

March 20, 2014

Via email: kdefrain@naic.org

National Association of Insurance Commissioners
Attn: Kris DeFrain
1100 Walnut Street
Suite 1500
Kansas City, MO 64106

Re: Comments on the Report of Rector & Associates, Inc. to the Principle-Based Reserving Implementation (EX) Task Force (“Rector Report”)

To: The Members of the Task Force

These comments are submitted on behalf of the Captive Insurance Companies Association (“CICA”). CICA is the leading domicile neutral trade association representing the global captive insurance industry. CICA’s members are individual captives, companies that own and utilize captives and service providers (such as actuaries, accountants, attorneys, and insurance consultants).

The issue of a life insurer seeking to reduce its effective net retention of XXX and AXXX reserves by employing a captive insurer came to the attention of the Captives and Special Purpose Vehicles (SPV) Use (E) Subgroup and was mentioned in its Report dated June 6, 2013. **Without commenting on the details of the Rector Report, CICA would like to endorse several of the principal conclusions of the Rector Report.**

First, with the understanding that a reinsurance or alternative financing mechanism should not be used by commercial insurers to avoid reserving requirements under state law, the approach of the Report places its emphasis on the “...regulation of the direct/ceding insurer rather than on that of the assuming entity”. Report p. 33. In our view, this is the correct approach because the regulator of the ceding carrier is in the best position to determine what assets should be allowed to offset XXX and AXXX reserves. In fact, the Report notes that its emphasis is on the assets allowed to support reserves, not the reserve level. Report p. 5.

Second, the Report is clear that it is “not an attempt to regulate captives”. *Id.* The Report further states that: “[i]n our opinion, addressing the regulatory concerns regarding reserve financing transactions by focusing on the regulation of assuming insurers will ultimately fail and will lead to financing transactions moving off-shore or otherwise out of the reach of US regulators.” *Id.*

Reply to: CICA Administrative Office
4248 Park Glen Road
Minneapolis, MN 55416
Phone: (952) 928-4655; Fax: (952) 929-1318
e-mail: cica@harringtoncompany.com

CICA President
1401 S. Ocean Blvd. #1007
Pompano, Beach, FL 33062
Phone: (954) 960-2627
e-mail: धारविक@CICAWorld.com

Indeed, US regulators will generally not have jurisdiction over non-US entities, but will have authority over the commercial carriers that may cede risk to them. We believe this to be a practical and appropriate approach, which will not result in the development of unnecessary regulatory requirements for captives, which in the vast majority of cases do not involve XXX or AXXX reserves.

In sum, we would like to commend to the Task Force the basic approach of the Rector Report, which is to "...focus almost exclusively on regulation of the direct/ceding insurer and on trying to ensure that high quality assets in an appropriate amount will be available to the direct/ceding insurer to allow it to pay policyholder claims as they come due." *Id.*

Thank you for this opportunity to provide comments to the Task Force.

Very truly yours,



Dennis P. Harwick
PRESIDENT

Cc: CICA Board of Directors
Captive Association Leadership Council
American Council of Life Insurers

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Minneapolis, MN 55416
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