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Testimony of
John M. Huff
Director
Missouri Department of Insurance, Financial Institutions, and
Professional Registration
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Commissioners

Before the
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Committee on Financial Services
United States House of Representatives

Regarding:
Domestic Insurance Regulatory Issues

Introductory Remarks

Chairman Luetkemeyer, Ranking Member Cleaver, and members of the Subcommittee, thank you for the invitation to testify today. My name is John Huff, and I am the Director of the Department of Insurance, Financial Institutions, and Professional Registration for the State of Missouri. I am also President-Elect of the National Association of Insurance Commissioners (NAIC)¹ and serve as the Chair of the NAIC's Financial Regulation Standards and Accreditation (F) Committee, its Reinsurance (E) Task Force, and its Governance Review (EX) Task Force. From 2010 to 2014, I served as the state insurance regulator representative on the Financial Stability Oversight Council (FSOC). On behalf of my Department, my fellow state insurance regulators, and the NAIC, I appreciate the opportunity to testify today. I look forward to discussing the ongoing work of state insurance regulators and the NAIC as well as our views on several topics of interest to members of this subcommittee and insurance sector stakeholders.

Mr. Chairman, I especially want to thank you for participating in our NAIC Commissioner Fly-In earlier this year – your remarks were extremely well received and a great way to kick off two days of meetings with members of the administration and our Congressional delegations. I also want to recognize the Ranking Member, Congressman Cleaver, another fellow Missourian. As you know, your district is home to the NAIC's central office and we appreciate your continuing support of our organization and state insurance regulation.

State insurance regulators supervise nearly a third of all global premium – more than \$1.8 trillion. Taken individually, U.S. states make up more than 24 of the world's 50 largest insurance markets, including my home state of Missouri. The insurance market in Missouri represents \$33 billion in direct written premium in an industry that employs approximately 45,000 people statewide.

State regulators share a mission of ensuring a stable, competitive, and well-regulated marketplace where U.S. consumers are well-informed and well-protected. We cooperate closely on a regular basis, and we have long been committed to providing leadership across the entire spectrum of global and domestic insurance issues and activities. While today's hearing is focused on domestic insurance regulation, it is important to note that the NAIC is hard at work on critical regulatory issues at all levels, and efforts at home often dovetail with our international priorities. As insurance markets grow and become ever more complex and sophisticated, our regulatory tools and priorities must also continually evolve, both at home and abroad. With that, allow me to update you on just a few of the long-standing and new initiatives state regulators are working on through the open and transparent NAIC process.

¹ Founded in 1871, the NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and the five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

Holding Company Model Act & Group Analysis

The 2008 financial crisis illustrated the need for financial regulators to see into the dark corners of a firm to ensure all risks are known and understood and that consumers that could be negatively impacted by those risks, directly or indirectly, are protected. Even if a regulator has broad powers to protect consumers by walling off their funds from risks elsewhere in a firm, as state regulators do with insurers, it is important to understand those other risks that can create credit, reputational, and other problems. With this in mind, state regulators undertook a public process to make significant advances to the NAIC's Model Holding Company Act.² This model act, which is a part of every state's insurance code, provides state insurance regulators the ability to regulate transactions and interactions between insurance companies and other entities within the wider holding company system, up to and including the ultimate controlling person. State insurance regulators revised the model law in 2010 to enshrine a "windows and walls" approach to insurance holding system regulation, whereby regulators can erect the walls necessary to protect policyholders and restrict assets from leaving the legal entity insurers, and peer through windows that allow a view into the activities, including non-insurance activities, throughout the wider group.

Specifically, the revisions to the model act provide additional authority with respect to transactions that directly and indirectly affect the legal entity insurer. The ultimate controlling person is required to submit an enterprise risk report to the lead state insurance regulator of the insurance group. State insurance regulators have authority to require the filing of financial statements relating to the insurance holding company system upon request. The law expanded the range of transactions between an insurer and its affiliates subject to prior approval by the insurance regulator. Examination authority can be exercised over any entity within an insurance holding company system to ascertain the financial condition of the insurer as well as the enterprise risk to the insurer through activities elsewhere in the holding company system. This authority includes access to books and records, issuing subpoenas and compelling production of information. Recognizing the global environment in which large insurance companies and financial conglomerates operate, the model act authorizes the commissioner to participate in, and even lead, supervisory colleges among regulators across jurisdictions. Further updates in 2014 provide explicit authority for the commissioner to act as the group-wide supervisor of an internationally active insurance group. Most of these enhancements become NAIC Accreditation requirements as of January 1, 2016 – in anticipation of that, all but one state have already adopted them.

Closely related to our efforts to better supervise holding companies is updating the way we conduct group analysis. The NAIC recently adopted group analysis procedures to establish consistency in the types of reviews performed for insurance holding company systems and the documentation of the results. We also adopted the Risk Management and Own Risk and

² *Insurance Holding Company System Regulatory Model Act* (NAIC Model #440).

Solvency Assessment (ORSA) Model Act³ in 2012, which includes the ORSA Summary Report filing requirement. An ORSA filing provides an enterprise-wide, detailed description of the entity's risk management system, an identification of its key risks in normal and stressed environments, an assessment of its capital adequacy for the risks in normal and stressed environments, and identification of prospective risks. Thirty-four states⁴ have already adopted the related model law (which will become an NAIC Accreditation requirement in 2018) requiring ORSA filings, and this year most of these states will begin receiving such filings. As we continue our progress developing group supervisory tools and processes, the NAIC is also beginning discussions regarding a potential group capital calculation as part of our U.S. group supervision model.

Principle-Based Reserving

Another long-standing project for the NAIC is the implementation of Principle-Based Reserving (PBR). PBR is a fundamental change to the life insurance sector that is a result of years of thoughtful debate and deliberation. PBR replaces a more formulaic method for determining life insurance policy reserves with an approach that more closely reflects the risks of highly complex products. The improved calculation is designed to “right-size” reserves, reducing reserves that are too high for some products and increasing reserves that are too low for others. This new method will help reduce the incentive for company workarounds of reserve requirements. Importantly, though, this new approach doesn't eschew the formulaic approach entirely—it includes the guardrails of minimum reserving requirements, while allowing reserving methodologies to reflect the heterogeneity of various life insurance products.

PBR includes two changes of law and a new Valuation Manual. The NAIC adopted the revised Standard Valuation Law (SVL) in 2009, the revised Standard Nonforfeiture Law in 2012, and the revised Valuation Manual in 2015. We currently have thirty-six states⁵, accounting for roughly 60% of the market that have adopted the SVL. Six additional states have introduced or plan to introduce PBR legislation in 2015, and represent an additional 17.2% of premium. Once at least 42 states comprising at least 75% of total U.S. premium adopt the revisions to the SVL, PBR will become operative and will be phased in over the following three years. Based on state expectations of legislative activity, PBR could be in place as early as 2017. We continue to update the data tables and other parts of the Valuation Manual as will be needed for implementation.

³ *Risk Management and Own Risk and Solvency Assessment Model Act* (NAIC Model #505).

⁴ AK, AR, CA, CT, DE, GA, IA, IL, IN, KS, KY, LA, ME, MN, MO, MT, ND, NE, NH, NJ, NY, NV, OH, OK, OR, PA, RI, TN, TX, VA, VT, WA, WI, and WY.

⁵ AR, AZ, CT, CO, DE, FL, GA, HI, IA, IL, IN, KS, KY, LA, MD, ME, MI, MO, MS, MT, ND, NE, NH, NJ, NM, NV, OH, OK, OR, RI, SD, TN, TX, VA, VT and WV. The CA and NC legislatures have adopted SVL and the Standard Nonforfeiture Law, which await the Governors' signatures.

In addition to the Valuation Manual updates the NAIC is developing a regulatory review system to ensure effective and consistent implementation of the PBR framework. This includes the creation of a new Valuation Analysis Working Group that will help us ensure compliance with the Valuation Manual and consistent industry treatment. This group, comprised of top valuation experts from state insurance departments, will evaluate the companies' PBR valuation and work with state regulators to ensure quality oversight.

We are still analyzing state and NAIC resource needs as we implement this project. The NAIC has hired a team of three life actuaries to help build the actuarial review process for PBR and determine what systems can be built to aid the states on an on-going basis. Once the regulatory review process is built, we plan to conduct a PBR pilot, much like what we did with the ORSA. This will help us identify any changes needed to regulatory requirements or the review process and help companies implement PBR. We also plan to develop a series of new training courses and programs for regulators as they prepare to implement these fundamental changes to reserving requirements.

Captive Reinsurance Transactions

Closely related to our shift to PBR are state regulators' efforts on the use of captive reinsurance by the life insurance industry. Historically, captive insurers have been used by a variety of businesses to self-insure risks and therefore are subject to different regulatory requirements designed to protect a single sophisticated policyholder rather than multiple retail insurance consumers. However, captive use has expanded in recent years and now includes life insurer-owned captives which reinsure policies written and sold by traditional life insurance companies. In particular, life insurers have increasingly used captives to finance the reserve "redundancies" associated with requirements for universal life products with secondary guarantees features and term life insurance. The captive regulation that makes sense in the context of a commercial business self-insuring its own risks creates concerns for state insurance regulators regarding transparency and consistency when applied to individual policyholder risks backed by life insurance companies.

To address these concerns, the NAIC began studying the use of captive reinsurance by life insurers in 2012, culminating in a white paper adopted by the NAIC in 2013.⁶ That study found that by far the largest use of captive reinsurance by life insurers was to address the excessive policy reserve standards required by state law, relating to universal life insurance policies. So, we undertook reforms to establish standards to ensure strong solvency protection and to achieve greater consistency and transparency for those transactions. In August 2014, the NAIC adopted a comprehensive Reinsurance Framework such that a life insurer will be allowed to take financial credit for the reinsurance transaction with its captive only if certain financial criteria are met. A

⁶ *Captives and Special Purpose Vehicles: An NAIC White Paper*, July, 2013. Available at <http://www.naic.org/store/free/SPV-OP-13-ELS.pdf>

consistent reserving method has been developed and adopted by the NAIC as Actuarial Guideline 48 (AG48) and was effective 1/1/15 on all new policies issued. Our permanent solution to greatly reduce any incentive to use captives for reserving purposes is PBR, discussed previously, which will move us away from our current formulaic process (a one size fits all) to “right size” reserves to risks and policyholder experience. In the meantime, AG48 requires the actuary for the life insurer to issue a qualified actuarial opinion if and when the NAIC’s framework is not followed. This type of opinion would obviously lead to heightened scrutiny of the company’s solvency.

Additionally, a new public disclosure was required as of April 1, 2015, for all life insurers reinsuring this type of business to a captive. This disclosure now provides transparency to the reserves and assets held in the captive, which had typically been included in confidential captive financial statements. The NAIC *Financial Analysis Handbook* was also modified to include detailed procedures for analyzing these captive reinsurance transactions, which must be followed according to the NAIC Accreditation program. This Accreditation program, which I currently chair, helps ensure consistency in solvency standards across the country.⁷ To that end, we recently adopted changes so that if a captive reinsurance transaction does not comply with the Regulatory Framework identified above, the captive will essentially be treated as a traditional third party reinsurer and subject to all related laws, regulation, and oversight. The NAIC is also examining other more limited use of captives by life insurers as a means of hedging the risk associated with variable annuity contract guarantees – we are already acting to develop a regulatory response plan, which could be adopted by the end of this year. Finally, while there has been very limited use of life insurer-owned captives to reinsure long-term care products, we are in the process of analyzing these few transaction to help determine our next steps.

Cybersecurity / Data Breach Legislation

Another top priority for the NAIC is Cybersecurity. Cyberattacks have the potential for devastating results for companies, consumers and the financial system at large. As data breaches become more common, we know the potential privacy implications are tremendous for consumers and the costs for companies can be substantial. State regulators take very seriously our responsibility to ensure the entities we regulate are adequately protecting the many kinds of highly sensitive consumer financial and health information they retain. We understand that Cybersecurity is a CEO and Enterprise Risk Management issue, not just an IT issue. Where criminal activity has taken place, we work closely with state and federal law enforcement agencies.

Earlier this month, Deputy Secretary of the U.S. Treasury Sarah Bloom Raskin observed that “state insurance regulators are the cops on the beat when it comes to cybersecurity at insurance

⁷ All 50 states, the District of Columbia, and Puerto Rico are currently accredited. For more information on the Accreditation program, see http://www.naic.org/committees_f.htm

companies and the protection of sensitive information of applicants and policyholders.”⁸ Recent high profile data breaches at large health insurers have illustrated that role. For example, since the Anthem and Premera breaches were announced, state regulators have worked with the companies, the FBI, and the cybersecurity firms they retained to evaluate the attacks, repair their systems, and prevent future attacks. The companies have sent notices to customers and set up websites and toll-free hotlines to answer affected consumers’ questions. Both companies are providing free credit monitoring and identity protection services to affected policyholders and applicants. In the immediate wake of the announcements, regulators held daily discussions with company executives to ensure appropriate steps were taken to protect insurance consumers whose data may have been compromised. NAIC members issued a nationwide consumer alert and promptly started coordinated multi-state examinations; both exams are ongoing.⁹

In addition to our work addressing the concerns surrounding specific breaches, we also have been addressing cybersecurity related issues through our Cybersecurity Task Force, which was established last year. I serve on this task force, which is responsible for the coordination of our efforts on a number of fronts: the protection of information housed in insurance departments and the NAIC; the supervision of insurers’ efforts to protect customer information that they collect; and the monitoring and regulation of companies writing ever more complex and specialized cyber-liability policies.

To that end, our task force has had a very busy year. After extensive comments from the insurance industry and consumer groups, we adopted our twelve *Principles for Effective Cybersecurity: Insurance Regulatory Guidance*. The principles set forth the framework through which regulators will evaluate efforts by insurers, producers, and other regulated entities to protect consumer information. We also developed the *Cybersecurity and Identity Theft Coverage Supplement* for insurer financial statements to gather financial performance information about insurers writing cyber-liability coverage nationwide.

In addition, the NAIC is updating our Financial Examiner and Market Regulation Handbooks, used by regulators across the country. These handbooks provide guidance for on-site examiners assessing insurers’ information controls and measures taken to protect the security, confidentiality, and integrity of policyholder information. The task force is also developing a *Cybersecurity Consumer Bill of Rights* for insurance policyholders whose data has been breached, as well as conducting a review of all existing protocols, model laws, and regulations regarding data security for insurers.

⁸ CSIS/NAIC Forum: “Managing Cyber Risk and the Role of Insurance,” September 10, 2015. Remarks available at: <http://www.treasury.gov/press-center/press-releases/Pages/jl0158.aspx>

⁹ Missouri is one of seven lead states conducting the Anthem multi-state exam. One in three Missourians was potentially affected by the data breach.

Recognizing that cybersecurity and associated regulatory concerns stretch far beyond the insurance ecosystem, we are working with other financial regulators, Congress and the Administration to identify specific threats and develop strategies to protect the financial infrastructure of this country. We are active members of the Treasury Department's Financial Banking and Information Infrastructure Committee (FBIIC) and the White House's Regulatory Cybersecurity Forum for Independent and Executive Branch Regulators, where we work with our federal colleagues across all sectors of the economy to share best practices and discuss lessons learned in tackling this difficult issue.

Cybersecurity also presents a unique opportunity for the insurance sector to innovate, drive best practices, and help businesses of all kinds protect against the risk of cyber losses. As insurers develop standards and tools for underwriting in this organically growing market, regulators are committed to keeping pace with technological and market developments to provide regulatory certainty and predictability for insurers and policyholders.

We are aware that Congress has once again taken a strong interest in potential data breach legislation. While we understand and appreciate the potential benefits of establishing common definitions and cross-sector minimum standards for data security, we remain skeptical of any efforts that involve unnecessarily broad preemption of state authorities to require safeguarding of consumer information or mitigation of harm caused by data breaches to insurance consumers. States must remain free to go above and beyond standards recommended or required by federal law. While well intentioned, such preemption may actually undermine existing consumer protections, as well as inhibit future enhancements and innovation necessary for regulators and companies to adapt to evolving threats.

Ultimately, any Congressional activity on cybersecurity should not disregard the existing state insurance regulatory framework and should not inhibit ongoing efforts in the states to develop laws and regulations in the best interests of insurance consumers.

Reinsurance Collateral / Covered Agreement

Another area of significant activity for state regulators is the measured and transparent reduction of collateral requirements for foreign reinsurance transactions. Historically, when a U.S. insurance company was ceding some of its risk to a foreign reinsurance company, state regulators required that foreign reinsurer to hold 100% collateral onshore in the U.S. to ensure rapid payment to the insurers, and ultimately to policyholders. As an example, a significant portion of the hurricane risk taken on by U.S. insurers is now spread globally when those insurers purchase reinsurance. That's a good thing for the market, but it means that if a large disaster occurs, U.S. insurers need those reinsurers to transfer huge amounts of money to quickly repay policyholders. Over time, foreign reinsurers, regulators, and politicians have objected to collateral requirements, arguing they trap capital and are inefficient. In response to these

objections, state regulators embarked on an effort to reduce collateral if the reinsurer is in solid financial health and is overseen by an effective regulator in its home country.

Specifically, the NAIC adopted revisions to our Credit for Reinsurance Model Law in November 2011, allowing reduction of the 100% collateral requirement for certified reinsurers regulated by qualified jurisdictions.¹⁰ As of today, 32 states have adopted the revisions representing more than 66% of direct insurance premium written in the U.S. across all lines of business. We are also currently aware of 5 additional states that are actively considering the model or similar proposals which would raise this market share to approximately 93%. The NAIC has also established a peer review system surrounding the certification of foreign reinsurers by states, which provides a foreign reinsurer an opportunity for a passport¹¹ throughout the U.S. As of September 1, 2015, the NAIC has approved seven jurisdictions as qualified jurisdictions, and 28 certified reinsurers have been approved through the NAIC's Reinsurance Financial Analysis Working Group review process.¹²

We believe this is an excellent example of states responding quickly to global market developments while preserving our focus on U.S. policyholder protection. We are charged with the protection of U.S. insurance policyholders, and thus it is both our responsibility and our obligation to determine the appropriate reinsurance collateral rules and levels to ensure insurance consumers are protected.

Covered Agreement

In spite of extensive state responsiveness and action on reinsurance collateral, we understand that the Treasury Department and the United States Trade Representative (USTR) are preparing to start negotiations on a covered agreement with the EU to address reinsurance collateral and to resolve uncertainty for U.S. insurers as a result of the EU's equivalence process under its new solvency regime, Solvency II.¹³ This federal action could unnecessarily preempt state laws and progress on reinsurance reforms and the Treasury and USTR have simply not demonstrated benefits to U.S. insurers or consumers that would warrant the need for entering a covered agreement preempting state law.

¹⁰ Determinations are made by the NAIC Qualified Jurisdiction (E) Working Group.

¹¹ "Passporting" refers to the process under which a state has the discretion to defer to the certification of a reinsurer and the rating assigned to that certified reinsurer by another state.

¹² As of January 1, 2015, Bermuda, France, Germany, Ireland, Japan, Switzerland, and the United Kingdom are qualified jurisdictions.

¹³ The authority to pursue a covered agreement was included in the Dodd-Frank Act as a unique stand-by authority to address, if necessary, those areas where U.S. laws might treat non-U.S. insurers differently than U.S. insurers, such as reinsurance collateral requirements. USTR and Treasury must consult with Congress and submit any proposed agreement to the House Ways and Means, House Financial Services, Senate Banking, and Senate Finance Committees for a 90 day review period before it can become effective.

With respect to equivalence, the EU plans to start enforcing its new Solvency II regime in January 2016, although some aspects will be phased in over the next 16 years. The Solvency II directive provides for the EU to make an equivalence determination for third countries in the areas of group supervision, group solvency, and reinsurance. All of these equivalence determinations require that an appropriate confidentiality regime be in place. Non-EU-based companies from countries that have been deemed equivalent may be subject to less regulatory duplication to operate in the European Union than those jurisdictions that have not been deemed equivalent. Importantly, EU companies do significantly more business in the U.S. than U.S. companies do in the EU and many, if not all, EU subsidiaries of U.S. companies are already structured in a way to meet the new European requirements in the absence of equivalence. We have long contended that although our regulatory system is structured differently than Europe's, it results in similar outcomes, and should not be a basis for imposing duplicative regulation on U.S. insurers operating abroad. We question whether a covered agreement, or any formal action by the federal government, is necessary to resolve equivalence as it is clear that recognition can be achieved through other mechanisms such as recognition of existing structures and processes. In fact, the European Commission has already deemed the U.S. system of group solvency and confidentiality equivalent without the need for a covered agreement or any federal action.

Before the federal government begins negotiating directly with a foreign government on an agreement that pertains directly to, and could preempt, insurance prudential standards primarily developed, implemented, and enforced by the states, we expect a clear and compelling case to be made for such drastic action. No such case has been made. And, should Treasury and USTR move forward regardless of the lack of justification, state regulators should be at the table directly involved in any discussions or negotiations to ensure our regulatory system is not compromised.

SIFI Designations / Exit-Ramp

In September of 2010, I was selected by my fellow state regulators to serve on the FSOC as the state regulators' non-voting representative. This was a tremendous honor and one that gave me important perspective on the risks facing our financial system. Let me be very clear, I believe in the important role that FSOC plays in our financial regulatory system. By bringing together regulators from the different financial sectors, banking, insurance, and market regulation, each with different perspectives and expertise, the FSOC can be a robust vehicle for monitoring risks facing our financial system. However, today it is flawed. To date, FSOC has voted to designate two insurance companies Systemically Important Financial Institutions (SIFI's): Prudential and Metlife, both over the objections of the independent member with insurance expertise and the state insurance regulator representative. In the case of Prudential, I issued a dissenting statement because I believed FSOC's rationale for designation to be flawed, insufficient, and unsupportable.¹⁴

¹⁴ *View of Director John Huff, State Insurance Commissioner Representative.* July, 19, 2014. Available at: http://www.naic.org/documents/index_fsoc_130920_huff_dissent_prudential.pdf

In neither of these two insurer cases did the FSOC justify the designation by identifying specific activities of the company that could have a systemic impact on the United States' financial system or specific actions required to reduce the risk to the system. In other words, today, according to FSOC, there are companies that potentially threaten our financial system, yet neither the company nor their primary regulators know which risks to address. FSOC is statutorily required to review designated firms on an annual basis, but even that process has failed to yield any specific information for regulators or companies as to the nature of risks to be mitigated or actions that would result in rescinding a designation.

Frankly, this is unacceptable. Regulators should be given the insights necessary to actively work to de-risk designated firms. Failure to require a clear rationale as to the reasons for designation and to provide an "exit ramp" for designated firms is a fundamental flaw with the nonbank designation process. It **contributes to rather than reduces risk to the financial system** by lulling policymakers into a false sense of security that Fed supervision and enhanced prudential standards such as SIFI capital surcharges will reduce the risks designated firms pose to the system. If there is any lesson from the financial crisis, it is that capital alone will not save us. Additional capital would not have prevented the potential systemic impacts to our financial system from the derivatives activities of AIG Financial Products. Additional capital is helpful, but it is only the regulation and mitigation of systemic risks that will make our financial system safer.

I urge Congress to not let politics here at home or international commitments made at the Financial Stability Board exacerbate risks to the U.S. financial system and our insurance sector. After five years, it is clear that FSOC serves a useful purpose, but is not perfect, and improvements that make our system stronger should be embraced rather than shunned. If FSOC is unable or unwilling to change its process to develop and provide an "exit ramp" for designated firms, we strongly urge Congress to do so in order to protect financial consumers and the financial system of the United States.

Capital Standards

SIFI designations are not merely academic exercises – they will have real consequences for firms who will now be subject to the Federal Reserve's capital standards. With Congress' passage of the Insurance Capital Standards Clarification Act last December, the Federal Reserve gained flexibility to tailor its capital rules for these companies as well as savings and loan holding companies (SLHC's). The NAIC supported this legislation, and we are hopeful that now the Federal Reserve will use its flexibility to apply capital rules to insurance entities that are consistent with the insurance business model and our legal entity regulation. State regulators, through the NAIC, are committed to assisting the Federal Reserve in this important endeavor. We have had some constructive initial conversations with them and look forward to continued discussions in the future.

For our part, State insurance regulators also support the need to assess the adequacy of an insurance group's capital position as part of coordinated solvency oversight. Through the NAIC's ComFrame Development and Analysis Working Group (CDAWG), we are first developing a group capital calculation to be used as a consistent regulatory analytical and assessment tool. Lessons learned and information garnered from developing this group capital calculation would also be useful in continuing work internationally with ComFrame and domestically with the Federal Reserve Board regarding group capital requirements for certain U.S. groups. We have engaged with industry and consumer stakeholders through our open process and appreciate their constructive feedback.

It is important to remember that capital is not the silver bullet solution – it is one of many tools in the regulatory toolbox to achieve more effective regulation and greater financial stability. Capital standards, by definition, make assumptions and generalize, so over-reliance on them can be dangerous. The business model for insurance is fundamentally different than the business model for banking, and any capital standard should reflect that. While we work with our counterparts at the Federal Reserve, state regulators will continue efforts to improve our capital requirements, analysis, and examination work in ways that best enable us to protect policyholders.

Policyholder Protection Act

Finally, state insurance regulators are very supportive of the Policyholder Protection Act of 2015, H.R. 1478. I want to thank Congressmen Posey and Sherman for their leadership on this issue, and a number of this committee's members for your co-sponsorship. The non-partisan bill clarifies state insurance regulators' authority to wall off insurance company assets within savings and loan holding companies. It also clarifies regulators' options for resolving a systemically risky insurance company under Dodd-Frank. Lastly, it protects the interests of insurance consumers by ensuring that the FDIC's authority to take liens on insurance company assets to facilitate the resolution of a systemic entity won't materially impact the recovery by insurance policyholders. The bill is widely supported by the insurance industry, insurance consumers, state legislators, and the guaranty fund organizations, and we urge its prompt passage so policyholders can remain well protected moving forward, regardless of how their insurer is organized.

Conclusion

As you can see, there is considerable activity by state insurance regulators on a variety of important topics in a variety of venues, as we continue our on-going efforts to improve regulation in the best interests of U.S. insurance consumers. State regulation has a strong 145-year track record of evolving to meet the challenges posed by dynamic markets, and we continue to believe that well-regulated markets make for well-protected policyholders. Thank you again for the opportunity to be here on behalf of the NAIC, and I look forward to your questions.