Testimony of Swiss Re
Before the Committee on Insurance and Real Estate
Tuesday, March 13, 2012

House Bill 5484 – AN ACT CONCERNING CREDIT ALLOWED A DOMESTIC CEDING INSURER FOR REINSURANCE

Senator Crisco and Representative Megna, committee co-chairs, Senator Kelly and Representative Sampson, ranking members and Members of the Committee, Swiss Re appreciates the opportunity to submit testimony on Raised Bill 5230. My name is Cosette Simon and I am responsible for Swiss Re's government affairs program in the US.

I would first like to thank Connecticut Insurance Commissioner Thomas B. Leonardi for his leadership and support in proposing this important legislation. Raised bill 5484 concerns an industry that people don't often think about very often– reinsurance. It would surprise me if everyone in this room is familiar with reinsurance because most of us never come in contact with this business. Reinsurance is actually insurance for insurance companies. And my company, Swiss Re, is one of the largest reinsurers in the world. Our clients include many of the insurers that have major operations here in Hartford – Travelers, Hartford, AETNA and many others.

Swiss Re has been operating in the US since the late 1800s. In fact, we have been involved in helping people recover after every US catastrophe since the 1906 San Francisco earthquake. We were also the largest payer when the World Trade Center was destroyed by terrorists. More important for our discussion today is that while we provide reinsurance to insurance companies all over the world, we conduct our business here in the US through US tax-paying companies. And one of those companies, Swiss Re Life Health America Inc., is domiciled here in Connecticut. We currently employ more than 300 Connecticut citizens.

So this brings me to the merits of Raised Bill 5484 and why it is so important to Swiss Re and to our employees and operations here in Connecticut. As mentioned earlier, reinsurance helps insurers avoid the consequences of catastrophic losses by spreading the risk of these losses to one or more reinsurers around the world. Under current law, non-US reinsurers, unlike their U.S. counterparts, must provide collateral for the reinsurance they write for US-domiciled insurers. The collateral required is an amount equal to 100% of the estimated claim liabilities on that reinsurance.

These current collateral requirements force reinsurers to tie up expensive capital that could be used to write more reinsurance in the US. This makes it more expensive for a Connecticut-domiciled company to sell reinsurance here in the US. This legislation would grant the Connecticut Insurance Commissioner the discretion to reduce the amount of collateral certain financially sound non-U.S. reinsurers must provide when reinsuring equally sound insurers. It's important to emphasize that the bill gives the Commissioner the discretion to reduce the collateral but a reduction in collateral is not required.

This discretion 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. 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 Department 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 only after an extremely thorough evaluation of the reinsurer and its regulator. The bill requires that this vigorous review be conducted annually.

The National Association of Insurance Commissioners (NAIC) has adopted this proposal for a ratings-based sliding scale for collateral reform. Reform has already been adopted in four states. Another seven states, in addition to CT, will consider the legislation this year. And while we are supportive of all these measures across the country, this action in other states brings more urgency to the issue for Connecticut companies. Action here in Connecticut will ensure that Connecticut-headquartered companies enjoy the same relief from these onerous capital requirements as do companies headquartered in New Jersey, New York, Florida and Indiana. Unless Connecticut acts, reinsurers doing business with Connecticut companies will be at a significant competitive disadvantage.

Raised bill 5484 is good for Connecticut and its consumers for a number of reasons including the following:

- **Enhances the information the Connecticut Insurance Department receives -** This bill does not automatically relieve non-US reinsurers of the obligation to post full collateral. That decision would rest with the Connecticut Insurance Department. Such a decision would be based on an analysis of the financial strength of both the reinsurer and the insurer purchasing the coverage, as well as a number of other objective factors. A reinsurer seeking a collateral reduction would have to apply to the Connecticut Commissioner and submit proof that it satisfies, among others, certain financial strength standards established by its domestic regulator as well as certain independent financial strength ratings.

- **Allows Connecticut Commissioner to revoke collateral reductions-** the Connecticut Commissioner would have the authority to revoke a collateral reduction and require the reinsurer to post additional collateral if the circumstances warrant such action. The legislation actually increases the Connecticut Department's ability to influence the activities of non-U.S. reinsurers.

- **Allows insurers to negotiate with reinsurers for collateral even if granted a collateral waiver-** Insurers will still have the ability to negotiate their own collateral requirements with reinsurers even if that reinsurer is allowed under the bill to put up less than 100% collateral.

- **Encourages reinsurers to write more business in Connecticut-** As noted, current collateral requirements force non-U.S. reinsurers to use their capital inefficiently. Reduced collateral requirements, on the other hand, frees up that capital for reinsurers to write more business. Reinsurers, like other businesses, are attracted to those markets where they can deploy capital most productively. This bill would help create such an environment in Connecticut.

It is Swiss Re's view that Connecticut's adoption of House Bill 5484 will benefit both residents and business in the state. Swiss Re encourages legislators to pass this important legislation. Thank you for giving us this time to share our views.