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#### ► THE INSURANCE AND REINSURANCE CRYSTAL BALL

In order to make any prognostications about the US insurance and reinsurance world for 2008, we have to look back at what happened in 2007. If we had to choose one letter of the alphabet to identify 2007, it would have to be 'P' as we witnessed a year full of politics and proposals and as the year comes to a close, there are many possibilities. The year began with proposed settlements to Katrina-related coverage lawsuits that were rejected by courts, with political undertones as politicians pushed for legislative change on a federal level. We saw several reinsurance proposals – including the NAIC's proposed modernisation of reinsurance regulation and the Superintendent of New York's Insurance Department proposed

principles-based regulation – that would reduce, or even eliminate, collateral requirements for alien reinsurers. Additionally, the proposed optional federal legislation, which would provide life and property/casualty insurers a choice of federal rather than state regulation and was originally introduced in 2006, was re-introduced in both the Senate and the House.

These proposals may turn into actuality during 2008 and 2008 might be a year of 'A' – action and accomplishment. The implementation by EU Member States before a December 2007 deadline of the EU Reinsurance Directive demonstrates the breaking down of borders in the insurance and reinsurance world on an international level and the creation of a truly global insurance and reinsurance market. The proposed changes to the US collateral rules would further break down the world's borders by ceasing to differentiate between non-US reinsurers and domestic reinsurers. Other states, including Florida, have vowed to follow the lead taken by New York and have proposed

that the collateralisation rules be rewritten in an attempt to increase reinsurance capacity. Analogously, the optional federal charter legislation would create, at least in part, a unified federal insurance regulatory landscape within the United States.

Looking forward, while it is impossible to predict if 2008 will bring us another September 11 or Katrina, the market now expects D&O and E&O claims arising from the subprime mortgage crisis. Any catastrophe – whether man-made or natural – would have the effect of changing the industry focus from proactive (trying to bring about change in the industry) to reactive (how the industry responds to the losses). The one thing that is clear is that a major catastrophe within the US would have ramifications for insurers across the world. A perfect example of spreading the risk. . . ■

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