

December 13, 2012

Administrative Letter 2012 - 11

TO: All Companies Licensed under Chapter 10, 11, 12, 25, 26, 28, 40, 41, 42, 43, 46 or 51 of Title 38.2 or §15.2-2700 et seq. or §65.2-800 et seq. of the Code of Virginia

RE: Requirements for Reinsurers Applying to Qualify as Acceptable Reinsurers under § 38.2-1316.2 of the Code of Virginia

The provisions of this administrative letter, effective January 1, 2013, replace the provisions of Administrative Letter 1992-3.

During the 2012 General Assembly Session, the Virginia General Assembly enacted legislation that amended the requirements for reinsurers to qualify as an accredited, substantially similar, trustee (single assuming, association incorporated and individual unincorporated underwriters, or incorporated underwriters) or certified reinsurer. House Bill 1139, which amended Article 3.1 of Chapter 13 (§§ 38.2-1316.1 through 38.2-1316.8) of Title 38.2 of the Code of Virginia, provides that all cessions made under reinsurance agreements which have an inception, anniversary, or renewal date on or after January 1, 2013, will be subject to the amended requirements of Article 3.1.

In accordance with Article 3.1, a domestic insurer licensed in Virginia is allowed credit for a reinsurance transaction if the assuming insurer specifically qualifies under the amended provisions of Article 3.1. Additionally, the reinsurance agreement itself must satisfy the conditions set forth in 14 VAC 5-300-150 of the Virginia Administrative Code. Even if the assuming insurer is a qualified reinsurer and the reinsurance agreement satisfies the conditions of 14 VAC 5-300-150, credit shall be disallowed if there is any indication of financial statement distortion, or if the assuming insurer bears no substantial insurance risk or net loss to itself.

This letter sets forth basic criteria which the Bureau of Insurance ("Bureau") will use to determine whether a domestic ceding insurer may take credit pursuant to § 38.2-1316.2. It explains how an assuming insurer can be authorized in Virginia as an accredited, substantially similar, trustee (single assuming, association incorporated

and individual unincorporated underwriters, or incorporated underwriters) or certified reinsurer. It also puts into context the responsibilities of ceding insurers licensed in Virginia in regard to their assuming insurers.

ASSUMING INSURER QUALIFICATIONS:

Reinsurers qualifying under § 38.2-1316.2 must satisfy minimum financial standards. When the ceding insurer is a domestic ceding insurer the assuming insurer may qualify under one of the following classifications:

- A. Licensed in Virginia as an insurer in good standing (§ 38.2-1316.2 A 1).
- B. Accredited in Virginia as an accredited reinsurer with surplus of at least \$20 million (§ 38.2-1316.2 A 2).
- C. Licensed and domiciled in a state with credit for reinsurance laws substantially similar to Virginia's credit for reinsurance laws, and having surplus of at least \$20 million or a trusteed surplus of \$20 million, in the case of a U.S. branch of an alien assuming insurer (§ 38.2-1316.2 A 3).
- D. Recognition as a single assuming insurer with a qualifying trust account and trusteed surplus of at least \$20 million (§ 38.2-1316.2 A 4 a and b).
- E. Qualified participation in an association of incorporated and individual unincorporated underwriters with a qualifying trust account and trusteed surplus of at least \$100 million (§ 38.2-1316.2 A 4 c).
- F. Qualified participation in an experienced association of incorporated underwriters with aggregate policyholders' surplus of at least \$10 billion, a qualifying trust account, and a joint trusteed surplus of at least \$100 million (§ 38.2-1316.2 A 4 d).
- G. Certified in Virginia as a certified reinsurer:
 - 1. With a surplus of at least \$250 million,
 - 2. Domiciled and licensed to transact insurance or reinsurance in a qualified jurisdiction, and
 - 3. With acceptable financial strength ratings from two or more rating agencies.

Assuming insurers desiring to qualify as reinsurers under the above classifications may obtain the required forms from the Bureau's "Company Home" webpage at <https://www.scc.virginia.gov/regulated-industries/companies/> The filing requirements are located under the "Licensing and Registration Procedures" link. The Certificate of Assuming Insurer, the Certificate of Certified Reinsurer, Form CR-F and Form CR-S (including instructions) are located under the "Information for Annual License Renewal and Financial Filings" link.

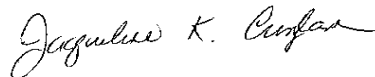
RESPONSIBILITIES OF THE CEDING INSURER

Ceding insurers are responsible for ensuring the validity of any credit reported on their financial statements. A ceding insurer should be able to assign each of its assuming insurers to one of the above classifications of qualifying reinsurers upon request. If the ceding insurer cannot identify its assuming insurer as falling into one of the classifications cited above, the reinsurance transaction should be effected or secured in a manner that satisfies § 38.2-1316.4 1 or § 38.2-1316.4 2, respectively.

Questions concerning this administrative letter may be addressed to:

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Sincerely,



Jacqueline K. Cunningham
Commissioner of Insurance