



State Senators Jay Hottinger and Bob Peterson  
Senate Bill 284 Sponsor Testimony  
Senate Insurance and Financial Institutions Committee  
March 4, 2020

Chairman Hackett, Ranking Member Craig, and members of the Senate Insurance and Financial Institutions Committee, thank you for the opportunity to give sponsor testimony on Senate Bill 284. This legislation would revise Senate Bill 140 of the 130<sup>th</sup> General Assembly which is the National Association of Insurance Commissioners (NAIC) Credit for Reinsurance Model Law.

The Dodd-Frank Act, which passed Congress in 2010, says 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 known as Covered Agreements. Because of Covered Agreements recently entered into between the U.S. and the European Commission (EU), as well as with the U.K., the NAIC revised the Credit for Reinsurance Model Law to include certain provisions of those agreements. States are required to bring their laws into compliance by March 1, 2021 or face potential federal preemption.

Reinsurance is essentially insurance for an insurance company. Specifically, 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. Historically, state insurance regulators in the U.S. have required non-U.S. reinsurers to hold 100% collateral within the U.S. for the risks they assume from U.S. insurers. The 100% collateral requirement has been frequently debated, with various groups calling for the elimination of collateral requirements for reinsurers licensed in well-regulated jurisdictions outside of the U.S.

In 2017, the U.S. finalized an agreement with the EU which eliminated collateral requirements for EU reinsurers – provided certain criteria are met. In 2018, a separate agreement was signed between the U.S. and the UK which mirrored language from the agreement with the EU.

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, which are supported by the Ohio Department of Insurance, will continue to provide a level playing field for:

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

To date, twenty four states have pending legislation to revise their NAIC Credit for Reinsurance Model Law.

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