The Reinsurance Association of America (RAA) appreciates Chairman Crapo, Ranking Member Brown, and other Senate Banking, Housing, and Urban Affairs (Committee) members’ interest in the U.S. property casualty (re)insurance industry. Thank you for holding today’s hearing entitled, “Financial Stability Oversight Council Nonbank Designations.” The RAA is the leading trade association of property and casualty (P&C) reinsurers 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. The RAA also has life reinsurance company affiliates. The RAA represents its members before state, federal and international bodies.

The RAA has performed a substantial analysis (attached) of whether the P&C insurance and reinsurance industry could contribute to systemic risk. The analysis demonstrates that rather than being a potential source of systemic risk, P&C (re)insurance is a material mitigant of systemic risk in the financial markets and broader economy.

A key consideration of any evaluation of an industry’s potential contribution to systemic risk is first defining systemic risk. The RAA’s analysis defines systemic risk consistent with the definitions promulgated by the Federal Reserve and the Financial Stability Board (FSB), which define the potential for systemic risk arising when a large interconnected
financial institution fails, causing serious negative consequences on either the financial system or the real economy. The RAA agrees with the Financial Stability Oversight Council (FSOC) and other U.S. financial regulators that the potential insurance market impact of the failure of P&C (re)insurers, such as decreases in (re)insurance capacity or potential increases in the cost of (re)insurance, do not rise to the systemic risk level because they would not seriously impact the overall financial system or economy.

The RAA analysis, which was presented to the International Association of Insurance Supervisors (IAIS), the FSOC and other U.S. and international supervisors following the financial crisis, demonstrates that P&C (re)insurance does not meet any of the FSB’s four primary criteria for systemic risk including: (1) Size, (2) Interconnectedness, (3) Substitutability, and (4) Liquidity. The analysis also demonstrates that in a very extreme stress test scenario, the (re)insurance industry is unlikely to default on its obligations and that the real source of systemic risk relates to uninsured economic losses.

In fact, expanded utilization of (re)insurance would reduce systemic risk by further diversifying insurance and credit risks and by transferring more of the enormous exposure currently borne by taxpayers, such as the mortgage default risk to the government sponsored enterprises (GSEs) following a major U.S. earthquake. Finally, our analysis clearly shows that through several financial crises since the 1970’s, (re)insurance related impairments are rare and are utterly insignificant compared to potential bank-related systemic risks.

Thank you for the opportunity to submit RAA’s statement for today’s hearing record and for your consideration of our position.