**Section 205.70 Reinsurance**

a) An insurer qualified to write municipal bond insurance may, by contract, reinsure any such insurance it transacts, provided that credit in accounting and financial statements for reinsurance ceded shall be allowed only if the reinsurer is either:

1) An insurer, authorized in Illinois to write the kinds of business defined in Class 2(g) and 2(h) of Section 4 of the Illinois Insurance Code (Ill. Rev. Stat. 1985, ch. 73, par. 616), which has policyholders' surplus of not less than twenty-five million dollars ($25,000,000), or

2) An insurer that meets the surplus requirements of subsection 205.70(a)(1) hereof, but is not licensed in Illinois; however, such credit shall be allowed only to the extent and under the conditions specified in Section 173.1(2) of the Illinois Insurance Code (Ill Rev. Stat. 1985, ch. 73, par. 785.1(2)). The security requirements of such sections shall also cover any contingency reserve established by such reinsurer.

b) The contingency reserve required by subsection 205.40(b) shall not be reduced by reason of any risk ceded unless the risk is ceded to a reinsurer described in subsection (a)(1) or (2) hereof and provided such reinsurer establishes the reserves required in subsections 205.40(b) and 205.60 with respect to the ceded portion of the risk.

c)

1) A municipal bond insurer may not reinsure such insurance with affiliated companies unless the limitations of Section 205.50 are measured against the consolidated policyholders' surplus of such affiliated insurers.

2) Subsection 205.70(a) hereof does not diminish the applicability of Section 173.1 of the Illinois Insurance Code (Ill Rev. Stat. 1985, ch. 73, par. 785.1).