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Statement by

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before the

Committee on Banking, Housing, and Urban Affairs

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Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for your time and for your invitation to testify today on the Federal Reserve's efforts with respect to global insurance regulatory and supervisory forums.

The Board of Governors of the Federal Reserve System (Board) engages on global insurance regulatory and supervisory issues chiefly through its participation in the International Association of Insurance Supervisors (IAIS) alongside the U.S. Treasury's Federal Insurance Office, state insurance regulators, and the National Association of Insurance Commissioners (NAIC). The U.S. members of the IAIS are informally known as "Team USA." The mission of the IAIS is to promote effective supervision of internationally active insurance companies. It is important to note that none of the standards set by the IAIS have binding effect on the United States. We believe that it is in our national interest to engage in the international insurance standards-development process so that it produces standards that protect the U.S. market and U.S. consumers when foreign insurers operate here and are appropriate for U.S. companies operating abroad.

The Federal Reserve's participation at the IAIS is consistent with our responsibilities under law.<sup>1</sup> The Federal Reserve regulates insurance holding companies that own a federally insured depository institution and any designated by the Financial Stability Oversight Council (FSOC). The insurance thrift holding companies supervised by the Federal Reserve represent over 10 percent of U.S. insurance industry assets and span a wide range of sizes, structures, and business activities. The core focus in our supervision is ensuring the safety and soundness of the supervised insurance institutions and protecting their subsidiary depository institutions. We

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<sup>1</sup> See 12 USC section 1467a.

leverage the work of state insurance regulators where possible and continuously look for opportunities to coordinate with them.

Our collaboration with the state insurance regulators and other Team USA members is prominently visible in our advocacy at the IAIS. Collectively, Team USA brings the relevant technical expertise to the work of the IAIS to identify and to address a range of policy issues. We are committed to continuing to support approaches that are appropriate for U.S. companies operating internationally.

The Federal Reserve also participates in insurance policy work streams as a member of the Financial Stability Board (FSB), which is responsible for monitoring and assessing vulnerabilities affecting the global financial system and recommending actions to address them. As part of this role, the FSB provides an appropriate framework for the work of the IAIS, but the responsibility for setting detailed international standards for insurance regulations rests with the IAIS.

In my testimony today, I would like to highlight and elaborate upon a few items discussed in the submitted report *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*. First, I will comment on the efforts of the IAIS to develop an Insurance Capital Standard (ICS), arguably its most significant current project. Along with that, I will discuss the Federal Reserve's recent proposal of a capital rule that would apply to depository institution holding companies significantly engaged in insurance. The efficacy of this domestic approach should be useful to us during upcoming IAIS deliberations. After this, I will provide an update on the Federal Reserve's efforts to increase transparency at the IAIS and FSB.

## **Insurance Capital Standard**

In 2013, the IAIS announced its plans to develop an ICS. The IAIS intends for the ICS to be a global, risk-based capital standard that is fit for application to all large internationally active insurance groups. To that end, the IAIS has engaged in two public consultations and four field tests, which assessed the impact of the ICS using data from large insurance companies that was provided on a voluntary basis. The IAIS plans to approve the ICS for confidential use during a five-year monitoring period. The IAIS intends for the structure of the ICS to remain relatively stable during the monitoring period so that the current design and calibration of the ICS can be evaluated. To aid in the evaluation, large internationally active insurance groups will be able to report confidentially on the ICS to their home country supervisors.

An international standard, such as the ICS, could limit regulatory arbitrage and help provide a level playing field for internationally active insurance groups. An international standard could also help to ensure that internationally active U.S. companies are not held to bespoke and onerous standards when they operate in foreign countries. Additionally, it could reduce risk to U.S. consumers by ensuring that foreign insurers operating within the United States are held to appropriate capital regulation by their foreign groupwide supervisor.

There are concerns that the ICS currently includes a valuation method and other requirements that may not be optimal for the U.S. insurance market. Insurers generally operate with a buy-and-hold, long-term approach to investing, yet the ICS, as proposed, uses a market-based valuation method, whose volatility could ultimately reduce the availability of insurance products with long-term guarantees.

Because of these concerns, the Board has proposed applying a building block approach (BBA) to the insurers we supervise rather than the ICS in its current formulation. The BBA

builds on existing state-based insurance standards, while also establishing minimum capital requirements that are specific to the business of insurance. The Board specifically sought to leverage the well-known insurance capital standards from state regulators to establish minimum requirements.

I support the NAIC's efforts to move forward with developing a Group Capital Calculation (GCC), which they successfully have moved into field testing.<sup>2</sup> We will continue to work with the NAIC to align these approaches to the greatest extent possible.

The Federal Reserve intends to continue to advocate for the recognition of the building block approach internationally. Through Team USA's efforts, we believe space has been created in the international dialogue for the BBA and GCC to be evaluated and recognized as an outcome-equivalent approach for the ICS. The BBA can assist in our collective advocacy by demonstrating how an approach that leverages existing capital requirements can work. Because of the concerns regarding the current design of the ICS, U.S. members support continued development of the ICS during the monitoring period. Furthermore, substantive changes to the ICS may emerge during the monitoring period given that elements of the developing standard have not been thoroughly tested and key areas remain unresolved.

### **Transparency**

Team USA has continued to advocate for increased transparency at the IAIS. For example and most importantly, all significant policy proposals are subject to public consultation periods. Recently, the IAIS has established a norm that these periods will be for at least 60 days, allowing adequate time for the public to comment.

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<sup>2</sup> See NAIC, "Group Capital Calculation (E) Working Group," [https://naic-cms.org/cmte\\_e\\_grp\\_capital\\_wg.htm](https://naic-cms.org/cmte_e_grp_capital_wg.htm).

We also have advocated for obtaining stakeholder feedback earlier in the IAIS process. The development by IAIS of a Holistic Framework to mitigate systemic risk from the insurance industry is a good example of this. At the start of the IAIS's review of its macroprudential approach, key stakeholders were invited to present recommended changes. Several stakeholders suggested replacing the entities-based approach, which involved designating certain insurers as systemically risky, with an activities-based approach. The IAIS then worked to develop stakeholder ideas into a conceptual public consultation document, which was released in late 2017. Following this conceptual consultation, the IAIS released a more detailed consultation on its Holistic Framework in November 2018. Finally, earlier this year, the IAIS solicited input on the most granular details of the framework and plans to issue a final Holistic Framework this November. While this extensive engagement process required time, the IAIS has benefited from the engagement, and stakeholder reaction has generally been very supportive in this area.

The Federal Reserve has also worked to increase transparency at the FSB through its leadership role. Since December 2, 2018, Federal Reserve Vice Chair for Supervision, Randal K. Quarles has served as FSB chair. He has made increasing FSB transparency and stakeholder engagement a key part the group's agenda. Earlier this year, for the first time in the FSB's history, the FSB publically disseminated its comprehensive work program. Vice Chair Quarles and the FSB continue to look for ways to further increase stakeholder engagement. The FSB is currently conducting a study of its regional consultative groups, which will improve the efficacy of outreach and feedback mechanisms. The FSB has also increased its direct engagement with insurers, including on the ICS. Recently, the FSB and IAIS held a joint stakeholder engagement event with representatives of the large internationally active insurance groups.

Thank you. I look forward to answering your questions.