

NEW YORK STATE

INSURANCE DEPARTMENT

ELEVENTH AMENDMENT TO REGULATION 20

(11 NYCRR 125)

OUTREACH DRAFT – October 18, 2007

(New Matter is Underlined; Deleted Matter in Struck-through))

**PART 125. (REGULATIONS 17, 20 AND 20-A) CREDIT FOR REINSURANCE
FROM UNAUTHORIZED INSURERS**

11 NYCRR 125.1

Reinsurance agreements

All reinsurance agreements executed after September 1, 1952 must conform to the requirements of subsection 1 of section 77, now section 1308(a) of the Insurance Law, as amended by chapter 171 of the Laws of 1952, if credit is to be given to the ceding insurer for such reinsurance. With respect to reinsurance agreements (treaty, facultative or otherwise) made on, or prior to, September 1, 1952, unless the original agreements conform to such requirements, no credit will be given to the ceding insurer for reinsurance made, ceded, renewed or otherwise becoming effective thereunder after the said date, unless the agreements are amended by supplemental contracts reading substantially as follows:

In consideration of the continuing and reciprocal benefits to accrue hereunder to the assuming insurer, the assuming insurer hereby agrees that, as to all reinsurance made, ceded, renewed or otherwise becoming effective (under the original agreement(s) herein referred to) after September 1, 1952, the reinsurance shall be payable by the assuming insurer on the basis of the liability of the ceding insurer under the contract or contracts reinsured, without diminution because of the insolvency of the ceding insurer, directly to the ceding insurer or to its liquidator, receiver or other statutory successor, except as provided by section 4118(a) of the Insurance Law, or except (a) where the contract specifically provides another payee of such reinsurance in the event of the insolvency of the ceding insurer, and (b) where the assuming insurer, with the consent of the direct insured or insureds, has assumed such policy obligations of the ceding insurer as direct obligations of the assuming insurer to the payees

~~under such policies and in substitution for the obligations of the ceding insurer to such payee.~~

11 NYCRR 125.2

Reinsurances becoming effective on or after September 1, 1952

~~It shall be a sufficient compliance with the requirements of section 125.1 of this Part, with respect to all reinsurances made, ceded, renewed or otherwise becoming effective on or after September 1, 1952, under reinsurance agreements (treaty, facultative or otherwise) made prior thereto, if the assuming insurer executes and delivers one supplemental contract as aforesaid to each of its ceding insurers, applying to all such reinsurance agreements with such ceding insurers. In any event, if credit is to be given the ceding insurer for any such reinsurances, the reinsurance agreement and supplemental contract must be in the possession of the ceding insurer.~~

11 NYCRR 125.3

Annual statement interrogatory

- (a) ~~In all annual statements filed with this department for the year ending December 31, 1952 and thereafter, the insurer will be required to answer the following interrogatory:~~

~~Do all reinsurance agreements to which this insurer and one or more other insurers, authorized to do business in New York, are parties, insofar as they are applicable to reinsurances made, ceded, renewed or otherwise becoming effective after January 1, 1940, provide, either by their original terms or by a supplemental contract binding on the assuming insurer or insurers, that the reinsurance shall be payable by the assuming insurer on the basis of the liability of the ceding insurer under the contract or contracts reinsured without diminution because of the insolvency of the ceding insurer, and that any payments to be made by the assuming insurer under reinsurance made, ceded, renewed or otherwise becoming effective after September 1, 1952, shall be made directly to the ceding insurer, or to its liquidator, receiver or other statutory successor, except as provided by section 4118(a) of the Insurance Law, or except where the contract specifically provides another payee of such reinsurance in the event of the insolvency of the ceding insurer and where the assuming insurer, with the consent of the direct insured or insureds, has assumed such policy obligations of the ceding insurer as direct obligations of the assuming insurer to the payees under such policies and in substitution for the obligations of the ceding insurer to such payees, (a) with respect to reinsurance agreements under which this insurer is the ceding insurer?~~

Answer: _____

~~(b) with respect to reinsurance agreements under which this insurer is the assuming insurer?~~

~~Answer: _____~~

~~If the answer is "no" under either (a) or (b), list the names of all insurers authorized to do business in New York which are parties to the insurance agreement(s) to which "no" applies.~~

~~(b) The term *this insurer*, when used in reference to an alien insurer, shall mean the United States branch of such insurer.~~

§ 125.1 Principles of prudent reinsurance credit risk management

(a) An authorized insurer, hereinafter referred to as a "ceding insurer", is permitted to reinsure its risks and liabilities in any assuming insurer pursuant to section 1308 of the Insurance Law. A ceding insurer shall at all times act with financial prudence when entering into any reinsurance arrangement. The insurer shall properly consider and account for all risks associated with such an agreement, including:

(1) compliance with all applicable legal and regulatory requirements;

(2) the net risk to be retained;

(3) concentration of risk on a net and gross basis;

(4) projections as to reasonable future availability and affordability of adequate levels of reinsurance support for the ceding insurer's ongoing operations;

(5) the degree to which future reinsurance proceeds for existing and future ceded reserves are likely to be recoverable based upon best available current information;

(6) the way an assuming insurer will be selected, including how to assess its security;

(7) how the reinsurance program will be monitored (i.e. the reporting and internal control systems); and

(8) that the terms of agreements with any affiliated assuming insurer are fair and equitable.

(b)(1) A ceding insurer shall take steps to manage its reinsurance recoverable proportionate to its own book of business. A domestic ceding insurer shall notify the superintendent within 30 days after a reinsurance recoverable from any single assuming insurer, or group of affiliated assuming insurers, exceeds 50% of the domestic ceding insurer's last reported surplus to policyholders, or after it is

determined that a reinsurance recoverable from any single assuming insurer, or group of affiliated assuming insurers, is likely to exceed this limit. The notification shall demonstrate that the exposure is safely managed by the domestic ceding insurer.

- (2) A ceding insurer shall take steps to diversify its reinsurance program. A domestic ceding insurer shall notify the superintendent within 30 days after ceding to any single assuming insurer, or group of affiliated assuming insurers, more than 20% of the ceding insurer's gross written premium in the prior calendar year, or after it has determined that the reinsurance ceded to any single assuming insurer, or group of affiliated assuming insurers, is likely to exceed this limit. The notification shall demonstrate that the exposure is safely managed by the domestic ceding insurer.

~~11 NYCRR 125.412~~

§ 125.2 Credit for reinsurance involving risks other than life, annuity and accident and health from unauthorized insurers

A ceding insurer may elect to take credit, as an asset or as a deduction from loss and unearned premium reserves, for reinsurance recoverable, involving risks other than life, annuity and accident and health, from an assuming insurer not authorized in this state, provided:

- (a) **U.S. domiciled insurers and U.S. branches of alien insurers** - In the case of an assuming insurer, domiciled in the United States, or an alien assuming insurer entered as a United States branch in another state, such assuming insurer presents and maintains satisfactory evidence that it meets the standards of solvency required of licensed insurers of like character and otherwise complies substantially with related requirements imposed on such licensed insurers.
- (b) **U.S. insurance exchanges** - In the case of an assuming underwriting member of an insurance exchange domiciled in any state or jurisdiction in the United States except this state, such assuming insurer (underwriting member) presents and maintains satisfactory evidence that it meets the standards of solvency as computed on a statutory insurance accounting basis required of authorized insurers of like character and otherwise complies substantially with related requirements imposed on such underwriting member and with such terms and conditions as prescribed by the superintendent.
- (c) (1) **Non-U.S. reinsurers** - In the case of an alien assuming insurer, hereinafter referred to as a “non-U.S assuming insurer,” not otherwise entered as a United States branch in another state, such assuming insurer meets the standards of solvency required of license insurers of like character, such terms and conditions as prescribed by the superintendent, and otherwise complies substantially with related requirements, and such assuming insurer has deposited and continues to maintain in one or more New York state banks and/or members of the Federal Reserve System located in New York state, a trust fund or trust funds, constituting

a trustee surplus, in cash, readily marketable securities, or letters of credit, in an amount of not less than \$20,000,000 for the protection of the United States insurers, and United States beneficiaries under reinsurance policies (contracts) issued by such ~~alien~~ non-U.S assuming insurers. Such trustee amount shall be in addition to any other trust fund required by this department, including, but not limited to, a trustee amount at least equal to the liabilities attributable to United States insurers and United States beneficiaries under reinsurance policies (contracts) issued by such ~~alien~~ non-U.S assuming insurers. As used in this subdivision, surplus means the balance remaining after subtracting the liabilities, attributable to reinsurance policies (contracts) issued in the name of such ~~alien~~ non-U.S assuming insurer from the total assets deposited in the trust fund or trust funds.

(2) (i) With respect to such trusts established prior to January 1, 1993, the trustee surplus and the other trust funds shall be in cash or marketable securities.

(ii) With respect to trusts established on or after January 1, 1993, at least \$10 million of the trustee surplus shall be in the types of investments set forth in paragraphs 1, 2, and 3 of Insurance Law Section 1402(b). Any other marketable securities that make up the remainder of the trustee surplus and the other trust funds shall be of the types set forth in paragraphs 1, 2, 3, 8, and 10 of Section 1404(a) of the New York Insurance Law and foreign investments complying with paragraph (3) of this subdivision. Trust funds shall not be invested in any securities of any company affiliated with the ~~alien~~ non-U.S assuming insurer. Letters of credit complying with paragraph (4) of this subdivision may be used to fund the remainder of the trustee surplus and the other trust funds.

(3) Requirements for foreign investments in the trust funds.

(i) Subject to the overall limits in subparagraph (ii) of this paragraph, foreign investments in the trust funds may include:

(a) Government obligations that are issued, assumed or guaranteed by the government of any country that is a member of the Organization for Economic Cooperation and Development, that are not in default as to principal or interest, that are valid and legally authorized, 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;

(b) 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;

- (c) Investments made pursuant to the provisions of clauses (a) and (b) shall not exceed five percent (5%) of the assets of the trust;
 - (d) Investments in common shares or preferred 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:
 - (1) 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
 - (2) 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;
 - (e) An investment in or loan upon any one institutions outstanding equity interests made pursuant to clause (d) shall not exceed one percent (1%) of the assets of the trust. The cost of such an investment in equity interests, when added to the aggregate cost of other such investments in equity interests then held, shall not exceed ten percent (10%) of the assets in the trust;
 - (f) Obligations issued, assumed or guaranteed by a multinational development bank; 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; provided the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the NAIC.
 - (ii) No more than twenty percent of the total of the investments in the trust may be foreign investments authorized under subparagraph (i) of this paragraph, 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.
- (4) In order for a letter of credit to qualify as an asset of the trust fund:
- (i) the letter of credit shall comply with Part 79 of this Title (Regulation No. 133);
 - (ii) the letter of credit shall be payable to the trustee; and

- (iii) 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 superintendent), 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.
- (5) The trust agreement required by this subdivision 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.
- (d) (1) **Non-U.S. groups of insurers** - In the case of a group located outside the United States whose members consist of individual incorporated assuming insurers who are not engaged in any business other than underwriting as a member of the group and individual unincorporated assuming insurers, provided all the members are subject to the same level of solvency regulation and control by the group's domiciliary regulatory; or a group of individual incorporated assuming insurers located outside the United States; provided that such group:
- (i) has continuously transacted an insurance business outside the United States for at least three years immediately prior to making application with the department for the issuance of a certificate of recognition as an accredited reinsurer pursuant to section 125.5 of this Part;
 - (ii) otherwise complies substantially with related requirements imposed upon authorized insurers;
 - (iii) has agreed in writing, prior to receiving such certificate of recognition as an accredited reinsurer or within 90 days of the effective date of this amendment where a certificate of recognition has previously been issued, to submit to examination by the superintendent as often as the superintendent deems it expedient with the cost of such examination to be borne by such group; and
 - (iv)(a) has deposited and continues to maintain, with one or more New York State banks and/or members of the Federal Reserve System located in New York State, a trust fund or trust funds, constituting a surplus, in cash, readily marketable securities, or letters of credit, in an amount of not less than \$100,000,000 for the protection of United States ceding insurers and United States beneficiaries under reinsurance policies (contracts) issued in the name of such group. The minimum surplus amount shall be maintained on a joint and several basis. The use of such minimum surplus amount shall be limited to the payment or reimbursement of any losses and allocated loss expenses paid by a ceding insurer but not recovered from any member of such group and for unearned premiums due a ceding insurer if not otherwise recovered from any member of such group in

accordance with the terms of the reinsurance policies (contracts) issued in the name of such group. The prior approval of the superintendent shall be required for any payment or reimbursement that reduces such surplus below the minimum required amount of \$100,000,000. Such surplus amount shall be in addition to any other trust fund or trust funds required by this department. As used in this subdivision, surplus means the balance remaining after subtracting the liabilities, attributable to reinsurance policies (contracts) issued in the name of such group, from the total assets deposited in the trust fund or trust funds.

(b) At least \$50 million of the trusteed surplus shall be in the types of investments set forth in paragraphs 1, 2, and 3 of Section 1402(b) of the New York Insurance Law. Any other marketable securities that make up the trust funds and the surplus shall be of the types set forth in paragraphs 1, 2, 3, 8, and 10 of Insurance Law Section 1404(a) and foreign investments complying with paragraph (3) of subdivision (c) of this section. Letters of credit complying with clause (c) of this subparagraph may be used to fund the remainder of the trust funds and the surplus.

(c) In order for a letter of credit to qualify as an asset of the trusts:

(1) the letter of credit shall comply with Part 79 of this Title (Regulation No. 133);

(2) the letter of credit shall be payable to the trustee; and

(3) 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 superintendent), 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.

(d) The trust agreement required by this subdivision 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.

(2) Credit permitted under this subdivision shall apply only to reinsurance policies (contracts) issued in the name of the group.

(e) With respect to reinsurance contracts entered into or renewed before September 15, 2001, in the case of cessions to nonaffiliated assuming insurers who have not complied with the requirements of subdivision (a), (c) or (d) of this section, but are

authorized in their domiciliary jurisdiction to assume the kind or kinds of insurance ceded thereto:

- (1) The ceding insurer shall establish an unauthorized reinsurance reserve which shall be a percentage of all reinsurance recoverable, including unearned premiums, from such assuming insurers described in this subdivision, after reducing such recoverable for any acceptable funds withheld under a reinsurance agreement with such an insurer as security for the payment of obligations thereunder, pursuant to the provisions of section 1301(a)(14) of the Insurance Law, which percentage shall be equal to the greater of:
 - (i) the largest percentage of all uncollectible unauthorized reinsurance recoverables during any one of the last five full calendar years, as measured by dividing the amount of reinsurance recoverables due and payable to the ceding insurer for that calendar year from the unauthorized assuming insurers, over 90 days past due and not in dispute, by the amount of reinsurance recoverables due and payable to the ceding insurer plus amounts actually collected by the ceding insurer for that same calendar year from unauthorized assuming insurers;
 - (ii) the largest percentage of unearned premiums in any one unauthorized insurer to the total unearned premiums on cessions to all unauthorized insurers; or
 - (iii) fifteen percent;
- (2) It is further provided that the allowance of any credit applicable under this subdivision shall be subject, but not limited, to the following conditions:
 - (i) that the assuming insurer meets the standards of solvency, on a substantial compliance basis, as required by the superintendent;
 - (ii) that the assuming insurer maintains the greater of a policyholder's surplus of \$3,000,000 or the surplus required to be maintained by a domestic insurer organized to do the same or similar kinds of insurance;
 - (iii) that the assuming insurer maintains an acceptable level of premium writings in relation to its surplus to policyholders;
 - (iv) that the ceding insurer has limited the maximum amount of liability for loss, with respect to any one risk ceded to any one assuming insurer, to ten percent of the assuming insurer's policyholder's surplus and has limited the aggregate premium cession to any one assuming insurer to twenty percent of the assuming insurer's policyholder's surplus;
 - (v) that credit claimed for reinsurance recoverable under this subdivision is to be supported by proper and appropriate records maintained by the ceding

company both as to the solvency of the assuming insurer and the record on which the review was based, and a record of the amount of reinsurance ceded subject to examination at any reasonable time by any person appointed to do so by the superintendent; and

- (vi) that a report be filed quarterly, with the ceding insurer's annual or quarterly statement, and certified to by the ceding insurer, within 90 days of the statement date, on prescribed Form #1, incorporated in Appendix 16 of this Title;
 - (vii) any ceding insurer that has taken credit under this subdivision is required to disclose the amounts thereof in the "Other Items" section of the notes to the financial statements section of the annual statement; and
 - (viii) that the credit allowed by this subdivision shall be an amount not to exceed, in the aggregate, ten percent of the ceding insurer's policyholders' surplus.
- (3) Notwithstanding the provisions and conditions of this subdivision, the ceding insurer shall be required to give immediate notice to the superintendent and provide for the necessary increased reserves with respect to any reinsurance recoverables applicable, in the event:
- (i) that any assuming insurer fails to meet its obligations under any contractual agreements or treaties between the parties; or
 - (ii) that there is any indication or evidence that any assuming insurer, with whom the ceding insurer has a contract, fails to substantially comply with the solvency requirements under the Insurance Law and regulations thereunder.
- (f) With respect to reinsurance contracts entered into or renewed on or after September 15, 2001, and prior to July 1, 2008, in the case of cessions to nonaffiliated assuming insurers [who] that have not complied with the requirements of subdivision (a), (c) or (d) of this section, but are authorized in their domiciliary jurisdiction to assume the kind or kinds of insurance ceded thereto:
- (1) The ceding insurer shall establish an unauthorized reinsurance reserve which shall be a percentage of all reinsurance recoverable, including unearned premiums, from such assuming insurers described in this subdivision, after reducing such recoverable for any acceptable funds withheld under a reinsurance agreement with such an insurer as security for the payment of obligations thereunder, pursuant to the provisions of section 1301(a)(14) of the Insurance Law, which percentage shall be equal to the greater of:
 - (i) the largest percentage of all uncollectable unauthorized reinsurance recoverables during any one of the last five full calendar years, as measured by dividing the amount of reinsurance recoverables due and payable to the

ceding insurer for that calendar year from the unauthorized assuming insurers, over 90 days past due and not in dispute, by the amount of reinsurance recoverables due and payable to the ceding insurer plus amounts actually collected by the ceding insurer for that same calendar year from unauthorized assuming insurers;

- (ii) the largest percentage of unearned premiums in any one unauthorized insurer to the total unearned premiums on cessions to all unauthorized insurers; or
 - (iii) fifteen percent.
- (2) The credit allowed by this subdivision shall be an amount not to exceed, in the aggregate, ten percent of the ceding insurer's policyholders' surplus.
- (3) It is further provided that the allowance of any credit applicable under this subdivision shall be subject, but not limited, to the following conditions:
- (i) that the assuming insurer meets the standards of solvency, on a substantial compliance basis, as required by the superintendent;
 - (ii) that the assuming insurer maintains the greater of a policyholder's surplus of \$20,000,000 or the surplus required to be maintained by a domestic insurer organized to do the same or similar kinds of insurance (in the case of an ~~alien~~ non-U.S assuming insurer, the policyholder's surplus is equivalent to the adjusted shareholders funds and must be maintained in a like amount);
 - (iii) that the assuming insurer maintains an acceptable level of premium writings in relation to its surplus to policyholders that does not exceed a ratio of 3:1;
 - (iv) that the ceding insurer has limited the maximum amount of liability for loss, with respect to any one risk ceded to any one assuming insurer, to ten percent of the assuming insurer's policyholder's surplus and has limited the aggregate premium cession to any assuming insurer to twenty percent of the assuming insurer's policyholders surplus;
 - (v) that the unauthorized ~~alien~~ non-U.S assuming insurer provides to, and maintains, any acceptable funds withheld under a reinsurance agreement with such insurer as security for the payment of obligations thereunder, pursuant to the provisions of section 1301(a)(14) of the Insurance Law in an amount at least equal to 110% of the unearned premium and known case outstanding reserves for loss and allocated loss adjustment expense ceded to the unauthorized ~~alien~~ non-U.S assuming insurer by the ceding insurer;
 - (vi) that credit claimed for reinsurance recoverable under this subdivision is to be supported by proper and appropriate records maintained by the ceding insurer both as to the solvency of the assuming insurer and the record on which the

review was based, and a record of the amount of reinsurance ceded subject to examination at any reasonable time by any person appointed to do so by the superintendent;

(vii) that a report be filed quarterly, with the ceding insurer's annual or quarterly statement, and certified to by the ceding insurer, on prescribed Form #1, incorporated in Appendix 16 of this Title;

(viii) that the unauthorized ~~alien~~ non-U.S assuming insurer is included in the Standard & Poor's classic database and satisfies at least four of the eight Standard & Poor's tests, as set forth below. The tests are as follows with their ratio numbers:

Standard & Poor's Performance Tests for International Insurers and Reinsurers (formerly known as "ISI Performance Tests from the CLASSIC Data Base")

Test 1:

The Solvency Ratio: Ratio 2.1 Net Premium/Adjusted Shareholders' Funds Standard & Poor's Standard: Less than 200% to less than 330%, depending on the size of the company's net written premium, as per the following table:

Net premium written (US \$ million)	(Standard & Poor's STANDARD)
Up to 5	< 200%
Above 5 but not above 7	< 220%
Above 7 but not above 15	< 250%
Above 15 but not above 30	< 280%
Above 30 but not above 70	< 300%
Above 70	< 330%

Test 2: Premium Growth: Ratio 2.3 Change in Net Premium

Standard & Poor's Standard: Between -10% and +30%

Test 3: Retention Ratio or Reinsurance Utilization Ratio: Ratio 3.1 Net/Gross Premium

Standard & Poor's Standard: Greater than 50%

Test 4: The Liquidity Ratio: Ratio 4.3 Technical Reserves/Adjusted Liquid Assets

Standard & Poor's Standard: Less than 100%

Test 5: Two-year Underwriting Profit/Investment Income: Ratio 5.3.2 Two Year Underwriting Profit/Investment Income

Standard & Poor's Standard: Greater than -25%

Test 6: Return on Equity (ROE): Ratio 5.4 Pre-tax Profit/Average Adjusted Shareholders' Funds

Standard & Poor's Standard: Greater than 5%

Test 7: Ratio 6.1 Technical Reserves and Adjusted Shareholders' Funds/Net Premium Written

Standard & Poor's Standard: Greater than 150%

Test 8: Ratio 6.3 Technical Reserves/Adjusted Shareholders' Funds Standard & Poor's Standard: Less than 350%

- (ix) that the reinsurance agreements between the unauthorized ~~alien~~ non-U.S assuming insurer and the ceding insurer contain:
- (a) an agreement by the unauthorized ~~alien~~ non-U.S assuming insurer that, in the event of the failure of the unauthorized ~~alien~~ non-U.S assuming insurer to perform its obligations under the terms of the reinsurance agreement, the unauthorized ~~alien~~ non-U.S assuming insurer, at the request of the ceding insurer, shall submit to the jurisdiction of any court of competent jurisdiction in a state in the United States, comply with requirements necessary to give that court jurisdiction and abide by the final decision of that court or of an appellate court in the event of an appeal. The provision does not override an agreement between the ceding insurer and the unauthorized ~~alien~~ non-U.S assuming reinsurer to arbitrate;
 - (b) an agreement by the unauthorized ~~alien~~ non-U.S assuming insurer to designate a person as its true and lawful agent upon whom may be served any lawful process in an action, suit or proceeding instituted by or on behalf of the ceding insurer; and
 - (c) an insolvency clause as provided for in section 1308(a)(2)(A)(i) of the Insurance Law.
- (4) Notwithstanding the provisions and conditions of this subdivision, the ceding insurer shall give immediate notice to the superintendent and provide for the necessary increased reserves with respect to any reinsurance recoverables applicable, in the event:
- (i) that obligations of an unauthorized assuming insurer for which credit for reinsurance was taken under this section are more than 90 days past due and not in dispute; or

- (ii) that there is any indication or evidence that any assuming insurer, with whom the ceding insurer has a contract, fails to substantially comply with the solvency requirements under the Insurance Law and regulations thereunder.
- (5) Subparagraphs (ii), (iii), (v), (viii) and (ix) of paragraph (3) of this subdivision do not apply when reinsurance cessions are made by domestic ceding insurers to unauthorized ~~alien~~ non-U.S. assuming insurers of risks located in jurisdictions where the reinsurance is required by applicable law or regulation of that jurisdiction.
- (6) As used in this subdivision, "adjusted shareholders' funds" shall be as reported by Standard & Poor's or other recognized national rating agency as the superintendent may, from time to time, approve for purposes of compliance with this section.
- (7) Any ceding insurer that has taken credit under this subdivision is required to disclose the amounts thereof in the "Other Items" section of the notes to the financial statements section of the annual statement.
- (8) Any insurer that elects to take such credit under this subdivision in its annual statement filed on or after September 15, 2001 shall notify the superintendent in writing of its initial intention to take such credit at least thirty days prior thereto. Upon application of an insurer with good cause shown, an insurer may be allowed to provide such notice less than thirty days prior to taking credit under this subdivision. Such shorter notice period will be approved by the superintendent based upon the justification stated in the insurer's application.
- (g) **Parental funding** - In the case of cessions to nonaffiliated assuming insurers ~~who that~~ have not complied with the requirements of subdivision (a), (c) or (d) of this section, but ~~who that~~ are authorized in their domiciliary jurisdiction to assume the kind or kinds of insurance ceded thereto:
- (1) The noninsurer parent corporation of the ceding insurer provides the ceding insurer with funds, in lieu of the funds to be withheld by the ceding insurer under a reinsurance treaty with such unauthorized insurer as security for the payment of obligations thereunder, if such funds are held subject to withdrawal by, and under the control of, the ceding insurer. This transaction, including the type, amount and form of such funds, shall require the prior approval of the superintendent and shall be subject to the laws of the state of New York unless waived by the superintendent for good cause shown.
- (2) Reinsurance recoverable credit taken under the provisions of subdivision (e) of this section shall not be eligible for additional credit under the provisions of this subdivision.

- (3) A ceding insurer which elects to take credit under this subdivision for cessions to a nonaffiliated assuming insurer may not thereafter take credit for any recoverables due from such assuming insurer under the provisions of subdivision (e) of this section.

(h) Alternative credit for cessions to unauthorized reinsurers

(1) With respect to reinsurance contracts entered into or renewed on or after July 1, 2008, a ceding insurer may elect to take credit, as an asset or deduction from reserves, for reinsurance recoverable from any unauthorized assuming insurer that maintains, on a stand-alone basis separate from its parent or any affiliated entities, an interactive financial strength rating from at least two of the rating agencies indicated in subparagraphs (i) through (v) of this paragraph. The credit is subject to the limitations set forth in subparagraph (2) of this subdivision and the requirements set forth in subdivisions (3) through (6) of this subdivision. The rating agencies are;

- (i) Standard & Poor's;
- (ii) Moody's Investors Service;
- (iii) Fitch Ratings;
- (iv) A.M. Best Company; or
- (v) any other rating agency recognized by the Securities Valuation Office of the NAIC.

(2) The amount of the credit allowed shall be no greater than the percentage specified for the lowest rating as indicated below:

<u>Credit Allowed</u>	<u>Best</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
100%	A++	AAA	Aaa	AAA
90%	A+	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-
80%	A, A-	A+, A, A-	A1, A2, A3	A+, A, A-
50%	B++, B+	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-
0%	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

(3) An insurer may not take credit pursuant to this subdivision unless:

(i) the ceding insurer maintains satisfactory evidence that the unauthorized assuming insurer:

(a) meets the standards of solvency, including standards for capital adequacy, established by its domestic regulator;

(b) is authorized in its domiciliary jurisdiction to assume the kind or kinds of reinsurance ceded by the ceding insurer; and

(c) maintains a policyholders' surplus or equivalent in excess of \$250,000,000;

(ii) with respect to a cession to an unauthorized non-U.S. assuming insurer:

(a) the superintendent and the domiciliary regulator(s) of an unauthorized non-U.S. assuming insurer have executed a memorandum of understanding pursuant to this Part that addresses information sharing and considers regulatory equivalence, enforceability of judgments, and any other matters that the superintendent deems relevant; and

(b) the domiciliary jurisdiction of an unauthorized non-U.S. assuming insurer allows U.S. reinsurers access to the market of the domiciliary jurisdiction on terms and conditions that are at least as favorable as those provided in New York law and regulations for unauthorized non-U.S. assuming insurers; and

(iii) the reinsurance contract between the ceding insurer and the unauthorized assuming insurer shall:

(a) require the unauthorized assuming insurer to notify the ceding insurer in writing, within 30 days, of any change in domiciliary license status;

(b) require the unauthorized assuming insurer to notify the ceding insurer in writing, within 30 days, of any change in its rating status;

(c) include an insolvency clause as provided for in Insurance Law Section 1308(a)(2)(A);

(d) require any unauthorized assuming insurer to designate a person in New York or the state of domicile of the ceding insurer as its true and lawful agent upon whom may be served any lawful process in a dispute, action, suit, or proceeding instituted by, or on behalf of, the ceding insurer; and

(e) include the following provisions:

(i) any dispute, suit, action or proceeding under the contract, or any dispute, suit, action or proceeding arising out of, directly, indirectly, or incidentally, or related to the contract or of the transactions and actions arising from performance of the contract are to be subject to the jurisdiction, and resolved in the courts, of the United States or any state thereof, and that the assuming insurer submits to the personal jurisdiction of such court; and

(ii) Any dispute, suit, action or proceeding under the contract, or any dispute, suit, action or proceeding arising out of, directly, indirectly, or incidentally, or related to the contract or of the transactions and actions arising from performance of the contract are to be governed by and construed in accordance with [choose one option]
[the laws of the State of New York] or
[the laws of the state in which the ceding insurer is domiciled].

- (4)(i) If the rating of an unauthorized assuming insurer is or falls below that required in paragraph (2) of this subdivision for the respective amount of credit, the existing credit to the ceding insurer shall be adjusted accordingly unless the reduced credit is funded pursuant to Section 125.4(b) of this Part. Notwithstanding the change or withdrawal of an unauthorized assuming insurer's rating, the superintendent may, in the interest of ensuring market stability and the solvency of the ceding insurer, upon request by the ceding insurer, authorize the ceding insurer to continue to take credit for the reinsurance recoverable, or part thereof, relating to the rating change or withdrawal for some specified period of time following such change or withdrawal, unless the reinsurance recoverable is deemed uncollectible.
- (ii) If the ceding insurer's experience in collecting recoverables from any assuming insurer indicates that the credit to the ceding insurer should be lower, the ceding insurer shall adjust the credit accordingly.
- (5) The superintendent may, in his discretion, disallow all or a portion of the credit based on a review of the ceding insurer's reinsurance program, the financial condition of the unauthorized assuming insurer, the unauthorized assuming insurer's claim payment history, or any other information that the Superintendent deems appropriate or material. At any time, the superintendent may at any time request additional information from the ceding insurer regarding the unauthorized assuming insurer.
- (6)(i) Upon the entry of an order of rehabilitation, liquidation, or conservation against the ceding insurer, pursuant to Article 74 of the Insurance Law or the equivalent law of another state, an unauthorized non-U.S. assuming insurer, within 30 days of the order, shall fund the entire amount that the ceding insurer has taken, as an asset or deduction from reserves, for reinsurance recoverable from the unauthorized non-U.S. assuming insurer; provided, however, the superintendent may waive part or all of the foregoing requirement to fully fund the reinsurance recoverable upon a showing of good cause.
- (ii) An unauthorized non-U.S. assuming insurer that fails to comply on a timely basis with subparagraph (i) of this paragraph, and any member of the unauthorized non-U.S. assuming insurer holding company system, shall not meet the standards for any ceding insurer to qualify for credit, with respect to

any reinsurance contracts entered into or renewed on or after the first day of such failure to comply unless the superintendent determines that it is the public interest to allow the credit in whole or in part.

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§ 125.3 Credit for reinsurance involving the risks of life, annuity and accident and health from unauthorized insurers

- (a) A ceding insurer may elect to take credit, as an asset or as a deduction from reserves, for reinsurance recoverable involving life, annuity and accident and health risks from an assuming insurer not authorized in this state, provided such assuming insurer complies with provisions of subdivision (a) ~~or b~~, or (h) of section 125.2 of this Part. The provisions of subdivisions (c), (d), (e), ~~and (f)~~ and (g) of section 125.2 are inappropriate for and shall be inapplicable to reinsurance of life, annuity and accident and health risks.
- (b)(1) Notwithstanding the provisions of subdivision (a) of this section or the amounts of funds withheld under a reinsurance agreement from an unauthorized insurer on behalf of such reinsurance, credit taken by a ceding insurer for reinsurance ceded to an unauthorized insurer shall not exceed the aggregate of the net amount of reserves plus the liability for any unallocated amounts which has been set up and reported to the ceding insurer as being held by the assuming unauthorized insurer and by each subsequent retrocessionaire on behalf of such reinsurance.
- (2) Paragraph (1) of this subdivision shall not apply to situations where the total reserve credit that may be granted under a reinsurance agreement is based solely upon:
- (i) the establishment of a liability by the ceding insurer for funds withheld under a reinsurance agreement with such unauthorized reinsurer as security for the payment of obligations thereunder; and/or
 - (ii) the establishment of a trust agreement which complies with Part 126 of this Title (Regulation 114).
- (3) Compliance with paragraphs (1) and (2) of this subdivision shall be on an agreement by agreement basis.
- (4) The report referred to in paragraph (1) of this subdivision shall be obtained by the ceding insurer from:
- (i) the assuming insurer, if accredited in this state, or if qualified under the provisions of section 125.2(h) of this Part, as to the total net reserves held by it and by all retrocessionaires, or

- (ii) the assuming insurer and from each of the retrocessionaires with respect to the net reserves held by each of them. Each such report shall be in writing, signed by an officer of the assuming insurer or the retrocessionaire which provided it and obtained by the ceding insurer prior to the filing date of ceding insurer's annual and quarterly statement. Such reports shall be maintained by the ceding insurer for three years or until the conclusion of the next regular examination conducted by the insurance department of its state of domicile, whichever is later. The superintendent may approve a plan of compliance submitted by an accredited reinsurer which would permit a certification to be attached to a reinsurance agreement with a ceding insurer in lieu of obtaining such reports.
- (c) Notwithstanding the provisions of subdivisions (a) and (b) of this section, credit taken by a ceding insurer for reinsurance ceded to an unauthorized insurer shall not exceed the amount of the reserve the ceding insurer would have set up if it had retained the business.
- (d) Notwithstanding the effective date of this amendment and the provisions of subdivision (b) of this section, any reserve credit taken under reinsurance agreements executed prior to the effective date of this Part which had previously been granted by the department:
 - (1) will continue to be granted, provided no new business is ceded under the reinsurance agreement after December 31, 1988, or
 - (2) will continue to be granted through December 31, 1988 after which time credit will only be granted in accordance with the provisions of this Part.

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§ 125.4 Additional conditions for credit

In addition to the conditions specified in section 125.2 and 125.3 of this Part:

- (a) Where a ceding insurer obtains reinsurance through a "reinsurance intermediary," as defined in section 2101(f) of the Insurance Law, from an assuming insurer which is neither licensed in this state nor has placed funds with the ceding insurer pursuant to section 1301(a)(14) of the Insurance Law, the ceding insurer shall not be allowed credit unless:
 - (1) the reinsurance agreement includes a provision whereby the reinsurer assumes all credit risks of the intermediary related to payments to the intermediary; and
 - (2) in the case of a reinsurance intermediary acting outside this state, the ceding insurer obtains a written agreement from the reinsurance intermediary that [he] the intermediary will comply with all of the provisions of Part 32 of this Title (Regulation No. 98) [Regulation No. 98 (11 NYCRR 32)] and the intermediary

agrees to be subject to examination by the superintendent as often as [he] the superintendent may deem it expedient; except such intermediary may deposit funds received in a bank or banks not authorized to do business in this state, if:

- (i) such bank is chartered within the United States; or
 - (ii) such bank, as designated by a non-United States reinsurance intermediary, is located outside of the United States; provided written consent is obtained from the ceding insurer.
- (b) Other than as permitted pursuant to sections 125.2(e), (f) and (g), for risks other than life, annuity and accident and health, or (h), or (g) of this Part, credit taken by a ceding insurer for reinsurance ceded to an unauthorized assuming insurer, which is not an accredited reinsurer, shall not exceed the amounts withheld under a reinsurance treaty with such unauthorized insurer as security for the payment of obligations thereunder, provided such funds are held subject to withdrawal by, and under the control of, the ceding insurer. Amounts withheld include:
- (1) funds withheld for which the ceding insurer has set up a liability,
 - (2) letters of credit complying with Part 79 of this Title (Regulation 133), and
 - (3) funds deposited in trust agreements complying with Part 126 of this Title (Regulation 114).

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§ 125.5 Certificate of recognition

Each assuming insurer which is complying with the provisions of subdivision (a), (b), (c) or (d) of section 125.2 of this Part shall be issued a certificate of recognition as an accredited reinsurer and no ceding insurer shall take credit for reinsurance recoverables from such an assuming insurer unless such assuming insurer has a valid certificate of recognition in force. Such certificate shall have a continuous term until revoked by the superintendent.

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§ 125.6 Annual filing and processing charge

Each assuming insurer issued a certificate of recognition as an accredited reinsurer shall pay to the Superintendent of Insurance an annual filing and processing charge of \$1,000, to be paid on or before the first day of July.