



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Notice of Intent to Amend Regulations

In accordance with section 4-168(a) of the Connecticut General Statutes, notice is hereby given that the Insurance Commissioner, pursuant to the authority of section 38a-72(d) of the Connecticut General Statutes, proposes to amend its current regulations concerning credit for reinsurance, section 38a-88-7(b) of the Regulations of Connecticut State Agencies.

Credit For Reinsurance

Section 1. Section 38a-88-7(b) of the Regulations of Connecticut State Agencies is amended to read as follows:

(b) Required conditions for trust agreements qualified under Section 38a-88-6.

(1) The trust agreement shall be entered into between the beneficiary, the grantor and a trustee which shall be a qualified United States financial institution as defined in Section 38a-87(b) of the General Statutes.

(2) The trust agreement shall create a trust account into which assets shall be deposited.

(3) All assets in the trust account shall be held by the trustee at the trustee's office in the United States.

(4) The trust agreement shall provide that:

(A) The beneficiary shall have the right to withdraw assets from the trust account at any time, without notice to the grantor, subject only to written notice from the beneficiary to the trustee;

(B) no other statement or document is required to be represented in order to withdraw assets, except that the beneficiary may be required to acknowledge receipt of withdrawn assets;

(C) it is not subject to any conditions or qualifications outside of the trust agreement; and

(D) it shall not contain references to any other agreements or documents except as provided for under subdivision (11) of this subsection.

(5) The trust agreement shall be established for the sole benefit of the beneficiary.

(6) The trust agreement shall require the trustee to:

(A) receive assets and hold all assets in a safe place;

(B) determine that all assets are in such form that the beneficiary, or the trustee upon direction by the beneficiary, may whenever necessary negotiate any such assets, without consent or signature from the grantor or any other person or entity;

(C) furnish to the grantor and the beneficiary a statement of all assets in the trust account upon its inception and at intervals no less frequent than the end of each calendar quarter;

(D) notify the grantor and the beneficiary, within ten (10) days, of any deposits to or withdrawals from the trust account;

(E) upon written demand of the beneficiary, immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the assets held in the trust account to the beneficiary and deliver physical custody of such assets to such beneficiary; and

(F) allow no substitutions or withdrawals of assets from the trust account, except on written instructions from the beneficiary, except that the trustee may, without the consent of but with notice to the beneficiary, upon call or maturity of any trust asset, withdraw such asset upon condition that the proceeds are paid into the trust account.

(7) The trust agreement shall provide that at least thirty (30) days, but not more than forty-five (45) days, prior to termination of the trust account written notification of termination shall be delivered by the trustee to the beneficiary.

(8) The trust agreement shall be made subject to and governed by the laws of the state in which the trust is established.

(9) The trust agreement shall prohibit invasion of the trust corpus for the purpose of paying compensation to, or reimbursing the expenses of, the trustee. In order for a letter of credit to qualify as an asset of the trust, 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 Commissioner) 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.

(10) The trust agreement shall provide that the trustee shall be liable for damages caused by its own negligence, willful misconduct or lack of good faith, including the failure of the trustee to draw against the letter of credit in circumstances where such draw would be required.

(11) Notwithstanding other provisions of this regulation, when a trust agreement is established in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, for the following purposes:

(A) to pay or reimburse the ceding insurer for the assuming insurer's share under the specific reinsurance agreement regarding any losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer, or for unearned premiums due to the ceding insurer if not otherwise paid by the assuming insurer; (B) to make payment to the assuming insurer of any amounts held in the trust account that exceed 102 percent of the actual amount required to fund the assuming insurer's "obligations" under the specific reinsurance agreement; or

(C) where the ceding insurer has received notification of termination of the trust account and where the assuming insurer's entire "obligations" under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to such termination date, to withdraw amounts equal to such obligations and deposit such amounts in a separate account, in the name of the ceding insurer in any qualified United States financial institution as defined in Section 38a-87(b) of the General Statutes apart from its general assets, in trust for such uses and purposes specified in subparagraphs (A) and (B) above, as may remain executory after such withdrawal and for any period after such termination date.

(12) Notwithstanding other provisions of sections 38a-88-1 to 38a-88-12, inclusive, of the Regulations of Connecticut State Agencies, when a trust agreement is established to meet the requirements of Section 38a-88-6 of the Regulations of Connecticut State Agencies in conjunction with a reinsurance agreement covering life, annuities or accident and health risks, where it is customary to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:

(A) To pay or reimburse the ceding insurer for:

(i) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of the policies; and

(ii) The assuming insurer's share under the specific reinsurance agreement of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurer, under the terms and provisions of the policies reinsured under the reinsurance agreement;

(B) To pay to the assuming insurer amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer; or

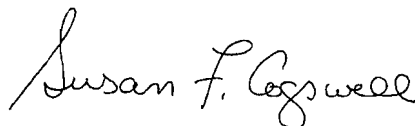
(C) Where the ceding insurer has received notification of termination of the trust and where the assuming insurer's entire obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer's share of liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer, and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified United States financial institution apart from its general assets, in trust for the uses and purposes specified in subparagraphs (A) and (B) of this subdivision as may remain executory after withdrawal and for any period after the termination date.

(13) The reinsurance agreement may, but need not, contain the provisions required by Subsection (d)(1)(B) of this section, so long as these required conditions are included in the trust agreement.

[(14) Notwithstanding any other provisions in the trust instrument, if the grantor of the trust has been declared insolvent or placed into receivership, rehabilitation, liquidation or similar proceedings under the laws of its state or country of domicile, the trustee shall comply with an order of the commissioner with regulatory oversight over the trust or court of competent jurisdiction directing the trustee to transfer to the commissioner with regulatory oversight or other designated receiver all of the assets of the trust fund. The commissioner with regulatory oversight or other designated receiver shall distribute the trust assets to the United States beneficiary of the trust in satisfaction of the obligations of the grantor due, or that may in the future become due, to such beneficiary. If there are trust assets remaining after satisfaction of such obligations to the United States beneficiary of the trust, those assets shall be returned to the trustee for distribution in accordance with the trust agreement.]

Statement of Purpose: To delete the provision that relates to disposition of assets of a single beneficiary trust on the insolvency of the reinsurer/grantor.

All interested persons are invited to submit written data, views, or arguments in connection with the proposed action no later than September 22, 2006 to the State of Connecticut, Insurance Department, Attention: Jon Arsenault, Esq., P.O. Box 816, Hartford, CT 06142-0816.



Susan F. Cogswell
Insurance Commissioner

AGENCY FISCAL ESTIMATE OF PROPOSED REGULATION

AGENCY SUBMITTING REGULATION Insurance Department **DATE** August 11, 2006

SUBJECT MATTER OF REGULATION Credit for Reinsurance

REGULATION SECTION NO. §38a-88-7(b)(14) **STATUTORY AUTHORITY** §38a-88

OTHER AGENCIES AFFECTED NONE

EFFECTIVE DATE USED IN COST ESTIMATE August 11, 2006

ESTIMATE PREPARED BY Jon Arsenaault **TELEPHONE**

SUMMARY OF STATE COST AND REVENUE IMPACT OF PROPOSED REGULATION

Agency	Insurance Department	Fund Affected	None
	FIRST YEAR 2006	SECOND YEAR 2007	FULL OPERATION 2006
Number of Positions	0	0	0
Personal Services	0	0	0
Other Expenses	0	0	0
Equipment	0	0	0
Grants	0	0	0
Total State Cost (Savings)	0	0	0
Estimated Revenue Gain (Loss)	0	0	0
Total Net State Cost (Savings)	0	0	0

EXPLANATION OF STATE IMPACT OF REGULATION: N/A

EXPLANATION OF MUNICIPAL IMPACT OF REGULATION: N/A