

## Reinsurance Reserve Credits

LHATF discussed comments received on the exposure of changes to reinsurance reserve credits. Sheldon Summers (CA) had raised the issue during the March meeting, at which he expressed concern that ceding companies in some circumstances could take credits for ceded business that are greater than the direct reserves.

The four letters from industry observers cited the following reasons for opposing the changes:

- The concern isolates certain transactions but does not consider the balance sheet and the income statement in their entirety.
- Administrative systems for direct policies and ceded reinsurance do not usually merge data for valuation purposes, and it would be costly to do so.
- Using time on picayune issues like this detracts from the effort to develop Principles-Based Reserves (PBR).
- The proposal violates the symmetry in codification between ceding and assuming companies.
- It singles out coinsurance for special treatment while ignoring other forms of reinsurance.
- This issue has little effect on solvency.
- Companies are not using this issue to enhance surplus; rather, the results reflect the realities of the business.

Sheldon Summers defended his concern, arguing that PBR will not solve the problem, especially if it is prospective only. He also dismissed looking at ceding and assuming companies in the aggregate, noting that his worry relates to the ceding companies artificially enhancing surplus.

Bill Carmello (NY) supported Summers by stating that the situation is abusive and destroys the trust that regulators are willing to place on companies. In fact, NY has issued its own proposal, distributed to LHATF only this morning and not yet available to interested parties, with some changes from CA but similar in substance.

LHATF voted unanimously, with one abstention, to modify the CA proposal with NY's changes and re-expose it for comments. Since this proposal will change Codification, if LHATF ultimately passes the exposure it must then go to higher authorities in the NAIC for ultimate approval.

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