

Reinsurance (E) Task Force December 9 and 11, 2006

The Task Force received a presentation by interested parties concerning a proposal to amend the letter of credit issuer requirements in the NAIC Model Law and the SVO Purposes and Procedures Manual. The Task Force will establish a subgroup chaired by New York with Virginia, Maine and Washington, D.C. participating in order to review the issues and refer back to the Task Force with recommendations at some point in the future.

The Task Force received a presentation on a proposal to create an organization called the Reinsurance Evaluation Office (REO) to rate the financial strength of reinsurers doing business in the U.S., irrespective of the reinsurer's country of domicile. State insurance regulators, through the REO, would establish procedures for the evaluation of the financial strength and operating integrity of reinsurers and, based on the outcome of the evaluation, assign a rating (REO-1 through REO-6) to each reinsurer. These ratings will be affirmed or modified through periodic reviews by the REO. The analysis would incorporate insurance financial strength ratings assigned by nationally recognized statistical rating organizations ("NRSRO's"), operating integrity, business operations, claims paying history, management expertise and overall performance of reinsurers in assigning ratings ("credit criteria"). The amount of collateral posted by each reinsurer would depend on the rating it receives from the REO.

The presentation covered the major issues brought forward from interested parties and how the drafting group of the REO addressed those issues. The major issues from interested parties included, but were not limited to the need for regulatory change concerning credit for reinsurance, how the proposal would devalue a U.S. license, the delegation of authority to the REO, reliance on rating agencies, affiliate transactions, diversification of credit risk and the effect of downgrades on reinsurers required to post collateral. The presentation stipulated that NRSRO ratings would only be one part of the rating process. The calibration of the rating would also include the regulatory regime of the reinsurer.

The interested parties gave their reactions to the REO proposal which will be further discussed at a subsequent meeting of the Task Force on Monday, December 11.

December 11, 2006 Meeting

The Task Force recommended the NAIC that the regulation of reinsurance procedure be amended to focus on broad based risk and credit criteria and not solely on U.S. licensure status. In order to facilitate such a paradigm shift the Reinsurance Task Force further recommended that for purposes of collateral recalibration that the REO proposal be a basis of a risk-based evaluation process to be further refined by the E Committee no later than September 2007. The Reinsurance Task Force further recommended that the E Committee consider commercially reasonable means for the implementation of the new regime. Georgia, Alabama, California, District of Columbia, Florida, Illinois, Kentucky, Maine New Hampshire, New York, North Dakota, Pennsylvania, Puerto Rico, Texas and Virginia voted for the proposal with Connecticut, Minnesota, Nevada, Washington and Wisconsin voting against the proposal.