AN ACT concerning insurance; relating to the reinsurance of risk;
updating the national association of insurance commissioners credit for
reinsurance model law and codifying the national association of
insurance commissioners credit for reinsurance model regulation;
amending K.S.A. 2019 Supp. 40-221a and repealing the existing
section.

Be it enacted by the Legislature of the State of Kansas:

New Section 1. (a) Purpose. The actions and information required by
this section are declared to be necessary and appropriate in the public
interest and for the protection of the ceding insurers in this state.

(b) Severability. If any provision of this section, or the application of
the provision to any person or circumstance, is held invalid, the remainder
of the act, and the application of the provision to persons or circumstances
other than those to which it is held invalid, shall not be affected.

(c) Credit for reinsurance – reinsurer licensed in this state. Pursuant
to K.S.A. 40-221a(a), and amendments thereto, the commissioner shall
allow credit for reinsurance ceded by a domestic insurer to an assuming
insurer that was licensed in this state as of any date on which statutory
financial statement credit for reinsurance is claimed.

(d) Credit for reinsurance – accredited reinsurers. (1) Pursuant to
K.S.A. 40-221a(a)(2), and amendments thereto, the commissioner shall
allow credit for reinsurance ceded by a domestic insurer to an assuming
insurer that is accredited as a reinsurer in this state as of the date on which
statutory financial statement credit for reinsurance is claimed. An
accredited reinsurer shall:

(A) File a properly executed form ar-1 in accordance with the
instructions and as prescribed and adopted by the national association of
insurance commissioners and the commissioner of insurance as evidence
of its submission to this state's jurisdiction and to this state's authority to
examine its books and records;

(B) file with the commissioner a certified copy of a certificate of
authority or other acceptable evidence that it is licensed to transact
insurance or reinsurance in at least one state, or, in the case of a United
States branch of an alien assuming insurer, is entered through and licensed
to transact insurance or reinsurance in at least one state;
(C) file annually with the commissioner a copy of its annual statement filed with the insurance department of its state of domicile or, in the case of an alien assuming insurer, with the state through which it is entered and in which it is licensed to transact insurance or reinsurance, and a copy of its most recent audited financial statement; and

(D) maintain a surplus as regards policyholders in an amount not less than $20,000,000, or obtain the affirmative approval of the commissioner upon a finding that it has adequate financial capacity to meet its reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers.

(2) If the commissioner determines that the assuming insurer has failed to meet or maintain any of these qualifications, the commissioner may, upon written notice and opportunity for hearing, suspend or revoke the accreditation. Credit shall not be allowed a domestic ceding insurer under this section if the assuming insurer's accreditation has been revoked by the commissioner, or if the reinsurance was ceded while the assuming insurer's accreditation was under suspension by the commissioner.

(e) Credit for reinsurance – reinsurer domiciled in another state. (1) Pursuant to K.S.A. 40-221a(a)(3), and amendments thereto, the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that, as of any date on which statutory financial statement credit for reinsurance is claimed:

(A) is domiciled in or, in the case of a United States branch of an alien assuming insurer, is entered through, a state that employs standards regarding credit for reinsurance substantially similar to those applicable under K.S.A. 40-221a, and amendments thereto, and this section;

(B) maintains a surplus as regards policyholders in an amount not less than $20,000,000; and

(C) files a properly executed form ar-1, in accordance with the instructions and as prescribed and adopted by the national association of insurance commissioners and the commissioner of insurance, with the commissioner as evidence of its submission to this state's authority to examine its books and records.

(2) The provisions of this section relating to surplus as regards policyholders shall not apply to reinsurance ceded and assumed pursuant to pooling arrangements among insurers in the same holding company system. As used in this section, "substantially similar" standards means credit for reinsurance standards that the commissioner determines are equal to or exceed the standards of K.S.A. 40-221a, and amendments thereto, and this section.

(f) Credit for reinsurance – reinsurers maintaining trust funds. (1) Pursuant to K.S.A. 40-221a(a)(4), and amendments thereto, the commissioner shall allow credit for reinsurance ceded by a domestic
insurer to an assuming insurer that, as of any date on which statutory
financial statement credit for reinsurance is claimed, and thereafter for so
long as credit for reinsurance is claimed, maintains a trust fund in an
amount prescribed below in a qualified United States financial institution,
as defined in K.S.A. 40-221a(c)(2), and amendments thereto, for the
payment of the valid claims of its United States-domiciled ceding insurers,
their assigns and successors in interest. The assuming insurer shall report
annually to the commissioner substantially the same information as that
required to be reported on the national association of insurance
commissioners annual statement form by licensed insurers, to enable the
commissioner to determine the sufficiency of the trust fund.

(2) The following requirements apply to the following categories of
assuming insurer:

(A) The trust fund for a single assuming insurer shall consist of funds
in trust in an amount not less than the assuming insurer's liabilities
attributable to reinsurance ceded by United States-domiciled insurers and,
in addition, the assuming insurer shall maintain a trusteed surplus of not
less than $20,000,000, except as provided in subparagraph (B).

(B) At any time after the assuming insurer has permanently
discontinued underwriting new business secured by the trust for at least
three full years, the commissioner with principal regulatory oversight of
the trust may authorize a reduction in the required trusteed surplus, but
only after a finding, based on an assessment of the risk, that the new
required surplus level is adequate for the protection of United States
ceding insurers, policyholders and claimants in light of reasonably
foreseeable adverse loss development. The risk assessment may involve an
actuarial review, including an independent analysis of reserves and cash
flows, and shall consider all material risk factors, including, when
applicable, the lines of business involved, the stability of the incurred loss
estimates and the effect of the surplus requirements on the assuming
insurer's liquidity or solvency. The minimum required trusteed surplus may
not be reduced to an amount less than 30% of the assuming insurer's
liabilities attributable to reinsurance ceded by United States ceding
insurers covered by the trust.

(C) (i) The trust fund for a group including incorporated and
individual unincorporated underwriters shall consist of:

(a) For reinsurance ceded under reinsurance agreements with an
inception date, amendment or renewal date on or after January 1, 1993,
funds in trust in an amount not less than the respective underwriters'
several liabilities attributable to business ceded by United States-domiciled
ceding insurers to any underwriter of the group;

(b) for reinsurance ceded under reinsurance agreements with an
inception date on or before December 31, 1992, and not amended or
renewed after that date, notwithstanding the other provisions of this section, funds in trust in an amount not less than the respective underwriters' several insurance and reinsurance liabilities attributable to business written in the United States; and

(c) in addition to these trusts, the group shall maintain a trusted surplus of which $100,000,000 shall be held jointly for the benefit of the United States-domiciled ceding insurers of any member of the group for all the years of account.

(ii) The incorporated members of the group shall not be engaged in any business other than underwriting as a member of the group and shall be subject to the same level of regulation and solvency control by the group's domiciliary regulator as are the unincorporated members. The group shall, within 90 days after its financial statements are due to be filed with the group's domiciliary regulator, provide to the commissioner:

(a) An annual certification by the group's domiciliary regulator of the solvency of each underwriter member of the group; or

(b) if a certification is unavailable, a financial statement, prepared by independent public accountants, of each underwriter member of the group.

(D) (i) The trust fund for a group of incorporated insurers under common administration, whose members possess aggregate policyholders surplus of $10,000,000,000 as calculated and reported in substantially the same manner as prescribed by the annual statement instructions and accounting practices and procedures manual of the national association of insurance commissioners and that has continuously transacted an insurance business outside the United States for at least three years immediately prior to making application for accreditation, shall:

(a) Consist of funds in trust in an amount not less than the assuming insurers' several liabilities attributable to business ceded by United States-domiciled ceding insurers to any members of the group pursuant to reinsurance contracts issued in the name of such group;

(b) maintain a joint trusted surplus of which $100,000,000 shall be held jointly for the benefit of United States-domiciled ceding insurers of any member of the group; and

(c) file a properly executed form ar-1, in accordance with the instructions and as prescribed and adopted by the national association of insurance commissioners and the commissioner of insurance, as evidence of the submission to this state's authority to examine the books and records of any of its members and shall certify that any member examined will bear the expense of any such examination.

(ii) Within 90 days after the statements are due to be filed with the group's domiciliary regulator, the group shall file with the commissioner an annual certification of each underwriter member's solvency by the member's domiciliary regulators and financial statements, prepared by
independent public accountants, of each underwriter member of the group.

(3) (A) Credit for reinsurance shall not be granted unless the form of
the trust and any amendments to the trust have been approved by either the
commissioner of the state where the trust is domiciled or the commissioner
of another state who, pursuant to the terms of the trust instrument, has
accepted responsibility for regulatory oversight of the trust. The form of
the trust and any trust amendments also shall be filed with the
commissioner of every state in which the ceding insurer beneficiaries of
the trust are domiciled. The trust instrument shall provide that:

   (i) Contested claims shall be valid and enforceable out of funds in
trust to the extent remaining unsatisfied 30 days after entry of the final
order of any court of competent jurisdiction in the United States;

   (ii) legal title to the assets of the trust shall be vested in the trustee for
the benefit of the grantor's United States ceding insurers, their assigns and
successors in interest;

   (iii) the trust shall be subject to examination as determined by the
commissioner;

   (iv) the trust shall remain in effect for as long as the assuming insurer,
or any member or former member of a group of insurers, shall have
outstanding obligations under reinsurance agreements subject to the trust;
and

   (v) not later than February 28 of each year, the trustee of the trust
shall report to the commissioner in writing setting forth the balance in the
trust and listing the trust's investments at the preceding year-end, and shall
certify the date of termination of the trust, if so planned, or certify that the
trust shall not expire prior to the following December 31.

(B) (i) Notwithstanding any other provisions in the trust instrument, if
the trust fund is inadequate because it contains an amount less than the
amount required by this subsection or if the grantor of the trust has been
declared insolvent or placed into receivership, rehabilitation, liquidation or
similar proceedings under the laws of its state or country of domicile, the
trustee shall comply with an order of the commissioner with regulatory
oversight over the trust or with an order of a court of competent
jurisdiction directing the trustee to transfer to the commissioner with
regulatory oversight over the trust or other designated receiver all of the
assets of the trust fund.

   (ii) The assets shall be distributed by and claims shall be filed with
and valued by the commissioner with regulatory oversight over the trust in
accordance with the laws of the state in which the trust is domiciled
applicable to the liquidation of domestic insurance companies.

   (iii) If the commissioner with regulatory oversight over the trust
determines that the assets of the trust fund or any part thereof are not
necessary to satisfy the claims of the United States beneficiaries of the
trust, the commissioner with regulatory oversight over the trust shall return
the assets, or any part thereof, to the trustee for distribution in accordance
with the trust agreement.
(iv) The grantor shall waive any right otherwise available to it under
United States law that is inconsistent with this provision.
(4) For purposes of this section, the term "liabilities" means the
assuming insurer's gross liabilities attributable to reinsurance ceded by
United States-domiciled insurers, excluding liabilities that are otherwise
secured by acceptable means, and includes:
(A) For business ceded by domestic insurers authorized to write
accident and health and property and casualty insurance:
(i) Losses and allocated loss expenses paid by the ceding insurer,
recoverable from the assuming insurer;
(ii) reserves for losses reported and outstanding;
(iii) reserves for losses incurred but not reported;
(iv) reserves for allocated loss expenses; and
(v) unearned premiums.
(B) For business ceded by domestic insurers authorized to write life,
health and annuity insurance:
(i) Aggregate reserves for life policies and contracts net of policy
loans and net due and deferred premiums;
(ii) aggregate reserves for accident and health policies;
(iii) deposit funds and other liabilities without life or disability
contingencies; and
(iv) liabilities for policy and contract claims.
(5) Assets deposited in trusts established pursuant to K.S.A. 40-
221a(a), and amendments thereto, and this subsection shall be valued
according to their current fair market value and shall consist only of cash
in United States dollars, certificates of deposit issued by a United States
financial institution, as defined in K.S.A. 40-221a(c), and amendments
thereto, clean, irrevocable, unconditional and "evergreen" letters of credit
issued or confirmed by a qualified United States financial institution, as
defined in K.S.A. 40-221a(c), and amendments thereto, and investments of
the type specified in this subsection, but investments in or issued by an
entity controlling, controlled by or under common control with either the
grantor or beneficiary of the trust shall not exceed 5% of total investments.
Not more than 20% of the total of the investments in the trust may be
foreign investments authorized under subparagraph (A)(v), (C), (F)(ii) or
(G), and not more than 10% of the total of the investments in the trust may
be securities denominated in foreign currencies. For purposes of applying
the preceding sentence, a depository receipt denominated in United States
dollars and representing rights conferred by a foreign security shall be
classified as a foreign investment denominated in a foreign currency. The
assets of a trust established to satisfy the requirements of K.S.A. 40-221a(a), and amendments thereto, shall be invested only as follows:

(A) Government obligations that are not in default as to principal or interest, that are valid and legally authorized and that are issued, assumed or guaranteed by:

(i) The United States or by any agency or instrumentality of the United States;

(ii) a state of the United States;

(iii) a territory, possession or other governmental unit of the United States;

(iv) an agency or instrumentality of a governmental unit referred to in clauses (ii) and (iii) if the obligations shall be by law, statutory or otherwise, payable, as to both principal and interest, from taxes levied or by law required to be levied or from adequate special revenues pledged or otherwise appropriated or by law required to be provided for making these payments, but shall not be obligations eligible for investment under this paragraph if payable solely out of special assessments on properties benefited by local improvements; or

(v) the government of any other country that is a member of the organization for economic cooperation and development and whose government obligations are rated "A" or higher, or the equivalent, by a rating agency recognized by the securities valuation office of the national association of insurance commissioners;

(B) obligations that are issued in the United States, or that are dollar denominated and issued in a non-U.S. market, by a solvent United States institution, other than an insurance company, or that are assumed or guaranteed by a solvent United States institution, other than an insurance company and that are not in default as to principal or interest if the obligations:

(i) Are rated "A" or higher, or the equivalent, by a securities rating agency recognized by the securities valuation office of the national association of insurance commissioners, or if not so rated, are similar in structure and other material respects to other obligations of the same institution that are so rated;

(ii) are insured by at least one authorized insurer, other than the investing insurer or a parent, subsidiary or affiliate of the investing insurer, licensed to insure obligations in this state and, after considering the insurance, are rated "AAA," or the equivalent, by a securities rating agency recognized by the securities valuation office of the national association of insurance commissioners; or

(iii) have been designated as class one or class two by the securities valuation office of the national association of insurance commissioners;

(C) obligations issued, assumed or guaranteed by a solvent non-U.S.
institution chartered in a country that is a member of the organization for
economic cooperation and development or obligations of United States
corporations issued in a non-U.S. currency, provided that in either case the
obligations are rated "A" or higher, or the equivalent, by a rating agency
recognized by the securities valuation office of the national association of
insurance commissioners;
(D) an investment made pursuant to the provisions of subparagraph
(A), (B) or (C) shall be subject to the following additional limitations:
(i) An investment in or loan upon the obligations of an institution
other than an institution that issues mortgage-related securities shall not
exceed 5% of the assets of the trust;
(ii) an investment in any one mortgage-related security shall not
exceed 5% of the assets of the trust;
(iii) the aggregate total investment in mortgage-related securities shall
not exceed 25% of the assets of the trust; and
(iv) preferred or guaranteed shares issued or guaranteed by a solvent
United States institution are permissible investments if all of the
institution's obligations are eligible as investments under subparagraphs
(B)(i) and (B)(iii), but shall not exceed 2% of the assets of the trust.
(E) As used in this section:
(i) "Mortgage-related security" means an obligation that is rated
"AA" or higher, or the equivalent, by a securities rating agency recognized
by the securities valuation office of the national association of insurance
commissioners and that either:
(a) Represents ownership of one or more promissory notes or
certificates of interest or participation in the notes, including any rights
designed to assure servicing of, or the receipt or timeliness of receipt by
the holders of the notes, certificates, or participation of amounts payable
under, the notes, certificates or participation, that:
(1) Are directly secured by a first lien on a single parcel of real estate,
including stock allocated to a dwelling unit in a residential cooperative
housing corporation, upon which is located a dwelling or mixed residential
and commercial structure, or on a residential manufactured home, as
defined in 42 U.S.C. § 5402(6), whether the manufactured home is
considered real or personal property under the laws of the state in which it
is located; and
(2) were originated by a savings and loan association, savings bank,
commercial bank, credit union, insurance company, or similar institution
that is supervised and examined by a federal or state housing authority, or
by a mortgagee approved by the United States secretary of housing and
urban development pursuant to 12 U.S.C. §§ 1709 and 1715b, or, where
the notes involve a lien on the manufactured home, by an institution or by
a financial institution approved for insurance by the United States
secretary of housing and urban development pursuant to 12 U.S.C. § 1703; or
(b) is secured by one or more promissory notes or certificates of deposit or participations in the notes, with or without recourse to the insurer of the notes, and, by its terms, provides for payments of principal in relation to payments, or reasonable projections of payments, or notes meeting the requirements of subclauses (a)(1) and (a)(2); (ii) "promissory note," when used in connection with a manufactured home, shall also include a loan, advance or credit sale as evidenced by a retail installment sales contract or other instrument.
(F) Equity interests. (i) Investments in common shares or partnership interests of a solvent United States institution are permissible if: (a) Its obligations and preferred shares, if any, are eligible as investments under this subsection; and (b) the equity interests of the institution, except an insurance company, are registered on a national securities exchange as provided in the federal securities exchange act of 1934, 15 U.S.C. §§ 78a to 78kk, or otherwise registered pursuant to that act, and if otherwise registered, price quotations for them are furnished through a nationwide automated quotations system approved by the financial industry regulatory authority, or its successor organization. A trust shall not invest in equity interests under this subparagraph an amount exceeding 1% of the assets of the trust even though the equity interests are not so registered and are not issued by an insurance company; (ii) investments in common shares of a solvent institution organized under the laws of a country that is a member of the organization for economic cooperation and development, if: (a) All its obligations are rated "A" or higher, or the equivalent, by a rating agency recognized by the securities valuation office of the national association of insurance commissioners; and (b) the equity interests of the institution are registered on a securities exchange regulated by the government of a country that is a member of the organization for economic cooperation and development; (iii) an investment in or loan upon any one institution's outstanding equity interests shall not exceed 1% of the assets of the trust. The cost of an investment in equity interests made pursuant to this subparagraph, when added to the aggregate cost of other investments in equity interests held pursuant to this paragraph, shall not exceed 10% of the assets in the trust. (G) obligations issued, assumed or guaranteed by a multinational development bank, provided the obligations are rated "A," or higher, or the equivalent, by a rating agency recognized by the securities valuation office of the national association of insurance commissioners.
(H) Investment companies. (i) Securities of an investment company
registered pursuant to the investment company act of 1940, 15 U.S.C. § 80a, are permissible investments if the investment company:

(a) Invests at least 90% of its assets in the types of securities that qualify as an investment under subparagraph (A), (B) or (C) or invests in securities that are determined by the commissioner to be substantively similar to the types of securities set forth in subparagraph (A), (B) or (C); or

(b) invests at least 90% of its assets in the types of equity interests that qualify as an investment under subparagraph (F)(i);

(ii) investments made by a trust in investment companies under this paragraph shall not exceed the following limitations:

(a) An investment in an investment company qualifying under clause (i)(a) shall not exceed 10% of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall not exceed 25% of the assets in the trust; and

(b) investments in an investment company qualifying under clause (i) (b) shall not exceed 5% of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall be included when calculating the permissible aggregate value of equity interests pursuant to subparagraph (F)(i).

(I) Letters of credit. (i) In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement, as duly approved by the commissioner, to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.

(ii) The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence or willful misconduct.

(6) A specific security provided to a ceding insurer by an assuming insurer pursuant to subsection (k) shall be applied, until exhausted, to the payment of liabilities of the assuming insurer to the ceding insurer holding the specific security prior to, and as a condition precedent for, presentation of a claim by the ceding insurer for payment by a trustee of a trust established by the assuming insurer pursuant to this section.

(g) Credit for reinsurance – certified reinsurers. (1) Pursuant to K.S.A. 40-221a(a)(5), and amendments thereto, the commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that has been certified as a reinsurer in this state at all times for which statutory financial statement credit for reinsurance is claimed under
this section. The credit allowed shall be based upon the security held by or on behalf of the ceding insurer in accordance with a rating assigned to the certified reinsurer by the commissioner. The security shall be in a form consistent with the provisions of K.S.A. 40-221a(a)(5) and 40-221a(b), and amendments thereto, and subsection (k), (l) or (m). The amount of security required in order for full credit to be allowed shall correspond with the following requirements:

(A) Ratings

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Security Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure - 1</td>
<td>0%</td>
</tr>
<tr>
<td>Secure - 2</td>
<td>10%</td>
</tr>
<tr>
<td>Secure - 3</td>
<td>20%</td>
</tr>
<tr>
<td>Secure - 4</td>
<td>50%</td>
</tr>
<tr>
<td>Secure - 5</td>
<td>75%</td>
</tr>
<tr>
<td>Secure - 6</td>
<td>100%</td>
</tr>
</tbody>
</table>

(B) Affiliated reinsurance transactions shall receive the same opportunity for reduced security requirements as all other reinsurance transactions.

(C) The commissioner shall require the certified reinsurer to post for the benefit of the ceding insurer or its estate, 100% security upon the entry of an order of rehabilitation, liquidation or conservation against the ceding insurer.

(D) In order to facilitate the prompt payment of claims, a certified reinsurer shall not be required to post security for catastrophe recoverables for a period of one year from the date of the first instance of a liability reserve entry by the ceding company as a result of a loss from a catastrophic occurrence as recognized by the commissioner. The one-year deferral period shall be contingent upon the certified reinsurer continuing to pay claims in a timely manner. Reinsurance recoverables for only the following lines of business as reported on the national association of insurance commissioners annual financial statement related specifically to the catastrophic occurrence shall be included in the deferral:

(i) Line 1: Fire.
(ii) Line 2: Allied lines.
(iii) Line 3: Farmowners multiple peril.
(iv) Line 4: Homeowners multiple peril.
(v) Line 5: Commercial multiple peril.
(vii) Line 12: Earthquake.
(viii) Line 21: Auto physical damage.

(E) Credit for reinsurance under this section shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the certification of the assuming insurer. Any reinsurance contract entered into prior to the effective date of the certification of the assuming insurer shall fail to meet the requirements of this section.
insurer that is subsequently amended after the effective date of the
certification of the assuming insurer, or a new reinsurance contract,
covering any risk for which collateral was provided previously, shall only
be subject to this section with respect to losses incurred and reserves
reported from and after the effective date of the amendment or new
contract.

(F) Nothing in this section shall prohibit the parties to a reinsurance
agreement from agreeing to provisions establishing security requirements
that exceed the minimum security requirements established for certified
reinsurers under this section.

(2) Certification procedure. (A) The commissioner shall post notice
on the insurance department's website promptly upon receipt of any
application for certification, including instructions on how members of the
public may respond to the application. The commissioner shall not take
final action on the application until at least 30 days after posting the notice
required by this paragraph.

(B) The commissioner shall issue written notice to an assuming
insurer that has made application and been approved as a certified
reinsurer. Included in such notice shall be the rating assigned the certified
reinsurer in accordance with subsection (g)(2)(A). The commissioner shall
publish a list of all certified reinsurers and their ratings.

(C) In order to be eligible for certification, the assuming insurer shall
meet the following requirements:

(i) The assuming insurer must be domiciled and licensed to transact
insurance or reinsurance in a qualified jurisdiction, as determined by the
commissioner pursuant to subsection (g)(3);
(ii) the assuming insurer shall maintain capital and surplus, or its
equivalent, of no less than $250,000,000 calculated in accordance with
subsection (g)(2)(D)(viii). This requirement may also be satisfied by an
association including incorporated and individual unincorporated
underwriters having minimum capital and surplus equivalents, net of
liabilities, of at least $250,000,000 and a central fund containing a balance
of at least $250,000,000;
(iii) the assuming insurer shall maintain financial strength ratings
from two or more rating agencies deemed acceptable by the commissioner.
These ratings shall be based on interactive communication between the
rating agency and the assuming insurer and shall not be based solely on
publicly available information. These financial strength ratings shall be
one factor used by the commissioner in determining the rating that is
assigned to the assuming insurer. Acceptable rating agencies include the
following:

(a) Standard & poor's;
(b) Moody's investors service;
(c) Fitch ratings;
(d) a.m. best company; or
(e) any other nationally recognized statistical rating organization; and
(iv) the certified reinsurer shall comply with any other requirements reasonably imposed by the commissioner.

(D) Each certified reinsurer shall be rated on a legal entity basis, with
due consideration being given to the group rating where appropriate,
except that an association including incorporated and individual
unincorporated underwriters that has been approved to do business as a
single certified reinsurer may be evaluated on the basis of its group rating.
Factors that may be considered as part of the evaluation process include,
but are not limited to, the following:

(i) The certified reinsurer's financial strength rating from an
acceptable rating agency. The maximum rating that a certified reinsurer
may be assigned shall correspond to its financial strength rating as outlined
in the table below. The commissioner shall use the lowest financial
strength rating received from an approved rating agency in establishing the
maximum rating of a certified reinsurer. A failure to obtain or maintain at
least two financial strength ratings from acceptable rating agencies shall
result in loss of eligibility for certification;

(ii) the business practices of the certified reinsurer in dealing with its
ceding insurers, including its record of compliance with reinsurance
contractual terms and obligations;

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Best</th>
<th>S&amp;P</th>
<th>Moody's</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure - 1</td>
<td>A++</td>
<td>AAA</td>
<td>Aaa</td>
<td>AAA</td>
</tr>
<tr>
<td>Secure - 2</td>
<td>A+</td>
<td>AA+, AA, AA-</td>
<td>Aa1, Aa2, Aa3</td>
<td>AA+, AA, AA-</td>
</tr>
<tr>
<td>Secure - 3</td>
<td>A</td>
<td>A+, A</td>
<td>A1, A2</td>
<td>A+, A</td>
</tr>
<tr>
<td>Secure - 4</td>
<td>A-</td>
<td>A-</td>
<td>A3</td>
<td>A-</td>
</tr>
<tr>
<td>Secure - 5</td>
<td>B++, B+</td>
<td>BBB+, BBB,</td>
<td>Baa1, Baa2,</td>
<td>BBB+, BBB,</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>- 6</td>
<td>B, B-, BB+, BB,</td>
<td>Ba1, Ba2,</td>
<td>BB+, BB,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BB-, B+, B</td>
<td>Ba3, B1,</td>
<td>BB-, B+, B</td>
</tr>
<tr>
<td></td>
<td></td>
<td>B-, CCC, CC</td>
<td>B2, B3, Caa,</td>
<td>B-, CCC+, CC,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>C, C-, D</td>
<td>Ca, C</td>
<td>CCC-, DD</td>
</tr>
</tbody>
</table>

(iii) for certified reinsurers domiciled in the United States, a review of
the most recent applicable national association of insurance commissioners
annual statement blank, either schedule f, for property and casualty
reinsurers, or schedule s, for life and health reinsurers, in accordance with
the instructions and as prescribed and adopted by the national association
of insurance commissioners and the commissioner of insurance;
(iv) for certified reinsurers not domiciled in the United States, a
review annually of form cr-f, for property and casualty reinsurers, in
accordance with the instructions and as prescribed and adopted by the
national association of insurance commissioners and the commissioner of
insurance or form CR-S, for life and health reinsurers, in accordance with
the instructions and as prescribed and adopted by the national association
of insurance commissioners and the commissioner of insurance;

(v) the reputation of the certified reinsurer for prompt payment of
claims under reinsurance agreements, based on an analysis of ceding
insurers' schedule f reporting of overdue reinsurance recoverables,
including the proportion of obligations that are more than 90 days past due
or are in dispute, with specific attention given to obligations payable to
companies that are in administrative supervision or receivership;

(vi) regulatory actions against the certified reinsurer;

(vii) the report of the independent auditor on the financial statements
of the insurance enterprise, on the basis described in clause (viii);

(viii) for certified reinsurers not domiciled in the United States,
audited financial statements, regulatory filings, and actuarial opinion, as
filed with the non-U.S. jurisdiction supervisor, with a translation into
English. Upon the initial application for certification, the commissioner
will consider audited financial statements for the last two years filed with
its non-U.S. jurisdiction supervisor;

(ix) the liquidation priority of obligations to a ceding insurer in the
certified reinsurer's domiciliary jurisdiction in the context of an insolvency
proceeding;

(x) a certified reinsurer's participation in any solvent scheme of
arrangement, or similar procedure, that involves United States ceding
insurers. The commissioner shall receive prior notice from a certified
reinsurer that proposes participation by the certified reinsurer in a solvent
scheme of arrangement; and

(xi) any other information deemed relevant by the commissioner.

(E) Based on the analysis conducted under subparagraph (D)(v) of a
certified reinsurer's reputation for prompt payment of claims, the
commissioner may make appropriate adjustments in the security the
certified reinsurer is required to post to protect its liabilities to United
States ceding insurers, provided that the commissioner shall, at a
minimum, increase the security the certified reinsurer is required to post
by one rating level under subparagraph (D)(i) if the commissioner finds
that:

(i) More than 15% of the certified reinsurer's ceding insurance clients
have overdue reinsurance recoverables on paid losses of 90 days or more
that are not in dispute and that exceed $100,000 for each cedent; or

(ii) the aggregate amount of reinsurance recoverables on paid losses
that are not in dispute that are overdue by 90 days or more exceeds
$50,000,000.
(F) The assuming insurer shall submit a properly executed form cr-1 in accordance with the instructions and as prescribed and adopted by the national association of insurance commissioners and the commissioner of insurance as evidence of its submission to the jurisdiction of this state, appointment of the commissioner as an agent for service of process in this state, and agreement to provide security for 100% of the assuming insurer's liabilities attributable to reinsurance ceded by United States ceding insurers if it resists enforcement of a final United States judgment. The commissioner shall not certify any assuming insurer that is domiciled in a jurisdiction that the commissioner has determined does not adequately and promptly enforce final United States judgments or arbitration awards.

(G) The certified reinsurer shall agree to meet applicable information filing requirements as determined by the commissioner, both with respect to an initial application for certification and on an ongoing basis. All information submitted by certified reinsurers that is not otherwise public information subject to disclosure shall be exempted from disclosure under the open records act, K.S.A. 45-215, et seq., and amendments thereto, and shall be withheld from public disclosure. The provisions of this subparagraph providing for the confidentiality of public records shall expire on July 1, 2025, unless the legislature reviews and continues such provisions in accordance with K.S.A. 45-229, and amendments thereto. The applicable information filing requirements are, as follows:

(i) Notification within 10 days of any regulatory actions taken against the certified reinsurer, any change in the provisions of its domiciliary license or any change in rating by an approved rating agency, including a statement describing such changes and the reasons therefor;

(ii) annually, form cr-f or cr-s, in accordance with the instructions and as prescribed and adopted by the national association of insurance commissioners and the commissioner of insurance as applicable;

(iii) annually, the report of the independent auditor on the financial statements of the insurance enterprise, on the basis described in clause (iv);

(iv) annually, the most recent audited financial statements, regulatory filings and actuarial opinion, as filed with the certified reinsurer's supervisor, with a translation into English. Upon the initial certification, audited financial statements for the last two years filed with the certified reinsurer's supervisor;

(v) at least annually, an updated list of all disputed and overdue reinsurance claims regarding reinsurance assumed from United States domestic ceding insurers;

(vi) a certification from the certified reinsurer's domestic regulator that the certified reinsurer is in good standing and maintains capital in excess of the jurisdiction's highest regulatory action level; and
(vii) any other information that the commissioner may reasonably require.

(H) Change in rating or revocation of certification.

(i) In the case of a downgrade by a rating agency or other disqualifying circumstance, the commissioner upon written notice shall assign a new rating to the certified reinsurer in accordance with the requirements of subsection (g)(2)(D)(i).

(ii) The commissioner shall have the authority to suspend, revoke or otherwise modify a certified reinsurer's certification at any time if the certified reinsurer fails to meet its obligations or security requirements under this section, or if other financial or operating results of the certified reinsurer, or documented significant delays in payment by the certified reinsurer lead the commissioner to reconsider the certified reinsurer's ability or willingness to meet its contractual obligations.

(iii) If the rating of a certified reinsurer is upgraded by the commissioner, the certified reinsurer may meet the security requirements applicable to its new rating on a prospective basis, but the commissioner shall require the certified reinsurer to post security under the previously applicable security requirements as to all contracts in force on or before the effective date of the upgraded rating. If the rating of a certified reinsurer is downgraded by the commissioner, the commissioner shall require the certified reinsurer to meet the security requirements applicable to its new rating for all business it has assumed as a certified reinsurer.

(iv) Upon revocation of the certification of a certified reinsurer by the commissioner, the assuming insurer shall be required to post security in accordance with subsection (k) in order for the ceding insurer to continue to take credit for reinsurance ceded to the assuming insurer. If funds continue to be held in trust in accordance with subsection (f), the commissioner may allow additional credit equal to the ceding insurer's pro rata share of such funds, discounted to reflect the risk of uncollectibility and anticipated expenses of trust administration. Notwithstanding the change of a certified reinsurer's rating or revocation of its certification, a domestic insurer that has ceded reinsurance to that certified reinsurer may not be denied credit for reinsurance for a period of three months for all reinsurance ceded to that certified reinsurer, unless the reinsurance is found by the commissioner to be at high risk of uncollectibility.

(3) Qualified jurisdictions. (A) If, upon conducting an evaluation under this section with respect to the reinsurance supervisory system of any non-U.S. assuming insurer, the commissioner determines that the jurisdiction qualifies to be recognized as a qualified jurisdiction, the commissioner shall publish notice and evidence of such recognition in an appropriate manner. The commissioner may establish a procedure to withdraw recognition of those jurisdictions that are no longer qualified.
(B) In order to determine whether the domiciliary jurisdiction of a non-U.S. assuming insurer is eligible to be recognized as a qualified jurisdiction, the commissioner shall evaluate the reinsurance supervisory system of the non-U.S. jurisdiction, both initially and on an ongoing basis, and consider the rights, benefits and the extent of reciprocal recognition afforded by the non-U.S. jurisdiction to reinsurers licensed and domiciled in the United States. The commissioner shall determine the appropriate approach for evaluating the qualifications of such jurisdictions, and create and publish a list of jurisdictions whose reinsurers may be approved by the commissioner as eligible for certification. A qualified jurisdiction shall agree to share information and cooperate with the commissioner with respect to all certified reinsurers domiciled within that jurisdiction. Additional factors to be considered in determining whether to recognize a qualified jurisdiction, in the discretion of the commissioner, include, but are not limited to, the following:

(i) The framework under which the assuming insurer is regulated;
(ii) the structure and authority of the domiciliary regulator with regard to solvency regulation requirements and financial surveillance;
(iii) the substance of financial and operating standards for assuming insurers in the domiciliary jurisdiction;
(iv) the form and substance of financial reports required to be filed or made publicly available by reinsurers in the domiciliary jurisdiction and the accounting principles used;
(v) the domiciliary regulator's willingness to cooperate with United States regulators in general and the commissioner in particular;
(vi) the history of performance by assuming insurers in the domiciliary jurisdiction;
(vii) any documented evidence of substantial problems with the enforcement of final judgments in the domiciliary jurisdiction. A jurisdiction shall not be considered to be a qualified jurisdiction if the commissioner has determined that it does not adequately and promptly enforce final United States judgments or arbitration awards;
(viii) any relevant international standards or guidance with respect to mutual recognition of reinsurance supervision adopted by the international association of insurance supervisors or successor organization; and
(ix) any other matters deemed relevant by the commissioner.

(C) A list of qualified jurisdictions shall be published through the national association of insurance commissioners committee process. The commissioner shall consider this list in determining qualified jurisdictions. If the commissioner approves a jurisdiction as qualified that does not appear on the list of qualified jurisdictions, the commissioner shall provide thoroughly documented justification with respect to the criteria provided under paragraphs (3)(B)(i) through (ix).
(D) United States jurisdictions that meet the requirements for accreditation under the national association of insurance commissioners financial standards and accreditation program shall be recognized as qualified jurisdictions.

(4) **Recognition of certification issued by a national association of insurance commissioners accredited jurisdiction.**

(A) If an applicant for certification has been certified as a reinsurer in a national association of insurance commissioners-accredited jurisdiction, the commissioner has the discretion to defer to that jurisdiction's certification and to defer to the rating assigned by that jurisdiction, if the assuming insurer submits a properly executed form cr-1 in accordance with the instructions and as prescribed and adopted by the national association of insurance commissioners and the commissioner of insurance and such additional information as the commissioner requires. The assuming insurer shall be considered to be a certified reinsurer in this state.

(B) Any change in the certified reinsurer's status or rating in the other jurisdiction shall apply automatically in this state as of the date it takes effect in the other jurisdiction. The certified reinsurer shall notify the commissioner of any change in its status or rating within 10 days after receiving notice of the change.

(C) The commissioner may withdraw recognition of the other jurisdiction's rating at any time and assign a new rating in accordance with subsection (g)(2)(H).

(D) The commissioner may withdraw recognition of the other jurisdiction's certification at any time, with written notice to the certified reinsurer. Unless the commissioner suspends or revokes the certified reinsurer's certification in accordance with subsection (g)(2)(H), the certified reinsurer's certification shall remain in good standing in this state for a period of three months, and such period shall be extended if additional time is necessary to consider the assuming insurer's application for certification in this state.

(5) **Mandatory funding clause.** In addition to the clauses required under subsection (n) reinsurance contracts entered into or renewed under this section shall include a proper funding clause, that requires the certified reinsurer to provide and maintain security in an amount sufficient to avoid the imposition of any financial statement penalty on the ceding insurer under this section for reinsurance ceded to the certified reinsurer.

(6) The commissioner shall comply with all reporting and notification requirements that may be established by the national association of insurance commissioners with respect to certified reinsurers and qualified jurisdictions.

(h) **Credit for reinsurance – reciprocal jurisdictions.** (1) Pursuant to K.S.A. 40-221a(a)(6), and amendments thereto, the commissioner shall
allow credit for reinsurance ceded by a domestic insurer to an assuming
insurer that is licensed to write reinsurance by, and has its head office or is
domiciled in, a reciprocal jurisdiction, and that meets the other
requirements of this section.
(2) A "reciprocal jurisdiction" is a jurisdiction, as designated by the
commissioner pursuant to subsection (h)(4), that meets one of the
following:
(A) A non-U.S. jurisdiction that is subject to an in-force covered
agreement with the United States, each within its legal authority, or, in the
case of a covered agreement between the United States and the European
union, is a member state of the European union. For purposes of this
subsection, a "covered agreement" is an agreement entered into pursuant to
the dodd-frank wall street reform and consumer protection act, 31 U.S.C.
§§ 313 and 314, that is currently in effect or in a period of provisional
application and addresses the elimination, under specified conditions, of
collateral requirements as a condition for entering into any reinsurance
agreement with a ceding insurer domiciled in this state or for allowing the
ceding insurer to recognize credit for reinsurance;
(B) a United States jurisdiction that meets the requirements for
accreditation under the national association of insurance commissioners
financial standards and accreditation program; or
(C) a qualified jurisdiction, as determined by the commissioner
pursuant to K.S.A. 40-221a(a)(5)(C), and amendments thereto, and
subsection (g)(3), that is not otherwise described in subparagraph (A) or
(B) and that the commissioner determines meets all of the following
additional requirements:
(i) Provides that an insurer that has its head office or is domiciled in
such qualified jurisdiction shall receive credit for reinsurance ceded to a
United States-domiciled assuming insurer in the same manner as credit for
reinsurance is received for reinsurance assumed by insurers domiciled in
such qualified jurisdiction;
(ii) does not require a United States-domiciled assuming insurer to
establish or maintain a local presence as a condition for entering into a
reinsurance agreement with any ceding insurer subject to regulation by the
non-U.S. jurisdiction or as a condition for allowing the ceding insurer to
recognize credit for such reinsurance;
(iii) recognizes the United States state regulatory approach to group
supervision and group capital, by providing written confirmation by a
competent regulatory authority, in such qualified jurisdiction, that insurers
and insurance groups that are domiciled or maintain their headquarters in
this state or another jurisdiction accredited by the national association of
insurance commissioners shall be subject only to worldwide prudential
insurance group supervision including worldwide group governance,
solvent and capital and reporting, as applicable, by the commissioner or
the commissioner of the domiciliary state and shall not be subject to group
supervision at the level of the worldwide parent undertaking of the
insurance or reinsurance group by the qualified jurisdiction; and
(iv) provides written confirmation by a competent regulatory
authority in such qualified jurisdiction that information regarding insurers
and their parent, subsidiary or affiliated entities, if applicable, shall be
provided to the commissioner in accordance with a memorandum of
understanding or similar document between the commissioner and such
qualified jurisdiction, including, but not limited to, the international
association of insurance supervisors multilateral memorandum of
understanding or other multilateral memoranda of understanding
coordinated by the national association of insurance commissioners.

(3) Credit shall be allowed when the reinsurance is ceded from an
insurer domiciled in this state to an assuming insurer meeting each of the
conditions set forth below.

(A) The assuming insurer shall be licensed to transact reinsurance by,
and have its head office or be domiciled in, a reciprocal jurisdiction.

(B) The assuming insurer shall have and maintain on an ongoing
basis minimum capital and surplus, or its equivalent, calculated on at least
an annual basis as of the preceding December 31 or at the annual date
otherwise statutorily required to be reported to the reciprocal jurisdiction,
and confirmed as set forth in paragraph (3)(G) according to the
methodology of its domiciliary jurisdiction, in the following amounts:

(i) Not less than $250,000,000; or
(ii) if the assuming insurer is an association, including incorporated
and individual unincorporated underwriters:

(a) Minimum capital and surplus equivalent, net of liabilities, or own
funds of the equivalent of at least $250,000,000; and

(b) a central fund containing a balance of the equivalent of at least
$250,000,000.

(C) The assuming insurer shall have and maintain on an ongoing
basis a minimum solvency or capital ratio, as applicable, as follows:

(i) If the assuming insurer has its head office or is domiciled in a
reciprocal jurisdiction, as defined in subsection (h)(2)(A), the ratio
specified in the applicable covered agreement;

(ii) if the assuming insurer is domiciled in a reciprocal jurisdiction, as
defined in subsection (h)(2)(B), a risk-based capital ratio of 300% of the
authorized control level, calculated in accordance with the formula
developed by the national association of insurance commissioners; or

(iii) if the assuming insurer is domiciled in a reciprocal jurisdiction,
as defined in subsection (h)(2)(C), after consultation with the reciprocal
jurisdiction and considering any recommendations published through the
national association of insurance commissioners committee process, such
solvency or capital ratio as the commissioner determines to be an effective
measure of solvency.

(D) The assuming insurer shall agree to and provide adequate
assurance, in the form of a properly executed form rj-1 in accordance with
the instructions and as prescribed and adopted by the national association
of insurance commissioners and the commissioner of insurance, of its
agreement to the following:

(i) The assuming insurer shall agree to provide prompt written notice
and explanation to the commissioner if it falls below the minimum
requirements set forth in subparagraph (B) or (C) or if any regulatory
action is taken against it for serious noncompliance with applicable law;
and

(ii) the assuming insurer shall consent in writing to the jurisdiction of
the courts of this state and to the appointment of the commissioner as
agent for service of process.

(a) The commissioner may also require that such consent be provided
and included in each reinsurance agreement under the commissioner's
jurisdiction.

(b) Nothing in this provision shall limit or in any way alter the
capacity of parties to a reinsurance agreement to agree to alternative
dispute resolution mechanisms, except to the extent such agreements are
unenforceable under applicable insolvency or delinquency laws.

(iii) The assuming insurer shall consent in writing to pay all final
judgments, wherever enforcement is sought, obtained by a ceding insurer,
that have been declared enforceable in the territory where the judgment
was obtained.

(iv) Each reinsurance agreement shall include a provision requiring
the assuming insurer to provide security in an amount equal to 100% of the
assuming insurer's liabilities attributable to reinsurance ceded pursuant to
that agreement if the assuming insurer resists enforcement of a final
judgment that is enforceable under the law of the jurisdiction in which it
was obtained or a properly enforceable arbitration award, whether
obtained by the ceding insurer or by its legal successor on behalf of its
estate, if applicable, assuming insurer resists enforcement of a final
judgment that is enforceable under the law of the jurisdiction in which it
was obtained or a properly enforceable arbitration award, whether
obtained by the ceding insurer or by its legal successor on behalf of its
estate, if applicable.

(v) The assuming insurer shall confirm that it is not presently
participating in any solvent scheme of arrangement that involves this
state's ceding insurers and agree to notify the ceding insurer and the
commissioner and to provide 100% security to the ceding insurer
consistent with the terms of the scheme, if the assuming insurer enters into such a solvent scheme of arrangement. Such security shall be in a form consistent with the provisions of K.S.A. 40-221a(a)(5) and (b), and amendments thereto, and subsections (k), (l) and (m). For purposes of this section, the term "solvent scheme of arrangement" means a foreign or alien statutory or regulatory compromise procedure subject to requisite majority creditor approval and judicial sanction in the assuming insurer's home jurisdiction either to finally commute liabilities of duly noticed classed members or creditors of a solvent debtor, or to reorganize or restructure the debts and obligations of a solvent debtor on a final basis, and that may be subject to judicial recognition and enforcement of the arrangement by a governing authority outside the ceding insurer's home jurisdiction.

(vi) The assuming insurer shall agree in writing to meet the applicable information filing requirements as set forth in subparagraph (E).

(E) The assuming insurer or its legal successor shall provide, if requested by the commissioner, on behalf of itself and any legal predecessors, the following documentation to the commissioner:

(i) For the two years preceding entry into the reinsurance agreement and annually thereafter, the assuming insurer's annual audited financial statements, in accordance with the applicable law of the jurisdiction of its head office or domiciliary jurisdiction, as applicable, including the external audit report;

(ii) for the two years preceding entry into the reinsurance agreement, the solvency and financial condition report or actuarial opinion, if filed with the assuming insurer's supervisor;

(iii) prior to entry into the reinsurance agreement and not more than semi-annually thereafter, an updated list of all disputed and overdue reinsurance claims outstanding for 90 days or more, regarding reinsurance assumed from ceding insurers domiciled in the United States; and

(iv) prior to entry into the reinsurance agreement and not more than semi-annually thereafter, information regarding the assuming insurer's assumed reinsurance by the ceding insurer, ceded reinsurance by the assuming insurer, and reinsurance recoverable on paid and unpaid losses by the assuming insurer to allow for the evaluation of the criteria set forth in subparagraph (F).

(F) The assuming insurer shall maintain a practice of prompt payment of claims under reinsurance agreements. The lack of prompt payment will be evidenced if any of the following criteria is met:

(i) More than 15% of the reinsurance recoverables from the assuming insurer are overdue and in dispute as reported to the commissioner;

(ii) more than 15% of the assuming insurer's ceding insurers or reinsurers have overdue reinsurance recoverable on paid losses of 90 days or more that are not in dispute and that exceed $100,000 for each ceding
insurer, or as otherwise specified in a covered agreement; or

(iii) the aggregate amount of reinsurance recoverable on paid losses that are not in dispute, but are overdue by 90 days or more, exceeds $50,000,000, or as otherwise specified in a covered agreement.

(G) The assuming insurer's supervisory authority shall confirm to the commissioner on an annual basis that the assuming insurer complies with the requirements set forth in subparagraphs (B) and (C).

(H) Nothing in this provision precludes an assuming insurer from providing the commissioner with information on a voluntary basis.

(4) The commissioner shall timely create and publish a list of reciprocal jurisdictions.

(A) A list of reciprocal jurisdictions is published through the national association of insurance commissioners' committee process. The commissioner's list shall include any reciprocal jurisdiction, as defined under subsections (h)(2)(A) and (B), and shall consider any other reciprocal jurisdiction included on the NAIC list. The commissioner may approve a jurisdiction that does not appear on the national association of insurance commissioners' list of reciprocal jurisdictions as provided by applicable law, regulation, or in accordance with criteria published through the national association of insurance commissioner committee process.

(B) The commissioner may remove a jurisdiction from the list of reciprocal jurisdictions upon a determination that the jurisdiction no longer meets one or more of the requirements of a reciprocal jurisdiction, as provided by applicable law, regulation, or in accordance with a process published through the national association of insurance commissioner committee process, except that the commissioner shall not remove from the list a reciprocal jurisdiction, as defined under subsections (h)(2)(A) and (B). Upon removal of a reciprocal jurisdiction from this list credit for reinsurance ceded to an assuming insurer domiciled in that jurisdiction shall be allowed, if otherwise allowed pursuant to K.S.A. 40-221a, and amendments thereto, or this section.

(5) The commissioner shall timely create and publish a list of assuming insurers that have satisfied the conditions set forth in this section and to which cessions shall be granted credit in accordance with this section.

(A) If a national association of insurance commissioners accredited jurisdiction has determined that the conditions set forth in paragraph (3) have been met, the commissioner has the discretion to defer to that jurisdiction's determination, and add such assuming insurer to the list of assuming insurers to which cessions shall be granted credit in accordance with this subsection. The commissioner may accept financial documentation filed with another national association of insurance commissioners accredited jurisdiction or with the national association of
insurance commissioners in satisfaction of the requirements of paragraph (3).

(B) When requesting that the commissioner defer to another national association of insurance commissioners accredited jurisdiction's determination, an assuming insurer shall submit a properly executed form rj-1 in accordance with the instructions and as prescribed and adopted by the national association of insurance commissioners and the commissioner of insurance and additional information as the commissioner may require. A state that has received such a request shall notify other states through the national association of insurance commissioners committee process and provide relevant information with respect to the determination of eligibility.

(6) If the commissioner determines that an assuming insurer no longer meets one or more of the requirements under this section, the commissioner may revoke or suspend the eligibility of the assuming insurer for recognition under this section.

(A) While an assuming insurer's eligibility is suspended, no reinsurance agreement issued, amended or renewed after the effective date of the suspension qualifies for credit except to the extent that the assuming insurer's obligations under the contract are secured in accordance with subsection (j).

(B) If an assuming insurer's eligibility is revoked, no credit for reinsurance may be granted after the effective date of the revocation with respect to any reinsurance agreements entered into by the assuming insurer, including reinsurance agreements entered into prior to the date of revocation, except to the extent that the assuming insurer's obligations under the contract are secured in a form acceptable to the commissioner and consistent with the provisions of subsection (j).

(7) Before denying statement credit or imposing a requirement to post security with respect to subsection (h)(6) or adopting any similar requirement that will have substantially the same regulatory impact as security, the commissioner shall:

(A) Communicate with the ceding insurer, the assuming insurer, and the assuming insurer's supervisory authority that the assuming insurer no longer satisfies one of the conditions listed in paragraph (3);

(B) provide the assuming insurer with 30 days from the initial communication to submit a plan to remedy the defect, and 90 days from the initial communication to remedy the defect, except in exceptional circumstances in which a shorter period is necessary for policyholder and other consumer protection;

(C) after the expiration of 90 days or less, as set out in subparagraph (B), if the commissioner determines that no or insufficient action was taken by the assuming insurer, the commissioner may impose any of the
requirements as set out in this subsection; and
(D) provide a written explanation to the assuming insurer of any of
the requirements set out in this subsection.
(8) If subject to a legal process of rehabilitation, liquidation or
conservation, as applicable, the ceding insurer, or its representative, may
seek and, if determined appropriate by the court in which the proceedings
are pending, may obtain an order requiring that the assuming insurer post
security for all outstanding liabilities.
(i) Credit for reinsurance required by law. Pursuant to K.S.A. 40-
221a(a)(7), and amendments thereto, the commissioner shall allow credit
for reinsurance ceded by a domestic insurer to an assuming insurer not
meeting the requirements of K.S.A. 40-221a(a)(1) through (6), and
amendments thereto, but only as to the insurance of risks located in
jurisdictions where the reinsurance is required by the applicable law or
regulation of that jurisdiction. As used in this section, "jurisdiction" means
state, district or territory of the United States and any lawful national
government.
(j) Asset or reduction from liability for reinsurance ceded to an
unauthorized assuming insurer not meeting the requirements of
subsections (c) through (i).
(1) Pursuant to K.S.A. 40-221a(b), and amendments thereto, the
commissioner shall allow a reduction from liability for reinsurance ceded
by a domestic insurer to an assuming insurer not meeting the requirements
of K.S.A. 40-221a(a), and amendments thereto, in an amount not
exceeding the liabilities carried by the ceding insurer. The reduction shall
be in the amount of funds held by or on behalf of the ceding insurer,
including funds held in trust for the exclusive benefit of the ceding insurer,
under a reinsurance contract with such assuming insurer as security for the
payment of obligations under the reinsurance contract. The security shall
be held in the United States subject to withdrawal solely by, and under the
exclusive control of, the ceding insurer or, in the case of a trust, held in a
qualified United States financial institution, as defined in K.S.A. 40-
221a(c)(2), and amendments thereto. This security may be in the form of
any of the following:
(A) Cash;
(B) securities listed by the securities valuation office of the national
association of insurance commissioners, including those deemed exempt
from filing, as defined by the purposes and procedures manual of the
securities valuation office and qualifying as admitted assets;
(C) clean, irrevocable, unconditional and "evergreen" letters of credit
issued or confirmed by a qualified United States institution, as defined in
K.S.A. 40-221a(c), and amendments thereto, effective no later than
December 31 of the year for which filing is being made, and in the
possession of, or in trust for, the ceding insurer on or before the filing date of its annual statement. Letters of credit meeting applicable standards of issuer acceptability as of the dates of their issuance, or confirmation, shall, notwithstanding the issuing, or confirming, institution's subsequent failure to meet applicable standards of issuer acceptability, continue to be acceptable as security until their expiration, extension, renewal, modification or amendment, whichever occurs first; or

(D) any other form of security acceptable to the commissioner.

(2) An admitted asset or a reduction from liability for reinsurance ceded to an unauthorized assuming insurer pursuant to this section shall be allowed only when the requirements of subsection (n) and the applicable portions of subsection (k), (l) or (m) have been satisfied.

(k) Trust agreements qualified under subsection (j).

(1) As used in this subsection:

(A) "Beneficiary" means the entity for whose sole benefit the trust has been established and any successor of the beneficiary by operation of law. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver, including conservator, rehabilitator or liquidator.

(B) "Grantor" means the entity that has established a trust for the sole benefit of the beneficiary. When established in conjunction with a reinsurance agreement, the grantor is the unlicensed, unaccredited assuming insurer.

(C) "Obligations" means:

(i) Reinsured losses and allocated loss expenses paid by the ceding company, but not recovered from the assuming insurer;

(ii) reserves for reinsured losses reported and outstanding;

(iii) reserves for reinsured losses incurred but not reported; and

(iv) reserves for allocated reinsured loss expenses and unearned premiums.

(2) Required conditions.

(A) The trust agreement shall be entered into between the beneficiary, the grantor and a trustee, that shall be a qualified United States financial institution, as defined in K.S.A. 40-221a(c)(2), and amendments thereto.

(B) The trust agreement shall create a trust account into which assets shall be deposited.

(C) All assets in the trust account shall be held by the trustee at the trustee's office in the United States.

(D) The trust agreement shall provide that:

(i) The beneficiary shall have the right to withdraw assets from the trust account at any time, without notice to the grantor, subject only to written notice from the beneficiary to the trustee;
(ii) no other statement or document shall be required to be presented to withdraw assets, except that the beneficiary may be required to acknowledge receipt of withdrawn assets;

(iii) it is not subject to any conditions or qualifications outside of the trust agreement; and

(iv) it shall not contain references to any other agreements or documents except as provided for in subparagraphs (K) and (L).

(E) The trust agreement shall be established for the sole benefit of the beneficiary.

(F) The trust agreement shall require the trustee to:

(i) Receive assets and hold all assets in a safe place;

(ii) determine that all assets are in such form that the beneficiary, or the trustee upon direction by the beneficiary, may whenever necessary negotiate any such assets, without consent or signature from the grantor or any other person or entity;

(iii) furnish to the grantor and the beneficiary a statement of all assets in the trust account upon its inception and at intervals no less frequent than the end of each calendar quarter;

(iv) notify the grantor and the beneficiary within 10 days, of any deposits to or withdrawals from the trust account;

(v) upon written demand of the beneficiary, immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the assets held in the trust account to the beneficiary and deliver physical custody of the assets to the beneficiary; and

(vi) allow no substitutions or withdrawals of assets from the trust account, except on written instructions from the beneficiary, except that the trustee may, without the consent of but with notice to the beneficiary, upon call or maturity of any trust asset, withdraw such asset upon condition that the proceeds are paid into the trust account.

(G) The trust agreement shall provide that at least 30 days, but not more than 45 days, prior to termination of the trust account, written notification of termination shall be delivered by the trustee to the beneficiary.

(H) The trust agreement shall be made subject to, and governed by, the laws of the state in which the trust is domiciled.

(I) The trust agreement shall prohibit invasion of the trust corpus for the purpose of paying a commission to, or reimbursing the expenses of, the trustee. In order for a letter of credit to qualify as an asset of the trust, the trustee shall have the right and the obligation pursuant to the deed of trust or some other binding agreement, as duly approved by the commissioner, to immediately draw down the full amount of the letter of credit and hold the proceeds in trust for the beneficiaries of the trust if the letter of credit will otherwise expire without being renewed or replaced.
(J) The trust agreement shall provide that the trustee shall be liable for its negligence, willful misconduct or lack of good faith. The failure of the trustee to draw against the letter of credit in circumstances where such draw would be required shall be deemed to be negligence or willful misconduct.

(K) Notwithstanding other provisions of this section, when a trust agreement is established in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:

(i) To pay or reimburse the ceding insurer for the assuming insurer's share under the specific reinsurance agreement regarding any losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer, or for unearned premiums due to the ceding insurer if not otherwise paid by the assuming insurer;

(ii) to make payment to the assuming insurer of any amounts held in the trust account that exceed 102% of the actual amount required to fund the assuming insurer's obligations under the specific reinsurance agreement; or

(iii) where the ceding insurer has received notification of termination of the trust account and where the assuming insurer's entire obligations under the specific reinsurance agreement remain unliquidated and undischarged 10 days prior to the termination date, to withdraw amounts equal to the obligations and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified United States financial institution, as defined in K.S.A. 40-221a(c)(2), and amendments thereto, apart from its general assets, in trust for such uses and purposes specified in clauses (i) and (ii) as may remain executory after such withdrawal and for any period after the termination date.

(L) Notwithstanding other provisions of this subsection, when a trust agreement is established to meet the requirements of subsection (j) in conjunction with a reinsurance agreement covering life, annuities or accident and health risks, where it is customary to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:

(i) To pay or reimburse the ceding insurer for:

(a) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming
insurer, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of the policies; and

(b) the assuming insurer's share under the specific reinsurance agreement of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurer, under the terms and provisions of the policies reinsured under the reinsurance agreement;

(ii) to pay to the assuming insurer amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer; or

(iii) where the ceding insurer has received notification of termination of the trust and where the assuming insurer's entire obligations under the specific reinsurance agreement remain unliquidated and undischarged 10 days prior to the termination date, to withdraw amounts equal to the assuming insurer's share of liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer, and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified United States financial institution apart from its general assets, in trust for the uses and purposes specified in clauses (i) and (ii) as may remain executory after withdrawal and for any period after the termination date.

(M) Either the reinsurance agreement or the trust agreement shall stipulate that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States bank and payable in United States dollars, and investments permitted by the insurance code or any combination of the above, provided investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed 5% of total investments. The agreement may further specify the types of investments to be deposited. If the reinsurance agreement covers life, annuities or accident and health risks, then the provisions required by this paragraph shall be included in the reinsurance agreement.

(3) Permitted conditions.

(A) The trust agreement may provide that the trustee may resign upon delivery of a written notice of resignation, effective not less than 90 days after the beneficiary and grantor receive the notice and that the trustee may be removed by the grantor by delivery to the trustee and the beneficiary of a written notice of removal, effective not less than 90 days after the trustee and the beneficiary receive the notice, provided that no such resignation or removal shall be effective until a successor trustee has been duly appointed and approved by the beneficiary and the grantor and all assets in the trust have been duly transferred to the new trustee.

(B) The grantor may have the full and unqualified right to vote any shares of stock in the trust account and to receive from time to time
payments of any dividends or interest upon any shares of stock or obligations included in the trust account. Any interest or dividends shall be either forwarded promptly upon receipt to the grantor or deposited in a separate account established in the grantor's name.

(C) The trustee may be given authority to invest, and accept substitutions of, any funds in the account, provided that no investment or substitution shall be made without prior approval of the beneficiary, unless the trust agreement specifies categories of investments acceptable to the beneficiary and authorizes the trustee to invest funds and to accept substitutions that the trustee determines are at least equal in current fair market value to the assets withdrawn and that are consistent with the restrictions in paragraph (4)(A)(ii).

(D) The trust agreement may provide that the beneficiary may at any time designate a party to which all or part of the trust assets are to be transferred. Transfer may be conditioned upon the trustee receiving, prior to or simultaneously, other specified assets.

(E) The trust agreement may provide that, upon termination of the trust account, all assets not previously withdrawn by the beneficiary shall, with written approval by the beneficiary, be delivered over to the grantor.

(4) Additional conditions applicable to reinsurance agreements.

(A) A reinsurance agreement may contain provisions that:

(i) Require the assuming insurer to enter into a trust agreement and to establish a trust account for the benefit of the ceding insurer, and specifying what the agreement is to cover;

(ii) require the assuming insurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the direction of the ceding insurer, may whenever necessary negotiate these assets without consent or signature from the assuming insurer or any other entity;

(iii) require that all settlements of account between the ceding insurer and the assuming insurer be made in cash or its equivalent; and

(iv) stipulate that the assuming insurer and the ceding insurer agree that the assets in the trust account, established pursuant to the provisions of the reinsurance agreement, may be withdrawn by the ceding insurer at any time, notwithstanding any other provisions in the reinsurance agreement, and shall be utilized and applied by the ceding insurer or its successors in interest by operation of law, including without limitation any liquidator, rehabilitator, receiver or conservator of such company, without diminution because of insolvency on the part of the ceding insurer or the assuming insurer, only for the following purposes:

(a) To pay or reimburse the ceding insurer for:
(1) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement because of cancellations of such policies;

(2) the assuming insurer's share of surrenders and benefits or losses paid by the ceding insurer pursuant to the provisions of the policies reinsured under the reinsurance agreement; and

(3) any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;

(b) to make payment to the assuming insurer of amounts held in the trust account in excess of the amount necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer.

(B) The reinsurance agreement also may contain provisions that:

(i) Give the assuming insurer the right to seek approval from the ceding insurer, which shall not be unreasonably or arbitrarily withheld, to withdraw from the trust account all or any part of the trust assets and transfer those assets to the assuming insurer, provided:

(a) The assuming insurer shall, at the time of withdrawal, replace the withdrawn assets with other qualified assets having a current fair market value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount; or

(b) after withdrawal and transfer, the current fair market value of the trust account is no less than 102% of the required amount;

(ii) provide for the return of any amount withdrawn in excess of the actual amounts required for subsection (k)(4)(A)(iv), and for interest payments at a rate not in excess of the prime rate of interest on such amounts;

(iii) permit the award by any arbitration panel or court of competent jurisdiction of:

(a) Interest at a rate different from that provided in subparagraph (ii) of this paragraph;

(b) court or arbitration costs;

(c) attorney's fees; and

(d) any other reasonable expenses.

(5) Financial reporting. A trust agreement may be used to reduce any liability for reinsurance ceded to an unauthorized assuming insurer in financial statements required to be filed with this department in compliance with the provisions of this section when established on or before the date of filing of the financial statement of the ceding insurer. Further, the reduction for the existence of an acceptable trust account may be up to the current fair market value of acceptable assets available to be withdrawn from the trust account at that time, but such reduction shall be no greater than the specific obligations under the reinsurance agreement.
that the trust account was established to secure.

(6) The failure of any trust agreement to specifically identify the
beneficiary, as defined in paragraph (1), shall not be construed to affect
any actions or rights that the commissioner may take or possess pursuant
to the provisions of the laws of this state.

(I) Letters of credit qualified under subsection (j)(1).

(1) The letter of credit shall be clean, irrevocable, unconditional and
issued or confirmed by a qualified United States financial institution, as
defined in K.S.A. 40-221a(c)(1), and amendments thereto. The letter of
credit shall contain an issue date and expiration date and shall stipulate
that the beneficiary need only draw a sight draft under the letter of credit
and present it to obtain funds and that no other document need be
presented. The letter of credit also shall indicate that it is not subject to any
condition or qualifications outside of the letter of credit. In addition, the
letter of credit itself shall not contain reference to any other agreements,
documents or entities, except as provided in subsection (m)(8)(A). As used
in this subsection, "beneficiary" means the domestic insurer for whose
benefit the letter of credit has been established and any successor of the
beneficiary by operation of law. If a court of law appoints a successor in
interest to the named beneficiary, then the named beneficiary includes and
is limited to the court appointed domiciliary receiver, including
conservator, rehabilitator or liquidator.

(2) The heading of the letter of credit may include a boxed section
containing the name of the applicant and other appropriate notations to
provide a reference for the letter of credit. The boxed section shall be
clearly marked to indicate that such information is for internal
identification purposes only.

(3) The letter of credit shall contain a statement to the effect that the
obligation of the qualified United States financial institution under the
letter of credit is in no way contingent upon reimbursement with respect
thereto.

(4) The term of the letter of credit shall be for at least one year and
shall contain an "evergreen clause" that prevents the expiration of the letter
of credit without due notice from the issuer. The "evergreen clause" shall
provide for a period of no less than 30 days notice prior to expiration date
or nonrenewal.

(5) The letter of credit shall state whether it is subject to and
governed by the laws of this state or the uniform customs and practice for
documentary credits of the international chamber of commerce publication
600, UCP 600, or international standby practices of the international
chamber of commerce publication 590, ISP98, or any successor
publication, and all drafts drawn thereunder shall be presentable at an
office in the United States of a qualified United States financial institution.
(6) If the letter of credit is made subject to the uniform customs and practice for documentary credits of the international chamber of commerce publication 600, UCP 600, or international standby practices of the international chamber of commerce publication 590, ISP98, or any successor publication, then the letter of credit shall specifically address and provide for an extension of time to draw against the letter of credit in the event that one or more of the occurrences specified in article 36 of publication 600 or any other successor publication, occur.

(7) If the letter of credit is issued by a financial institution authorized to issue letters of credit, other than a qualified United States financial institution as described in subsection (m)(1), then the following additional requirements shall be met:

(A) The issuing financial institution shall formally designate the confirming qualified United States financial institution as its agent for the receipt and payment of the drafts; and

(B) the "evergreen clause" shall provide for 30 days' notice prior to the expiration date for nonrenewal.

(8) Reinsurance agreement provisions.

(A) The reinsurance agreement in conjunction with which the letter of credit is obtained may contain provisions that:

(i) Require the assuming insurer to provide letters of credit to the ceding insurer and specify what they are to cover;

(ii) stipulate that the assuming insurer and ceding insurer agree that the letter of credit provided by the assuming insurer pursuant to the provisions of the reinsurance agreement may be drawn upon at any time, notwithstanding any other provisions in the agreement, and shall be utilized by the ceding insurer or its successors in interest only for one or more of the following reasons:

(a) To pay or reimburse the ceding insurer for:

(1) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurers, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of such policies;

(2) the assuming insurer's share, under the specific reinsurance agreement, of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurers, under the terms and provisions of the policies reinsured under the reinsurance agreement; and

(3) any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer;

(b) where the letter of credit will expire without renewal or be reduced or replaced by a letter of credit for a reduced amount and where the assuming insurer's entire obligations under the reinsurance agreement remain unliquidated and undischarged 10 days prior to the termination
date, to withdraw amounts equal to the assuming insurer's share of the liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer and exceed the amount of any reduced or replacement letter of credit, and deposit those amounts in a separate account in the name of the ceding insurer in a qualified United States financial institution apart from its general assets, in trust for such uses and purposes specified in paragraph (8)(A)(ii)(a) as may remain after withdrawal and for any period after the termination date; and

   (iii) all of the provisions of subparagraph (A) shall be applied without diminution because of insolvency on the part of the ceding insurer or assuming insurer.

   (B) Nothing contained in subparagraph (A) shall preclude the ceding insurer and assuming insurer from providing for:

   (i) An interest payment, at a rate not in excess of the prime rate of interest, on the amounts held pursuant to paragraph (8)(A)(ii); or

   (ii) the return of any amounts drawn down on the letters of credit in excess of the actual amounts required for the above or any amounts that are subsequently determined not to be due.

   (m) Other security. A ceding insurer may take credit for unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.

   (n) Reinsurance contract. Credit will not be granted, nor an asset or reduction from liability allowed, to a ceding insurer for reinsurance effected with assuming insurers meeting the requirements of subsection (c), (d), (e), (f), (g), (h), or (j) or otherwise in compliance with K.S.A. 40-221a(a), and amendments thereto, after the adoption of this section unless the reinsurance agreement:

   (1) Includes a proper insolvency clause, that stipulates that reinsurance is payable directly to the liquidator or successor without diminution regardless of the status of the ceding company;

   (2) includes a provision pursuant to K.S.A. 40-221a(a), and amendments thereto, whereby the assuming insurer, if an unauthorized assuming insurer, has submitted to the jurisdiction of an alternative dispute resolution panel or court of competent jurisdiction within the United States, has agreed to comply with all requirements necessary to give the court or panel jurisdiction, has designated an agent upon whom service of process may be effected, and has agreed to abide by the final decision of the court or panel; and

   (3) includes a proper reinsurance intermediary clause, if applicable, that stipulates that the credit risk for the intermediary is carried by the assuming insurer.

Sec. 2. K.S.A. 2019 Supp. 40-221a is hereby amended to read as
Credit for reinsurance shall be allowed a domestic ceding insurer as either an asset or a reduction from liability on account of reinsurance ceded only when the reinsurer meets the requirements of paragraphs (1), (2), (3), (4), (5) or (6) or (7). Credit shall be allowed under paragraphs (1), (2) or (3) of this subsection only as respects cessions of those kinds or classes of business that the assuming insurer is licensed or otherwise permitted to write or assume in its state of domicile or, in the case of a United States branch of an alien assuming insurer, in the state through which it is entered and licensed to transact insurance or reinsurance. Credit shall be allowed only under paragraphs (3) or (4) of this subsection if the applicable requirements of paragraph (7) have been satisfied.

(1) Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is licensed to transact insurance or reinsurance in this state.

(2) Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is accredited by the commissioner as a reinsurer in this state. In order to be eligible for accreditation, an assuming insurer must:

(A) File with the commissioner evidence of the assuming insurer's submission to this state's jurisdiction;

(B) Submit to this state's authority to examine the assuming insurer's books and records;

(C) Be licensed to transact insurance or reinsurance in at least one state, or in the case of a United States branch of an alien assuming insurer, be entered through and licensed to transact insurance or reinsurance in at least one state;

(D) File annually with the commissioner a copy of the assuming insurer's annual statement filed with the insurance department of the assuming insurer's state of domicile and a copy of the assuming insurer's most recent audited financial statement; and

(E) Demonstrate to the satisfaction of the commissioner that it has adequate financial capacity to meet the assuming insurer's reinsurance obligations and is otherwise qualified to assume reinsurance from domestic insurers. An assuming insurer is deemed to meet this requirement as of the time of the assuming insurer's application if it maintains a surplus as regards policyholders in an amount not less than $20,000,000 and its accreditation has not been denied by the commissioner within 90 days after submission of its application.

(3) (A) Credit shall be allowed when the reinsurance is ceded to an assuming insurer that is domiciled in, or in the case of a United States branch of an alien assuming insurer is entered through, a state that employs standards regarding credit for reinsurance substantially similar to
those applicable under this statute and the assuming insurer or United
States branch of an alien assuming insurer:
   (i) Maintains a surplus as regards policyholders in an amount not less
      than $20,000,000; and
   (ii) submits to the authority of this state to examine the assuming
      insurer's books and records.
   (B) The requirement of subsection (a)(3)(A)(i) does not apply to
      reinsurance ceded and assumed pursuant to pooling arrangements among
      insurers in the same holding company system.
(4) (A) Credit shall be allowed when the reinsurance is ceded to an
      assuming insurer that maintains a trust fund in a qualified United States
      financial institution, as defined in subsection (c)(2), for the payment of the
      valid claims of the assuming insurer's United States ceding insurers, their
      assigns and successors in interest. To enable the commissioner to
determine the sufficiency of the trust fund, the assuming insurer shall
report annually to the commissioner information substantially the same as
that required to be reported on the national association of insurance
commissioners annual statement form by licensed insurers. The assuming
insurer shall submit to examination of its books and records by the
commissioner and bear the expense of examination;
   (B) (i) credit for reinsurance shall not be granted under this
subsection unless the form of the trust and any amendments to the trust
have been approved by either of the following:
      (a) The commissioner of the state where the trust is domiciled; or
      (b) the commissioner of another state who, pursuant to the terms of
the trust instrument, has accepted principal regulatory oversight of the
trust.
   (ii) The form of the trust and any trust amendments also shall be filed
with the commissioner of every state in which the ceding insurer's
beneficiaries of the trust are domiciled. The trust instrument shall provide
that contested claims shall be valid and enforceable upon the final order of
any court of competent jurisdiction in the United States. The trust shall
vest legal title to the trust's assets in its trustees for the benefit of the
assuming insurer's United States ceding insurers, their assigns and
successors in interest. The trust and the assuming insurer shall be subject
to examination as determined by the commissioner.
   (iii) The trust shall remain in effect for as long as the assuming
insurer has outstanding obligations due under the reinsurance agreements
subject to the trust. No later than February 28 of each year, the trustee of
the trust shall report to the commissioner in writing the balance of the trust
and the listing of the trust's investments at the preceding year-end and shall
certify the date of termination of the trust, if so planned, or certify that the
trust will not expire prior to the following December 31.
(C) The following requirements apply to the following categories of
the assuming insurer:

(i) The trust fund for a single assuming insurer shall consist of funds
in trust in an amount not less than the assuming insurer's liabilities
attributable to reinsurance ceded by United States ceding insurers, and, in
addition, the assuming insurer shall maintain a trusteed surplus of not less
than $20,000,000, except as provided in subsection (a)(4)(C)(ii).

(ii) At any time after the assuming insurer has permanently
discontinued underwriting new business secured by the trust for at least
three full years, the commissioner with principal regulatory oversight of
the trust may authorize a reduction in the required trusteed surplus, but
only after a finding, based on an assessment of the risk, that the new
required surplus level is adequate for the protection of United States
ceding insurers, policyholders and claimants in light of reasonably
foreseeable adverse loss development. The risk assessment may involve an
actuarial review, including an independent analysis of reserves and cash
flows, and shall consider all material risk factors, including, when
applicable, the lines of business involved, the stability of the incurred loss
estimates and the effect of the surplus requirements on the assuming
insurer's liquidity or solvency. The minimum required trusteed surplus
shall not be reduced to an amount less than 30% of the assuming insurer's
liabilities attributable to reinsurance ceded by United States ceding
insurers covered by the trust;

(iii) (a) in the case of a group including incorporated and individual
unincorporated underwriters, all of the following requirements are met:

(1) For reinsurance ceded under reinsurance agreements with an
inception, amendment or renewal date on or after January 1, 1993, the trust
shall consist of a trusteed account in an amount not less than the respective
underwriters' several liabilities attributable to business ceded by United
States domiciled ceding insurers to any underwriter of the group;

(2) for reinsurance ceded under reinsurance agreements with an
inception date on or before December 31, 1992, and not amended or
renewed after that date, notwithstanding the other provisions of this act,
the trust shall consist of a trusteed account in an amount not less than the respective underwriters' several insurance and reinsurance liabilities
attributable to business written in the United States; and

(3) in addition to the trusts described in subsections (a)(4)(B)(iii)(a)
(1) and (a)(4)(B)(iii)(a)(2), the group shall maintain in trust a trusteed
surplus of which $100,000,000 shall be held jointly for the benefit of the
United States domiciled ceding insurers of any member of the group for all
years of account.

(b) The incorporated members of the group shall not be engaged in
any business other than underwriting as a member of the group and shall
be subject to the same level of regulation and solvency control by the
group's domiciliary regulator as are the unincorporated members of the
group; and
(c) within 90 days after its financial statements are due to be filed
with the group's domiciliary regulator, the group shall provide to the
commissioner an annual certification by the group's domiciliary regulator
of the solvency of each underwriter member, or if a certification is
unavailable, financial statements prepared by independent public
accountants of each underwriter member of the group.
(iv) In the case of a group of incorporated underwriters under
common administration, the group shall meet all of the following
requirements:
(a) Have continuously transacted an insurance business outside the
United States for at least three years immediately prior to making
application for accreditation;
(b) maintain an aggregate policyholders' surplus of at least
$10,000,000,000;
(c) maintain a trust fund in an amount not less than the group's
several liabilities attributable to business ceded by United States domiciled
ceding insurers to any member of the group pursuant to reinsurance
contracts issued in the name of the group;
(d) in addition, maintain a joint trusteed surplus of which
$100,000,000 shall be held jointly for the benefit of United States
domiciled ceding insurers of any member of the group as additional
security for these liabilities; and
(e) within 90 days after the group's financial statements are due to be
filed with the group's domiciliary regulator, make available to the
commissioner an annual certification of each underwriter member's
solvency by the member's domiciliary regulator and financial statements of
each underwriter member of the group prepared by its independent public
accountant.
(5) Credit shall be allowed when the reinsurance is ceded to an
assuming insurer that has been certified by the commissioner as a reinsurer
in this state and the reinsurer secures its obligations in accordance with the
following requirements:
(A) In order to be eligible for certification, the assuming insurer shall
meet all of the following requirements:
(i) Be domiciled and licensed to transact insurance or reinsurance in a
qualified jurisdiction, as determined by the commissioner pursuant to
subsection (a)(5)(C);
(ii) maintain minimum capital and surplus, or its equivalent, in an
amount to be determined by the commissioner pursuant to regulation;
(iii) maintain financial strength ratings from two or more rating
agencies deemed acceptable by the commissioner pursuant to regulation;
(iii) agree to submit to the jurisdiction of this state, appoint the
commissioner as the assuming insurer's agent for service of process in this
state, and agree to provide security for 100% of the assuming insurer's
liabilities attributable to reinsurance ceded by United States ceding
insurers if the assuming insurer resists enforcement of a final United States
judgment;
(iv) agree to meet applicable information filing requirements as
determined by the commissioner, both with respect to an initial application
for certification and on an ongoing basis; and
(v) satisfy any other requirements for certification deemed relevant
by the commissioner.
(B) An association including incorporated and individual
unincorporated underwriters may be a certified reinsurer. In order to be
eligible for certification, in addition to satisfying the requirements of
subsection (a)(5)(A) and all of the following requirements:
(i) The association shall satisfy its minimum capital and surplus
requirements through the capital and surplus equivalents, net of liabilities,
of the association and its members, which shall include a joint central
fund that may be applied to any unsatisfied obligation of the association or
any of its members, in an amount determined by the commissioner to
provide adequate protection;
(ii) the incorporated members of the association shall not be engaged
in any business other than underwriting as a member of the association and
shall be subject to the same level of regulation and solvency control by the
association's domiciliary regulator as are the unincorporated members of
the association; and
(iii) within 90 days after the association's financial statements are due
to be filed with the association's domiciliary regulator, the association shall
provide to the commissioner an annual certification by the association's
domiciliary regulator of the solvency of each underwriter member. If a
certification is unavailable, financial statements prepared by independent
public accountants of each underwriter member of the association shall be
provided instead.
(C) The commissioner shall create and publish a list of qualified
jurisdictions under which an assuming insurer licensed and domiciled in
such jurisdiction is eligible to be considered for certification by the
commissioner as a certified reinsurer.
(i) In order to determine whether the domiciliary jurisdiction of a
non-United States non-U.S. assuming insurer is eligible to be recognized
as a qualified jurisdiction, the commissioner shall evaluate the
appropriateness and effectiveness of the reinsurance supervisory system of
the jurisdiction, both initially and on an ongoing basis, and consider the
rights, benefits and the extent of reciprocal recognition afforded by the non-United States non-U.S. jurisdiction to reinsurers licensed and domiciled in the United States. In order to be recognized as a qualified jurisdiction, a jurisdiction must agree to share information and cooperate with the commissioner with respect to all certified reinsurers domiciled within that jurisdiction. A jurisdiction shall not be recognized as a qualified jurisdiction if the commissioner has determined that the jurisdiction does not adequately and promptly enforce final United States judgments and arbitration awards. Additional factors may be considered in the discretion of the commissioner.

(ii) A list of qualified jurisdictions shall be published through the national association of insurance commissioners' process. The commissioner shall consider this list in determining qualified jurisdictions. If the commissioner recognizes a jurisdiction as qualified that does not appear on the list of qualified jurisdictions, the commissioner shall provide thoroughly documented justification in accordance with criteria to be developed under rules and regulations.

(iii) United States jurisdictions that meet the requirement for accreditation under the national association of insurance commissioners' financial standards and accreditation program shall be recognized as qualified jurisdictions.

(iv) If a certified reinsurer's domiciliary jurisdiction ceases to be a qualified jurisdiction, the commissioner has the discretion to suspend the reinsurer's certification indefinitely, in lieu of revocation.

(D) The commissioner shall assign a rating to each certified reinsurer, giving due consideration to the financial strength ratings that have been assigned by rating agencies deemed acceptable to the commissioner pursuant to rules and regulations. The commissioner shall publish a list of all certified reinsurers and their ratings.

(E) A certified reinsurer shall secure obligations assumed from United States ceding insurers under this subsection at a level consistent with the certified reinsurer's rating, as specified in rules and regulations promulgated by the commissioner.

(i) In order for a domestic ceding insurer to qualify for full financial statement credit for reinsurance ceded to a certified reinsurer, the certified reinsurer shall maintain security in a form acceptable to the commissioner and consistent with the provisions of subsection (b), or in a multi-beneficiary trust in accordance with subsection (a)(4), except as otherwise provided in this subsection.

(ii) If a certified reinsurer maintains a trust to fully secure its obligations subject to subsection (a)(4), and chooses to secure its obligations incurred as a certified reinsurer in the form of a multi-beneficiary trust, the certified reinsurer shall maintain separate trust
accounts for its obligations incurred under reinsurance agreements issued
or renewed as a certified reinsurer with reduced security as permitted by
this subsection or comparable laws of other United States jurisdictions and
for its obligations subject to subsection (a)(4). It shall be a condition to the
grant of certification under subsection (a)(5) that the certified reinsurer
shall have bound itself, by the language of the trust and agreement with the
commissioner who has principal regulatory oversight of each such trust
account, to fund, upon termination of any such trust account, any
deficiency of any other such trust account out of the remaining surplus of
the terminated trust account.

(iii) The minimum trusteed surplus requirements provided in
subsection (a)(4) are not applicable with respect to a multi-beneficiary
trust maintained by a certified reinsurer for the purpose of securing
obligations incurred under this subsection, except that such trust shall
maintain a minimum trusteed surplus of $10,000,000.

(iv) With respect to obligations incurred by a certified reinsurer under
this subsection, if the security is insufficient, the commissioner shall
reduce the allowable credit by an amount proportionate to the deficiency,
and the commissioner has the discretion to impose further reductions in
allowable credit upon finding there is a material risk that the certified
reinsurer's obligations will not be paid in full when due.

(v) For purposes of this subsection, a certified reinsurer whose
certification has been terminated for any reason shall be treated as a
certified reinsurer required to secure 100% of its obligations.

(a) As used in this paragraph, the term "terminated" includes
revocation, suspension, voluntary surrender and inactive status.

(b) If the commissioner continues to assign a higher rating as
permitted by other provisions of this subsection, this requirement does not
apply to a certified reinsurer in inactive status or to a reinsurer whose
certification has been suspended.

(F) If an assuming insurer applying for certification as a reinsurer in
this state has been certified as a reinsurer in another jurisdiction
accredited by the national association of insurance commissioners, the
commissioner has the discretion to defer to that jurisdiction's certification,
and has the discretion to defer to the rating assigned by that jurisdiction,
and such assuming insurer shall be considered to be a certified reinsurer in
this state.

(G) A certified reinsurer that ceases to assume new business in this
state may request to maintain the reinsurer's certification in inactive status
in order to continue to qualify for a reduction in amount of security
required for the reinsurer's in force business. An inactive certified reinsurer
shall continue to comply with all applicable requirements of this
subsection, and the commissioner shall assign a rating that takes into
account, if relevant, the reasons why the reinsurer is not assuming new business.

(6) (A) Credit shall be allowed when the reinsurance is ceded to an assuming insurer meeting each of the conditions set forth below.

(i) The assuming insurer must have its head office or be domiciled in, as applicable, and be licensed in a reciprocal jurisdiction. A "reciprocal jurisdiction" is a jurisdiction that meets one of the following:

(a) A non-U.S. jurisdiction that is subject to an in-force covered agreement with the United States, each within its legal authority, or, in the case of a covered agreement between the United States and the European Union, is a member state of the European Union. For purposes of this subsection, a "covered agreement" is an agreement entered into pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act, 31 U.S.C. §§ 313 and 314, that is currently in effect or in a period of provisional application and addresses the elimination, under specified conditions, of collateral requirements as a condition for entering into any reinsurance agreement with a ceding insurer domiciled in this state or for allowing the ceding insurer to recognize credit for reinsurance;

(b) a United States jurisdiction that meets the requirements for accreditation under the National Association of Insurance Commissioners Financial Standards and Accreditation Program; or

(c) a qualified jurisdiction, as determined by the commissioner pursuant to subsection (a)(5)(C), that is not otherwise described in subsection (a)(6)(A)(i)(a) or (b) and that meets certain additional requirements, consistent with the terms and conditions of in-force covered agreements, as specified by the commissioner.

(ii) The assuming insurer shall have and maintain, on an ongoing basis, minimum capital and surplus, or its equivalent, calculated according to the methodology of its domiciliary jurisdiction, in an amount to be set forth by the commissioner. If the assuming insurer is an association, including incorporated and individual unincorporated underwriters, it shall have and maintain, on an ongoing basis, minimum capital and surplus equivalents, net of liabilities, calculated according to the methodology applicable in its domiciliary jurisdiction, and a central fund containing a balance in amounts to be set forth by the commissioner.

(iii) The assuming insurer shall have and maintain, on an ongoing basis, a minimum solvency or capital ratio, as applicable, to be set forth by the commissioner. If the assuming insurer is an association, including incorporated and individual unincorporated underwriters, it shall have and maintain, on an ongoing basis, a minimum solvency or capital ratio in the reciprocal jurisdiction where the assuming insurer has its head office or is domiciled, as applicable, and is also licensed.

(iv) The assuming insurer shall agree and provide adequate
assurance to the commissioner, in a form specified by the commissioner, as follows:

(a) The assuming insurer shall provide prompt written notice and explanation to the commissioner if it falls below the minimum requirements set forth in subsection (a)(6)(A)(ii) or (iii), or if any regulatory action is taken against the assuming insurer for serious noncompliance with applicable law;

(b) the assuming insurer shall consent in writing to the jurisdiction of the courts of this state and to the appointment of the commissioner as the assuming insurer's agent for service of process. The commissioner may require that consent for service of process be provided to the commissioner and included in each reinsurance agreement. Nothing in this provision shall limit, or in any way alter, the capacity of parties to a reinsurance agreement to agree to alternative dispute resolution mechanisms, except to the extent such agreements are unenforceable under applicable insolvency or delinquency laws;

(c) the assuming insurer shall consent in writing to pay all final judgments, wherever enforcement is sought, obtained by a ceding insurer or its legal successor, that have been declared enforceable in the jurisdiction where the judgment was obtained;

(d) each reinsurance agreement shall include a provision requiring the assuming insurer to provide security in an amount equal to 100% of the assuming insurer's liabilities attributable to reinsurance ceded pursuant to that agreement if the assuming insurer resists enforcement of a final judgment that is enforceable under the law of the jurisdiction in which it was obtained or a properly enforceable arbitration award, whether obtained by the ceding insurer or by its legal successor on behalf of its resolution estate; and

(e) the assuming insurer shall confirm that it is not presently participating in any solvent scheme of arrangement that involves this state's ceding insurers, agree to notify the ceding insurer and the commissioner and to provide security in an amount equal to 100% of the assuming insurer's liabilities to the ceding insurer, should the assuming insurer enter into such a solvent scheme of arrangement. Such security shall be in a form consistent with the provisions of subsections (a)(5) and (b) and as specified by the commissioner.

(v) The assuming insurer or its legal successor shall provide, if requested by the commissioner, on behalf of itself and any legal predecessors, certain documentation to the commissioner, as specified by the commissioner.

(vi) The assuming insurer shall maintain a practice of prompt payment of claims under reinsurance agreements.

(vii) The assuming insurer's supervisory authority must confirm to
the commissioner on an annual basis, as of the preceding December 31 or
at the annual date otherwise statutorily reported to the reciprocal
jurisdiction, that the assuming insurer complies with the requirements set
forth in subsection (a)(6)(A)(ii) or (iii).

(viii) Nothing in this provision precludes an assuming insurer from
providing the commissioner with information on a voluntary basis.

(B) The commissioner shall timely create and publish a list of
reciprocal jurisdictions.

(i) A list of reciprocal jurisdictions is published through the national
association of insurance commissioners committee process. The
commissioner's list shall include any reciprocal jurisdiction, as defined
under subsections (a)(6)(A)(i)(a) and (b), and shall consider any other
reciprocal jurisdiction included on the national association of insurance
commissioners list. The commissioner may approve a jurisdiction that
does not appear on the national association of insurance commissioners
list of reciprocal jurisdictions in accordance with criteria to be developed
by the commissioner.

(ii) The commissioner may remove a jurisdiction from the list of
reciprocal jurisdictions upon a determination that the jurisdiction no
longer meets the requirements of a reciprocal jurisdiction, in accordance
with a process set forth by the commissioner, except that the commissioner
shall not remove from the list a reciprocal jurisdiction, as defined under
 subsections (a)(6)(A)(i)(a) and (b). Upon removal of a reciprocal
jurisdiction from this list, credit for reinsurance ceded to an assuming
insurer that has its home office or is domiciled in that jurisdiction shall be
allowed, if otherwise allowed pursuant to this section.

(C) The commissioner shall timely create and publish a list of
assuming insurers that have satisfied the conditions set forth in this
subsection and to which cessions shall be granted credit in accordance
with this subsection. The commissioner may add an assuming insurer to
such list if a national association of insurance commissioners accredited
jurisdiction has added such assuming insurer to a list of such assuming
insurers or if, upon initial eligibility, the assuming insurer submits the
information to the commissioner as required under subsection (a)(6)(A)
(iv) and complies with any additional requirements that the commissioner
may impose, except to the extent that they conflict with an applicable
covered agreement.

(D) If the commissioner determines that an assuming insurer no
longer meets one or more of the requirements under this subsection, the
commissioner may revoke or suspend the eligibility of the assuming
insurer for recognition under this subsection.

(i) While an assuming insurer's eligibility is suspended, no
reinsurance agreement issued, amended or renewed after the effective date
of the suspension qualifies for credit except to the extent that the assuming insurer's obligations under the contract are secured in accordance with subsection (b).

(ii) If an assuming insurer's eligibility is revoked, no credit for reinsurance may be granted after the effective date of the revocation with respect to any reinsurance agreements entered into by the assuming insurer, including reinsurance agreements entered into prior to the date of revocation, except to the extent that the assuming insurer's obligations under the contract are secured in a form acceptable to the commissioner and consistent with the provisions of subsection (b).

(E) If subject to a legal process of rehabilitation, liquidation or conservation, as applicable, the ceding insurer, or its representative, may seek and, if determined appropriate by the court in which the proceedings are pending, may obtain an order requiring that the assuming insurer post security for all outstanding ceded liabilities.

(F) Nothing in this subsection shall limit or in any way alter the capacity of parties to a reinsurance agreement to agree on requirements for security or other terms in that reinsurance agreement, except as expressly prohibited by this section or other applicable law or regulation.

(G) Credit may be taken under this subsection only for reinsurance agreements entered into, amended or renewed on or after July 1, 2020, and only with respect to losses incurred and reserves reported on or after the later of the date on which the assuming insurer has met all eligibility requirements pursuant to subsection (a)(6)(A) herein, or the effective date of the new reinsurance agreement, amendment or renewal.

(H) This paragraph does not alter or impair a ceding insurer's right to take credit for reinsurance, to the extent that credit is not available under this subsection, as long as the reinsurance qualifies for credit under any other applicable provision of this section.

(I) Nothing in this subsection shall:

(i) Authorize an assuming insurer to withdraw or reduce the security provided under any reinsurance agreement except as permitted by the terms of the agreement; or

(ii) limit, or in any way alter, the capacity of parties to any reinsurance agreement to renegotiate the agreement.

(7) Credit shall be allowed when the reinsurance is ceded to an assuming insurer that does not meet the requirements of subsections (a)(1) through (a)(6), but only as to the insurance of risks located in jurisdictions where the reinsurer is required by applicable law or regulation of that jurisdiction.

(7)(8) If the assuming insurer is not licensed, accredited or certified to transact insurance or reinsurance in this state, the credit permitted by subsections (a)(3) and (a)(4) of this section shall not be allowed, unless the
assuming insurer agrees in the reinsurance agreement to do all of the following:

(A) (i) In the event of the failure of the assuming insurer to perform its obligations under the terms of the reinsurance agreement, the assuming insurer, at the request of the ceding insurer, will: Submit to the jurisdiction of any court of competent jurisdiction in any state of the United States; comply with all requirements necessary to give the court jurisdiction; and abide by the final decision of the court or of any appellate court in the event of an appeal; and

(ii) the assuming insurer will designate the commissioner or a designated attorney as its true and lawful attorney to receive lawful process in any action, suit or proceeding instituted by or on behalf of the ceding insurer.

(B) This subsection is not intended to conflict with or override the obligation of the parties to a reinsurance agreement to arbitrate their disputes, if the obligation is created in the agreement.

(8)(9) If the assuming insurer does not meet the requirements of subsection (a)(1), (a)(2), (a)(3) or (a)(6), the credit permitted by subsection (a)(4) or (a)(5) shall not be allowed unless the assuming insurer agrees in a trust agreement to the following conditions:

(A) Notwithstanding any other provisions in the trust instrument, if the trust fund is inadequate because the trust fund contains an amount less than the amount required by subsection (a)(4)(C), or if the grantor of the trust has been declared insolvent or has been placed into receivership, rehabilitation, liquidation or similar proceedings under the laws of the trust's state or country of domicile, the trustee shall comply with an order of the commissioner with regulatory oversight over the trust or with an order of a court of competent jurisdiction directing the trustee to transfer all of the assets of the trust fund to the commissioner with regulatory oversight over the trust.

(B) The assets shall be distributed and claims shall be filed with and valued by the commissioner with regulatory oversight in accordance with the laws of the state in which the trust is domiciled that are applicable to the liquidation of domestic insurance companies.

(C) If the commissioner with regulatory oversight over the trust determines that the assets of the trust fund or any part of the trust fund are not necessary to satisfy the claims of the United States ceding insurers of the grantor of the trust, the assets of the trust or part of those assets shall be returned by the commissioner with regulatory oversight over the trust to the trustee for distribution in accordance with the trust agreement.

(D) The grantor shall waive any right otherwise available to it under United States law that is inconsistent with the provisions of this subsection.
(9)(10) Credit for reinsurance ceded to a certified reinsurer is limited to reinsurance contracts entered or renewed on or after the effective date of the certification of the assuming insurer by the commissioner.

(10)(11) If an accredited or certified reinsurer ceases to meet the requirements of this section for accreditation or certification, the commissioner may suspend or revoke the reinsurer's accreditation or certification.

(A) The commissioner shall give the reinsurer notice and opportunity for a hearing prior to such suspension or revocation. The suspension or revocation shall not take effect until after the commissioner's order on hearing, unless one of the following applies:

(i) The reinsurer waives its right to a hearing;

(ii) the commissioner's order is based on regulatory action by the reinsurer's domiciliary jurisdiction or by the voluntary surrender or termination of the reinsurer's eligibility to transact insurance or reinsurance business in its domiciliary jurisdiction or in the primary certifying state of the reinsurer under subsection (a)(5)(F); or

(iii) the commissioner finds that an emergency requires immediate action and a court of competent jurisdiction has not stayed the commissioner's action.

(B) While a reinsurer's accreditation or certification is suspended, a reinsurance contract issued or renewed after the effective date of the suspension does not qualify for credit, except to the extent that the reinsurer's obligations under the reinsurance contract are secured in accordance with subsection (b). If a reinsurer's accreditation or certification is revoked, credit for reinsurance shall not be granted after the effective date of the revocation, except to the extent that the reinsurer's obligations under the contract are secured in accordance with subsection (a)(5)(A) or (a)(5)(B).

(11)(12) (A) A domestic ceding insurer shall take steps to manage its reinsurance recoverables proportionate to its own book of business. A domestic ceding insurer shall notify the commissioner within 30 days after reinsurance recoverables from any single assuming insurer, or group of affiliated assuming insurers, exceeds 50% of the domestic ceding insurer's last reported surplus to policyholders, or after it is determined that reinsurance recoverables from any single assuming insurer, or group of affiliated assuming insurers, is likely to exceed this limit. The notification shall demonstrate that the exposure is safely managed by the domestic ceding insurer.

(B) A domestic ceding insurer shall take steps to diversify its reinsurance program. A domestic ceding insurer shall notify the commissioner within 30 days after ceding to any single assuming insurer, or group of affiliated assuming insurers, more than 20% of the ceding
insurer's gross written premium in the prior calendar year, or after the
domestic ceding insurer has determined that the reinsurance ceded to any
single assuming insurer, or group of affiliated assuming insurers, is likely
to exceed this limit. The notification shall demonstrate that the exposure is
safely managed by the domestic ceding insurer.

(b) An asset or a reduction from liability for the reinsurance ceded by
a domestic insurer to an assuming insurer not meeting the requirements of
subsection (a) shall be allowed in an amount not exceeding the liabilities
carried by the ceding insurer. The reduction shall be in the amount of funds
held by or on behalf of the ceding insurer, including funds held in trust for
the ceding insurer, under a reinsurance contract with the assuming insurer
as security for the payment of obligations under the contract, if the security
is held in the United States subject to withdrawal solely by, and under the
exclusive control of, the ceding insurer; or, in the case of a trust, held in a
qualified United States financial institution, as defined in subsection (c)(2).
The security may be in the form of any of the following:

(1) Cash;

(2) a security listed by the securities valuation office of the national
association of insurance commissioners, including those securities deemed
exempt from filing, as defined by the purposes and procedures manual of
the national association of insurance commissioners investment analysis
office, and qualifying as admitted assets;

(3) (A) clean, irrevocable, unconditional letters of credit, issued or
confirmed by a qualified United States financial institution, as defined in
subsection (c)(1), effective no later than December 31 of the year for
which the filing is being made, and in the possession of, or in trust for, the
ceding insurer on or before the filing date of the ceding insurer's annual
statement; or

(B) a letter of credit meeting applicable standards of issuer
acceptability as of the date of the letter of credit's issuance, or
confirmation, shall, notwithstanding the issuing or confirming, institution's
subsequent failure to meet applicable standards of issuer acceptability,
continue to be acceptable as security until their expiration, extension,
renewal, modification or amendment, whichever first occurs; or

(4) any other form of security acceptable to the commissioner.

(c) (1) For purposes of subsection (b)(3), a "qualified United States
financial institution" means an institution that meets all of the following
requirements:

(A) Is organized or, in the case of a United States office of a foreign
banking organization, licensed under the laws of the United States or any
state thereof;

(B) is regulated, supervised and examined by United States federal or
state authorities having regulatory authority over banks and trust
companies; and

(C) has been determined by either the commissioner or the securities valuation office of the national association of insurance commissioners to meet the standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner.

(2) For purposes of those provisions of this law specifying those institutions that are eligible to act as a fiduciary of a trust, a "qualified United States financial institution" means an institution that meets all of the following requirements:

(i) Is organized, or in the case of a United States branch or agency office of a foreign banking organization, is licensed under the laws of the United States or any state of the United States and has been granted authority to operate with fiduciary powers; and

(ii) is regulated, supervised and examined by federal or state authorities having regulatory authority over banks and trust companies.

(d) The commissioner is hereby authorized to adopt any rules and regulations necessary to implement the provisions of this law. Such rules and regulations shall be adopted no later than January 1, 2019.

(e) This section shall apply to all cessions under reinsurance contracts that occur on or after January 1, 2018.

Sec. 3. K.S.A. 2019 Supp. 40-221a is hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.