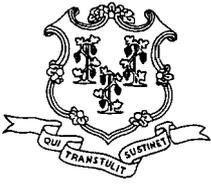


SECTION 7. SUMMARY OF ALL PUBLIC COMMENTS



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Proposed Regulation Amending the Insurance Department's Rules Concerning Credit for Reinsurance.

Discussion of Comments

The Insurance Department received comments from the following entities on the proposed regulation: Underwriters at Lloyd's London, ("Lloyd's") by letter dated November 19, 2012; the Insurance Association of Connecticut ("IAC") by letter dated November 20, 2012; and the Reinsurance Association of America ("RAA") by letter dated November 20, 2012. Copies of these comments are attached hereto. The comments reflect support for the proposed regulation in general and suggested certain changes to the text of the proposed regulation.

1. Lloyd's noted that the proposed regulation is based on 2011 revisions to the National Association of Insurance Commissioners ("NAIC") Credit for Reinsurance Model Law and Credit for Reinsurance Model Regulation (the "Model Regulation") and reflects a balance between the competing interests of ceding insurers and reinsurers. Lloyd's urges uniform adoption of the NAIC revised Model Regulation in all states and applauds the Insurance Department's efforts and its commitment to reinsurance collateral modernization.

Response: The Insurance Department believes that the proposed regulation reflects the substance of the NAIC revised Credit for Reinsurance Model Regulation (Model Regulation), and agrees that it is important for states not to make significant, substantive deviations from the NAIC Model Regulation. The Department notes that pursuant to the NAIC Financial Regulation Standards and Accreditation Program ("NAIC Accreditation"), any jurisdiction that seeks to adopt reduced reinsurance collateral requirements, such as contemplated in the Department's proposed regulation, must do so in conformity with the 2011 revisions to the Model Regulation in order to remain eligible for NAIC Accreditation. Certain provisions of the Model Regulation dealing with reinsurance ceded to certified reinsurers must contain certain provisions that are substantially similar to those contained in the Model Regulation.

2. The IAC suggests a clarification to the second sentence of proposed section 38a-88-4a(a)(4) so that the sentence will read: "The one year deferral period is contingent upon the certified reinsurer continuing to pay claims in a timely manner in compliance with its contractual obligations as set forth in the reinsurance agreement under which the claims are ceded." The IAC believes that by defining "timely manner", such a clarification will lend greater consistency to the provision's implementation.

Response: The Insurance Department agrees with the suggested change, after concluding that for purposes of the NAIC Accreditation, such change would not be viewed as deviating from the "substantially similar" mandate adopted described above.

3. The IAC requests that the second sentence in section 38a-88-4a(a)(5) be amended as follows:

(5) Credit for reinsurance under this section shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the certification of the assuming insurer. Any reinsurance contract entered into prior to the effective date of the certification of the assuming insurer that is subsequently amended after the effective date of the certification of the assuming insurer, or a new reinsurance contract, covering any risk for which collateral was provided previously, shall only be subject to this section with respect to losses [incurred and reserves reported from an] that occurred after the effective date of the amendment or new contract.

The IAC states that it understands that the clear intent to the Insurance Department and the NAIC Model is that the regulations should operate prospectively. The second sentence of section 38a-88-4a(a)(5) is unclear and confusing as to its intent, and appears to conflict with the first sentence. The IAC states that by changing the standard in section 38a-88-4a(a)(5) from “losses incurred” to “losses that occurred”, the regulation will not be subject to retroactive application.

Response: The Insurance Department declines to make the suggested change. Section 38a-88-4a(5) corresponds to the Model Regulation Section 8A(5) for which the NAIC Accreditation rules require that the Department’s regulation on credit for reinsurance ceded to a certified reinsurer shall apply only to reinsurance contracts meeting requirements substantially similar to Model Regulation Section 8A(5). The requested appears to impermissibly deviate from the Model Regulation for purposes of NAIC Accreditation.

4. The IAC requests that the proposed wording of section 38a-88-11 be further amended in order to be consistent with section 38a-88-4a and the accounting guidance in SSAP 62R, Property and Casualty Reinsurance, as follows:

Section 38a-88-11. Contracts affected.

All [new and renewal] reinsurance contracts [transactions] entered into or renewed after January 1, 2013 shall conform to the requirements of Public Act No. 12-139 and sections 38a-88-1 to 38a-88-10, inclusive, of the Regulations of Connecticut State Agencies if credit is to be given to the ceding insurer for such reinsurance.

Response: The Insurance Department declines to make the suggested change. Section 38a-88-11, as drafted, corresponds precisely with the Model Regulation Section 15 and no changes are warranted.

5. The RAA applauds the Insurance Department decision to closely track the NAIC Credit for Reinsurance Model Regulation as it provides incentives to financially sound reinsurers to do business in Connecticut and notes that such regulations are critical to the role of states in the U.S. insurance modernization debate both at the federal level and internationally. The RAA further notes that the proposed regulations conform with the Model Regulation “in most respects; however the RAA suggests the Insurance Department slightly amend the proposed regulations to fully conform to the NAIC model.” The RAA also notes that many opponents to

the concept of collateral reduction are using the regulation implementation process to raise again arguments that were considered and rejected throughout the NAIC deliberations. The RAA urges the Department to not accept any recommended changes that materially alter the substance of the NAIC Model Regulation.

Response: The Insurance Department believes that the proposed regulation reflects the substance of the Model Regulation, and agrees that it is important for states not to make significant, substantive deviations from the NAIC Model Regulation.

6. The RAA notes that the proposed regulation deviates from the NAIC Model Regulation in sections 38a-88-4a(b)(5)(C) and (b)(8)(B) by adding a reference to a certified reinsurer exhibiting qualities or characteristics of a troubled insurer as described in the Connecticut Hazardous Financial Condition regulations, sections, 38a-8-101 to 38a-8-104, inclusive, R.C.S.A. The RAA states that such references should be deleted. The RAA believes that the Insurance Commissioner already possesses broad discretion to set security levels for certified reinsurers and notes that the Commissioner may even use methods and standards similar to those in the Hazardous Financial Condition regulations. The RAA states that including specific references to the Hazardous Financial Condition regulations where a rating level increase is mandatory, could unnecessarily complicate the Commissioner's analysis. The RAA believes such regulations call for a detailed, intensive and subjective analysis, referencing such regulations would increase the burden on certified reinsurers and potentially put the Commissioner at odds with the certified reinsurer's domestic regulator.

Response: The Insurance Department believes that references to the Hazardous Financial Condition regulations are appropriate and do not represent a significant, substantive deviation from the NAIC Model Regulation. The Department, therefore, declines to make the suggested change

After full consideration of the comments, the Department has determined it is in the public interest to revise the text of the proposed regulation amendments as discussed above and proceed with its adoption.

Attachments