

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 05/07/2012
POSITION: Neutral

BILL NUMBER: SB 1216
AUTHOR: Lowenthal, Alan

BILL SUMMARY: Reinsurance: professional reinsurers.

This bill would conform California law with recent changes in federal law and the National Association of Insurance Commissioners model law regarding the regulation of reinsurance.

FISCAL SUMMARY

The California Department of Insurance (CDI) indicates that this bill would result in Insurance Fund costs of \$52,000 in 2012-13, \$122,000 in 2013-14, \$38,000 in 2014-15, and \$30,000 ongoing in order to certify reinsurance companies as authorized by this bill. This bill authorizes the CDI to collect a \$2,500 professional reinsurance filing fee. The CDI expects this fee to result in revenues to the Insurance Fund of \$4,500 in 2012-13, \$28,000 in 2013-14, \$27,000 in 2014-15, and \$27,000 ongoing. Additionally, this bill provides for cost recovery for any costs above the \$2,500 filing fee. The CDI notes that the cost recovery will not cover \$26,000 in rule making costs that the CDI will absorb from within existing resources in 2012-13.

COMMENTS

The Department of Finance is neutral on this bill because it would conform California law to recent changes to federal law to allow the CDI to better regulate the reinsurance industry.

Current law:

- Defines reinsurance as a contract that indemnifies an insurer against loss or liability created by an insurance policy.
Requires insurers doing business in California to file quarterly reports to the CDI detailing their financial condition.
Authorizes reinsurance to be counted as an asset or reduction in liability in financial statements filed with the CDI.
Authorizes domestic insurers to operate as reinsurers.
Authorizes foreign insurers to operate as reinsurers in California if they are accredited by the CDI.
Authorizes alien insurers to operate as reinsurers if they meet specified criteria.
Authorizes the CDI to revoke accreditation of reinsurers.

This bill would:

- Authorize the CDI to designate a domestic insurer that is principally engaged in reinsurance as a professional reinsurer.

Analyst/Principal (0221) J.Carosone Date Program Budget Manager Lisa Ann Mangat Date
Department Deputy Director Date
Governor's Office: By: Date: Position Approved Position Disapproved
BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

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COMMENTS (continued)

- Require insurance contracts to include a provision that makes reinsurance payable to a successor entity if there is a change of status to the insurer purchasing the reinsurance.
- Requires an insurer to notify the CDI when recoverables from a single reinsurer exceeds 50 percent of the insurer's policyholder surplus.
- Require an insurer to notify the CDI if it obtains reinsurance for 20 percent or more of its gross written premium from a single reinsurer.
- Authorizes the CDI to certify reinsurers, as specified.
- Require the CDI to consider reinsurance provided by a certified reinsurer as an asset or credit against the liabilities of the insurer.
- Authorizes the CDI to reduce the minimum surplus in a reinsurers trust account if certain conditions are met.
- Require the CDI to assign a financial strength rating for each certified reinsurer.
- Authorizes the CDI to recognize the certification and rating by another jurisdiction which has been accredited by the National Association of Insurance Commissioners.
- Authorizes an association of individual or corporate underwriters to be a certified reinsurer.
- Requires the CDI to notice an application for certification as a reinsurer on its website and allow for 90 days for the public to comment.
- Require reinsurers to file specified information with the CDI.
- Requires the CDI to establish a list of nations that are accepted as qualified jurisdictions for the purposes of certifying alien reinsurers and authorizes the CDI to certify reinsurers from qualified jurisdictions.
- Require reinsurers to provide collateral for reinsurance obligations based on a financial security rating assigned by the CDI.
- Authorize reinsurers to not maintain collateral levels for one year after a catastrophic event contingent upon the reinsurer continuing to pay claims in a timely manner.
- Authorizes the CDI to suspend or revoke a reinsurer's certification.
- Authorizes the CDI to collect the cost of the certification process from the reinsurer.
- Provides that financial statement credit for reinsurance is determined by the regulator in the state where the insurer is domiciled.
- Sunset on January 1, 2016.

The National Association of Insurance Commissioners has updated its model act on reinsurance in order to credit for reinsurance requirements for alien reinsurers. Currently, alien reinsurers, regardless of their financial strength, must secure their reinsurance commitments by posting collateral in order for the company they are insuring to be able to record the insurance as an asset or reduction of liability. This bill would allow alien insurers from qualified jurisdictions to be certified and thus be able to reduce or eliminate collateral requirements, depending on their financial rating.

BILL ANALYSIS--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)						Fund Code
	LA	(Dollars in Thousands)						
	CO	PROP						
	RV	98	FC	2012-2013	FC	2013-2014	FC	2014-2015
0845/Insurance	SO	No	C	52	C	122	C	38 0217
1231/Ins Lic Fees	RV	No	U	5	U	28	U	27 0217
1619/Rev Recovery	RV	No	U	21	U	94	U	11 0217
<u>Fund Code</u>			<u>Title</u>					
0217			Insurance Fund					