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October 29, 2008

Steven M. Goldman, Commissioner
New Jersey Department of Banking and Insurance
20 West State Street
PO Box 325
Trenton, NJ 08625

Re: Reinsurance Regulatory Modernization Framework Proposal

Dear Steve:

Congratulations on your success in obtaining the approval of the Reinsurance Task Force and the E Committee for the Reinsurance Regulatory Modernization Framework Proposal! We are aware of the significant challenges you faced in leading the development of this proposal, as well as the need to demonstrate the NAIC's ability to address this long-standing issue. There can be no doubt that the Proposal would not be moving forward now without your personal dedication and expertise.

While the undersigned are supportive of the goals of the Reinsurance Regulatory Modernization Framework Proposal ("the Proposal"), we are very concerned that the Proposal in its current form has a major defect which may jeopardize its approval by the NAIC Plenary Committee during its December 2008 meeting. We refer to the Proposal's silence on an essential and fundamental matter - assurances that the Reinsurance Supervision Review Department ("RSRD") will be a publicly-accountable, transparent entity that is open to all interested and qualified members of the NAIC.

The Proposal envisions a significant role for the RSRD. The RSRD will be charged, among other important duties, with evaluating the supervisory regimes of non-U.S. jurisdictions and determining which jurisdictions are eligible to be recognized by Port of Entry States; making recommendations for changes to collateral requirements for National and Port of Entry Reinsurers; and establishing eligibility criteria for states proposing to become National or Port of Entry Supervisors. In essence, the RSRD



will function as a regulatory agency in terms of establishing the standards by which the licensing and supervision of reinsurers throughout the country will take place.

We believe, in general, that these functions are appropriate for the RSRD. Our concern is that unless special care is taken in creating the RSRD and in establishing its governance structure, a real possibility exists that the RSRD may be perceived as unaccountable, or unable to fairly consider the interests of all NAIC member states. Will the RSRD be created as an administrative unit of the NAIC, directly accountable only to the NAIC Executive Committee? Will the RSRD be an entity governed by a Board of Directors that includes private sector members with interests in the regulatory standards established by the RSRD? The undersigned cannot support the Reinsurance Modernization Proposal unless a Statement of Principles for the creation and governance of the RSRD is included in connection with the proposal, such as the following:

Creation and governance of the Reinsurance Supervision Review Department.

- The RSRD will be created as an independent, transparent entity, with a governing board composed of state or district insurance regulators.
- The directors of the RSRD governing board may be limited in number, but director eligibility must be open to all state or district insurance commissioners, directors and superintendents, including fair representation by small, large and medium-sized jurisdictions.
- The proposed RSRD criteria relating to “ceded premium volume” (see Section 10(e)(iv) of the Proposal) will not disqualify otherwise qualified jurisdictions from approval as a Home State or Port of Entry State supervisor.
- While federal enabling legislation can be considered to confer appropriate authority to the RSRD, other implementation steps can and should be taken through a state-based implementation approach.
- The Plenary Committee of the NAIC will have an appropriate role in the appointment of the directors of the governing board of the RSRD, for example through a process of approval or ratification of directors’ appointments.
- The RSRD will have appropriate mechanisms to ensure public accountability.
- An NAIC Task Force, such as the Reinsurance Task Force, will provide oversight in the drafting of any federal legislation, and in the implementation of the Reinsurance Modernization Proposal.
- The RSRD will periodically report to the NAIC Executive and Plenary Committees concerning its activities, and its progress in implementing the Proposal.

We are cognizant of the stage of development of the Reinsurance Modernization Proposal. We have no desire to delay the NAIC's consideration of this important initiative. Therefore, we propose that the Statement of Principles articulated above be included as a Drafting Note to the Proposal, and that NAIC staff and the Government Relations Leadership Committee be directed to support federal legislation relating to the Proposal only if the federal legislation embodies and implements the Statement of Principles.

We look forward to a dialogue with you and other members of the Task Force before the NAIC's meeting in December, 2008.

Sincerely,



Paulette J. Thabault, Commissioner
State of Vermont



Mila Kofman, Superintendent
State of Maine



Ann M. Frohman, Director
State of Nebraska



Thomas E. Hampton, Commissioner
District of Columbia



Mary Jo Hudson, Director
State of Ohio

cc: Sandy Praeger, Commissioner & NAIC President
Members of the Reinsurance Task Force

✓ cc Daniel Schelp