

NAIC

PORT OF ENTRY STATE CRITERIA FOR REINSURES SUPERVISED IN JURISDICTIONS APPROVED BY THE NAIC REINSURANCE SUPERVISION REVIEW DEPARTMENT AND U.S. LICENSED REINSURERS

I EXECUTIVE SUMMARY

During the Joint Meeting of the Executive Committee/Plenary on Sunday, March 5, 2006, the following charge to the Reinsurance Task Force was adopted:

"The Reinsurance (E) Task Force is directed to develop alternatives to the current reinsurance regulatory framework, including the use of collateral within the U.S. and abroad. Consider approaches that account for a reinsurer's financial strength regardless of domicile, i.e., state or country. Identify and consider variations in state law and regulation relative to reinsurance contracts, financial reporting, etc. As part of its deliberations, the Task Force should consult with international regulators in addition to all other interested parties. The Task Force shall present the proposal to the membership by the December 2006 national meeting."

With regard to reinsurance, the U.S. regulatory system takes both a direct and an indirect approach. The direct regulation applies only to U.S. authorized reinsurance companies. As with primary companies, the domiciliary regulator is responsible for performing periodic financial examinations and for ongoing solvency supervision; this is the state of incorporation for U.S.-based reinsurance companies and the state of entry for U.S. branches of companies based outside the U.S. Reinsurance is also regulated indirectly, through the process by which U.S. primary companies are given statutory credit on their balance sheet for risks they transfer via reinsurance. Full credit is virtually automatic if the reinsurer is subject to direct U.S. regulation. Otherwise, credit is only available if the reinsurer posts security in accordance with state laws based on the NAIC models.

In order for credit to be granted for reinsurance assumed from a U.S. cedent without posting collateral, the reinsurer must be licensed or accredited in the cedent's home state or in another U.S. state which has adopted the NAIC Credit for Reinsurance Model Law. The majority of reinsurers that post collateral are non-U.S. companies (because a U.S.-domiciled reinsurer must at a minimum be licensed in its domiciliary state). The security requirement for these unauthorized reinsurers has allowed U.S. regulators to avoid the need to assess the wide variety of regulatory systems in the reinsurers' home countries and reconcile their accounting and oversight frameworks to their U.S. equivalents. Although there are a variety of systems of regulation and accounting standards around the world, the differences between them and the U.S. are less material in the context of U.S. reinsurance regulation for solvency because reinsurance obligations of unauthorized reinsurers must be 100% collateralized in order for the ceding company to take balance sheet and income statement credit. Some reinsurers collateralize their obligations by establishing Multiple Beneficiary Trust Funds, which subjects them to some degree of direct U.S. regulation, including the obligation to: (a) file detailed quarterly financial reports to evidence adequacy of the trust fund; (b) provide details of retrocessions; (c) file audited annual reports including certification of reinsurance reserves by a qualified actuary; and (d) submit to the jurisdiction of the courts of the ceding insurer's state of domicile and accept service of process for purposes of enforcing the reinsurance agreement.

U.S. regulators are proposing to amend the credit for reinsurance laws to establish a regulatory system that distinguishes financially strong reinsurers from weak reinsurers, without relying exclusively on their state or country of domicile, with collateral to be determined as appropriate. This proposal would create Port of Entry criteria to rate the financial strength of reinsurers or group of reinsurers doing business in the U.S. State insurance regulators, through the Port of Entry criteria, will establish procedures for the evaluation of the financial strength and operating integrity of reinsurers or groups and, based on the outcome of the evaluation, assign a rating (Class 1 through Class-5) to each reinsurer. These ratings will be affirmed or modified through periodic reviews by the Port of Entry state. The analysis would incorporate insurance financial strength ratings assigned by nationally recognized statistical rating organizations ("NRSRO's"), the expertise of the NAIC and regulatory contributions for evaluating other key factors delineated in the proposal. The analysis will also include a review of the financial strength and 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 or group would depend on the rating it receives from the Port of Entry state insurance regulator.

Port of Entry State Criteria

Procedure to Grant Credit for Ceded Reinsurance

1. Overview

This proposal establishes enhanced regulatory requirements that will provide reasonable and prudent controls over the reinsurance credit risk exposure of U.S. ceding insurers. These rules will apply to all companies or groups that assume reinsurance liabilities ("reinsurers") from U.S. ceding insurers. The term "reinsurers" as used in this proposal shall include a group of reinsurers obtaining a Port of Entry rating under this proposal on a group basis.

The Port of Entry Regulatory Proposal was established by the National Association of Insurance Commissioners (NAIC) to create a regulatory framework for assessing the financial strength and performance of reinsurers doing business in the United States. The Port of Entry state criteria will provide ceding companies and their state regulators with information needed to determine the quality of reinsurers and to require appropriate amounts of collateral when needed.

Although the financial strength of the reinsurer is critical, the Reinsurance Supervision Review Department (RSRD) will look also at the quality of regulation to which the reinsurer is subject in its home jurisdiction. The Port of Entry state will also review the reinsurer's history of paying valid claims timely, its willingness to be bound by decisions of U.S. courts, and other appropriate criteria. Similarly a non-U.S. non-admitted reinsurer will be considered by a Port of Entry state in part on the quality of its home jurisdiction regulator. Each reinsurer from a RSRD approved jurisdiction that applies to be rated will be looked at on the merits of its financial strength and performance history and rated accordingly.

Any non-U.S. reinsurer may apply to be rated. Ceding companies may, but are not required to, use the ratings to determine which reinsurers they wish to do business with and on what terms, and may require more collateral than the rating suggests is necessary. Similarly regulators may, but are not required to, use the ratings to determine whether to grant credit to ceding companies for reinsurance purchased from rated companies, under certain circumstances.

U.S. ceding insurers will be permitted to take reinsurance credit, as an asset or deduction from liabilities, if the reinsurer meets its applicable collateral requirements and the reinsurance agreements meet other applicable regulatory requirements (e.g., insolvency clause, transfer of risk, agent for service of process, U.S. choice of law and court). Nothing in this proposal precludes ceding insurers from requiring a reinsurer, rated or not, to post additional collateral to secure some or all of its obligations, as a matter of commercial contractual commitment. Nor does anything in this proposal prohibit a ceding insurer from agreeing to an uncollateralized reinsurance agreement, but the cedent will not receive any reinsurance credit on its annual statement. However, if less collateral than the level required under this proposal is posted, in which case the amount of reinsurance credit shall not exceed the amount of any qualified collateral that is posted. The proposal calibrates the collateral amount and correlates it to an evaluation of the reinsurer in accordance with the credit criteria.

NRSRO financial strength ratings provide an opinion of the insurer's overall financial strength and ability to meet its policyholder obligations. As such, these ratings are

meant to be summary measures of investment quality, counterparty credit risk, and claims paying ability. The Port of Entry regulator will need to establish and implement methodologies that draw from both the marketplace and existing regulatory regimes.

Insurer financial strength ratings are relied upon by insurance agents, brokers, and consumers, are used by insurers in their advertising, and provide a tool for regulators to assess insurer risk. Because not all insurers are NRSRO rated, the Port of Entry regulator will need a process, consistent with current financial analysis techniques, for evaluating all entities that assume reinsurance from U.S. ceding insurers and that seek a rating, including those that do not have insurer financial strength ratings.

Some regulators have characterized the current system as deeming that reinsurance recoverables are 100% at risk if purchased from a non-U.S. company and is a risk-free enterprise if purchased from a U.S. company. Another frequent comment is that the current binary system of regulation does not adequately address the credit risk that reinsurance poses to the cedent's balance sheet. Finally, it has been noted that 96.4% of unaffiliated non-U.S. ceded premiums go to reinsurers in 10 countries; 85% of the total goes to Bermuda, UK, Germany and Switzerland, which have developed economies and sophisticated regulatory systems.

Balancing the technical issues related to solvency with those related to market fairness requires vigilance. While the quality of most reinsurers enhances the value of a ceding company's reinsurance program, it cannot be denied that there are reinsurers of poor quality that compromise such programs and place ceding insurers at risk. The current collateral system does not adequately correlate the level of collateral to the degree of risk.

2. **Establishment of the Port of Entry State Criteria for Reinsurers Supervised in Approved Jurisdictions by the NAIC Reinsurance Supervision Review Department**

The Reinsurance Supervision Review Department (RSRD) is the office of the National Association of Insurance Commissioners (NAIC) charged with evaluating the functional equivalence of a non-U.S. supervisory system. The Port of Entry state shall review the financial strength and market behavior of reinsurers doing business in the United States from RSRD approved jurisdictions. The RSRD operates under the supervision of the NAIC Financial Condition (E) Committee.

State insurance regulators, through the Port of Entry criteria, will establish procedures to evaluate the financial strength and operating integrity of reinsurers and, based on the outcome of the evaluation, affirm or modify the rating of each reinsurer that participates in this program. Credit shall be allowed a U.S. ceding insurer for reinsurance ceded to any reinsurer that does not participate in this program only to the extent that such ceded liabilities and/or reinsurance recoverables for which credit is sought are secured by acceptable collateral posted on a 100% gross basis. The Port of Entry regulator will perform its functions as specified below.

The new process will utilize established credit criteria and will rate each reinsurer that applies in one of the following categories: Class 1; Class 2; Class 3; Class 4; or Class 5.

All states currently require unauthorized or unaccredited reinsurers to post collateral equal to 100% of the reinsurance obligations assumed under the NAIC Credit for Reinsurance Model Law and Credit for Reinsurance Model Regulation. Elimination

of the 100% collateralization requirement and establishment of a new process for applying the credit criteria to reinsurers would therefore require amendment of the model law and regulation.

The NRSRO ratings represent one aspect of the Port of Entry rating assignment process. The use of NRSRO ratings is consistent with the standards used by the capital markets to assess credit risk. Another standard set forth in the Proposal is the strength of financial regulation in the reinsurer's jurisdiction of domicile. The proposal establishes a list of evaluation criteria, while recognizing the difficulty inherent in determining the quality of regulation in various foreign countries in the absence of any counterpart to the NAIC Financial Regulation Standards and Accreditation Program in place either through the International Association of Insurance Supervisors (IAIS) or some other comparable international body such as the IMF/World Bank Financial Sector Assessment Program (FSAP).

3. **Reinsurer Rating Requirements**

A. Initial Application

Any non-U.S. reinsurer licensed in a RSRD approved jurisdiction may apply for evaluation by the Port of Entry state insurance regulator. The reinsurer must submit an application form, the appropriate application fee, and such information as it wishes to rely on for determining its rating and any other information requested by the Port of Entry state insurance regulator. In determining its rating, the Port of Entry state insurance regulator shall consider the following:

To be rated, a reinsurer must submit the following information to the Port of Entry state insurance regulator for review:

- I. An application form submitted by all reinsurers seeking a rating and modified as appropriate for use by insurance markets (see Appendix I);
- II. Audited financial statements for the last 3 years filed with its domiciliary insurance regulator by the reinsurer or, in the case of a rated group, the financial statements shall be those filed by the group (unless otherwise permitted by the Port of Entry state insurance regulator), the reinsurer or group shall file a reconciliation to U.S. GAAP or U.S. Statutory Accounting Principles.

The Port of Entry state insurance regulator may consider the following factors in evaluating a request for a waiver of the 3-year requirement:

- i. The insurance industry experience of the reinsurer's senior management and staff;
- ii. The amount of the reinsurer's unencumbered statutory capital and surplus or, in the case of a group, surplus equivalents satisfactory to the Port of Entry state insurance regulator;
- iii. A corporate affiliation with an established insurer or reinsurer;

- iv. Other information the Port of Entry state insurance regulator deems relevant;
- III. All current NRSRO ratings issued for the reinsurer. A reinsurer licensed in a non-U.S. jurisdiction that has been determined by the RSRD to provide solvency regulation comparable to that provided by an NAIC-accredited U.S. jurisdiction or has financial solvency requirements substantially similar to the requirements necessary for NAIC accreditation, and that is not rated by an NRSRO may substitute an evaluation of its financial condition by its domestic regulator, provided that such evaluation has been conducted not more than 3 years before the date of application.
 - IV. A properly executed Form AR-1 (Appendix I) by which the reinsurer submits to the jurisdiction of U.S. courts and appoints an agent for service of process in the United States, and agrees to post 100% collateral for its United States liabilities if it resists enforcement of a valid and final U.S. judgment. Form AR-1 will not be accepted from any reinsurer which is domiciled in a country or state which the Port of Entry state insurance regulator has determined does not adequately and promptly enforce valid U.S. judgments or arbitration awards;
 - V. Biographical information concerning all members of its board of directors and senior officers or equivalent governing body modified as deemed appropriate by the Port of Entry state insurance regulator for use by insurance markets (Appendix II);
 - VI. A report in the form of the NAIC Property and Casualty Annual Filing Blank Schedule F, or for life companies the NAIC Life, Accident & Health Filing Blank Schedule S (Appendix III) as proscribed by the Port of Entry state insurance regulator as appropriate for the applicant reinsurer. Schedule F or S on assumed reinsurance shall list reinsurance assumed from U.S. domestic ceding insurers. For those parts of Schedule F where data is reported by counterparty whose net reinsurance recoverable or payable in total is less than 5% of statutory surplus, that counterparty may be reported as an aggregated amount. All contracts on Schedule S, regardless of the amount, must be reported individually.
 - VII. A list of all disputed¹ or overdue² recoverables. The list shall be used to determine whether there are any potential collectibility issues. Provisions³ (penalties) will be enforced for reinsurance recoverables

¹ "Dispute" for this purpose means pending litigation, or arbitration, or notification through a formal written communication from a reinsurer denying the validity or amount of claim. Amounts in dispute are treated like recoverables more than 90 days past due: 20% is included in the provision for reinsurance.

² The relevant ratio for the statutory provision for reinsurance is the percentage of loss recoverables more than 90 days overdue (i.e., not current).

³ GAAP financial statements have no provision for reinsurance. GAAP statements show all reinsurance recoverables as assets, not as contra-liabilities, and they reduce the assets for expected uncollectible amounts, just as for other receivables. Note 22D to the financial statements, Uncollectible Reinsurance, discloses "uncollectible reinsurance written off during the year" by reinsurer, in four categories: (i) losses incurred, (ii) loss adjustment expenses incurred, (iii) premiums earned, and (iv) other. This write-off is not directly related to the provision for

that are unsecured, overdue, or in dispute. The penalty shall be 20% of loss recoverables in dispute or more than 90 days past due except to the extent that such recoverables are secured by acceptable collateral;

- VIII. An application fee of \$XXXXXX for unauthorized reinsurers;
- IX. A signed consent to obtain financial and operational information material from the domiciliary regulator;
- X. A letter from the applicant's domestic regulator dated not more than one month earlier than the date of application, saying that the applicant is in good standing with that regulator. The RSRD shall create and maintain a list of all non-U.S. insurance regulatory authorities that it considers comparable to NAIC accredited U.S. regulators or has financial solvency requirements substantially similar to the requirements necessary for NAIC accreditation. Letters of good standing from non-U.S. regulators on the list shall be accepted as if they were from U.S. regulators.
- XI. A certification from the domiciliary regulator that the company is in good standing, that it has received the signed consent called for in requirement IX and that it will provide the information requested by the Port of Entry state insurance regulator or, if the domiciliary regulator is unable under its own law to share such information with a private association, that it will provide the information requested by the Port of Entry state insurance regulator, and
- XII. Any other information that the Port of Entry state insurance regulator may reasonably require.
- XIII. An applicant may withdraw its application at any time prior to the granting of a rating, without prejudice. A rated reinsurer may ask at any time that a rating be withdrawn, but such a request will bar the reinsurer, and any successor company, from applying for a rating for three years from the date the rating is withdrawn.

B. Assignment of Rating

Based upon a review of the information submitted or any other available information, public or otherwise, the Port of Entry state insurance regulator will assign an appropriate rating to the reinsurer. In making this assignment, the Port of Entry state

reinsurance, though it may serve as a check. A company with write-offs consistently greater than its provision for reinsurance may be underestimating its liabilities.

The company's Appointed Actuary must discuss reinsurance collectibility and its effect on loss reserve adequacy in the Statement of Actuarial Opinion. The Appointed Actuary should use the Schedule F exhibits as one source of information on potential collectibility problems. The NAIC Instructions to the Statement of Actuarial Opinion, section 11, say

Before commenting on reinsurance collectibility, the actuary should solicit information from management on any actual collectibility problems, review ratings given to reinsurers by a recognized rating service, and examine Schedule F for the current year for indications of regulatory action or reinsurance recoverable on paid losses over 90 days past due.

An estimate of uncollectible reinsurance is distinct from the statutory provision for reinsurance. There may be a large provision for reinsurance despite confidence that the reinsurance will ultimately be collectible.

insurance regulator shall consider the financial strength ratings issued to the reinsurer by NRSROs. Unless an exception is granted through the appeal process, the maximum rating available shall be the Class rating category corresponding to the reinsurer's NRSRO rating according to the following table. If the reinsurer has inconsistent ratings from more than one NRSRO, the Port of Entry state insurance regulator will give regard to the rating level issued by the majority of NRSROs. A Port of Entry reinsurer rating higher or lower than that indicated in the table below may be assigned by the Port of Entry state insurance regulator if it believes it appropriate to do so based upon the other factors considered in accordance with these regulations:

| Ratings | Bands | Best | S&P | Moody's | Fitch |
|---------|----------|--------------------------------|---|---------------------------------------|--|
| Secure | Class 1 | A++ | AAA, AA+ | Aaa | AAA, AA+ |
| | Class 2 | A+ | AA, AA- | Aa1, Aa2, Aa3 | AA, AA- |
| | Class 3 | A, A- | A+, A, A- | A1, A2, A3 | A+, A, A- |
| | Class 4 | B++, B+ | BBB+, BBB, BBB- | Baa1, Baa2, Baa3 | BBB+, BBB, BBB- |
| | Class 5* | B, B-, C++, C+, C, C-, D, E, F | BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R, NR | Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C | BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, DD |

The collateral required for liabilities arising out of reinsurance contracts with inception dates on or after [effective date] will depend on the reinsurer's or group's rating. The minimum collateral for such liabilities will be the following percentages of the gross liabilities secured as identified in the NAIC Property and Casualty Annual statement blank:

- i. Class 1, 60%;
- ii. Class 2, 70%;
- iii. Class 3, 80%;
- iv. Class 4, 100% or such higher amount as the Port of Entry state insurance regulator may determine based upon the risk of adverse loss development;
- v. *Class 5, 100% for U.S. domestic licensed reinsurers.

Provided, however, that:

B. A reinsurer rated Class 1, Class 2, Class 3 or Class 4 that is licensed in a U.S. jurisdiction shall not be required to post collateral.

C. Other than for Class 5 reinsurers, no collateral will be required for any affiliated reinsurance assumptions by U.S. reinsurers, including inter-company pools;

D. For affiliated reinsurance transactions from a U.S. licensed insurer to its non-U.S. parent corporation, collateral is required.

- I. For U.S. authorized reinsurers collateral will not be required for assumptions if the U.S. authorized reinsurer is rated Class 1, 2, 3 or 4, is in compliance with applicable U.S. capital requirements, and has

a minimum financial strength which may include selected financial leverage ratios (e.g., net liabilities to surplus) as established in these regulations and has a history of promptly paying claims as evidenced by the submission pursuant to Section 3, A. VII.

II. Additional Criteria to consider:

- i. If a reinsurer has no NRSRO rating, the rating shall be determined by the Port of Entry state insurance regulator;
- ii. Groups of reinsurers (including both affiliated groups and Lloyd's) maintaining multibeneficiary trusts shall receive a group-wide rating based on overall financial strength; however, each member insurer or Lloyd's syndicate shall submit a separate application to the Port of Entry state insurance regulator.

III. Other factors deemed appropriate by the Port of Entry state insurance regulator.

4. **Collateral Requirements for Reinsurers**

A. General Standard

- I. U.S.-licensed ceding insurers may only take credit for reinsurance for qualifying reinsurance contracts (no change is intended to existing regulatory requirements; e.g., insolvency clause, transfer of risk, agent for service of process, U.S. choice of law and court, collateral requirements prior to the establishment of the Port of Entry state insurance regulator), and only for the lesser of the liability reinsured or the amount of acceptable collateral provided, except for:
 - i. Reinsurance with an inception date on or after [effective date] ceded to reinsurers rated by the Port of Entry state insurance regulator, or other reinsurance ceded to reinsurers maintaining qualifying multibeneficiary trusts, to the extent provided pursuant to the standards below;
 - ii. Credit consistent with state law for intercompany pooling arrangements or mandatory reinsurance arrangements unless not allowed by the cedent's domiciliary regulator; and
 - iii. Transactions entered into before [effective date], to the extent that they qualify for full credit under the standards in effect on that date.
- II. Acceptable collateral means funds held under a reinsurance contract by or on behalf of the ceding insurer as security for the payment of the assuming insurer's obligations thereunder, including funds held in trust for the ceding insurer meeting the requirements of Section 10 of the Credit for Reinsurance Model Regulation and other applicable law, and which are held in the United States subject to withdrawal solely by, and under the exclusive control of, the ceding insurer in the form of:

- i. Cash;
- ii. Publicly traded securities listed and rated NAIC 1 by the Securities Valuation Office of the National Association of Insurance Commissioners and qualifying as admitted assets;
- iii. Clean, irrevocable, unconditional and "evergreen" letters of credit, issued or confirmed by a qualified U.S. financial institution, as defined in [subsection 4(B) of the Model Act], 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 company on or before the filing date of its annual statement; or
- iv. Any other form of security acceptable to the Port of Entry state insurance regulator,

B. Reinsurance Ceded to Port of Entry-Rated Reinsurers

- I. The collateral required for liabilities arising out of reinsurance contracts with inception dates on or after [effective date] will depend on the reinsurer's or group's rating. The minimum collateral for such liabilities will be the following percentages of the gross liabilities secured:
 - i. Class 1, 60%;
 - ii. Class 2, 7%;
 - iii. Class 3, 80%;
 - iv. Class 4, 100%; or such higher amount as the Port of Entry state insurance regulator may determine based upon risk of adverse loss development.
 - v. Class 5, 100%, for domestic licensed reinsurers or such higher amount as the Port of Entry state insurance regulator may determine based upon risk of adverse loss development.
- II. Credit shall be allowable for liabilities ceded to rated reinsurers that meet their applicable collateralization requirements, if any, as set forth above;
 - ii. Credit shall be allowable for gross liabilities ceded to unrated reinsurers at 100% of the acceptable collateral.
- III. The ceding insurer must notify its domiciliary regulator upon making any draw upon the collateral, unless the draw is the agreed-upon method for paying a claim that has been accepted by the reinsurer.
- IV. Alternatively, credit may be taken for reinsurance secured by a qualifying multibeneficiary trust arrangement in accordance with the following provisions:

- i. A multibeneficiary trust arrangement may be established by a single reinsurer, by a group of affiliated reinsurers under common control or by a group including incorporated and individual unincorporated underwriters whose incorporated members are not engaged in any business other than underwriting as a member of the group and are subject to the same level of regulation and solvency control by the group's domiciliary regulator as are the unincorporated members.
- ii. Assets satisfying the requirements of [Subsection 7(E) of the Model Reg] shall be held in trust in a qualified U.S. financial institution [as defined in [subsection 4(B) of the Model Act], for the payment of the valid claims of its U.S. ceding insurers, their assigns and successors in interest. If the reinsurer is not licensed in any state, or the group contains one or more reinsurers that are not licensed in any state, the reinsurer or group shall report information annually to the Port of Entry state insurance regulator that is substantially the same as that required to be reported on the NAIC Annual Statement form by authorized insurers in order to enable the Port of Entry state insurance regulator to determine the sufficiency of the trust fund,. A participating reinsurer that is not authorized in any state or whose examination report is not current shall submit to examination of its books and records by the Port of Entry state insurance regulator and bear the expense of examination.

C. Interim Reporting Requirements

A rated reinsurer or group of reinsurers must file the following reports quarterly with the Port of Entry state insurance regulator:

- i. A statement certifying that there has been no change in the provisions of its domiciliary license or any of its NRSRO ratings, and a statement describing such changes and the reasons therefore;
 - ii. Information comparable to relevant provisions of the quarterly NAIC financial statement modified as deemed appropriate by the Port of Entry state insurance regulator for use by insurance markets;
 - iii. An updated list of all disputed and overdue reinsurance claims regarding reinsurance assumed from U.S. domestic ceding insurers; and
 - iv. Any other information that the Port of Entry state insurance regulator may reasonably require.
- II. A rated reinsurer must immediately advise the Port of Entry state insurance regulator of any changes in its NRSRO rating, domiciliary license status or directors and officers.

D. Annual Recertification Requirements

- I. Reinsurers may be re-rated by the Port of Entry state insurance regulator as frequently as the relicensing period of the reinsurer's

domiciliary jurisdiction, but no less frequently than annually. However, the ratings given by the NRSRO's will be continually monitored to determine if the amount of collateral needs to be increased by a reinsurer (in the case of a deterioration in reinsurer rating) or may be decreased (in the case of an amelioration in reinsurer rating).

- II. Rated reinsurers that intend to continue receiving a rating from the Port of Entry state insurance regulator must reapply annually with the submission of the following documents:
 - i. "Rating Renewal" Application filing, including an audited report in the form of the NAIC Property and Casualty Annual Filing Blank Schedule F, or for life companies the NAIC Life, Accident & Health Filing Blank Schedule S (Appendix 2) or as prescribed by the Port of Entry state insurance regulator as appropriate for the applicant reinsurer. Schedule F or S on assumed reinsurance shall list reinsurance assumed from U.S. domestic ceding insurers. For those parts of Schedule F where data is reported by counterparty whose net reinsurance recoverable or payable in total is less than 5% of statutory surplus, that counterparty may be reported as an aggregated amount. All contracts on Schedule S, regardless of the amount, must be reported individually;
 - ii. A reapplication fee of \$XXXX for unauthorized reinsurers; and
 - iii. Any other information that the Port of Entry state insurance regulator may reasonably require.

V. Reconsideration Procedure

Any applicant dissatisfied with its rating by the Port of Entry state insurance regulator may request reconsideration by the Port of Entry state insurance regulator and attach to its request any additional information it would like the Port of Entry state insurance regulator to consider. The Port of Entry state insurance regulator shall reconsider the challenged rating and affirm or alter the rating not more than 60 days after receipt of the request for reconsideration.

E. Change in or Revocation of Rating

- I. The Port of Entry state insurance regulator will have the authority to amend or withdraw a reinsurer's rating at any time if the reinsurer fails to meet the minimum requirements listed above or if other financial or operating results of the reinsurer lead the Port of Entry state insurance regulator to reconsider the reinsurer's ability or willingness to meet its contractual obligations.
- II. If the rating of a reinsurer improves or deteriorates, then it will be permitted to meet the collateral requirements applicable to its new rating on a prospective basis (i.e., for all reinsurance contracts incepting after confirmation of the improved rating).

- III. In the event of a deterioration in the rating of a reinsurer, the reinsurer will be required to meet the collateral requirements applicable to its new rating for all existing and new contracts subject to evaluation by the Port of Entry state insurance regulator. Notwithstanding the change or withdrawal of a reinsurer's rating, U.S. ceding companies may continue to take annual statement credit for a period of [3] months for all reinsurance ceded to that reinsurer for which they were previously allowed credit, unless the reinsurance is deemed uncollectible.
- IV. There will be an appropriate appeal process for a review of rating decisions taken by the Port of Entry state insurance regulator.

VI. Continuing Compliance

The Port of Entry state insurance regulator shall periodically review the rating awarded to each reinsurer to ensure that the basis for the rating has not changed. Each rated reinsurer shall provide the Port of Entry state insurance regulator with its most recent audited financial statement within 45 days of the statement becoming available or 7 months of the end of the reinsurer's fiscal year, whichever is earlier. Each rated reinsurer shall promptly notify the Port of Entry state insurance regulator of any material change in its financial condition, any merger or acquisition, or any other change in the status of the reinsurer that might alter significantly the information submitted to and relied upon by the Port of Entry state insurance regulator in determining its rating.

VI. Application Fees

An initial, non-refundable fee of \$XXX shall accompany the application. An additional fee shall be paid to cover the cost of the review and analysis by the Port of Entry state insurance regulator. The fee to cover the cost of review is returnable if the applicant withdraws its application prior to the commencement of the review, but not if the review has begun. There shall also be an annual fee of \$XX payable by each rated reinsurer.

VIII. Publication of Ratings

The Port of Entry state insurance regulator shall prepare and publish quarterly a list of all reinsurers who have applied to be rated (and who have not withdrawn their application) and the rating of each assigned by the Port of Entry state insurance regulator. The listing shall be made widely available and shall be posted on the NAIC web site with free access.