

December 9, 1970

SUBJECT: INSURANCE

WITHDRAWN

Circular Letter No. 16 (1970)

TO ALL AUTHORIZED INSURERS WRITING GROUP ACCIDENT AND HEALTH BUSINESS

Gentlemen:

The Department has received requests for the approval of a rider for attachment to group accident and health policies that would enable a company to release claim reserves to a policyholder in exchange for the deposit with it of securities having a market value at least equal to the amount of claim reserves. The securities would be held by the insurer in escrow, with the right to sell the securities in order to obtain funds to meet claims if circumstances should make that necessary.

After full consideration of this proposal the Department has concluded that it is not acceptable. The arrangement necessitates either (1) the reduction of a company's annual statement liabilities by the amount of claim reserves released or (2) the inclusion in admitted assets of the securities held in escrow but not owned by the insurance company. Neither procedure is permitted under the New York Insurance Law. The first violates Section 72, which requires insurers to maintain adequate reserves for the payment of all losses and claims. The second violates Section 70; the securities cannot be considered as admitted assets since they are not owned by the insurer.

This Circular Letter is accordingly being written to advise companies writing group insurance to refrain from engaging in any manner in the practice described above and, further, that riders of the nature described above, or variations thereof, will not receive the approval of the Department.

Kindly acknowledge receipt of this circular letter to Mr. I. Murray Krowitz, Chief of the Life Bureau.

Very truly yours,

[SIGNATURE]

RICHARD E. STEWART

Superintendent of Insurance