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Dear Insurers:

During 2007, Florida lawmakers passed legislation that authorized the Office to establish lower collateral requirements for alien reinsurers that are highly rated and financially sound. This was done to encourage additional investment in Florida's property insurance marketplace. Rule 690-144.007, of the Florida Administrative Code was composed and was effective on October 29, 2008. This Rule gives the Commissioner the option to allow credit for reinsurance without full collateral for transactions involving insurers not meeting the requirements of Sections 624.610(3)(a)-(d), Florida Statutes. In 2010, several insurers applied for and received this new type of authority category which enables alien reinsurers to post a lower collateral amount with regards to its reinsurance liability. The authority category for these reinsurers is called "eligible reinsurer".

The NAIC Annual Statement blanks, specifically Schedule F, currently do not take into account reduced collateral requirements and will calculate a provision for reinsurance penalty if eligible reinsurers do not provide 100% collateral on Schedule F, Part 5. Discussions have begun at the NAIC to make some possible changes to this schedule in the future. However, until the schedule is changed, it is suggested that when accounting for the reduced collateral amount required for eligible reinsurers on Schedule F, Part 5 on the Annual Financial Statement, ceding insurers put the difference between the collateral required for Florida and the NAIC in the "Other Allowed Offset Item" column on schedule F – Part 5. For example: If the eligible reinsurer is only required to post 20% collateral, the remaining 80% would be reported under the "Other Allowed Offset Item" column on Schedule F- Part 5.

Sincerely,

Robin Westcott
Director, Property & Casualty Financial Oversight
State of Florida
Office of Insurance Regulation