

January 25, 2021

The Senate Committee on Insurance
300 SW 10th Ave., 235-E
Topeka, KS 66612

Re: Support for SB 28 – NAIC Credit for Reinsurance Model

Chairman Longbine and Members of the Insurance Committee:

The American Council of Life Insurers (“ACLI”) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million families rely on the life insurance industry for financial protection and retirement security. ACLI’s member companies are dedicated to protecting consumers’ financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. In Kansas, ACLI’s 248 member companies represent 93% of the life insurance industry. ACLI also represents all professional life reinsurers assuming mortality and morbidity risks in the United States.

ACLI appreciates the opportunity to write in support of Senate Bill 28 (“SB 28”), which is currently before the Senate Committee on Insurance.

Background

Reinsurers from around the world operate within all state jurisdictions in the United States to provide a necessary risk management function for insurance carriers doing business in a state like Kansas. Insurers, just like consumers, purchase insurance in the form of reinsurance. In 1945, Congress passed the McCarran-Ferguson Act, which delegates authority to the states to oversee and regulate insurance within each state jurisdiction.

In September of 2017, the United States entered into a Covered Agreement with the European Union (“EU”), which one of the terms of the Covered Agreement laid the groundwork for collateral requirements that U.S. domiciled insurers needed in order to do business with the qualifying EU reinsurers. On June 25, 2019, the National Association of Insurance Commissioners (“NAIC”) updated the existing “Credit for Reinsurance Model Law” (the “Model Act”) and supporting “Credit for Reinsurance Model Regulation” (the “Model Regulation”) to incorporate those new collateral requirements as well as recognize non-EU jurisdictions to follow the new requirements, if certain criteria are met. A number of states, including Kansas, had already passed a previously updated version of the NAIC’s Model Law. However, due to the amendments adopted by all state regulators in 2019 at the NAIC, it is necessary to update the credit for reinsurance law.

Under the Covered Agreement, states are moving on an expedited basis to pass and enact the model amendments and regulations as soon as possible as the updated Model Act is an accreditation standard for states.

Summary

The amendments to the credit for reinsurance statute contained in SB 28 will eliminate the reduced reinsurance collateral requirements for Kansas insurers doing business with qualifying EU reinsurers. The alternative to not passing SB 28 in its current form is directly tied to possible federal preemption by the Federal Insurance Office. Passage of SB 28 strengthens and maintains the state-based regulatory structure that Congress so clearly set forth in the McCarran-Ferguson Act.

In conclusion, the Kansas insurance market is robust, which means insurers need broad access to reinsurers doing business all over the world. By passing SB 28, you are preserving Kansas' domestic insurers' ability to access reinsurance without the strict collateral requirements, while maintaining appropriate protections for Kansas consumers. Further, passage helps the Kansas Department of Insurance maintain accreditation with peer states through the NAIC, thereby upholding a strong state-based regulatory framework.

Thank you for your consideration.

Respectfully Submitted,

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cc: Steven Clayburn, ACLI Senior Actuary, Health Insurance & Reinsurance