**STATEMENT OF PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA**

**HEARING ON "THE IMPACT OF US-EU DIALOGUES ON US INSURANCE MARKETS"**
**HOUSE COMMITTEE ON FINANCIAL SERVICES**
**SUBCOMMITTEE ON HOUSING AND INSURANCE**

**SEPTEMBER 28, 2016**

The Property Casualty Insurers Association of America (PCI) represents nearly 1000 insurers and reinsurers that write more than $200 billion annually in coverage throughout the U.S. and world. Reflecting the strength in diversity that is a hallmark of our sector in the U.S. and internationally, our members range from small one state writers to companies that operate in more than 100 countries.

## Background

Congress in the Dodd-Frank Act affirmed the state-based regulation of insurance and the McCarran-Ferguson Act and the states' historic focus on consumer and policyholder protection. But there have been a number of emerging gray areas as the new regulatory roles have evolved where additional Congressional clarity could be very helpful. For example, Congress abolished the Office of Thrift Supervision and transferred its authorities over thrifts with insurance affiliates to the Federal Reserve Board. But the Federal Reserve has taken a dramatically different approach to its supervisory role than the OTS, including actively participating in the International Association of Insurance Supervisors (IAIS) together with the newly created Federal Insurance Office (FIO) and numerous state insurance regulators. The Dodd-Frank Act includes a brief reference to FIO's role at the IAIS, but provides no guidance as to how the Federal Reserve, FIO and states should work together, what their goals should be, or how they should defend the U.S. insurance regulatory system internationally.

The two supervisory perspectives of banking regulation and insurance regulation can be dramatically different, for example on issues such as capital leveraging and liquidity risk, or the more holistic issues of macro-economic stability versus policyholder protection. Congress recognized the need to address the regulatory divergence and provide more guidance with passage of the Insurance Capital Standards Clarification Act two years ago, clarifying that the Federal Reserve Board can apply insurance-based capital standards – rather than bank-centric rules – to the insurance activities of insurance holding companies it supervises. Legislation recently approved by the House Financial Services Committee, the Transparent Insurance Standards Act of 2016 (H.R. 5143), would similarly clarify the intent of Congress on international issues for U.S. federal negotiators to follow a more insurance-centric approach for insurance standards, including collaborating with the state insurance regulators and seeking mutual recognition of the U.S. insurance regulatory system internationally.

Our state and federal representatives negotiating international insurance standards do their best to represent their agencies and ultimately the United States, but they have very different perspectives, constituencies and priority objectives. For example, in 2008 the Department of the Treasury, in its Blueprint for a Modernized Financial Regulatory Structure, recommended an optional federal charter for insurance. The Federal Reserve is in the process of creating a consolidated supervisory system for entities within its jurisdiction, essentially creating a second layer of holding company oversight. The states have generally opposed federal regulation of insurance except in limited instances. And yet all with their very different regulatory perspectives and goals are in some manner representing the United States at the IAIS in the development of global insurance standards that could have profound implications for the future of our regulatory system, but no benefit to consumers.

Congressional oversight has been very helpful to the evolving U.S. process, particularly in encouraging regulatory cooperation and transparency. By enacting legislation such as H.R. 5143 Congress can help ensure that our Team USA regulators have the *same* priorities and objectives and greater public transparency and Congressional clarity and oversight in carrying out their missions. This in turn will improve the likelihood of efficient and effective outcomes in international insurance regulatory deliberations that will serve consumers and maximize competition and innovation.

H.R. 5143 does not hinder our federal representatives in international discussions. Instead, it gives them greater power and leverage because our negotiating partners will understand that all key players in the U.S., state and federal, have the same position to support or oppose a proposition.

## Specific Issues

**The State-Based Insurance Regulatory System Has Been Successful Because It Is Consumer Focused.**

For nearly 150 years, the states have regulated insurance and coordinated their activities through the National Association of Insurance Commissioners. Our state system of regulation has performed well in good times and bad, including during the financial crisis of 2008-2009.

Indeed, the overall performance of the state-based regulatory system compares favorably with that of any other financial services regulation. In terms of size, degree of consumer protection, financial strength and amount and diversity of competition, the U.S. state-based insurance regulatory system is unmatched by any other system. We are pleased therefore that H.R. 5143 begins its findings with a recitation of this fundamental reality.

This success is not just an accident or an historical anomaly. The U.S. insurance regulatory system has been so successful because it focuses on the end user—the consumer. So we strongly support H.R. 5143's emphasis on putting consumer protection first (as does our state-based regulatory system), and the bill's focus on assuring that state regulation is respected in all final outcomes of international regulatory discussions.

**The U.S. Needs to Speak with One Voice in International Regulatory Discussions.**

In recognition of the strong performance of state regulation, Dodd-Frank reiterated the primary role of the states in insurance regulation. However, it also created the FIO in the Treasury, which under Title V is to coordinate federal policy and represent the Secretary of the Treasury, as appropriate, at the International Association of Insurance Supervisors. The FIO Director has since assumed a leadership role at the IAIS, chairing one of its two most important committees. In addition, Dodd-Frank gave the Federal Reserve Board regulatory authority over insurers with thrifts and those designated as systemically important. Based on this regulatory authority, it, too, is an active member of the IAIS. Meanwhile, the NAIC and states also serve on IAIS committees, and the states have the largest amount of technical expertise in all areas and are legally responsible and accountable for the health and regulation of the insurance markets in their states.

Unfortunately, without more Congressional guidance on their objectives and priorities, our U.S. and state representatives can have conflicting perspectives and priorities. For example, state and two federal representatives all took different positions on whether to eliminate consumer group and stakeholder involvement in IAIS working groups. Both transparency and accountability have since suffered.

Accordingly, we support the Congressional clarity provided in H.R. 5143 to encourage greater collaboration and consensus among the regulators, requiring the regulators to work towards achieving consensus on policy positions in all international insurance regulatory discussions, backed up by reporting mandates. Congress often requires joint rulemakings or actions by agencies with overlapping jurisdiction. Federal agencies often fail to achieve such consensus within the statutorily required time, continue working on the issues in the meantime, and under Congressional pressure eventually get to the same page. While agreement among multiple agencies can be difficult, it is a critical effort to assure all representatives of the U.S. speak with one voice. It strengthens that voice and also increases the likelihood that any international standard will be effective and worthy of serious consideration. While there is no penalty in the bill that would limit the agencies' ability to work together, Congress can and should set the appropriate goals and required outcomes to ensure a cooperative approach.

**Transparency and Accountability Are Often Lacking in International Regulatory Discussions.**

As previously noted, the IAIS voted in 2014 to close its working group meetings, with a few rare exceptions, thereby reducing the ability of U.S. companies and consumers to participate meaningfully in the process. Every bit as important, the Financial Stability Board, which was given extremely broad powers by the G20 ministers to set the regulatory agenda for all financial services sectors including insurance, operates behind closed doors with an occasional invitation to selected companies. The Treasury, Fed and SEC are the sole representatives of the U.S. and the states are not present, even when insurance regulatory issues are considered.

Because transparency is a core value and is fundamental to our system, and because it produces the best overall outcomes, it is critically important that Congress act to reverse the trend toward closing doors and excluding interested parties. The NAIC holds open meetings and conference calls of the great majority of its working groups and offers a good model of openness that has contributed substantially to the success of our system.

H.R. 5143 will assure increased transparency by establishing greater transparency as a negotiating objective and providing specific procedures to assure transparency and accountability (for example public notice and comment periods in connection with the congressional layover provisions). The bill also requires special and periodic reports on transparency.

The other element of transparency that H.R. 5143 addresses is the current lack of information from federal agencies before, during, and after international insurance regulatory deliberations at the IAIS, FSB and elsewhere. Congress makes the laws and has a unique role in protecting state regulation and setting the boundaries and limits for federal involvement in insurance. Congress can and should fulfill its role consistent with the McCarran-Ferguson Act, in which Congress generally reserved insurance regulatory authority to the states. Under H.R. 5143, Congress will be kept regularly involved in international trade negotiations and the draft bill would appropriately require a measure of accountability to Congress for international standard setting negotiations as well.

**The Urgent Need for Mutual Recognition with the EU**

The European Union -- the second largest insurance market in the world -- is now beginning implementation of Solvency II, a new insurance regulatory approach for Europe. Solvency II is based in part on global banking standards that reflect Europe's more concentrated and interconnected market, its tradition of greater intervention into the private sector, and its desire for a more one-size-fits-all common market standard. Solvency II's approach and structure is fundamentally different from the time-tested state-based insurance regulatory system in the U.S. that is more focused on consumer protection and supported by extensive data reporting and guaranty funds in every state. Solvency II is more focused on protecting investors than consumers. It may be the right system for Europe, but it is not right for the U.S. For example, all of the Team USA representatives have suggested that portions of Solvency II, such as required market valuation of liabilities, would not be beneficial to U.S. consumers.

Unfortunately, Solvency II contains a requirement that companies from "third countries", including the U.S., be treated differently unless the third country is deemed to be equivalent, a highly prescriptive process. The U.S. understandably, and in consideration of the success of our different and time tested system, declined to engage in that process.

Just before Solvency II implementation, UK regulators demanded extensive data reporting from U.S. companies, reaching beyond Europe to the U.S. holding companies, thereby impliedly giving extraterritorial effect to Solvency II. Since then, German regulators have gone much farther—actually terminating the ability of U.S. companies to operate there in their current forms, even though they had been in the market and fully regulated for decades. This kind of unjustified punitive action is no longer just a threat—it is happening right now.

Ironically, the European Union found the U.S. sufficiently "equivalent" to prevent Solvency II from requiring more capital for its companies doing business in the U.S. However, they have so far refused an entirely consistent finding of equivalence that would equally benefit U.S. companies doing business in Europe.

We have been in nearly constant touch with our covered agreement negotiators at the Treasury and USTR and with the NAIC. Attached to this testimony is a copy of a letter PCI President and CEO David Sampson wrote to the key US negotiators. The letter sets forth PCI's views on the appropriate U.S. priorities for a covered agreement and, in particular, the need to ensure that any final deal includes mutual recognition. We also appreciate the many expressions of congressional concern and we urge Congress to continue to exercise oversight over the covered agreement process. We believe that all U.S. parties fully understand the gravity of the situation and are doing their best at the negotiating table. But, if we do not succeed diplomatically, we fear there will be louder and more persistent calls for retaliatory action.

**The Need for Continued Vigilance and Engagement in all Areas of International Regulatory Discussions**

There is no area of insurance regulation not being discussed in international forums—capital, governance, executive remuneration, market conduct, resolution, cyber security and the role of technology, among others. The U.S. regulatory system has addressed each of these areas—often with decades of successful results for consumer protection and for a competitive and financially strong market.   So the collective challenge for all of us—Team USA, the Congress and U.S. consumers and industry is to work together for outcomes that respect our system as fully compliant with Solvency II. This means working for outcomes in every area that are sufficiently high level and principles based that they allow proven effective systems, although different, to be fully recognized. Below we provide a few examples of potentially beneficial outcomes.

- Capital issues have tended to dominate international discussions.  We think the proven effective jurisdictional systems should be the essential elements of any international system. Additional capital, if any, should only be required when well identified vulnerabilities and systemic risk is demonstrated.

- With regard to governance, the critical issue is to maintain a flexible and proportional approach that focuses on outcomes and essential functions, not a one-size-fits-all mandate that does not reflect jurisdictional law and/or very different corporate structures.  So far, the work of the FSB, IAIS and OECD are consistent with these notions and we urge that all players continue in that vein.

- Executive compensation is receiving increasing attention. Our view is that compensation should be a market determination, subject, however, to over-all consistency with high level principles.

- International market conduct standards should be based on the reality that consumers benefit not just from regulatory restrictions but also from innovation and competition. Therefore, a careful balance should be struck and costs as well as benefits should be weighed.

- Resolution of distressed or insolvent insurers is now receiving significant regulatory focus.  The U.S. has a proven effective system that should not be impinged upon. Specifically, the role of the courts in the U.S. system should be emulated elsewhere and different levels of intervention provided pursuant to duly enacted legislation.

- Cyber security of insurers is being comprehensively addressed in the U.S. at the federal and state level. We are still working on achieving the best balance of security, cost and cooperation. Accordingly, other than some high level papers, US negotiators should not agree to positions in international regulatory discussions before the U.S. completes its process.

- As with cyber security, U.S. regulators are deeply involved in considering the effects of technology on insurers and the consumers they serve.  Again, we think this process should reach finality before international standard setters go beyond their current work on identifying the impacts and challenges technology presents.

## Conclusion

Since the enactment of Dodd-Frank, the international insurance regulatory world has evolved in ways that may not reflect congressional intent to protect the strength and competitiveness of the U.S. insurance market and its consumer focused state-based regulatory system. We commend the Congress for its efforts to date and urge swift action on H.R. 5143, which will improve international insurance regulatory deliberations and outcomes and clearly and effectively promote U.S. markets, the interests of our consumers and our proven effective state-based insurance regulatory system.

PCI

Property Casualty Insurers
Association of America

Advocacy. Leadership. Results.

David A. Sampson
President and CEO

August 14, 2015

The Honorable Jacob J. Lew
Secretary of the Treasury
US Department of the Treasury
1500 Pennsylvania Av., NW
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Mr. Michael Froman
US Trade Representative
Office of the US Trade Representative
600 17th Street N.W.
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Mr. Ben Nelson
Chief Executive Officer
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Dear Secretary Lew, Ambassador Froman and Senator Nelson:

The Property Casualty Insurers Association of America's (PCI) approximately one thousand member companies provide insurance and reinsurance throughout the US and the world. Our membership includes single state mutual insurers, regional powerhouses, and international diversified financial firms. PCI has members in every US state and every global region, including a majority of the top 50 performing insurers ranked by Ward's and half of the top 10 insurers ranked by JD Power for consumer satisfaction. PCI's mission is to promote and protect the viability of a competitive private insurance market to the benefit of consumers and insurers.

The US Treasury Department, the United States Trade Representative (USTR) and the state insurance regulators are approaching a critical juncture in determining how to assure mutual recognition of the US insurance regulatory system by major trading partners, especially the European Union (EU), and whether to address issues regarding the US collateral for reinsurance system (potentially using the covered agreement authority under Dodd-Frank). This letter provides perspectives on how best to proceed in resolving each of these matters of importance. PCI has a long history of support for state regulation of insurance, but we also recognize Treasury's statutory responsibilities under the Dodd-Frank Act. PCI will continue to work constructively with Treasury, USTR, and state insurance regulators on these important issues.

## I. Mutual Recognition

Treasury, the USTR and the state regulators have worked diligently for many years to encourage a robust international insurance trade, including actively working to facilitate trading of risks between the two largest insurance markets – the European Union and the United States (who together oversee roughly 70% of the world's insurance market). The EU has recently adopted a new regulatory framework intended to modernize its insurance regulatory system, Solvency II, which generally provides that, in order for non-EU insurers to be treated in the same way as European insurers, their home regulatory system must be deemed "equivalent" to Solvency II. Specifically, the Solvency II Directive (Directive 2009/138/EC), targeted for implementation from January 1, 2016, requires foreign countries to *apply* for an "equivalence" determination to avoid discriminatory treatment. Equivalence determinations are based on a series of requirements that the foreign country must have equivalent rules in areas such as group capital requirements, group supervision and reinsurance. State and federal representatives have indicated that the US will not apply for an equivalence determination, raising questions about whether US (re)insurers with subsidiaries in Europe will receive discriminatory treatment, such as being subjected to additional layers of EU group supervision and capital requirements.

In 2012, Treasury, US state regulators, the European Commission and EU regulators began the US-EU Dialogue Project to improve mutual understanding of the region's different regulatory systems, processes and markets. The state regulators also made significant modifications in state insurance regulation, including adoption of NAIC models that are now being implemented in the states on Own Risk and Solvency Assessment, Enterprise Risk Management requirements, and expansion of the Model Holding Company Act.

Most relevant, in 2011 the NAIC also adopted changes to the Credit for Reinsurance Model Law and Regulation reducing (in some cases to zero) required reinsurance collateral for non-US reinsurers reinsuring risks in the US, provided they are domiciled in a "qualified jurisdiction" and their security level, as determined by several recognized rating agencies, meet certain levels. These developments should have helped achieve greater mutual recognition and appreciation for the US state-based regulatory system. This does not seem to be the case based on European statements to date, and Treasury's Federal Insurance Office (FIO) has indicated that it will be seeking EU assurances of fair treatment of US (re)insurers. However, with no specific equivalence application in process, time is quickly running out for a mutual recognition agreement or understanding before January 1, 2016 in order to avoid the uncertainty of discriminatory treatment and a potential trade war. In particular, significant pressure continues from parts of Europe for the US to completely eliminate reinsurance collateral requirements. Conversely, in some European countries, US reinsurers are no longer acceptable for credit for reinsurance purposes and in other countries, regulators are requiring US reinsurance companies to convert their branches to subsidiaries and ring-fence capital in excess of the amounts required in the US.

PCI strongly supports mutual recognition of robust regulatory regimes, including the US and EU, and has raised with the federal agencies, states, and members of Congress the importance of preventing EU discrimination against US (re)insurers. PCI has also encouraged US insurance stakeholders, to the extent that a covered agreement with the EU is negotiated, to insist that a full mutual recognition commitment be a fundamental part of any overall deal.

## II. Covered Agreement – Reinsurance Collateral

Background

The Dodd-Frank Act authorizes the Treasury Secretary and the USTR to jointly negotiate and enter into covered agreements on behalf of the United States, after consultation with Congress on the nature of the agreement, how it would achieve statutory goals, and its implementation and general effect. Covered agreements are defined under the law as agreements between the US and foreign authorities regarding prudential measures with respect to the business of insurance or reinsurance that achieve a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulation. State insurance measures are only subject to preemption to the extent that FIO determines that the measure results in less favorable treatment of a non-US insurer that is subject to a covered agreement than a US insurer domiciled, licensed, or otherwise admitted in that State. The single issue that Congress discussed during the Dodd-Frank Act that fit this description is state requirements for reinsurance collateral.

While state insurance regulators do not have direct oversight over non-US reinsurers, the regulators set the qualifications for the reinsurance credit claimed by primary insurers who purchase reinsurance. Primary insurers do not receive solvency credit from state regulators for reinsurance unless a state regulator finds that the non-US reinsurer is financially sound and, where appropriate, there is reinsurance collateral in place. The Treasury Department adopts a similar approach in requiring that non-US reinsurers post collateral on risks ceded to them by Treasury-approved surety bond writers. Reinsurance collateral can add additional transactional costs and is not needed by all primary insurers. However, a majority of reinsurance is purchased from foreign reinsurers and some primary insurers are concerned about their ability to collect in the event of a dispute. Regulators want the ability to ensure that primary insurers have access to adequate collateral to compensate policyholders in large events that trigger reinsurance coverage.

In 2011, the NAIC passed changes to its Credit for Reinsurance Model Law and Regulation that create a sliding scale for reinsurance collateral requirements based on the reinsurer's financial strength, claims payment history, and licensure in a qualified jurisdiction. A number of European countries, Bermuda and Japan have been recognized by the NAIC as qualified jurisdictions and more than 30 foreign reinsurers have been certified, most benefitting from significantly reduced reinsurance collateral requirements for their primary insurance purchasers to receive full credit for reinsurance. A majority of states representing a majority of insurance premiums have implemented the new model law over the past couple of years. Most of the remaining states will likely have achieved that goal in the near future.

(Re)insurers have largely supported the NAIC model in the states and PCI has discouraged state deviations. The NAIC has also developed a process both for certifying reinsurers at the state level (the "passporting" process) and for designating "qualified jurisdictions," which are identified as having sufficiently robust regulatory standards for reinsurers. While they have not yet achieved complete national uniformity, the states have made rapid progress and are well on their way toward that goal. We also note that the NAIC is committed to reviewing, on a periodic basis, the collateral levels established in the current model law and regulation, creating the potential for further relaxation of collateral requirements in the future as circumstances may warrant.

<u>Stakeholder concerns</u>

There are three primary criticisms raised by the Federal Insurance Office (FIO) regarding the NAIC process: (1) qualifying determinations are not nationwide; (2) the federal government is better positioned to balance insurance determinations with broader US economic or regulatory policy; and (3) the NAIC model depends too heavily upon assessments of reinsurers' creditworthiness by credit rating agencies (CRAs). FIO has suggested that it is well-positioned to make determinations about qualifying foreign jurisdictions. It is further suggested that the states' lack of uniformity and focus on national interest leads to a conclusion that Treasury and USTR should pursue a covered agreement for reinsurance collateral requirements, based on the NAIC for Reinsurance Model Law and Regulation. State regulators have highlighted that the business of insurance is regulated by the states as Congress has confirmed multiple times with reference to the McCarran-Ferguson Act, partly in recognition of the local insurance risks and needs that vary across the country. State regulators have also observed that the NAIC process for determining reinsurance collateral requirements is rapidly moving towards national uniformity without a covered agreement and that shifting from the states to the Federal Insurance Office control of the balance between protecting insurance policyholders and other national interests is not an express statutory goal of the Dodd-Frank Act.

There was broader consensus during Congressional Dodd-Frank Act deliberations that federal government reliance on CRAs was suboptimal. However, replacing existing private sector analysis with new government evaluations has to be done carefully to avoid creating much more burdensome and expensive certification.

Supporters of state insurance regulation have also noted that there are alternatives to achieving uniformity without a fully preemptive covered agreement, such as setting a deadline for state uniformity (as done in NARAB legislation in the Gramm-Leach-Bliley Act) or having a covered agreement preempt only those states that have failed to uniformly implement the NAIC model. The threat of covered agreement negotiations has probably encouraged the state race towards a more uniform system of reduced collateral and a covered agreement could be structured to further expedite this process. However, if a covered agreement is subsequently adopted preempting state law there could be potential significant complications as state insurance departments still ultimately regulate primary insurers and determine their solvency standards. A covered agreement would not be striking down explicit state requirements for reinsurance collateral, but rather in essence demanding that the states recognize full credit for reinsurance for primary insurers despite contrary state laws -- creating practical implementation challenges and potential constitutional questions if not carefully constructed.

PCI has advocated in several instances for increased uniformity in credit for reinsurance provisions. PCI is open to multiple approaches towards the same outcome but we are concerned about the unintended consequences of federal standards layered on top of and potentially conflicting with state requirements. Preemption would create more uncertainty to the extent that a covered agreement compromise reduces reinsurance collateral as the Dodd-Frank Act requires, as a condition of preemption, that the agreement achieve a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulation.

Members of Congress are expressing increasing concern about international pressures being applied to state insurance regulation. The growing angst is evidenced in the number of bills being introduced or that have passed key Senate committees or in House appropriations reports that would clarify Congressional intent in opposition to international pressures for a harmful, global, one-size-fits-all regulatory approach. Congress clearly intended the covered agreement process to be an *option* to facilitate improved mutual recognition for reinsurance and to address foreign complaints about US discrimination in reinsurance collateral. However Congress also kept the provision intentionally very limited and not mandatory. Suggestions by some foreign parties that a covered agreement be used as a vehicle to address issues unrelated to reinsurance collateral requirements, such as trying to facilitate further federal intrusion into insurance group supervision, fall far outside the limited Congressional delegation and could generate significant Congressional and stakeholder opposition. The greater the departure from the NAIC credit for reinsurance models, and the more extraneous issues are included, the greater the danger of creating controversy and even opposition.

Transparency and Cooperation

Treasury and USTR could help pave the way for acceptance of any agreement negotiated by ensuring that the negotiations are conducted with full transparency. The Dodd-Frank Act requires consultation with Congress before covered agreement negotiations are initiated and again 90 days before the agreement may enter into force. Complaints have been escalating in Congress, with bipartisan and bicameral concern, against the worsening lack of transparency in international insurance negotiations. Similar bipartisan and bicameral calls have been made for federal and state agencies to work together with respect to insurance to coordinate US policy and negotiating strategy. Concerns about covered agreements reflect not only opposition by some to further preemption of state law (or layering of additional federal law), but also anxiety that the US negotiators will reduce consumer protections, tack on extraneous provisions, fail to demand real value for the US in return (such as mutual recognition), or fail to coordinate between the states and federal agencies a common approach so that any federal commitments can be incorporated into the state solvency process as seamlessly as possible.

The USTR typically leads a very robust public and Congressional vetting process when negotiating trade agreements, which includes extensive opportunity for stakeholders to weigh in. When negotiating on issues affecting insurers, USTR has worked closely and productively with state insurance regulators. This was an important reason for the inclusion of the USTR in the covered agreement negotiating process. All covered agreement stakeholders would benefit from a similar transparent and inclusive consultation process throughout negotiations, including close and regular consultation with state insurance regulators and domestic (re)insurers. PCI appreciates the initial efforts by the USTR, FIO and the states to solicit and receive stakeholder input. PCI strongly believes that the best possible outcome can only be obtained if Treasury and USTR as well as state insurance regulators engage proactively with each other regarding any negotiation of a covered agreement. The more Congressional and other stakeholder consultation can be achieved with adequate transparency and cooperation, the greater the likelihood of mutual satisfaction with lessened political opposition.

**III. <u>Conclusion</u>**

PCI strongly supports efforts to achieve mutual recognition especially from the EU for US (re)insurers. PCI also appreciates the desire for increased uniformity and ongoing improvements in the regulation of reinsurance collateral. While PCI will not take a position in support or against a covered agreement until our members know specifically what it would include, we have and will continue to express our views on how best to achieve mutual recognition and how best to move forward to address remaining reinsurance collateral issues.

PCI hopes our comments will be received in the constructive spirit in which they are offered and we pledge to continue to work cooperatively with all stakeholders. If you have questions or need further information from PCI please contact me or Bob Woody at (202) 639-0496 or Robert.Woody@pciaa.net.

Sincerely,

David A. Sampson

David A. Sampson