

Dear Mr. Prentiss,

Thank you for the opportunity to comment on OIR rule draft 69O-144.007, Ratings Based Collateral Requirements. We appreciate your holding the record open for a longer period than usual following the November 26 workshop.

The National Association of Mutual Insurance Companies (NAMIC) is a trade association representing approximately 1,300 member companies underwriting 40 percent of the property/casualty insurance premium in the United States. In Florida, our members collectively write 31 percent of the market.

As you would expect, our members have a valid concern about how credit for reinsurance is established and, more generally, how the reinsurance business is accomplished in this country. Our members in Florida are extremely apprehensive about the proposed changes outlined in the OIR rule draft.

NAMIC's primary concern is for the solvency of our members and for solvency regulation as practiced by the states. The cost of insolvencies is spread broadly among insurers in the same market, and guaranty-fund assessments make the cost of doing business measurably higher.

A first step in determining whether the relaxed collateral requirement contemplated by the OIR proposal could be effective is to ask, if it is implemented,

a) will more reinsurers be willing to participate in the Florida market and, more critically,  
b) will reinsurers be more willing to assume catastrophe risk in any form. NAMIC submits that the answer to both of the above questions is "no."

We suggest that no alien reinsurers are willing to make specific and concrete representations about price, capacity, or the nature of risks that will be assumed, even with changes in the amount of collateral to be posted that are based on apparent financial strength of the reinsurer.

It is critical to note that any weaknesses in a relaxed collateral regime will be revealed only in the wake of catastrophes or events leading to large numbers of claims. Even the reinsurer with superb financial strength before a major catastrophe may be sorely tested by such an event and experience financial weakness as a result of having assumed catastrophe and related risk. We can not rule out additional situations involving slow- or no-pay reinsurers downstream of serious weather or other events. That would only worsen the already-strained marketplace in Florida, and it is not reasonable to expect the guaranty fund system to step up when such a situation can be avoided by continuing to require 100 percent collateral.

Absent a compelling demonstration that departure from the current full-collateral regime is of utility to Florida primary reinsurers, we find little reason to espouse the concepts that are fundamental to

what is proposed. In any event, Florida should not develop a plan separate from what may become uniform for states via development of an NAIC model.

The proposed rule could lead to a weakened solvency position for US primary insurers. The current full-collateral system for credit for reinsurance is simple and has served the industry well, providing security for US-based companies to know funds are available to pay claims. Again, NAMIC is not comfortable with reduced collateral requirements, no matter how closely they may be matched to the reinsurer's financial strength.

We urge you to withdraw your draft rule. Thank you for the opportunity to share our views on behalf of our member companies.