**Section 1103.10 Preamble**

a) The Department of Financial and Professional Regulation-Division of Insurance (Division) recognizes that licensed insurers routinely enter into reinsurance agreements that yield legitimate relief to the ceding insurer from strain to surplus.

b) However, it is improper for a licensed insurer, in the capacity of ceding insurer, to enter into reinsurance agreements, for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business being reinsured. In substance or effect, the expected potential liability to the ceding insurer remains basically unchanged by the reinsurance transaction, notwithstanding certain risk elements in the reinsurance agreement such as catastrophic mortality or extraordinary survival. The terms of reinsurance agreements described in Section 1103.30 would violate:

1) Section 133 and 136 of the Illinois Insurance Code (Code) [215 ILCS 5/133 and 136], relating to financial statements that do not properly reflect the financial condition of the ceding insurer;

2) Section 173.2 of the Code [215 ILCS 5/173.2], relating to reinsurance reserve credits, thus resulting in a ceding insurer improperly reducing liabilities or establishing assets for reinsurance ceded; and

3) Section 188 of the Code [215 ILCS 5/800], relating to creating a situation that may be hazardous to policyholders and the people of this State.

(Source: Amended at 30 Ill. Reg. 7766, effective April 6, 2006)