



Client Alert

Recent Changes to the Puerto Rico Insurance Code

August 9, 2018

Due to the recent catastrophic events of Hurricane María and Hurricane Irma and the importance of the insurance industry in Puerto Rico, the Government of Puerto Rico recently enacted Senate Bill No. 935 and House Bill No. 1330.

I. Senate Bill 935: Credits for entering into reinsurance agreements with international reinsurers

Senate Bill No. 935, which amends the Puerto Rico Insurance Code, Act No. 77 of June 19, 1957, as amended (the "Insurance Code"), adopts a revised version of the "*Credit for Reinsurance Model Law*" issued by the National Association of Insurance Commissioners ("NAIC"). These amendments establish the criteria to be used by the Puerto Rico Insurance Commissioner ("Commissioner") to grant credits to domestic insurers who enter into reinsurance agreements with international reinsurers. Qualifying domestic insurers will be recognized a credit on their financial statements for risks ceded to a reinsurer, either as an asset or a reduction of liabilities.

The Commissioner will acknowledge credits for reinsurance ceded by a domestic insurer to an assuming insurer when it meets certain criteria, including minimum capital requirements and being licensed to transact insurance or reinsurance in at least one stateside jurisdiction. The purpose of Senate Bill 935 is to ensure that an insurance company doing business in Puerto Rico has adequate financial solvency and risk management against catastrophic risks.

II. House Bill 1330: Service Contracts Act

House Bill 1330 amends the Insurance Code to incorporate the Service Contract Model Act issued by NAIC in 1997 due to the continued growth of the service contract industry. Service contracts are generally defined as agreements for a specific consideration or duration to perform repairs or maintenance of property. A service contract provides coverage to a consumer when a covered product fails to perform as originally intended. In particular, they are meant to bridge the deficiencies that exist between a manufacturer's warranties and insurance policies.

By adopting the Service Contract Model Act, Puerto Rico will now have a clearer legal framework regarding the definition of a service contract, its requirements, and limitations. The House Bill provides guidelines that apply to service contracts that are not deemed to be insurance policies and thus not subject to the same rules.

Goldman Antonetti & Córdova, LLC stands ready to assist as you and your business adjust to Puerto Rico's regulatory and legal changes. If you need further assistance in this area, please contact the following members of our firm:

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