

THE GENERAL INSURANCE ASSOCIATION OF JAPAN

Non-Life Insurance Building, 9 Kanda Awajicho 2-Chome, Chiyoda-Ku, Tokyo 101-8335, Japan

Tel: +81-3-3255-1703 Fax: +81-3-3255-1234 E-mail: kokusai@sonpo.or.jp

September 5, 2008

Comissioner Steven M. Goldman
New Jersey Department of Banking and Insurance
20 West State Street
P.O.Box 325
Trenton, NJ08625-0325

Dear Commissioner Goldman:

GIAJ Comment on the Reinsurance Modernization Framework

First of all, we, the General Insurance Association of Japan (GIAJ), would like to express our appreciation to the NAIC Reinsurance Task Force (RTF) for giving us the opportunity to make further comments on the revised reinsurance modernization framework.

Introduction

We commend the revised proposal circulated by the NAIC RTF on 20th August, 2008, as improvements such as the following have been made:

1. Removing preferential treatment given to companies that write primarily reinsurance business
2. Removing preferential treatment given to national reinsurers categorized as "Secure-3" or above

These revisions, which we (along with many other parties) have asked for in our previous comments, are material and make great contributions to ensuring the new framework works well. We appreciate your decision to accommodate these changes.

On the other hand, among the comments which we submitted on July 17, there still remain some issues which have yet been sufficiently reflected into the latest version of the proposal. We strongly hope that these points continue to be further discussed within the RTF and adopted accordingly.

Especially, we request a further review of your proposal on the issue of "duplicative supervision", which forces significant burden for foreign reinsurers. We believe the framework should be in line with the following description of the IAIS "Guidance Paper on the Mutual Recognition of Reinsurance Supervision" drafted in June, 2008 (hereinafter "the IAIS Guidance Paper"):

"The purpose of mutual or other forms of supervisory recognition is to facilitate

supply of reinsurance by fostering the development of a framework for efficient and effective international supervision." (paragraph 2)

"Any supervisory recognition approach should be sufficient to allow a supervisor to recognise the quality of the supervision exercised by another jurisdiction and thus remove significant amounts of unnecessary regulatory and supervisory requirements for reinsurers." (paragraph 3)

"An effective system of supervisory recognition could reduce duplication of efforts by those supervisors. This could bring about reduced compliance costs for the (re) insurance industry, including fewer requirements placed on cedents. In this sense, a system of supervisory recognition can be seen as a mechanism to facilitate market access and, in turn, enhance market efficiency (e.g. through an increase in capacity at an economic price)." (paragraph 14)

Single-Step Recognition Procedure

According to the revised proposal, a foreign reinsurer still has to meet stringent requirements to be a POE reinsurer. It must go through the individual certification process by the POE supervisor even after the RSRD and the POE supervisor recognize the Non-U.S. jurisdiction supervisor who licenses and supervises the foreign reinsurer. This complex and duplicative procedure imposes overloads on reinsurers, and apparently is contrary to the spirit of the IAIS Guidance Paper.

We believe that the procedure of mutual recognition should follow a single-step approach in principle; i.e., if the U.S. (through the RSRD/POE supervisor) recognizes a Non-U.S. jurisdiction, all reinsurers licensed and regulated in that jurisdiction should be automatically recognized by the U.S. authorities accordingly.

Reporting Requirements on POE reinsurers

Reporting requirements stated in paragraphs 13 and 17 for POE reinsurers go far beyond the level deemed necessary. Particularly, the filing requirement of financial statements (paragraph 13-d) and the schedule (paragraph 13-b) impose significant burdens on POE reinsurers and the whole scheme may not function properly.

We acknowledge certain improvements in the revised proposal as it allows POE reinsurers to submit financial statements on IFRS basis as well as on the U.S. GAAP basis. However, the revised proposal does not mitigate the load imposed on POE reinsurers who do not file their financial statements on an IFRS basis. Besides, the proposal also requires an audited footnote reconciling equity and net income to a U.S. GAAP basis, which is again burdensome for the reinsurers. Since it is safe to assume that the financial reporting regime of the Non-U.S. jurisdiction is duly reviewed and deemed appropriate when a POE supervisor recognizes that jurisdiction, a POE reinsurer should be allowed to file financial reports to a POE supervisor based on its local reporting standards.

In addition, we oppose the requirement for POE reinsurers to file Schedule F or Schedule S. Such a requirement goes against the spirit of the IAIS Guidance Paper, disregarding the recognition by the Non-U.S. jurisdiction supervisors.

Incentives/Impediments to Go into the New Framework

Paragraph 7 of the revised proposal provides an option for reinsurers to stay regulated under the current framework. For a re/insurer already accredited across the U.S., the incentive to become a national reinsurer seems to be relatively low. On the other hand, although there are certain incentives for foreign reinsurers (that are currently required to post 100% collateral) to become POE reinsurers under the new framework, as explained above, the terms and conditions are unreasonably complex and burdensome; we ask for further cost-benefit analysis in the interest of making the new system work efficiently.

If the NAIC is to pursue a genuine level playing field regardless of the domiciles of reinsurers, it is inevitably important for the NAIC to make further efforts to give reinsurers increased incentives to apply for this scheme, as well as removing obstacles as much as possible.

Thank you for your consideration of these comments.

Sincerely,



Katsuo Matsushita
General Manager
General Insurance Association of Japan