



SOCIETY OF ACTUARIES

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Reinsurance Regulations—Organizations That Influence the Regulations

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Ever wonder how reinsurance regulations are established, or which organizations influence their development?

This article provides an overview of the key organizations that have a direct and indirect impact on reinsurance regulations and suggested contacts.

Reinsurance regulations are developed and enacted like other forms of insurance regulation. At the state level, insurance departments are responsible for implementing the laws created by state legislatures. At the federal level, Congress creates laws and funding to implement policy through a number of agencies, such as the Securities and Exchange Commission and the Internal Revenue Service.

However, there are significantly fewer reinsurance regulations compared to general insurance regulations. This difference stems from the primary purpose of insurance regulation, which is to protect insurance consumers who may be unknowledgeable or unsophisticated with regard to the business of insurance. Reinsurance, on the other hand, which is often referred to as “insurance for insurance companies,” is between two parties who are knowledgeable about the business of insurance.

Historically, when it comes to reinsurance regulations, the primary areas of concern have been:

- Establishing licensing and accreditation standards for reinsurers
- Defining what constitutes appropriate risk transfer
- Defining acceptable criteria for reinsurance reserve credits taken by the ceding company
- Defining acceptable forms of security for reserve credits taken with non-accredited reinsurers
- Evaluating the fairness of acquisitions, demutualizations and mergers to policyholders
- Accounting and financial reporting for reinsurance related transactions (statutory, GAAP and tax)
- Mandating certain treaty clauses (e.g. insolvency), in some cases

Reinsurance regulations may be influenced directly before becoming law through individual efforts or, more often, through the efforts of industry trade associations. Once a law has been passed, there may be an opportunity to influence the application of the law by communicating the specific area of concern or issue to the appropriate committee or by seeking the assistance of one of the industry trade associations or professional groups.

Listed below are the primary organizations that have a significant impact on influencing reinsurance regulations.

National Association of Insurance Commissioners (NAIC)

The NAIC promulgates model laws and regulations for voluntary use by states. There are various committees and task forces within the NAIC that are involved in regulations affecting



reinsurance. The primary committees and task forces include:

- Life Insurance and Annuities (A) Committee
- Health Insurance and Managed Care (B) Committee
- Financial Condition (E) Committee
- Accounting Practices and Procedures (E) Task Force
- Emerging Accounting Issues (E) Task Force
- Insolvency (E) Task Force
- Financial Regulations Standards and Accreditation (F) Committee
- Reinsurance (G) Task Force
- Life and Health Actuarial Task Force

The mission and charges of the various committees and task forces can be located on the NAIC Web site at www.naic.org/committee_activities/index.htm.

Financial Accounting Standards Board (FASB)

The FASB is the designated organization in the private sector for establishing standards of financial accounting and reporting. The Securities and Exchange Commission recognizes the FASB as a private sector authority on these topics. To add a topic to the FASB's Technical Agenda, the board first receives input from the constituency and then evaluates the proposed topic against a number of factors to determine if it should be added to the board's Technical Agenda.

Similar to the NAIC, no specific committees are identified as having responsibility for life and health reinsurance matters. More information about the FASB can be found on their Web site at www.fasb.org.

The Securities and Exchange Commission (SEC)

The primary mission of the SEC is to protect investors and maintain the integrity of the securities market. To achieve this, the SEC requires

public companies to disclose meaningful financial and other information to the public. The SEC, working closely with the Office of the Chief Accountant, monitors the activities of the accounting profession that result in the formulation of generally accepted accounting principles (GAAP). The SEC has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934. While the SEC generally looks to the FASB as an authority regarding financial accounting and reporting standards, it has on occasion let the FASB know what position it prefers on an issue.

Contact information: www.sec.gov

Internal Revenue Service (IRS)

The IRS administers the tax laws enacted by Congress and enforces taxation of all entities within the United States, including all life and health insurers, reinsurers, captive insurers and offshore insurers that operate in the United States. The IRS provides various forms of guidance including:

- Regulations – these are issued by the IRS and Treasury Department to provide guidance for new legislation and to address issues that arise with respect to existing Internal Revenue Code.
- Revenue Ruling – these are official interpretations by the IRS of the Internal Revenue Code related to statutes and regulations. It is the IRS's conclusion on how the law is applied to a specific set of facts.
- Revenue Procedure – this is an official statement of a procedure that affects the rights of taxpayers under the Internal Revenue Code related to statutes and regulations.
- Private Letter Ruling – this is a written statement issued to a taxpayer that interprets and implies tax laws to the taxpayer's specific set of facts.
- Technical Advice Memorandum – this is guidance furnished by the Office of Chief Counsel in response to technical or

continued on page 16

procedural questions that develop during a proceeding.

Contact information: www.irs.gov

Various nongovernmental organizations are involved in the formulation of reinsurance regulations. The following lists some of the significant organizations in this area.



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American Academy of Actuaries (AAA)

The AAA is the public policy organization for actuaries practicing in the United States. Life and health reinsurance matters are generally addressed by one of the following practice councils.

- Financial Reporting Council – Vice President, Pat Teufel; Academy contact, Ethan Sonnichsen (Sonnichsen@actuary.org)
- Life Practice Council – Vice President, Steve Preston; Academy contact, Steve English (English@actuary.org)
- Health Practice Council – Vice President, Jan Carstens; Academy contact, Holly Kwiatkowski (Kwiatowski@actuary.org)

American Council of Life Insurance (ACLI)

The ACLI Reinsurance Committee is organized to protect and advance the interests of ACLI member companies that engage in the business of buying and selling reinsurance. The current chairperson of the Reinsurance Committee is Cozy Simon. The ACLI contact is Don Preston. Member companies may also access the ACLI Web site to obtain more detailed information at www.acli.com.



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Reinsurance Association of America (RAA)

The RAA is the primary U.S. trade association of property-casualty reinsurers and reinsurance brokers. The primary purpose of the RAA is to advance the interest of the U.S. property/casualty reinsurance industry through effective

government relations with state and federal regulatory agencies, legislators and other elected or appointed officials.

Life reinsurers can become affiliate members of the RAA and pursue their agendas through the RAA Life Reinsurance Committee. The current committee chairperson is Denis Loring of RGA. Additional information on the RAA can be obtained from the RAA Web site, www.reinsurance.org.

Society of Actuaries (SOA)

The SOA is an educational, research, and professional organization for actuaries in the United States and Canada. Various SOA Section Councils are engaged in education and research on regulatory matters. The Reinsurance Section Council is the primary SOA section that addresses reinsurance-related topics. The current chairperson of the Reinsurance Section Council is Jim Dallas (jim.dallas@tillinghast.com) and the SOA contact is Lois Chinnock (lchinnock@soa.org).

Other organizations indirectly impact or influence reinsurance regulations. Perhaps the most significant of which are insurance rating agencies. Rating agencies, by rating the financial strength of insurance companies, can influence an insurer's financial management, cost of capital, use of reinsurance and position in the insurance and reinsurance markets.

Actuaries are actively involved in influencing reinsurance regulations. They do this as volunteers and employees of companies and regulatory agencies, performing research, participating on industry committees and enforcing regulations.

More information about the reinsurance regulatory process, the organizations that influence regulations and the role that actuaries play in the process can be obtained by accessing the above Web sites, or through a review of various actuarial literature, such as "U.S. GAAP for Life Insurers," "Life, Health and Annuity Reinsurance" by Tiller and Fagerberg, and the "Role of the Actuary Under Federal Insurance Regulation" Monograph by the American Academy of Actuaries. *✍*