Draft Pending Adoption

Draft: 8/9/19

International Insurance Relations (G) Committee
New York, New York
August 3, 2019

The International Insurance Relations (G) Committee met in New York, NY, Aug. 3, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); Stephen C. Taylor (DC); David Altmaier (FL); Colin M. Hayashida represented by Gordon I. Ito (HI); Doug Ommen (IA); James J. Donelon represented by Tom Travis (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers represented by John Rehagen (MO); Bruce R. Range (NE); Marlene Caride (NJ); John G. Franchini represented by Robert Doucette (NM); Jillian Froment (OH); and Jessica Altman (PA).

1. Adopted its Spring National Meeting Minutes

The Committee met April 6 and took the following action: 1) adopted the report of the ComFrame Development and Analysis (G) Working Group; and 2) discussed International Association of Insurance Supervisors (IAIS) key 2019 projects with interested parties.

Commissioner Anderson noted that the Committee also met July 30 and May 30 in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss key agenda items before the IAIS June committee meetings, the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP), and the IAIS international capital standard (ICS) and monitoring period.

Commissioner Altmaier made a motion, seconded by Commissioner Ommen, to adopt the Committee’s April 6 minutes (see NAIC Proceedings – Fall 2018, International Insurance Relations (G) Committee). The motion passed unanimously.

2. Adopted the Report of the ComFrame Development and Analysis (G) Working Group

Commissioner Anderson said the ComFrame Development and Analysis (G) Working Group met prior to the Committee meeting in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to: 1) discuss and provide input on issues related to the ICS and monitoring period process; and 2) hear an update on the ICS and aggregation method field testing processes. He noted that in July, Working Group members were asked to review and provide input on the initial draft NAIC comments on new text and revisions to the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). He said these comments are currently being reviewed by Committee members.

Commissioner Altmaier made a motion, seconded by Commissioner Ommen, to adopt the report of the ComFrame Development and Analysis (G) Working Group. The motion passed unanimously.

3. Discussed IAIS Key 2019 Projects with Interested Parties

Commissioner Anderson said the majority of the meeting would focus on updates on some of the key projects at the IAIS, as well as its future. He welcomed Jonathan Dixon and Romain Paserot (IAIS Secretariat), and he said they would provide updates on the holistic framework for systemic risk, the ICS and monitoring period, and the IAIS’ new Strategic Plan for 2020–2024. He said after the updates, interested parties with a special interest in these topics would be invited to speak before the Committee: Marty Hansen (American International Group, Inc.—AIG); Jeffery C. Alton (CNA Insurance); Joe Engelhard (MetLife); Ian Adamczyk (Prudential); Jack Armstrong (Liberty Mutual); D. Keith Bell (Travelers); Thomas Leonardi (AIG); Robert Neill (American Council of Life Insurers—ACLI); David F. Snyder (American Property Casualty Insurance Association—APCIA); Andrew R. Pauley (National Association of Mutual Insurance Companies—NAMIC); and Karalee Morell (Reinsurance Association of America—RAA).

Mr. Paserot discussed the timeline for the development and finalization for implementation of the holistic framework and the results of the November 2018 public consultation. He reported that members demonstrated support for a proportionate application of policy measures targeted at potentially systemic activities and exposures to a broader portion of the insurance sector, but they had concerns about how to ensure that supervisors follow due process and apply existing safeguards for powers of intervention based on macroprudential grounds. On the global monitoring exercise, he noted general support for the IAIS recommendation to suspend the identification process of global systemically important insurers, requests for more clarity on
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the modalities of the global monitoring exercise, and support for a sector-wide assessment; but he noted concerns about the additional burden regarding data collection.

Comments made on the holistic framework included the following:

- The IAIS is moving in the right direction to create a meaningful framework for assessing systemic risk in the insurance sector that would make the current entity-based designation approach obsolete. As development of the framework moves forward, it needs to: 1) focus on activities, not products; 2) have a cross sectoral view; and 3) use and leverage existing tools and frameworks that jurisdictions already have in place.
- While some would like more specificity and guidance on the new holistic framework material to help ensure that it is not applied to insurers unnecessarily, some caution against being overly specific or prescriptive, as the supervisor should have flexibility to determine the appropriate approach based on the circumstances.
- The IAIS should provide greater clarity with respect to the implementation of proportionality and expectations on due process that supervisors should have in place before taking regulatory action.
- While there could be benefits to the IAIS doing cross sectoral monitoring, there is concern about focusing on annual data collections, as these may not necessarily capture the risks that supervisors should be looking at or how such risks are managed by insurers. The IAIS should recognize the limitations of data mining exercises and focus more on connecting the dots, which may point to potential systemic risk.
- The various elements of the holistic framework should help support the early identification of risks. When potential risks arise, it is important not to overlook the things that supervisors already have in place to address such risks.

Mr. Paserot provided an update on the ICS and monitoring period. He noted that the purpose of the ICS is to create a common language for supervisory discussions of group solvency. He said the intent of the ICS has never been to raise capital in the market, nor to suggest that the insurance sector is undercapitalized. He added that the purpose of the monitoring period is to monitor the performance of the ICS over a period of time, not the capital adequacy of Internationally Active Insurance Groups (IAIGs). A main objective of the monitoring period is to receive feedback from supervisors and IAIGs on the reference ICS and, if applicable, additional reporting. He said during the monitoring period, the ICS will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges, but it will not be used as a prescribed capital requirement (PCR).
With regard to work on comparability criteria, he indicated that the IAIS will be in a position by the end of the monitoring period to assess whether the aggregation method provides comparable outcomes to the ICS.

Comments made on the ICS and monitoring period included the following:

- The IAIS communication from the Buenos Aires meeting addressed four important issues: 1) the ICS will not be used to assess an IAIG’s capital adequacy; 2) commitment for ongoing public engagement and communication, including a future consultation prior to the adoption of the ICS; 3) the ICS is not a capital raising exercise; and 4) recognition of the aggregation method and that there will be continuing discussion on comparability.
- The IAIS may need to further clarify that the monitoring period will be a period of continued development, especially given the number of open ICS design issues that are supposed to be completed by November. There should be an explicit recognition that even though the monitoring period is a period of “stability,” there is still more work to be done on the reference ICS.
- It is important to perform an impact study looking at the ICS through an entire business cycle and with different market stresses. The IAIS should not lose sight of broader public policy goals with regard to the role of insurers, providing long duration products to consumers, and the impact the ICS may have on such goals.
- There needs to be progress between now and the IAIS meeting in Abu Dhabi on the process for assessing comparability. Reaching an agreement on comparability assessment is important, not just for involved supervisors, but also for the involved IAIGs and stakeholders more broadly. In the absence of an agreement on a way forward for comparability criteria, there may be a need to delay the monitoring period.
- Looking at group capital in a vacuum does not really give the supervisor anything, so it is important to look at a jurisdiction’s supervisory regime as a whole when looking at comparability.
- There are two levels of comparability that the IAIS should be considering: 1) the aggregation method compared to the ICS; and 2) comparing different versions of the ICS as implemented in various jurisdictions.

Commissioner Anderson noted that the NAIC, along with Team USA, continues to actively work on and engage with fellow IAIS members on comparability. He said the definition and process for assessing comparability needs to focus on the outcome, not necessarily how it is reached. He said state insurance regulators proposed a definition of comparable outcomes, where the relevant outcome is supervisory intervention on group capital grounds, and the NAIC is in the process of further developing a
Commissioner Anderson noted that the IAIS is also working on the governance and timeline for the comparability process.

Commissioner Anderson said comparability will be the subject of upcoming IAIS meetings in September and October, as well as the November meeting in Abu Dhabi. He said from the NAIC's perspective, it is very important that by November, before moving into the monitoring period, the IAIS has a framework for comparability that provides the aggregation method with a viable path to recognition. He added that such a framework would cover: 1) a definition of comparable outcomes; 2) criteria, or at a minimum principles, for the comparability assessment process; and 3) corresponding timelines and governance, all of which would help to show the ongoing commitment of the IAIS to evaluation of the aggregation method.

Mr. Dixon provided an update on the new IAIS Strategic Plan, which reflected the following strategic priorities: 1) finalizing and implementing the IAIS’ part of the post-financial crisis reform agenda, which includes ComFrame, ICS, and the holistic framework for systemic risk; 2) increased focus on emerged/emerging trends, such as Fintech, cyber risk, climate risk and sustainability; and 3) pivoting to increased focus on support for good supervisory practices and the implementation of agreed standards. He provided an overview of the Strategic Plan’s high-level goals, and he indicated the need for greater coordination and cooperation with other standard setters, as many issues are cross sectoral in nature. He also indicated that there would be an increased focus by the IAIS on capacity building, and he indicated that the IAIS Strategic Plan would be supported by a more agile Secretariat committed to transparency.

Comments made on the IAIS Strategic Plan for 2020–2024 included the following:

- There is general support for the new IAIS Strategic Plan, especially relating to emerging areas such as Fintech, cybersecurity, sustainability and financial inclusion. Additionally, the IAIS should be looking at issues around market development and barriers to entry.
- The IAIS should adopt meaningful changes to its stakeholder procedures to allow for full and ongoing dialogue on each part of its Strategic Plan.
- IAIS work on technological innovation could focus on how insurers use new technology and data to strengthen solvency, more accurately address risks, and provide better products to consumers.
- Insurers and reinsurers have been leaders in identifying climate risk, modeling and pricing for climate risk, and urging action to adapt to and/or mitigate climate risk. As the IAIS does more work on climate risk, these efforts should be supported and leveraged.
- Work on financial inclusion and sustainable economic development should consider the role of government partnerships with insurers and reinsurers who can help close the coverage gaps and provide investments to build sustainable infrastructure, along with government funding.
- The IAIS should address the issue of forced localization of reinsurance, as some stakeholders see this as contrary to the Insurance Core Principles (ICP).

Commissioner Anderson thanked the speakers for their comments and views, and he noted that these topics are important workstreams that the NAIC will continue discussing throughout the remainder of 2019 and beyond.

4. Discussed Other Matters

Commissioner Anderson said time has run out for the update on international activities on the agenda, so a written update will be circulated following the meeting (Attachment One).

Commissioner Anderson said the Committee has a conference call scheduled for Aug. 13 to review and approve the submission of NAIC comments on the IAIS material currently out for public consultation. He said draft NAIC comments were circulated on July 25, and any input for consideration is requested by Aug. 8.

Having no further business, the International Insurance Relations (G) Committee adjourned.
INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

2019 Summer National Meeting
Agenda Item #4: Hear an Update on International Activities

a. International Association of Insurance Supervisors (IAIS)

The IAIS parent committees met for three days in mid-June in Buenos Aires, which was followed by a two-day Global Seminar. The insurance capital standard (ICS) and holistic framework for systemic risk were key issues of discussion. There was ongoing discussion on the implementation of the Common Framework for Supervision of Internationally Active Insurance Groups (ComFrame) and the holistic framework, including future assessment processes; more detailed proposals on these are expected to be discussed at IAIS committee meetings in September.

Additionally, the IAIS approved for public consultations revised supervisory material that includes consistency changes between the Insurance Core Principles (ICPs) and ComFrame, new material in the ICPs and ComFrame to incorporate policy measures from the holistic framework and a revised version of ICP 22 on anti-money laundering and countering the financing of terrorism. Comments on these are due Aug. 15.

b. Regional Supervisory Cooperation

Regarding Asia, the NAIC participated in the Asian Forum of Insurance Regulators annual meeting in Macau, which brought together regulators from across the region to discuss a number of issues. Director Farmer presented on U.S. efforts to enhance resilience to extreme weather events and Mike Consedine presented on Insurtech development and supervision in the U.S.

On the sidelines of the seminar, the NAIC delegation held bilateral meetings with a number of key Asian jurisdictions including Australia, Hong Kong, Singapore, Taiwan, and Thailand. Next month, the NAIC, in conjunction with the Office of the Insurance Commission, Thailand (OIC), will hold a joint seminar on international insurance regulation and supervision in Bangkok for supervisors from the Association of Southeast Asian Nations (ASEAN) region.

Regarding Europe, the U.S.-EU Insurance Dialogue Project is continuing its work in 2019 on cyber security, cyber insurance and the use of big data. The respective working groups are holding regular calls to exchange information on key new developments in these areas, generally in line with the direction of the papers published as part of this project in the Fall of 2018.

Further, bilateral dialogues with the European Commission and European Insurance and Occupational Pensions Authority (EIOPA) are planned on the sidelines of the Association of Bermuda Insurers and Reinsurers (ABIR) meeting in September in Brussels where discussion will focus on a range of topics including IAIS ICS issues, Covered Agreement implementation, Fintech/Innovation and other developments.

Regarding Latin America, in October, Director Cameron will participate in the Association of Latin American Supervisors (ASSAL) Regional Training Seminar in San Jose, Costa Rica, where he will present on the U.S. approach to regulation and supervision of InsurTech; the U.S. corporate governance and control functions framework, including risk management and actuarial functions; and conduct of business.

In August in New York City, the NAIC and the Bermuda Monetary Authority will meet for the 7th formal regulatory dialogue, where several topics will be discussed, including: the NAIC Credit for Reinsurance model revisions, including next steps for implementation; IAIS ICS development; catastrophe risks; and innovation and technology.

The NAIC is gearing up for the Fall 2019 session of the NAIC International Fellows Program, which takes place Oct. 14 to Nov. 26. Participants are expected from Bermuda, Brazil, India, Kenya, the Philippines, Saudi Arabia, Taiwan, Thailand and Tunisia. Host states for this session include Arkansas, District of Columbia, California, Louisiana, Missouri, New York, Oregon, Pennsylvania, Texas, and Washington.
c. **Organisation for Economic Co-operation and Development (OECD)**

The OECD’s Insurance and Private Pensions Committee (IPPC) met in June in Paris, hosting a half day roundtable on big data and its impact on insurance data analytics and regulatory considerations. NAIC staff participated in this along with several other experts, academics, and industry representatives.

During the IPPC meeting, updates were provided on:
- a draft report on the impact of policy and regulation on cyber insurance coverage;
- draft policy guidance/best practice on the institutional structure of insurance regulation and supervision;
- a draft report of the questionnaire on regulatory/supervisory frameworks of insurance intermediaries and relevant developments in market conduct;
- a draft report on long-term care and health insurance;
- implications of the prudential regulatory framework on the security and cost of retirement income; and
- an update on country case studies on accessing property catastrophe reinsurance markets.

d. **Financial Sector Assessment Program (FSAP)**

The International Monetary Fund (IMF) has launched the third FSAP for the U.S. financial regulatory system, which is a once-every-five-years exercise. This FSAP follows previous similar exercises in 2014-15 and 2009-10. Work on the FSAP will take place over the next year, wrapping up in the summer of 2020.

As last time, the FSAP will involve two missions for the work undertaken – one in the Fall of 2019 and one in the Spring of 2020 with visits included at the NAIC, several states and various private sector participants. After these meetings, the IMF is expected to publish several Technical Notes.

As with previous FSAPs, the U.S. Treasury Department’s Office of International Financial Markets is serving as the overall coordinator and interlocutor with the IMF throughout the U.S. FSAP process.