



REINSURANCE
ASSOCIATION
OF AMERICA

STATEMENT

TESTIMONY

OF

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**HEARING ON
“CAPITAL MARKETS REGULATORY
REFORM: STRENGTHENING INVESTOR
PROTECTION, ENHANCING OVERSIGHT OF
PRIVATE POOLS OF CAPITAL, AND
CREATING A NATIONAL INSURANCE
OFFICE”**

BEFORE

**THE HOUSE FINANCIAL SERVICES
COMMITTEE**

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My name is David Atkinson and I am Executive Vice President of Reinsurance Group of America, Incorporated (RGA), the largest U.S.-based life reinsurer. I am testifying today on behalf of the Reinsurance Association of America (RAA), a national trade association representing life and property/casualty companies that specialize in assuming reinsurance. The RAA's membership is diverse and includes large and small, broker and direct, U.S. companies and subsidiaries of foreign companies.

Reinsurance is simply insurance for insurers. Reinsurance is usually available for all types of insurance. My company provides reinsurance to life insurers, or "life reinsurance." Life reinsurance is a global business. In 2007, worldwide net life reinsurance premiums totaled about \$39.6 billion. Life reinsurance plays a critical role in maintaining the financial health of the life insurance marketplace and ensuring the availability of life insurance for U.S. citizens and businesses. Life reinsurance can be used to help an insurance company increase the volume of business it writes, reduce the volatility of its loss experience, assist in meeting its regulatory requirements, or enhance the company's financial strength. RGA is the largest U.S.-based life reinsurer, the second largest life reinsurer in North America, and the third largest in the world. In 2008, RGA had reinsurance premiums of about \$5.4 billion, life insurance reinsured of about \$2.1 trillion and assets of more than \$21 billion.¹

I am pleased to appear before you today to provide the RAA's perspective on Congressman Kanjorski's legislation to create a Federal Insurance Office (FIO). We applaud the Committee's interest in this legislation, and are especially grateful for Rep. Kanjorski's leadership on this important issue. We also applaud the Administration's acknowledgment that

¹ RGA 2008 Annual Report to Shareholders

the international aspects of the insurance and reinsurance business require federal involvement to address the needs of the U.S. market and to assist and support U.S. companies doing business abroad.

The RAA strongly supports the recently-released discussion draft of the Federal Insurance Office Act of 2009. This legislation lays the foundation to ensure that the federal government has: 1) the authority to gather information so that it has a more thorough understanding of the complexities of insurance and reinsurance issues and how policy decisions may affect those markets; 2) the authority to coordinate federal efforts and establish federal policy on prudential aspects of international insurance matters; (3) the authority to enter into international insurance agreements on prudential matters; and 4) the authority to preempt state insurance measures that are inconsistent with these international insurance agreements.

As I previously mentioned, reinsurance is a global business. Encouraging the participation of reinsurers worldwide is essential because reinsurance provides the much needed capacity for life, property and casualty risks in the U.S. Although the majority of U.S. premiums ceded offshore is assumed by reinsurers domiciled in a dozen countries, the entire worldwide market is necessary to bring much needed capital and capacity to support the extraordinary risk exposure in the U.S. and to spread that risk across the globe.

Reinsurance is currently regulated in the United States on a multi-state basis, which is both cumbersome and highly inefficient for a global marketplace. The need to comply with the laws of fifty states, which are often inconsistent and conflicting, is burdensome for this global business. The current state-based system is primarily focused on regulating market conduct, contract terms and rates, and protecting consumers. Importantly, none of these objectives apply to reinsurance, which is a business-to-business transaction. Reinsurance regulation should be

coordinated by a single national regulator that focuses on ensuring the reinsurer's financial solvency so that it can meet its obligations to its ceding insurers.

The RAA supports a reinsurance regulatory system that would create this single national regulator with a single set of rules that will focus on efficient and effective solvency regulation. We also support a process for the national regulator to vet equivalence and recognize non U.S. regulatory regimes on a reciprocal basis. This process would facilitate cross-border transactions and address the collateral issue. Because of the global nature of our business, and the important role that reinsurers play in catastrophic events, the RAA wholeheartedly believes that a Federal Insurance Office is necessary to assist Congress and the federal government in making better decisions regarding international and national insurance policy and in enforcing international agreements uniformly across the U.S.

FEDERAL INSURANCE OFFICE

The RAA strongly supports the creation of a Federal Insurance Office (FIO) in the Department of Treasury. We also support authorizing the Director of the FIO to advise the Treasury Secretary on major domestic and international insurance policy issues. Public policy issues are frequently raised at the federal level which could have a significant impact on the insurance and reinsurance business, yet there is no federal agency tasked with understanding our industry. The global reinsurance industry plays a major role in the stability of the U.S. insurance marketplace and in the economic recovery of the U.S. following major natural and man-made disasters. The federal government has a strong interest in understanding this important market as it responds to these crises. The creation of the FIO will fill the current lack of a lead federal entity that understands how decisions made by the federal government, including Congress, can impact - both positively and negatively - the insurance industry. The Federal Insurance Office

would have the benefit of the National Association of Insurance Commissioners' (NAIC) information and experience, but would be empowered to conduct its own analysis and provide advice based on a perspective that is not driven by individual state interests. Creation of the FIO with responsibility for gathering and analyzing information and reporting to Congress is a significant step to ensure policymakers understand the industry during their deliberative process.

Authority to Coordinate Federal Efforts, Establish Federal Policy on International Insurance Matters and Negotiate International Agreements on Prudential Matters

The RAA also strongly endorses empowering the Department of the Treasury to: 1) coordinate federal efforts and establish federal policy on prudential aspects of international insurance matters; 2) negotiate International Insurance Agreements on Prudential Matters; and, 3) preempt state insurance measures that are inconsistent with an International Insurance Agreement on Prudential Matters and that prejudice non-U.S. insurers subject to those Agreements.

The RAA believes it is critical that the Department of the Treasury be empowered to coordinate federal efforts and establish federal policy on prudential aspects of international insurance matters, including representing the United States in the International Association of Insurance Supervisors (IAIS). There are significant efforts underway at international forums such as the IAIS to create global regulatory standards and international harmonization. The goal is for these standards to then be adopted in individual countries around the world. Currently, the U.S. voice is marginalized in these discussions because of the fractured nature of the current regulatory system and the lack of a single national regulator with authority to speak on behalf of the U.S. Furthermore, uniform application of these global standards in the U.S. is unlikely since the regulations would have to be adopted by each individual state. Given the size and

importance of the U.S. market, we would suggest that the legislation be amended to make it clear that the Federal Insurance Office has the authority to represent the United States in all relevant international organizations on insurance issues, not just the IAIS. This lack of a single national voice adversely impacts U.S. reinsurers in another specific way. The interaction between the U.S. and its foreign counterparts on issues like the European Union's Solvency II effort will impact not only the ability of U.S. firms to conduct business abroad, but also the flow of capacity to the U.S. For U.S. reinsurers, Solvency II will set forth a process for determining which countries are "equivalent" for purposes of doing business in the European Union by 2012. The possibility the current 50-state system in the U.S. will be deemed "equivalent" is seriously in doubt. Peter Skinner, a Member of the European Parliament and sponsor of the Solvency II legislation in the EU, testified in June before the House Capital Markets Subcommittee and explicitly stated that these equivalence decisions will have to be made at the country level. This fact alone will make it almost impossible to find the U.S. equivalent under Solvency II unless changes are made to the current U.S. insurance regulatory framework. Without federal involvement by a knowledgeable entity tasked with responsibility for international policy issues and with authority to bind the U.S., the U.S. reinsurance industry will continue to be disadvantaged in these equivalence discussions.

The RAA also strongly supports providing the Federal Insurance Office with the authority to preempt state insurance measures that are inconsistent with an International Insurance Agreement on Prudential Matters and that prejudice non-U.S. insurers subject to those Agreements. Because of the fragmented nature of the current 50-state regulatory system, it is critical that the Department of the Treasury be empowered to ensure these international agreements are uniformly respected throughout the states and that companies are not subject to

dual, and perhaps conflicting, regulation. To do otherwise would perpetuate the current patchwork system of regulations and undermine the ability of the U.S. to effectively participate in the international arena, including the ability to reach international agreements on insurance policy. This is a significant step forward in creating a more efficient and effective regulatory system in the U.S. and enhancing U.S. dealings with foreign governments and regulatory bodies.

In our drive to open the U.S. market to non-U.S. reinsurers, it will be important not to put U.S. reinsurers at a disadvantage in their home market. The importance of preserving a U.S. presence in the U.S. reinsurance market should be a governing principle of the Federal Insurance Office legislation. The Federal Insurance Office must ensure competitive equivalence in the U.S. market between U.S. and non-U.S. reinsurers, as well as open non-U.S. markets to U.S. interests.

CONCLUSION

The RAA thanks Chairman Frank and Ranking Member Bachus for this opportunity to comment on reinsurance regulation and the Federal Insurance Office. We look forward to working with all Members of the House Financial Services Committee as the Committee considers this most important issue and this legislation moves forward.