

November 30, 2015

Via Email

Jim Tompkins
Senior Policy Analyst
Washington State Office of the Insurance Commissioner
PO Box 98504-0258
Olympia, WA 98504-0258

Re: Draft Rules CR-102 (WAC 284-13-500 through 284-13-590) implementing the Credit for Reinsurance Model Act (Chapter 63, Laws of 2015)

Dear Mr, Tomkins:

This comment letter is submitted on behalf of Underwriters at Lloyd's, London ("Lloyd's") in response to the proposed update by the Washington State Office of the Insurance Commissioner ("OIC") to the rules regarding credit for reinsurance. We appreciate the opportunity to provide these comments.

Lloyd's is one of the largest providers of reinsurance capacity in the world and has had a longstanding commitment to the US which is our largest market for reinsurance. In 2014, Lloyd's assumed approximately \$11.2 million in premium from Washington cedants. Lloyd's has been advocating for reinsurance collateral reform in the US for over a decade. In our view, credit for reinsurance should be based on the financial strength of the reinsurer and not its nation of domicile.

We would like to note that the proposed credit for reinsurance rules are based on revisions to the Model Credit for Reinsurance Law and Regulation (the "Revised Models") which were unanimously passed by the Executive and Plenary Committees of the National Association of Insurance Commissioners at its national meeting in November 2011. The Revised Model represents the culmination of over a decade of deliberation and debate among state insurance regulators with input from both ceding insurers and reinsurers. It is therefore critical that the states rely on the language of the Revised Models when implementing these reforms.

Although Lloyd's voiced some concerns regarding certain provisions of the Revised Models, we supported them because they represent a significant step in the right direction. Lloyd's believes that reinsurance collateral modernization is critical in order for the US to maintain its competitive position in the international insurance market. This modernization will be ineffective without uniform adoption of the Models in all states.

Lloyd's applauds the OIC's efforts to implement collateral reform and its commitment to this important modernization initiative.

Finally, in our review of the proposed update to the credit for reinsurance rules, we noticed one technical change that should be made to Section 532 to bring it into line with the NAIC Model. The specific change we propose is marked in Exhibit A. This change was adopted by the NAIC

a number of years ago. Should you have any questions regarding this proposed change we would be happy to discuss them with you.

Very truly yours,

A handwritten signature in black ink, appearing to be "S. Long", written in a cursive style.

Exhibit A – Suggested Changes to Section 532

WAC 284-13-532 Credit for reinsurance—Certain alien reinsurers

maintaining trust funds—Group of incorporated and individual unincorporated underwriters. (1) The trust fund for a group including incorporated and individual unincorporated underwriters must consist of: (a) For reinsurance ceded under reinsurance agreements with an inception, amendment or renewal date on or after ~~August 1, 1995~~ **January 1, 1993**, funds in trust in an amount not less than the respective underwriters' several liabilities attributable to business ceded by United States domiciled ceding insurers to any underwriter of the group; (b) For reinsurance ceded under reinsurance agreements with an inception date on or before ~~July 31, 1995~~ **December 31, 1992**, and not amended or renewed after that date, notwithstanding the other provisions of WAC 284-13-500 through 284-13-590, funds in trust in an amount not less than the respective underwriters' several insurance and reinsurance liabilities attributable to business written in the United States; and (c) In addition to these trusts, the group must maintain a trusted surplus of which one hundred million dollars must be held jointly for the benefit of the United States domiciled insurers of any member of the group for all the years of account. (2) The incorporated members of the group must not be engaged in any business other than underwriting as a member of the group and are subject to the same level of regulation and solvency control by the group's domiciliary regulator as are the unincorporated members. The group must, within ninety days after its financial statements are due to be filed with the group's domiciliary regulator, provide to the commissioner: (a) An annual certification by the group's domiciliary regulator of the solvency of each underwriter member of the group; or (b) If a certification is unavailable, a financial statement, prepared by independent public accountants, of each underwriter member of the group.