



Reinsurance Association of America

January 24, 2018

The Honorable Lana Theis
Chair, Michigan House Insurance Committee
Anderson House Office Building, Room 519
Lansing, Michigan 48909

Via E-mail: LanaTheis@house.mi.gov

Re: House Insurance Committee Hearing on SB 638

Dear Chairwoman Theis:

The Reinsurance Association of America respectfully submits the following letter in support of legislation (SB 638) to grant discretion to the Director of the Department of Insurance and Financial Services to allow domestic insurers to take credit for reinsurance purchased from reinsurers that the Director determines meet certain eligibility criteria without the posting of 100% collateral as required under current law. The provisions of such legislation are an important and much needed update to Michigan law and provide incentives to financially sound reinsurers to do business in Michigan. 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.

Michigan's credit for reinsurance law determines the conditions under which an insurer domiciled in Michigan 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 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 Michigan insurer to take credit for reinsurance, it must purchase reinsurance from a reinsurer that is either licensed in Michigan, accredited by Michigan (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.



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Current Michigan 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 risk, and commercial liability, a key component to sound business operation. The RAA supports legislation to give the Director of the Department of Insurance and Financial Services 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 such legislation, collateral reduction is permissive, not automatic. That decision would rest within the sound discretion of the Department of Insurance and Financial Services. 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 Michigan insurers and insureds are protected. Among the factors the Director 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 Director.

A reinsurer seeking a collateral reduction for new business will have to apply to the Department of Insurance and Financial Services and submit proof that it satisfies all the criteria to the satisfaction of the Director, and must do so each year. Thus, credit for reinsurance reform legislation allows the Director to approve collateral relief only after a thorough evaluation of the reinsurer and its regulator and provides an annual review of certified reinsurers. Further, the legislation does nothing to change the fact that Michigan insurers can negotiate the terms of their reinsurance contracts with reinsurers, including collateral. The legislation provides only the opportunity for regulatory collateral reduction and allows the parties to address additional collateral if desired.

The legislation empowers the Michigan Department of Insurance and Financial Services 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 legislation actually increases the influence the Department of Insurance and Financial Services has over the actions of non-U.S. reinsurers.

The Director's discretion provided by the legislation will make Michigan a more attractive U.S. market for global reinsurers. Current Michigan 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. Credit for reinsurance reform legislation would create such an environment in Michigan.

Additionally, the legislation positions Michigan as a proactive participant in both the federal and international regulatory insurance modernization debate. Both the EU and the U.S. federal



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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 proposed legislation, Michigan is demonstrating the ability of the state-based insurance regulatory system to address international insurance issues.

Michigan's adoption of credit for reinsurance reform legislation will be beneficial to both residents and business in the state and becomes an NAIC accreditation standard beginning January 1, 2019. The Reinsurance Association of America encourages the Legislature to enact this important legislation (SB 638) . Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adam E. Kerns', written in a cursive style.

Adam E. Kerns
Vice President, State Relations
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cc: Members of the Michigan House Insurance Committee

