

Topic: **REINSURANCE**

Situations that may apply:

- Company Licensing (Initial or Expansion)
- Holding Company Transactions (transactions between affiliated insurers)
- Total and Partial Assumption Reinsurance Agreements involving Foreign Insurers;
- Total and Partial Assumption Reinsurance Agreements involving Domestic Insurers;
- Demonstrating Compliance with Abatement Item for Release from Regulatory Intervention
- Material Transactions Report (informational filing only) Tex. Ins. Code art. 21.49-8

At a minimum, the following information should be included in the filing:

- a written description of the proposed reinsurance program(s), including the type, percentages (if quota share coverage), limits (if excess coverage), intended placement, and transfer of risk. The title and terms of the contract must appropriately reflect the true nature of the contract, e.g., a “quota-share” contract should allocate premium and losses proportionate to the percentages of the quota-share provisions;
- a listing of reinsurers, and the extent of coverage described in a) above, applicable to each reinsurer;
- a copy of the contract, or in the absence of a complete contract and at minimum, a placement slip or similar evidence of proposed coverage from each reinsurer;
- financial projections, as appropriate to the particular filing, that include and delineate the premiums ceded or assumed, losses ceded or assumed, and ceding commissions applicable to the reinsurance program;
- for assumption reinsurance transactions see [list company license checklists]

Risk-Limiting Provisions:

Reinsurance arrangements that contain risk-limiting provisions, including but not limited to, the following will invite scrutiny in the review process:

- sliding scale commission;
- swing clause;
- additional retention;
- loss corridor(s);
- franchise corridor(s);
- occurrence and/or aggregate cap(s);
- contingent commission;
- automatic “cut-off” provisions regarding losses and unearned premium on a date certain;
- termination clause which grants the reinsurer the right to unilateral termination on a cut-off basis.
- cap(s) on losses ceded to a reinsurer;

- losses ultimately reverting to the ceding company, with or without the payment of a fee at the beginning, during, or at the end of the contract term.
- a “cut-off” of losses, unearned premium, etc. at a date certain.

See NAIC Accounting Practices & Procedures Manual SSAP Nos. 61 & 62

Statutory and Regulatory References:

Credit for Reinsurance rules:

- Tex. Ins. Code arts. 3.10 & 5.75-1
- Tex. Admin. Code Title 28, Sections 7.601-7.610

Mandatory Contract Provisions for Indemnity Reinsurance:

- Tex. Admin. Code Title 28, Section 7.611