



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

Legal Unit
125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 267-9586 • Fax: (608) 264-6228
Web Address: oci.wi.gov

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Report From Agency

Report on Section Ins 52, Wis. Adm. Code, relating to Credit
for Reinsurance

Clearinghouse Rule No. 17-004
Submitted Under s. 227.19 (3), Stats.

(The proposed rule-making order is attached.)

(a) A detailed statement of basis for the proposed rule and how the rule advances relevant statutory goals or purposes:

The proposed rule would modernize Wisconsin's credit for reinsurance provisions by aligning them with the federal Nonadmitted and Reinsurance Reform act and by adopting the most recent amendments to the National Association of Insurance Commissioners ("NAIC") model act and model regulation on which Wisconsin's rules are based. These revisions are also an accreditation requirement by the NAIC.

The NAIC is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. It develops model laws and regulations using a committee structure that includes both members of the committee and interested regulators. The NAIC also provides an accreditation process for state insurance departments. Accreditation of the Office of the Commissioner of Insurance (OCI) by the NAIC helps Wisconsin insurers by ensuring that the OCI has full regulatory authority over its domestic insurers. It accomplishes this by subjecting domestic insurers to financial regulation only by their domestic commissioner if the state is accredited. Because Wisconsin is accredited, Wisconsin insurers are not subject to separate financial regulation in every state in which they do business.

As for the specific changes, chapter Ins 52, Wis. Adm. Code has not been amended since 1995. The regulation as currently written requires that, for licensed insurers to take credit for reinsurance, the assuming reinsurer must place in trust collateral in an amount equal to the reinsurer's liability to the ceding insurer. The proposed rule would add the concept of a certified reinsurer that will enable certain reinsurers to have lower collateral requirements. Certified reinsurers must meet certain financial requirements, must have a history of complying with the terms of the contracts and timely meet their obligation to pay claims, and must agree to report certain

information to the commissioner. In addition, certified reinsurers must be domiciled in a qualified jurisdiction.

A qualified jurisdiction is a jurisdiction that is found by the commissioner to have an effective regulatory supervisory system, a history of cooperation with U.S. regulators, and is one in which U.S. judgments are recognized and enforced. If a reinsurer from a qualified jurisdiction is certified by the commissioner, they may be allowed to post less than 100% collateral on the risk they assume. The amount of collateral that is required to be posted by a certified reinsurer depends on the financial strength rating of the reinsurer. The higher the financial rating of the reinsurer, the less collateral will be required, potentially down to 0%. Reinsurers certified at lower levels would have the same collateral requirements as current law to be credited. By making these revisions, Wisconsin would modernize its reinsurance provisions and these changes would be consistent with changes made or in the process of being made in other states.

(b) Summary of the public comments and the agency's responses to those comments:

Comment: Reinsurance Association of America (RAA)

RAA commends the decision to adhere to the NAIC Credit of Reinsurance Models. RAA believes the regulation is an important part of Wisconsin's commitment to regulatory modernization and supports its adoption in the proposed form.

Response: OCI agrees with this comment.

Comment: American Council of Life Insurers (ACLI)

ACLI supports the proposed rule which would provide for uniform adoption of recent versions of the NAIC Credit for Reinsurance Model Act and Model Regulation. ACLI claims that the adoption of this Model in Wisconsin is an important aspect of reforming reinsurance collateral requirements. Additionally, Wisconsin would demonstrate the ability of the state-based insurance regulatory system to address international insurance issues.

Response: OCI agrees with this comment.

Comment: Lloyd's America, Inc

Lloyd's feels strongly that reinsurance collateral modernization is critical in order for the US to maintain its competitive position in the international insurance market. Lloyd's applauds OCI's efforts to implement collateral reform and its commitment to this important modernization initiative.

Response: OCI agrees with this comment.

Comment: Allstate

Allstate has consistently supported the original Model Law and the accompanying Model Regulations. Allstate generally was not in favor of the amending the Model Law and Model Regulation because it would reduce the simple safety and soundness provided by on-shore collateral. Allstate provided specific comments and revisions to the language for the Rule to improve it.

Response: OCI believes the revisions provide sufficient safeguards to ensure that ceding insurers are not negatively affected by reduced collateral requirements. OCI incorporated Allstate's suggested revisions into the final draft.

(c) An explanation of any modifications made in proposed rule as a result of public comments or testimony received at a public hearing:

OCI incorporated Allstate's suggested revisions into the final draft.

(d) Persons who appeared or registered regarding the proposed rule:

Appearances for:

None

Appearances against:

None

Appearances for information:

None

Registrations for:

Morgan Tilleman, Foley & Lardner LLP
Michael Stern, Chubb

Registrations against:

None

Registrations neither for nor against:

Connie O'Connell, Wisconsin Council of Life Insurers
Andy Franken, Wisconsin Insurance Alliance

Letters received:

Tracey Laws, Reinsurance Association of America
Michael Rowden, American Council of Life Insurers
Sabrina Miesowitz, Lloyd's America
John Mathews, Allstate

(e) An explanation of any changes made to the plain language analysis of the rule under s. 227.14 (2), Stats., or to any fiscal estimate prepared under s. 227.14 (4), Stats.

None.

(f) The response to the Legislative Council staff recommendations indicating acceptance of the recommendations and a specific reason for rejecting any recommendation:

All comments were complied with and corrected except those that would have altered the substantive intent of the rule or would cause the Wisconsin rule to materially differ from the NAIC model language.

(g) The response to the report prepared by the small business regulatory review board:

The small business regulatory review board did not prepare a report.

(h) Final Regulatory Flexibility Analysis

A Final Regulatory Flexibility Analysis is not required because the rule will not have a significant economic impact on a substantial number of small businesses.

(i) Fiscal Effect

See fiscal estimate attached to proposed rule.

Attachment: Legislative Council Staff Recommendations