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NEW YORK INSURANCE DEPARTMENT STRENGTHENS  
FINITE REINSURANCE REPORTING RULES

Acting Superintendent of Insurance Howard Mills today announced that the New York State Insurance Department will require insurers' Chief Executive Officers to attest under oath that all reinsurance contracts they enter into contain documentation as to the transaction's economic intent and a risk transfer analysis, in addition to a statement indicating that neither written nor oral agreements are in effect that would potentially alter a reinsurance contract's terms. This will assist in verifying that the correct accounting treatment is being utilized by insurers entering into finite reinsurance contracts.

"New York State's insurance regulatory system can only work properly when our licensees interact with us in a truthful and forthright manner," said Acting Superintendent Mills.

Finite reinsurance is a legitimate financing arrangement and often utilized as a way to protect insurers from interest rate risk and timing risk. The concern insurers have about interest rate risk involves potential losses they could realize because of interest rate fluctuations whereas timing risk addresses situations where insurers want to hedge against variations in the timing of their future loss payments. If finite reinsurance is accounted for as a traditional reinsurance product, however, the capital and income of the companies involved can be manipulated.

"Policyholders, investors, and regulators need assurances that insurers' finite reinsurance contracts are completely transparent," Acting Superintendent Mills stated. "The Circular Letter we've issued today is a tough, necessary step that will help to restore confidence to the regulatory process. The Insurance Department is confident that the Letter's requirements will also prevent insurers from using finite reinsurance contracts as a way of hiding their company's true financial condition."

The text of the Insurance Department's Finite Reinsurance Circular Letter is retrievable on-line at <http://www.ins.state.ny.us>, under the home page link listing, 'Frequently Accessed Information.'