MEMORANDUM

TO: Financial Regulation Standards and Accreditation (F) Committee

FROM: Jill Jacobi on behalf of Commissioner Dave Jones (CA), Chair, Risk Retention Group (E) Task Force

DATE: March 13, 2014

RE: Reinsurance Guidelines for Risk Retention Groups

At the 2008 Winter National Meeting, the Financial Regulation Standards and Accreditation (F) Committee voted to adopt Part A: Laws and Regulations Standards for risk retention groups (RRGs) organized and licensed under a state’s captive insurance laws. These new standards became effective Jan. 1, 2011, and the Risk Retention Group (E) Task Force was the group responsible for initially drafting these standards and referring them to the Committee.

In considering whether the Credit for Reinsurance Model Law (#785) and the Credit for Reinsurance Model Regulation (#786) should apply to RRGs, the Task Force noted that many RRGs historically took credit for reinsurance without posting collateral in situations not contemplated by these two models. To address such, the Task Force developed “Reinsurance Guidelines for Risk Retention Groups Licensed as Captive Insurers” (Reinsurance Guidelines), which include specific requirements in order for an RRG to take credit for reinsurance for these additional situations. The Reinsurance Guidelines were adopted by the Committee as part of the overall Part A Standards for RRGs.

On an Oct. 17, 2013, conference call, the Task Force discussed item 7 of the Reinsurance Guidelines, which notes that the provisions may be applied prospectively to RRGs and that certain insurers are grandfathered in under the provisions. A question had been raised regarding whether the grandfathering provision is applicable to new reinsurers or new reinsurance contracts. The Task Force agreed that the Reinsurance Guidelines should apply to the reinsurer, but noted that the domestic regulator always has the ability to revoke that approval of the reinsurer at any time. This revocation could take place based on situations such as a drop in rating or a decline in the reinsurer’s financial condition. The Task Force agreed that the language should be revised to clearly indicate that the Reinsurance Guidelines are intended to apply to the individual reinsurer. Included below are the revisions developed and agreed to by the Task Force, and it recommends that the Committee adopt the revised language into the Reinsurance Guidelines.

7) These guidelines are effective __[INSERT DATE]__ and apply prospectively to RRGs licensed as captive insurers. Credit for reinsurance may be granted for Aan RRG’s reinsurers as of January 1, 2011, are grandfathered in as acceptable without meeting the requirements in these Reinsurance Guidelines. The requirements in these Reinsurance Guidelines should be used for new reinsurers with which business is placed after January 1, 2011.

Thank you for your consideration of this matter. Please contact me with any questions.