



News Release

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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NAIC Moves Toward Amending Reinsurance Disclosure Requirements

KANSAS CITY, Mo. (May 11, 2005) – The National Association of Insurance Commissioners (NAIC) is taking steps to amend disclosure requirements for insurers that utilize reinsurance with limited risk transfer features, also known as finite reinsurance.

In a public meeting in Chicago on Tuesday, the NAIC Property and Casualty Reinsurance Study Group met to hear feedback from interested parties on a set of proposed disclosure requirements, and to exchange views on the current statutory accounting principles regarding reinsurance transactions.

The use of so-called finite reinsurance has received considerable attention over the past several months, because of its misuse by some high-profile insurers. State insurance regulators, working in a coordinated fashion through the NAIC, have been evaluating existing relevant statutory financial reporting since last fall.

The latest proposed disclosures would require an insurer to report to state insurance regulators any agreement that has the effect of altering policyholders' surplus by more than three percent, or representing more than three percent of premium or losses. The new disclosure is also designed to identify any reinsurance contract that has been accounted for differently under statutory accounting principles compared to general financial statement purposes. Additional reporting requirements regarding contract terms and management's intention in entering the contract have been included to improve transparency.

Study Group members also worked toward developing a standard attestation form to be signed by the insurer's CEO and CFO acknowledging reinsurance contracts that the company has taken "credit" for on its financial statements.

"The proposed enhanced disclosure requirements, in addition to an attestation by company management of entities that engage in these transactions, should clarify the overall impact of finite reinsurance on the industry," said Joe Fritsch, Director of Insurance Accounting Policy for the New York Insurance Department and chair of the Study Group.

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“We believe that these issues need to be addressed with a sense of urgency. State insurance regulators have seen nothing to alleviate our concerns since we began our rigorous review of these practices.”

The provisions of the attestation include, 1) that there are no separate agreements between the insurer and the reinsurer that could serve to modify the actual or potential losses under the contract, 2) that the insurer complies with all requirements of NAIC’s statement of statutory accounting principle (SSAP) No. 62, “Property and Casualty Reinsurance.”

The Study Group released the draft disclosures for a 30-day comment period, and indicated intentions of adopting the enhanced disclosures during the upcoming NAIC meeting in Boston.

Mike Moriarty, Director of Capital Markets for the New York Insurance Department, led other discussions on the adequacy of reinsurance accounting standards.

Mr. Moriarty introduced a discussion draft containing revisions to SSAP No. 62 that would create a new approach to reinsurance accounting. The draft envisions that certain reinsurance agreements would be bifurcated, allowing for reinsurance accounting treatment for insurance risk, while giving deposit accounting treatment for the financing portion of the agreement. The Study Group released the discussion draft for a comment period of 45 days, and indicated further debate on the merits of the proposal would resume during the summer. The NAIC Casualty Actuarial Task Force will consider the language in the Statement of Opinion related to disclosure of finite reinsurance as well as consider risk transfer testing beyond the so-called 10-10 Rule. The Task Force is expected to report back to the study group by August.

About the NAIC

Headquartered in Kansas City, Missouri, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and U.S. territories. The association’s overriding objective is to assist state insurance regulators in protecting consumers and helping maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, it is the oldest association of state officials. For more information, visit NAIC on the Web at: www.naic.org/pressroom.