NAIC

National Association of Insurance Commissioners

February 4, 2008

The Honorable Paul Kanjorski
Chairman, Subcommittee on Capital Markets,
Insurance, and Government Sponsored Enterprises
House Financial Services Committee
2188 Rayburn House Office Building
Washington, DC 20515-3811

Dear Chairman Kanjorski:

I am writing to respond to your January 23, 2008 letter regarding the financial guarantee insurance market. As President of the National Association of Insurance Commissioners (NAIC), I appreciate the Subcommittee's concerns about the ongoing viability of the financial guaranty insurance market. Individual responses from each of the principal regulators of the financial guaranty insurance market (New York, Wisconsin and Maryland), which respond to the specific questions posed in your letter, are attached to this letter.

The concerns regarding the condition of financial guarantee insurers and condition of the financial markets are two distinct issues, but related. The problems in the market today are partly about insurance, but more about the insured products in the underlying markets. We perform our role, but we do not purport to be the sole or even primary factor in this very complex economy where many markets and regulators are interacting.

It is the responsibility of state insurance regulators to ensure that insurance companies meet obligations to their policyholders. This is accomplished in many ways, one of which is solvency regulation. NAIC Statement of Statutory Accounting Principles No. 60 (Financial Guaranty Insurance) requires financial guaranty insurers, because of the nature of their business, to maintain a contingency reserve in addition to the normal reserves for unpaid losses, loss adjustment expenses, and unearned premiums. The purpose of this (contingency) reserve is to protect policyholders against loss during periods of extreme economic contraction. In addition to these measures, the insurers also have to meet the minimum capital and surplus requirements established by the state. In addition, state regulators proactively monitor the financial condition of insurers domiciled in their state. The situation with many bond insurers is not so much a solvency issue as it is a rating agency and franchise value issue. Using a variety of solvency monitoring tools and active cooperation and coordination among states, the state insurance regulatory regime has worked. Bond insurers have been paying and continue to pay all claims. In fact, bond insurers have incurred extremely minimal claims. Recent media reports confused certain companies' abilities to write new business with the fact that they have sufficient reserves to cover the current anticipated level of claims.

Stock price and rating agency actions are relevant to the financial monitoring of bond insurers by state insurance regulators. Companies comply with state financial standards and their ability to pay its claims to its policyholders is the standard used by state regulators in carrying out their regulatory responsibilities. We believe that the actions taken by state regulators help the market by providing solid solvency regulation. The insurance questions raised by the Committee are important and are answered by the attached materials, but the insurance questions are at the end of a long chain of market transactions. These market issues invite Congressional review because it is clear that both the broader market and insurance regulation could benefit from these issues being addressed.

We look forward to working with you and all of the market regulators to review and improve the regulation of the markets.

Sincerely,

Sandy Praeger

Sandy Praeger
NAIC President

Catherine J. Weatherford
NAIC Executive Vice President and CEO

Attachments:
Letter from Superintendent Dinallo (NY)
Binder attachment from Superintendent Dinallo (NY)
Letter from Commissioner Dilweg (WI)
Letter from Commissioner Tyler (MD)