



Use of multi-beneficiary trust funds with automatic full financial statement credit for US cedents

Hannover Re provides collateral to US cedents

Master Reinsurance Trust

Hannover Rück SE (Hannover Re) was first accredited as trustee reinsurer on December 28, 1994 in Hawaii. Today, Hannover Re is accredited in 51 US jurisdictions (including the District of Columbia).

The trustee status allows Hannover Re to provide collateral through multi-beneficiary trust funds instead of providing letters of credit. As a result, US cedents can take automatic financial statement credit as either an asset or a reduction from liability according to the US credit for reinsurance rules.

Hannover Re's Master Reinsurance Trust posts **100% collateral** for reported case reserves, IBNR (incurred but not reported reserves) and unearned premium for cedents domiciled in US states whose regulations do not yet allow for reduced collateral.

Because of Hannover Re's accreditation as trustee reinsurer, US cedents can treat cessions to Hannover Re as "authorized" in their financial statement reporting.

Supplemental Reinsurance Trust

Hannover Re is a certified reinsurer in various US states which allow for reduced collateral.

For the complete list of US states, please see: <https://www.hannover-re.com/737636/certified-reinsurer-in-the-us>

What does reduced collateral mean for US cedents?

- The Supplemental Reinsurance Trust is a separate trust for reduced collateral **only**
- According to its very strong ratings, Hannover Re is allowed to post **10% collateral** for US cedents domiciled in the certifying state
- Irrespective of the collateral percentage, US cedents continue to receive automatic **full** financial statement credit
- For the financial statement reporting of US cedents, cessions with reduced collateral are to be reported in a new Schedule F - Part 6, Section 1 & 2
- Hannover Re's certified reinsurer number is: CR 1340125

Background

Since 2012, US states can introduce reduced collateral rules based on the NAIC Credit for Reinsurance Model Law and Regulation. The majority of US states have already implemented respective legislation.

In August 2016, the NAIC Executive Committee voted to make the NAIC Credit for Reinsurance Model Law and Regulation a mandatory NAIC accreditation standard effective on January 1, 2019, i.e. by then all US states must implement the reinsurance collateral reform.

With this regulation, the US states allow financially sound reinsurers to provide reduced collateral based on their evaluation of the reinsurer through a comprehensive application process.

Hannover Re's lead state for its certified reinsurer status is New York. As a precondition for Hannover Re to become a certified reinsurer, the NAIC approved Germany as a "Qualified Jurisdiction".

Outlook

Beginning of 2017, the US and the EU successfully concluded a bilateral agreement on prudential measures regarding (re)insurance. The so called Covered Agreement has finally entered into force on April 4, 2018. The Covered Agreement requires that the US states will eliminate statutory collateral requirements within the next 5 years.

The NAIC is currently amending the NAIC Credit for Reinsurance Model Law and Regulation to incorporate the rules of the Covered Agreement. The NAIC revisions are planned to be completed by the end of 2018. Given the transition period of 5 years, the effective date of the collateral elimination will vary across states and is depending on the implementation of the revisions into state law.

Benefits of both trust funds

Eased administration and high level of security for US cedents

- Automatic full financial statement credit
- Top quality assets - held by a qualified US financial institution - in segregated trusts for the sole benefit of US cedents
- Trusts are funded without allowance for retrocessions
- Hannover Re files quarterly and annual financial statements for both trusts and updates its trust reserves and assets at the end of each quarter
- Hannover Re's domiciliary regulator of both trust funds is the New York Department of Financial Services
- The trusts are backed by Hannover Re's group policyholders' surplus of USD 12.9bn as of December 31, 2017
- Hannover Re is rated A+ by A.M. Best and AA- by Standard & Poor's

Contact

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