|  |  |  |
| --- | --- | --- |
| **Category:**  **Standard** | | **Functional Area***:*  **Global Commercial Underwriting** |
| **Effective Date***:*  ***July 15, 2013*** | | **Date Issued***:*  ***July 15, 2013*** |
| **Owner:**  **Global Commercial Underwriting Committee** | | **Contact for Questions**:  **Global Commercial Head of Technical Underwriting** |
| **Approver**: **Global Commercial Chief Underwriting Officer** | | |
| **Purpose** | The AIG General Insurance – Risk Transfer Policy (“the Policy”) requires risk transfer testing for all insurance contracts and reinsurance through the completion of either a Risk Transfer Worksheet or a Qualitative Review no later than the transaction Inception Date unless the product or program structure is covered by an approved Safe Harbor.  The purpose of this document is to establish the requirements and procedures for determining and maintaining Safe Harbors for Global Commercial products. | |
| **Scope** | The requirements set out in this Standard apply to employees of AIG Property Casualty Commercial with responsibility for underwriting or managing insurance risks, policies and portfolios. | |
| **Operational Requirements** |  | |
| *Definitions* | As defined in the Policy, a “Safe Harbor” is a product or program structure that, by its nature and defined parameters, is deemed to transfer sufficient Insurance Risk to qualify under the Policy for insurance accounting. Safe Harbors are established through a documented approval process required by the Policy.  As defined in the Policy, a “Governing Contract” is a single substantive agreement comprising all of the terms of multiple insurance policies and associated agreements that provide related coverage through policies which are linked in an overall agreement with the insured. The policies that form the basis of the agreement and are part of the Governing Contract must have features that work in conjunction to meet the risk management objectives of the insured. The policies are typically related and often linked in one or several of the following manners:   * Integrated Underwriting and Pricing * Common Tenure * Common Billing and Collection * Common Collateral * Common Guarantees * Common Funding * Integrated Claims Processing and Settlement | |
| *Pre- qualification* | With respect to the level of risk transfer testing required, as a general description, insurance contracts and reinsurance are categorized into the three categories below:   * Self-Evident: Contracts that could be considered exempt from risk transfer testing as there are clearly no risk mitigating features in the contract. An example of this contract type is a straight quota share reinsurance transaction, with fixed terms and no risk-limiting or variable terms (including no sharing of positive experience). * Reasonably Self-Evident: Contracts for which risk transfer is nevertheless considered clear based on the class, terms, and/or individual characteristics of the contract(s). An example of this type of contract could be a single year property catastrophe contract, or a casualty contract with not more than a few risk-limiting features (e.g., a sub- limit) that, whether considered alone or in the aggregate, do not undermine fundamental characteristics of risk transfer present in the contract. * Not Reasonably Self-Evident: Contracts for which risk transfer is not self-evident or not reasonably self-evident, so that some type of quantitative cash flow analysis must be performed in order to assess risk transfer. Examples of such contracts would be aggregate excess of loss contracts containing significant risk-limiting features.   Self- Evident contracts and Reasonably Self- Evident contracts may qualify to receive Safe  Harbor treatment, as described below. Contracts that are Not Reasonably Self-Evident must be evaluated using either a Risk Transfer Worksheet or a Qualitative Review. | |
| *Governing Contract* | To the extent that multiple insurance policies and associated agreements are entered into together between an AIG company (including those issued by various AIG subsidiaries) and an insured (including various subsidiaries of a single customer) as part of a Governing Contract, sufficiency of risk transfer is to be assessed for those insurance policies as a single group, and a separate assessment of each insurance policy in the group is not required. | |
| *Documentation Requirements for Safe Harbor treatment* | Product tower management is responsible for establishing Safe Harbors.  Safe Harbor rationale must be documented in a memorandum that must, at a minimum, include:   * A detailed description of the product, or group of similar products, eligible for Safe Harbor treatment, including a description of the economic intent of purchasers; * An analysis substantiating the sufficiency of risk transfer which addresses the reasonable possibility of realizing a sufficient loss; * A statement as to the presence or absence of risk-limiting features such as those summarized in **Appendix A** or **B** of the Policy, as applicable, and in the presence of any such features, a documented discussion of how the product or program structure nonetheless transfers sufficient insurance risk in every instance; * If thresholds relative to risk (e.g., premium to aggregate limit) are established to qualify the product or program for Safe Harbor treatment, there must be a documented discussion of the basis for selecting the applicable threshold, describing why that threshold is expected to provide Safe Harbor treatment only for contracts that, if reviewed individually, would be certain to qualify for insurance accounting. The threshold requirement must be clearly described. Any premium thresholds must provide an indication as to whether the threshold is based on gross or net written premium. An actuarial analysis is required where a premium threshold is established for loss responsive rating plan business; * An explanation of how the product or program is expected to result in risk transfer in all cases where written pursuant to the parameters set forth in the Safe Harbor; * An outline of other parameters the product tower believes is required to support the sufficiency of risk transfer.   The memorandum requesting a Safe Harbor must be signed by the global product tower CUO and CFO. | |
| *Approval* | The memorandum requesting Safe Harbor approval, together with any other supporting documentation and actuarial analysis deemed relevant by the product tower, must be submitted to the AIG Property Casualty Commercial CFO and AIG Property Casualty Commercial CUO, or their designees, for review and approval.  An approved Safe Harbor may only be applied to risks bound after the approval is received. Until such time as the Safe Harbor is approved, each product or program shall be individually evaluated for the sufficiency of risk transfer in accordance with the Policy.  Approved Safe Harbor memoranda will be kept by Global Commercial Underwriting in a centralized location on the Global Commercial Technical Underwriting intranet site. | |
| *Re-Validation of Safe Harbor* | To ensure that each Safe Harbor determination remains valid, every Safe Harbor shall be reviewed by the product tower annually, and whenever there is a substantive change to the product or program originally granted Safe Harbor treatment, reapproved by the AIG Property Casualty Commercial CFO and AIG Property Casualty Commercial CUO, or their designees.  Global Commercial Underwriting is responsible for requesting annual revalidation from the product towers, and for tracking receipt of resubmission documents. | |
| **Related Global Commercial Underwriting**  **Documents** | AIG General Insurance – Risk Transfer Policy | |
| **Implementation** | Product Towers and Regions are required to develop a plan for implementing this Global Underwriting Standard.  This plan must be agreed with the Global Commercial CUO and set out the projected implementation timeframes and any exemptions that will be made. | |
| **Roles and Responsibilities** |  | |
| *Global Commercial Underwriting Committee* | The Global Commercial Underwriting Committee is responsible for establishing and maintaining global underwriting policies and standards, and is accountable for ensuring that they are consistently and uniformly implemented locally. | |
| *Global Product Line underwriting managers* | Global Product Line underwriting managers are responsible for establishing and maintaining global product underwriting standards, guidelines, and procedures, and are accountable for ensuring that they are consistently and uniformly implemented in their product areas. | |
| *Regional and local product line managers* | Regional and local product managers are responsible for establishing and maintaining regional/local product underwriting standards, guidelines and procedures, and are accountable for ensuring that they, along with all applicable global and product underwriting standards, guidelines and procedures, are consistently and uniformly implemented in their geographic areas. | |
| *All Employees* | All employees performing functions subject to this Standard must adhere to its principles, as well as all other applicable standards, guidelines and procedures. | |
|  |  | |
| **Country Specific Requirements** | Standards and Guidelines will be written and agreed where there is the need for distinct local clarification or to comply with local rules and regulations. Any conflict between Global and locally required standards must be identified, documented, escalated and addressed in accordance with applicable AIG corporate policies. | |
| **Reference to Corporate Policies** | This Global Commercial Underwriting Standard document is subject to adherence to all relevant AIG Corporate Policies. | |
| **Updates** | *History of updates to the Underwriting Document*  *September 29, 2015: Template Updated.* | |