EUROPEAN COMMISSION
Internal Market and Services DG

CEIOPS
Committee of European Insurance and Occupational Pensions Supervisors

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NAIC Reinsurance Evaluation Office Proposal

Dear Commissioner Bowler,

We would like to thank the NAIC once again for deciding to review the current credit for reinsurance rules this year and for sending us a copy of the draft proposal for the creation of the NAIC Reinsurance Evaluation Office (the "REO Proposal").

As you well know, the issue of the treatment of credit for reinsurance in the US is of great importance to European Insurance Supervisors and the European Commission and we hope that the discussion of the REO proposal will prove to be another step towards the successful resolution of this issue.

We welcome the proposed change of direction of the NAIC noting that the proposals are non-discriminatory in the sense that they apply to the transactions of all reinsurers regardless of their country of incorporation focusing instead on objective criteria such as the financial strength of the reinsurer and the strength of the financial solvency regulation in the reinsurer's jurisdiction of domicile. We also note that the proposal involves the creation by the NAIC of a single expert regulatory unit to assess reinsurers.

As you are aware, the European Parliament and the Council have recently adopted the EU Reinsurance Directive, which introduces a system of supervision in the EU based on home country control in accordance with harmonised EU supervision rules and prohibits Member States from introducing or keeping rules requiring EU reinsurers to post collateral.

Given the international nature of reinsurance business and the importance that geographical spread and diversification of risks play in sound reinsurance risk management, we strongly believe that a system based on mutual recognition is more appropriate for today's international reinsurance markets than a system that relies primarily on the posting of collateral. We may remind you that Article 50 of the EU Reinsurance Directive 2005/68/EC provides for the conclusion of mutual recognition agreements with third countries.

In this context we have a number of comments on specific aspects of the proposal which are outlined below:

1. We would encourage you to ensure that the new system is sufficiently flexible. In other words, it should not close the door to mutual recognition agreements between the US and the EU, which would enable financially strong reinsurers domiciled in one of the jurisdictions party to an agreement to operate in another jurisdiction without being subject to collateral requirements. We have found that under a more risk-based supervisory approach which focuses – in a geographically agnostic way - on the adequacy of solvency margins, that collateral is generally unnecessary and we anticipate that Solvency II will build further on this approach.

2. The proposal notes that many of the largest reinsurers writing business with US cedants are domiciled outside the United States. Nevertheless we note that the proposal will require non US financial statements to be reconciled to US GAAP or SAP and provide certain information in a US SAP format. We hope that you would accept IFRS financial statements in order to reduce unnecessary administrative burden and avoid duplication, and in line with IAIS Supervisory Standard No. 8: Standard on Supervision of Reinsurers.

Similarly we note that the interim reports must contain "information comparable to relevant portions of the quarterly NAIC financial statement". We are not certain what this reporting format might require, but it could possibly force the global reinsurance community to conform to US financial reporting standards. We expect this is not your intent.

3. In section 3A(x) there is a requirement for a certificate of good standing from the domiciliary supervisor of the reinsurer and an acknowledgement by the domiciliary supervisor that they will provide the information requested by the REO. As you know, supervisors throughout the EU have worked diligently with US supervisors to enhance supervisory cooperation. Certainly EU supervisors are willing to respond to requests from further US counterparts, assuming, however, that you remain sensitive to legal restrictions on the disclosure of some information, unless appropriate safeguards of confidentiality can be provided by US supervisors.

We have not provided comments on all aspects of the REO proposal in this letter as we are aware that a number of European trade associations and European companies also intend to provide comments on the specific details of the REO proposal. We assume these comments will be taken into account in the drafting of the final version of the REO proposal. In particular, we know that the industry has comments relating to the details of assigning a rating to a reinsurer and the calibration of the collateral requirements applied to each rating as these will clearly play a determining factor in the practical consequences of the new approach for direct insurers and reinsurers alike, as well as influence the extent to which the new system will provide insurers and reinsurers with the right incentives.

If you have any questions regarding this letter, then we would welcome the opportunity to discuss them with you further.

Yours sincerely,

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