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October 1, 2012

VIA E-MAIL

Mr. Peter J. Salvatore  
Regulatory Coordinator  
Pennsylvania Insurance Department  
1326 Strawberry Square  
Harrisburg, PA 17120

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IRRC

Re: Proposed amendments to 31 Pa. Code Ch. 161, §§161.1-161.9, *Requirements for Qualified and Certified Reinsurers*

Dear Mr. Salvatore:

AIG has reviewed the proposed revisions to 31 Pa. Code Ch. 161, *Requirements for Qualified and Certified Reinsurers* (the "Regulation"), published in the Pennsylvania Bulletin on September 1, 2012 and respectfully offers the following comments.

A. Effective Date of Certification of Reinsurer: Under the recently amended statute addressing reinsurance reserve credit, 40 P.S. §442.1, reduced collateral rules apply to reinsurance contracts entered into or renewed on or after the effective date of the certification of the reinsurer. However, the statute does not address the frequency with which the Commissioner would certify reinsurers during a given year and we propose that the Regulation be revised to address this issue for practical concerns. If reinsurers are certified at various dates throughout the year, there will be a resulting administrative burden on ceding insurers when calculating those reinsurers' collateral requirements for the year. Specifically, the ceding insurer will be required to bifurcate its collateral calculations for different certified reinsurers based on potentially many different effective dates during the course of a calendar year. Introducing a uniform, annual (or semi-annual) effective date for all certified reinsurers would mitigate this burden. We therefore suggest that regardless of the date a reinsurer is actually certified, the certification should apply, at the Commissioner's discretion, to either reinsurance contracts effective on or after January 1 (and/or, alternatively, July 1) of the year the certification is granted, or the January 1 (and/or, alternatively, July 1) immediately following the date of certification.

**B. One Year Deferral for Catastrophic Occurrences:** §161.3b(b)(4) provides that a certified reinsurer may not be required to post security related to recoverables arising from a catastrophic occurrence, as recognized by the Commissioner, for a period of one year provided the certified reinsurer continues to pay claims in a timely manner and in compliance with its contractual obligations as set forth in the reinsurance agreement under which the claims are ceded. AIG believes that a “catastrophic occurrence” should be defined by an objective means and should be applied by all states consistently so that the individual companies of an insurance holding company, including those in the same pool, are not subject to different collateral rules resulting from the same catastrophe. Accordingly, AIG recommends that the term “catastrophic occurrence” be defined as an event determined by an organization such as the Property Claims Service or other equivalent organization recognized by the Commissioner.

Additionally, AIG believes the one year deferral in posting security should not apply to certified reinsurers that have been assigned a “Secure 4”, “Secure 5” or “Vulnerable 6” rating. In the event there is a catastrophic event of large proportion, those certified reinsurers with lower ratings are at a greater risk of becoming financially impaired than those certified reinsurers with higher ratings (Secure 1 - 3). A deferral for these lower rated reinsurers places domestic cedents at a greater risk of having uncollectible recoveries, ultimately putting policyholders at risk. As such, we believe it is not prudent to extend a deferral to these lower rated reinsurers and furthermore believe the Commissioner should have the discretion to revoke such deferral at any time.

We appreciate the Department’s consideration of the issues raised above. We are available to discuss our comments at your convenience.

Respectfully, /MPM  
  
Martin Carus  
Senior State Relations Officer

Cc: Mr. Stephen Johnson, Deputy Insurance Commissioner