To: Reinsurance (E) Task Force Members, Interested Regulators and Interested Parties

From: Director John M. Huff (MO)

 Chair, Reinsurance (E) Task Force

Re: Reinsurance Collateral Amount Survey

##### Date: June 23, 2014

**Background and Purpose of Survey**

On November 6, 2011, the NAIC adopted revisions to the NAIC *Credit for Reinsurance Model Law* (#785) and *Credit for Reinsurance Model Regulation* (#786) (Credit for Reinsurance Models). These revisions serve to reduce reinsurance collateral requirements for certified reinsurers that are licensed and domiciled in qualified jurisdictions. Under the previous version of the Credit for Reinsurance Models, in order for U.S. ceding insurers to receive reinsurance credit, the reinsurance was required to be ceded to U.S.-licensed reinsurers or secured by collateral representing 100% of U.S. liabilities for which the credit is recorded.

The NAIC has committed to re-examine the collateral amounts within Model #785 and Model #786. The initial commitment to conduct this re-examination is derived from the *Reinsurance Regulatory Modernization Framework Proposal* (Reinsurance Framework), which the NAIC adopted in 2008. This provision was included in the Reinsurance Framework to acknowledge that the revised collateral amounts were not necessarily static or permanent, and that the NAIC is committed to monitor the impact of the revised models, considering adjustments in either direction in the future as the NAIC determines to be necessary or appropriate. Since that time, the NAIC has reaffirmed this commitment within the *Preface to Credit for Reinsurance Models*, as well as within the U.S.-European Union (EU) Dialogue Project. Finally, the Reinsurance (E) Task Force directed NAIC staff to develop a brief survey for this purpose and provide it to the Task Force for consideration, with further discussion planned during the 2014 NAIC Summer National Meeting.

The attached *Reinsurance Collateral Amount Survey* is being distributed to regulators (state, federal, and international) and interested parties in order to obtain an updated assessment of current thoughts with respect to the collateral amounts and other aspects of the revised models. We have also attached the *Collateral Requirements Under Revised Credit for Reinsurance Models* for your reference in completing the survey. It is intended information obtained from this survey will be beneficial to the NAIC’s ongoing analysis of the revised reinsurance models.

Please complete the survey and return your response to NAIC staff, Ryan Couch (rcouch@naic.org) or Daniel Schelp (dschelp@naic.org) by the close of business Friday, July 25, 2014.

**NAIC Reinsurance Collateral Amount Survey**

Responses to the reinsurance collateral amount survey are not confidential; however, any identifying information provided will be disaggregated by NAIC staff from individual responses and that identifying information will not be released, shared, or published.

**Responder Information**

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

🞎 I am completing this survey on behalf of the following organization and the responses contained herein are the opinions and positions of that organization. (If not applicable, respond not applicable):

Name and address of Organization: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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NAIC number, if applicable: \_\_\_\_\_\_\_\_\_\_\_\_

**Demographic Information**

Please mark one of the following categories that best describes you or your organization’s interest in reinsurance collateral amounts:

🞎 State Insurance Regulator

🞎 Federal Agency

🞎 Non-U.S. Governmental Jurisdiction

🞎 U.S. Ceding Insurance Company

🞎 U.S. Reinsurance Company

🞎 Non-U.S. Domiciled Reinsurance Company

🞎 Reinsurance Brokers or Intermediaries

🞎 Consumer Advocate

🞎 Other Interested Parties (please specify): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Survey Questions**

**Please respond fully to each question. If your response is none or not applicable, please respond none or not applicable.**

1. When the NAIC adopted the revised reinsurance collateral requirements in 2011, which response below most accurately reflects your position at that time with respect to these amounts?

🞎 100% collateral should be required

🞎 Amounts should be higher than what was adopted

🞎 Amounts are reasonable

🞎 Amounts should be lower than what was adopted

🞎 No collateral should be required

 Comments on 2011 position:

1. Which response below most accurately reflects your current position with respect to the revised reinsurance collateral amounts?

🞎 100% collateral should be required

🞎 Amounts should be higher than what was adopted

🞎 Amounts are reasonable

🞎 Amounts should be lower than what was adopted

🞎 No collateral should be required

 Comments on current position:

1. The current reinsurance collateral amounts fall within 6 rating tiers (e.g., Secure – 1, Secure – 2, etc.). Which response below most accurately reflects your opinion regarding the number of rating tiers and corresponding reinsurance collateral amounts?

🞎 Too many tiers

🞎 Appropriate number of tiers

🞎 Not enough tiers

 Based on your response to 2 and 3 above please describe how you would redesign the rating tiers:

1. Currently, the reinsurance collateral amounts are based upon both financial strength ratings of the certified reinsurer and other factors that should be considered by the commissioner. States are currently required to use the lowest financial strength rating received from an approved rating agency in establishing the maximum rating of a certified reinsurer. Which response below most accurately reflects your position with respect to the current role of financial strength ratings in determining reinsurance collateral amounts?

🞎 Strongly Agree

🞎 Agree

🞎 No opinion

🞎 Disagree

🞎 Strongly Disagree

1. If you disagree with the current role of financial strength ratings, what alternative factors should be used in lieu of financial strength ratings:

1. If you could redesign the financial strength rating table, describe how it would differ. If desired, attach an illustration:

1. Please provide any comments you may have with respect to how certified reinsurers provide collateral (e.g., the use of multi-beneficiary trust agreements) and your recommendations for improvement: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Please provide any other comments you have with respect to the reinsurance collateral amounts:

Thank you for completing this survey. Please return your response to NAIC staff, Ryan Couch (rcouch@naic.org) or Daniel Schelp (dschelp@naic.org) by the close of business Friday, July 25, 2014.

**Collateral Requirements Under Revised Credit for Reinsurance Models**

The revised credit for reinsurance models establish minimum collateral requirements based upon a risk assessment using ratings as depicted below:

**Ratings Security Required**

Secure – 1 0%

Secure – 2 10%

Secure – 3 20%

Secure – 4 50%

Secure – 5 75%

Vulnerable – 6 100%

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Ratings | Best | S&P | Moody’s | Fitch |
| 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 |

In order for a ceding insurer to be allowed full credit for reinsurance, the amount of collateral required to be held by or on behalf of the ceding insurer shall be no lower than the rating assigned to the certified reinsurer. The maximum rating that a certified reinsurer may be assigned will correspond to its financial strength rating as outlined in the table, above. Additional factors that can affect a regulator’s rating of a reinsurer include, but are not limited to, the following:

* The business practices of the certified reinsurer in dealing with its ceding insurers, including its record of compliance with reinsurance contractual terms and obligations.
* For U.S.-domiciled reinsurers, annual statement information concerning reinsurance transactions. For non-U.S. reinsurers, similar information provided on NAIC Forms CR-F and CR-S (relating to property-casualty and life insurance, respectively).
* The reputation of the certified reinsurer for prompt payment of claims under reinsurance agreements.
* Regulatory actions against the certified reinsurer.
* Independent auditor reports on financial statements of the insurance enterprise. For non-U.S. reinsurers, audited financial statements (as specifically described in Model #786), regulatory filings and actuarial opinions filed with the certified reinsurer’s jurisdiction.
* The liquidation priority of obligations to a ceding insurer in the certified reinsurer’s domiciliary jurisdiction in the context of an insolvency proceeding.
* A reinsurer’s participation in a solvent scheme of arrangement or similar procedure involving U.S. ceding insurers (a certified reinsurer must provide prior notice of such participation to state insurance commissioners).
* Any other information deemed relevant by the commissioner.