JOSEPH P GUNSET
General Counsel

LLOYD'S

July 17, 2008

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

Re: NAIC Reinsurance Modernization Framework Proposal (Memorandum of July 3, 2008)

Dear Commissioner Goldman:

We are writing to offer our comments on the July 3, 2008 memorandum circulated by the NAIC Reinsurance Task Force (RTF).

Preliminarily, we would like to acknowledge the hard work regulators have done on this important issue. It is clear to us that the Task Force has listened carefully to industry's comments on its drafts. We would like thank the RTF for its careful consideration of the points raised in our letter dated May 28, 2008 and for its acknowledgment of Lloyd's role as an important participant in the United States reinsurance, surplus lines and direct insurance markets[1].

We would also like to recognize the substantial progress that has been made towards enhancing and modernizing the U.S. reinsurance regulatory regime. Clearly, the July 3 memorandum represents a very substantial improvement over the current system.

We feel that we should record our view, however, that there are some principles that are not incorporated into the current proposal which we believe should be included in any new long term regulatory approach to these issues. We continue to believe that these principles need to be included in a modernized regulatory structure to maximize the ability of U.S. insurance regulators to coordinate their efforts on a fully cooperative basis with their colleagues in this country's major trading partners. We present these comments as an organization that has demonstrated an established commitment to the future health of the U.S. market and which has been a long-standing participant in NAIC deliberations on these issues.

[1] We note the clarification in the memorandum that only U.S. domestic reinsurers may qualify as national reinsurers and that reinsurers domiciled outside the U.S., such as Lloyd's Underwriters, would qualify as P.O.E. reinsurers. We also note that P.O.E. reinsurers would not be permitted to have a "physical presence in the U.S.". It is our understanding that this language is intended to prohibit P.O.E. reinsurers from establishing underwriting offices in the U.S. and is not intended to prohibit such things as liaison offices that do not engage in underwriting activity. If we are correct in our understanding, we would ask for a revision to make this distinction clear.

Lloyd's is authorised under the Financial Services and Markets Act 2000

As Lloyd's has commented before, we suggest that where the RSRD has recognized another jurisdiction as having a system of regulation that is equivalent to that in place in the United States and as otherwise meeting the standards set forth in the memorandum, the regulator in that jurisdiction should be treated as being an equal of its U.S. colleagues. Thus, we would respectfully submit that it is duplicative for a reinsurer from that jurisdiction and subject to that regulator's supervision to also be subject to the additional oversight of a U.S. Port of Entry State. We believe the ultimate goal must be full mu tual recognition among effective regulators in t he global reinsurance market, both here and abroad.

We certainly recognize the strength of the U.S. insurance regulatory system but we believe that regulatory systems in certain other jurisdictions are equally as strong. As a result, we do not feel that different collateral requirements to those required of US reinsurers are justified for strong, well-regulated non-US reinsurers from a jurisdiction that the RSRD has found to impose a regulatory regime that is equivalent in its effectiveness to that in the U.S.. We continue to believe that the framework should treat a strong well-regulated non-U.S. reinsurer the same as its equivalent in the U.S.

We are grateful for the specific provisions added to the memorandum to address and resolve issues arising from the structure of the Lloyd's market. While these provisions address Lloyd's specific issues, we feel a commitment to the RTF to assist it in making the framework as good as it can be for the market as a whole. In this spirit, we believe the ideal approach would be to broaden the scope of the framework to cover all those entities writing reinsurance, provided they meet the regulatory jurisdiction standard and financial criteria. We understand that a number of international "mixed insurers" have strong views that this distinction between those reinsurers that do and do not write direct insurance should be removed from the framework. Like them, we are unsure of the rationale for restricting the proposal in this way. We believe it should be possible to clarify that direct business written by mixed insurers is outside the scope of the framework and would continue to be fully subject to all applicable U.S. regulatory requirements for direct insurance activity.

Finally, the U.S. has for a number of years conditioned balance-sheet credit for reinsurance upon the reinsurance agreement containing a few mandatory contract provisions, such as the standard insolvency and service of suit clauses. We note that paragraph 11(g) in the July 3 memorandum goes further and mandates several additional clauses that we do not believe have heretofore been mandated. We believe that, while the imposition of some contractual requirements may be appropriate, the global reinsurance market benefits from allowing ceding insurers and their reinsurers to freely negotiate the terms and conditions of their agreements. For this reason, we believe that mandatory clauses should be kept to the minimum necessary to promote sound regulation and that any mandatory clauses that are imposed should be made uniform across the country.

We thank the RTF for making significant progress in the last few months towards modernization of the current US credit for reinsurance rules. Our comments are offered in an effort to be constructive and supportive of the RTF in its endeavours to deliver a reinsurance regulatory modernization framework that will ensure the security of insurers and to be responsive to the challenges of a global industry. Once again, we are grateful for the acknowledgement of the importance of Lloyd's in the U.S. marketplace and the acceptance of the need to accommodate Lloyd's market structure as part of the regulatory modernization framework. We support the goal of maintaining a secure and healthy U.S. insurance and reinsurance market and will continue to work towards that end.

Please do not hesitate to contact us if we can offer further assistance or information.

Respectfully,

Joseph P Gunset

cc: Robert B. Kasinow,
Chief Insurance Examiner- NJDOBI
Bryan Fuller, NAIC