



## **NAIC Credit for Reinsurance Models Strengthen State Regulation and Should Be Approved as Presented**

Dear NAIC Executive Committee and Plenary Member:

On behalf of the 22 members of the Association of Bermuda Insurers and Reinsurers we urge you to vote to approve the revised NAIC Model Law and Regulation on Credit for Reinsurance, as approved and presented to you by the E Committee. ABIR members are the largest providers of property catastrophe reinsurance to the US market and 18 of ABIR's 22 members have US licensed subsidiaries which employ more than 15,000 people in the US. Bermuda's reinsurers paid 30% of the losses from the 2005 Katrina, Rita and Wilma hurricanes and collectively paid \$22 billion to our US clients for the US hurricanes of 2004 and 2005. Bermuda's internationally active insurance groups have an excellent on time claims paying record; and an excellent track record in providing a steady and growing amount of reinsurance capacity to meet US demand. ABIR members have been cited by various external vendors as leaders in enterprise risk management. ABIR members are built to be global insurance and reinsurance suppliers and are leading providers of reinsurance globally; doing business via US subsidiaries and on a cross-border basis.

ABIR members have legal entities and groups which are supervised by the Bermuda Monetary Authority (BMA). The BMA is one of two candidates selected by the European Insurance and Occupational Pension Agency (EIOPA) for an equivalency assessment under the EU's Solvency II criteria. EIOPA in its preliminary report to the European Commission has found the BMA's solvency regulation system for internationally active insurance groups to be largely equivalent. In addition, the BMA has been reviewed and approved twice by the International Monetary Fund (IMF) under its Financial Sector Assessment Program (FSAP). The BMA has regulatory cooperation memoranda of understanding in place with the International Association of Insurance Supervisors (IAIS) and eleven other non US regulatory authorities<sup>1</sup>; and with four US states: Florida, Nebraska, New York and Pennsylvania.

The NAIC credit for reinsurance amendments creating an alternative framework for collateral for non US reinsurers has been under development for more than 12 years. That work should now come to a timely conclusion with your approval of this model law and regulation as submitted by the Reinsurance Task Force and the Financial Condition (E) Committee. The NAIC leadership has put extensive resources of its own into management of this long process, building knowledge of foreign regulatory practices, designing new safeguards into the Solvency Modernization Initiative and building relationships with non US regulators so that it would be possible to build the trust and cooperation that underpin global best practice in solvency regulation.

The new NAIC models together add critical new tools to the US regulatory framework and afford state regulators new powers over foreign reinsurers which they have never held before. It does not lessen state regulatory oversight, rather it strengthens it. It provides new tools which many regulators will find useful in building better knowledge of ceding insurers' reinsurance practices and the supervision of those counter parties. For example, the NAIC models, for the first time:

1. Create a framework for cooperation, coordination, review and approval of foreign jurisdiction solvency regulation requirements applied to international reinsurers. The first step is to approve

the jurisdiction's framework and establish a trusting relationship with that regulator. If that hurdle is met, then the vetting of the reinsurer takes place.

2. Create a framework for mandatory filing and review of the international reinsurer's financial statements, claims payment practices, business reputation, license status, regulatory sanctions, rating agency evaluations and other material deemed prudent by the state regulator. The regulator then can determine at what level the reinsurer will be required to post collateral.
3. Create a mechanism for an individual state regulator to decide whether or not to grant the reinsurer the opportunity to conduct its US business with less than full collateral for its cedents based on the state regulator's analysis and approval of the specific reinsurer. No reduction in collateral can take place for the domestic insurers supervised by the state regulator without the specific approval of the state regulator. The state regulator's decision is controlling.

When considered in the context of the other measures developed as part of the NAIC's Solvency Modernization Initiative, it can be clearly seen that the hands of state regulators are strengthened and that new information, analysis and approvals are enacted to protect policyholders. The NAIC and its individual members should take great pride in their accomplishments and approve these measures as presented. The reinsurers, regulators and governments around the globe have been watching the path taken by the NAIC and are awaiting the approval of this model legislation and regulation as a signal of the NAIC's commitment to adopting global best practices in insurance supervision and commitment to international trade. The US is the primary beneficiary of free trade in reinsurance since its unique liability and natural disaster risk are so much greater than other jurisdictions.

We encourage the NAIC to reject amendments which may be presented that have already been reviewed and rejected at the Reinsurance Task Force and Financial Condition Committee.

Sincerely,



Bradley L. Kading

President and Executive Director

---

<sup>i</sup> Jersey Financial Services Department, Isle of Man Financial Supervision Commission, UK Financial Services Authority, Luxembourg (Commission de Surveillance du Secteur Financier), Cayman Islands Monetary Authority, Financial Services Board of the Republic of South Africa, International Organization of Securities Commissions, Malta Financial Services Authority, Office of the Superintendent of Financial Institutions of Canada, Luxembourg (Commissariat Aux Assurances), and the Swiss Financial Market Supervisory Authority.