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BY E-MAIL

Superintendent Maria Vullo, Chair
Reinsurance Task Force
National Association of Insurance Commissioners

Re: Chubb Group Comments on NAIC Implementation of the Collateral Provisions of the Covered Agreement

Dear Superintendent Vullo:

Thank you for the opportunity to provide comments regarding how the collateral provisions of the US-EU Covered Agreement (Covered Agreement or Agreement) should be implemented in the state insurance regulatory system. This is an important issue requiring thoughtful, timely action.

As a fundamental principle, Chubb strongly supports open and fair insurance markets. Protectionist measures in regulation, trade and tax, both within the U.S. and around the globe, trap capital locally and impose unnecessary burdens, challenging the efficient spread of risk and company growth. We encourage cooperation and supervisory recognition between well-regulated jurisdictions, both between the states and between the U.S. and other countries. The Covered Agreement is a good example of this principle in practice.

In implementing the collateral provisions of the Covered Agreement, Chubb encourages state regulators to:

1. Utilize the Covered Agreement terms as a template to revise the Model Credit for Reinsurance Law and Regulation to treat all well-regulated jurisdictions (and companies from those jurisdictions that meet the criteria) in the same manner. This means extending the Agreement's benefits and obligations to other jurisdictions that meet the relevant criteria, including the current NAIC "Qualified Jurisdictions" Bermuda, Switzerland and Japan. This not only fulfils the NAIC's desire to minimize the need for future covered agreements, but, more importantly, it eliminates unnecessary

protectionist measures and treats similarly regulated companies the same. We also urge the NAIC to specifically deal with how the UK (which is currently a Qualified Jurisdiction) will be treated after March 2019 when it will no longer be a member of the EU subject to the terms of the Covered Agreement. The NAIC needs to minimize any potential disruption in the U.S. insurance markets as a result of this development.

2. Impose the same obligations on all jurisdictions that are designated to receive the reduced collateral benefits. By way of example, the EU made a formal statement of their respect for the U.S. system for (re)insurance supervision and regulation in the Agreement. The EU also made several significant commitments, including: (1) worldwide group supervision (including governance, solvency, capital and reporting) for a company operating in both jurisdictions will be conducted only by the company's group supervisor; (2) the U.S. group capital assessment will be accepted for U.S.-supervised (re)insurers; and (3) collateral and reinsurer local presence requirements in the EU will be eliminated. Other jurisdictions receiving the reduced collateral benefits should be required to make similar commitments.

Obtaining these commitments is also important in the context of other global events, including development of the International Capital Standard (ICS) at the IAIS. After state regulators complete their aggregation methodology for a group capital assessment, the U.S. will ask the IAIS to deem it an acceptable "outcome-equivalent" approach for implementing the ICS. The terms of the Covered Agreement strongly indicate that the EU should support the U.S. position. Obtaining the support of additional jurisdictions for the U.S. approach to group capital will enhance the U.S. position that the aggregation method should be accepted.

3. Evaluate existing regulatory tools and not rush to add additional "guardrails" for U.S. cedents to address some perceived increased solvency risk caused by the collateral changes. Notably, the NAIC's Property and Casualty Risk-Based Capital (RBC) framework addresses a cedent's credit risk associated with reinsurance recoverables (referred to as "R3") in a jurisdictionally agnostic way, taking into account whether the recoverables are collateralized. R3 includes several important features such as: (1) basing the capital charges on the reinsurer's financial strength rating (FSR); (2) allowing collateral to reduce the reinsurance credit risk portion for lower rated reinsurers; (3) deriving the R3 factors from historical default risk by FSR category; (4) applying the charges at the transaction level for each cedent/reinsurer relationship; and (5) providing transparent reporting of the credit

risk for each cedent's recoverables in Schedule F-Part 3. Finally, increasing burdens on cedents without regard to their financial condition and the strength of the relevant regulatory regime that supervises them would defeat the purpose of collateral reduction and also could result in other jurisdictions responding with additional protections (e.g., capital or collateral) on risks assumed by U.S.-based insurers.

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It is important that the U.S. insurance industry be well regulated, financially sound, and able to provide the financial security essential to economic growth. Towards that end, regulation should be effective and efficient, utilizing cooperation and recognition of other jurisdictions' regulation where possible, both within the U.S. and abroad to achieve the efficiency of worldwide access for well-regulated, well-capitalized (re)insurers.

Thank you for the opportunity to provide comments. We look forward to the February 20 hearing.

Respectfully submitted,

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