



September 4, 2008

Hon. Steven M. Goldman  
Commissioner  
New Jersey Department of Banking and Insurance  
20 West State Street  
Trenton, New Jersey 08625

Re: NAIC Reinsurance Task Force Reinsurance Regulatory Modernization Framework  
August 20, 2008 Revised Proposal ("Proposal")

Dear Commissioner Goldman:

Zurich Financial Services is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets and is headquartered in Zurich, Switzerland. Its U.S. affiliated insurers are some of the largest buyers in the United States of reinsurance.

We appreciate the opportunity that the Task Force has afforded interested parties to provide comments throughout the review process. We have deferred providing written comments until now in the hope that you will revisit our concerns and make adjustments to the Proposal. Some of these concerns are as follows.

#### Affiliated Reinsurance Transactions

Collateralization of affiliated reinsurance transactions must be viewed more favorably than unaffiliated reinsurance transactions, as they have undergone review and "approval" by the cedent's domiciliary regulator. The Proposal does not do this, and may inadvertently, treat affiliated reinsurance transactions less favorably.

We would welcome an exemption from collateralization for affiliated reinsurance transactions while the affiliate reinsurer is a POE reinsurer that is at least rated Secure-3 and is domiciled in a jurisdiction with an approved supervisory recognition agreement. A reduction in rating below Secure-3 or the loss of approval of its jurisdiction, would have the collateralization requirement default to that which would exist if it were not an affiliated transaction. This change would not only improve the use of capital, but benefit the U.S. subsidiaries of foreign direct writers and of foreign professional reinsurers that are large employers in the various states, including your own.

As a technical matter, paragraph 20 of the Proposal may be ambiguous. Paragraph 20 of the Proposal provides that "Affiliated reinsurance transactions will receive the same *opportunity* for reduced collateral requirements as all other reinsurance transactions." The



ZURICH

implication of this language, may be that an affiliated reinsurance transaction might not receive the equivalent collateral treatment under the Proposal as an unaffiliated reinsurance transaction with a reinsurer of the same domicile that has the same rating as the cedent's affiliate. The domiciliary regulator of the cedent should not have discretion to alter the collateral treatment afforded an affiliated POE reinsurer or an affiliated national reinsurer, by the POE Supervisor or Home State Supervisor respectively.

#### Catastrophe Collateralization Deferral

Paragraph 18 of the Proposal provides, for national or POE reinsurers, a one year deferral of collateralization for certain property reserves arising from a catastrophic occurrence recognized by the home state or POE supervisor, provided claims are being paid timely.

We believe this provision needs to be modified. This deferral should not be permitted for any reinsurer that does not have and retain a rating of Secure 3 or above. The Proposal should define what is a catastrophe for the purpose of this deferral. Is it only natural catastrophes or are other catastrophic occurrences, such as terrorism included? There should be an industry floor for such catastrophic occurrences, below which the deferral should not apply. It should not apply to catastrophes occurring within the first two quarters of the year, as reserves will be sufficiently developed and reported by year-end to be secured. The deferral period should be reduced to two calendar quarters from the date of the occurrence, so that, for example, a December catastrophic occurrence the cedent's next second quarter statement would evidence collateral. Financially capable cedent's will protect their aggregate exposures by entering into collateralized reinsurance transactions or capital markets transactions, but deferral otherwise exposes those cedents that are less capable to cascading insolvencies in a major industry catastrophic event or a series of significant industry catastrophic events.

#### Mandatory Contractual Language

We appreciate the Task Force modifying the Proposal so that the parties are free to negotiate the terms of the various listed clauses. From a practical standpoint, outside of affiliated reinsurance transactions, treaties will not be reviewed by regulatory authorities until after they have expired, so how will such mandatory language timely impact collateralization. Will a jurisdiction's failure to enforce a no third party rights or other cited clauses be a basis for non-recognition of that jurisdiction?

Not all of these clauses will be in every treaty. The intermediary clause and the net retained lines clause would not appear respectively in a direct market placement nor in certain quota shares. The language employed in the Credit for Reinsurance Clause is incomplete, as it does not define "Obligations". In addition, supplemental language not in conflict with the mandated language should be expressly permitted, particularly as the



ZURICH

mandatory language would apply to reinsurers that are not national reinsurers or POE reinsurers. Our preference would be to retain just the clauses that are currently mandated (Insolvency, Service of Suit, Credit for Reinsurance, Entire Agreement) and let cedent's managed their contracts. The cited clauses when relevant are in treaties without regulatory intervention.

Loss of Approved Status

We appreciate that the intent of the Proposal is that if a reinsurer ceases to be a national reinsurer, or POE reinsurer for any reason including runoff or loss of jurisdictional recognition that collateralization would resort to that required for admitted or accredited reinsurers or unauthorized reinsurers outside of the Proposal. We assume that collateralization would then apply retroactively to all reinsurance with U.S. domestic cedents that was entered into, renewed or had an anniversary date while the reinsurer was considered a national or POE reinsurer. We believe this should be expressed in the Proposal to avoid subsequent dispute either with the reinsurer or its domiciliary jurisdiction. While collateralization after the fact is a concern of ours, particularly if the jurisdiction is the cause of the loss of status, the Proposal could be clearer as to intent.

Miscellaneous

Paragraph 13.(a) requires notification of a POE reinsurer within 10 days of *any* regulatory actions taken against the reinsurer. This seems to be overly broad, as some action is not likely to have a managerial, financial, nor claims paying impact on the POE reinsurer and in the case of a direct writer authorized to write reinsurance, may not relate to reinsurance at all.

We hope that you find these limited comments useful and worthy of implementation.

Very truly yours,

Brooks White

B.W.

Vice President and Senior Assistant General Counsel  
Zurich Group Reinsurance North America

Alessandro Iuppa

A.I.

Senior Vice President  
Government & Industry  
Affairs Zurich North  
America

cc. Ryan Couch, NAIC