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**TESTIMONY OF ROBERT F. DiUBALDO, SENIOR VICE
PRESIDENT AND COUNSEL, ACE GROUP, IN SUPPORT OF HB
5484 AN ACT CONCERNING CREDIT ALLOWED A DOMESTIC
CEDING INSURER FOR REINSURANCE.**

Mr. Chairman and members of the Committee, on behalf of the ACE Group (ACE"), one of the world's largest providers of property and casualty insurance and reinsurance, I offer this testimony in support of HB 5484, which if enacted would help to strengthen Connecticut's insurance and reinsurance markets and reinforce Connecticut's standing as one of the world's leading insurance centers.

With operations in more than 50 countries and business in more than 140, ACE is truly a global enterprise. ACE believes in a free global insurance marketplace where regulation and access to markets is based on sound financial principles free of provisions based on a company's domicile. Though global in scope ACE has a strong stake in Connecticut's economy, with property casualty premiums of nearly \$160 million and operations in 5 cities and towns throughout the State. Clearly a healthy insurance market is in ACE's best interests, and access to reinsurance is key to a healthy insurance market.

Reinsurance, simply put, is insurance for insurers. Reinsurance allows the insurer purchasing it, also known as a ceding company, to spread the risk of loss under the policies it writes so that it can free its own capital to write more insurance, provided the ceding company receives "credit" for that reinsurance from its domestic regulator. In a truly global market where coverage is freely available, insurers can spread the risk of loss for Connecticut risks across the globe by ceding coverage to reinsurers in other countries that are not admitted in Connecticut. However, under current law Connecticut domestic insurers cannot receive credit for reinsurance ceded to a non-admitted reinsurer unless the reinsurer posts collateral in a U.S. depository institution in an amount equal to its liabilities, regardless of its financial strength or the quality of the legal and regulatory system in its country of domicile. Moreover, this collateral requirement applies to all non-admitted reinsurers, including those providing reinsurance to affiliated domestic insurers operating in the same holding company system. The net effect of this is to discriminate against financially sound non-admitted reinsurers by unfairly burdening them with regulations that force them to deploy capital inefficiently rather than use it to create additional reinsurance capacity in Connecticut. HB 5484 would end this practice.

HB 5484 adopts a regulatory approach consistent with the increasingly global nature of insurance and reinsurance markets. The bill vests in the Insurance Commissioner the authority to evaluate the financial strengths of a ceding company and non-admitted reinsurer, as well as the quality of the reinsurer's financial regulator, to determine whether the ceding company should receive credit for reinsurance ceded to a non-admitted company that is supported by less than full collateral. If the parties to the transaction fail to meet the financial requirements set forth in the bill or there are questions about the quality of the non-admitted reinsurer's regulatory or legal system, the Commissioner retains the discretion either to deny credit or impose additional collateral requirements. Furthermore, HB 5484 would permit the Commissioner to reduce collateral requirements for reinsurance transactions between domestic insurers and their non-admitted affiliates operating in a holding company system that do nothing more than needlessly tie up capital that could otherwise be used to write more insurance in the Connecticut market. Finally, nothing in HB 5484 prohibits a Connecticut insurer from negotiating its own private collateral agreement with a reinsurer; rather HB 5484 merely gives financially strong non-

admitted reinsurers the right to negotiate for less than full collateral with their Connecticut counterparties.

In sum, by eliminating hard and fast collateral rules based on a reinsurer's domicile and looking instead to the financial strength of the parties, HB 5484 adopts a real world approach to the regulation of insurance. The bill recognizes the global nature of the insurance and reinsurance markets and eliminates unnecessary capital requirements; indeed with states such as New York and New Jersey already having adopted similar measures, and many more states proposing them, failure to enact HB 5484 may create a disincentive for non-admitted reinsurers to do business in Connecticut rather than its neighbors to the South. Enacting HB 5484, on the other hand, will encourage financially sound reinsurers to participate in the Connecticut market and help to strengthen its role as America's "Insurance Capital". ACE thus urges the Committee to vote in favor of HB 5484 and move it for a favorable vote in the legislature. On behalf of ACE I want to thank the Committee for the opportunity to offer this testimony.