International Insurance Society
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Prepared Remarks for Commissioner Lindeen
"U.S. Regulatory Perspective" prior to Panel on Regulation and Innovation

Thank you. It's a great honor for me to be here. I want to thank John Pruitt for extending the invitation, Mike Morrissey for coordinating the arrangements, and Brad Kading for suggesting the idea.

On behalf of U.S. state insurance regulators and the NAIC, I want to salute the International Insurance Society and its leadership as you celebrate 50 years, which is quite an achievement.

I imagine the world was a bit different back then, when the IIS was founded in 1965. But certainly the business of insurance was already well-established as an important component of the global economy.

In keeping with your mission of providing a forum to focus on innovation and its impact on insurance markets and economic development around the world, I want to thank you all for your service to the insurance sector and the many policyholders and local communities that your work supports.

Many of you know from first-hand experience that the business of insurance and reinsurance is both local and global, and the financial crisis reminded us how interconnected our world and our financial markets have become.

As the business models and global risk-management practices of internationally active insurers continue to evolve, many regulators around the world – including those of us the United States – are enhancing our systems. We are engaging in international supervisory colleges and increasing our collaboration to ensure robust supervision and stable financial markets.

Some of you may not be aware that the National Association of Insurance Commissioners also has a long history that goes back nearly 150 years when the states began meeting to discuss cross-border issues in the United States.

The NAIC and its members are collaborative by nature – the very definition of our state-based system. We are problem-solvers who remain committed to engaging in a wide range of global insurance issues and activities, always with a focus on ensuring policyholder protections and maintaining stable insurance markets.

Some of you may remember that we are founding members of the IAIS – in fact, the first IAIS Secretariat was housed in our NAIC office in Washington DC before it moved to Basel, Switzerland.

U.S. state regulators remain very engaged in the IAIS to ensure that our national state-based system has a prominent voice in the development and implementation of global insurance principles and standards.

We are also working closely with our U.S. partners and have been collaborating with federal agencies on a wide range of issues for many years, including the Federal Reserve Board, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the U.S. Trade Representative, the Commerce Department, and the Treasury Department.

And, of course, U.S. state insurance regulators are represented on the U.S. Financial Stability Oversight Council by Missouri Director John Huff.

We like to point out that our national state-based system in the U.S. has a strong track record, especially when compared with other financial sectors during the recent financial crisis. Our policyholders are protected, our insurance companies are well capitalized, and our insurance markets are stable and competitive.

We understand that the state-based insurance regulation system is the U.S. is seen by many as complicated, and there are many dynamic challenges with product innovation and trans-national market activities, and yet we know that insurance remains closely tied to our local communities and their needs.

That's why the structure provided by the NAIC and our process of continuous improvement are so critical. One of the advantages of our national system of state-based regulation is the ability through accreditation to enjoy a national system of solvency standards with state-based implementation and local interaction with consumers.

As many of you are aware, NAIC members – all 50 states, the District of Columbia, and five U.S. territories – come together through regular national and regional meetings throughout the country to advance regulatory best practices.

The NAIC provides a national forum for regulators to collaborate and develop model legislation, rules, guidelines, and best practices. It also enables state regulators to share issues and concerns, helping each other become aware of emerging problems and address them before they become a reality in other states.

Our system continues to evolve as the states respond to emerging issues, new products, innovation and changes in the financial landscape. About five years ago, we launched our Solvency Modernization Initiative as part of our determination to learn from the crisis and consider regulatory developments underway around the world.

As a result, we have adopted several enhancements to our risk-based system. These enhancements enable us to build on our strengths but preserve the fundamental elements of our solvency regime that are stress-tested and proven to work.

We're adding new authorities to our model holding company act to enhance our group supervision capabilities, and we've adopted an Own Risk and Solvency Assessment (ORSA) requirement with pilot programs already underway to help us better understand enterprise risk management.

We are also transitioning certain life insurance reserving requirements from a formula-based approach to a principles-based approach. In addition, we have adopted important enhancements in the areas of corporate governance and reinsurance collateral requirements, and we are actively working to implement them in the states.

Our efforts, of course, do not exist in a vacuum. Although insurance was not a cause of the financial crisis, the interconnections that exist between insurers and other areas of the financial system make it challenging to address one area without impacting another.

In the US, the response to the crisis is embedded in the Dodd Frank Act, which seeks to give regulators more tools to address and mitigate systemic threats. The U.S. Congress largely rejected significant changes in insurance regulation and instead focused its scrutiny on addressing other financial sectors.

At the NAIC, we believe this is a reflection of the strong framework operating in our states, our dynamic process of continuous improvement, and the fact that the traditional business of insurance does not cause systemic risk.

Nevertheless, the idea of a systemic designation is now a reality for the insurance sector, particularly for larger firms that are engaged in a variety of financial activities, and the "enhanced" standards that will be applied to such firms will be influenced by domestic and international developments.

One concern we have is that the last crisis was a banking crisis, not an insurance crisis, yet much of the international discussion and some of the prescriptions proposed for insurers seem very similar to banking solutions developed by banking regulators.

I think there is broad agreement, at least among pure insurance regulators, that taking a banking approach to insurance risk could undermine the insurance business and actually exacerbate systemic risk by pushing insurers out of certain investments and products. Insurers are often the largest long term or "buy and hold" investors in important areas, such as corporate bonds.

We need innovation in the market to be responsive to consumer needs, and this is especially true for senior citizens and others thinking about retirement, so our regulatory enhancements should be carefully measured to ensure innovation continues to be encouraged and not stifled by excessive requirements that go beyond practical needs.

Further compounding the challenge of systemic issues is the notion of global standards and convergence. As a practical matter, we are a long way from achieving a common global accounting standard for insurance, and the variety of insurance business models means that a one-size-fits-all approach will not work.

In the U.S., we regulate insurance on a legal-entity basis, and we expect insurers operating within our borders to meet U.S. risk-based capital requirements as well as other solvency tests. If the liabilities are in the U.S., then we expect the assets and capital that support the U.S. business to be there as well. In fact, the strongest protection to the financial system and policyholders might well be that each legal entity, including the holding company, holds capital commensurate with its risks.

U.S. state insurance regulators and the NAIC continue to work with the international regulatory community to advance and achieve positive results in the areas of solvency and capital analyses. We support practical outcomes with broad consensus that work for all jurisdictions and stakeholders, and we have devoted substantial resources to assist with those efforts.

Insurance regulators need to be sure, as we develop new standards, that we do so carefully with “deliberate speed” and rather than break-neck speed. Many of us will be very concerned if impractical time frames are rushing the process and limiting the ability for many stakeholders to provide important input.

As for our baseline point of view, any application of group capital standards as a tool for insurance regulators in the U.S. would need to be compatible with the legal entity standards that have served our markets and policyholders so well.

Any practical global capital standards we might consider would also need to recognize the safeguards that exist to protect policyholders and our different accounting treatment in the U.S., including the valuation of long-term assets and liabilities.

We are working closely with the Federal Reserve as a partner in regulating certain groups with insurance entities, and our commissioners remain accountable to the policyholders of every insurance company in each of those groups.

I think it's fair to note that there is a general lack of understanding around the world of the widespread public resistance in America to federal solutions where the states have been effective. This does not represent a political resistance to change but rather a practical reality check for those advocating major changes that are not called for by the circumstances.

So in our view we need to work with all parties in a transparent way to advance the most practical and effective ways to achieve greater global collaboration over time, as opposed to pushing forward changes in the short run that lack full support.

We are working to enhance supervision of globally active insurance entities through better coordination, particularly through greater use of international supervisory colleges to learn from and contribute to best practices globally.

We believe Supervisory Colleges are well-suited to enhance coordination and require leadership by a group-wide supervisor who accepts responsibility for convening the college as well as collecting, analyzing and distributing group-wide data and information. While each supervisor retains authority, coordinated actions are achieved by agreement among the supervisors involved in the college.

We believe oversight shared among different jurisdictions should be coordinated in a common framework that provides checks and balances for effective cross-border supervision, just as coordinated regulation is a cornerstone of our state-based system.

In closing, I think we all recognize there are many challenges ahead.

We share a common commitment to ensure that insurance policyholders are able to secure protection, insurance companies are able to meet their financial obligations, and insurance markets are able to address the needs of our local communities.

I also believe we share an obligation to ensure that insurance regulation and supervision are successful in achieving these objectives without imposing unwarranted burdens and unnecessary costs on the system and its participants. While our duty and commitment is to protect policyholders and encourage stable markets, we must be mindful of costs and benefits to ensure our efforts are effective without being excessive.

And finally, with respect to innovation, my bottom line is this: – I strongly believe, and I think it has been well demonstrated in many areas, that effective regulation and market innovation are a dynamic partnership for economic growth and prosperity.

Thank you again for the invitation to be here today. I deeply appreciate this opportunity to join you and participate in your annual seminar.