The Reinsurance Association of America (RAA) is an advocate for effective and efficient reinsurance regulation. The RAA does not seek to export the U.S. system of reinsurance regulation to other countries. At the same time, the RAA is vigilant about maintaining a level playing field among all competitors and striking the proper balance between an efficient global marketplace and one that is financially secure for ceding insurers and consumers.

The RAA recognizes that the effectiveness of reinsurance as a risk management tool is enhanced to the extent that it can spread risk over the broadest possible base of responsible capital. For this reason, reinsurance has developed as a truly global business and virtually every major reinsurance organization operates in multiple jurisdictions and has allocated capital to insuring domestic risks in the major jurisdictions in which they conduct business, subject to local regulation.

Generally, reinsurers’ activities are regulated in each national jurisdiction in which they conduct business and, in the case of the United States, in each individual state jurisdiction. To date, there has been little formal coordination of reinsurance regulation on an international basis. In recent years, however, both business and government leaders increasingly have considered whether the efficiency of risk management via reinsurance can be improved through modernization of the existing regulatory systems.

The RAA believes that the business of reinsurance should be subject to national regulatory oversight and that national supervisory authorities should have the power to mutually recognize the sufficiency and equivalence of another jurisdiction’s regulatory regime. The recognition should be founded upon a mutual determination between supervisory authorities that each maintains substantially equivalent regulatory standards and enforcement capabilities. Based on this determination, each supervisory authority may elect to recognize the other’s regulatory regime. This recognition may be embodied in an agreement wherein each supervisory authority identifies those areas of regulation where the host jurisdiction will defer to and rely upon the exclusive exercise of the home jurisdiction’s supervision, or it may be effected through other lawfully prescribed methods (e.g., regulatory certification, authorization, etc.) that provide reciprocal legal benefits for the licensees of each jurisdiction.

The recognition process (whether by supervisory agreement, regulatory certification, authorization, bilateral agreement, or as otherwise prescribed by local law and regulation) should be preceded by an exchange of, and thorough evaluation of, all relevant information regarding the form and nature of regulation in each jurisdiction, and a conclusion that each system maintains and applies substantially equivalent legal standards and regulatory requirements for:

1) Licensing, including an assessment of the quality and competence of licensee ownership and management;
2) Financial condition, including capitalization, risk based capital, solvency, investment and reserving requirements;

3) Periodic examination of the financial condition and operating practices of licensees;

4) Financial accounting and reporting;

5) Regulating insurance holding company systems; and

6) Procedures for the prompt enforcement of final judgments and arbitration awards rendered in the other jurisdiction.

It is essential that each supervisory authority also can demonstrate that it:

- Maintains sufficient resources and qualified personnel to implement effectively these standards and requirements;

- Will commit to an exchange of all relevant information necessary for ongoing assessment of the above-listed standards and requirements during the period of recognition; and

- Will provide reciprocal regulatory treatment to licensees of the other jurisdiction.

The recognition process should also provide for:

1) Specific identification of the areas of regulation that will be the exclusive responsibility of each participant country;

2) A process for resolving disputed issues that may arise under any agreement providing for such recognition process, and for enforcement of appropriate corrective action; and

3) The terms and conditions for terminating any agreement providing for such recognition process, including provisions for protecting the public interest in the event of termination.

Finally, the continued recognition by the U.S. of the non-U.S. jurisdiction must be dependent upon the continued recognition of U.S. supervisory authorities by that jurisdiction.

September 18, 2007