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BY ELECTRONIC MAIL

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Re: Proposed Revisions of the Credit for Reinsurance Model Law and Regulation

Dear Mr. Schelp and Mr. Stultz:

We appreciate the opportunity to comment on the most recent iteration of the Proposed Revisions of the Credit for Reinsurance Model Law (#785) and Regulation (#786) that were circulated by the Reinsurance (E) Task Force on May 1, 2019. We are submitting these comments on behalf of the International Underwriting Association of London (“IUA”). The IUA is a trade association that represents international insurers operating in the London Insurance Market including multi-national insurers and reinsurers that are directly and significantly affected by the U.S. Credit for Reinsurance laws and regulations. The IUA has long supported the Reinsurance (E) Task Force in furtherance of its mission to “monitor and coordinate activities and areas of interest”, including with respect to its periodic consideration of certain model law revisions.

As before, the IUA commends the NAIC for its tremendous work as respects the proposed amendments to the *Credit for Reinsurance Model Law* and *Credit for Reinsurance Model Regulation*. We remain grateful for the collaborative and transparent drafting process that has permitted us to engage with state insurance regulators and NAIC staff on this important subject, and we thank the committee for consideration of the multiple issues we have raised throughout the Model Law amendment process.

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In general, the IUA supports the May 1 edits because they ensure consistency with the terms of the Covered Agreement and serve to further protect the state-based system of U.S. insurance regulation. Nevertheless, we are disappointed that the proposed adverse development cover (“ADC”) revisions were not incorporated into the May 1 draft. As discussed at the 2019 Spring National Meeting, no ADC agreement will receive credit under the current Section 2(F) of the Model because, by definition, ADC losses are not incurred “on or after the effective date of an agreement, amendment or renewal”.

The IUA continues to believe that any amendment regarding ADC would not be inconsistent with the terms of the Covered Agreements: whereas the terms of the Covered Agreements “shall apply ... only with respect to losses incurred and reserves reported from and after the later of (i) the date of the measure, or (ii) the effective date of such new reinsurance agreement, amendment, or renewal,” ADC agreements involve losses incurred prior to the effective date of a reinsurance agreement, amendment, or renewal.

We believe the Task Force has an opportunity to provide a broader level of collateral reductions in connection with a very valuable tool used in business restructurings. When we highlighted this issue at the Spring National Meeting, Task Force members agreed that this unique situation was a valid problem that could and should be resolved. We therefore encourage the Task Force to not lose sight of its commitment and urge it to reconsider language that would give ADC agreements the same benefits accorded to other reinsurance agreements under the draft Model language.

In addition, the same section continues to contain another provision that is inconsistent with the terms of the covered agreement. As noted in the comment letter submitted by the European Commissioner to the March 7th exposure draft, section 2(F)(7) is still inconsistent with the terms of the covered agreement. Section 2(F)(7) provides in pertinent part:

Credit may be taken under this subsection only for reinsurance agreements entered into, amended, or renewed **on or after the date on which the assuming insurer has satisfied the requirements to assume reinsurance under this subsection,** and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements pursuant to Section 2F(1) herein, and (ii) the effective date of the new reinsurance agreement, amendment, or renewal.

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The relevant section of the covered agreement (Article 3(8)) provides:

This Agreement shall apply only to reinsurance agreements entered into, amended, or renewed on or after the date on which a measure that reduces collateral pursuant to this Article takes effect, and only with respect to losses incurred and reserves reported from and after the later of (i) the date of the measure, or (ii) the effective date of such new reinsurance agreement, amendment, or renewal. Nothing in this Agreement shall limit or in any way alter the capacity of parties to any reinsurance agreement to renegotiate such reinsurance agreement.

The language in the current NAIC draft focuses on the date that the assuming insurer satisfies the requirements of the statute, whereas the comparable provision in the covered agreement focuses on the date the law authorizing the collateral reduction takes effect. Further the language in the NAIC draft that is inconsistent with the provisions of the covered agreement appears to be redundant with the language that follows it, which provides that collateral reduction is applicable only with respect to losses incurred and reserves reported after the assuming insurer complies with the provisions of section 2(F)(1), which are the provisions an assuming insurer must satisfy under this subsection.

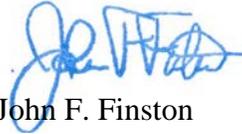
Accordingly, we respectfully request that the redundant language of section 2(F)(7) be revised to be consistent with the language and intent of the covered agreement by revising section 2(F)(7) to read:

Credit may be taken under this subsection only for reinsurance agreements entered into, amended, or renewed on or after the effective date of the statute adding this subsection, and only with respect to losses incurred and reserves reported on or after the later of (i) the date on which the assuming insurer has met all eligibility requirements pursuant to Section 2F(1) herein, and (ii) the effective date of the new reinsurance agreement, amendment, or renewal.

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As always, we thank the Task Force for its expedited consideration of these issues and welcome the opportunity to continue the positive discussion on this important topic.

Yours Sincerely,



John F. Finston

JFF

cc: Dave Matcham, International Underwriters Association
Helen Dalziel, International Underwriting Association
Daniel McCarty, Drinker, Biddle & Reath