
OLR Bill Analysis

sHB 6392

AN ACT CONCERNING THE INSURANCE DEPARTMENT'S RECOMMENDATIONS REGARDING CREDIT FOR REINSURANCE.

SUMMARY

This bill aligns Connecticut's insurance laws with the National Association of Insurance Commissioners' (NAIC) 2019 amendments to its "Credit for Reinsurance Model Law." Alignment is necessary to (1) avoid federal preemption and (2) conform to agreements between the United States and the European Union and United Kingdom (together, the "covered agreements"), which were entered into pursuant to federal law. These agreements eliminate collateral requirements as a condition for entering into a reinsurance agreement with a Connecticut-domiciled insurer or allowing the insurer to recognize credit for reinsurance.

Under existing state law, an insurer may count reinsurance as a credit for an asset or a reduction for a liability on certain financial statements, including annual reports to the insurance commissioner, if the reinsurer meets specified statutory requirements pertaining to minimum surplus, licensing, filing, and examinations. Reinsurance is a transaction in which an insurance company transfers a portion of risk (the ceding insurer) to another insurance company (the assuming insurer or reinsurer) so that a large loss does not fall on any one company.

The bill specifies that, in general, credit for reinsurance is allowed only with respect to cessions for the kinds or classes of business which the assuming insurer is licensed or permitted to write or assume in its domiciliary state or, if it is an insurer in another country (i.e., alien insurer), the state in which it is licensed to transact insurance or reinsurance.

The bill also allows credit for reinsurance when the reinsurance is ceded to an assuming insurer that meets newly specified criteria as described below. The assuming insurer must comply with any related regulations the commissioner adopts.

The bill requires the commissioner to publish a list of assuming insurers that meet all conditions set forth in statute and to which cessions will be granted credit for reinsurance. It authorizes him to revoke or suspend an assuming insurer's eligibility in accordance with regulations if the insurer no longer meets the statutory requirements. After a suspension or revocation, no credit for reinsurance is generally allowed, except to the extent that they have been secured in accordance with state law.

The bill also makes other minor, technical, and conforming changes.

EFFECTIVE DATE: October 1, 2021

REQUIREMENTS FOR ASSUMING INSURERS

The bill allows credit for reinsurance when the reinsurance is ceded to an assuming insurer that meets specified criteria. Credit may be taken for reinsurance agreements entered into, amended, or renewed on or after October 1, 2021, and only for losses incurred on or after the later of when the assuming insurer meets all requirements and the agreement's effective date.

The bill requires an assuming insurer to have its head office or be domiciled in, as applicable, and licensed in, a reciprocal jurisdiction. A "reciprocal jurisdiction" is (1) a non-U.S. jurisdiction subject to a covered agreement; (2) an NAIC-accredited U.S. jurisdiction; or (3) a qualified jurisdiction that meets requirements consistent with the covered agreements, as specified in regulations the commissioner adopts. The bill requires the commissioner to publish a list of reciprocal jurisdictions, for which he must consider NAIC's list of reciprocal jurisdictions. It authorizes him to remove a jurisdiction from his list if it no longer meets the requirements of a reciprocal jurisdiction.

Under the bill, an assuming insurer, among other things, must maintain minimum capital and surplus, or its equivalent, and a minimum solvency or capital ratio, all of which the commissioner is to set forth in regulations. If the assuming insurer is an association, it also must maintain a central fund with a balance in amounts set forth in regulations. The bill requires the assuming insurer's supervisory authority to confirm annually to the commissioner that the insurer complies with these requirements.

Under the bill, an assuming insurer must also give the commissioner certain assurances in a manner the commissioner specifies in regulations, including that it will:

1. give prompt notice if it falls below the minimum requirements or if any regulatory action is taken against it for serious noncompliance with applicable law;
2. consent to the jurisdiction of the state's courts and appoint the commissioner as agent for service of process, but parties to a reinsurance agreement may agree to alternative dispute resolution mechanisms, so long as they are enforceable under applicable laws;
3. pay all final enforceable judgements obtained by a ceding insurer; and
4. provide security of 100% of the assuming insurer's liabilities attributable to the ceded reinsurance.

Additionally, the assuming insurer must confirm that it is not participating in any "solvent scheme of arrangement" with the state's ceding insurers and agree to notify the commissioner and the ceding insurer if it enters into one. In that case, the assuming insurer must provide security of 100% of the assuming insurer's liabilities to the ceding insurer.

The bill requires the assuming insurer to comply with any related regulations the commissioner adopts, including those about paying

claims promptly and providing the commissioner with documentation upon request. It specifies that it does not preclude an assuming insurer from providing the commissioner information voluntarily.

COMMITTEE ACTION

Insurance and Real Estate Committee

Joint Favorable

Yea 18 Nay 0 (03/22/2021)