



State Senators Jay Hottinger and Bob Peterson
Senate Bill 284 Sponsor Testimony
House Insurance Committee
September 23, 2020

Chairman Brinkman, Vice Chair Antani, Ranking Member Boggs and members of the House Insurance Committee, thank you for the opportunity to give sponsor testimony on Senate Bill 284. This legislation would revise Senate Bill 140 of the 130th General Assembly which is the National Association of Insurance Commissioners (NAIC) Credit for Reinsurance Model Law.

As you know, reinsurance allows insurance carriers to minimize exposure to risks by giving a portion of the premium to another insurer (a reinsurer) in exchange for the reinsurer taking on some or all of the risk. The model law passed in 2014 allowed for non-U.S. reinsurers to post less than 100% collateral for U.S. claims, commensurate with the non-U.S. reinsurer's financial strength and the effectiveness of its home country regulator.

In 2017 the U.S. finalized a Covered Agreement with the European Union (EU) eliminating the collateral requirements and in 2018 a similar Covered Agreement was signed between the U.S. and the U.K. These covered agreements have numerous benefits for departments of insurance in the United States. Particularly, the revisions will provide a level playing field for Ohio domestic insurers purchasing and selling reinsurance. Because of these covered agreements, the NAIC has since revised its Credit for Reinsurance Model Law to include certain provisions of the agreements.

The importance of passing Senate Bill 284 and updating the model law is that state insurance laws can be preempted if the Director of Federal Insurance Office (FIO) determines a state's law is inconsistent with agreements with other international regulatory jurisdictions. States are required to bring their laws into compliance by March 1, 2021 or face potential federal preemption.

The proposed legislative revisions would include:

- Eliminating reinsurance collateral requirements for reinsurers that are domiciled in any of the following:
 - An EU-member country that is subject to a covered agreement;
 - A U.S. jurisdiction (state) that meets the requirements for accreditation under the NAIC financial standards and accreditation program; and

- A non-U.S. jurisdiction recognized as a Qualified Jurisdiction that meets additional requirements consistent with the terms of a covered agreement.

These revisions will continue to provide a level playing field for:

- Ohio domestic insurers purchasing reinsurance and;
- Ohio domestic insurers that sell reinsurance

Accordingly, twenty-four states have similar pending legislation.

For these reasons, we urge your favorable consideration on Senate Bill 284.