

Brookings Institution Event -- "Global Insurance  
Regulatory Developments and the Impacts on U.S.  
Consumers and Insurers"  
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The Insurance Industry and Its Regulation, Post-Crisis

Thank you for that kind welcome. It is an honor to be here with such a distinguished panel. I look forward to a lively discussion on a number of issues facing the business and regulation of insurance.

When we talk about the insurance industry in a global context, it's easy to think of the U.S. as just another seat at the table. But that limited view belies our strength, size and experience. U.S. states make up more than 24 of the world's 50 largest insurance markets, and we have nearly a third of the global market share of premium volume. U.S. consumers pay more than \$1.8 trillion per year on

insurance, and regulators monitor more than \$8 trillion in insurer assets.

The bottom line for the work of the National Association of Insurance Commissioners, and ultimately my responsibility as CEO, is to ensure the state regulators have the resources, information and tools they need to regulate this exceedingly complex marketplace and safeguard consumers should we experience another financial crisis.

We are not short on resources – both at the NAIC and in individual state insurance departments. A vast network supports the 56 chief state and territorial insurance commissioners – with nearly 12 thousand regulators nationwide and 470 NAIC staff.

As for information, the NAIC is home to the world’s largest insurance financial database. The IMF has called our data collection and analysis “world leading.” Regulators have

access to the most sophisticated financial information available anywhere to support their departments.

As for the tools, our regulators have more than a toolbox – each state is home to a veritable workshop. Regulators monitor an insurer’s compliance with laws and regulation, and a company’s financial condition through solvency surveillance and examination mechanisms. This system served us well in 2008 when other areas of the financial system nearly collapsed. And since then, we’ve only continued to advance. Since the financial crisis, we have undertaken and completed many modernization initiatives, including enhancements to our supervision of groups through broader assessment procedures, establishing supervisory colleges for all US based international firms, implementing new processes surrounding collateral requirements for foreign reinsurers, new reporting for securities lending activities, and better methods for

assessing corporate governance practices of insurers. State insurance regulation works because it is specific to the industry's unique risks. States are able to evaluate specific company risk, with different methods for life, health, and property and casualty insurance, giving deference to unique demographic and geographic factors.

Unfortunately, some in the U.S. and overseas who don't understand or appreciate the sophistication of our system seek to overhaul the current structure. Proposals include adding burdensome and costly layers of regulation, while stripping away the flexibility that has served consumers and the industry so well. As we have seen with the Financial Stability Oversight Council – or FSOC – those regulators with banking expertise and experience are treating large insurers like banks. As the saying goes, "if all you have is a hammer, everything looks like a nail." It's not surprising that the bulk of regulators on the council are

treating all financial companies the same, but they do so to the detriment of a system that has proven effective.

This kind of homogenous approach may actually encourage questionable investment risk-taking in the industry. For example, consider a life insurance company that invests primarily in fixed-income securities to generate the predictable cash flows the firm needs to pay benefits. Under state insurance regulations, the company would hold less capital for top-rated corporate bonds and more capital for high-yield bonds with a risky rate of return. But under bank capital rules, all corporate bonds receive the same risk weight, regardless of credit quality, thereby incentivizing risky behavior.

That is just one example of how a lack of understanding of the state-based insurance regulatory structure could hurt consumers.

Insurance regulation is evolutionary. I'm not suggesting we shouldn't look to new models and methods and best practices, or add to our regulatory regime when warranted. What I am saying – and I feel strongly about this – is that changes to our system should originate with the state regulators and legislators to ensure that those changes fit within the existing framework and don't add unnecessary cost or confusion. Every decision made by regulators through the NAIC goes through rigorous analysis and debate. Our process includes consumer representatives, stakeholders, interested parties and policymakers to weigh in as well. Changes are vetted thoroughly to ensure that they are in the best interest of the U.S. consumers and marketplace. Policymakers, standard setters, and other financial regulators would be well advised to learn not only from the failings during the 2008 crisis, but from the success stories as well.

Thank you.

## Global Capital Standards: Implications for the U.S.

Thank you for that kind introduction.

As we know, the U.S. is home to the world's largest insurance marketplace, which puts us in a position of strength when working with our international counterparts on issues such as global financial stability. America's insurance regulatory framework was responsible for the protection of insurance consumers and companies in the U.S. during the financial crisis, and has only improved in the last six years. We have increased our dialogue with foreign regulators including our participation in Supervisory Colleges; gained a better understanding of how other financial companies are – or aren't – regulated; and recently completed the Solvency Modernization Initiative. All of which strengthen our system. Today, we are better equipped to identify and reign in activities that



could put policyholders and the financial system more at risk than ever before.

That doesn't mean our work is done, of course. As the only insurance regulator panelist here today, I can appreciate the value of academic debate when it comes to topics that impact regulation – but no one else is as qualified to speak to the practicality of implementing any new reform.

I come to this discussion on global group capital standards with a healthy dose of skepticism, and insistence that any changes to the U.S. regulatory structure are carefully reviewed and implemented pragmatically. American consumers and the financial structure as a whole demand and deserve nothing less.

That's not to say that I, or the NAIC as a body, oppose a global capital standard. Nevertheless, there are core

considerations that we must work through before advancing any new proposal. And we must keep in mind that capital is an important aspect of solvency, but it is not the only consideration when U.S. regulators evaluate the financial strength of an insurance company or group. I hope our discussion today will address the need, process, and timing for the development of a global standard.

I think the first consideration is simply phrased. Will a global capital standard for insurers make the financial system more secure? The answer of course is not simple at all. A global capital standard alone will not protect any one company or the broader economy. Moreover, it could cause harm if overly burdensome requirements inhibit product offerings and development, raise prices for consumers, add layers of regulation or otherwise discourages appropriate risk management.

It is important to give regulators the flexibility to determine adequate capital held by the specific legal entity, where the policy obligation resides. This cannot be confused with capital held at the group level. Walling off the insurance assets protected policyholders during the financial crisis, a protection that continues under current state regulation. Any discussion of a global capital standard applied in the U.S. must give deference to the U.S. Risk-Based Capital standard that applies at the legal entity level.

Of course, we need to make sure that foreign firms are meeting the regulatory benchmarks in the jurisdiction where they sell policies, and that policyholders are protected just as they would be by a domestic insurer. We also must also stand vigilant that any standard does not disadvantage U.S. firms operating in foreign markets.

I also am concerned with the process at the IAIS for development of a global capital standard. Any international standard should not favor one regulatory approach over another. Instead, it should represent the best outcomes that solid regulations provide, and leave it to individual jurisdictions to develop the best pathway. Consistency of consumer protections and market stability remain paramount, and I argue that diversity of approaches in regulation make for a stronger system.

It's critical to remember that if a global standard is developed, it carries only as much weight and value as the regulators around the world are willing to give it. Just as the IAIS is shutting down open meetings and limiting stakeholder and observer engagement, they are also seeking buy-in from regulators. NAIC meetings aren't always pretty, and our members will often disagree – as they should – on issues of regulatory policy. But that

“airing of the grievances” in a public forum gives us confidence that when we reach a conclusion, the finished product is in the best interest of the insurance marketplace.

My third concern remains with the timing of an international capital standard. Any timeline should be driven by the regulators – the IAIS members – based on resources available to deliver high-quality results. For example, how can we have a global capital standard before we have a global accounting system? What mechanisms are in place – or need to be created – to reconcile the differences?

I look forward to today’s discussion, and hope we can shed some light on the necessity, process and timing of a global capital standard.

