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December 16, 2011

Submitted electronically through the Federal eRulemaking Portal

The Honorable Timothy F. Geithner
Secretary, United Stated Department of the Treasury
Chairman, Financial Stability Oversight Council
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Re: RIN 4030-AA00: Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies

Dear Secretary Geithner:

The RAA is the leading trade association of property and casualty reinsurers and life reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. We appreciate the opportunity to comment on the second notice of proposed rulemaking (the notice) regarding the criteria for identifying nonbank financial institutions that could pose a threat to the financial stability of the United States.

We believe that the notice and proposed criteria validate the widespread agreement among U.S and international insurance regulators and the global insurance industry that traditional insurance activities are not a significant source of systemic risk. The RAA has performed extensive analysis of the global reinsurance industry and have demonstrated on several metrics that reinsurance activities are not a significant source of systemic risk. Please review the attached PowerPoint presentation provided to the International Association of Insurance Supervisors in July. This information has also been presented or shared with individuals in the Treasury Department and the Federal Insurance Office.

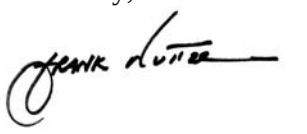
We believe our analysis clearly demonstrates that property casualty reinsurance is not a significant source of systemic risk given the small size of the industry's outbound credit exposure in relation to the financial markets. The reinsurance industry does not have material interconnectedness with its ceding company counterparties and there are substantial alternatives for substitute capacity in the event of the failure of one or more major reinsurers. Property casualty reinsurance obligations are illiquid in nature, are not callable and are uncorrelated with systemic risk events that could cause distress in other financial market segments. As such, this

industry cannot be considered a material contributor to systemic risk in the U.S. or global economies.

The property casualty (re)insurance business model is substantially different than that of banks and other non-bank financial institutions and therefore, systemic risk regulation of (re)insurers should focus only on those non-insurance activities that might involve systemic risk. The FSOC notice correctly recognizes that core insurance activities are not a source of systemic risk and appropriately, the focus of the criteria is on very large financial institutions that are also highly leveraged, that have significant credit default swaps outstanding or that have large derivative liabilities.

Thank you for the opportunity to comment on the notice. Should you have comments or questions about this letter or the attached presentation, please contact me.

Sincerely,



Franklin W. Nutter
President

EVALUATING SYSTEMIC RISK

Property & Casualty Reinsurance

IAIS Reinsurance Subcommittee and Reinsurance Transparency Subgroup

Toronto Canada

27, July 2011

Definitions of Systemic Risk

Financial Stability Board

- "The risk of disruption to the flow of financial services that is (i) caused by an impairment of all or parts of the financial system; and (ii) has the potential to have serious negative consequences for the real economy."

- "Fundamental to this definition is the notion that systemic risk is associated with negative externalities and/or market failure and that a financial institution's failure or malfunction may impair the operation of the financial system and/or the real economy. "

Definitions of Systemic Risk

Federal Reserve Chairman Ben Bernanke

"The possibility that the failure of a large interconnected firm could lead to a breakdown in the wider financial system; systemic risks threaten the stability of the financial system as a whole and consequently the broader economy, not just that of one or two institutions."

(Re)insurance Business Model

The (re)insurance business model is not a source of systemic risk.

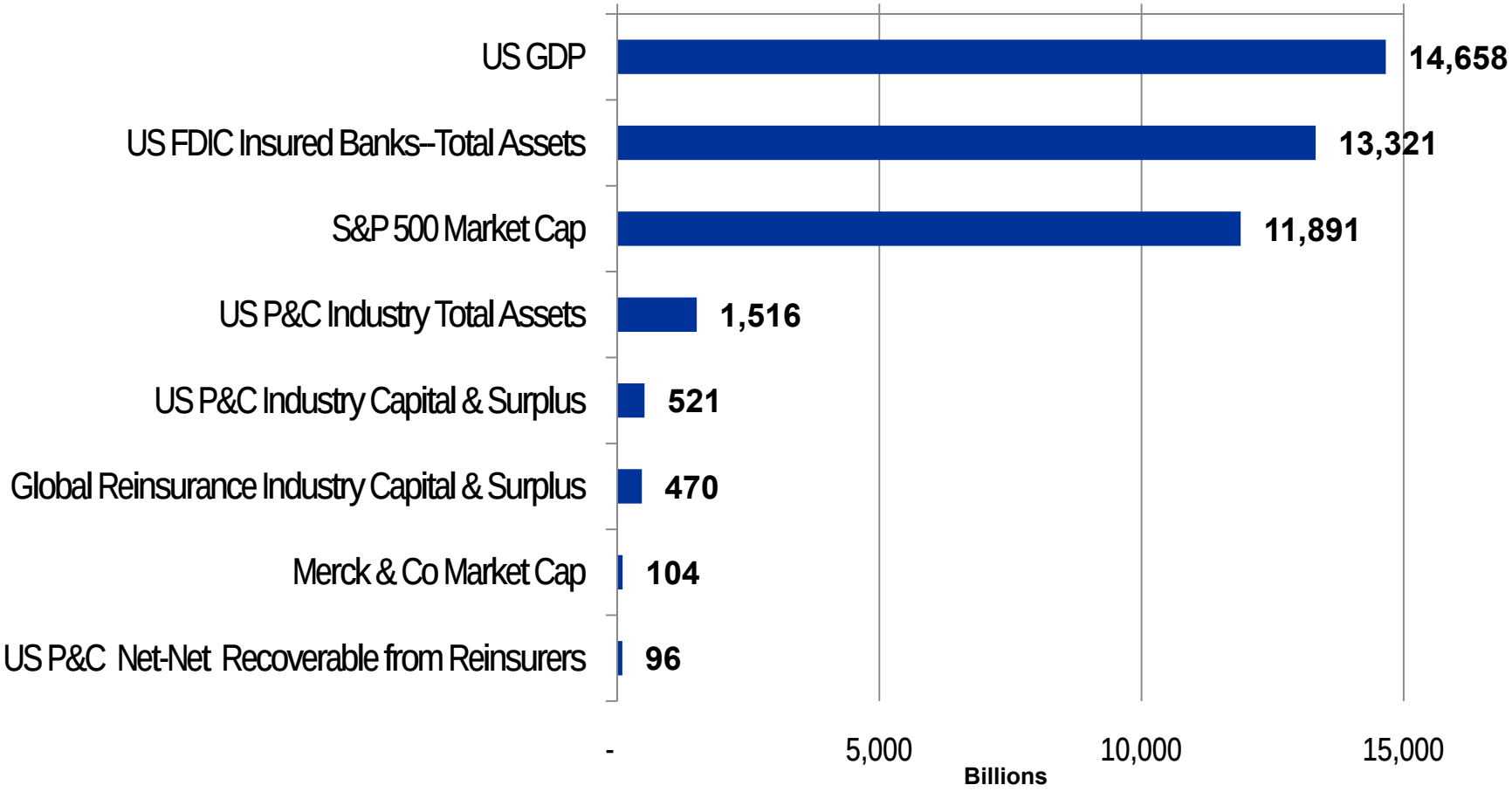
- It is fundamentally different from other financial institutions.
- Inverted production cycle: obligations are pre-funded at the inception of the policyholder relationship.
- Lack of leverage limits interconnectedness.
- (Re)insurance obligations are not callable. Cash outflows may only be triggered by an external insured event.
- Insured loss events are not correlated with financial crises or economic cycles.

FSB Systemic Risk Attributes

The FSB has identified four primary attributes for the evaluation of systemic risk

- Size
- Interconnectedness
- Substitutability
- Time / Liquidity

Size - Reinsurance recoverables are not systemic risk amounts relative to U.S. financial markets or economy.



Size – Small relative size / reinsurance credit risk is further reduced by offsetting amounts.

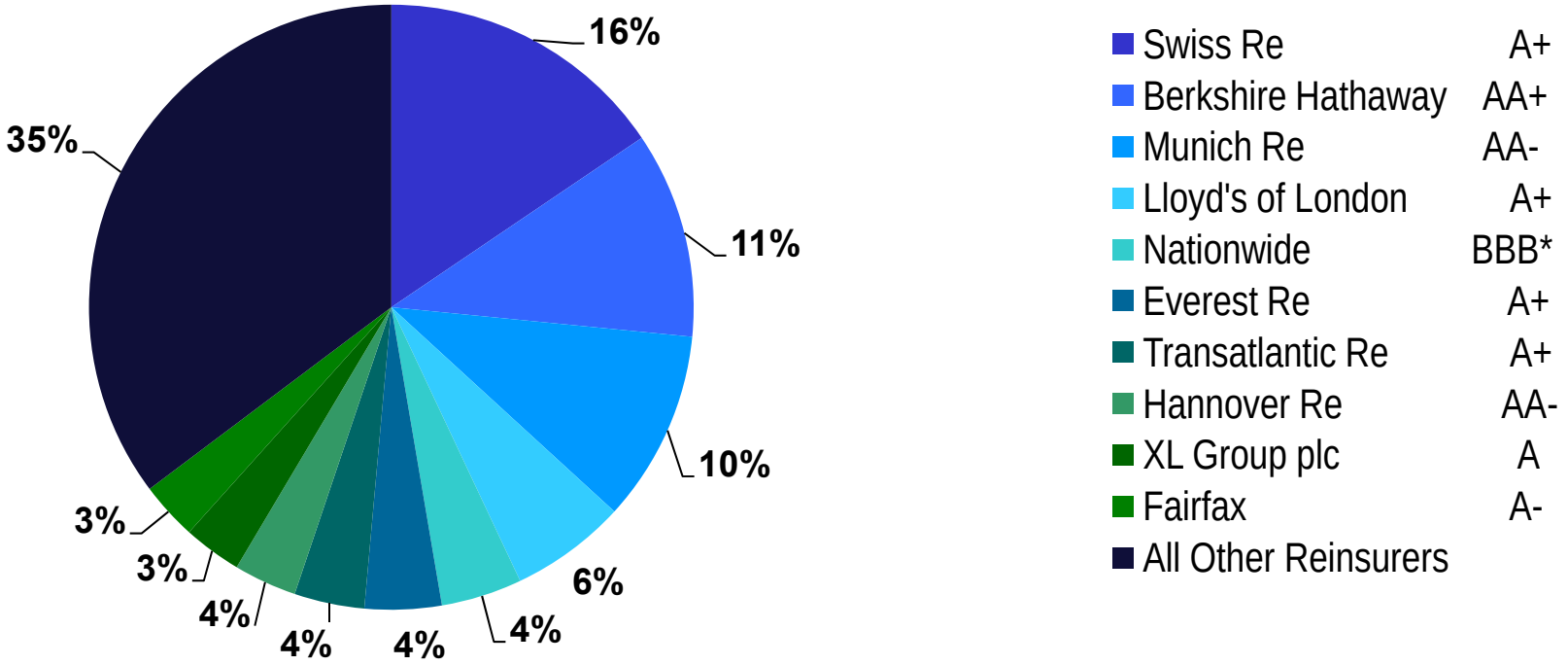
U.S. P&C Industry Exposure to Reinsurance Recoverables

2009 Results	**$ Millions**
Total Assets	1,515,926
Reinsurance Recoverables on Paid Losses	14,444
Policyholders' Surplus	520,600
Net Recoverables (Paid, Case & IBNR, net of amounts owed to reinsurer)	233,816
Less Funds Held	23,502
Less LOCs, Trust Funds, & Other Collateral	114,654
Equals Net Net Recoverable	95,661
Recoverables Analysis	
Net Net Recoverable as % of PHS	18.4%
Net Net Recoverable as % of Total Assets	6.3%
Recoverable on Paid Loss as % of PHS	2.8%
Recoverable on Paid Loss as % of Total Assets	1.0%

Interconnectedness – Insurance risk is spread broadly and globally. Reinsurance is a net credit enhancement for many cedents.

Top US P&C Groups

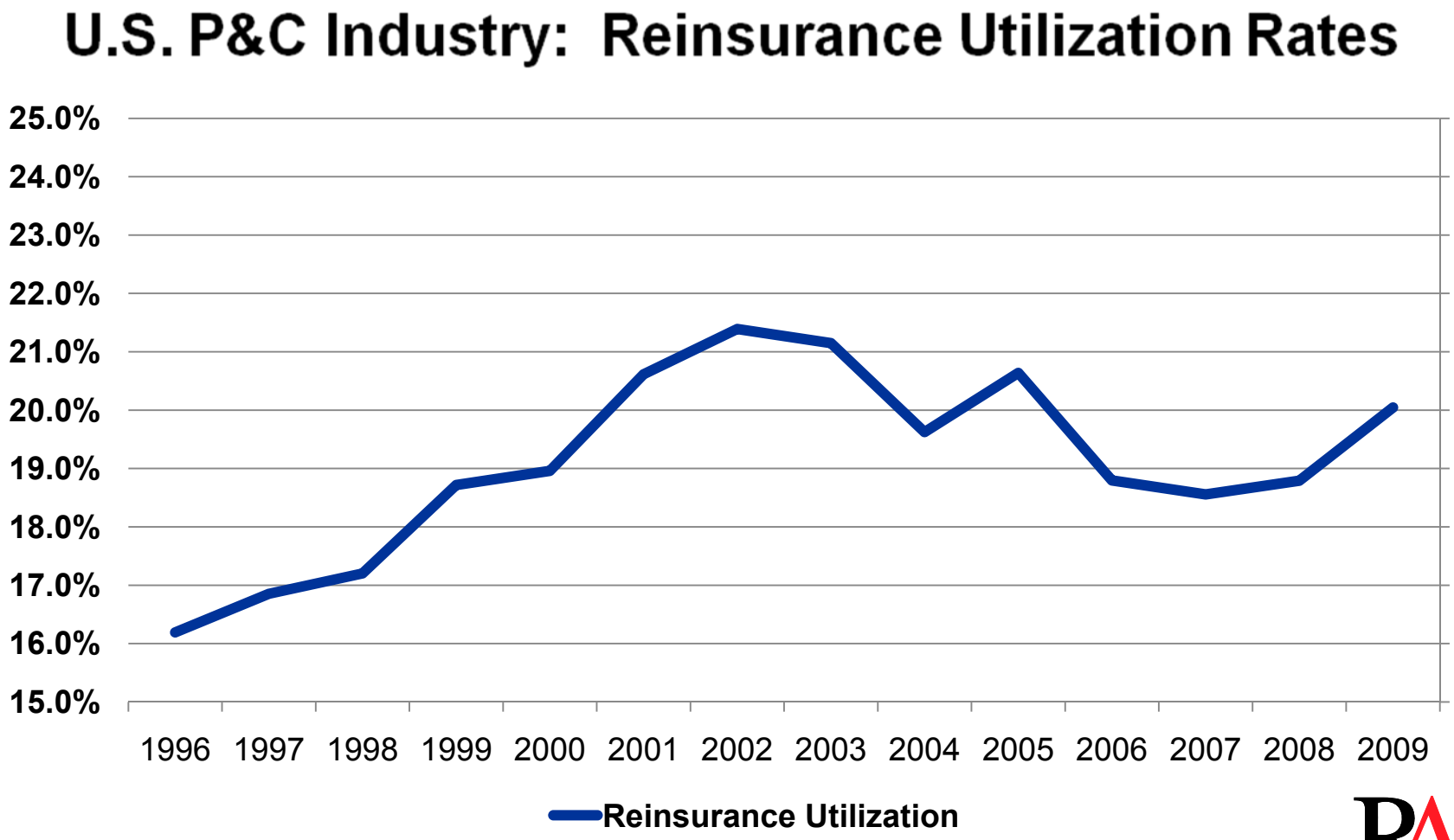
3rd Party Reinsurance Net-Net Recoverables Concentration



*Note: Nationwide's AM Best Rating = A+. Approximately 90% of this net-net recoverable is due from Nationwide Indemnity Co., an entity used to run off asbestos and environmental obligations.

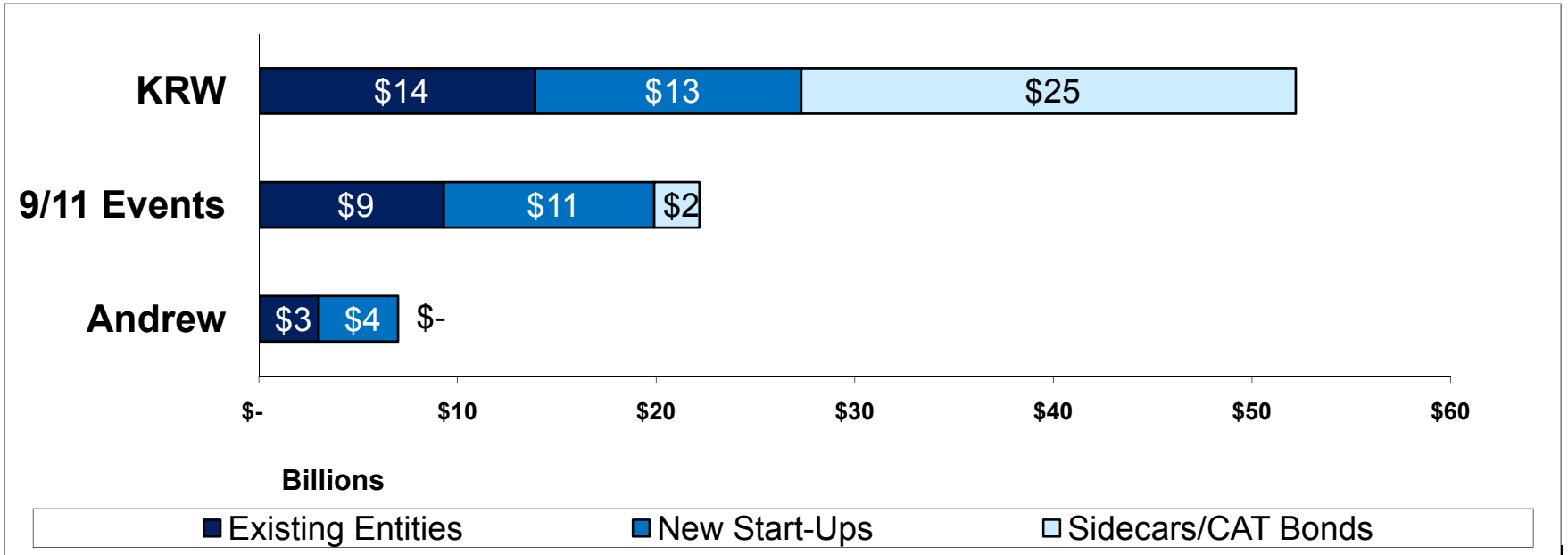
Interconnectedness & Substitutability

P&C industry cessions to the global reinsurance market are only 20% of gross premium.



Substitutability – Capital is quickly replaced following significant events. Alternative forms of capital have become more prevalent.

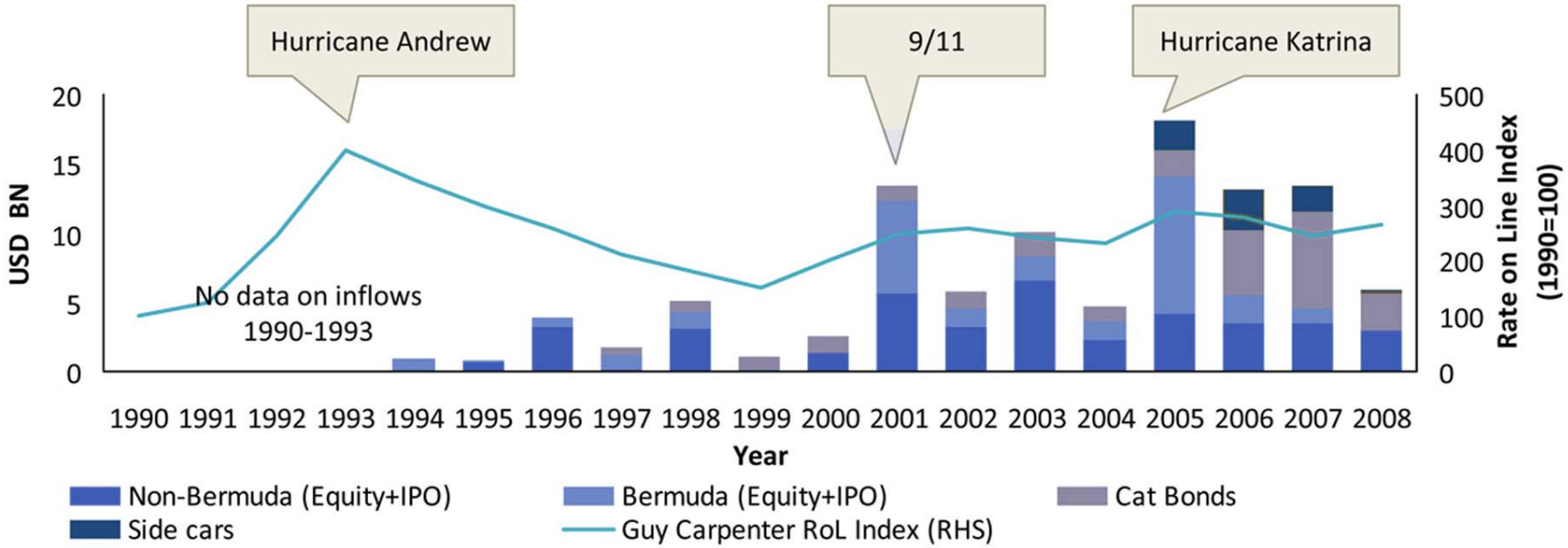
Post CAT-Event Capital Raised



	KRW	9/11 Events	Andrew
New Capital Raised	$52.2 B	$22.2 B	$7.0 B
Est. Loss Industry Wide	$65.0 B	$41.0 B	$15.5 B
New Capital % of Est. Loss	80.3%	54.1%	45.2%

New capital inflow into reinsurance shows high substitutability

New capital flows into nat cat reinsurance industry and nat cat reinsurance rates

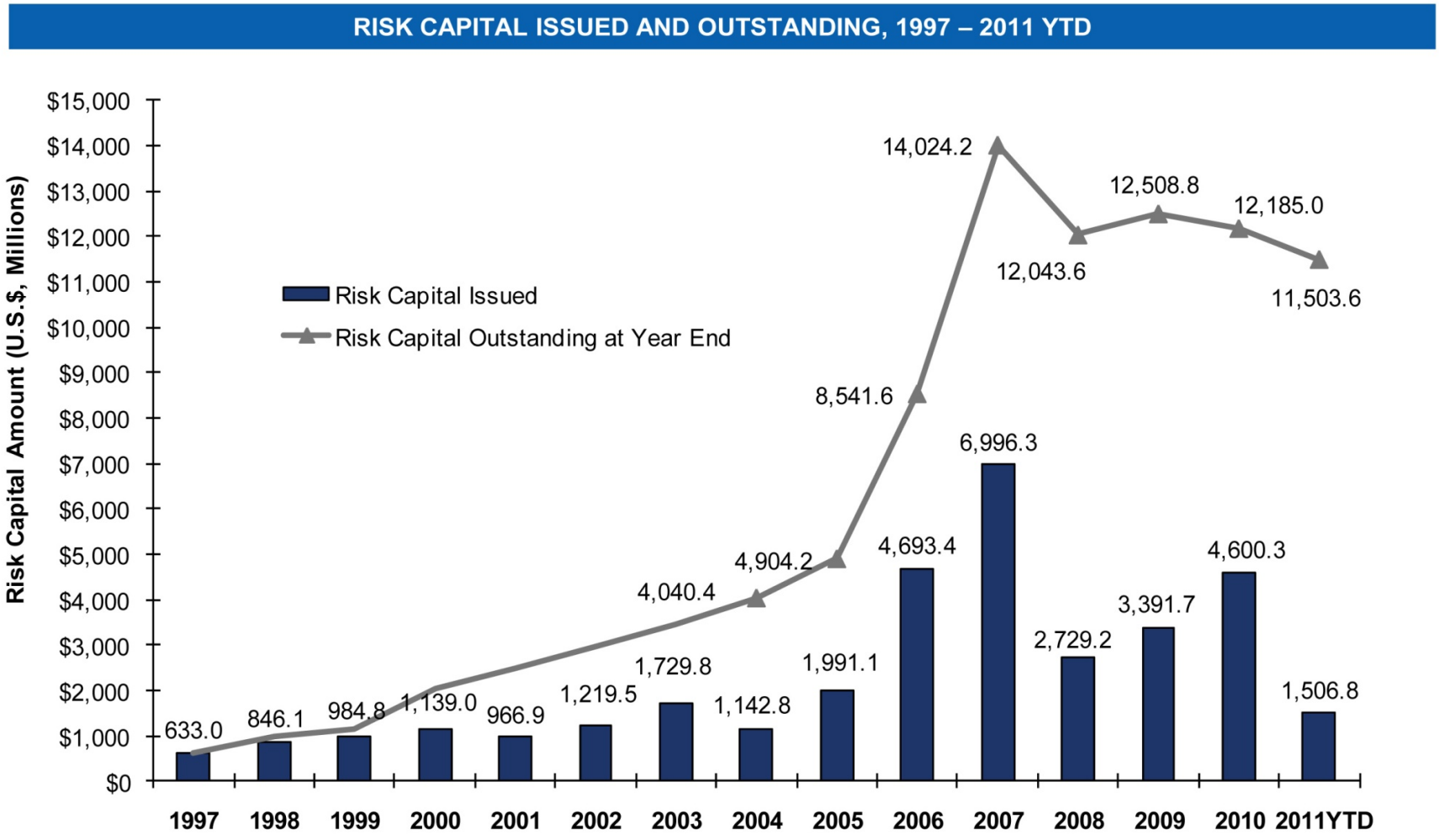


- Reinsurance rates increase for years following big catastrophes
- This attracts steady inflow of capital in the industry through new entrants or capital increases of existing reinsurers (including side cars and cat bonds)
- In addition, capital base of reinsurers is also progressively rebuilt after large natural catastrophes through the higher reinsurance rates

Reinsurance capacity has always increased after natural catastrophes – insurance capacity is highly substitutable

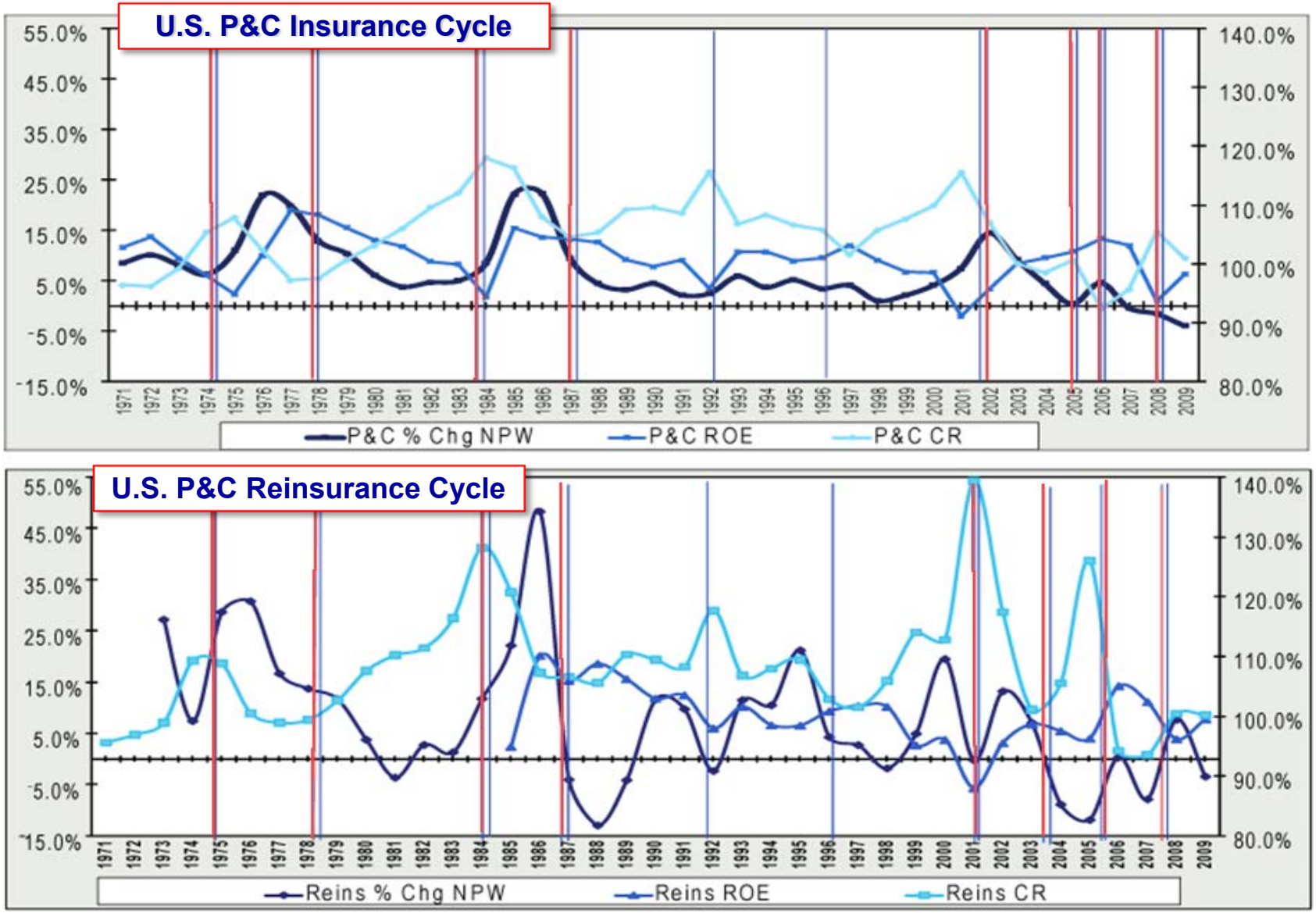
Source: Thomson, Guy Carpenter, AON Benfield, Dealogic, Oliver Wyman analysis

Substitutability – Catastrophe Bond Market Growth Continues



Source: GC Securities *As of May 31, 2011*

Substitutability – Capital flows follow the reinsurance cycle. Reinsurance absorbs insurance industry volatility and adds stability.

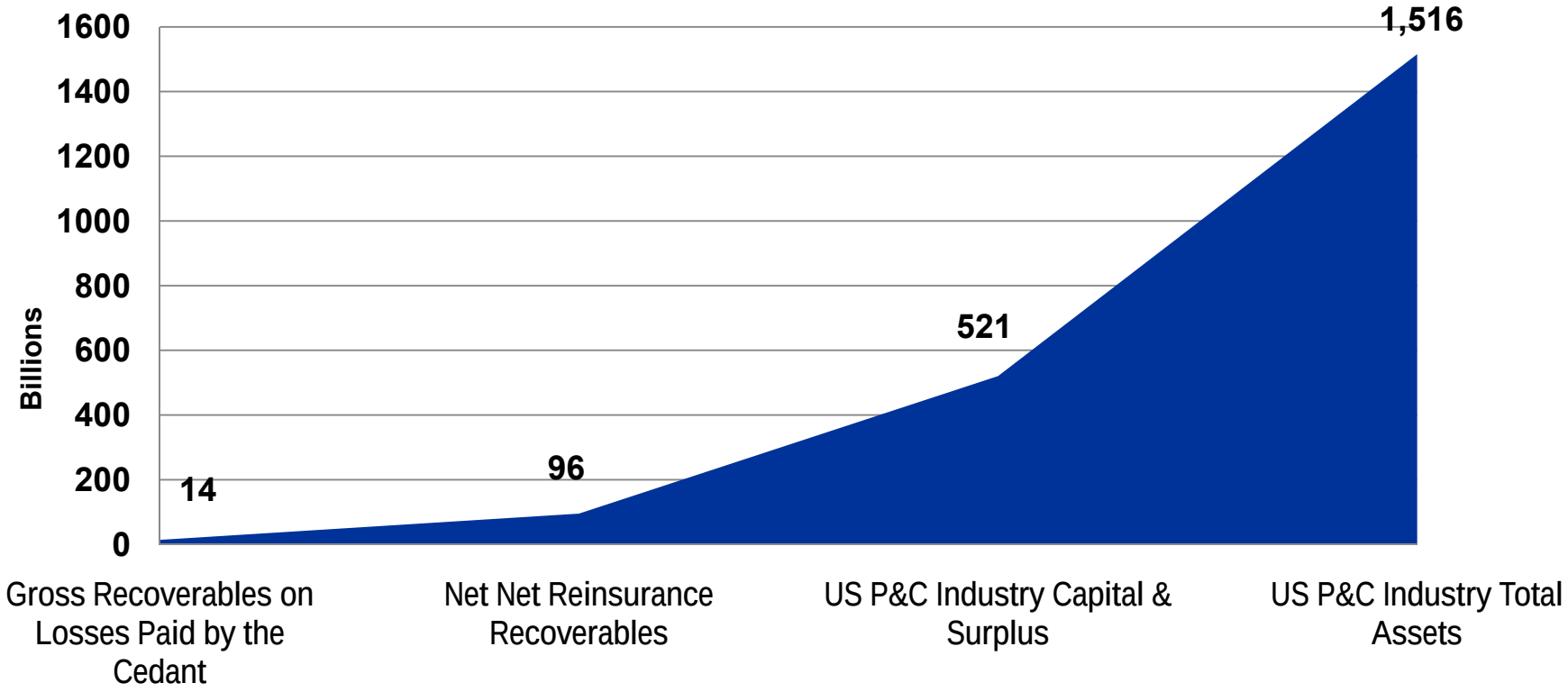


ROE and Growth in NPW

Combined Ratio

Time/Liquidity – (Re)insurance obligations are not callable, significantly limiting the systemic risk potential.

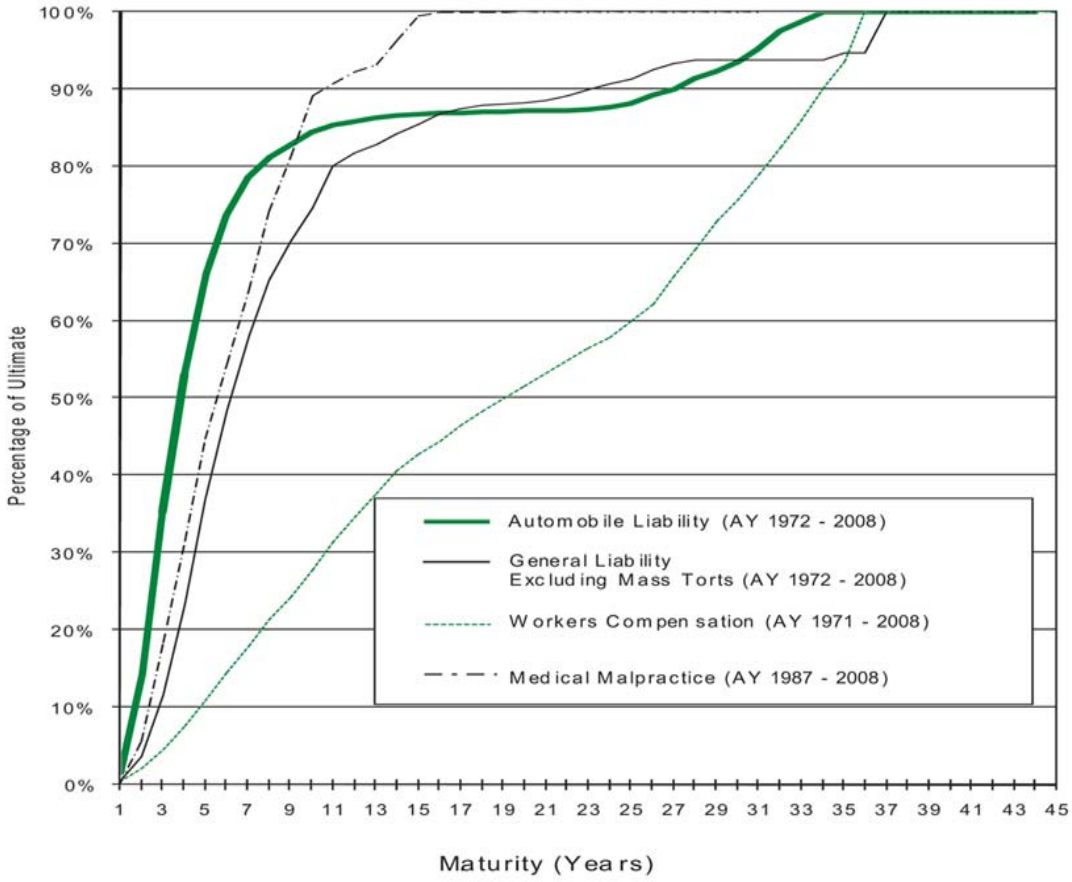
US P&C Recoverables on Paid Losses Compared to Surplus and Assets



$14 Billion Reinsurance Recoverable on Paid Losses are the only amounts currently due. Reflects the illiquid nature of insurance and reinsurance obligations.

Time/Liquidity – Liability reinsurance losses emerge over many years.

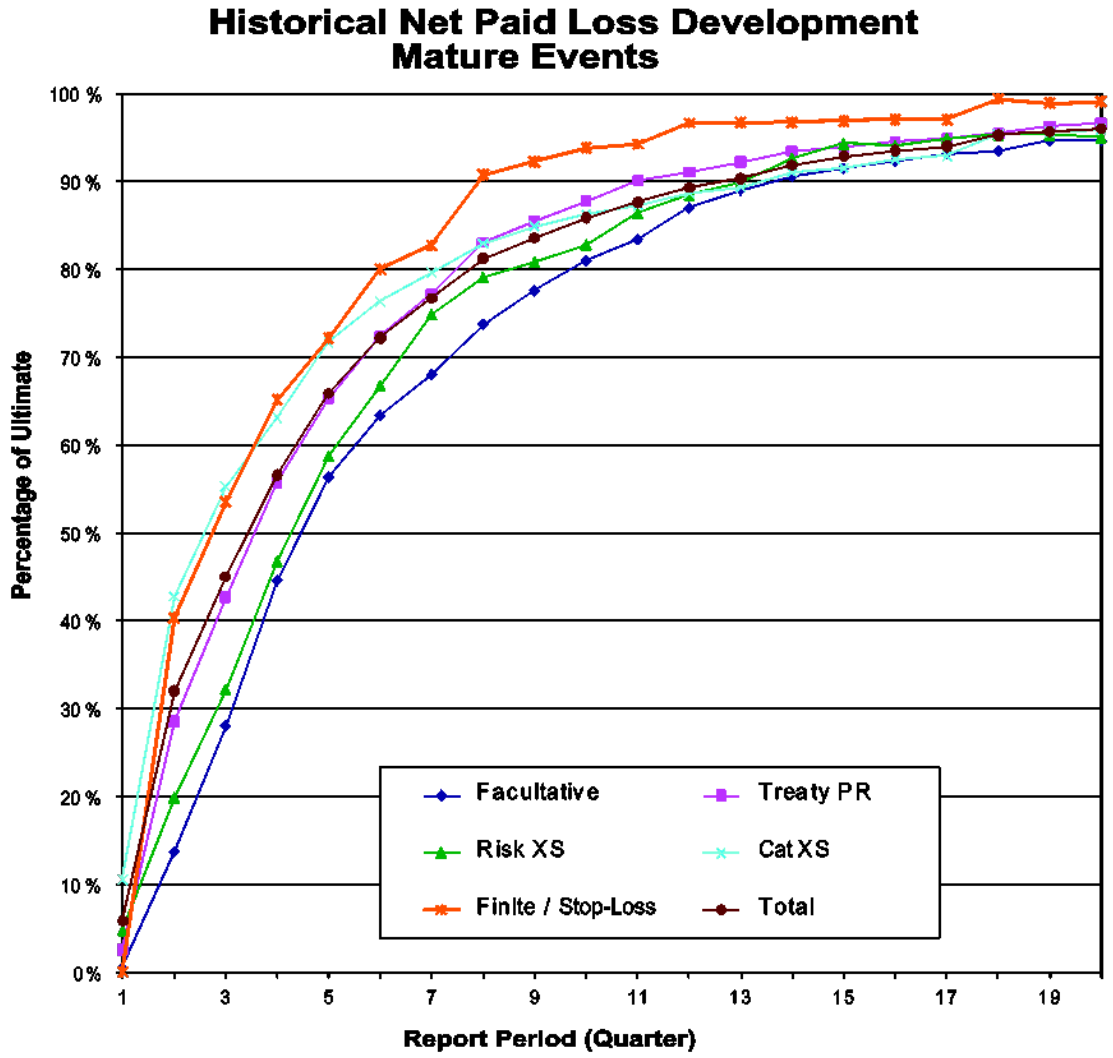
Historical Loss Development Paid Losses Excess Reinsurance



RAA Historical Loss Development Study, 2009 Edition

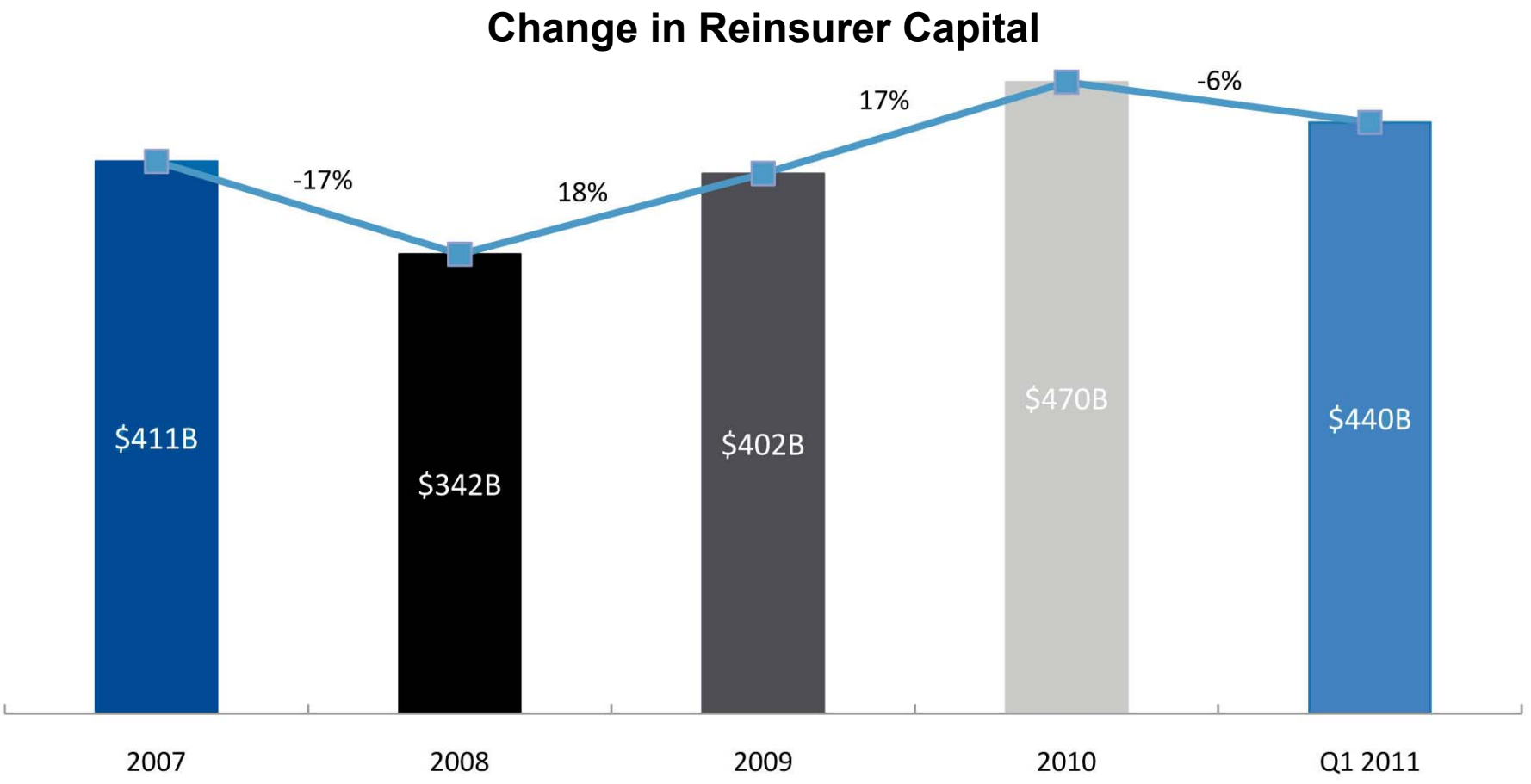
Time / Liquidity

Reinsured property catastrophe losses also emerge more slowly than might be expected.



Assumptions Underlying A Global Reinsurance Stress Test Scenario

Reinsurer capital was minimally impacted by the financial crisis. It recovered quickly and remains adequate for demand.



Source: Individual Company Reports, Aon Benfield Analytics

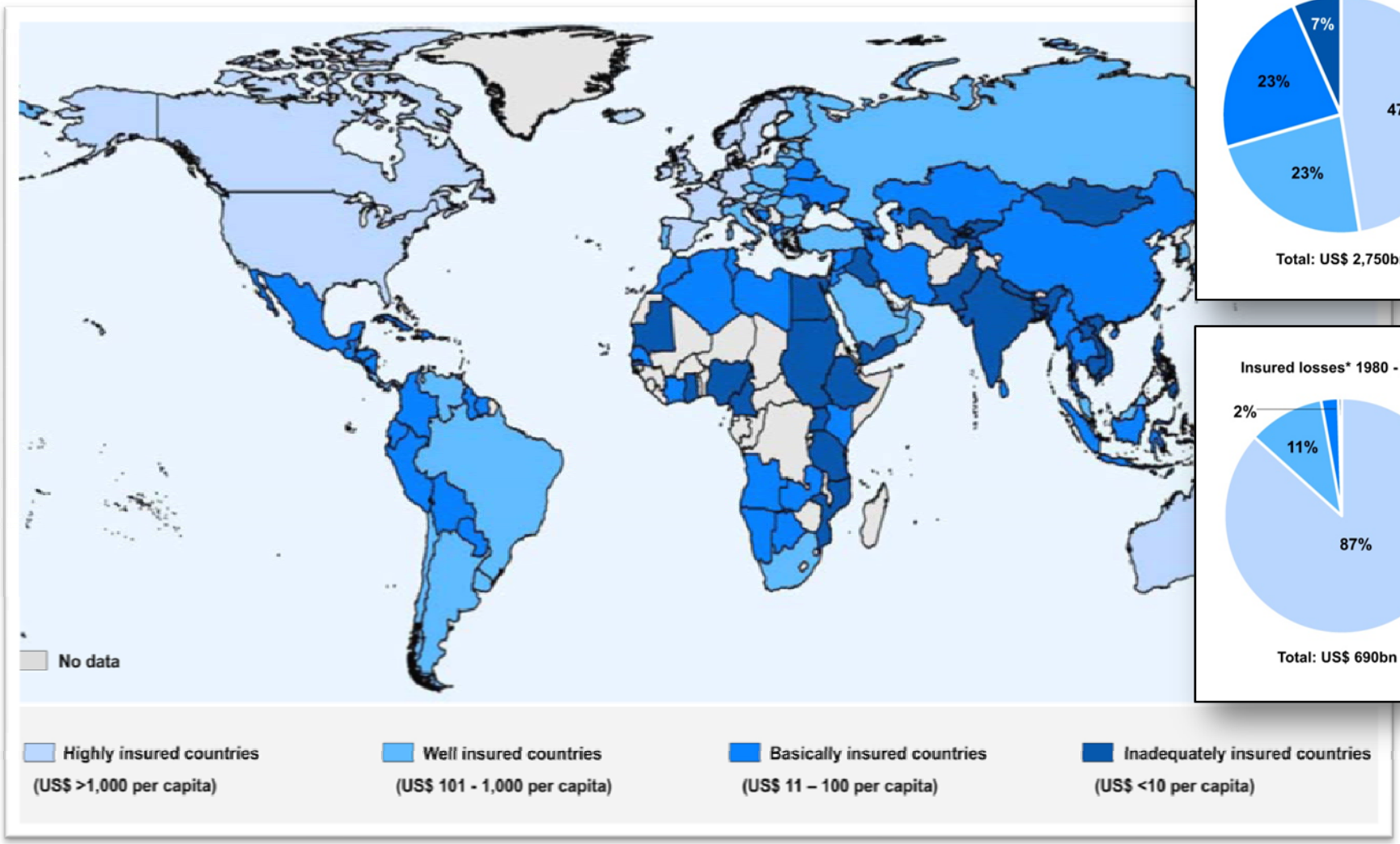
Economic losses are 5 to 20 times greater than reinsured losses.

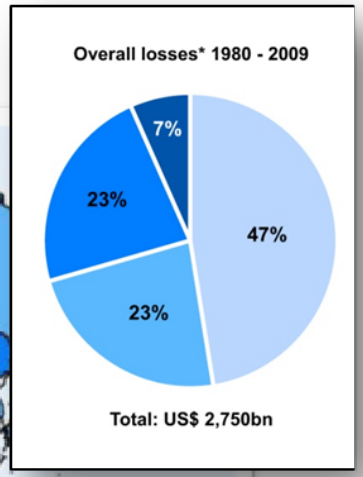
The Range can be impacted by:

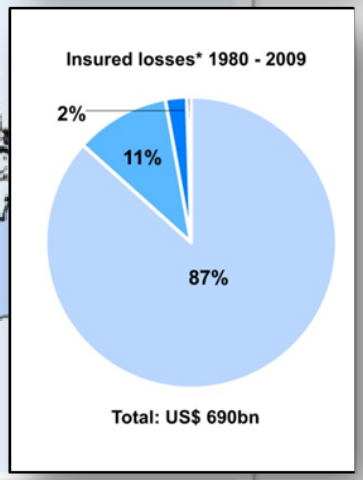
- type of reinsurance (XOL v. QS)
- type of peril (take-up rate/exclusions)
  - e.g. Earthquake/Flood
- location (insurance penetration)
  - e.g. developed v. developing economies
- level of government participation in the reinsurance market

Natural Catastrophes in differently insured countries

Classification of the world by property insurance premium (non-life including health) per capita





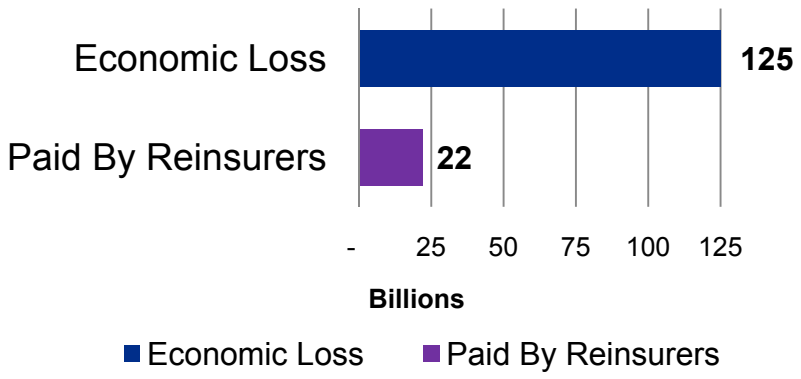


Source: MR NatCat*SERVICE* as at July 2010

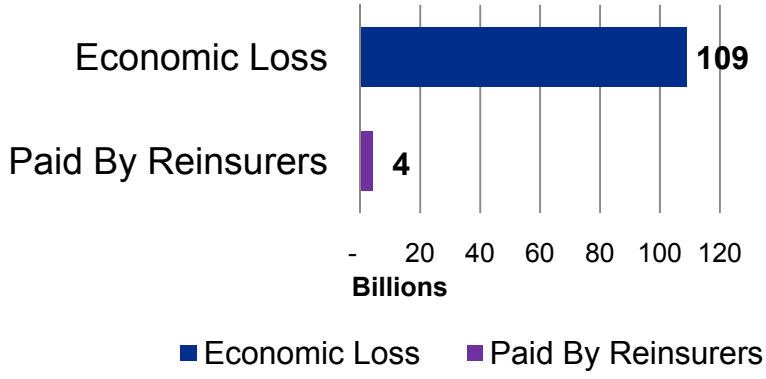
Economic Losses are 5 to 20 Times Greater than Reinsured Losses

Reinsurance is not nearly as significant a source of risk compared to uninsured loss.

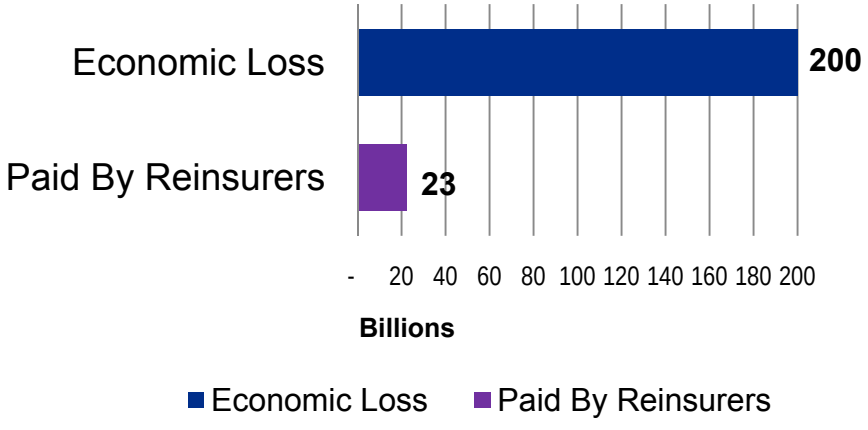
Hurricane Katrina



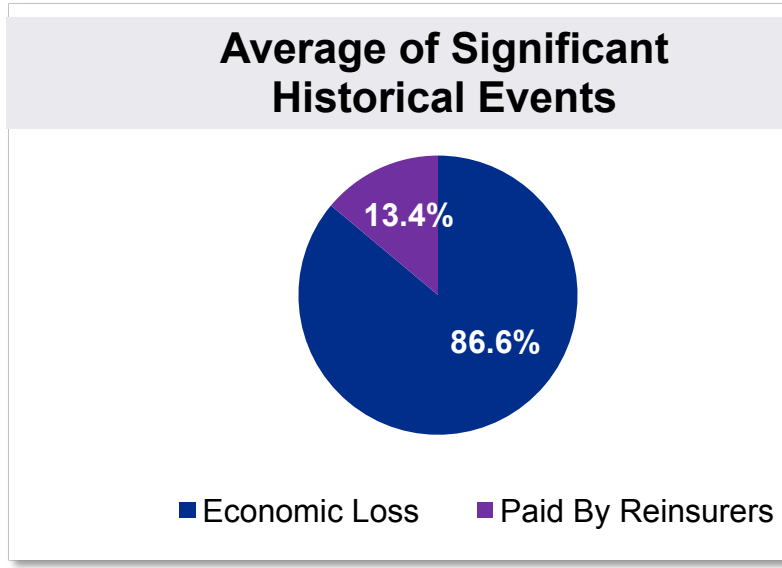
U.S. 1-in-250 Yr EQE



9/11/2001 Terrorist Attack



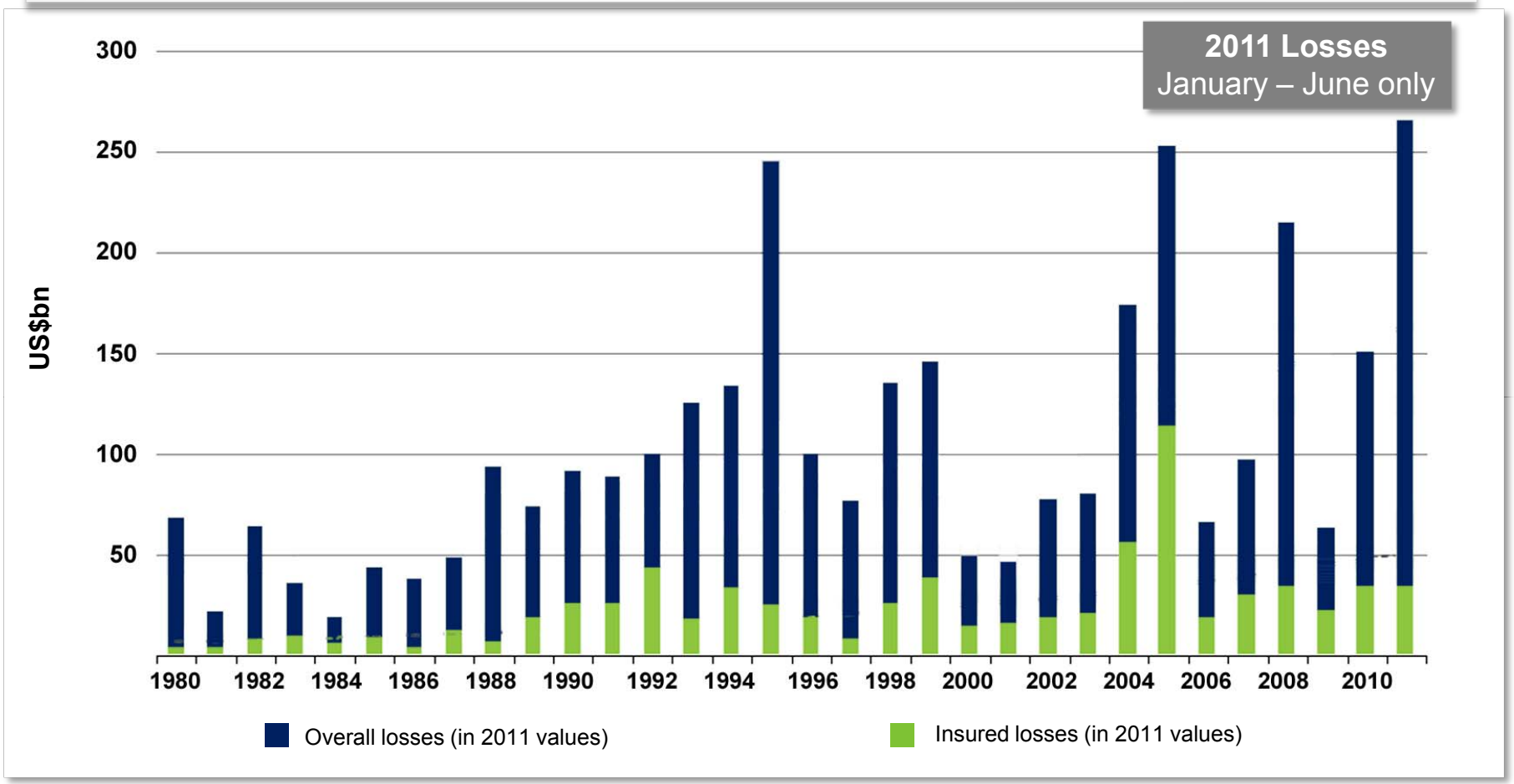
Average of Significant Historical Events



Worldwide Natural Disasters 1980 – 2011

Overall Economic versus Insured Losses

Insured losses are a small portion of economic losses: Reinsurance loss is an even smaller portion.



Source: MR NatCat*SERVICE*

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Stress Test Scenario: 100% Solvency Ratio

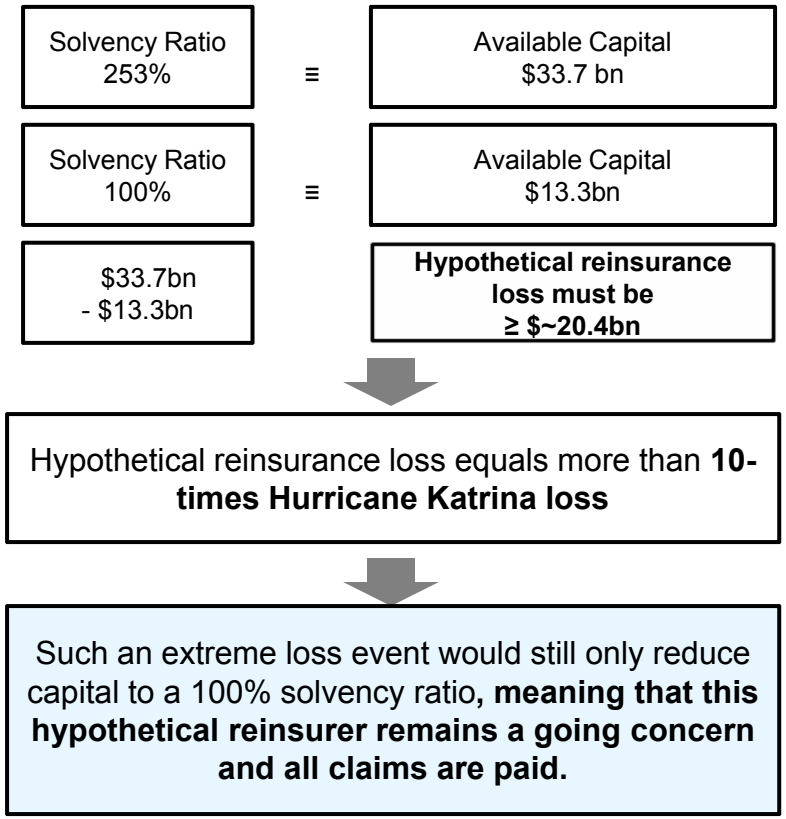
Creating an extreme scenario: What would it take to bring down a major reinsurer?

- To start with: let's focus on a leading global reinsurer to see **what amount of losses would be needed to reduce its capital base to 100% of the solvency ratio.** Let's use published data for Munich Re and Swiss Re (the global TOP2) and think of this **hypothetical reinsurer as a simple average of the two market leaders** (thus all numbers used in this example will be based on a simple average of the respective Munich Re and Swiss Re number).

- Taking into account an average 2009 solvency ratio of 253% for this hypothetical reinsurer and available capital of $33.7 bn., a fall to the 100% solvency ratio level (capital at $13.3 bn.) would imply a cumulated loss event in the magnitude of $~20.4 bn.

- This would imply a loss more than ten times the loss from Hurricane Katrina (~$1.9bn. for Munich Re and Swiss Re on average), the by far largest (re)insured loss event in history.

- Thus, it would take such an extremely large loss event (or equivalently, a series of very large loss events taking place within a short period of time) just to bring the level of capital to 100% of the solvency margin. One should therefore extend this stress scenario to the entire industry to see what level of economic loss would cause the whole reinsurance industry's capital to fall to a 100% solvency ratio level.

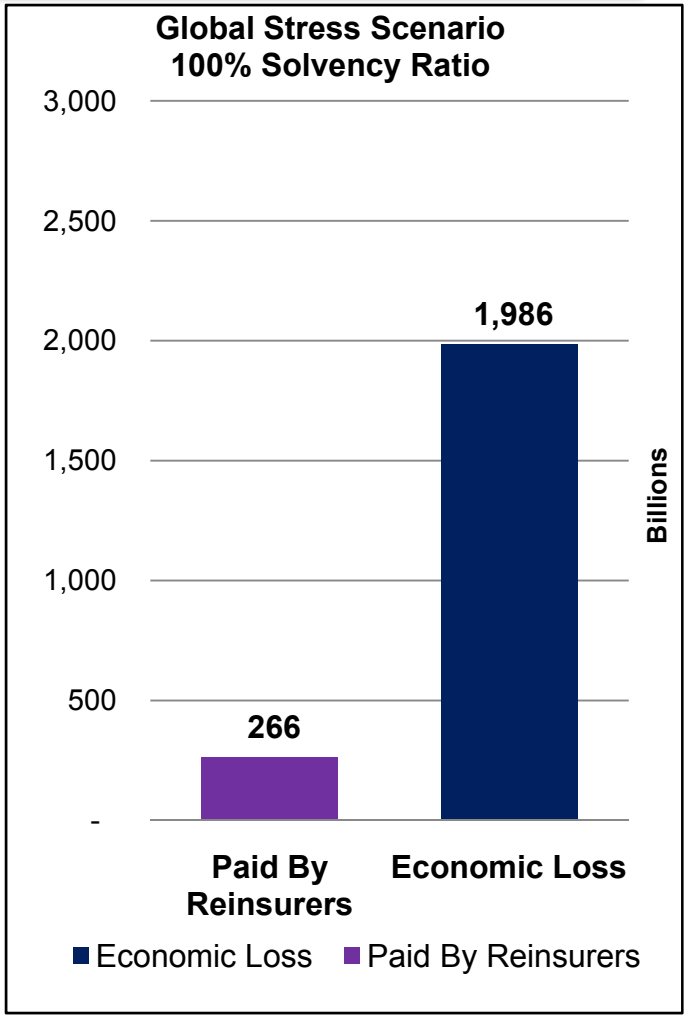


Source: Munich Re, Swiss Re

Extreme scenario at 100% solvency ratio shows: Respective economic loss would by far exceed the reinsurance industry loss.

- Assuming similar solvency ratios[1] for the rest of the industry and using numbers on total industry capital[2], it would take a loss to the reinsurance industry of $~266.1 bn. to create such a scenario that reduces industry capital to a 100% solvency ratio level.
- In contrast to these already very large numbers, the estimated **total economic loss** from such a series of extreme events is likely to be close to $**1,986 bn.** (for comparison again: the economic loss from Hurricane Katrina was $~125 bn.).
- **All of the Great Natural Catastrophes that have occurred World-wide from 1950 – 2010 amount to $2,100 bn.** (adjusted to 2010 values), which is about the size of loss from a series of events occuring in a single year that would be needed to bring industry capital down to a100% solvency ratio

- **The respective total economic loss of this extreme scenario would by far exceed the reinsurance industry loss. Moreover at a 100% solvency ratio, the reinsurance industry would not see widespread default as the existing capital base and reserves would be sufficient to pay the claims.**

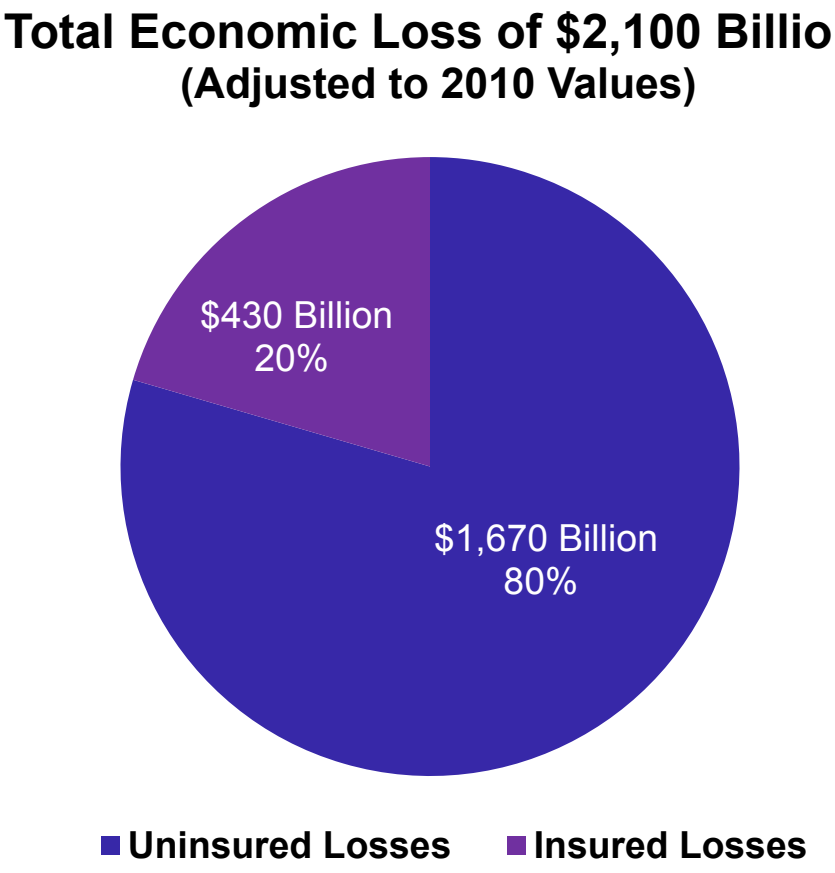


1) clearly a simplifying assumption, as solvency ratios differ between reinsurers; 2) taken from Aon Benfield's estimate that global reinsurance capital is $440 bn.

Source: RAA Analysis Based on Underlying Assumptions Provided by a Munich Re and Swiss Re Analysis

Great natural catastrophes worldwide 1950-2010

The total economic losses used in the global stress test are greater than all of the great natural catastrophes worldwide between 1950-2010.



 Source: Munich Re Nat Cat SERVICE, As of January 2011

Stress Test Scenario:
40% Solvency Ratio

Extreme Stress Test Scenario Analysis

	Swiss Re / Munich Re Combined	Global Industry
	$ in Billions	
Solvency Ratio 253%	**33.7**	**440.0**
Solvency Ratio 100%	**13.3**	**173.9**
Solvency Ratio 40%	**5.3**	**69.6**
Implied Cuml. Loss @ 100%	**20.4**	**266.1**
Implied Cuml. Loss @ 40%	**28.4**	**370.4**

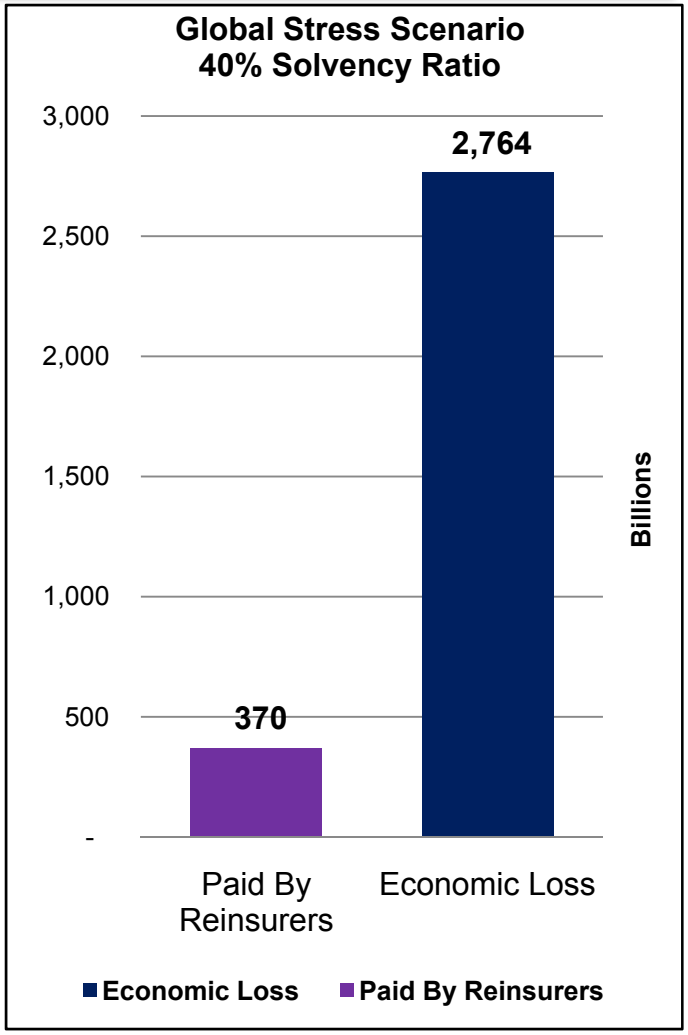
Economic Loss Scenarios Needed to Reduce Industry Capital to 100% of Solvency Ratio	Global Re Loss	Global Economic Loss	Example Type of Events
Reins Loss = 20% of Economic Loss	**102.0**	**1,330.4**	**Hurricanes (U.S. /Developed Economies)**
Reins Loss = 13.4% of Economic Loss	**152.2**	**1,985.7**	**Mix of Global Events**
Reins Loss = 5.5% of Economic Loss	**370.8**	**4,837.9**	**Earthquake/Flood w/low take-up rate**

Economic Loss Scenarios Needed to Reduce Industry Capital to 40% of Solvency Ratio			Example Type of Events
Reins Loss = 20% of Economic Loss	**142.0**	**1,852.2**	**Hurricanes (U.S. /Developed Economies)**
Reins Loss = 13.4% of Economic Loss	**211.9**	**2,764.4**	**Mix of Global Events**
Reins Loss = 5.5% of Economic Loss	**516.2**	**6,735.2**	**Earthquake/Flood w/low take-up rate**

Extreme scenario at 40% solvency ratio shows: Respective economic loss would by far exceed the reinsurance industry loss.

- Assuming similar solvency ratios[1] for the rest of the industry and using numbers on total industry capital[2], it would take a loss to the reinsurance industry of $~370.4 bn.) to create such a scenario.
- In contrast to these already very large numbers, the estimated **total economic loss** from such a series of extreme events is likely to be close to $**2,764 bn.**
- For comparison, a loss of $2,800 bn. equates to nearly twice the amount of economic losses from all hurricanes and earthquakes that occurred in the U.S. between 1900 and 2005 based on normalized loss statistics as published in studies by Dr. Roger Pielke—University of Colorado.

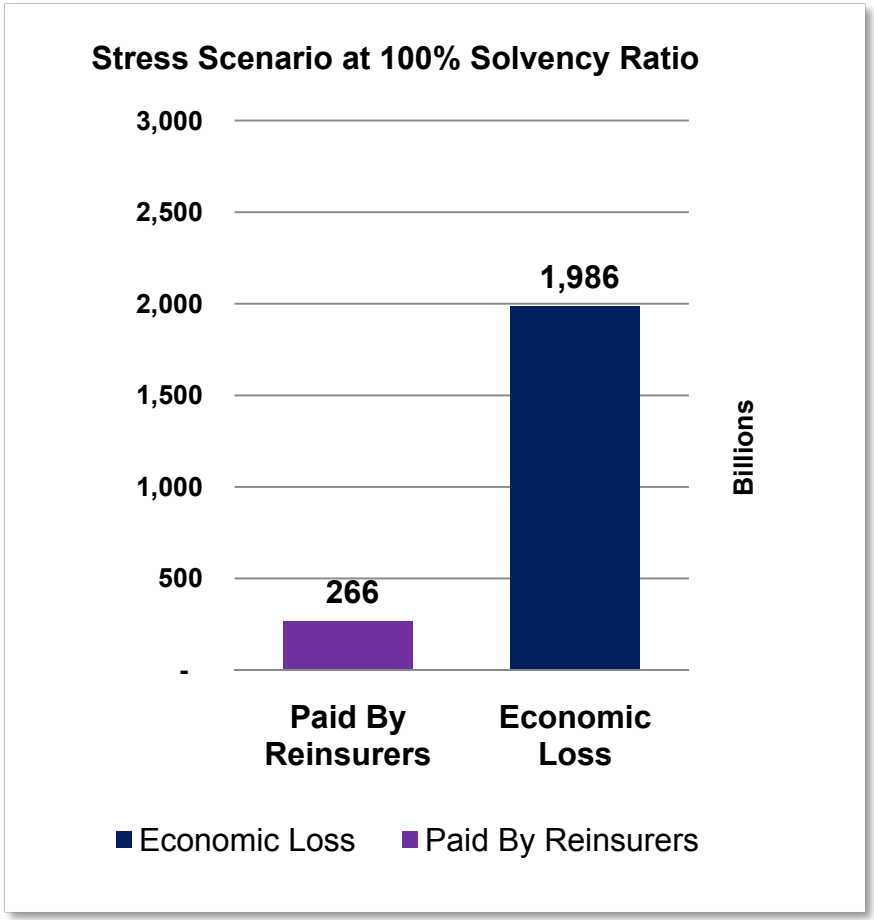
- **The respective total economic loss of this extreme scenario would by far exceed the reinsurance industry loss. Moreover the reinsurance industry's loss would largely be paid given their present $440 bn. in capital.**

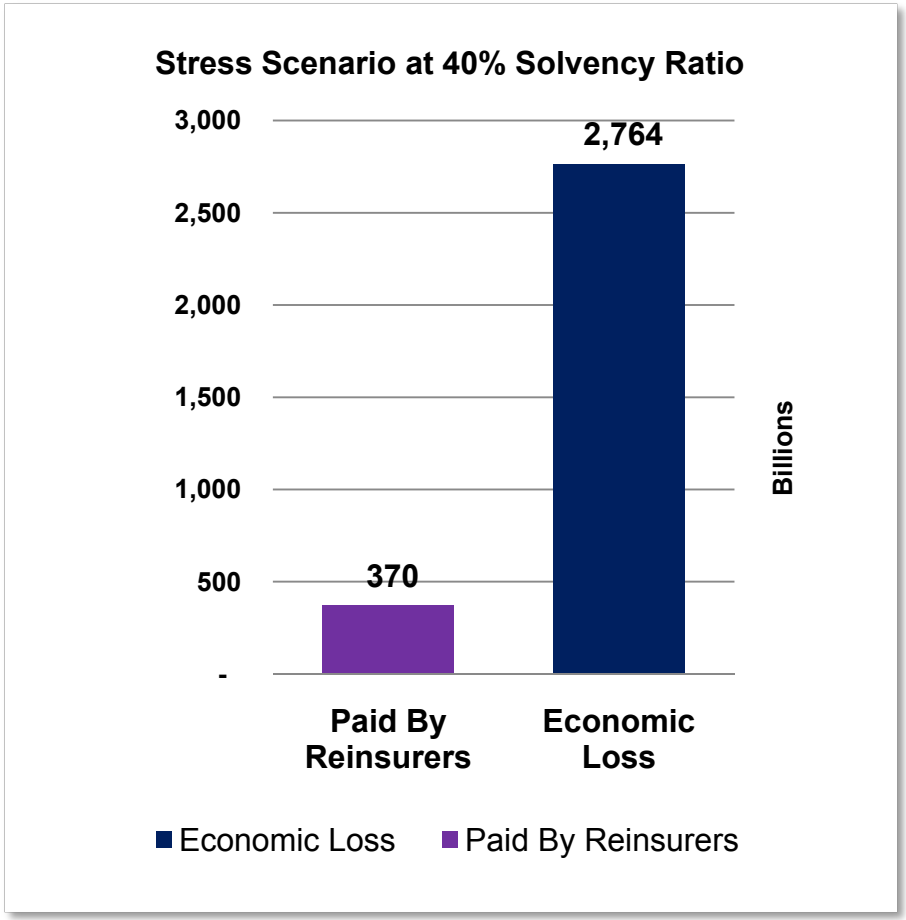


1) clearly a simplifying assumption, as solvency ratios differ between reinsurers; 2) taken from Aon Benfield's estimate that global reinsurance capital is $440 bn.

Source: RAA Analysis Based on Underlying Assumptions Provided by a Munich Re and Swiss Re Analysis

Economic losses (not reinsurance losses) are the true source of systemic risk following extreme loss events.

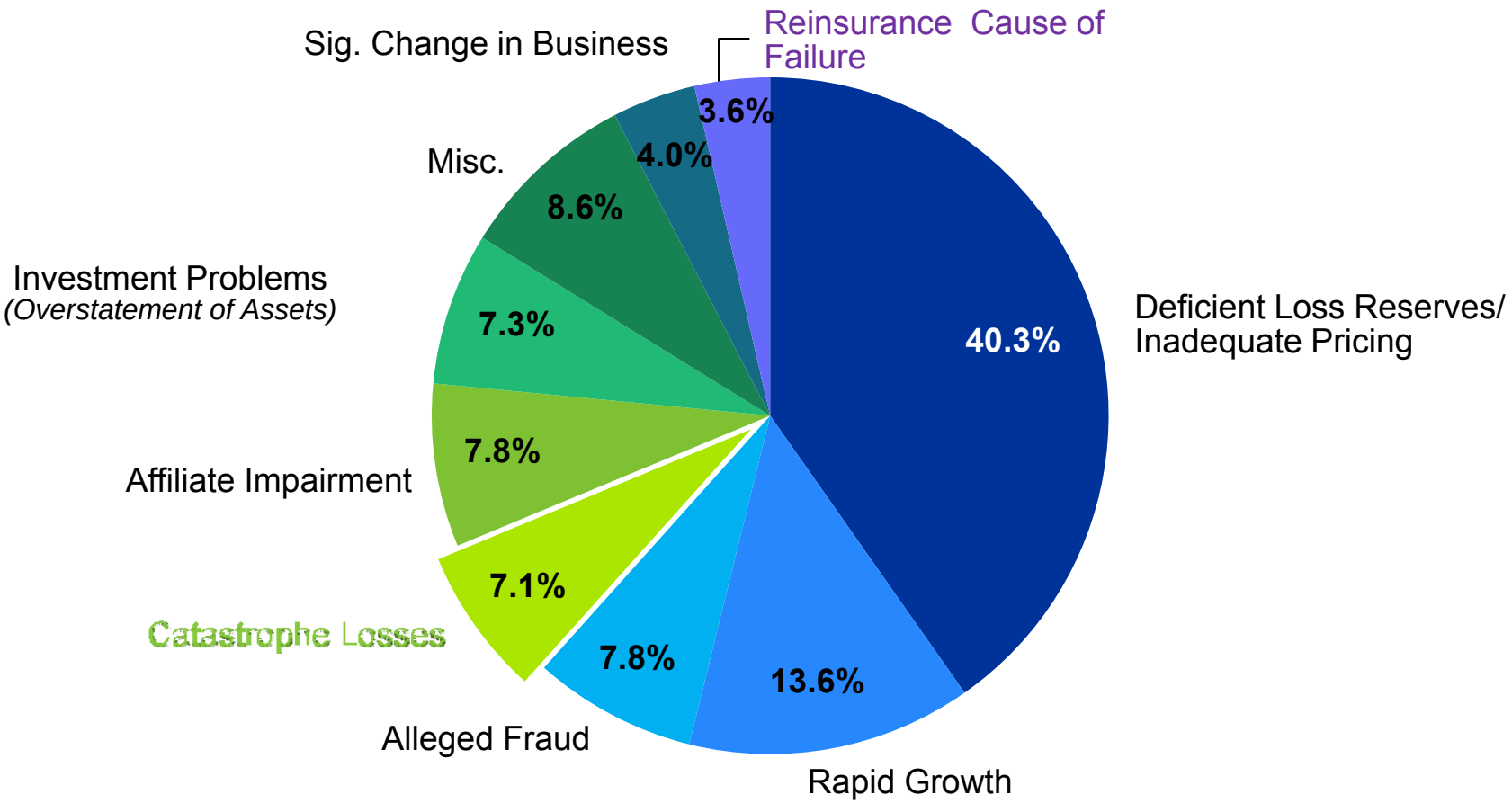




U.S. Financial Institutions Impairment History and Implications for P&C Reinsurance Systemic Risk

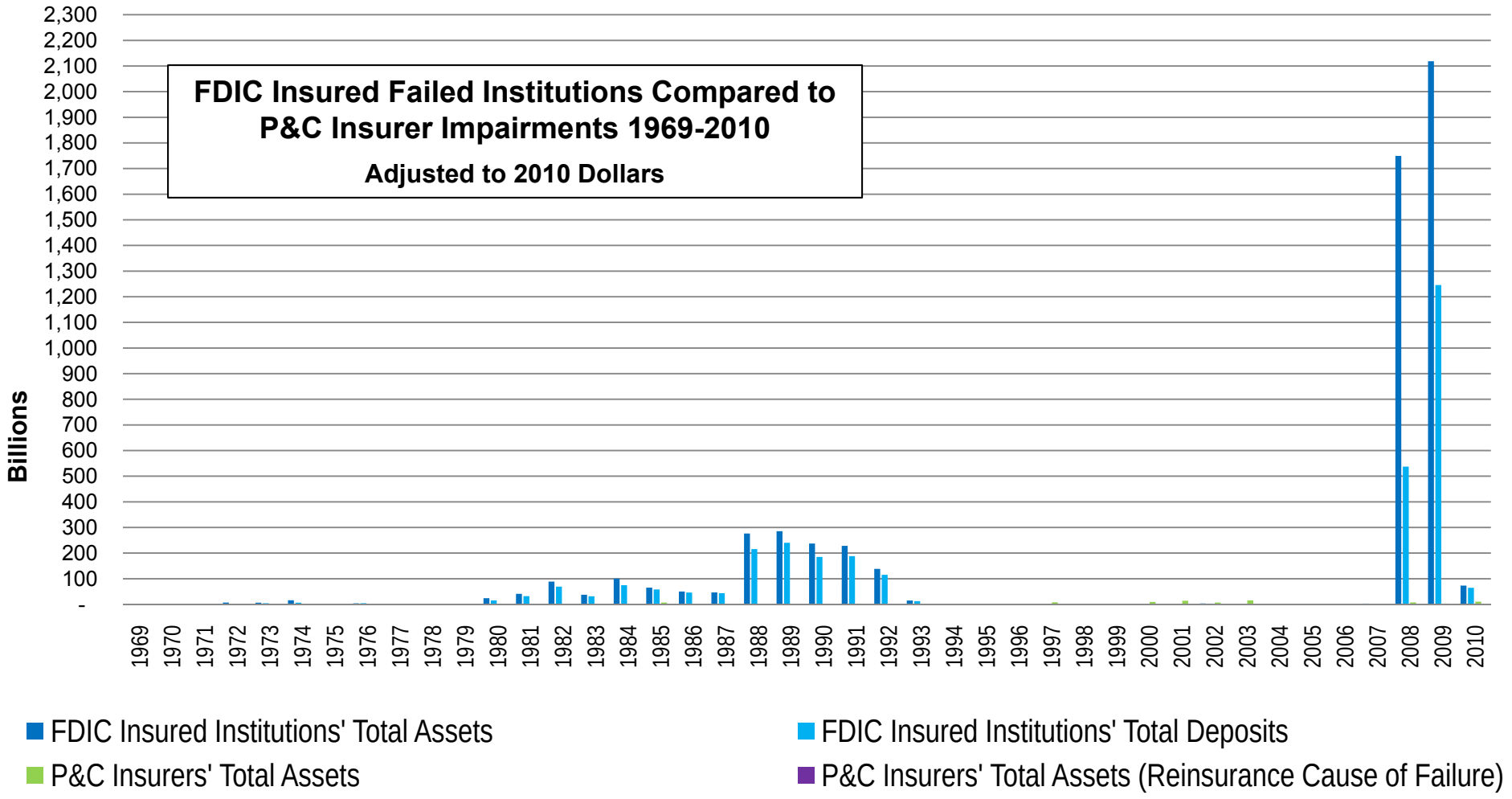
Insurance impairments attributed to reinsurance as the cause of failure are historically insignificant.

Reasons for US P/C Insurer Impairments, 1969–2010



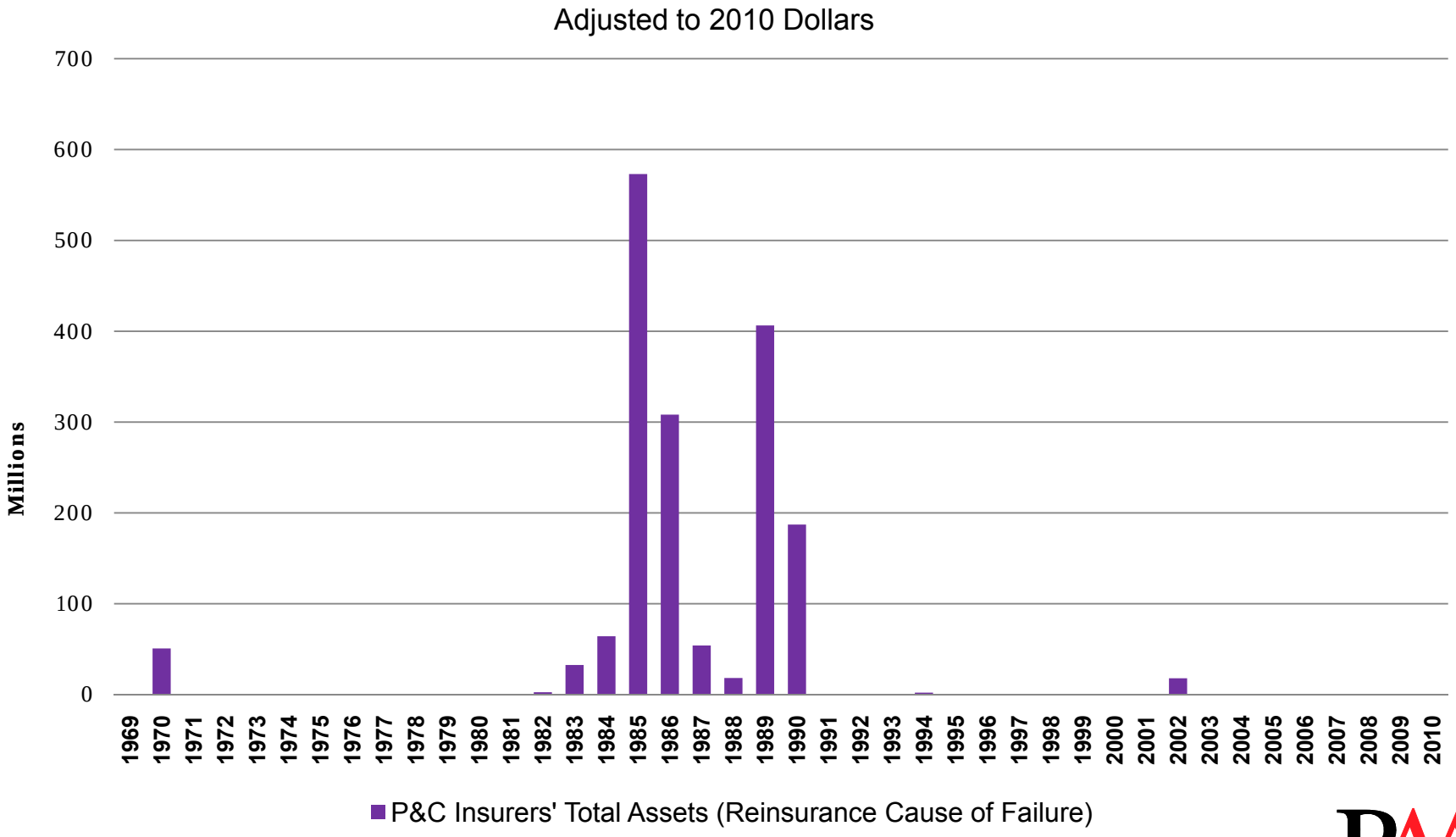
Source: A.M. Best: *1969-2010 Impairment Review*, Special Report, April 2011.

Insurance impairments are insignificant compared to bank impairments in past crises and over several economic cycles.



Source: A.M. Best: *1969-2010 Impairment Review*, Special Report, April 2011; FDIC.

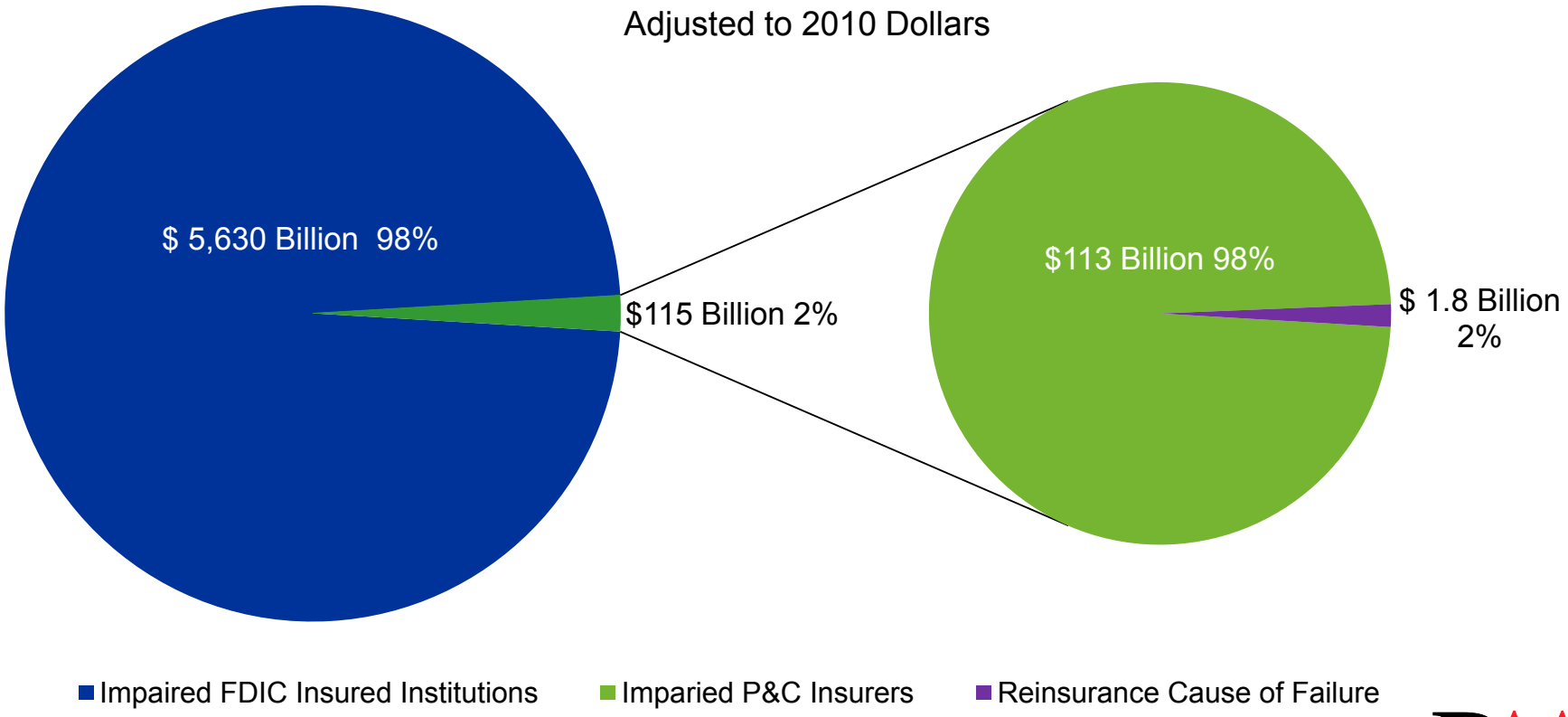
Insurance impairments attributed to reinsurance failure are insignificant over the same period.



Source: A.M. Best: *1969-2010 Impairment Review*, Special Report, April 2011.

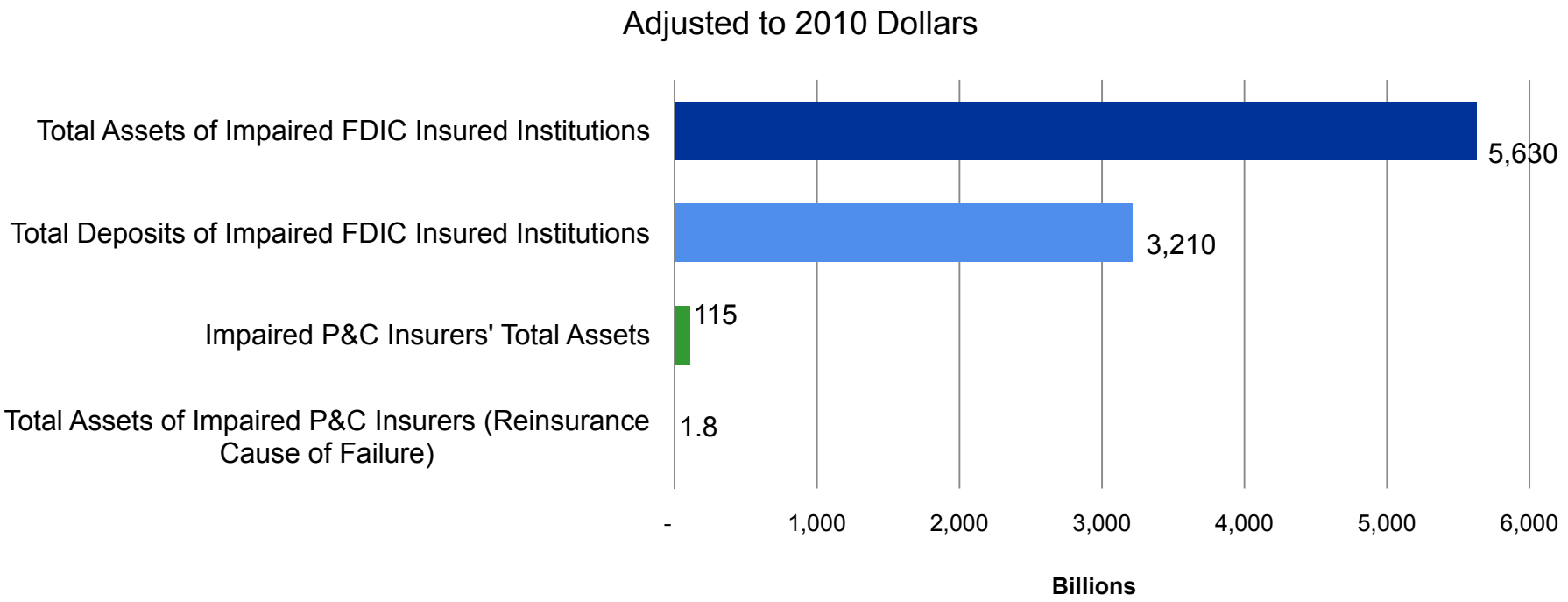
Reinsurance failure is not a significant cause of insurance impairment and pales in comparison to the systemic risk in the banking industry. – View 1

Total Assets of FDIC Insured Failed Institutions Compared to P&C Insurer Impairments 1969-2010



Reinsurance failure is not a significant cause of insurance impairment and pales in comparison to the systemic risk in the banking industry. – View 2

FDIC Insured Failed Institutions Compared to P&C Insurer Impairments 1969-2010



Reinsurance failure is not a significant cause of insurance impairment and pales in comparison to the systemic risk in the banking industry. – View 3

Total Assets of FDIC Insured Failed Institutions Compared to P&C Insurer Impairments 1969-2010

Adjusted to 2010 Dollars

$5,630 Billion **$115 Billion** **$1.8 Billion**

Impaired FDIC Insured Institutions Impaired P&C Insurers Reinsurance Cause of Failure

Reinsurance Association of America

www.reinsurance.org

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