

MARKET BULLETIN

REF: Y5029

Title	US Reinsurance – reduced collateral arrangements in California
Purpose	To announce Lloyd's approval under the California credit for reinsurance rules to post reduced collateral in respect of future US reinsurance contracts with California domiciled cedants
Type	Annual
From	Rosemary Beaver, Head of International Regulatory Affairs
Date	12 October 2016
Deadline	None
Related links	Lloyd's market bulletin Y4508, 28 July 2011 Lloyd's market bulletin Y4511, 19 August 2011 Lloyd's market bulletin Y4524, 07 October 2011 Lloyd's market bulletin Y4867, 02 February 2015 Lloyd's US reinsurance and state level collateral Link to California reduced collateral regulation

Summary

This bulletin is addressed to all Lloyd's market stakeholders dealing with the placement, underwriting, settlement and regulatory reporting of Lloyd's US reinsurance business.

Lloyd's has been approved by the California Department of Insurance to post reduced collateral in respect of US property & casualty reinsurance contracts with California domiciled cedants. This is applicable to new and/or renewal business with respect to policies incepting on or after 01 July 2016 where commercially acceptable and practical to all contracting parties.

Lloyd's is also approved under the Florida, New York and Pennsylvania reduced collateral regulations, details of which can be found in Lloyd's market bulletin Y4508, Y4524 and Y4867 (see "Related links" above).

Uniform Certified Reinsurer Application Checklist

Following approval in Pennsylvania, Lloyd's approval in California is the second occasion where Lloyd's has been able to utilise the application process set out under the NAIC's recently introduced Uniform Certified Reinsurer Application Checklist process. The NAIC's recognition of the UK as a Qualified Jurisdiction enables UK reinsurers to apply through this process.

California Approval

Lloyd's made an application to the California Department of Insurance which has now been approved enabling Lloyd's syndicates the option to post 20% of gross liabilities¹ (instead of 100%) in respect of US reinsurance contracts with California domiciled cedants. This applies to new and/or renewal business with respect to policies incepting on or after 01 July 2016. For detailed guidance addressing the requirements for reduced collateral contracts please refer to Lloyd's market bulletin Y4511, dated 19 August 2011 (see "Related links" above). This covers contract requirements, the collateral securing these contracts and the processing and regulatory reporting of this business.

Reinsurance contracts supported by reduced collateral requirements must be funded outside of Lloyd's US trust funds arrangements (ie the Lloyd's Credit for Reinsurance Trust Funds (CRTFs) and the Lloyd's Credit for Reinsurance Joint Asset Trust Fund (CRJATF)). These contracts will be funded on a cedant and contract specific basis where alternative security may be agreed between the parties to permit the cedant to take credit for reinsurance under the California regulation. This may take the form of letters of credit, funds withheld or cedant specific trusts. However, Lloyd's syndicates may continue to fund reinsurance contracts issued to California cedants through the current CRTF arrangements, at 100% of gross liabilities, where this is commercially preferable to the parties to the reinsurance.

NAIC Model Law and future updates on Lloyds.com

At the NAIC Summer 2016 National Meeting, it was agreed that the NAIC model law, which addresses Certified Reinsurer approval, will become an accreditation standard. Lloyd's has long advocated for broader, harmonised reform of US reinsurance collateral rules, this important development means all states will need to adhere to the model law in order to be accredited by the NAIC. At present all states are accredited, to remain so they will need to have implemented the NAIC Model law legislation with effect from 1 January 2019.

Guided by the commercial priorities of the market, Lloyd's will now seek to accelerate the application process to gain approval in additional states where reduced collateral is permitted under their insurance code. As Lloyd's gains further state approvals and more

¹ This reduction is based on Lloyd's current financial strength ratings, which at the date of this bulletin, were an A rating from A.M. Best, A+ from Standard & Poor's and AA- from Fitch Ratings.

states adopt the reduced collateral law, Lloyd's will review the potential for the current US reinsurance trust fund arrangements to be replicated for the reduced collateral business.

For details on which states have adopted reduced collateral legislation, and future updates on Lloyd's application status, please refer to the Lloyd's US reinsurance and state level collateral page on lloyds.com (see "Related links" above).

Further information

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