



Reinsurance Association of America

**Vermont Senate Committee on Finance
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**Statement of the Reinsurance Association of America
In support of House Bill 260 –
An Act Relative to Insurance/Reinsurance**

The Reinsurance Association of America respectfully submits the following statement in support of **House Bill 260**, which grants discretion to the Commissioner of Insurance to allow domestic insurers to take credit for reinsurance purchased from reinsurers that the Commissioner determines meet certain eligibility criteria without the posting of 100% collateral as required under current law. The provisions of the legislation are an important and much needed update to Vermont law and provide incentives to financially sound reinsurers to do business in Vermont. Further, the legislation is critical to the U.S. states' role in the insurance regulatory modernization debate both at the federal level and internationally.

The Reinsurance Association of America is the leading trade association of property and casualty and life 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 represents its members before state, federal and international bodies.

Reinsurance is essentially insurance for insurance companies. It is purchased by an insurer as a way to protect against unforeseen or extraordinary losses. Reinsurance serves to limit liability on specific risks, to increase individual insurers' capacity to write business, to share liability when losses overwhelm the insurer's resources, and to help insurers stabilize their business in the face of the wide swings in profit and loss margins inherent in the insurance business.

Vermont's credit for reinsurance law determines the conditions under which an insurer domiciled in Vermont can take financial statement credit for the reinsurance it purchases either as an asset or as a reduction of liabilities. As such, credit for reinsurance laws are important since there are



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few instances in which a ceding insurer would be willing to pay out premiums to a reinsurer without being able to reflect a corresponding increase in assets or reduction in its liabilities. Current law dictates that in order for a Vermont insurer to take credit for reinsurance, it must purchase reinsurance from a reinsurer that is either licensed in Vermont, accredited by Vermont (streamlined licensing based on another U.S. state license), or, for other non-admitted (typically non-U.S.) reinsurers, puts up collateral in an amount equal to 100% of its liabilities. There have been many advances in global regulation, cooperation and transparency since the development of this method of regulation in the 1980s.

Current Vermont collateral requirements force reinsurers to tie up capital that could be used to write more reinsurance in the U.S. This capacity is particularly important for catastrophic risk, such as hurricane and earthquake risk, and commercial liability, a key component to sound business operation. This legislation gives the Commissioner of the Department of Financial Regulation the discretion to take into account the strength of other regulatory regimes as well as the strength of individual reinsurers and in appropriate circumstances, reduce these reinsurance collateral requirements.

Under the bill, collateral reduction is permissive, not automatic. That decision would rest within the sound discretion of the Insurance Division. This decision would include an analysis of the financial strength of the reinsurer as well as a number of evaluative factors designed to ensure that only the most financially strong reinsurers from rigorous regulatory jurisdictions receive a reduction in collateral requirements and that Vermont insurers and insureds are protected. Among the factors the Commissioner must consider are: a reinsurer's financial rating, the regulatory authority in the reinsurer's home country, financial statements and reports of the reinsurer, regulatory cooperation of the reinsurer's home country, the reciprocal treatment of U.S. reinsurers in the reinsurer's home country, enforcement of valid U.S. judgments in the reinsurer's home country, and any other matters deemed relevant to the Commissioner. A reinsurer seeking a collateral reduction for new business will have to apply to the Insurance Division and submit proof that it satisfies all the criteria to the satisfaction of the Commissioner, and must do so each year. Thus, the bill allows the Commissioner to approve collateral relief



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only after a thorough evaluation of the reinsurer and its regulator and provides an annual review of certified reinsurers. Further, the bill does nothing to change the fact that Vermont insurers can negotiate the terms of their reinsurance contracts with reinsurers, including collateral. The bill provides only the opportunity for regulatory collateral reduction and allows the parties to address additional collateral if desired.

The bill empowers the Vermont Insurance Division to require 100% collateral if the circumstances that led to the reduction in collateral change, such as the reinsurer failing to honor judgments entered against it by a U.S. Court, or if its financial condition no longer qualifies for a reduction. In this way, the bill actually increases the influence the Insurance Division has over the actions of non-U.S. reinsurers.

The Commissioner's discretion provided by the bill will make Vermont a more attractive U.S. market for global reinsurers. Current Vermont collateral requirements force non-U.S. reinsurers to use their capital inefficiently. Reduced collateral requirements, on the other hand, free up that capital, encouraging reinsurers to write more business. Reinsurers, like other businesses, are attracted to those markets where they can deploy capital most productively. This bill would create such an environment in Vermont.

Additionally, the legislation positions Vermont as a proactive participant in both the federal and international regulatory insurance modernization debate. Both the EU and the U.S. federal government are looking critically at the current insurance regulatory landscape. One issue that is consistently raised in the debate is the application of state collateral requirements. By enacting the Department of Financial Regulation's proposed legislation, Vermont is demonstrating the ability of the state-based insurance regulatory system to address international insurance issues.

Vermont's adoption of **House Bill 260** will be beneficial to both residents and business in the state. The Reinsurance Association of America encourages members of the Legislature to enact this important legislation. Thank you for your consideration.