



REINSURANCE ASSOCIATION OF AMERICA

1301 Pennsylvania Avenue, N.W., Suite 900, Washington, D.C. 20004-1701

Telephone: (202) 638-3690

Facsimile: (202) 638-0936

<http://www.reinsurance.org>

June 27, 2008

Mr. Joseph Fritsch, Chair
NAIC Catastrophe Reserve (C) Working Group

Care of: Eric Nordman, Director of Research
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2662

Re: Opposition to Comments Regarding the NAIC Catastrophe Reserve Proposal

Mr. Fritsch and members of the NAIC Catastrophe Reserve (C) Working Group:

On behalf of the members of the Reinsurance Association of America (“RAA”), we appreciate the opportunity to offer comments on the Working Group’s threshold questions as it contemplates revisiting the issue of after-tax catastrophe reserves.

The RAA is a national trade association representing property and casualty organizations that specialize in reinsurance written in the United States. The RAA membership is diverse, including large and small, broker and direct, U.S. companies and subsidiaries of foreign companies.

Should the NAIC reconsider its decision to defer action to implement the Tax-Deferred Pre-Event Catastrophe Reserve until Congress has acted to amend the IRS Tax Code? Is there a benefit to the public of requiring insurers to set aside some assets that are dedicated to future catastrophe losses even if they are after-tax assets?

The RAA respectfully believes the answer is “No” to both of these threshold questions.

The NAIC considered whether there was a benefit of required or permitted catastrophe reserves without tax deductibility in 2001. It concluded there was not a benefit, stating:

In the absence of tax deductibility and in consideration of domestic accounting principles, a required or permitted catastrophe reserve **would provide no additional assets to finance insured catastrophe claims.** Requiring or permitting such a reserve without tax deductibility **would diminish insurer’s capital and would likely restrict availability of insurance coverages to consumers.**

(Problem Statement, page 3, emphasis added.)

The RAA agrees with the NAIC’s 2001 conclusion and is concerned that an after-tax catastrophe

reserve may actually be counter-productive.

An After-Tax Catastrophe Reserve is an Increase in Insurer Capital Requirements

The proposal is apparently intended to promote a stable, affordable insurance market. While this is a worthwhile goal, the RAA believes that an after-tax catastrophe reserve may not achieve the intended results.

Competition, in a free market, will lead to more available and affordable insurance. For example, brokers report that competition in the reinsurance market has led to significant reinsurance price declines since July 2006. Accordingly, the RAA believes that the appropriate focus should be on whether this proposal will encourage and enhance competition for property catastrophe insurance risk. The RAA has strong doubts that an after-tax catastrophe reserve will entice new and existing insurers to write more catastrophe exposed property insurance.

In our society, businesses are motivated to take risk in exchange for a reasonable opportunity to make a profit. Insurers are willing to write various insurance risks, including catastrophe exposed risks, based upon their belief that they can appropriately balance, spread and diversify their risks to give them a reasonable chance of succeeding.

An after-tax catastrophe reserve thwarts the business incentive to take on additional risk. It converts a portion of an insurer's potential profit into a liability (alternatively, if an insurer has no profits, it could deepen losses.) Establishing this liability reduces an insurer's surplus and its ability to write business, which may have a negative impact on the price of and capacity for catastrophe exposed insurance.

Such a reserve may also be a powerful disincentive to writing catastrophe exposed business. An after-tax catastrophe reserve liability will turn insurer profits into trapped capital for an extended period of time. That capital will be unable to support other lines of business and may lead to unintended consequences for those lines.

Catastrophe exposed business is a high risk proposition. Trapping insurer or investor capital for extended periods of time is unlikely to attract new capital and competitors. The NAIC members addressing this issue in 2001 recognized this and determined that tax-deductibility of a catastrophe reserve was necessary to make it attractive to insurers and investors, thereby attracting new capital and enhancing competition to the benefit of consumers.

Summary

The RAA believes that the proposed after-tax catastrophe reserve may have significant unintended

Mr. Joseph Fritsch, Chair
NAIC Catastrophe Reserve (C) Working Group
June 27, 2008
Page 3

consequences. It will likely interfere with the way companies underwrite risk and allocate capital. As a result, the proposed reserve may increase market instability and is unlikely to result in a more stable, abundant supply of affordable insurance.

The RAA urges the NAIC to focus on ideas that work, particularly by acting as a champion for mitigation. The NAIC should work to educate policymakers on the benefits of land use planning, risk focused building codes and enforcement, and strengthening the existing housing and commercial property stock to reduce the likelihood of future losses. Investments now can make consumers safer and, through risk reduction, lead to more available and affordable insurance.

Thank you for the opportunity to comment upon this threshold issue as the Working Group evaluates whether to re-examine the NAIC's 2001 conclusion that after-tax catastrophe reserves "would likely restrict availability of insurance coverages to consumers."

If you have any questions, please call Dennis Burke at 202-783-8325, or email at burke@reinsurance.org.

Regards,



Dennis C. Burke
Vice President, State Relations
burke@reinsurance.org