STATE OF CONNECTICUT

INSURANCE DEPARTMENT

February 24, 2020

Mr. John Rehagen
Acting Chair, Reinsurance (E) Task Force
National Association of Insurance Commissioners
Via email: Dan Schelp (dschelp@naic.org)

Dear John:

Connecticut appreciates the opportunity to comment on the February 5, 2020 staff memo to the Reinsurance Task Force comparing the significant differences between AG48 and NAIC Model Regulation #787. We would also like to acknowledge the thoroughness of the staff review of the subject matter.

We concur that the primary difference between AG48 and Model #787 is the consequences to an insurer if the requirements of either are not met. AG48 merely calls for the filing of a qualified actuarial opinion, whereas Model #787 calls for the ceding insurer to establish a liability equal to the excess of the credit for reinsurance taken over the amount of Primary Security actually held.

Normally a qualified actuarial opinion generates a substantial (50%) increase in the Interest Rate Risk and Market Rate Risk factors used in determining minimum RBC requirements. However, the normal RBC penalty normally associated with a qualified actuarial opinion is not being applied in this instance. Instead, a dollar-for dollar addition to the reporting company's ACL RBC amount equal to the shortfall in Primary Security is mandated.

The staff memo notes the existence of a second potential RBC "penalty" related to cessions to captives. Since any such penalty is applicable to noncompliance with both AG48 and Model #787, we do not feel that penalty is germane to the discussion at hand.

The staff memo also notes that the Financial Regulation Standards and Accreditation (F) Committee chose to defer consideration of Model #787 as an accreditation standard in recognition of the impending adoption of the Covered Agreement. We would like to point out that the functional word is "defer", as the Committee's main consideration was to avoid asking states to revise their regulations and statues multiple times in a short time span. Hence the wording of the August 24, 2017 recommendation of the Reinsurance Task Force that "a state's adoption of AG48 will serve to satisfy this accreditation standard **until such time that** the state adopts the significant elements of Model #787".

Connecticut does not consider the consequences of a modest change to the cedant's RBC ratio to be substantially similar to reducing surplus by the entire excess of the credit for reinsurance taken over the amount of Primary Security actually held. Simply put, AG48 does not contemplate or effect a balance sheet adjustment. Further, we are aware that the drafters of Model #787 considered and ultimately rejected incorporating a more modest consequence of non-compliance that would have limited the balance sheet adjustment to the shortfall from full coverage of the Required Level of Primary Security.

Regards,

Kathy Belf

Kathy Belfi, CPA
Director, Financial Regulation