

CREDIT FOR REINSURANCE MODEL REGULATION

Preface to Credit for Reinsurance Models

The amendments to the NAIC Credit for Reinsurance Model Law (#785) & Regulation (#786) are part of a larger effort to modernize reinsurance regulation in the United States. The NAIC initially adopted the Reinsurance Regulatory Modernization Framework Proposal during its 2008 Winter National Meeting. The NAIC recommended that this framework be implemented through federal legislation in order to best preserve and improve state-based regulation of reinsurance, ensure timely and uniform implementation throughout all NAIC member jurisdictions, and as a more comprehensive alternative to related federal legislation. In addition to this proposed federal legislation, the framework also provided that changes to state insurance laws should be considered. For example, state laws to establish requirements under which states would regulate qualified reinsurers, and also to consider reinsurance risk diversification and notice requirements for ceding insurers.

On July 21, 2010, Congress passed and the President signed related federal legislation, the Nonadmitted and Reinsurance Reform Act, which became effective July 21, 2011. While this act does not implement the NAIC framework, it does preempt the extraterritorial application of state credit for reinsurance law and permits states of domicile to proceed forward with reinsurance collateral reforms on an individual basis if they are accredited. This federal legislation also does not prohibit the states from acting together, through the NAIC, to achieve the reinsurance modernization framework goals. In addition to the current work on the credit for reinsurance models, the NAIC will continue its efforts to implement other aspects of the framework. These efforts will continue both through work conducted by the Reinsurance Task Force and through referrals to the appropriate groups within the NAIC. In addition, the NAIC will consider a proposal to form a new group to provide advisory support and assistance to states in the review of reinsurance collateral reduction applications. Such a process with respect to the review of applications for reinsurance collateral reduction and qualified jurisdictions should strengthen state regulation and prevent regulatory arbitrage. Such an effort would be supported by NAIC staff with substantial expertise to support the functions of such a group.

Finally, the NAIC will continue to work on requirements for NAIC review and approval of qualified jurisdictions, and will undertake a re-examination of the collateral amounts within two years from the effective date of the revisions to the models.

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Table of Contents

Section 1.	Authority
Section 2.	Purpose
Section 3.	Severability
Section 4.	Credit for Reinsurance—Reinsurer Licensed in this State
Section 5.	Credit for Reinsurance—Accredited Reinsurers
Section 6.	Credit for Reinsurance—Reinsurer Domiciled in Another State
Section 7.	Credit for Reinsurance—Reinsurers Maintaining Trust Funds
Section 8.	Credit for Reinsurance—Certified Reinsurers
Section 9.	Credit for Reinsurance Required by Law
Section 10.	Asset or Reduction from Liability for Reinsurance Ceded to Unauthorized Assuming Insurer Not Meeting the Requirements of Sections 4 Through 9
Section 11.	Trust Agreements Qualified Under Section 10
Section 12.	Letters of Credit Qualified Under Section 10
Section 13.	Other Security
Section 14.	Reinsurance Contract
Section 15.	Contracts Affected
Form AR-1	Certificate of Assuming Insurer
Form CR-1	Certificate of Certified Reinsurer
Form CR-F	
Form CR-S	

Section 1. Authority

This regulation is promulgated pursuant to the authority granted by Sections [insert applicable section number] and [insert applicable section number] of the Insurance Code.

Section 2. Purpose

The purpose of this regulation is to set forth rules and procedural requirements that the commissioner deems necessary to carry out the provisions of the [cite state law equivalent to the Credit for Reinsurance Model Law] (the Act). The actions and information required by this regulation are declared to be necessary and appropriate in the public interest and for the protection of the ceding insurers in this state.

Section 3. Severability

If any provision of this regulation, or the application of the provision to any person or circumstance, is held invalid, the remainder of the regulation, and the application of the provision to persons or circumstances other than those to which it is held invalid, shall not be affected.

Section 4. Credit for Reinsurance—Reinsurer Licensed in this State

Pursuant to Section [cite state law equivalent of Section 2A of the Credit for Reinsurance Model Law] the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that was licensed in this state as of any date on which statutory financial statement credit for reinsurance is claimed.

Drafting Note: “Statutory financial statement” means quarterly, annual or other financial statements required by state law. The drafters conditioned the recognition of credit on matters reported, existing or occurring “as of any date on which” statutory financial statement credit is claimed or a financial statement is filed to ensure that requisite conditions for credit exist at the time the credit is claimed or reported and that the conditions remained satisfied at all times thereafter until information reported in one statement was replaced by information reported in a subsequently filed statement. Insurers are to satisfy requisite conditions at the time credit is first taken and shall maintain compliance at all times thereafter in which the credit is taken. The drafters believe the requirements to be perpetual, not periodic.

Section 5. Credit for Reinsurance—Accredited Reinsurers

- A. Pursuant to Section [cite state law equivalent of Section 2B of the Credit for Reinsurance Model Law] the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that is accredited as a reinsurer in this state as of the date on which statutory financial statement credit for reinsurance is claimed. An accredited reinsurer must:
- (1) File a properly executed Form AR-1 (attached as an exhibit to this regulation) as evidence of its submission to this state’s jurisdiction and to this state’s authority to examine its books and records;
 - (2) File with the commissioner a certified copy of a certificate of authority or other acceptable evidence that it is licensed to transact insurance or reinsurance in at least one state, or, in the case of a U.S. branch of an alien assuming insurer, is entered through and licensed to transact insurance or reinsurance in at least one state;
 - (3) File annually with the commissioner a copy of its annual statement filed with the insurance department of its state of domicile or, in the case of an alien assuming insurer, with the state through which it is entered and in which it is licensed to transact insurance or reinsurance, and a copy of its most recent audited financial statement; and
 - (4) Maintain a surplus as regards policyholders in an amount not less than \$20,000,000, or obtain the affirmative approval of the commissioner upon a finding that it has adequate financial capacity to meet its reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers.
- B. If the commissioner determines that the assuming insurer has failed to meet or maintain any of these qualifications, the commissioner may upon written notice and opportunity for hearing, suspend or revoke the accreditation. Credit shall not be allowed a domestic ceding insurer under this section if the assuming insurer’s accreditation has been revoked by the commissioner, or if the reinsurance was ceded while the assuming insurer’s accreditation was under suspension by the commissioner.

Section 6. Credit for Reinsurance—Reinsurer Domiciled in Another State

- A. Pursuant to Section [cite state law equivalent to Section 2C of the Credit for Reinsurance Model Law] the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that as of any date on which statutory financial statement credit for reinsurance is claimed:
- (1) Is domiciled in (or, in the case of a U.S. branch of an alien assuming insurer, is entered through) a state that employs standards regarding credit for reinsurance substantially similar to those applicable under the Act and this regulation;
- Drafting Note:** This subsection is intended to apply to an assuming insurer domiciled in (or, in the case of the U.S. branch of an alien assuming insurer, entered through) another state only if the assuming insurer also is licensed in that state and is therefore subject to the application of the state’s credit for reinsurance standards as the result of the imposition of licensure requirements and also regulatory oversight and examination as a domiciliary company.
- (2) Maintains a surplus as regards policyholders in an amount not less than \$20,000,000; and
 - (3) Files a properly executed Form AR-1 with the commissioner as evidence of its submission to this state’s authority to examine its books and records.
- B. The provisions of this section relating to surplus as regards policyholders shall not apply to reinsurance ceded and assumed pursuant to pooling arrangements among insurers in the same holding company system. As used in this section, “substantially similar” standards means credit for reinsurance standards that the commissioner determines equal or exceed the standards of the Act and this regulation.

Section 7. Credit for Reinsurance—Reinsurers Maintaining Trust Funds

- A. Pursuant to Section [cite state law equivalent to Section 2D of the Credit for Reinsurance Model Law] the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer which, as of any date on which statutory financial statement credit for reinsurance is claimed, and thereafter for so long as credit for reinsurance is claimed, maintains a trust fund in an amount prescribed below in a qualified U.S. financial institution as defined in Section [cite state law equivalent to Section 4B of the Credit for Reinsurance Model Law] of the Act, for the payment of the valid claims of its U.S. domiciled ceding insurers, their assigns and successors in interest. The assuming insurer shall report annually to the commissioner substantially the same information as that required to be reported on the National Association of Insurance Commissioners (NAIC) annual statement form by licensed insurers, to enable the commissioner to determine the sufficiency of the trust fund.
- B. The following requirements apply to the following categories of assuming insurer:
- (1) The trust fund for a single assuming insurer shall consist of funds in trust in an amount not less than the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. domiciled insurers, and in addition, the assuming insurer shall maintain a trustee surplus of not less than \$20,000,000, except as provided in paragraph (2) of this subsection.
 - (2) At any time after the assuming insurer has permanently discontinued underwriting new business secured by the trust for at least three full years, the commissioner with principal regulatory oversight of the trust may authorize a reduction in the required trustee surplus, but only after a finding, based on an assessment of the risk, that the new required surplus level is adequate for the protection of U.S. ceding insurers, policyholders and claimants in light of reasonably foreseeable adverse loss development. The risk assessment may involve an actuarial review, including an independent analysis of reserves and cash flows, and shall consider all material risk factors, including when applicable the lines of business involved, the stability of the incurred loss estimates and the effect of the surplus requirements on the assuming insurer’s liquidity or solvency. The minimum required trustee surplus may not be reduced to an amount less than thirty percent (30%) of the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. ceding insurers covered by the trust.
 - (3) (a) The trust fund for a group including incorporated and individual unincorporated underwriters shall consist of:
 - (i) For reinsurance ceded under reinsurance agreements with an inception, amendment or renewal date on or after January 1, 1993, funds in trust in an amount not less than the respective underwriters’ several liabilities attributable to business ceded by U.S. domiciled ceding insurers to any underwriter of the group;
 - (ii) For reinsurance ceded under reinsurance agreements with an inception date on or before December 31, 1992, and not amended or renewed after that date, notwithstanding the other provisions of this regulation, funds in trust in an amount not less than the respective underwriters’ several insurance and reinsurance liabilities attributable to business written in the United States; and
 - (iii) In addition to these trusts, the group shall maintain a trustee surplus of which \$100,000,000 shall be held jointly for the benefit of the U.S. domiciled ceding insurers of any member of the group for all the years of account.
 - (b) The incorporated members of the group shall not be engaged in any business other than underwriting as a member of the group and shall be subject to the same level of regulation and solvency control by the group’s domiciliary regulator as are the unincorporated members. The group shall, within ninety (90) days after its financial statements are due to be filed with the group’s domiciliary regulator, provide to the commissioner:

- (i) An annual certification by the group's domiciliary regulator of the solvency of each underwriter member of the group; or
 - (ii) If a certification is unavailable, a financial statement, prepared by independent public accountants, of each underwriter member of the group.
 - (4) (a) The trust fund for a group of incorporated insurers under common administration, whose members possess aggregate policyholders surplus of \$10,000,000,000 (calculated and reported in substantially the same manner as prescribed by the annual statement instructions and *Accounting Practices and Procedures Manual* of the NAIC) and which has continuously transacted an insurance business outside the United States for at least three (3) years immediately prior to making application for accreditation, shall:
 - (i) Consist of funds in trust in an amount not less than the assuming insurers' several liabilities attributable to business ceded by U.S. domiciled ceding insurers to any members of the group pursuant to reinsurance contracts issued in the name of such group;
 - (ii) Maintain a joint trustee surplus of which \$100,000,000 shall be held jointly for the benefit of U.S. domiciled ceding insurers of any member of the group; and
 - (iii) File a properly executed Form AR-1 as evidence of the submission to this state's authority to examine the books and records of any of its members and shall certify that any member examined will bear the expense of any such examination.
 - (b) Within ninety (90) days after the statements are due to be filed with the group's domiciliary regulator, the group shall file with the commissioner an annual certification of each underwriter member's solvency by the member's domiciliary regulators, and financial statements, prepared by independent public accountants, of each underwriter member of the group.
- C. (1) Credit for reinsurance shall not be granted unless the form of the trust and any amendments to the trust have been approved by either the commissioner of the state where the trust is domiciled or the commissioner of another state who, pursuant to the terms of the trust instrument, has accepted responsibility for regulatory oversight of the trust. The form of the trust and any trust amendments also shall be filed with the commissioner of every state in which the ceding insurer beneficiaries of the trust are domiciled. The trust instrument shall provide that:
 - (a) Contested claims shall be valid and enforceable out of funds in trust to the extent remaining unsatisfied thirty (30) days after entry of the final order of any court of competent jurisdiction in the United States;
 - (b) Legal title to the assets of the trust shall be vested in the trustee for the benefit of the grantor's U.S. ceding insurers, their assigns and successors in interest;
 - (c) The trust shall be subject to examination as determined by the commissioner;
 - (d) The trust shall remain in effect for as long as the assuming insurer, or any member or former member of a group of insurers, shall have outstanding obligations under reinsurance agreements subject to the trust; and
 - (e) No later than February 28 of each year the trustee of the trust shall report to the commissioner in writing setting forth the balance in the trust and listing the trust's investments at the preceding year-end, and shall certify the date of termination of the trust, if so planned, or certify that the trust shall not expire prior to the following December 31.

- (2) (a) Notwithstanding any other provisions in the trust instrument, if the trust fund is inadequate because it contains an amount less than the amount required by this subsection or if the grantor of the trust has been declared insolvent or placed into receivership, rehabilitation, liquidation or similar proceedings under the laws of its state or country of domicile, the trustee shall comply with an order of the commissioner with regulatory oversight over the trust or with an order of a court of competent jurisdiction directing the trustee to transfer to the commissioner with regulatory oversight over the trust or other designated receiver all of the assets of the trust fund.
 - (b) The assets shall be distributed by and claims shall be filed with and valued by the commissioner with regulatory oversight over the trust in accordance with the laws of the state in which the trust is domiciled applicable to the liquidation of domestic insurance companies.
 - (c) If the commissioner with regulatory oversight over the trust determines that the assets of the trust fund or any part thereof are not necessary to satisfy the claims of the U.S. beneficiaries of the trust, the commissioner with regulatory oversight over the trust shall return the assets, or any part thereof, to the trustee for distribution in accordance with the trust agreement.
 - (d) The grantor shall waive any right otherwise available to it under U.S. law that is inconsistent with this provision.
- D. For purposes of this section, the term “liabilities” shall mean the assuming insurer’s gross liabilities attributable to reinsurance ceded by U.S. domiciled insurers excluding liabilities that are otherwise secured by acceptable means, and, shall include:
- (1) For business ceded by domestic insurers authorized to write accident and health, and property and casualty insurance:
 - (a) Losses and allocated loss expenses paid by the ceding insurer, recoverable from the assuming insurer;
 - (b) Reserves for losses reported and outstanding;
 - (c) Reserves for losses incurred but not reported;
 - (d) Reserves for allocated loss expenses; and
 - (e) Unearned premiums.
 - (2) For business ceded by domestic insurers authorized to write life, health and annuity insurance:
 - (a) Aggregate reserves for life policies and contracts net of policy loans and net due and deferred premiums;
 - (b) Aggregate reserves for accident and health policies;
 - (c) Deposit funds and other liabilities without life or disability contingencies; and
 - (d) Liabilities for policy and contract claims.

- E. Assets deposited in trusts established pursuant to [cite state law equivalent to Section 2 of the Credit for Reinsurance Model Law] and this section shall be valued according to their current fair market value and shall consist only of cash in U.S. dollars, certificates of deposit issued by a U.S. financial institution as defined in [cite state law equivalent of Section 4A of the Credit for Reinsurance Model Law], clean, irrevocable, unconditional and “evergreen” letters of credit issued or confirmed by a qualified U.S. financial institution, as defined in [cite state law equivalent of Section 4A of the Credit for Reinsurance Model Law], and investments of the type specified in this subsection, but investments in or issued by an entity controlling, controlled by or under common control with either the grantor or beneficiary of the trust shall not exceed five percent (5%) of total investments. No more than twenty percent (20%) of the total of the investments in the trust may be foreign investments authorized under Paragraphs (1)(e), (3), (6)(b) or (7) of this subsection, and no more than ten percent (10%) of the total of the investments in the trust may be securities denominated in foreign currencies. For purposes of applying the preceding sentence, a depository receipt denominated in U.S. dollars and representing rights conferred by a foreign security shall be classified as a foreign investment denominated in a foreign currency. The assets of a trust established to satisfy the requirements of Section [cite state law equivalent to Section 2 of the Credit for Reinsurance Model Law] shall be invested only as follows:
- (1) Government obligations that are not in default as to principal or interest, that are valid and legally authorized and that are issued, assumed or guaranteed by:
 - (a) The United States or by any agency or instrumentality of the United States;
 - (b) A state of the United States;
 - (c) A territory, possession or other governmental unit of the United States;
 - (d) An agency or instrumentality of a governmental unit referred to in Subparagraphs (b) and (c) of this paragraph if the obligations shall be by law (statutory or otherwise) payable, as to both principal and interest, from taxes levied or by law required to be levied or from adequate special revenues pledged or otherwise appropriated or by law required to be provided for making these payments, but shall not be obligations eligible for investment under this paragraph if payable solely out of special assessments on properties benefited by local improvements; or
 - (e) The government of any other country that is a member of the Organization for Economic Cooperation and Development and whose government obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC;
 - (2) Obligations that are issued in the United States, or that are dollar denominated and issued in a non-U.S. market, by a solvent U.S. institution (other than an insurance company) or that are assumed or guaranteed by a solvent U.S. institution (other than an insurance company) and that are not in default as to principal or interest if the obligations:
 - (a) Are rated A or higher (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC, or if not so rated, are similar in structure and other material respects to other obligations of the same institution that are so rated;
 - (b) Are insured by at least one authorized insurer (other than the investing insurer or a parent, subsidiary or affiliate of the investing insurer) licensed to insure obligations in this state and, after considering the insurance, are rated AAA (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC; or
 - (c) Have been designated as Class One or Class Two by the Securities Valuation Office of the NAIC;

- (3) Obligations issued, assumed or guaranteed by a solvent non-U.S. institution chartered in a country that is a member of the Organization for Economic Cooperation and Development or obligations of U.S. corporations issued in a non-U.S. currency, provided that in either case the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC;
- (4) An investment made pursuant to the provisions of Paragraph (1), (2) or (3) of this subsection shall be subject to the following additional limitations:
 - (a) An investment in or loan upon the obligations of an institution other than an institution that issues mortgage-related securities shall not exceed five percent (5%) of the assets of the trust;
 - (b) An investment in any one mortgage-related security shall not exceed five percent (5%) of the assets of the trust;
 - (c) The aggregate total investment in mortgage-related securities shall not exceed twenty-five percent (25%) of the assets of the trust; and
 - (d) Preferred or guaranteed shares issued or guaranteed by a solvent U.S. institution are permissible investments if all of the institution's obligations are eligible as investments under Paragraphs (2)(a) and (2)(c) of this subsection, but shall not exceed two percent (2%) of the assets of the trust.
- (5) As used in this regulation:
 - (a) "Mortgage-related security" means an obligation that is rated AA or higher (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the NAIC and that either:
 - (i) Represents ownership of one or more promissory notes or certificates of interest or participation in the notes (including any rights designed to assure servicing of, or the receipt or timeliness of receipt by the holders of the notes, certificates, or participation of amounts payable under, the notes, certificates or participation), that:
 - (I) Are directly secured by a first lien on a single parcel of real estate, including stock allocated to a dwelling unit in a residential cooperative housing corporation, upon which is located a dwelling or mixed residential and commercial structure, or on a residential manufactured home as defined in 42 U.S.C.A. Section 5402(6), whether the manufactured home is considered real or personal property under the laws of the state in which it is located; and
 - (II) Were originated by a savings and loan association, savings bank, commercial bank, credit union, insurance company, or similar institution that is supervised and examined by a federal or state housing authority, or by a mortgagee approved by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. Sections 1709 and 1715-b, or, where the notes involve a lien on the manufactured home, by an institution or by a financial institution approved for insurance by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. Section 1703; or
 - (ii) Is secured by one or more promissory notes or certificates of deposit or participations in the notes (with or without recourse to the insurer of the notes) and, by its terms, provides for payments of principal in relation to payments, or reasonable projections of payments, or notes meeting the requirements of Items (i)(I) and (i)(II) of this subsection;

- (b) “Promissory note,” when used in connection with a manufactured home, shall also include a loan, advance or credit sale as evidenced by a retail installment sales contract or other instrument.
- (6) Equity interests
- (a) Investments in common shares or partnership interests of a solvent U.S. institution are permissible if:
 - (i) Its obligations and preferred shares, if any, are eligible as investments under this subsection; and
 - (ii) The equity interests of the institution (except an insurance company) are registered on a national securities exchange as provided in the Securities Exchange Act of 1934, 15 U.S.C. §§ 78a to 78kk or otherwise registered pursuant to that Act, and if otherwise registered, price quotations for them are furnished through a nationwide automated quotations system approved by the Financial Industry Regulatory Authority, or successor organization. A trust shall not invest in equity interests under this paragraph an amount exceeding one percent (1%) of the assets of the trust even though the equity interests are not so registered and are not issued by an insurance company;
 - (b) Investments in common shares of a solvent institution organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development, if:
 - (i) All its obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC; and
 - (ii) The equity interests of the institution are registered on a securities exchange regulated by the government of a country that is a member of the Organization for Economic Cooperation and Development;
 - (c) An investment in or loan upon any one institution’s outstanding equity interests shall not exceed one percent (1%) of the assets of the trust. The cost of an investment in equity interests made pursuant to this paragraph, when added to the aggregate cost of other investments in equity interests then held pursuant to this paragraph, shall not exceed ten percent (10%) of the assets in the trust;
- (7) Obligations issued, assumed or guaranteed by a multinational development bank, provided the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC.

Drafting Note: Banks such as the International Bank for Reconstruction and Development, European Bank for Reconstruction and Development, Inter-American Development Bank, Asian Development Bank, African Development Bank, International Finance Corporation are intended to qualify under this section.

- (8) Investment companies
- (a) Securities of an investment company registered pursuant to the Investment Company Act of 1940, 15 U.S.C. § 80a, are permissible investments if the investment company:
 - (i) Invests at least ninety percent (90%) of its assets in the types of securities that qualify as an investment under Paragraph (1), (2) or (3) of this subsection or invests in securities that are determined by the commissioner to be substantively similar to the types of securities set forth in Paragraph (1), (2) or (3) of this subsection; or
 - (ii) Invests at least ninety percent (90%) of its assets in the types of equity interests that qualify as an investment under Paragraph (6)(a) of this subsection;

- (b) Investments made by a trust in investment companies under this paragraph shall not exceed the following limitations:
 - (i) An investment in an investment company qualifying under Subparagraph (a)(i) of this paragraph shall not exceed ten percent (10%) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall not exceed twenty-five percent (25%) of the assets in the trust; and
 - (ii) Investments in an investment company qualifying under Subparagraph (a)(ii) of this paragraph shall not exceed five percent (5%) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall be included when calculating the permissible aggregate value of equity interests pursuant to Paragraph (6)(a) of this subsection.

(9) Letters of Credit

- (a) In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement (as duly approved by the commissioner), to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.
- (b) The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence and/or willful misconduct.

F. A specific security provided to a ceding insurer by an assuming insurer pursuant to Section 9 of this regulation shall be applied, until exhausted, to the payment of liabilities of the assuming insurer to the ceding insurer holding the specific security prior to, and as a condition precedent for, presentation of a claim by the ceding insurer for payment by a trustee of a trust established by the assuming insurer pursuant to this section.

Section 8. Credit for Reinsurance—Certified Reinsurers

A. Pursuant to [cite state law equivalent of Section 2E of the Credit for Reinsurance Model Law], the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that has been certified as a reinsurer in this state at all times for which statutory financial statement credit for reinsurance is claimed under this section. The credit allowed shall be based upon the security held by or on behalf of the ceding insurer in accordance with a rating assigned to the certified reinsurer by the commissioner. The security shall be in a form consistent with the provisions of [cite state law equivalent of Section 2E and Section 3 of the Credit for Reinsurance Model Law] and 11, 12 or 13 of this Regulation. The amount of security required in order for full credit to be allowed shall correspond with the following requirements:

(1) Ratings	Security Required
Secure – 1	0%
Secure – 2	10%
Secure – 3	20%
Secure – 4	50%
Secure – 5	75%
Vulnerable – 6	100%

(2) Affiliated reinsurance transactions shall receive the same opportunity for reduced security requirements as all other reinsurance transactions.

- (3) The commissioner shall require the certified reinsurer to post one hundred percent (100%), for the benefit of the ceding insurer or its estate, security upon the entry of an order of rehabilitation, liquidation or conservation against the ceding insurer.
- (4) In order to facilitate the prompt payment of claims, a certified reinsurer shall not be required to post security for catastrophe recoverables for a period of one year from the date of the first instance of a liability reserve entry by the ceding company as a result of a loss from a catastrophic occurrence as recognized by the commissioner. The one year deferral period is contingent upon the certified reinsurer continuing to pay claims in a timely manner. Reinsurance recoverables for only the following lines of business as reported on the NAIC annual financial statement related specifically to the catastrophic occurrence will be included in the deferral:
 - (a) Line 1: Fire
 - (b) Line 2: Allied Lines
 - (c) Line 3: Farmowners multiple peril
 - (d) Line 4: Homeowners multiple peril
 - (e) Line 5: Commercial multiple peril
 - (f) Line 9: Inland Marine
 - (g) Line 12: Earthquake
 - (h) Line 21: Auto physical damage
- (5) Credit for reinsurance under this section shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the certification of the assuming insurer. Any reinsurance contract entered into prior to the effective date of the certification of the assuming insurer that is subsequently amended after the effective date of the certification of the assuming insurer, or a new reinsurance contract, covering any risk for which collateral was provided previously, shall only be subject to this section with respect to losses incurred and reserves reported from and after the effective date of the amendment or new contract.
- (6) Nothing in this section shall prohibit the parties to a reinsurance agreement from agreeing to provisions establishing security requirements that exceed the minimum security requirements established for certified reinsurers under this section.

B. Certification Procedure.

- (1) The commissioner shall post notice on the insurance department's website promptly upon receipt of any application for certification, including instructions on how members of the public may respond to the application. The commissioner may not take final action on the application until at least thirty (30) days after posting the notice required by this paragraph.

Drafting Note: States that do not wish to make the internet the required mechanism for providing public notice should modify this provision accordingly. This provision was intended to provide a less formal notice requirement than is typically called for under state Administrative Procedure Acts.

- (2) The commissioner shall issue written notice to an assuming insurer that has made application and been approved as a certified reinsurer. Included in such notice shall be the rating assigned the certified reinsurer in accordance with Subsection A of this section. The commissioner shall publish a list of all certified reinsurers and their ratings.
- (3) In order to be eligible for certification, the assuming insurer shall meet the following requirements:
 - (a) The assuming insurer must be domiciled and licensed to transact insurance or reinsurance in a Qualified Jurisdiction, as determined by the commissioner pursuant to Subsection C of this section.

- (b) The assuming insurer must maintain capital and surplus, or its equivalent, of no less than \$250,000,000 calculated in accordance with Subparagraph (4)(h) of this subsection. This requirement may also be satisfied by an association including incorporated and individual unincorporated underwriters having minimum capital and surplus equivalents (net of liabilities) of at least \$250,000,000 and a central fund containing a balance of at least \$250,000,000.
 - (c) The assuming insurer must maintain financial strength ratings from two or more rating agencies deemed acceptable by the commissioner. These ratings shall be based on interactive communication between the rating agency and the assuming insurer and shall not be based solely on publicly available information. These financial strength ratings will be one factor used by the commissioner in determining the rating that is assigned to the assuming insurer. Acceptable rating agencies include the following:
 - (i) Standard & Poor’s;
 - (ii) Moody’s Investors Service;
 - (iii) Fitch Ratings;
 - (iv) A.M. Best Company; or
 - (v) Any other Nationally Recognized Statistical Rating Organization.
 - (d) The certified reinsurer must comply with any other requirements reasonably imposed by the commissioner.
- (4) Each certified reinsurer shall be rated on a legal entity basis, with due consideration being given to the group rating where appropriate, except that an association including incorporated and individual unincorporated underwriters that has been approved to do business as a single certified reinsurer may be evaluated on the basis of its group rating. Factors that may be considered as part of the evaluation process include, but are not limited to, the following:
- (a) The certified reinsurer’s financial strength rating from an acceptable rating agency. The maximum rating that a certified reinsurer may be assigned will correspond to its financial strength rating as outlined in the table below. The commissioner shall use the lowest financial strength rating received from an approved rating agency in establishing the maximum rating of a certified reinsurer. A failure to obtain or maintain at least two financial strength ratings from acceptable rating agencies will result in loss of eligibility for certification:

<u>Ratings</u>	<u>Best</u>	<u>S&P</u>	<u>Moody’s</u>	<u>Fitch</u>
Secure – 1	A++	AAA	Aaa	AAA
Secure – 2	A+	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-
Secure – 3	A	A+, A	A1, A2	A+, A
Secure – 4	A-	A-	A3	A-
Secure – 5	B++, B+	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-
Vulnerable – 6	B, B-C++, C+, C, C-, D, E, F	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	BB+, BB, BB-, B+, B, B-, CCC+, CC, CCC-, DD

- (b) The business practices of the certified reinsurer in dealing with its ceding insurers, including its record of compliance with reinsurance contractual terms and obligations;
 - (c) For certified reinsurers domiciled in the U.S., a review of the most recent applicable NAIC Annual Statement Blank, either Schedule F (for property/casualty reinsurers) or Schedule S (for life and health reinsurers);
 - (d) For certified reinsurers not domiciled in the U.S., a review annually of Form CR-F (for property/casualty reinsurers) or Form CR-S (for life and health reinsurers) (attached as exhibits to this regulation);
 - (e) The reputation of the certified reinsurer for prompt payment of claims under reinsurance agreements, based on an analysis of ceding insurers' Schedule F reporting of overdue reinsurance recoverables, including the proportion of obligations that are more than ninety (90) days past due or are in dispute, with specific attention given to obligations payable to companies that are in administrative supervision or receivership;
 - (f) Regulatory actions against the certified reinsurer;
 - (g) The report of the independent auditor on the financial statements of the insurance enterprise, on the basis described in paragraph (h) below;
 - (h) For certified reinsurers not domiciled in the U.S., audited financial statements (audited U.S. GAAP basis if available, audited IFRS basis statements are allowed but must include an audited footnote reconciling equity and net income to a U.S. GAAP basis, or, with the permission of the state insurance commissioner, audited IFRS statements with reconciliation to U.S. GAAP certified by an officer of the company), regulatory filings, and actuarial opinion (as filed with the non-U.S. jurisdiction supervisor). Upon the initial application for certification, the commissioner will consider audited financial statements for the last three (3) years filed with its non-U.S. jurisdiction supervisor;
 - (i) The liquidation priority of obligations to a ceding insurer in the certified reinsurer's domiciliary jurisdiction in the context of an insolvency proceeding;
 - (j) A certified reinsurer's participation in any solvent scheme of arrangement, or similar procedure, which involves U.S. ceding insurers. The commissioner shall receive prior notice from a certified reinsurer that proposes participation by the certified reinsurer in a solvent scheme of arrangement; and
 - (k) Any other information deemed relevant by the commissioner.
- (5) Based on the analysis conducted under Subparagraph (4)(e) of a certified reinsurer's reputation for prompt payment of claims, the commissioner may make appropriate adjustments in the security the certified reinsurer is required to post to protect its liabilities to U.S. ceding insurers, provided that the commissioner shall, at a minimum, increase the security the certified reinsurer is required to post by one rating level under Subparagraph (4)(a) if the commissioner finds that:
- (a) More than fifteen percent (15%) of the certified reinsurer's ceding insurance clients have overdue reinsurance recoverables on paid losses of ninety (90) days or more which are not in dispute and which exceed \$100,000 for each cedent; or
 - (b) The aggregate amount of reinsurance recoverables on paid losses which are not in dispute that are overdue by ninety (90) days or more exceeds \$50,000,000.

- (6) The assuming insurer must submit a properly executed Form CR-1 (attached as an exhibit to this regulation) as evidence of its submission to the jurisdiction of this state, appointment of the commissioner as an agent for service of process in this state, and agreement to provide security for one hundred percent (100%) of the assuming insurer's liabilities attributable to reinsurance ceded by U.S. ceding insurers if it resists enforcement of a final U.S. judgment. The commissioner shall not certify any assuming insurer that is domiciled in a jurisdiction that the commissioner has determined does not adequately and promptly enforce final U.S. judgments or arbitration awards.
- (7) The certified reinsurer must agree to meet applicable information filing requirements as determined by the commissioner, both with respect to an initial application for certification and on an ongoing basis. All information submitted by certified reinsurers which are not otherwise public information subject to disclosure shall be exempted from disclosure under [cite state law equivalent of Freedom of Information Act] and shall be withheld from public disclosure. The applicable information filing requirements are, as follows:
 - (a) Notification within ten (10) days of any regulatory actions taken against the certified reinsurer, any change in the provisions of its domiciliary license or any change in rating by an approved rating agency, including a statement describing such changes and the reasons therefore;
 - (b) Annually, Form CR-F or CR-S, as applicable [per the instructions to be developed as an exhibit to this model];
 - (c) Annually, the report of the independent auditor on the financial statements of the insurance enterprise, on the basis described in Subsection (d) below;
 - (d) Annually, audited financial statements (audited U.S. GAAP basis if available, audited IFRS basis statements are allowed but must include an audited footnote reconciling equity and net income to a U.S. GAAP basis, or, with the permission of the state insurance commissioner, audited IFRS statements with reconciliation to U.S. GAAP certified by an officer of the company), regulatory filings, and actuarial opinion (as filed with the certified reinsurer's supervisor). Upon the initial certification, audited financial statements for the last three (3) years filed with the certified reinsurer's supervisor;
 - (e) At least annually, an updated list of all disputed and overdue reinsurance claims regarding reinsurance assumed from U.S. domestic ceding insurers;
 - (f) A certification from the certified reinsurer's domestic regulator that the certified reinsurer is in good standing and maintains capital in excess of the jurisdiction's highest regulatory action level; and
 - (g) Any other information that the commissioner may reasonably require.
- (8) Change in Rating or Revocation of Certification.
 - (a) In the case of a downgrade by a rating agency or other disqualifying circumstance, the commissioner shall upon written notice assign a new rating to the certified reinsurer in accordance with the requirements of Subparagraph (4)(a).
 - (b) The commissioner shall have the authority to suspend, revoke, or otherwise modify a certified reinsurer's certification at any time if the certified reinsurer fails to meet its obligations or security requirements under this section, or if other financial or operating results of the certified reinsurer, or documented significant delays in payment by the certified reinsurer, lead the commissioner to reconsider the certified reinsurer's ability or willingness to meet its contractual obligations.

- (c) If the rating of a certified reinsurer is upgraded by the commissioner, the certified reinsurer may meet the security requirements applicable to its new rating on a prospective basis, but the commissioner shall require the certified reinsurer to post security under the previously applicable security requirements as to all contracts in force on or before the effective date of the upgraded rating. If the rating of a certified reinsurer is downgraded by the commissioner, the commissioner shall require the certified reinsurer to meet the security requirements applicable to its new rating for all business it has assumed as a certified reinsurer.
- (d) Upon revocation of the certification of a certified reinsurer by the commissioner, the assuming insurer shall be required to post security in accordance with Section 10 in order for the ceding insurer to continue to take credit for reinsurance ceded to the assuming insurer. If funds continue to be held in trust in accordance with Section 7, the commissioner may allow additional credit equal to the ceding insurer's *pro rata* share of such funds, discounted to reflect the risk of uncollectibility and anticipated expenses of trust administration. Notwithstanding the change of a certified reinsurer's rating or revocation of its certification, a domestic insurer that has ceded reinsurance to that certified reinsurer may not be denied credit for reinsurance for a period of three (3) months for all reinsurance ceded to that certified reinsurer, unless the reinsurance is found by the commissioner to be at high risk of uncollectibility.

C. Qualified Jurisdictions.

- (1) If, upon conducting an evaluation under this section with respect to the reinsurance supervisory system of any non-U.S. assuming insurer, the commissioner determines that the jurisdiction qualifies to be recognized as a qualified jurisdiction, the commissioner shall publish notice and evidence of such recognition in an appropriate manner. The commissioner may establish a procedure to withdraw recognition of those jurisdictions that are no longer qualified.
- (2) In order to determine whether the domiciliary jurisdiction of a non-U.S. assuming insurer is eligible to be recognized as a qualified jurisdiction, the commissioner shall evaluate the reinsurance supervisory system of the non-U.S. jurisdiction, both initially and on an ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition afforded by the non-U.S. jurisdiction to reinsurers licensed and domiciled in the U.S. The commissioner shall determine the appropriate approach for evaluating the qualifications of such jurisdictions, and create and publish a list of jurisdictions whose reinsurers may be approved by the commissioner as eligible for certification. A qualified jurisdiction must agree to share information and cooperate with the commissioner with respect to all certified reinsurers domiciled within that jurisdiction. Additional factors to be considered in determining whether to recognize a qualified jurisdiction, in the discretion of the commissioner, include but are not limited to the following:
 - (a) The framework under which the assuming insurer is regulated.
 - (b) The structure and authority of the domiciliary regulator with regard to solvency regulation requirements and financial surveillance.
 - (c) The substance of financial and operating standards for assuming insurers in the domiciliary jurisdiction.
 - (d) The form and substance of financial reports required to be filed or made publicly available by reinsurers in the domiciliary jurisdiction and the accounting principles used.
 - (e) The domiciliary regulator's willingness to cooperate with U.S. regulators in general and the commissioner in particular.
 - (f) The history of performance by assuming insurers in the domiciliary jurisdiction.

- (g) Any documented evidence of substantial problems with the enforcement of final U.S. judgments in the domiciliary jurisdiction. A jurisdiction will not be considered to be a qualified jurisdiction if the commissioner has determined that it does not adequately and promptly enforce final U.S. judgments or arbitration awards.
 - (h) Any relevant international standards or guidance with respect to mutual recognition of reinsurance supervision adopted by the International Association of Insurance Supervisors or successor organization.
 - (i) Any other matters deemed relevant by the commissioner.
- (3) A list of qualified jurisdictions shall be published through the NAIC Committee Process. The commissioner shall consider this list in determining qualified jurisdictions. If the commissioner approves a jurisdiction as qualified that does not appear on the list of qualified jurisdictions, the commissioner shall provide thoroughly documented justification with respect to the criteria provided under Subsections 8.C(2)(a) to (i).
- (4) U.S. jurisdictions that meet the requirements for accreditation under the NAIC financial standards and accreditation program shall be recognized as qualified jurisdictions.

D. Recognition of Certification Issued by an NAIC Accredited Jurisdiction.

- (1) If an applicant for certification has been certified as a reinsurer in an NAIC accredited jurisdiction, the commissioner has the discretion to defer to that jurisdiction's certification, and to defer to the rating assigned by that jurisdiction, if the assuming insurer submits a properly executed Form CR-1 and such additional information as the commissioner requires. The assuming insurer shall be considered to be a certified reinsurer in this state.
- (2) Any change in the certified reinsurer's status or rating in the other jurisdiction shall apply automatically in this state as of the date it takes effect in the other jurisdiction. The certified reinsurer shall notify the commissioner of any change in its status or rating within 10 days after receiving notice of the change.
- (3) The commissioner may withdraw recognition of the other jurisdiction's rating at any time and assign a new rating in accordance with Subsection B(8) of this section.
- (4) The commissioner may withdraw recognition of the other jurisdiction's certification at any time, with written notice to the certified reinsurer. Unless the commissioner suspends or revokes the certified reinsurer's certification in accordance with Subsection B(8) of this section, the certified reinsurer's certification shall remain in good standing in this state for a period of three (3) months, which shall be extended if additional time is necessary to consider the assuming insurer's application for certification in this state.

E. Mandatory Funding Clause. In addition to the clauses required under Section 14, reinsurance contracts entered into or renewed under this section shall include a proper funding clause, which requires the certified reinsurer to provide and maintain security in an amount sufficient to avoid the imposition of any financial statement penalty on the ceding insurer under this section for reinsurance ceded to the certified reinsurer.

F. The commissioner shall comply with all reporting and notification requirements that may be established by the NAIC with respect to certified reinsurers and qualified jurisdictions.

Section 9. Credit for Reinsurance Required by Law

Pursuant to Section [cite state law equivalent of Section 2F of the Credit for Reinsurance Model Law], the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements of Section [cite state law equivalent of Sections 2A, B, C, D, E or other appropriate section of the of the Credit for Reinsurance Model Law] but only as to the insurance of risks located in jurisdictions where the reinsurance is required by the applicable law or regulation of that jurisdiction. As used in this section, “jurisdiction” means state, district or territory of the United States and any lawful national government.

Drafting Note: Examples of assuming insurers for which credit may be allowed under this section include state owned or controlled insurance or reinsurance companies or ceding company participation in pools, guaranty associations or residual market mechanisms required by statute, regulation or administrative order.

Section 10. Asset or Reduction from Liability for Reinsurance Ceded to an Unauthorized Assuming Insurer not Meeting the Requirements of Sections 4 through 9

A. Pursuant to Section [cite state law equivalent of Section 3 of the Credit for Reinsurance Model Law], the commissioner shall allow a reduction from liability for reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements of Section [cite state law equivalent of Section 2 or other appropriate section of the Credit for Reinsurance Model Law] in an amount not exceeding the liabilities carried by the ceding insurer. The reduction shall be in the amount of funds held by or on behalf of the ceding insurer, including funds held in trust for the exclusive benefit of the ceding insurer, under a reinsurance contract with such assuming insurer as security for the payment of obligations under the reinsurance contract. The security shall be held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer or, in the case of a trust, held in a qualified United States financial institution as defined in Section [cite state law equivalent of Section 4B of the Credit for Reinsurance Model Law]. This security may be in the form of any of the following:

- (1) Cash;
- (2) Securities listed by the Securities Valuation Office of the NAIC, including those deemed exempt from filing as defined by the Purposes and Procedures Manual of the Securities Valuation Office, and qualifying as admitted assets;
- (3) Clean, irrevocable, unconditional and “evergreen” letters of credit issued or confirmed by a qualified United States institution, as defined in Section [cite state law equivalent of Section 4A of the Credit for Reinsurance Model Law], effective no later than December 31 of the year for which filing is being made, and in the possession of, or in trust for, the ceding insurer on or before the filing date of its annual statement. Letters of credit meeting applicable standards of issuer acceptability as of the dates of their issuance (or confirmation) shall, notwithstanding the issuing (or confirming) institution’s subsequent failure to meet applicable standards of issuer acceptability, continue to be acceptable as security until their expiration, extension, renewal, modification or amendment, whichever first occurs; or
- (4) Any other form of security acceptable to the commissioner.

B. An admitted asset or a reduction from liability for reinsurance ceded to an unauthorized assuming insurer pursuant to this section shall be allowed only when the requirements of Section 14 and the applicable portions of Sections 11, 12 or 13 of this regulation have been satisfied.

Section 11. Trust Agreements Qualified under Section 10

- A. As used in this section:
- (1) “Beneficiary” means the entity for whose sole benefit the trust has been established and any successor of the beneficiary by operation of law. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).

Drafting Note: The NAIC has adopted the above definition as part of the “Uniform Letter of Credit.” However, the state may choose to utilize the following definition: “Beneficiary” includes any successor by operation of law of the named beneficiary, including without limitation any liquidator, rehabilitator, receiver or conservator.

- (2) “Grantor” means the entity that has established a trust for the sole benefit of the beneficiary. When established in conjunction with a reinsurance agreement, the grantor is the unlicensed, unaccredited assuming insurer.
- (3) “Obligations,” as used Subsection B(11) of this section means:
 - (a) Reinsured losses and allocated loss expenses paid by the ceding company, but not recovered from the assuming insurer;
 - (b) Reserves for reinsured losses reported and outstanding;
 - (c) Reserves for reinsured losses incurred but not reported; and
 - (d) Reserves for allocated reinsured loss expenses and unearned premiums.

B. Required conditions.

- (1) The trust agreement shall be entered into between the beneficiary, the grantor and a trustee, which shall be a qualified United States financial institution as defined in Section [insert citation to state law equivalent to Section 4B of the Credit for Reinsurance Model Law].
- (2) The trust agreement shall create a trust account into which assets shall be deposited.
- (3) All assets in the trust account shall be held by the trustee at the trustee’s office in the United States.
- (4) The trust agreement shall provide that:
 - (a) The beneficiary shall have the right to withdraw assets from the trust account at any time, without notice to the grantor, subject only to written notice from the beneficiary to the trustee;
 - (b) No other statement or document is required to be presented to withdraw assets, except that the beneficiary may be required to acknowledge receipt of withdrawn assets;
 - (c) It is not subject to any conditions or qualifications outside of the trust agreement; and
 - (d) It shall not contain references to any other agreements or documents except as provided for in Paragraphs (11) and (12) of this subsection.
- (5) The trust agreement shall be established for the sole benefit of the beneficiary.
- (6) The trust agreement shall require the trustee to:
 - (a) Receive assets and hold all assets in a safe place;
 - (b) Determine that all assets are in such form that the beneficiary, or the trustee upon direction by the beneficiary, may whenever necessary negotiate any such assets, without consent or signature from the grantor or any other person or entity;
 - (c) Furnish to the grantor and the beneficiary a statement of all assets in the trust account upon its inception and at intervals no less frequent than the end of each calendar quarter;
 - (d) Notify the grantor and the beneficiary within ten (10) days, of any deposits to or withdrawals from the trust account;

- (e) Upon written demand of the beneficiary, immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the assets held in the trust account to the beneficiary and deliver physical custody of the assets to the beneficiary; and
 - (f) Allow no substitutions or withdrawals of assets from the trust account, except on written instructions from the beneficiary, except that the trustee may, without the consent of but with notice to the beneficiary, upon call or maturity of any trust asset, withdraw such asset upon condition that the proceeds are paid into the trust account.
- (7) The trust agreement shall provide that at least thirty (30) days, but not more than forty-five (45) days, prior to termination of the trust account, written notification of termination shall be delivered by the trustee to the beneficiary.
- (8) The trust agreement shall be made subject to and governed by the laws of the state in which the trust is domiciled.
- (9) The trust agreement shall prohibit invasion of the trust corpus for the purpose of paying commission to, or reimbursing the expenses of, the trustee. In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement (as duly approved by the commissioner), to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.
- (10) The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence and/or willful misconduct.
- (11) Notwithstanding other provisions of this regulation, when a trust agreement is established in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:
- (a) To pay or reimburse the ceding insurer for the assuming insurer's share under the specific reinsurance agreement regarding any losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer, or for unearned premiums due to the ceding insurer if not otherwise paid by the assuming insurer;
 - (b) To make payment to the assuming insurer of any amounts held in the trust account that exceed 102 percent of the actual amount required to fund the assuming insurer's obligations under the specific reinsurance agreement; or
 - (c) Where the ceding insurer has received notification of termination of the trust account and where the assuming insurer's entire obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the obligations and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified U.S. financial institution as defined in Section [insert citation to state law equivalent of Section 4B of the Credit for Reinsurance Model Law] apart from its general assets, in trust for such uses and purposes specified in Subparagraphs (a) and (b) above as may remain executory after such withdrawal and for any period after the termination date.

- (12) Notwithstanding other provisions of this regulation, when a trust agreement is established to meet the requirements of Section 10 in conjunction with a reinsurance agreement covering life, annuities or accident and health risks, where it is customary to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:
- (a) To pay or reimburse the ceding insurer for:
 - (i) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of the policies; and
 - (ii) The assuming insurer's share under the specific reinsurance agreement of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurer, under the terms and provisions of the policies reinsured under the reinsurance agreement;
 - (b) To pay to the assuming insurer amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer; or
 - (c) Where the ceding insurer has received notification of termination of the trust and where the assuming insurer's entire obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer's share of liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer, and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified U.S. financial institution apart from its general assets, in trust for the uses and purposes specified in Subparagraphs (a) and (b) of this paragraph as may remain executory after withdrawal and for any period after the termination date.
- (13) Either the reinsurance agreement or the trust agreement must stipulate that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States bank and payable in United States dollars, and investments permitted by the Insurance Code or any combination of the above, provided investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed five percent (5%) of total investments. The agreement may further specify the types of investments to be deposited. If the reinsurance agreement covers life, annuities or accident and health risks, then the provisions required by this paragraph must be included in the reinsurance agreement.

C. Permitted conditions.

- (1) The trust agreement may provide that the trustee may resign upon delivery of a written notice of resignation, effective not less than ninety (90) days after the beneficiary and grantor receive the notice and that the trustee may be removed by the grantor by delivery to the trustee and the beneficiary of a written notice of removal, effective not less than ninety (90) days after the trustee and the beneficiary receive the notice, provided that no such resignation or removal shall be effective until a successor trustee has been duly appointed and approved by the beneficiary and the grantor and all assets in the trust have been duly transferred to the new trustee.
- (2) The grantor may have the full and unqualified right to vote any shares of stock in the trust account and to receive from time to time payments of any dividends or interest upon any shares of stock or obligations included in the trust account. Any interest or dividends shall be either forwarded promptly upon receipt to the grantor or deposited in a separate account established in the grantor's name.

- (3) The trustee may be given authority to invest, and accept substitutions of, any funds in the account, provided that no investment or substitution shall be made without prior approval of the beneficiary, unless the trust agreement specifies categories of investments acceptable to the beneficiary and authorizes the trustee to invest funds and to accept substitutions that the trustee determines are at least equal in current fair market value to the assets withdrawn and that are consistent with the restrictions in Subsection D(1)(b) of this section.
- (4) The trust agreement may provide that the beneficiary may at any time designate a party to which all or part of the trust assets are to be transferred. Transfer may be conditioned upon the trustee receiving, prior to or simultaneously, other specified assets.
- (5) The trust agreement may provide that, upon termination of the trust account, all assets not previously withdrawn by the beneficiary shall, with written approval by the beneficiary, be delivered over to the grantor.

D. Additional conditions applicable to reinsurance agreements:

- (1) A reinsurance agreement may contain provisions that:
 - (a) Require the assuming insurer to enter into a trust agreement and to establish a trust account for the benefit of the ceding insurer, and specifying what the agreement is to cover;
 - (b) Require the assuming insurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the direction of the ceding insurer, may whenever necessary negotiate these assets without consent or signature from the assuming insurer or any other entity;
 - (c) Require that all settlements of account between the ceding insurer and the assuming insurer be made in cash or its equivalent; and
 - (d) Stipulate that the assuming insurer and the ceding insurer agree that the assets in the trust account, established pursuant to the provisions of the reinsurance agreement, may be withdrawn by the ceding insurer at any time, notwithstanding any other provisions in the reinsurance agreement, and shall be utilized and applied by the ceding insurer or its successors in interest by operation of law, including without limitation any liquidator, rehabilitator, receiver or conservator of such company, without diminution because of insolvency on the part of the ceding insurer or the assuming insurer, only for the following purposes:
 - (i) To pay or reimburse the ceding insurer for:
 - (I) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement because of cancellations of such policies;
 - (II) The assuming insurer's share of surrenders and benefits or losses paid by the ceding insurer pursuant to the provisions of the policies reinsured under the reinsurance agreement; and
 - (III) Any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;
 - (ii) To make payment to the assuming insurer of amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer.

- (2) The reinsurance agreement also may contain provisions that:
- (a) Give the assuming insurer the right to seek approval from the ceding insurer, which shall not be unreasonably or arbitrarily withheld, to withdraw from the trust account all or any part of the trust assets and transfer those assets to the assuming insurer, provided:
 - (i) The assuming insurer shall, at the time of withdrawal, replace the withdrawn assets with other qualified assets having a current fair market value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount; or
 - (ii) After withdrawal and transfer, the current fair market value of the trust account is no less than 102 percent of the required amount.
 - (b) Provide for the return of any amount withdrawn in excess of the actual amounts required for Paragraph (1)(d) of this subsection, and for interest payments at a rate not in excess of the prime rate of interest on such amounts;
 - (c) Permit the award by any arbitration panel or court of competent jurisdiction of:
 - (i) Interest at a rate different from that provided in Subparagraph (b) of this paragraph;
 - (ii) Court or arbitration costs;
 - (iii) Attorney's fees; and
 - (iv) Any other reasonable expenses.
- E. Financial reporting. A trust agreement may be used to reduce any liability for reinsurance ceded to an unauthorized assuming insurer in financial statements required to be filed with this department in compliance with the provisions of this regulation when established on or before the date of filing of the financial statement of the ceding insurer. Further, the reduction for the existence of an acceptable trust account may be up to the current fair market value of acceptable assets available to be withdrawn from the trust account at that time, but such reduction shall be no greater than the specific obligations under the reinsurance agreement that the trust account was established to secure.
- F. Existing agreements. Notwithstanding the effective date of this regulation, any trust agreement or underlying reinsurance agreement in existence prior to [insert date] will continue to be acceptable until [insert date], at which time the agreements will have to fully comply with this regulation for the trust agreement to be acceptable.
- G. The failure of any trust agreement to specifically identify the beneficiary as defined in Subsection A of this section shall not be construed to affect any actions or rights that the commissioner may take or possess pursuant to the provisions of the laws of this state.

Section 12. Letters of Credit Qualified under Section 10

- A. The letter of credit must be clean, irrevocable, unconditional and issued or confirmed by a qualified United States financial institution as defined in Section [insert citation to state law equivalent of Section 4A of the Credit for Reinsurance Model Law]. The letter of credit shall contain an issue date and expiration date and shall stipulate that the beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds and that no other document need be presented. The letter of credit also shall indicate that it is not subject to any condition or qualifications outside of the letter of credit. In addition, the letter of credit itself shall not contain reference to any other agreements, documents or entities, except as provided in Subsection H(1) of Section 12. As used in this section, “beneficiary” means the domestic insurer for whose benefit the letter of credit has been established and any successor of the beneficiary by operation of law. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).

Drafting Note: The NAIC has adopted the above definition as part of the “Uniform Letter of Credit.” However, the state may choose to utilize the following definition: “Beneficiary” includes any successor by operation of law of the named beneficiary, including without limitation any liquidator, rehabilitator, receiver or conservator.

- B. The heading of the letter of credit may include a boxed section containing the name of the applicant and other appropriate notations to provide a reference for the letter of credit. The boxed section shall be clearly marked to indicate that such information is for internal identification purposes only.
- C. The letter of credit shall contain a statement to the effect that the obligation of the qualified United States financial institution under the letter of credit is in no way contingent upon reimbursement with respect thereto.
- D. The term of the letter of credit shall be for at least one year and shall contain an “evergreen clause” that prevents the expiration of the letter of credit without due notice from the issuer. The “evergreen clause” shall provide for a period of no less than thirty (30) days notice prior to expiration date or nonrenewal.
- E. The letter of credit shall state whether it is subject to and governed by the laws of this state or the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce Publication 600 (UCP 600) or International Standby Practices of the International Chamber of Commerce Publication 590 (ISP98), or any successor publication, and all drafts drawn thereunder shall be presentable at an office in the United States of a qualified United States financial institution.
- F. If the letter of credit is made subject to the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce Publication 600 (UCP 600) or International Standby Practices of the International Chamber of Commerce Publication 590 (ISP98), or any successor publication, then the letter of credit shall specifically address and provide for an extension of time to draw against the letter of credit in the event that one or more of the occurrences specified in Article 36 of Publication 600 or any other successor publication, occur.
- G. If the letter of credit is issued by a financial institution authorized to issue letters of credit, other than a qualified United States financial institution as described in Subsection A of this section, then the following additional requirements shall be met:
 - (1) The issuing financial institution shall formally designate the confirming qualified United States financial institution as its agent for the receipt and payment of the drafts; and
 - (2) The “evergreen clause” shall provide for thirty (30) days notice prior to expiration date for nonrenewal.

H. Reinsurance agreement provisions.

- (1) The reinsurance agreement in conjunction with which the letter of credit is obtained may contain provisions that:
 - (a) Require the assuming insurer to provide letters of credit to the ceding insurer and specify what they are to cover;
 - (b) Stipulate that the assuming insurer and ceding insurer agree that the letter of credit provided by the assuming insurer pursuant to the provisions of the reinsurance agreement may be drawn upon at any time, notwithstanding any other provisions in the agreement, and shall be utilized by the ceding insurer or its successors in interest only for one or more of the following reasons:
 - (i) To pay or reimburse the ceding insurer for:
 - (I) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurers, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of such policies;
 - (II) The assuming insurer's share, under the specific reinsurance agreement, of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurers, under the terms and provisions of the policies reinsured under the reinsurance agreement; and
 - (III) Any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;
 - (ii) Where the letter of credit will expire without renewal or be reduced or replaced by a letter of credit for a reduced amount and where the assuming insurer's entire obligations under the reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer's share of the liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer and exceed the amount of any reduced or replacement letter of credit, and deposit those amounts in a separate account in the name of the ceding insurer in a qualified U.S. financial institution apart from its general assets, in trust for such uses and purposes specified in Subsection H(1)(b)(i) of this section as may remain after withdrawal and for any period after the termination date.
 - (c) All of the provisions of Paragraph (1) of this subsection shall be applied without diminution because of insolvency on the part of the ceding insurer or assuming insurer.
- (2) Nothing contained Paragraph (1) of this subsection shall preclude the ceding insurer and assuming insurer from providing for:
 - (a) An interest payment, at a rate not in excess of the prime rate of interest, on the amounts held pursuant to Subparagraph (1)(b) of this subsection; or
 - (b) The return of any amounts drawn down on the letters of credit in excess of the actual amounts required for the above or any amounts that are subsequently determined not to be due.

Section 13. Other Security

A ceding insurer may take credit for unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.

Section 14. Reinsurance Contract

Credit will not be granted, nor an asset or reduction from liability allowed, to a ceding insurer for reinsurance effected with assuming insurers meeting the requirements of Sections 4, 5, 6, 7, 8 or 10 of this regulation or otherwise in compliance with Section [cite state law equivalent of Section 2 of the Credit for Reinsurance Model Law] after the adoption of this regulation unless the reinsurance agreement:

- A. Includes a proper insolvency clause, which stipulates that reinsurance is payable directly to the liquidator or successor without diminution regardless of the status of the ceding company, pursuant to Section [insert appropriate number] of the Insurance Code;
- B. Includes a provision pursuant to Section [cite state law equivalent to Section 2 of the Credit for Reinsurance Model Law] whereby the assuming insurer, if an unauthorized assuming insurer, has submitted to the jurisdiction of an alternative dispute resolution panel or court of competent jurisdiction within the United States, has agreed to comply with all requirements necessary to give the court or panel jurisdiction, has designated an agent upon whom service of process may be effected, and has agreed to abide by the final decision of the court or panel; and
- C. Includes a proper reinsurance intermediary clause, if applicable, which stipulates that the credit risk for the intermediary is carried by the assuming insurer.

Drafting Note: It is recognized that credit for reinsurance may be affected by other sections of the adopting state's code, e.g., the statutory insolvency or intermediary clauses. It is recommended that states that have statutory insolvency or intermediary clauses consider incorporating those clauses into this regulation.

Section 15. Contracts Affected

All new and renewal reinsurance transactions entered into after [insert date] shall conform to the requirements of the Act and this regulation if credit is to be given to the ceding insurer for such reinsurance.

Chronological Summary of Actions (all references are to the Proceedings of the NAIC).

1991 Proc. 19, 18, 908,926-927, 930-939 (adopted).
1996 Proc. 3rd Quarter 9, 41, 1109, 1111, 1112-1125 (amended and reprinted).
2001 Proc. 1st Quarter 17, 738, 862, 863-872 (amended).
2006 Proc. 2nd Quarter 40, 91-93 (amended).
2011 Proc. 3rd Quarter Vol. I 113-114, 126, 131-137, 237-288, 300-339 (amended).
2013 (editorial revisions).

FORM AR-1

CERTIFICATE OF ASSUMING INSURER

I, _____, _____
(name of officer) (title of officer)

of _____, the assuming insurer
(name of assuming insurer)

under a reinsurance agreement with one or more insurers domiciled in

_____, hereby certify that
(name of state)

_____(“Assuming Insurer”):
(name of assuming insurer)

1. Submits to the jurisdiction of any court of competent jurisdiction in _____
(ceding insurer’s state of domicile)

for the adjudication of any issues arising out of the reinsurance agreement, agrees to comply with all requirements necessary to give such court jurisdiction, and will abide by the final decision of such court or any appellate court in the event of an appeal. Nothing in this paragraph constitutes or should be understood to constitute a waiver of Assuming Insurer’s rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. This paragraph is not intended to conflict with or override the obligation of the parties to the reinsurance agreement to arbitrate their disputes if such an obligation is created in the agreement.

2. Designates the Insurance Commissioner of _____
(ceding insurer’s state of domicile)

as its lawful attorney upon whom may be served any lawful process in any action, suit or proceeding arising out of the reinsurance agreement instituted by or on behalf of the ceding insurer.

3. Submits to the authority of the Insurance Commissioner of _____ to examine
(ceding insurer’s state of domicile)

its books and records and agrees to bear the expense of any such examination.

4. Submits with this form a current list of insurers domiciled in _____
(ceding insurer’s state of domicile)

reinsured by Assuming Insurer and undertakes to submit additions to or deletions from the list to the Insurance Commissioner at least once per calendar quarter.

Dated: _____
(name of assuming insurer)

BY: _____
(name of officer)

(title of officer)

FORM CR-1

CERTIFICATE OF CERTIFIED REINSURER

I, _____, _____
(name of officer) (title of officer)

of _____, the assuming insurer
(name of assuming insurer)

under a reinsurance agreement with one or more insurers domiciled in _____,
in order to be considered for approval in this state, hereby certify that (name of state)

_____ (“Assuming Insurer”):
(name of assuming insurer)

1. Submits to the jurisdiction of any court of competent jurisdiction in _____
(ceding insurer’s state of domicile)

for the adjudication of any issues arising out of the reinsurance agreement, agrees to comply with all requirements necessary to give such court jurisdiction, and will abide by the final decision of such court or any appellate court in the event of an appeal. Nothing in this paragraph constitutes or should be understood to constitute a waiver of Assuming Insurer’s rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. This paragraph is not intended to conflict with or override the obligation of the parties to the reinsurance agreement to arbitrate their disputes if such an obligation is created in the agreement.

2. Designates the Insurance Commissioner of _____
(ceding insurer’s state of domicile)

as its lawful attorney upon whom may be served any lawful process in any action, suit or proceeding arising out of the reinsurance agreement instituted by or on behalf of the ceding insurer.

3. Agrees to provide security in an amount equal to 100% of liabilities attributable to U.S. ceding insurers if it resists enforcement of a final U.S. judgment or properly enforceable arbitration award.

4. Agrees to provide notification within 10 days of any regulatory actions taken against it, any change in the provisions of its domiciliary license or any change in its rating by an approved rating agency, including a statement describing such changes and the reasons therefore.

5. Agrees to annually file information comparable to relevant provisions of the NAIC financial statement for use by insurance markets in accordance with [cite relevant provision of the state equivalent of the Credit for Reinsurance Model Regulation].

6. Agrees to annually file the report of the independent auditor on the financial statements of the insurance enterprise.

7. Agrees to annually file audited financial statements, regulatory filings, and actuarial opinion in accordance with [cite relevant provision of the state equivalent of the Credit for Reinsurance Model Regulation].

8. Agrees to annually file an updated list of all disputed and overdue reinsurance claims regarding reinsurance assumed from U.S. domestic ceding insurers.

9. Is in good standing as an insurer or reinsurer with the supervisor of its domiciliary jurisdiction.

Dated: _____
(name of assuming insurer)

BY: _____
(name of officer)

(title of officer)

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CREDIT FOR REINSURANCE MODEL REGULATION

This chart is intended to provide readers with additional information to more easily access state statutes, regulations, bulletins or administrative rulings related to the NAIC model. Such guidance provides readers with a starting point from which they may review how each state has addressed the model and the topic being covered. The NAIC Legal Division has reviewed each state’s activity in this area and has determined whether the citation most appropriately fits in the Model Adoption column or Related State Activity column based on the definitions listed below. The NAIC’s interpretation may or may not be shared by the individual states or by interested readers.

This chart does not constitute a formal legal opinion by the NAIC staff on the provisions of state law and should not be relied upon as such. Nor does this state page reflect a determination as to whether a state meets any applicable accreditation standards. Every effort has been made to provide correct and accurate summaries to assist readers in locating useful information. Readers should consult state law for further details and for the most current information.

CREDIT FOR REINSURANCE MODEL REGULATION

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CREDIT FOR REINSURANCE MODEL REGULATION

KEY:

MODEL ADOPTION: States that have citations identified in this column adopted the most recent version of the NAIC model in a **substantially similar manner**. This requires states to adopt the model in its entirety but does allow for variations in style and format. States that have adopted portions of the current NAIC model will be included in this column with an explanatory note.

RELATED STATE ACTIVITY: Examples of Related State Activity include but are not limited to: older versions of the NAIC model, statutes or regulations addressing the same subject matter, or other administrative guidance such as bulletins and notices. States that have citations identified in this column **only** (and nothing listed in the Model Adoption column) have **not** adopted the most recent version of the NAIC model in a **substantially similar manner**.

NO CURRENT ACTIVITY: No state activity on the topic as of the date of the most recent update. This includes states that have repealed legislation as well as states that have never adopted legislation.

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Alabama	ALA. AMIN. CODE r. 482-1-156-.01 to 482-1-156-.16 (2013).	
Alaska		ALASKA ADMIN. CODE tit. 3, §§ 21.620 to 21.695 (1994/2004) (previous version of model).
American Samoa	NO CURRENT ACTIVITY	
Arizona	ARIZ. ADMIN. CODE §§ 20-6-1601 to 20-6-1607 (2016).	
Arkansas	054-00-65 ARK. CODE R. §§ 1-15 (1996/2015).	
California	CAL. INS. CODE § 922.41 (2013); CAL. CODE REGS. tit. 10, §§ 2303 to 2303.25 (2006) (portions of model).	BULLETIN 97-5 (1997); BULLETIN 20112 (2011).
Colorado	3 COLO. CODE REGS. §702-3:3-3-3 (2014).	
Connecticut	CONN. AGENCIES REGS. §§ 38a-88-1 to 38a-88-12 (1991/2013).	BULLETIN FS-4AR-2014 (2014).
Delaware	18 DEL. ADMIN. CODE §§ 1003-1 to 1003-16 (2013/2015).	
District of Columbia		D.C. MUN. REGS. tit. 26, §§ 2800 to 2810 (1996) (previous version of model).
Florida	FLA. ADMIN. CODE ANN. r. 69O-144.001 to 144.010 (2008/2015).	FLA. STAT. § 624.610 (1959/2012).

CREDIT FOR REINSURANCE MODEL REGULATION

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Georgia	GA. COMP. R. & REGS. 120-2-78-.01 to 120-2-78-.15 (1997/2013).	
Guam	NO CURRENT ACTIVITY	
Hawaii	HAW. CODE R. §§ 16-168-1 to 16-168-13 (2016).	
Idaho	IDAHO ADMIN. CODE r. 18.01.75.1 to 18.01.75.112 (1995/2018).	
Illinois		ILL. ADMIN. CODE tit. 50, §§ 1104.10 to 1104.120 (1996/2009) (previous version of model).
Indiana	760 IND. ADMIN. CODE. 1-56-1 to 1-56-15 (2007/2014).	
Iowa	IOWA ADMIN. CODE r. 191-5.33 (1992/2013).	
Kansas		KAN. ADMIN. REGS. § 40-1-43 (1997/2002) (portions of previous version of model).
Kentucky		806 KY. ADMIN. REGS. 5:025 (1996) (previous version of model).
Louisiana	LA. ADMIN. CODE tit. 37, §§ XIII.3501 to XIII.3525 (Regulation No. 56) (1995/2013).	
Maine	02-031-740 ME. CODE R. §§ 1 to 17 (1993/2015).	
Maryland	MD. CODE REGS. 31.05.08.01 to 31.05.08.24 (1993/2014).	
Massachusetts	211 MASS. CODE REGS. 130.01 to 130.16 (1997/2016).	
Michigan		MICH. ADMIN. CODE r. 500.1121 to 500.1129 (1996/2011) (previous version of model).
Minnesota	MINN. STAT. §§ 60A.092 – 60A.097 (1991/2018).	
Mississippi	MISS. CODE R. 19-1:22.01 to 19-1:22.19 (2017).	
Missouri	MO. CODE REGS. ANN. tit. 20, § 200-2.100 (1991/2014).	BULLETIN 90-6 (1990).

CREDIT FOR REINSURANCE MODEL REGULATION

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
Montana	MONT. ADMIN. R.6.6.3810 to 6.6.3869 (2016).	
Nebraska	210 NEB. ADMIN. CODE §§ 65-001 to 65-14 (1995/2016).	
Nevada	NEV. ADMIN. CODE §§ 681A.250 to 681A.380 (1996/2016).	
New Hampshire	N.H. CODE AMIN. R. ANN. INS. 601.01 to 601.13 (1995/2013).	
New Jersey	N.J. ADMIN. CODE §§ 11:2-28.1 to 11:2-28.14 (1993/2012); N.J. ADMIN. CODE §§ 11:2-28.1 to 28.14 (1993/2012).	BULLETIN 2012-4 (2012).
New Mexico		N.M. ADMIN. CODE 13.2.8 (2016).
New York	N.Y. COMP. CODES R. & REGS. tit. 11, §§ 125.1 to 125.8 (1981/2013) (Regulation No. 20) (portions of model).	
North Carolina	NO CURRENT ACTIVITY	
North Dakota	N.D. ADMIN. CODE §§ 45-03-07.1-01 to 45-03-07.1-11; Form AR-1 to Form D (1995/2015).	
Northern Marianas	NO CURRENT ACTIVITY	
Ohio	OHIO ADMIN. CODE 3901:3-16 (1997/2014).	
Oklahoma	OKLA. ADMIN. CODE §§ 365:25-7-60 to 365:25-7-72 (1993/2017).	
Oregon		OR. ADMIN. R. 836-012-0000 to 836-012-0110 (1993/2002) (previous version of model); OR. ADMIN. R. 836-012-0300 to 836-012-0331 (1993/2009).
Pennsylvania	31 PA. CODE §§ 161.1 to 161.8 (1993/2013).	NOTICE 1-18-2014 (#1) (2014); NOTICE 1-25-2014 (#1 & #3) (2014).
Puerto Rico		P.R. RULE XCVIII (2012) (portions of previous version of model).
Rhode Island	11-5-59 R.I. CODE R. §§ 1 to 15; 11-5-59 R.I. CODE R. FORM AR-1; 11-5-59 R.I. CODE R. FORM CR-1 (2014).	

CREDIT FOR REINSURANCE MODEL REGULATION

NAIC MEMBER	MODEL ADOPTION	RELATED STATE ACTIVITY
South Carolina		S.C. CODE ANN. REGS. 69-53 (1994/2005) (previous version of model).
South Dakota	S.D. ADMIN. R. 20:06:31 (1995/2017).	
Tennessee		TENN. COMP. R. & REGS. 0780-1-63 (1995) (previous version of model).
Texas		28 TEX. ADMIN. CODE §§ 7.601 to 7.614 (1976/1995) (previous version of model).
Utah	UTAH ADMIN. CODE r. 590-173 (1997/2017).	
Vermont	97 VT. CODE R. § 3 (1997/2016).	
Virgin Islands	NO CURRENT ACTIVITY	
Virginia	14 VA. ADMIN. CODE §§ 5-300-10 to 5-300-170 (1992/2013).	VA. ADMIN. LETTER NO. 2012-11 (2012).
Washington	WASH. ADMIN. CODE 284-13-500 to 284-13-59508 (1993/2015).	
West Virginia		W. VA. CODE R. §§ 114-40-1 to 114-40-15 (1995/2004) (previous version of model).
Wisconsin		WIS. ADMIN. CODE INS. §§ 52.01 to 52.07 (1993/2002) (previous version of model).
Wyoming	INS. 50 WYO. CODE R. §§ 1 to 16 (1997/2018).	

CREDIT FOR REINSURANCE MODEL REGULATION

Proceeding Citations

Cited to the Proceedings of the NAIC

[For background information, it is recommended that the reader consult the proceeding citations of the Credit for Reinsurance Model Law.]

Section 1. Authority

When drafting amendments to the Credit for Reinsurance Model Law, the drafters concluded that some of the concerns could best be dealt with by developing regulations to implement the model. **1989 Proc. I 948.**

The working group agreed to use the New Hampshire regulation as a start for drafting a model regulation. **1989 Proc. II 728.**

A draft was discussed at the working group meeting in December of 1989. Several suggestions for changes were incorporated into the draft. **1990 Proc. IB 874.**

Section 2. Purpose

Section 3. Severability

Section 4. Credit for Reinsurance—Reinsurer Licensed in the State

An industry association commented on this section, suggesting that reserve credit should be allowed to reinsurers licensed as of the date of the inception of the agreement. The example given by the association showed situations where the reinsurer was licensed in one year and the ceding company was required to wait more than two years before taking a credit. The draft also suggested credit not be allowed until after the next examination which would mean it could be up to seven years before a credit appeared on an annual statement. The reference to examinations was subsequently removed. **1990 Proc. II 783.**

The working group decided to add a drafting note to Section 4 defining “statutory statement” as both quarterly and annual statements. **1991 Proc. IB 940.**

When the model was revised in 1996, the drafting note was substantially amended. Regulators had expressed concern that it might be unclear that the requirement for maintenance of an adequately funded trust fund was a perpetual rather than a periodic requirement. Information was added to the drafting note to clarify the concerns of the regulators. **1996 Proc. 3rd Quarter 1111.**

Section 5. Credit for Reinsurance—Accredited Reinsurers

The industry association offering comments on Section 4 had the same comments regarding Section 5. The draft of that section also allowed no credit until after the next examination so a possible 7-year lag could occur. Before the draft was adopted the provision about examinations was removed. **1990 Proc. II 784-785.**

A. A trade association representing life insurers suggested that Subsection A be revised to differentiate between life/health insurers and property/casualty insurers. The association said the exemption for companies with capital and surplus of \$20 million had its origin in the casualty insurance industry and was not appropriate for life, health and annuity coverages. The association pointed out that property and casualty risks that are subject to reinsurance are highly volatile, while life risks are more predictable and less volatile. With respect to the \$20 million requirement for capital and surplus applying to either casualty or life insurers to be granted reserve credit, the association opined that the requirement was arbitrary and not based on sound reasoning. **1995 Proc. 2nd Quarter 734-735.**

When discussing the proposed language, regulators expressed concerns regarding the relatively low levels of surplus proposed for life insurers and the potential difficulty that regulators might encounter in attempting to monitor compliance with the other proposed requirements set forth in the suggested revision. **1996 Proc. 1st Quarter 845.**

CREDIT FOR REINSURANCE MODEL REGULATION

Proceeding Citations

Cited to the Proceedings of the NAIC

Section 5A (cont.)

Another regulator expressed concern over the possibility that this provision might provide an unintended opportunity for licensed insurers to engage in fronting arrangements involving entities that would not be allowed to transact business directly in the state. **1996 Proc. 1st Quarter 845.**

Shortly before adoption of the model by the working group, the exemption for life reinsurers with less than \$20 million in surplus was deleted. **1996 Proc. 3rd Quarter 1127.**

Section 6. Credit for Reinsurance—Reinsurer Domiciled and Licensed in Another State

The industry association repeated the comment found under Section 4, suggesting there was an unacceptable time lag. The draft for this section was also changed to eliminate the reference to the examination. **1990 Proc. II 784.**

At a November 1994 working group meeting, a regulator suggested Subsection A(1) be revised to refer to an accredited state. The other members of the working group agreed this was appropriate and language to that effect was added to the draft. It was later deleted. **1994 Proc. 4th Quarter 948, 960.**

The model originally referred in Paragraph (1) to an insurer domiciled *and licensed* in a state. The drafters discussed whether the term domiciled necessarily incorporated licensure. The group decided not to re-insert the words, but to add a drafting note to indicate that “domiciled” was understood to refer to a reinsurer to which a certificate of authority to transact insurance had been granted. **1996 Proc. 3rd Quarter 1128.**

Section 7. Credit for Reinsurance—Reinsurers Maintaining Trust Funds

A. When preparing amendments to the model, a regulator expressed concern that a reference to the “date of the ceding insurer’s statutory financial statement” might be read to imply that maintenance of an adequately funded trust fund was a periodic rather than a perpetual requirement. In response to a suggestion, the language was changed to “any date on which statutory financial statement credit for reinsurance is claimed.” **1996 Proc. 3rd Quarter 1128.**

B. Another suggestion by the drafting group was to break the language of Subsection B down into separate units to make it easier to understand. **1996 Proc. 3rd Quarter 1128.**

C. While developing amendments to the model, the task force considered a suggestion to change “trust instrument” to “trust agreement” in Paragraphs (1) and (2). The reason for the suggestion was to include not just the trust agreement, but also any side agreement that might be proposed. The task force decided to deal with that issue elsewhere and maintain the term “instrument” to match the wording from the model law. **2001 Proc. 1st Quarter 861.**

D. A trade association drafted suggested language to provide a definition of the term “liabilities” for possible use in the model regulation. While the language was not included in the final amendments, it served as a starting point for discussion. **1994 Proc. 1st Quarter 632, 634.**

Regulators observed that since trusts created pursuant to Section 2 of the model act contain assets to secure primary obligations, in addition to reinsurance obligations, the draft language needed to be amended to reflect primary losses. Revised language was presented for consideration. A regulator expressed concern that the draft language addressing qualified assets was not sufficiently stringent or detailed, and a third drafting approach was suggested. **1994 Proc. 2nd Quarter 873-874.**

An insurance trade association reviewed the suggested definition of liabilities and offered suggestions as to how it could be modified to reflect the differences between life/health and property/casualty reinsurance. Although the definition was refined further, this suggestion for bifurcating the types of coverage was carried into the final document. **1994 Proc. 4th Quarter 942.**

CREDIT FOR REINSURANCE MODEL REGULATION

Proceeding Citations

Cited to the Proceedings of the NAIC

Section 7 (cont.)

E. While defining “liabilities,” the technical resource advisors made a suggestion for more detailed provisions on qualified assets. Much of the language suggested was incorporated into the new subsection developed for the 1996 amendments. **1994 Proc. 2nd Quarter 873-876.**

A memo considered by the working group contained suggestions for specifying assets to be placed in the trust. The writer said it is widely recognized that corporations should diversify their holdings not only by type but also by geography. He proposed standards for diversified investment of the trust funds. Many of the recommendations were included in Subsection E. **1995 Proc. 2nd Quarter 727-728.**

A first draft containing the concepts in the memo appeared in the next meeting minutes. Much of the language was carried to the regulation adopted. **1995 Proc. 3rd Quarter 880-882.**

One regulator suggested that Paragraphs (3) and (4) were ambiguous. He said the term “mortgage related securities” was too broad and imprecise to stand without definition. Leaving the term undefined may underestimate the creativity of the financial markets to spawn new instruments related in some way to mortgages. **1995 Proc. 4th Quarter 1023-1024.**

It was noted at the next working group meeting that no response had been made to the earlier request for a more precise definition of the term “mortgage related securities.” A group of technical resource advisors concluded that this was a term that had a generally understood and accepted meaning. **1996 Proc. 1st Quarter 845.**

Language subsequently provided was from a state statute already in place. It served as the basis for Paragraph (5). **1996 Proc. 3rd Quarter 1132-1133.**

Interested parties had approached the task force suggesting changes to the reinsurance model law to permit a lower funding requirement for trustee alien reinsurers. Regulators were not receptive to this idea, and the chair suggested that interested parties develop other recommendations for consideration by the task force. **2000 Proc. 3rd Quarter 1052.**

At the next task force meeting, interested parties suggested an amendment to Section 7E to permit multiple beneficiary trust funds to be funded in whole or in part by clean, irrevocable, unconditional “evergreen” letters of credit issued or confirmed by a qualified U.S. institution. The interested parties opined that these were the equivalent of cash, since the trustee (as beneficiary of the letters of credit) would have an unrestricted right to draw down the letters in the event of a required payment to a ceding company. **2000 Proc. 4th Quarter 966-967.**

Regulators questioned whether the letters of credit would be used solely for funding 100% of the insurer’s liabilities attributable to reinsurance ceded by U.S. domiciled insurers or whether they would also be used to fund the minimum trustee surplus of not less than \$20 million pursuant to the Credit for Reinsurance Model Regulation. An interested party responded that the proposed amendment would allow letters of credit to be used to fund both. **2000 Proc. 4th Quarter 963.**

The task force decided to consider the amendments further, but did agree that the intent of the amendments was to continue 100% collateralization of the assuming insurer’s liabilities attributable to reinsurance ceded by U.S. domiciled insurers, and to allow letters of credit as collateral. **2000 Proc. 4th Quarter 964.**

Early the next year the task force considered another draft of the regulation. One regulator expressed concerns about the inherent risks of letters of credit, such as default of the bank or reinsurer, and questioned whether any changes are necessary to the model regulation, since U.S. insurers cannot record a letter of credit as an asset on their financial statements. Another regulator questioned the priority in drawing down letters of credit in the case of multiple letters of credit within the same bank. Regulators decided the model draft needed further consideration. **2001 Proc. 1st Quarter 878.**

CREDIT FOR REINSURANCE MODEL REGULATION

Proceeding Citations

Cited to the Proceedings of the NAIC

Section 7E (cont.)

One state provided a written analysis of the draft. The letter expressed the belief that an unconditional, “evergreen” letter of credit is almost as good as cash, assuming that the financial institution is financially sound and no fraud is involved. A letter of credit from an insolvent bank is an unsecured asset. **2001 Proc. 1st Quarter 873.**

The letter recommended that the model limit the amount that can be secured by letters of credit issued by a single financial institution, address potential conflict of interest, and incorporate a provision allowing side agreements. **2001 Proc. 1st Quarter 873.**

An interested party responded to the state department letter. He said it was not necessary to limit the size of a letter of credit issued by a single bank because banking regulators have a sophisticated regulatory regime that governs credit exposure limits and banks also have their own internal protections against undue credit exposures. He also noted that there were no insurance regulator limits on aggregate amounts of letters of credit outside of a reinsurance trust. Letters of credit issued within a trust should be reviewed as even more secure. Requiring reinsurers to obtain multiple letters of credit would significantly increase the cost of funding the trusts. **2001 Proc. 1st Quarter 873-874.**

The interested party also argued that there was no danger of conflict of interest where the financial institution issuing the letter of credit was also the trustee. The bank’s fiduciary obligations as a trustee will control its actions and prevent any conflict. **2001 Proc. 1st Quarter 874.**

The interested party also commented that there was no need for side agreements that the trustee would draw upon a letter of credit in the event the trustee received a notice of nonrenewal, as the bank would clearly breach its fiduciary duty if it simply permitted the assets of the trust to disappear. He expressed agreement to including this duty in some document. **2001 Proc. 1st Quarter 874.**

The task force decided to add a new Paragraph (9) concerning regulatory approval for a deed of trust or some other binding agreement. **2001 Proc. 1st Quarter 861-862.**

F. Technical resource advisors suggested adding this subsection in a memo written in early 1995. Their suggested language was adopted in the final version with only slight modifications. **1995 Proc. 1st Quarter 754.**

Section 8. Credit for Reinsurance Required by Law

When amendments were being considered in 1996, a suggestion was made to delete this entire section. Instead only minor modifications were made. **1996 Proc. 3rd Quarter 1118.**

Section 9. Reduction from Liability for Reinsurance Ceded to an Unauthorized Assuming Insurer Not Meeting the Requirements of Sections 4 through 8

Section 10. Trust Agreements Qualified Under Section 9

A. The published draft of December 1989 contained new language about liquidators. **1990 Proc. IB 881.** That language generated considerable controversy and the Uniform Letter of Credit Working Group was asked to draft language which would lessen the possibility of controversy and promote uniformity. **1990 Proc. II 784.** Their proposed language was later included in the draft. **1990 Proc. II 802.**

Shortly before adopting the model law, the working group included the drafting note to Section 10 with an alternative definition. **1991 Proc. IB 928.**

A life insurance association suggested that the terminology used in defining obligation was not appropriate to describe reinsurance of life, health and annuities. **1990 Proc. II 784.**

CREDIT FOR REINSURANCE MODEL REGULATION

Proceeding Citations

Cited to the Proceedings of the NAIC

Section 10 (cont.)

An association of life insurers protested the fact that the model regulation permitted the use of letters of credit trust agreements in connection with property/casualty insurance, but not in connection with life reinsurance. The life group members failed to see why such a trust was prohibited in connection with life reinsurance, and they recommended that this discrimination be corrected. The working group did not concur with the recommendations. **1991 Proc. IB 928-929.**

B. When amendments to the model were adopted in 1996, they included a new Paragraph (12), deletion of a phrase in Paragraph (13) and a new Paragraph (14). **1996 Proc. 3rd Quarter 1120-1121.**

When the model was amended in 2001, language was added at the end of Paragraphs (9) and (10) that was similar to that added as Section 7E(9)(a). **2001 Proc. 1st Quarter 769.**

The amendments specify that the trustee must have the right to draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries if the letter of credit will expire before being renewed or replaced. **2001 Proc. 1st Quarter 738.**

Section 11. Letters of Credit Qualified Under of Section 9

It was suggested that the title of the draft, which was simply “Letters of Credit,” be revised for clarity. **1990 Proc. II 784.**

A. Shortly before adopting the model law, the working group included the drafting note to Section 11 with an alternative definition. **1991 Proc. IB 928.**

B. Practitioners reported that the boxed section on letters of credit is always clearly marked to indicate the information is for internal identification only. An early draft (**1990 Proc. IB 894**) contained another phrase which was deleted because it was redundant and not current practice. **1990 Proc. II 784.**

Section 12. Other Security

Section 13. Reinsurance Contract

Shortly before finalizing the model the drafters added the references to Sections 6 and 7 to ensure that the requirements of these two sections were properly noted. **1991 Proc. IB 928.**

The drafting note to this section was added in 1996. **1996 Proc. 3rd Quarter 1125.**

Section 14. Contracts Affected

Form AR-1

This form was included in the model adopted in 1990. **1991 Proc. IB 938.**

The form was not changed when the model was amended in 1996. **1996 Proc. 3rd Quarter 1125.**

Just before adoption of a revised model in 1996, the working group was asked to consider adding to the appendix a copy of the Uniform Letter of Credit referenced in Section 11A. It was noted that Form AR-1 is a regulator’s document. The original signed document must be filed with the regulator and regulators are often expected to supply the blank form for proper execution. A regulator opined that the Uniform Letter of Credit did little, if anything, to enhance understanding or application of the regulation’s provisions. **1996 Proc. 3rd Quarter 1134.**

CREDIT FOR REINSURANCE MODEL REGULATION

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Chronological Summary of Actions

December 1990: Adopted model.

December 1996: Extensive amendments adopted to correspond to changes in model act.

June 2001: Amended Sections 7 and 10 regarding letters of credit.