NEW YORK INSURANCE DEPARTMENT APPOINTS
NEW YORK INSURANCE EXCHANGE WORKING GROUP

In his 2010 State of the State address, New York Governor Paterson called for the reinstitution of the New York Insurance Exchange (“NYIE”) to act as a marketplace for large insurance and reinsurance risks. Shortly thereafter, New York Superintendent of Insurance Hon. James Wrynn convened a select group of representatives (the “Working Group”) to study the various issues relating to an insurance exchange, including investment opportunities, potential markets, government regulation, tax and governance. The Working Group includes members of private equity firms, investment banks, insurance and reinsurance companies, Lloyd’s (which may provide the model) and insurance brokers.

The inaugural meeting of the Working Group focused on the opportunities this initiative presents to New York State and interested parties. Superintendent Wrynn noted that rebuilding the NYIE, which originally operated in the 1980s, would be important for the enhancement of New York’s image as a major center of international trade and finance, and it is also projected to stimulate the New York economy and create jobs. Although these are obvious potential benefits to New York City and State, Superintendent Wrynn emphasized that the government’s interests in reinstituting the NYIE is only one piece of the puzzle; without industry and investor interest, a new NYIE will not be feasible. Therefore, the NYIE Working Group was organized to assess the feasibility of the initiative.

The Working Group will be divided into subcommittees led by senior insurance department officials. The subcommittees will focus on capitalization, tax, regulatory oversight, operations and technology and other issues. Over the next several months, subcommittees will meet to consider whether and how a new NYIE might provide an efficient “go-to” market for specialty risks including hard-to-place reinsurance and complex catastrophe risks such as terrorism, reputational and cyber security coverage. Means of attracting nontraditional sources of capital such as hedge fund and private equity investors whose capital has been deployed offshore, will be another important issue for the Working Group. The Working Group also will explore the federal tax treatment of revenue derived by NYIE syndicates and “leveling the tax playing field” for such syndicates.

Reinstituting the NYIE has received significant support from federal, state and city officials and interest in the concept has been expressed by industry and investors. Challenges include overcoming skepticism arising from failures of the original NYIE and identifying a need for such an initiative in light of tax advantages for offshore reinsurance operations and the current soft insurance market.
As participants in the Working Group, we will be following the progress of the NYIE closely. If you have any questions, please contact Mitchell J. Auslander (212-728-8201, mauslander@willkie.com), Leah Campbell (212-728-8217, lcampbell@willkie.com) or the Willkie attorney with whom you regularly work.

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