International Insurance Issues:

International organizations based in Basel Switzerland like the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) are moving to establish uniform global standards that in some cases are not consistent with the current U.S. financial regulatory system or in the best interest of U.S. consumers and insurers. There needs to be more transparency in their activities, and there should be more interaction with U.S. stakeholders, including industry and consumers. Congress should pay closer attention to the specific roles and policy-making activities of the Treasury and the Federal Reserve who are both deeply engaged in these organizations that are rewriting the rules at the international level.

- The U.S. insurance market is the largest and most competitive in the world, with over 6000 insurers, $7 trillion in assets, and nearly $1.8 trillion in annual premium. Tinkering with a regulatory system that has allowed such a market to develop should be done by those responsible for developing it – not by foreign standard setting bodies who have no obligation to policyholders and the marketplace.

- U.S. state insurance regulators believe in the quality of our system of state-based regulation, and we appreciate the strong support in Congress for the states on insurance matters. We are working continuously to improve our system, which has a strong track record and evolves to keep pace with market innovations and global competition.

- The states are achieving greater cooperation and collaboration with other jurisdictions to ensure effective and efficient supervision of large international insurance groups. U.S. state insurance regulators have a long history of coordinating with each other, and we are working with regulators throughout the world to advance our common regulatory objectives.

- The best way to advance international cooperation and coordination among insurance supervisors and other financial regulators is through the evolution of supervisory colleges. Supervisory colleges are joint meetings of interested regulators with company officials and include detailed discussions about financial data, corporate governance, and enterprise risk management functions. Many of the largest global insurance companies in the world are based in the U.S. or licensed to sell insurance in our market. All are closely supervised by state insurance regulators who coordinate and participate in supervisory colleges for each.

- International standards for insurance, as they continue to develop, should be focused on achieving positive outcomes, provide flexibility for local supervisors, and support the work of supervisory colleges without prescribing any one-size-fits all approach. For example, there are different approaches to minimum capital standards and different accounting systems that should be respected.
Europe is moving to implement a new system called Solvency II, and we are engaged in discussions with them about the impact on U.S. firms doing business in the EU. We believe our risk-based systems, while different, are designed to achieve similar outcomes.

The U.S. insurance market has remained stable and competitive, even during the crisis. Insurance policyholders are well-protected and U.S. insurers are well-capitalized today.

**Key Points**

Why are international insurance issues important to Members of Congress, U.S. state legislators, insurance regulators, companies, and consumers?

- First, there is global commitment to address risks to the financial system.
  - Insurance markets are both local and global – to spread risk, expand business opportunities, and help emerging markets grow. Major multinational insurance companies based here and abroad continue to expand their business activities in many different jurisdictions around the world.
  - The Financial Stability Board (FSB) was created by the G20 during the recent financial crisis to address ongoing concerns with potential threats to the financial system and provide guidance to promote stable markets worldwide for banking, securities, and insurance activities.
  - While global standards or guidelines are not binding on any nations or states, there is an expectation that the U.S. provides leadership and sets an example by demonstrating effective regulatory and supervisory practices.

- Second, there is a global effort to improve regulation and increase collaboration.
  - In addition to the focus on the stability of the global financial system, regulators throughout the world are working together to increase cooperation, enhance the effectiveness and efficiency of supervision, and promote stable markets.
  - While Europe continues to move toward implementation of a new risk-based Solvency II system, the U.S. has continuously made enhancements to our risk-based solvency system over the past two decades. For example, recent enhancements to our group supervision practices include the adoption of model laws providing new authority over holding companies and risk-management reporting requirements.
  - U.S. state insurance regulators have encouraged an international focus on promoting and supporting the development of best practices in emerging markets, which enables U.S. insurers to compete in more stable regulatory environments, and we are also working to ensure that global standard-setting is compatible with our strong and effective state-based system.
• Third, in the insurance sector, the states have an obligation to engage internationally.
  o U.S. state insurance regulators have an obligation to engage internationally as many major U.S. companies take on more risks overseas, which could expose them greater potential for losses that could impact policyholders here at home.
  o U.S. state insurance regulators know that in our system a promise made by an insurer is a promise kept, and the need to ensure these commitments are met continues to be the underlying principle that guides our efforts internationally.
  o Many work streams underway seek to encourage best practices around the world, but we must take care to ensure that international standards are based on common objectives and allow for local flexibility to achieve positive outcomes.

**International Issues That Could Impact the U.S.**

**Financial Stability and Systemic Risk**

• In 2013, the Financial Stability Board (FSB) designated a list of nine multinational insurance groups, including three based in the U.S., that the FSB determined are global systemically important insurers (G-SIIs), which means if they were to become insolvent and fail in a disorderly manner there could be a negative impact on the stability of the global financial system. While the FSB determinations are non-binding, the U.S. Financial Stability Oversight Committee (FSOC) has designated two of the three U.S.-based G-SIIs as potentially risky to the U.S. financial system and others are under review.

• Last year, the NAIC noted that the FSB designations were premature for the insurance sector in the absence of comparative analysis with the banking sector’s level of systemic risk. The NAIC has also expressed concern that the G-SIIs have not necessarily been provided with a clear explanation as to why they have been designated, and therefore it is a challenge both for regulators and for the G-SIIs to know how to best address or reduce their systemic riskiness to avoid being designated in the future. U.S. state insurance regulators are not represented on the FSB but have requested the opportunity for direct participation in FSB discussions and meetings on insurance matters.

• State regulators are represented on the FSOC by Missouri Insurance Director John Huff who, along with the Independent Insurance Expert Roy Woodall and then-Acting Director of the Federal Housing Finance Administration Edward DeMarco, expressed similar concerns about the FSOC designation process last year.

**International Group Capital Standards**

• As part of the proposed measures it believes should be applied to G-SIIs, the IAIS is moving forward, under specific direction from the FSB, to develop international insurance group capital standards to serve as a basis for applying higher loss absorbency (HLA) capital measures (“capital buffers”) for G-SIIs. These new capital standards are being designed to apply at the consolidated insurance or financial group level to supplement but not replace insurance legal entity requirements.
U.S. state insurance regulators and NAIC staff are engaged in the IAIS capital standards development process to encourage that proposals under consideration are compatible to the maximum extent possible with the current U.S. risk-based capital system. The NAIC is concerned that if new standards are excessive or too inflexible then they could increase costs on U.S. insurers and consumers and undermine the U.S. track record of effective solvency supervision and stable competitive insurance markets.

**Supervision of International Groups**

- The Common Framework (“ComFrame”) for the Supervision of Internationally Active Insurance Groups (IAIGs) has been developed by the IAIS and has entered the field testing phase for the next several years before its target implementation date of 2019. The intent is to design a common framework that specifies how supervisors around the globe should work together to supervisor large international insurance groups.

- There is a difference of opinion over how prescriptive ComFrame should be. The NAIC’s view is that, as a framework, ComFrame should provide guidance but remain flexible to encourage common outcomes that can be achieved through different approaches. The IAIS work on ComFrame should respect the integrity of local jurisdictions and their corresponding legislative authorities and not result in unwarranted new layers of regulation.

- While the NAIC strongly supports the goals of enhanced coordination and cooperation, state regulators remain committed to ensuring that the final ComFrame package should not be rigid in its guidance for supervisors or impose unwarranted new burdens on insurers simply because they operate internationally.

**Trans-Atlantic Insurance Market Issues and the US/EU Dialogue**

- The U.S.-EU Insurance Dialogue Project, a joint effort by the NAIC, the FIO and European regulators, builds on more than a decade of dialogue between U.S. and European insurance regulators, with the objective of further enhancing mutual understanding and cooperation for the benefit of insurance consumers, business opportunity and effective supervision.

- The treatment of the U.S. by the EU under its forthcoming Solvency II insurance regulatory regime is of great concern to many stakeholders, including insurers and reinsurers based in the U.S. and those based in the EU, along with the policyholders they serve and regulators protect.

- In lieu of an equivalence review, the NAIC understands that the joint US/EU project was intended to provide the EU with a comprehensive understanding of the U.S. insurance regulatory system, so as to allow the EU to recognize our system on the basis of outcomes achieved. In good faith, state insurance regulators and the NAIC working with the FIO have endeavored to demonstrate the practices and outcomes our system of insurance regulation in the U.S. and, at the same time, to learn more about the forthcoming system of insurance regulation in the EU and how it will be applied across the EU Member States. It is important to move jointly and quickly to remove the uncertainty surrounding this issue, and the NAIC believes more definitive information and clear communications to the public are needed.
The Role of the Federal Insurance Office (FIO) in International Insurance Activities:

- The Dodd Frank Act established the FIO as an office in Treasury to monitor the insurance sector and to coordinate U.S. federal policy on international insurance matters.

- FIO is also authorized by law to represent the U.S., as appropriate, at the IAIS, serving alongside state regulators and the NAIC. Again, the FIO has no regulatory authority and does not speak for U.S. state insurance regulators.

- We work closely with the FIO and coordinate as best we can, but our views on insurance standards in some cases differ with Treasury, and the states remain focused on protecting U.S. consumers and maintaining stable markets.

- The US state-based insurance system has a strong track record of policyholder protection, and we continue to work together with state legislators and through the NAIC process to enhance our system.