Mathematical Finance Company
QTSM CIR Green's Function Multifactor CIR and Affine Options SIRP ESG RS-ESG DMRP RS-DMRP

July 19, 2024

Honorable Rachel Hemphill
Chair, Life Actuarial (A) Task Force (LATF)
Re: Reinsurance Asset Adequacy Testing Concepts Exposure.

Dear Ms. Rachel Hemphill,

Please accept this comment on the exposure for Reinsurance Asset Adequacy Testing Concepts. Many countries in the developing and emerging markets use capital flow management measures (CFMs) and macroprudential rules with the IMF's support that can limit capital outflows during a crisis.

Offshore reinsurance from developing and emerging markets requires asking bank regulators for a special rule that reinsurance avoid capital control measures during a crisis. Asking bank regulators in advance to approve a special rule for offshore reinsurance brings up all the reasons that they shouldn't. Loosely regulated tax havens should not be the locus of capital for stopping a financial crisis. They are sources of systemic risk not mitigators and reducers of systemic risk.

Bank regulators would not allow the nexus of risk control and offsets for the international swap and derivatives market to relocate to loosely regulated offshore tax havens. If asked to approve a special capital outflow rule for reinsurance they would point out to insurance regulators they should not be building their risk control house on sand. Offshore tax havens on islands are subject to risk of large storms from climate change harming their water supply and make no sense as the location of risk control for reinsurance.

Offshore reinsurers are not missionaries for managing mortality risk inside the US. What they do is take risky asset bets with the riskiest tranches of complex bond derivative structures that create systemic risk for US regulators. This is the reversal of the intent of Dodd Frank. The large insurers were able to get out of Dodd Frank by claiming they were not a nexus of systemic risk. Offshore reinsurance by large companies used to avoid capital risk regulations is creating systemic risk on purpose. They are thus not just failing to cooperate with Dodd Frank but are creating an anti-Dodd Frankenstein in loosely regulated offshore tax havens.

An offshore reinsurance failure in Latin America of 50 billion dollars or more would be a major failure for Latin America. This would damage the credibility of Latin American regulators and of the Inter-American Development Bank (IADB) and IMF and World Bank to manage capital risk in Latin America. The IADB and IMF need to find a way to transfer 400 billion to 1.1 trillion dollars of capital a year to Latin America for climate mitigation. A reinsurance failure in Latin America would disrupt this effort. Reinsurers are supposed to be helping climate mitigation not disrupting the capital flows and regulator credibility needed to make it work. Every discussion of offshore reinsurance shows the problem is getting bigger from the last time. This is true whether it is LATF discussing it, or hearings by Sherrod Brown or others in Congress.

It is recommended that the NAIC end offshore reinsurance except from highly developed regulated countries that are fully staffed to regulate reinsurance treaties and have capital, tax and investment rules with similar financial results for reinsurers as staying in the US. Also, that the total volume and complexity of all offshore reinsurance be regularly monitored as a source of systemic risk. This should then be combined with swap and derivative risk as well as complex bond instruments for a total called "Difficult to manage, mitigate, hedge, calculate or understand risk that is large in size". This is a definition of systemic risk. That is precisely what the large insurers claimed they were not a source of or contributor to in order to get out of Dodd Frank.

Sincerely yours,

Mark S. Tenney

618 Trailhead Road, Monument, CO 80132
(703) 474 0551 • marktenneymfc@gmail.com • mfcesg.com