



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

February 25, 1999

Bulletin Number FS-19-99

TO: ALL DOMESTIC INSURANCE COMPANIES

**SUBJECT: REINSURANCE OF "WORKERS COMPENSATION CARVE-OUT"
BUSINESS**

It has come to the Department's attention that Connecticut domestic and foreign licensed life, accident and health insurers are assuming reinsurance, including retrocessional layers, of the legal liability for the indemnity and medical expense portions of business originally written as either (1) direct workers compensation insurance by insurers properly licensed to write workers compensation insurance, or (2) workers compensation self insurance or workers compensation group self-insurance by authorized self-insurers, group self-insurers or risk retention groups under applicable laws.

These agreements are sometimes called "workers compensation carve-out" or "occupational accident" reinsurance, because the life, accident and health insurer purportedly assumes only the "accident and health" portions of the originally issued workers compensation insurance and not the employer's liability portion. A common feature of such reinsurance contracts is the assumption by the reinsurer of most or all of the liability for the "working layer" of each loss of the ceding insurer's exposure to workers compensation losses (e.g. \$0 to \$500,000).

An insurer's Connecticut certificate of authority permits it to transact the line or lines of business specifically designated by its license, and to reinsure only the kinds of insurance that it is directly authorized to write. To reinsure workers compensation business, an insurer must be licensed to write workers compensation insurance on a direct basis in Connecticut. Even if some portion of the original workers compensation insurance coverage has purportedly been "carved-out" from the original insurance or reinsurance contract, the subject of the reinsurance or retrocessional agreement is still business originally written as workers compensation insurance, not as accident and health insurance. The Department rejects the concept that business originally written as workers compensation insurance may be transformed into "occupational accident" or some other line of business.

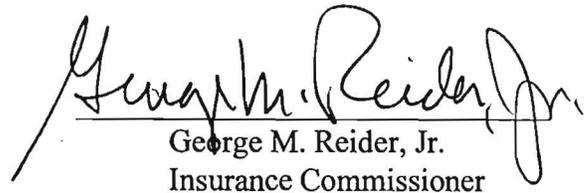
Connecticut domestic life, accident and health insurers shall not assume any reinsurance, including retrocessional layers, of any business originally written as either (a) direct workers compensation insurance by insurers properly licensed to write workers compensation insurance, or (b) workers compensation self-insurance or workers compensation group self-insurance by authorized self-insurers, group self-insurers or risk retention groups under applicable laws. Connecticut domestic life and accident and health insurers shall not enter into any new or renewal contracts of such reinsurance and/or accept any new or renewal exposures under existing

contracts of such reinsurance.

Within 10 days after receipt of this bulletin, all Connecticut domestic life, accident and health insurers shall advise this Department with respect to any such reinsurance or retrocessional reinsurance contracts it may have entered into before the date of this bulletin and include the most recent premium and loss data related to all such agreements. A copy of each reinsurance contract should be filed with the Department in addition to the requested information.

Please acknowledge receipt of this bulletin.

If you have any questions regarding this bulletin, you may contact Frances J. O'Connor, Director of the Examination Division at (860) 297-3814.



George M. Reider, Jr.
Insurance Commissioner