the cession involved, recapture will be pro-rated based on the initial amount of reinsurance reinsured by each, relative to the total amount.

The Company must include for recapture those eligible cessions in a state of Waiver of Premium claim, including those later discovered to have been in a qualifying period at the date of recapture. The Reinsurer will pay to the Company a mutually agreed upon Waiver of

Premium claim reserve or, if no agreement is reached, the Reinsurer will continue to pay the appropriate Waiver of Premium Benefit.

Recapture will be affected on the next anniversary of the Principal Policy following the effective date of recapture. The Company may not revoke its election to recapture policies becoming eligible at future anniversaries.

The above recapture terms will not apply if the Company is acquired by, or merges with another Company, unless the Reinsurer agrees to such recapture in writing. Recapture shall not apply in the case of a change in retention as a result of a merger or acquisition unless the Reinsurer has approved such in advance.

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*Footnote:*

*The above list outlines the types of conditions that may apply upon recapture. These types of clauses are generally customized and negotiated between the Company and the Reinsurer so that they are acceptable to both parties.*

*Typically, recapture applies to Excess YRT Agreements only. For Coinsurance Agreements or Quota Share basis, recapture will be subject to specific mutual agreement between the Reinsurer and the Company on all recapture terms and provisions, including any recapture charges or credits, which may be negotiated at the time of treaty inception or at the time of a negotiated recapture of a block of in force reinsured business.*

*In the case where advanced payment of death benefits, such as terminal illness benefits have already been paid by the Reinsurer, and the insured is still alive, the Company must refund to the Reinsurer any lump sum paid by the Reinsurer before any recapture program is permitted.*



# **General Treaty Provisions**

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## **ENTIRE AGREEMENT**

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This Agreement, comprised of **TERMS AND CONDITIONS** and **GENERAL PROVISIONS**, will constitute the entire Agreement between the parties with respect to the business being reinsured hereunder. There are no understandings between the parties other than as expressed in this Agreement. All schedules referred to in this Agreement are attached to and made part of this Agreement.

This Agreement may be altered from time to time by mutual consent of the Company and the Reinsurer. Any change or modification to this Agreement will be null and void unless made by amendment to this Agreement and signed by both parties.

A waiver of any provision of this Agreement will constitute a waiver only with respect to the particular circumstances for which it is given and not a waiver applicable to any future circumstances.

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## **SEVERABILITY**

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If any provision of this Agreement is determined to be invalid or unenforceable, such determination will not impact or affect the validity or the enforceability of the remaining provisions of this Agreement.

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## **PARTIES TO AGREEMENT**

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This is an Agreement of indemnity reinsurance solely between the Company and the Reinsurer.

The acceptance of reinsurance by the Reinsurer under this Agreement will not create any right or legal relation between the Reinsurer and any third party, including but not limited to policyholder, life insured, annuitant or beneficiary under any of the respective Principal Policies.

Unless otherwise stated, this Agreement will be binding upon the Company and the Reinsurer and their respective successors and assignees.

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## **NON-TRANSFERABLE AGREEMENT**

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Neither the Company, nor its liquidator, receiver or statutory successor will, without the prior written consent of the Reinsurer, sell, assign, transfer or otherwise dispose of this Agreement or any interest in this Agreement, by voluntary or involuntary act.

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## **COMPLIANCE**

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The Company and the Reinsurer, both warrant that they are each operating in compliance with provincial and federal laws and regulations applicable to the business reinsured under this Agreement. In the event that either party is found to be in noncompliance with any law material to this Agreement, the Agreement will remain in effect however, the party found to be in noncompliance will indemnify the other party for any direct loss the other party suffers as a result of the noncompliance and agrees to remedy the noncompliance.

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## **CONDITIONS OF REINSURANCE**

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The Company will supply the Reinsurer with specimen copies of all of the applications, policy and rider forms and tables of rates and values, which may be required for the proper administration of the business reinsured under this Agreement. The Company will advise the Reinsurer within 60 days of implementation of all subsequent modifications of these forms and of new forms under which reinsurance may be effected.

Any material changes in the following areas: contractual provisions, application forms, options, underwriting age & amount requirements, underwriting guidelines, claims approval requirements, reinstatement procedures, distribution arrangements, TIA conditions and other information pertinent to the risk will not apply under this Agreement without the Reinsurer's prior approval. Depending on the significance of such changes, the Reinsurer may require an appropriate adjustment in the terms and conditions of this Agreement.

If the Company changes the premiums, policy values, its retention limits or the general and special policy provisions for the business in force, or for new business, the Company shall inform the Reinsurer. The Reinsurer will then have the right to negotiate a corresponding adjustment of the reinsurance terms and conditions for the risks reinsured.

The introduction of, or revision to another plan(s), which may affect the original plan, will be deemed a material change to the original reinsured plan.

The amounts retained by the Company on any in force business covered under this Agreement, will not be reinsured by the Company on any basis without prior written notification to the Reinsurer. Such changes may require modification to the [CLAIM PAYMENT](#) provisions of this Agreement.

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## **LIABILITY - GENERAL CONDITIONS**

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The liability of the Reinsurer will include the liability defined by the general and special policy provisions applicable to coverages included in this Agreement provided that these provisions have been communicated in writing to the Reinsurer, but except where such provisions are specifically excluded. In addition, the underwriting and claims approval rules and standards applied by the Company and agreed to by the Reinsurer will form an integral part of this Agreement.

The Reinsurer shall not be responsible for any claims or suits for rescission as a result of alleged misconduct or fraud committed by the Company's agents, employees, members of the board of directors or corporate officers.

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## **AUTOMATIC CESSION**

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If the amount of reinsurance required on a particular application does not exceed the Automatic Binding Limit or the Remaining Automatic Binding Limit, if less, then the Company will cede and the Reinsurer will accept a cession on an automatic basis, subject to the other terms and conditions of this Agreement as outlined in the [BASIS OF REINSURANCE](#) and [UNDERWRITING](#) sections. Otherwise, the provisions of this article do not apply and the application must be submitted on a facultative basis subject to the provisions of the [FACULTATIVE CESSION](#) section.

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## **LIABILITY - AUTOMATIC CESSION**

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### **TIA/CIA Coverage**

Prior to coverage under the Principal Policy taking effect, the liability of the Reinsurer will commence simultaneously with the liability of the Company, and is limited to the amount outlined in the [SCOPE OF AGREEMENT](#) section, entitled **Maximum Temporary Insurance Agreement / Conditional Insurance Agreement Liability**. This liability of the Reinsurer will terminate simultaneously with the liability of the Company as per the TIA/CIA duration of liability outlined in the [SCOPE OF AGREEMENT](#) section.

### **Policy Coverage**

At the time coverage under the Principal Policy takes effect, the liability of the Reinsurer will commence simultaneously with the liability of the Company, and is limited to the amount outlined in the [BASIS OF REINSURANCE](#) section.

In no case will the Reinsurer's liability on an Automatic cession on any life exceed the Automatic Binding Limit.

Once allocation of liability for the Principal Policy is established, such allocation will remain unchanged except as otherwise provided in this Agreement.

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## **FACULTATIVE CESSION**

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When submitting a facultative cession, the Company will provide to the Reinsurer a copy of the complete insurance papers in its possession (insurance application, medical examinations, reports and tests, inspection reports, etc.) and a copy of any papers subsequently received. Any subsequent information received by the Company that is pertinent to the risk assessment should be transmitted to the Reinsurer immediately.

The Company may submit such application to other reinsurers as well as to the Reinsurer. If any risk is submitted to more than one reinsurer for consideration, the Company will follow their allocation rules for placement of cases. The Company will notify the Reinsurer in writing of its acceptance of the offer.

If the amount of reinsurance required on a particular application cannot be ceded automatically in accordance with the [AUTOMATIC CESSION](#) article, solely due to the amount exceeding the Automatic Binding Limit, then the Company is obligated to cede the cession (less their retention) on a proportionate basis to all automatic reinsurers based on similar best offers.

Once submitted, the liability of the Reinsurer will be in accordance with the [LIABILITY – FACULTATIVE CESSION](#) section.

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## **LIABILITY - FACULTATIVE CESSION**

---

### ***TIA/CIA Coverage***

Prior to coverage under the Principal Policy taking effect, the liability of the Reinsurer will commence simultaneously with the liability of the Company, and is limited to the amount outlined in the [SCOPE OF AGREEMENT](#) section entitled **Maximum Temporary Insurance Agreement / Conditional Insurance Agreement Liability**. Such coverage will terminate on the earliest of:

- (a) Notification by the Reinsurer of its decline of the risk, or
- (b) midnight on the day of acceptance by the Company of the facultative offer of the Reinsurer or some other reinsurer, or
- (c) < > working days after a final offer was made by the Reinsurer without the offer having been accepted, or
- (d) the time the Company's liability terminates, or
- (e) the TIA/CIA duration of liability outlined in the [SCOPE OF AGREEMENT](#) section.

If the facultative application is sent to any other reinsurer but not to the Reinsurer or submitted to the Reinsurer at a later time, coverage by the Reinsurer will terminate at midnight on the day that such application is first sent to another reinsurer.

### ***Policy Coverage***

Upon notification by the Company to the Reinsurer that the Reinsurer's offer has been accepted by the Company, the liability of the Reinsurer will commence simultaneously with the liability of the Company.

In no case shall the Reinsurer's liability on any one life exceed the amount offered by the Reinsurer. Should the amount of the Principal Policy be reduced prior to issue, the amount reinsured will be recalculated proportionately based on the new face amount.

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## **RESERVATION OF FACILITIES**

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Reservation of facilities in no way connotes any acceptance of risk by the Reinsurer.

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## **REINSURANCE PREMIUMS**

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The Gross Reinsurance Premiums and Allowances, if applicable, will be computed on the basis of the premium rates and factors shown in the [REINSURANCE PREMIUMS AND ALLOWANCES](#) section.

Furthermore, where allowances from whatever source are granted to the Company towards the payment of premiums under its policies as a result of government directives, the Reinsurer will receive a proportionate share of such allowances.

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## **INTERIM TERM COVERAGE**

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If any reinsurance is arranged to be effective on a date other than the anniversary of the Principal Policy, premiums, other than the first, will nevertheless be payable on such anniversaries.

### **YRT**

The first premium covering the initial partial year will be based on the Reinsurer's current ultimate YRT rates and the age of the life insured at the commencement of that period.

The next premium, payable on the anniversary and covering the first full policy year will be payable, at the first policy year rate, while subsequent premiums, will be payable at the appropriate policy year rates.

### **COINSURANCE**

If the policy values commence on the policy anniversary following the initial payment date, the Reinsurer will be paid the same rate as the Company for the interim period, and will remit the ultimate allowance.

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## **EXPENSES**

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Except where otherwise indicated in this Agreement, the Company will bear all the expenses associated with the Principal Policy, including but not limited to: underwriting and issue (including the cost of medical examinations, reports and test, inspection reports, etc...), maintenance of in force policies, reinstatements and approval and payment of benefits.

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## REPORTING

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When the Principal Policy has been placed and is reinsured in whole or in part with the Reinsurer, the Company will promptly (within 30 days of the Reporting Frequency specified in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section) provide the Reinsurer with details of the placed policy and any scheduled or non-scheduled transactions, including any agreed errors on a previous account. Such details are outlined in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section.

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## PAYMENT OF ACCOUNTS

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The following describes the payment of accounts, depending on which party prepares the billing as outlined in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section.

**(a) Billing Prepared by the Reinsurer**

The Reinsurer will submit to the Company a periodical account providing financial information concerning all reinsurance transactions taking place during the accounting period. If the balance of the account is in favor of the Company, the Reinsurer will remit payment of such balance to the Company together with the account. If the balance of the account is in favor of the Reinsurer, the Company will remit payment of such balance to the Reinsurer within the Settlement of Accounts period stated in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section.

**(b) Billing Prepared by the Company**

The Company will submit to the Reinsurer a periodical account providing financial information concerning all reinsurance transactions taking place during the accounting period. If the balance of the account is in favor of the Reinsurer, the Company will remit payment of such balance to the Reinsurer together with the account. If the balance of the account is in favor of the Company, the Reinsurer will remit payment of such balance to the Company within the Settlement of Accounts period stated in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section.

The Reinsurer and the Company reserve the right to charge interest on any outstanding balance. The terms for any interest charged are stated in [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section.

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## **NON-PAYMENT OF PREMIUM**

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The payment of reinsurance premiums is a condition precedent to the liability of the Reinsurer. In the event that reinsurance premiums are not paid within 60 days of the Settlement of Accounts period stated in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section, the Reinsurer will have the right to terminate reinsurance for all reinsured policies with premium in arrears. If the Reinsurer exercises its right of termination, it will give the Company 15 days written notice that reinsurance coverage will terminate. If all reinsurance premiums in arrears, including any of which may become in arrears during the 15 day period, are not paid before the expiration of said period, the Reinsurer will be relieved of all liability under those policies as of the last date for which premiums have been paid for each policy.

The right to terminate reinsurance will not prejudice the Reinsurer's right to collect premiums for the period during which reinsurance was in force prior to the expiration of the 15 days notice. The Company is still obliged to pay such overdue premiums, plus interest to the date of payment.

The Company will not force termination under the provisions of this section solely to avoid recapture requirements of this Agreement or to transfer the reinsured policies to another reinsurer.

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## **RESCISSION**

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The Company will notify the Reinsurer immediately upon receiving new information on an in force, contestable Principal Policy reinsured under this Agreement when such new information may be grounds for rescission of the Principal Policy. The Company will provide all proofs, for both automatic and facultative rescindable claims to the Reinsurer for review.

In cases of reinsurance originally ceded to the Reinsurer on an automatic basis, the Company may unilaterally decide whether to pursue a rescission action if the Rescission Authority amount described in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section is not exceeded. When such decisions are made, the Company will notify the Reinsurer immediately.

In cases of reinsurance originally ceded to the Reinsurer on a facultative basis, the Company will, prior to initiating rescission action, submit all pertinent documentation to the Reinsurer and secure mutual agreement to initiate such action.

Should the Company and the Reinsurer be unable to reach agreement on whether to initiate an action of rescission, either party may offer to assume the entire liability. If this offer is accepted, the party assuming liability will determine the action to be taken in respect of such rescission.



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## **CLAIM PAYMENT**

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The Company will notify the Reinsurer immediately upon receiving notice of any claim involving reinsurance under this Agreement and will promptly send a copy of all proof obtained to the Reinsurer.

The Reinsurer will reimburse the Company for the reinsured portion of any benefit paid by the Company in settlement of a claim involving reinsurance under this Agreement.

The Reinsurer will not be responsible for any plans, benefits, riders or options other than those outlined under the **SCOPE OF AGREEMENT** section.

The Reinsurer will settle any and all claims with the Company by payment of the reinsured portion of the benefit in one lump sum, regardless of the mode of settlement under the Principal Policy. Such claim reimbursements will include interest on the reinsured portion of the benefit from the date that the Company incurs liability for such interest to the date that the Reinsurer makes payment. The rate of interest used will be as stated under the **ADMINISTRATION, CLAIMS AND OTHER ITEMS** section.

In the event of a claim under a disability waiver of premium benefit reinsured under this Agreement, the Reinsurer will reimburse the Company for the reinsured portion of the premium waived. The Company will continue to pay Net Reinsurance Premiums to the Reinsurer in the usual manner during the period of claim.

In cases of reinsurance originally ceded to the Reinsurer under this Agreement, the Company may unilaterally decide on the disposition of any claim if:

- (a) the Claims Authority limit described in the **ADMINISTRATION, CLAIMS AND OTHER ITEMS** section is not exceeded, and
- (b) the Principal Policy is incontestable, and
- (c) the Company has kept its full retention as outlined in the **REINSURANCE PREMIUMS AND ALLOWANCES** section.

When such decisions are made, the Company will notify the Reinsurer immediately upon making payment.

The Company will, prior to accepting liability, submit all claim documents to the Reinsurer and secure mutual agreement to accept such liability within a reasonable timeframe if:

- (a) the Claims Authority limit described in the **ADMINISTRATION, CLAIMS AND OTHER ITEMS** section is exceeded, or
- (b) the Principal Policy in question is contestable, or
- (c) the Company has not kept its full retention as outlined in **REINSURANCE PREMIUMS AND ALLOWANCES** section.

If proof of the first death is received on a Joint Second-to-Die plan, the Company will submit this promptly to the Reinsurer. Should this death take place within the contestable period,

then the Reinsurer and the Company should consult to determine whether they wish to investigate the deceased, the survivor or both insureds.

All contestable claims, both facultative and automatic, are to be reviewed by the Reinsurer before any payment (including any advance payment) is made by the Company.

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*Footnote:*

*The Reinsurer generally does not participate in the advance payment of, or acceleration of death benefits, unless specifically negotiated with the Company.*

*Where benefits payable under Principal Policies issued by the Company are altered due to governmental measures, the liabilities of the Reinsurer will be altered in the same proportion. Furthermore, where allowances from whatever source are granted to the Company towards the payment of benefits under its policies as a result of government directives, the Reinsurer will receive a proportionate share of such allowances.*

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## **CONTEST OF POLICY OR CLAIM**

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The Company will immediately notify the Reinsurer of any writ, suit for rescission, or proceeding in court relating to any Principal Policy or claim involving reinsurance under this Agreement and will furnish details of such action.

The Company will make every reasonable effort to secure the non-binding recommendation of the Reinsurer before admitting any liability or making any settlement. The Reinsurer will review the claim papers as they are received and make recommendations within five (5) working days after receipt of all the necessary information.

Should the Company reduce its liability by contesting any Principal Policy or claim, the Reinsurer will share in such reduction in the same proportion as the amount of benefits reinsured with the Reinsurer bears to the total amount of benefit in force under the Principal Policy immediately prior to such reduction.

In the event that the Reinsurer declines to participate in the contest of any Principal Policy or claim, the Reinsurer may completely discharge its liability by payment of the reinsured portion of the benefit to the Company. In such case, the Reinsurer will neither share in any expenses incurred in contesting such a Principal Policy or claim nor in any reduction in liability.

Expenses directly resulting from the contest of a Principal Policy or claim reinsured under this Agreement, and incurred by the Company subsequent to the issuance of a writ or the initiation of a rescission action, will be shared by the Reinsurer in the same proportion as such contested liabilities were shared at the time such expenses were incurred. Shared expenses will include attorneys' fees, investigative costs, and expert witness' fees incurred with the prior agreement of the Reinsurer. In no event will the salaries or expenses of employees of the Company be shared.

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## **EXTRA CONTRACTUAL PAYMENTS**

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The Reinsurer will not participate in punitive, compensatory, aggravated or any other type of extra contractual payments that are awarded against the Company as a result of an act, omission, or course of conduct committed solely by the Company, its agents or representatives in connection with claims covered under this Agreement.

The parties recognize that circumstances may arise in which equity would require the Reinsurer, to the extent permitted by law, to share proportionately in punitive, compensatory, aggravated or any other type of extra contractual payments. Such circumstances are difficult to define in advance, but would generally be those situations in which the Reinsurer was an active party and, in writing, recommended, consented to, or ratified the act or course of conduct of the Company that ultimately resulted in the assessment of the extra contractual payments. In such situations, the Reinsurer and the Company will share such payments so assessed, in equitable proportions.

If the Company wishes to pay any claim above and beyond what is contractually obligated, in order to maintain its public image, then the Company will solely accept all liability for such payment.

For the purpose of this Provision, the following definitions will apply.

"Punitive Damages" are those damages amounts awarded as a penalty, the amount of which is neither governed nor fixed by statute.

"Compensatory Damages" are those amounts awarded to compensate for the actual damages sustained, and are not awarded as a penalty, nor fixed in amount by statute.

"Aggravated Damages" are court ordered awards that compensate claimants for intangible injuries such as distress and humiliation. These awards are made even though the Company has acted in good faith and its actions do not justify an award of exemplary or punitive damages.

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## **MISSTATEMENT OF AGE, SEX OR SMOKING STATUS**

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In the event of an increase or reduction in the Principal Policy because of a misstatement of age or sex, being established after the death of the life insured, the Company and the Reinsurer will share in such increase or reduction, in proportion to their initial liabilities under the Policy. The reinsurance cession form will be rewritten from commencement on the basis of the adjusted amounts using the reinsurance schedule and premiums at the correct ages or sex, and an adjustment for the difference in reinsurance premiums without interest will be made.

A misstatement of smoking status shall render the policy void.

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## REINSTATEMENT

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In the event that application is made to reinstate a Principal Policy to a previous status, the Company will submit the reinstatement to the Reinsurer on an automatic basis if:

- (a) the original cession was an Automatic Cession, or
- (b) the original cession was a Facultative Cession and the Company's regular underwriting rules indicate that not more evidence than a Statement of Good Health is required.

Otherwise, the reinstatement will be submitted on a facultative basis.

The amount of reinsurance reinstated will be the amount of reinsurance previously in force with the Reinsurer.

Upon reinstatement, the Company will remit to the Reinsurer the total amount of Net Reinsurance Premiums outstanding, adjusted to reflect any charges and/or credits made by the Company for reinstatement of the Principal Policy.

The contestable period will run anew from the date of reinstatement with respect to any information provided on the application for reinstatement. In addition, the suicide clause will run anew from the date of reinstatement.

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## POLICY CHANGES

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### **Without Full New Underwriting Information**

In the event of a policy change (including a replacement or conversion of the Principal Policy) which does not involve the submission of full new underwriting information to the Company, the Company will continue to reinsure the policy with the Reinsurer up to the amount of reinsurance in force immediately prior to the policy change. The rates will be based on the original issue age, underwriting class and duration since the issuance of the original policy.

### **With Full New Underwriting Information**

In the event of a policy change (including a replacement of the Principal Policy) which does involve the submission of full new underwriting information to the Company, the reinsurance will be ceded to the New Business Reinsurer. New business is defined as those policies which:

- the Company has obtained complete and current underwriting evidence on the full amount; and
- the full normal commissions are paid for the new plan; and
- the Suicide and Contestable provisions start anew.

If necessary, reinsurance terms would be determined and mutually agreed upon at the time of the change.

The Reinsurer's approval to exchange or replace the policy will be required if the original policy was reinsured on a facultative basis.

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*Footnote:*

*In cases where full new underwriting information is received, previous industry practice was to maintain reinsurance with the original reinsurer. In cases where there is no New Business Reinsurer, the reinsurance will continue with the original reinsurer.*

*The industry has moved to paying less than full normal commissions on policy changes.*

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## **REDUCTION IN FACE AMOUNT**

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In the event that a Principal Policy is changed in any way that results in a reduction in the amount of any coverage included in this Agreement, the amount of reinsurance will be revised in the same proportion that the new amount of the coverage under the Principal Policy bears to the original amount.

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*Footnote:*

*An alternative method for handling reduction for Excess treaties: the amount of reinsurance on the life will be reduced effective the same date as the original policy is reduced and by the full amount of the reduction under the original policy. If the amount of insurance terminated equals or exceeds the amount of reinsurance, the full amount of reinsurance is terminated.*

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## **INCREASE IN FACE AMOUNT**

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If the face amount on a Principal Policy increases and the increase is subject to underwriting approval of the Company, the reinsured amount of the policy will increase only if the conditions of either the **AUTOMATIC CESSION**, or **FACULTATIVE CESSION** section are satisfied. The contestable period and suicide period will run anew with respect to any statements made in connection with the increased amount.

If the face amount on a policy increases causing the reinsurance amount to exceed the reinsurance amount at issue of the policy, and the increase is not subject to the Company's underwriting approval, the Reinsurer agrees to accept a portion of such increases only if:

- the total amount including the increased portion does not exceed the Treaty Capacity for the Reinsurer, and
- these increases have been contractually agreed upon by the Reinsurer.

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## **RISK CLASSIFICATION CHANGES**

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If the policyholder requests a change in Risk Classification, including: Table Rating reductions, removal of a Flat Extra, a change in Smoking Status, or a change in Preferred Class, these changes will be underwritten according to the Company's normal underwriting practices. Risk Classification changes on facultative policies will be subject to the Reinsurer's approval.

Premiums and allowances (if any), for Smoker to Non-Smoker changes will be at point-in-scale.

On facultative business, if, following the consideration of new underwriting evidence, the Company can accept or place the policy at a lower mortality rating than the decision of the Reinsurer, then the Company will have the right to terminate the reinsurance. The Company will, before such termination, afford the Reinsurer the opportunity to quote a new rating.

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## **REDUCED PAID-UP OPTION**

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### **YRT**

If the Principal Policy is changed to Reduced Paid-Up, Y.R.T. reinsurance premiums continue to be paid to the Reinsurer. The amount of reinsurance would be reduced in proportion to the reduction in face amount of the policy. A new schedule of amounts would also be calculated based on cash values of the Reduced Paid-Up policy, if any.

### **COINSURANCE (if applicable)**

Reinsurance premiums are no longer paid to the Reinsurer, and allowances are no longer due to the Company. The amount of reinsurance would be reduced in proportion to the reduction in face amount of the policy.

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## **EXTENDED TERM OPTION**

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### **YRT**

If the Principal Policy is changed to Extended Term, reinsurance will continue, with the Reinsurer, on a Y.R.T. basis. A new schedule of amounts would also be calculated based on cash values of the Extended Term policy, if any.

### **COINSURANCE (if applicable)**

Reinsurance premiums are no longer paid to the Reinsurer, and allowances are no longer due to the Company. A new schedule of amount would also be calculated.

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## **TRIVIAL AMOUNT**

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Any cession less than the Trivial Amount as specified in the [ADMINISTRATION, CLAIMS AND OTHER ITEMS](#) section may be recaptured by the Company at any time. If the Company elects to recapture then the Company must recapture all eligible cessions.

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## **ERRORS AND OMISSIONS**

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In the event that either the Company or the Reinsurer fails to comply with any requirement of this Agreement, and if such failure is shown to be unintentional and the result of an oversight

or misunderstanding, then this Agreement will not be deemed abrogated thereby. Both the Company and the Reinsurer will be restored, to the extent possible, to the respective positions that they would have occupied had no such failure occurred.

This does not apply if the Reinsurer was not informed of the Company's acceptance of a facultative offer. In this situation the Company will be liable for the entire risk.

Should it not be possible for both parties to be restored to the position they would have occupied had the error or administrative oversight not occurred, any financial consequences will be borne by the party who committed the error or administrative oversight.

This clause will not serve to relieve either party from making every reasonable effort to perform its administrative obligations within the time standards either recommended herein or otherwise mutually agreed upon. Unless an agreement has been reached with the Reinsurer beforehand, the Company will be liable for the entire risk when the required reinsurance has not been reported to the Reinsurer in a timely manner due to continuous back-log in the Company's administration.

There is a mutual obligation on both the Company and the Reinsurer to ensure that all errors and omissions (both favorable and unfavorable) are identified and corrected in an equitable manner at the earliest possible date. Any monetary adjustments made between the Company and the Reinsurer to correct an error will be made with interest.

If either party discovers that the Company has failed to cede the reinsurance as provided in this Agreement, or failed to comply with its reporting requirements, the Reinsurer may require the Company to audit its records for similar errors and to take the actions necessary to avoid similar errors in the future.

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## **ACCESS TO INFORMATION**

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The Reinsurer will have the right, at any reasonable time, to inspect, at the principal office of the Company, all books and documents relating to reinsurance under this Agreement. Upon request, the Company will furnish the Reinsurer with copies from its files.

Similarly, the Company will have the right, at any reasonable time, to inspect, at the principal office of the Reinsurer, all records relating to any cession reinsured under this Agreement.

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## **CONFIDENTIALITY AND PRIVACY**

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There is a mutual obligation on both the Company and the Reinsurer to hold confidential and not to disclose or make competitive use of any shared Proprietary Information unless otherwise agreed to in writing, or unless the information otherwise becomes publicly available or the disclosure of which is required for retrocession purposes or has been mandated by law.

Proprietary Information includes, but is not limited to business plans and trade secrets, analyses, compilations, forecasts, reports, studies, underwriting manuals and guidelines, applications and contract forms, and their specific terms and conditions of this Agreement. The Company agrees to obtain from customers any legitimate, valid and written consent that will be necessary for the Reinsurer to collect, use, disclose and retain Personal Information for

the purposes of reviewing insurance applications, policy administration and adjudicating claims or conveying Personal Information to retrocessionaires or authorized third parties.

Personal Information includes, but is not limited to, medical, financial and other information about an identifiable individual with respect to proposed, current and former policyowners, insureds, applicants and beneficiaries of policies issued by the Company.

Personal Information means information which relates to an identifiable individual (natural person), living or deceased and has the meaning ascribed to it by law, including, without limitation, the Personal Protection and Electronic Documents Act (Canada) ("PIPEDA") or substantially similar provincial legislation where applicable.

The Reinsurer agrees to implement policies and practices that it has established in compliance with PIPEDA, or substantially similar provincial legislation where applicable, to provide a level of protection to the Personal Information in its possession comparable to the protection established by the Company.

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## **ARBITRATION**

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Any controversy or claim between the Company and the Reinsurer arising out of or relating to this Agreement upon which an amicable understanding cannot be reached will be settled by arbitration.

To initiate arbitration, either the Company or the Reinsurer will notify the other party in writing of its desire to arbitrate, stating the nature of its dispute and the remedy sought. The party to which the notice is sent will respond to the notification in writing within 15 days of its receipt.

The court of arbitration will be held in the city in which the principal Canadian Office of the defendant party is domiciled. This court will consist of three arbitrators who will be active or retired executive officers of life insurance or reinsurance companies, other than the Company and the Reinsurer or its affiliates or subsidiaries, who will be familiar with the life reinsurance business.

One of the arbitrators will be appointed by the Company, one by the Reinsurer and the third by the first two arbitrators.

If either the Company or the Reinsurer fails to appoint an arbitrator within 30 days after the other contracting party has given notice of its appointment of an arbitrator, such appointment will be made instead by the Superintendent of Financial Institutions Canada.

If the two arbitrators appointed by or for the Company or the Reinsurer fail to agree on the choice of the third arbitrator within 30 days after the appointment of the second, such appointment will be made instead by the Superintendent of Financial Institutions Canada.

Each arbitrator should disclose in advance all relationships with the Company or the Reinsurer. Any objection to an arbitrator should be stated before arbitration begins.

The arbitrators will conduct their deliberations informally and will regard this Agreement from the standpoint of equity and the customary practices of the life insurance and life reinsurance industries rather than from that of strict law, for the purpose of carrying out its evident intent.



The arbitrators will decide by a majority of votes and will render their decision in writing to both the Company and the Reinsurer within 90 days after the appointment of the third arbitrator. Such decision will be final and binding upon both the Company and the Reinsurer and there will be no appeal from the decision.

Unless otherwise decided by the arbitrators, the Company and the Reinsurer will bear the fees of their own attorneys and all other expenses connected with the presentation of their own case. All the costs of the arbitration, including the fees and expenses of the arbitrators, will be borne equally by the Company and the Reinsurer.

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*Footnote:*

*In the event of a dispute arising out of or relating to this Agreement, the parties may agree to resolve any differences prior to going to arbitration. Each party will discuss the problem and will negotiate in good faith without the necessity of any formal arbitration proceedings. During the negotiation process, all reasonable requests made by a party to the other for information will be honored.*

*Should the Superintendent of Financial Institutions Canada decline to participate, the President of the Canadian Life and Health Insurance Association will assume this role in arbitration.*

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## **INSOLVENCY**

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### **INSOLVENCY OF A PARTY TO THIS AGREEMENT**

A party to this Agreement will be deemed insolvent when it:

- (a) applies for or consents to the appointment of a receiver, rehabilitator, conservator, liquidator or statutory successor of its properties or assets; or
- (b) is adjudicated as bankrupt or insolvent; or
- (c) files or consents to the filing of a petition in bankruptcy, seeks reorganization to avoid insolvency or makes formal application for any bankruptcy, dissolution, liquidation or similar law or statute; or
- (d) becomes the subject of an order to rehabilitate or an order to liquidate as defined by the insurance code of the jurisdiction of the party's domicile.

### **INSOLVENCY OF THE COMPANY**

In the event of the insolvency of the Company, any and all benefits that become due and payable in respect of reinsurance under this Agreement will be payable directly to the liquidator, receiver, or statutory successor of the Company, without diminution because of the insolvency of the Company.

In the event of the insolvency of the Company, the liquidator, receiver, or statutory successor will promptly notify the Reinsurer in writing of the pendency of any claim involving reinsurance under this Agreement after such claim is filed in the insolvency proceeding.

During the pendency of any such claim, the Reinsurer may investigate such claim and interpose in the name of the Company (its liquidator, receiver, or statutory successor), but at its own expense, in the proceeding where such claim is to be adjudicated, any defence or defences which the Reinsurer may deem available to the Company (its liquidator, receiver, or statutory successor).

The expense thus incurred by the Reinsurer will be chargeable, subject to court approval, against the Company as a part of the expense of liquidation to the extent of a proportionate share of the benefit, which may accrue to the Company solely as a result of the defence undertaken by the Reinsurer. Where two or more Reinsurers are participating in the same claim and a majority in interest elect to interpose a defence or defences to any such claim, the expense will be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the Company.

### **INSOLVENCY OF THE REINSURER**

In the event of the insolvency of the Reinsurer, the Company will have the right, upon giving written notice to the Reinsurer, to terminate this Agreement to new business and recapture all in force business ceded to the Reinsurer upon payment of a mutually agreed upon recapture charge. If recapture is exercised, it cannot be done retroactively.

It is understood that the 90 day notice of termination clause stated under the **DURATION OF AGREEMENT** section will not apply due to insolvency.

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*Footnote:*

*The parties should note that regardless of the above provisions, they may be overruled by the statutory provisions for insolvency.*

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### **OFFSET**

The Company and the Reinsurer may offset any balance(s), whether on account of premiums, claims, adjustments, expense, or any other amount(s) due from one party to the other under this or any other Agreement between the parties. It is agreed that claims will not be offset until the claims procedures outlined in the **CLAIM PAYMENT** Article of this **GENERAL PROVISIONS** have been followed.

Offset will also apply in the event of insolvency of either party to the extent permitted by law.

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### **DURATION OF AGREEMENT**

The effective date of this Agreement is as described in **TERMS AND CONDITIONS COMMENCEMENT OF AGREEMENT**, and will be unlimited in duration as long as the Company continues to pay reinsurance premiums as shown in **NON-PAYMENT OF PREMIUM** section. This Agreement may be terminated at any time, for new reinsurance only, by either the Company or the Reinsurer giving 90 or more days notice of termination in writing ending on the last day of a calendar month.

During such period of notice, the Company will continue to cede, and the Reinsurer will continue to accept, new reinsurance under the terms and conditions of this Agreement.

After such period of notice has expired, the Reinsurer will remain liable for all reinsurance previously accepted under this Agreement until the natural expiry or termination of the respective Principal Policies, as long as the Company continues to pay reinsurance premiums as shown in **NON-PAYMENT OF PREMIUM** section.

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## **EXHIBIT A: C.R.A.C. MINIMUM DATA REQUIREMENTS**

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**For billing prepared by the Company:**

### **Minimum Requirements for Electronic Transfer Administration**

#### **In force Reporting**

- ❖ insured data: for ALL reinsured lives
  - last name
  - first name
  - middle name or initial
  - date of birth
  - smoking status
  - preferred risk class
  - rating
  - sex
- ❖ policy number
- ❖ currency (if more than 1)
- ❖ residence - province, state or country (if not Canadian or US)
- ❖ reinsurance terms - auto/fac
- ❖ reinsurance method - yrt/coin
- ❖ coverage data:
  - sequence number (life or coverage)
  - issue date
  - reinsurance effective date (if different from issue date)
  - plan code - for each coverage and benefit (benefits must link to appropriate coverage)
  - joint life indicator
  - smoker code
  - mortality
  - flat extra premium rate and duration (if applicable)
  - direct face amount
  - reinsured face amount
  - current reinsured amount at risk
  - coverage maturity/expiry date
  - reporting by treaty
  - issue age
  - rated age (age used for premium calculation, e.g., ESA for joint life, etc.)

## **Minimum Requirements for Electronic Transfer Administration**

### **Billing and Transactions Reporting**

- ❖ reporting date (usually month end date)
- ❖ insured data: for ALL reinsured lives
  - last name
  - first name
  - middle name or initial
  - date of birth
  - smoking status
  - preferred risk class
  - rating
  - sex
- ❖ policy number
- ❖ currency (if more than 1)
- ❖ residence - province, state or country (if not Canadian or US)
- ❖ reinsurance terms - auto/fac
- ❖ reinsurance method - yrt/coin
- ❖ coverage data:
  - sequence number (life or coverage)
  - issue date
  - reinsurance effective date (if different from issue date)
  - plan code - for each coverage and benefit (benefits must link to appropriate coverage)
  - joint life indicator
  - smoker code
  - mortality
  - flat extra premium rate and duration (if applicable)
  - direct face amount
  - reinsured face amount
  - current reinsured amount at risk
  - coverage maturity/expiry date
  - issue age
  - rated age (age used for premium calculation, e.g., ESA for joint life, etc.)
- ❖ transaction code  
new business, renewal, termination (not-taken, lapse, expiry, recapture, claim, death, etc.), reinstatement, conversion off/on, increase, decrease, other changes (name, date of birth, mortality change, smoking status, etc.)
- ❖ transaction effective date
- ❖ premium data for each transaction split by:
  - coverage (all coverages and benefits reported separately)
  - premium and allowance/commission
  - standard, substandard, flat extra, policy fee

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*Footnote:*

*Conversions and Replacements: Policies that are new, but result from replacements or conversions from other plans covered under other Agreements with the Reinsurer, should be clearly identified. These continuations of coverage should not be reported as new issues. These policies should be identified by a transaction code and be reported in the "Changes Detail". The original policy date and duration should also be reported.*

**The above represents the minimum data required. Additional data may be required depending on the complexity of the plan features and the data included in the plan code. For example, an "HIV Tested Indicator" may be required if the treaty rates are geared to this indicator. Agreement features and data requirements should be reviewed and negotiated with your Reinsurer.**

**For Billing Prepared by the Reinsurer**

Insert a copy of:

The reinsurance application form

- A sample reinsurance cession form and/or billing statement
- Any other samples of reports sent to the Company

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## **GLOSSARY**

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### **ALLOWANCE**

An amount paid by the Reinsurer to the Ceding Company to help cover the Ceding Company's acquisition and other costs.

### **ALPHA SPLIT**

A method of allocating cessions among more than one Reinsurer. Each Reinsurer is assigned a series of letters, which pertains to the first letter of the Principal Life Insured's surname. E.g. "Alpha split A-K" implies that the corresponding Reinsurer will reinsure the risk associated with all Principal Life Insured whose surname begins with the letters A through K.

### **AUTOMATIC BINDING LIMIT**

The maximum cumulative amount that may be reinsured on any one life with the Reinsurer under this and all other Agreements on an automatic basis.

### **AUTOMATIC REINSURANCE TREATY**

A reinsurance agreement in which the Reinsurer agrees, for a stipulated risk, to accept each risk or a portion of each risk submitted by the ceding Company, up to a certain limit, provided the Ceding Company insures up to its usual retention limit. In this agreement, the Ceding Company assumes full underwriting responsibility for all cases reinsured.

### **CASH VALUE**

The amount of money, before adjustments for factors such as policy loans or late premiums, that a policyowner will receive if the policy is allowed to lapse or is cancelled and surrendered to the insurance company.

### **CESSION**

A transaction whereby the Ceding Company reinsures with the Reinsurer all or part of the amount insured under a Principal Policy. There may be more than one cession under a policy.

### **COINSURANCE**

A method of reinsurance where the Ceding Company's own policy provisions and premiums rates are used. The Ceding Company pays the Reinsurer the gross premium and the Reinsurer pays an allowance on the reinsured portion of the policy.

### **CONDITIONAL INSURANCE AGREEMENT**

A receipt given to create an insurance contract on a temporary basis while the insurer underwrites the application. If the company rejects the application per its normal underwriting rules the temporary contract is null and void. It should be noted that this type of receipt does not provide coverage if the life insured does not qualify as an acceptable standard risk (or an insurable risk) under the Ceding Company's usual rules for the type and amount of insurance applied for.

### **CONTESTABLE PERIOD**

The period of time (usually two years) during which an insurer may challenge the validity of a life insurance policy.

### **TERM CONVERSION**

The right to change term insurance coverage to permanent insurance coverage without submitting evidence of insurability. For example, the right to change from an individual renewable term insurance policy to an individual whole life insurance policy.

**DEATH BENEFIT**

The death benefit according to the terms of the original, basic contract of a life insurance policy. The basic death benefit does not include the benefit for any supplementary riders, such as an Accidental Death Benefit (ADB) rider. For policies whose death benefit remains constant, the basic death benefit is equivalent to the face amount.

**EXCESS**

A type of reinsurance agreement where the amount reinsured is the amount exceeding the retention of the Company.

**FACULTATIVE CESSION**

A cession that must have the prior approval of the Reinsurer.

**GROSS REINSURANCE PREMIUMS**

The premium, including any premium for extra risks and Supplementary Benefits if they are reinsured, payable to the Reinsurer under this Agreement.

**INDEMNITY REINSURANCE**

A form of reinsurance under which the risk but not the administration is passed to the Reinsurer, and which indemnifies the Ceding Company for losses covered by the reinsurance treaty. The Ceding Company retains its liability to and its contractual relationship with the insured.

**INITIAL REINSURED AMOUNT**

The amount of insurance the Company is willing or able to issue on any one individual on the effective date of the policy.

**JUMBO LIMIT**

An amount which the total insurance with all insurers in force or applied for, on any individual must not exceed in order for a ceded risk to be accepted automatically by the Reinsurer. If such insurance exceeds the limit, the risk must be submitted on a facultative basis.

**MINIMUM AUTOMATIC CESSION**

The smallest cession that a Reinsurer will accept automatically. The minimum size is set to avoid the expenses associated with small cessions.

**NET REINSURANCE PREMIUMS**

The Gross Reinsurance Premium less allowances , if any.

**POINT IN SCALE**

The rate or allowance corresponding to the duration since the original issue of the applicable principal policy, rider or supplementary benefit.

**PRINCIPAL POLICY**

The insurance policy issued by the Ceding Company to the policyholder.

**QUOTA SHARE**

A type of reinsurance agreement where the amount reinsured is a fixed percentage of the Net Amount at Risk.

**RECAPTURE**

The process by which the Ceding Company takes back from the Reinsurer a portion of the reinsured business.

**REINSURANCE CESSION FORM**

The documentation outlining the particulars of the cession, including documentation in the form of individual items, listings or reports and electronic media.

**REMAINING AUTOMATIC BINDING LIMIT**

The Automatic Binding Limit less the total of amounts previously reinsured with the Reinsurer by the Ceding Company and currently in force under this, and all other Agreements in effect between the Ceding Company and the Reinsurer.

**REMAINING TREATY CAPACITY**

The Treaty Capacity less the total of amounts (including Accidental Death Benefits, if applicable) previously reinsured and currently in force under this, and all other Agreements in effect between the Ceding Company and the Reinsurer.

**RESCISSION**

When an insurer seeks to void a policy or have it declared void. Rescissions usually occur when there has been material misrepresentation.

**RETENTION LIMIT**

The maximum amount of insurance that an insurance company will carry at its own risk on any individual without ceding part of the risk to a Reinsurer.

**TEMPORARY INSURANCE AGREEMENT**

A guaranteed amount of temporary life insurance coverage for a specific period of time, usually the underwriting period.

**TREATY CAPACITY**

The maximum cumulative amount (including any amounts of Accidental Death Benefits, if applicable) on any one life, under this and all other Agreements with the Reinsurer, for which reinsurance treaty rates will apply.

**YEARLY RENEWABLE TERM (YRT)**

A method of reinsurance under which the risks (usually mortality) are transferred to the Reinsurer for a premium that varies each year with the Net Amount at Risk and the age(s) of the insured(s).