

Statement by

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Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for the opportunity to testify today about current issues in insurance. I am the Director of the Federal Insurance Office (FIO) within the U.S. Treasury Department.

I would like to begin by briefly outlining FIO's role and responsibilities, and by describing some of FIO's current priorities.

The United States is the world's largest insurance market, and its insurers provide a diverse range of products to support the needs of consumers and businesses in the United States. The U.S. system of insurance regulation is primarily state-based; however, FIO has a significant role to play, as reflected in its statutory duties and authorities. FIO advises the Treasury Secretary on major domestic and prudential international insurance policy issues; coordinates federal efforts and develops federal policy on prudential aspects of international insurance matters—including representing the United States at the International Association of Insurance Supervisors (IAIS); assists the Treasury Secretary in administering the Terrorism Risk Insurance Program (TRIP); monitors the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance; assists the Secretary in negotiating covered agreements with foreign jurisdictions; and monitors the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis. As FIO's Director, I also serve as a non-voting member of the Financial Stability Oversight Council. Finally, FIO regularly and extensively consults with the states, including state regulators, regarding insurance matters of national importance, as well as on prudential insurance matters of international importance. These authorities reflect the need for FIO to provide a national, federal perspective in this critical area.

Every year, FIO issues a report on the insurance industry.ⁱ FIO's next annual report will be published later this month. Separately, by the end of this year, FIO will submit its annual joint report with the Federal Reserve Board on our efforts with respect to global insurance regulatory or supervisory forums, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act.

I would like to highlight five current FIO priorities.

Climate-related financial risk is a top priority for FIO. We are focused on three areas, which are consistent with President Biden's Executive Order on Climate-related Financial Risk.ⁱⁱ First, FIO plans to publish a report assessing climate-related issues and gaps in the supervision and regulation of insurers. Second, FIO is evaluating the potential for major disruptions of private insurance coverage in U.S. markets that are particularly vulnerable to climate change. The adverse effects of climate change are disproportionately borne by financially vulnerable communities, which have fewer resources and may face challenges in finding affordable insurance. Third, we are increasing our engagement domestically and internationally on climate-related financial risk issues. As we move forward with these efforts, we will also seek consistent, comparable, and granular data to increase our understanding of the risks from climate change to policyholders, insurers, and the financial system.

A second focus area for FIO is the growing role of alternative asset managers, such as private equity firms, in the U.S. insurance sector. This evolution—which includes but is not limited to increased private equity ownership of U.S. insurers—is one that our office has highlighted for several years. It warrants increased attention to ensure that regulatory mechanisms are appropriately designed to address the activities and market developments highlighted in our recent letter to Chairman Brown.ⁱⁱⁱ FIO’s upcoming annual report will further address this topic, and we encourage continued focus and increased progress by state regulators in this area. FIO will continue to prioritize four areas for research and action on this topic: (1) liquidity risk, (2) credit risk and capital adequacy, (3) offshore reinsurance implications, including increased interconnectedness between the U.S. and Bermuda insurance markets, and (4) potential conflicts of interest.

FIO is also focused on cyber-related risks, which is a top priority for Treasury and the entire federal government. FIO has been examining insurers’ own cyber resilience, as well as the development of the cyber insurance market and how it may help improve policyholder resilience to cyber events and also serve as a risk-management tool. FIO has increased its data collection in this area with regard to TRIP and has supported the development of Treasury’s counter-ransomware strategy.^{iv} FIO is working with the Department of Homeland Security’s Cybersecurity and Infrastructure Security Agency (CISA) in connection with the Government Accountability Office’s recommendation that FIO and CISA jointly assess the need for a federal backstop for cyber insurance. FIO is coordinating closely with the White House Office of the National Cyber Director on these issues. Relatedly, we will be working with CISA as it implements the Cyber Incident Reporting and Critical Infrastructure Act of 2022. Finally, FIO continues to monitor and coordinate with the NAIC and states on cyber-related risks.

A fourth priority for FIO is our representation of the United States at the IAIS, in close coordination with the Federal Reserve, the NAIC, and the states. In addition to its focus on climate, private equity, and cyber, the IAIS is considering other important topics such as the development of the Insurance Capital Standard (ICS) and the related comparability work involving the aggregation method, as well as the implementation of the Holistic Framework for the assessment and mitigation of systemic risk in the insurance sector. The development of the ICS, the aggregation method comparability assessment, and the IAIS’s macroprudential work are important global initiatives that will affect the U.S. insurance sector, and it is critical for FIO and the United States to remain engaged at the IAIS on these issues as the international community develops global standards for the insurance sector.

Fifth and finally, FIO is prioritizing work on diversity, equity, and inclusion, or “DE&I.” Consistent with FIO’s statutory authorities, FIO looks at these issues through the lens of the availability and affordability of insurance products, particularly for traditionally underserved communities and consumers, minorities, and low- and moderate-income persons. Right now, FIO is working to update its study on personal auto insurance affordability. Additionally, DE&I issues are also key components of our upcoming climate work.

On all of these topics, and many others, FIO values our close relationship and frequent coordination with state regulators, the NAIC, our federal partners, and international counterparts, as well as insurance industry stakeholders.

Thank you again for the opportunity to testify today.

ⁱ FIO's *2021 Annual Report on the Insurance Industry* and other FIO publications are available at <https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/federal-insurance-office/reports-notice>.

ⁱⁱ Executive Order 14030 (May 20, 2021).

ⁱⁱⁱ See letter from U.S. Department of the Treasury to The Honorable Sherrod Brown (June 29, 2022), https://www.banking.senate.gov/imo/media/doc/fio_85.pdf.

^{iv} See FIO, *Report on the Effectiveness of the Terrorism Risk Insurance Program* (2022), <https://home.treasury.gov/system/files/311/2022%20Program%20Effectiveness%20Report%20%28FINAL%29.pdf>.