REINSURANCE ASSOCIATION OF AMERICA

STATEMENT

TESTIMONY

OF

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PRESIDENT
REINSURANCE ASSOCIATION OF AMERICA

HOUSE SUBCOMMITTEE ON HOUSING AND INSURANCE

HEARING ON

"THE FEDERAL INSURANCE OFFICE'S REPORT ON MODERNIZING INSURANCE REGULATION"

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Mr. Chairman, members of the Committee, I am Franklin Nutter, President of the Reinsurance Association of America. Thank you for the opportunity to testify on the "Federal Insurance Office's Report on Modernizing Insurance Regulation."

The RAA is a national trade association representing reinsurance companies doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. RAA members consist of both U.S. and non-U.S. based companies with an interest in the regulatory environment in which they operate, including solvency and financial oversight and reporting, as well as market access.

The RAA supported the provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that authorizes the Federal Insurance Office, working with the U.S. Trade Representative (USTR) to enter into "covered agreements." This gives those governmental entities the authority, indeed we believe the mandate, to pursue "bilateral or multi-lateral agreements regarding prudential measures with respect to the business of insurance or reinsurance" between the U.S. and one or more foreign governments. These covered agreements will provide uniform regulatory criteria for transactions between U..S and non-U.S. (re)insurers.

Insurance is widely regarded as facilitating economic activity as well as personal and commercial security. Reinsurance provides insurers with capital support, diversification of theirrisk profile, and risk transfer for extreme loss events. Covered agreements will facilitate the provision of global capital and risk taking capacity, and therefore will benefit economic activity and recovery in the U.S. as well as in the other countries.

We envision these covered agreements to provide the regulatory framework for U.S. (re)insurers in foreign countries and non-U.S. (re)insurers in the U.S. We do not see this as a new layer of regulation, but rather as a Federally authorized "tool" that would be applied within the context of the state regulatory system. As such, these agreements will ensure uniformity and efficiency for insurers and reinsurers within the structure of state-based solvency regulation in the U.S. and within the established regulatory systems in other countries.

We are pleased to see the Federal Insurance Office Report endorse the pursuit of covered agreements. The FIO report defines its interest in the context of financial security provided by unauthorized reinsurers based on the NAIC's recently-revised Model Law on Credit for Reinsurance. The RAA supports the recent NAIC model law revisions and has worked vigorously to secure their adoption by the states. (Since 2010 changes to the model have been adopted by 18 states.) Notwithstanding our active advocacy for the NAIC model, it is clear that it will take many years for these changes to be adopted by all of the states. Unfortunately, the changes to the model are not an NAIC accreditation requirement. Therefore the states are not required to adopt the changes to comply with the accreditation criteria. For the states that have adopted the changes, implementing regulations have been promulgated in 14 states; however only 6 have actually approved reinsurers. The NAIC model law process as applied to this new model law also assumes the states individually, based on an NAIC approved list of "qualified jurisdictions", will make a determination of the equivalence of a foreign country's reinsurance regulation. The RAA believes covered agreements, based on Federal statutory and constitutional authority, between the U.S. and countries or governmental bodies representing major (re)insurance trading partners provide the preferred approach for addressing the basis of

regulatory equivalence and appropriate regulatory security. Once achieved, these covered agreements will facilitate reinsurance transactions to support economic activity and recovery in the U.S. as well as in foreign countries.

It is clear that the statutory authority in Dodd-Frank does not limit covered agreements to matters related to collateral for unauthorized reinsurance. There are a host of prudential issues that could be addressed in a covered agreement that would strengthen existing regulation and enhance and streamline the basis upon which companies from one jurisdiction do business in the other's jurisdiction—including group supervision, data security and access, and international regulatory cooperation. We recognize the use of this authority beyond "collateral" may concern some interest groups. However, the statute requires a process of review by four Congressional committees, including this one, the likely involvement of the states with FIO and USTR in negotiating any such agreement and implementation within the state regulatory system, not a new Federal system. We believe these protections should allay those concerns.

We believe the European Union, under its Reinsurance Directive and Solvency II when implemented, has the authority to enter into covered agreements. Regulatory and trade officials in countries that host major reinsurance trading partners, including the U.K., Bermuda, Germany, France, Italy, Australia, Japan and Switzerland have all expressed interest in resolving the issue of cross border reinsurance relationships. As noted by the European Commission regarding the inclusion of insurance in a financial services trade agreement, the benefits of transatlantic integration are clear:

- strengthen financial stability, as potential problems would be jointly identified and addressed;
- create a larger and more efficient market place for EU and U.S, financial firms;
- improve the ability of the integrated financial system to provide financing to the real economy;
- solidify the leading role that the EU and the U.S. play in financial regulation.

All of these stated benefits could also be addressed in a covered agreement.

The U.S. is a major, attractive market for the global reinsurance industry. The U.S. is also the home jurisdiction for several major (re)insurers that operate on a global basis and provide financial security for worldwide insurance markets. A covered agreement should be tailored to be of mutual value to those interests.

We encourage the Committee to insist that USTR and Treasury move forward on the negotiation of one or more covered agreements. This Committee originated the idea and was right to do so. Now that Treasury has set its priorities in the FIO report, the Committee should expect it to pursue covered agreements. We look forward to working with USTR, FIO and the Congress to implement this valuable tool.