

Testimony of Steven E. Seitz

Director, Federal Insurance Office

U.S. Department of the Treasury

Senate Committee on Banking, Housing, and Urban Affairs

“Developments in Global Insurance Regulatory and Supervisory Forums”

September 12, 2019

Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for the opportunity to testify today about developments in global insurance regulatory and supervisory forums. My name is Steven Seitz, and I am the Director of the Federal Insurance Office (FIO) within the U.S. Department of the Treasury (Treasury).

FIO serves as a source of insurance expertise in the federal government. Among its other statutory authorities and responsibilities, FIO: provides advice to the Treasury Secretary on major domestic and prudential international insurance policy issues; represents the United States at the International Association of Insurance Supervisors (IAIS); assists the Treasury Secretary (together with the U.S. Trade Representative) in negotiating covered agreements; consults with the states regarding insurance matters of national importance and prudential insurance matters of international importance; assists the Treasury Secretary in administering the Terrorism Risk Insurance Program; and monitors the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis. The FIO Director also serves as a non-voting member of the Financial Stability Oversight Council.

As you know, the U.S. insurance sector plays a critical role in the U.S. economy. The United States has the largest and most diverse insurance market in the world. U.S. insurance premiums were over \$2 trillion in 2018, an amount that exceeds 10 percent of the U.S. gross domestic product. Thousands of insurers operate in the United States, ranging from small mutual companies operating in a single county to large global firms operating across the world. Additionally, insurers throughout the world are interested in offering insurance products in the United States, which speaks to both the attractiveness of our insurance market and the benefits of the geographic spreading of risk.

International Supervisory Forums

Turning to FIO’s international engagement, as U.S. insurance companies compete globally and increasingly look overseas for growth opportunities, the federal government’s participation in various international forums is crucial to ensuring the U.S. insurance sector and our companies remain internationally competitive. Additionally, the federal government’s participation is crucial to ensuring that international standards do not inappropriately affect U.S. insurance companies or the U.S. domestic insurance market. It is important that the United States speak with the authority of the national government when addressing key international insurance

matters during any international engagement. In so doing, it is equally important that FIO coordinates with our state colleagues, who are the primary regulators of the business of insurance in the United States. Treasury and FIO support the state-based system of insurance regulation, and work closely with the U.S. states, the National Association of Insurance Commissioners (NAIC), and the Board of Governors of the Federal Reserve System (Federal Reserve).

Before proceeding with comments regarding our engagement internationally, I would like to touch on efforts to promote transparency at the IAIS. As noted in our November 2018 joint report to this Committee, Treasury and the Federal Reserve support further increasing transparency and stakeholder input into IAIS decision-making.¹ We have advocated for this, and, consistent with this message, the IAIS noted in its 2020-2024 Strategic Plan that increasing transparency – particularly with respect to the decision-making process – continues to be a priority for the organization. The IAIS has committed to build on the direction set forth in its 2017 Stakeholder Engagement Plan to proactively and effectively engage with its broad range of stakeholders.² We will continue to engage in this area as the IAIS begins implementation of its new strategic plan.

Domestically, Treasury routinely hosts meetings with U.S. insurance industry stakeholders for open dialogue regarding policies being discussed at the IAIS. FIO also provides updates on its IAIS work at the open meetings of the Federal Advisory Committee on Insurance, which provides advice and recommendations to assist FIO in carrying out its statutory authority.

Treasury will continue to provide formal and informal opportunities for U.S. stakeholders to engage with the U.S. members of the IAIS on issues arising before the IAIS.

With that background, I'll turn to a discussion of the IAIS, which is the international standard-setting body responsible for developing, and assisting in the implementation of, principles, standards, and other supporting material for supervision of the insurance sector.³ The mission of the IAIS is to promote globally consistent insurance supervision in order to maintain safe insurance markets for the benefit of policyholders, and to contribute to global financial stability. IAIS members include insurance authorities from more than 200 jurisdictions.⁴

FIO has advocated for changes to the IAIS governance structure so that the United States can be more appropriately represented at the IAIS. As a result of recent governance changes, FIO now has a permanent seat on the IAIS Executive Committee, thereby providing all U.S. state and federal representatives – which have come to be known collectively as “Team USA” – with a voice at the most senior levels of the IAIS. This change should help Team USA better advocate

¹ See Treasury and Federal Reserve, *Efforts to Increase Transparency at Meetings of the International Association of Insurance Supervisors* (November 2018), [https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2018 IAIS Transparency Report.pdf](https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2018%20IAIS%20Transparency%20Report.pdf).

² IAIS, *2020-2024 The IAIS Strategic Plan*, at 6, (June 2019), <https://www.iaisweb.org/page/about-the-iais/strategic-plan/file/82533/2020-2024-strategic-plan>.

³ See IAIS, *2017 IAIS Annual Report*, at 8 (2018), <https://www.iaisweb.org/page/about-the-iais/annual-report/file/77857/iais-ar-2017-digital-pdf-def-dp>. See also FIO, *Annual Report on the Insurance Industry*, at 36-37 (September 2018), [https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2018 FIO Annual Report.pdf](https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2018%20FIO%20Annual%20Report.pdf).

⁴ IAIS, *2017 IAIS Annual Report*, at 8.

for supervisory standards that are in the best interests of the U.S. insurance market and its consumers.

Treasury is committed to continued engagement in the international standard-setting process. In international forums, the U.S. representatives advocate strongly and collectively for development of international standards that reflect the U.S. regulatory structure. As part of this advocacy, strong collaboration among members of Team USA is critical to ensuring that the United States conveys a coordinated view in international discussions.

Additionally, in 2009, the G-20 recognized the importance of international cooperation when it established the Financial Stability Board (FSB) to coordinate the work of the international standard setting bodies and promote the implementation of effective regulatory, supervisory, and other financial sector policies. Treasury, the Federal Reserve, and the U.S. Securities and Exchange Commission are the U.S. members of the FSB. FIO coordinates with these members on insurance matters discussed at the FSB.

It is important to note that international standards are not, in and of themselves, binding in the United States – unless they are adopted as law through domestic processes at the state or federal level. However, it is critical that the United States engage with our counterparts through such bodies. If standards developed in these forums are adopted by non-U.S. jurisdictions, they could have significant implications for U.S. insurers, and potentially for our domestic insurance regulatory regime. As noted by the Treasury Secretary in his May remarks at NAIC’s International Forum, as U.S. insurers expand into foreign markets, they will have to navigate the supervisory regimes of other jurisdictions that may be influenced by international standards.⁵

Let me now turn to some of the ongoing work at the IAIS, and the related positions and activities of Treasury and FIO.

IAIS Initiatives

In accordance with the Economic Growth, Regulatory Relief, and Consumer Protection Act, Treasury and the Federal Reserve issued a joint report on September 6, 2019 on efforts with respect to global insurance regulatory or supervisory forums (Joint Report).⁶ The Joint Report summarizes the work of FIO at international standard-setting bodies. I would like to highlight two important IAIS initiatives discussed in the Joint Report – the insurance capital standard (ICS) and the holistic framework.

a. Insurance Capital Standard

In July 2013, the FSB stated that the IAIS “will develop, and the FSB will review, a work plan to develop a comprehensive, group-wide supervisory and regulatory framework for Internationally

⁵ Treasury, *Remarks by Treasury Secretary Steven T. Mnuchin at the National Association of Insurance Commissioners International Forum* (May 13, 2019), <https://home.treasury.gov/news/press-releases/sm688>.

⁶ See Treasury and Federal Reserve, *Efforts of the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System with respect to Global Insurance Regulatory or Supervisory Forums in 2018* (September 2019), <https://www.federalreserve.gov/publications/files/Report-on-global-insurance-regulatory-or-supervisory-forums2019.pdf>.

Active Insurance Groups (IAIGs), including a quantitative capital standard.”⁷ The next year, the IAIS started to create a comprehensive, group-wide supervisory and regulatory framework for IAIGs, known as ComFrame. ComFrame consists of both qualitative and quantitative supervisory requirements tailored to the complexity and international scope of IAIGs. The ICS, which is now under development at the IAIS, is a quantitative component of ComFrame and aims to be a measurement of capital adequacy for IAIGs. The IAIS’s ultimate goal for the ICS is a single ICS that includes a common methodology by which one ICS achieves comparable, or substantially the same, outcomes across jurisdictions.⁸

Since 2015, the IAIS has conducted annual field testing of volunteer insurers, including U.S. firms, to inform the development of the ICS. The IAIS is scheduled to adopt an updated – but not yet final – version of the ICS (referred to as Version 2.0) in November 2019. This will be followed by a five-year monitoring period from 2020 through 2024. During this period, the IAIS intends for the ICS to be used for confidential reporting to group-wide supervisors and for discussion in supervisory colleges. The present intention of the IAIS is for the ICS to be implemented after the monitoring period as a group-wide prescribed capital requirement for IAIGs. The IAIS also aims to be in a position by the end of the monitoring period to assess whether an aggregation method for group capital, such as that being developed by the United States, provides comparable outcomes to the ICS and can be considered an outcome-equivalent approach for implementation of the ICS.⁹

Treasury appreciates – and has contributed to – the work of the IAIS on the ICS effort and continues to support its overall objective of working to create a common language for supervisory discussion of group solvency.¹⁰ However, as the Treasury Secretary outlined in his remarks at the NAIC’s International Forum, we have concerns about certain aspects of ICS development and are working with our Team USA colleagues in pursuing constructive ways forward to potentially address those concerns within the IAIS.

- First, Treasury is working to improve the design of the ICS so that it more appropriately reflects the unique business model of insurers. In particular, one issue we have identified is the ICS’s market valuation approach and the negative effects it could have on the ability of insurance companies to provide long-term savings products, which are important to insurers and policyholders in the United States. The ICS needs to appropriately consider long-term savings products that are critical to millions of Americans entering retirement.
- Second, Treasury believes it is important that the IAIS create a defined structure and process for further work and revisions on the ICS during the monitoring period from 2020 to 2024. The ICS adopted in November 2019 will most likely need further

⁷ FSB, Global systemically important insurers (G-SIIs) and the policy measures that will apply to them, at 2 (July 18, 2013), https://www.fsb.org/wp-content/uploads/r_130718.pdf?page_moved=1.

⁸ IAIS, *Risk-Based Global Insurance Capital Standard Version 2.0: Public Consultation Document* (July 31, 2018), [https://www.iaisweb.org/page/supervisory-material/insurance-capital-standard/file/76133/ics-version-20-public-consultation-document-\(ICS-Version-2.0-Consultation\)](https://www.iaisweb.org/page/supervisory-material/insurance-capital-standard/file/76133/ics-version-20-public-consultation-document-(ICS-Version-2.0-Consultation)).

⁹ IAIS, *Implementation of ICS Version 2.0* (November 2, 2017), <https://www.iaisweb.org/file/69796/implementation-of-ics-version-20>.

¹⁰ IAIS, *Risk-based Global Insurance Capital Standard Version 2.0*.

development and revision. Therefore, the IAIS needs to develop a process that ensures appropriate confidentiality for insurers during the five-year monitoring period, while allowing the IAIS, its members, and other important stakeholders to continue evaluating, revising, and improving the ICS. Team USA must also remain actively engaged during this period and advocate for U.S. interests so that U.S. insurers remain competitive overseas and that international standards do not inappropriately affect U.S. insurance companies or the U.S. domestic insurance market.

- Third, it is important that the IAIS strengthen its efforts to develop a final ICS that is implementable in the United States. Treasury is focused on working with our Team USA members, and the broader membership of the IAIS, to develop the criteria and process by which the U.S. approach to group capital may be deemed “outcome equivalent” to the ICS. FIO will continue to advocate that the IAIS increase its focus on the important issues of comparability of outcomes, in order to enhance compatibility of the ICS with the United States’ system of insurance regulation.
- Finally, getting the ICS right at the IAIS is more important than meeting any fixed schedule that mandates completion of the ICS at a specific point in time.

b. Holistic Framework

Another important international standard-setting initiative is the IAIS’s proposed framework for assessing and mitigating systemic risk in the insurance sector (also known as the activities-based approach, or ABA). In 2017, the IAIS began work on the ABA, and in November 2017, the FSB noted that, once developed, such an approach may have significant implications not only for the assessment of systemic risk, but also for the identification of global systemically important insurers (G-SIIs) and G-SII policy measures.

In November 2018, the IAIS published a consultation document on a proposed framework for the assessment and mitigation of systemic risk in the insurance sector (the Holistic Framework).¹¹ In the consultation document, the IAIS stressed the need for additional work on potential liquidity risk. The IAIS also indicated that the potential implementation of the Holistic Framework should remove the need for an annual identification of G-SIIs by the FSB. The FSB has stated that it will review the need to either discontinue or re-establish an annual identification of G-SIIs by the FSB in consultation with the IAIS and national authorities in November 2022.

Treasury supports shifting the focus of systemic risk analysis away from individual insurance entities and toward the activities of insurers and other market participants. Treasury also supports the IAIS’s efforts to develop improved standards for liquidity management and planning. As far as next steps, the IAIS is expected to adopt the Holistic Framework in 2019, for implementation by IAIS members in 2020.

Thank you again for the opportunity to testify today, and I look forward to your questions.

¹¹ IAIS, *Holistic Framework for Systemic Risk in the Insurance Sector: Public Consultation Document* (November 14, 2018), <https://www.iaisweb.org/page/consultations/closed-consultations/2019/holistic-framework-for-systemic-risk-in-the-insurance-sector/file/77862/holistic-framework-for-systemic-risk-consultation-document>.