STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
DOA-2050 (C04/2012)

DIVISION OF EXECUTIVE BUDGET AND FINANCE
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EXISTING ADMINISTRATIVE RULES
Fiscal Estimate & Economic Impact Analysis

1. Type of Estimate and Analysis

☐ Repeal ☒ Modification

2. Administrative Rule Chapter, Title and Number

Ch Ins 52 Credit for Reinsurance

3. Date Rule promulgated and/or revised; Date of most recent Evaluation

December 2017

4. Plain Language Analysis of the Rule, its Impact on the Policy Problem that Justified its Creation and Changes in Technology, Economic Conditions or Other Factors Since Promulgation that alter the need for or effectiveness of the Rule.

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.

On September 22, 2017, the United States and the European Union signed the Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance, ("covered agreement") which has entered into force. On December 11, 2018, the United States and the United Kingdom signed the Bilateral Agreement between the United States of America and the United Kingdom on Prudential Measures Regarding Insurance and Reinsurance. The covered agreement was authorized by Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") which authorized the Secretary of the Treasury and the United States Trade Representative to jointly negotiate a covered agreement on behalf of the United States with one or more foreign governments, authorities, or regulatory entities. The covered agreement requires states to implement the reinsurance collateral provisions or face federal preemption by the Federal Insurance Office ("FIO") under Dodd-Frank.

To prevent preemption under Dodd-Frank requires the state insurance measure to be "consistent" with the covered agreement which may be interpreted as a higher standard. States are recommended to adopt the 2019 revisions in as close to identical form to the models in order to best avoid the possibility of federal preemption. FIO considers the 2019 Model Law and Regulation to provide a basis for U.S. States to revise their credit for reinsurance measures for purposes of achieving consistency with the covered agreements and avoiding a potential preemption determination under the FIO Act.

The amendments proposed by this rule introduce the concept of reciprocal reinsurers consistent with the NAIC model law and regulation. Reinsurers from certain foreign jurisdictions could be recognized by the commissioner as reciprocal reinsurers if they meet stringent capitalization and solvency requirements. The revisions serve to reduce reinsurance collateral requirements for currently certified non-U.S. licensed reinsures that are licensed and domiciled in qualified jurisdictions. The collateral requirement for reinsurance ceded to reciprocal reinsurers by domestic insurers would be $0. The changes serve to provide regulators with an effective method of monitoring the reinsurance activities of U.S. companies. U.S. primary insurance companies may be given reinsurance credit on their statutory financial statements for insurance risk they transfer via reinsurance that meets the legal and accounting risk transfer requirements and other relevant laws.

The proposed Subchapter II changes establish standards governing certain reserve financing arrangements pertaining to life insurance policies containing guaranteed nonlevel gross premiums, guaranteed nonlevel benefits, and universal life insurance policies with secondary guarantees. The proposed rule will bring Wisconsin's requirements into alignment with other states and meet a NAIC accreditation requirement. No Wisconsin-domiciled insurers are currently engaged in the financing arrangements addressed by the rule. The revisions also contain a professional reinsurer exemption for

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reinsurers that maintain at least $250 million in capital and surplus as determined using the NAIC accounting practices and procedures manual, including all amendments adopted by the NAIC, excluding the impact of any permitted or prescribed practices; and is licensed in at least 26 states or licensed in at least 10 state and licensed or accredited in a total of at least 35 states.

The proposed rule would require that in order to take credit for reinsurance ceded with respect to each such financing arrangement, security must be held by or on behalf of a ceding insurer. The rule prescribes the actuarial method to be used to determine the amount of primary security, and that other security, as defined in the rule, must be held equal to any portion of the statutory reserves as to which primary security is not held.

5. Describe the Rule's Enforcement Provisions and Mechanisms

The rule interprets ss. 620.03, 620.21, 620.22, 623.02, 623.04, 623.06, 623.15, 623.21, 623.32, 627.23, Wis. Stats., that are enforced under s. 601.41 (4) and 601.64, Wis. Stats.

6. Repealing or Modifying the Rule Will Impact the Following (Check All That Apply)

☐ State's Economy
☐ Local Government Units
☐ Specific Businesses/Sectors
☐ Public Utility Rate Payers
☒ Small Businesses

7. Summary of the Impacts, including Compliance Costs, identifying any Unnecessary Burdens the Rule places on the ability of Small Business to conduct their Affairs.

This rule will have little or no effect on small businesses. This rule will reduce the collateral requirements of certain reinsurers with at least $250 million in capital so it would not affect small businesses. There may be some insurers that qualify as small businesses who cede risk to reinsurers but the rule is not expected to have any effect on their ability to take credit for reinsurance ceded and could make it easier to do business with a reinsurer.

8. List of Small Businesses, Organizations and Members of the Public that commented on the Rule and its Enforcement and a Summary of their Comments.

The request for comment on the proposed rule was sent to 50 organizations and individuals. Additionally the OCI posted the Request for Comment on its public website. The OCI received two questions pertaining to the rule from the following organizations: Quartz Health Insurance Corporation and Reinsurance Association of America. No comments were provided.

9. Did the Agency consider any of the following Rule Modifications to reduce the Impact of the Rule on Small Businesses in lieu of repeal?

☐ Less Stringent Compliance or Reporting Requirements
☐ Less Stringent Schedules or Deadlines for Compliance or Reporting
☐ Consolidation or Simplification of Reporting Requirements
☐ Establishment of performance standards in lieu of Design or Operational Standards
☐ Exemption of Small Businesses from some or all requirements
☒ Other, describe: The rule change will not effect small businesses.

10. Fund Sources Affected

☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

11. Chapter 20, Stats. Appropriations Affected

None

12. Fiscal Effect of Repealing or Modifying the Rule

☒ No Fiscal Effect
☐ Indeterminate
☐ Increase Existing Revenues
☐ Decrease Existing Revenues
☐ Increase Costs
☐ Could Absorb Within Agency's Budget
☐ Decrease Cost

13. Summary of Costs and Benefits of Repealing or Modifying the Rule

The cost for failing to implement these revisions is to risk losing NAIC accreditation or federal preemption. Retaining

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NAIC accreditation and implementing the proposed changes ensure state overview of our domestic insurers.

14. Did the Agency prepare a Cost Benefit Analysis (if Yes, attach to form)

☐ Yes ☒ No

15. Long Range Implications of Repealing or Modifying the Rule

Wisconsin will retain the ability to be accredited with domestic insurers benefits since as an NAIC accredited state, domestic insurers are only subject to certain filing requirements with OCI and financial examinations by OCI. Without accreditation, domestic insurers could be subject to financial examinaiton and filing requirements for all jusrisdictions in which they operate. This could inlcue examnation from all 56 U.S. jurisdictions for some insurers. Without accreditation, the cost of doing business for Wisconsin's domestic insurance industry would increase due to oversight by other states.

16. Compare With Approaches Being Used by Federal Government

There are no comparable federal regulations..

17. Compare With Approaches Being Used by Neighboring States (Illinois, Iowa, Michigan and Minnesota)

All states are required to comply with the chnages in the NAIC models in order to retain accreditation and not be preempted

18. Contact Name	19. Contact Phone Number
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