

Draft: 12/2/19

International Insurance Relations (G) Committee
Conference Call
November 6, 2019

The International Insurance Relations (G) Committee met via conference call Nov. 6, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); David Altmaier (FL); Colin M. Hayashida (HI); Doug Ommen (IA); James J. Donelon represented by Tom Travis (LA); Anita G. Fox represented by Steve Mayhew (MI); Chlora Lindley-Myers (MO); Bruce R. Ramge (NE); Marlene Caride (NJ); Jillian Froment (OH); and Jessica Altman (PA).

1. Heard an update on upcoming IAIS meetings

Commissioner Anderson said a number of commissioners and NAIC staff would be attending the upcoming International Association of Insurance Supervisors (IAIS) committee meetings, general meeting, and annual conference in Abu Dhabi where some important projects involving years of work by IAIS members and stakeholders would be finalized.

Commissioner Anderson noted that the holistic framework for systemic risk would be adopted. He said that following the financial crisis, the IAIS, in conjunction with the Financial Stability Board (FSB), established a methodology for analyzing and identifying global systemically important insurers (G-SIIs) and accompanying policy measures. He explained that the shortcomings of this solely entities-based approach for the insurance sector soon became evident, and the IAIS began looking at an activities-based approach, resulting in the development of the holistic framework, which takes a broader look at how systemic risk may arise in the insurance sector—whether from an individual insurer or a number of insurers undertaking a certain activity—and a broader approach to how such risks can be monitored and mitigated by supervisors. He said the holistic framework consists of: 1) new supervisory material contained within the Insurance Core Principles (ICPs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame); 2) a global monitoring exercise that leverages and enhances existing IAIS work individual insurer monitoring and sector-wide monitoring; and 3) an implementation assessment component. He added that it is expected that there will be discussion in Abu Dhabi about some of the more detailed processes within the holistic framework, in particular as they relate to the global monitoring exercise; but in general, state insurance regulators are supportive of the holistic framework, and they believe it will show that a G-SII list is no longer needed for the insurance sector.

Stephen Broadie (American Property Casualty Insurance Association—APCIA) asked if revisions to the holistic framework document will be published before adoption or shortly thereafter so stakeholders are able to see the final product. Ryan Workman (NAIC) said a list of comments received from the public consultation will likely be published and a public call will be scheduled on the holistic framework after the annual conference. He also said a forthcoming document will explain how the holistic framework fits with relevant parts of ComFrame and the ICPs.

Commissioner Anderson said adoption of the revised ICP Introduction and Assessment Methodology, IAIS glossary terms, and revised versions of a number of ICPs is the result of a multi-year process to ensure that the ICPs are understandable, applicable and implementable by IAIS members. He said ComFrame has evolved over the years through a number of consultations and field-testing processes, with the end result being standards and guidance that are tailored for the supervision of internationally active insurance groups (IAIGs). He said that to avoid overlap and provide better context, ComFrame was integrated into the ICPs for presentation purposes, which resulted in a need to ensure consistency and coherency between the two. Commissioner Anderson explained that following adoption of the revised ICPs and ComFrame, IAIS members will begin the process of implementation with the expectation that the IAIS's core supervisory material will remain stable for a number of years.

Commissioner Anderson said the global insurance capital standard (ICS) and comparability of the aggregation method (AM) have attracted significant attention over the course of 2019 and decisions in Abu Dhabi would affect the next five years over the monitoring period. He said state insurance regulators have been clear about ongoing concerns over some of the outstanding design issues of the reference ICS, which as a result make the ICS not fit for purpose for the U.S. supervisory system or the U.S. insurance market. He said state insurance regulators are in the process of developing the AM to provide comparable outcomes to the ICS.

Commissioner Anderson explained that while the ICS will eventually become part of ComFrame, what will be approved in Abu Dhabi is separate from adoption of the ComFrame material, as ICS version 2.0 will still be subject to further development during the monitoring period. Regarding ICS materials to be adopted in Abu Dhabi, he said this would include the final technical design of the reference ICS version 2.0 for the monitoring period, a definition of comparable outcomes and overarching approach to guide development of the assessment process, and a broader workplan and timeline for entire monitoring period, and a public communication on operationalizing the monitoring period.

Commissioner Anderson said that finalizing the reference ICS and coming up with a definition of comparable outcomes and accompanying overarching guidelines for the comparability assessment process has proven to be a challenge, as IAIS members have different philosophies on group capital, which influences their approach on how technical issues and issues of comparability should be viewed and determined. He noted that at an October stakeholder event hosted by the Federal Insurance Office (FIO), Team USA shared how it envisioned a definition of comparable outcomes. He said that following the event, the IAIS had calls and meetings to discuss comparability, along with the technical design issues and how the monitoring period will operate. He said that following the recent ICS Task Force meetings in London to discuss comparability, there are still some sticking points with differences of view and interpretation. He said state insurance regulators hope to have these successfully resolved in Abu Dhabi so that there is an achievable definition of comparable outcomes and a clear path forward on the AM.

Commissioner Anderson said state insurance regulators are aware that there are a number of questions as to how to proceed if an agreement on comparability is not reached in Abu Dhabi. He said that there are a variety of moving parts to this issue and different ways they could play out. He said state insurance regulators are trying to be as productive as possible with international colleagues to find a way forward; however, the NAIC and state insurance regulators will not move forward in a way that is contrary to our interests. He also said if there is not an agreement, it does not mean that the NAIC and state insurance regulators will disengage from the ICS project or the IAIS more broadly.

Michelle M. Rogers (National Association of Mutual Insurance Companies—NAMIC) asked if other IAIS members have raised concerns about the current ICS draft and whether other members might oppose approval of ICS version 2.0. Commissioner Anderson responded that there have been some concerns raised by other jurisdictions.

Ms. Rogers asked for elaboration on the sticking points on comparable outcomes. Commissioner Anderson said these are subject to internal discussions within the IAIS but reiterate that state insurance regulators will not agree to a deal that could be detrimental to the U.S. market.

Bryan Pickel (Prudential Financial) said the AM can provide comparable outcomes to the ICS, as defined by the Kuala Lumpur agreement. He said it should be contemplated what a “no” vote on the ICS might mean in a larger context, especially for larger companies that do business internationally. Commissioner Anderson responded that if the U.S. agrees to a deal, it will need to meet the NAIC’s objectives and be a good deal for the U.S. market, and state insurance regulators will be mindful of the consequences of any outcome in Abu Dhabi.

Birny Birnbaum (Center for Economic Justice—CEJ) noted that comparability could be considered in terms of outcomes of what the different models produce and comparability that triggers supervisory action. He asked for clarity about the Team USA position on what constitutes comparability. Commissioner Anderson said that Team USA has focused on outcomes for supervisory intervention, with a clear path for the AM to be deemed comparable. Mr. Birnbaum said a standard for supervisory action could be subjective, and he asked for further insight. Commissioner Anderson responded that since the ICS and AM are built differently, the two approaches will not produce the exact same numbers, thus the focus on the action that the results produce, not the result itself.

Joe Engelhard (MetLife) said he understands that the ICS market-adjusted valuation (MAV) approach will not be implemented in the U.S., but he noted that for comparability, MAV and the AM will not come up with the same ratio since they are different approaches. Instead, he said the metric should be whether the solvency ratio accurately reflects assets and liabilities. He also noted that the NAIC can likely demonstrate that risk-based capital (RBC) ratios do appropriately reflect the time needed to intervene with an insurer, and therefore the level of risk of the underlying assets and liabilities. He added that on the other hand, MAV is procyclical, potentially overstating or understating risk.

Mr. Birnbaum said that while the position of the industry regarding ICS is not unreasonable, he believed Team USA’s position would likely not change during the monitoring period. He said that Team USA is asking other IAIS members to accept the AM as functionally equivalent regardless of outcomes during the monitoring period. Commissioner Anderson disagreed with that

characterization and said the monitoring period does matter to demonstrate comparable outcomes, noting that Team USA does not expect the IAIS to give the AM a free pass.

Mr. Broadie asked whether U.S.-based IAIGs will be required to participate in the field testing of MAV during the ICS monitoring period. Commissioner Anderson responded that based on the positions of the group-wide supervisors of U.S.-based IAIGs, the U.S. will not go forward with something contrary to its interests.

DiAnn C. Behrens (Allstate) asked for clarification regarding the intended relationship of the NAIC's group capital calculation (GCC) under development to the AM. She asked which one will be used in the U.S. or internationally and how they relate to the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (Covered Agreement). She also asked how these approaches compare to the ICS. Commissioner Anderson responded that these points will continue to be discussed as the work moves forward, and he noted that the Group Capital Calculation (E) Working Group and NAIC leadership will be part of these discussions as well.

Andrew T. Vedder (Northwestern Mutual) asked about Team USA's continued efforts during the monitoring period to improve design elements of the reference ICS. He said that it is important for non-IAIG insurers to see improvements in the reference ICS. Commissioner Anderson said there would be continued engagement by Team USA regarding design elements, no matter the outcome of Abu Dhabi.

Patrick C. Reeder (American Council of Life Insurers—ACLI) asked if Team USA plans to stay engaged during the ICS monitoring period, regardless of the vote in Abu Dhabi. Commissioner Anderson said regardless of the vote, Team USA will continue working with IAIS colleagues to address deficiencies in the ICS. He noted that the NAIC approach to member engagement on topics on which there are different views serves as a good model.

Tom Leonardi (AIG) asked if it would be difficult to demonstrate comparability of the AM if not all U.S.-based IAIGs provide reference ICS data during the monitoring period. Commissioner Anderson responded that the data to be provided should be sufficient for demonstrating comparability and that there has been engagement with the relevant group-wide supervisors on regarding participation during the monitoring period.

Mr. Reeder said that after Abu Dhabi, whatever the outcome, the ACLI's members will need to understand how to budget and allocate resources for GCC development, as well as the monitoring period. Commissioner Anderson responded that these points will be taken into account.

2. Discuss Other Matters

Commissioner Anderson noted that the Committee will meet at the Fall National Meeting on Dec. 7.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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International Insurance Relations (G) Committee
Conference Call
October 15, 2019

The International Insurance Relations (G) Committee met via conference call Oct. 15, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais represented by John Loughran (CT); Stephen C. Taylor (DC); David Altmaier (FL); Doug Ommen represented by Carrie Mears (IA); James J. Donelon (LA); Anita G. Fox represented by Steve Mayhew (MI); Chlora Lindley-Myers represented by John Rehagen (MO); Bruce R. Ramage (NE); Marlene Caride (NJ); John G. Franchini (NM); Jillian Froment (OH); and Jessica Altman (PA).

1. Approved Submission of NAIC Comments on IAIS Draft Issues Paper on the Use of Big Data Analytics in Insurance

Commissioner Anderson said the International Association of Insurance Supervisors (IAIS) draft *Issues Paper on the Use of Big Data Analytics in Insurance*, which is currently out for public consultation, builds on a previous IAIS issues paper and focuses more specifically on issues regarding the use of personal and other data by insurers as a result of digitalization. He said the paper considers the manner in which insurers are able to collect, process and use data across various stages of the insurance product lifecycle, namely product design, marketing, sales and distribution, pricing and underwriting, and claims handling. He said the paper also makes certain observations about the potential implications for supervisors as a result of the use of big data analytics in insurance.

Commissioner Anderson said that per the usual process, the paper was reviewed internally, which resulted in the initial draft NAIC comments that were circulated in advance of the conference call. He said input for consideration by the Committee was received from the American Property Casualty Insurance Association (APCIA) (Attachment B).

Ryan Workman (NAIC) provided an overview of the draft NAIC comments.

David F. Snyder (APCIA) provided support for the NAIC draft comments, and he said the APCIA would be submitting its own comments.

Birny Birnbaum (Center for Economic Justice—CEJ) said the CEJ disagrees with the APCIA comments, and it believes that the IAIS paper is not intended to provide regulatory practice or guidance; instead, it features extensive discussion on benefits and concerns related to the use of big data. He said that while the CEJ has suggestions to improve the paper, it believes that it is balanced.

Taylor Walker (American Council of Life Insurers—ACLI) agreed with the APCIA comments and noted that the ACLI will be submitting its own comments. She said the ACLI believes the issues paper should focus more on consumer benefits for big data and emphasize that concerns around big data are not new to the insurance industry. She said that while technology and techniques have evolved, commitment to the law and actuarial standards have not changed.

Commissioner Caride made a motion, seconded by Commissioner Donelon, to approve submission of the NAIC comments (Attachment A). The motion passed unanimously.

Commissioner Anderson said the NAIC comments on the draft issues paper would be submitted in advance of the Oct. 16 deadline, and he urged interested parties to submit comments as well.

2. Heard an Update on IAIS Activities

Commissioner Anderson reported that in November, the IAIS will have three days of committee meetings followed by its general meeting and annual conference. He said finalization of a number of long-term projects at the IAIS is expected, including revisions of several Insurance Core Principles (ICPs), the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), the global insurance capital standard (ICS) for the monitoring period, and the holistic framework for systemic risk. He said that while this phase of revising existing and developing new supervisory material is coming to a close, an important phase of implementation begins, and discussions in November will be laying out related plans.

He said during the week of Oct. 21, the IAIS ICS Task Force and the Executive Committee will be meeting in London, mostly to focus on reaching agreement on outstanding design issues on the ICS version 2.0 for the monitoring period and comparability of the aggregation method (AM).

Commissioner Anderson noted that the U.S. Chamber of Commerce recently released a report on the ICS and AM. Bill Hulse (U.S. Chamber of Commerce) shared highlights of this report, noting that it aims to build an argument for why the AM is a credible approach to group capital. He gave an overview of the report's main sections, which covers how a market-adjusted valuation approach to capital could affect product availability, competition, global competitiveness, and capital markets in the U.S., as well as the merits of the AM. He said the report also discusses market implications of adopting the reference ICS, as adoption in other jurisdictions could make the ICS the de facto international standard even with the U.S. taking the AM approach.

Commissioner Anderson said that in early October, the Federal Insurance Office (FIO) hosted a stakeholder session on the ICS during which views of Team USA were presented, including a strawman proposal for a definition of comparable outcomes. He said that in state insurance regulators' view, the outcome should focus on group capital approaches, signaling the need for supervisory intervention. He said that based on input from that meeting, Team USA made some tweaks to help clarify the proposal submitted to the IAIS.

Commissioner Anderson noted that other IAIS members were invited to provide their thoughts on defining comparable outcomes, and he said the IAIS Secretariat will attempt to bridge the gap between the various proposals for discussion at the meetings in London. He noted the difficulty of coming up with a meaningful, high-level definition that avoids being criteria itself or suggesting that the only way to have comparable outcomes to the ICS is to adopt the ICS. He said state insurance regulators hope that the meeting reaches an agreed-upon, achievable definition of comparable outcomes and overarching guidelines that will govern the IAIS's overall comparability assessment process for the AM.

Mariana Gomez-Vock (ACLI) said that while the ACLI supports the Team USA goal of having the AM recognized as comparable, it has some concerns with the strawman definition. She said the ACLI sent a letter outlining these concerns, and it asked if these concerns have been addressed. Commissioner Anderson said stakeholder comments were taken into consideration in preparation for London, and he said the ACLI comments were similar to those from others at the FIO stakeholder session.

Ms. Gomez-Vock asked if the goal of the ICS Task Force meeting in London is to finalize the definition of comparable outcomes, or if a draft will come out of the meeting and feedback will be sought from stakeholders. Commissioner Anderson said discussions will likely continue following the London meeting, though the expectation is to come away from London with an achievable definition of comparable outcomes. He said the Committee would reengage with interested parties following the meetings in London.

Tracey Laws (Chubb) asked what form such reengagement will take and whether it will be an open Committee conference call. Commissioner Anderson responded that no specific plans had been made yet.

Tom Finnell (Finnell & Co. LLC) asked if stakeholders can see the strawman definition for ICS comparability submitted by Team USA. Commissioner Anderson responded that given the status of the discussions within the IAIS, it could not be shared, but it was in line with what was discussed at the FIO stakeholder session.

Michael F. Consedine (NAIC, Chief Executive Officer) said he appreciated stakeholders' interest in the submission, though discussions on a definition are still fluid. He noted that Team USA is unified going into the London meetings and that with a number of strawman proposals to be discussed in London, the definition is still a moving target.

Brad Smith (ACLI) asked about the Committee's expected process for coordinating with interested parties after London or in preparation for London, and he asked about engagement of the Financial Stability Board (FSB) on the outcome at the IAIS discussions on the ICS. Commissioner Anderson said cooperation amongst Team USA will continue, and engagement with interested parties will be similar to other Committee work. Mr. Consedine noted that FSB engagement at this stage is unlikely, though it will continue to monitor relevant developments at the IAIS as it currently does.

Ms. Gomez-Vock (ACLI) asked for clarification regarding whether the NAIC is contemplating adopting the AM with specific supervisory intervention points and whether this would be a workstream of the Committee or the Group Capital Calculation

(E) Working Group. Commissioner Anderson responded that discussion on supervisory intervention points as part of the group capital calculation (GCC) is premature at this point. Mr. Workman said the ComFrame Development (G) Working Group will be disbanded in 2020 and that the Group Capital Calculation (E) Working Group will look at ComFrame implementation more broadly.

3. Heard an Update on the FSAP

Commissioner Anderson said the International Monetary Fund (IMF) is conducting its third Financial Sector Assessment Program (FSAP) for the U.S. in 2019 and 2020. He said that as with the last two FSAPs, the U.S. Department of the Treasury (Treasury Department) Office of Financial Markets is coordinating this FSAP for participating U.S. agencies.

Commissioner Anderson noted that the FSAP is comprised of Mission 1 and Mission 2, with much of the work for the FSAP exercise for insurance concentrated in Mission 1 and additional work happening during Mission 2 in early 2020. He said the opening meeting for Mission 1 took place earlier in the day. He explained that the NAIC and several states will be participating in a number of meetings with the IMF over the coming weeks, ending with a closing meeting on Nov. 8. He noted that several interested parties were likely also contacted about private sector meetings with the IMF.

Commissioner Anderson said the IMF is expected to publish a technical note on insurance by the summer of 2020. He noted that since the last FSAP of the U.S. in 2015, state insurance regulators and the NAIC have further enhanced the state-based system of insurance regulation, and they look forward to further in-depth discussions on these regulatory developments with the IMF in the coming weeks. He said the Committee and interested parties will continue to be informed of further developments relating to the FSAP as the process moves forward.

Stephen Broadie (APCIA) asked if the IMF would be focusing its assessment on those ICPs that are related to financial stability or have been recently revised. Commissioner Anderson replied that the IMF would be assessing the U.S. against a subsection of ICPs. Gita Timmerman (NAIC) added that the IMF is trending to a more focused assessment rather than an assessment of all the ICPs.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 8/13/19

International Insurance Relations (G) Committee
Conference Call
August 13, 2019

The International Insurance Relations (G) Committee met via conference call Aug.13, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); Stephen C. Taylor (DC); David Altmaier (FL); Colin M. Hayashida represented by Martha Im (HI); Doug Ommen (IA); James J. Donelon (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers (MO); Bruce R. Ramge represented by Mitchell Higgins (NE); Marlene Caride (NJ); Jillian Froment (OH); and Jessica Altman (PA).

1. Approved Submission of NAIC Comments on IAIS Revised Supervisory Material and Material Related to the Holistic Framework for Systemic Risk in the Insurance Sector

Commissioner Anderson explained the purpose of the conference call is to discuss and approve submission of NAIC comments on draft revised International Association of Insurance Supervisors (IAIS) supervisory material and new material related to the *Holistic Framework for Systemic Risk*, which are currently out for public consultation. Commissioner Anderson said the IAIS is currently seeking feedback on supervisory material including: draft revised IAIS Glossary; draft Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) Assessment Methodology; changes in the Introduction to the Insurance Core Principles (ICPs) and ICP 7 (Corporate Governance) for consistency with ComFrame development; and draft revised ICP 22 (Anti-Money Laundering and Combatting the Financing of Terrorism). Commissioner Anderson noted the ComFrame-related material in the consultation document reflects revisions based on comments received during the 2018 public consultation on the overall ComFrame.

Commissioner Anderson said the draft holistic framework represents a move away from the IAIS' previous entities-based approach to identify firms to which specific policy measures would be applied. He added that the new enhanced set of supervisory policy measures is one element of the IAIS' broader approach to addressing potential systemic risk. Commissioner Anderson explained the new policy measures are reflected in revisions to several ICPs and related ComFrame material, including: ICP 9 (Supervisory Review and Reporting); ICP 10 (Preventive Measures, Corrective Measures and Sanctions); ICP 16 (Enterprise Risk Management for Solvency Purposes); ICP 20 (Public Disclosure); and ICP 24 (Macroprudential Supervision).

Commissioner Anderson said that per the usual NAIC process, the consultation material was reviewed internally, including by the: Antifraud (D) Task Force for ICP 22, ComFrame Development and Analysis (G) Working Group for the ComFrame material, and Financial Stability (EX) Task Force for the holistic framework material, which resulted in the initial draft NAIC comments that were circulated on July 25. He said the draft NAIC comments, which included two new comments, and input for consideration received from Northwestern Mutual (Attachment B) were also circulated in advance of the call.

Ryan Workman (NAIC) provided an overview of the draft NAIC comments, highlighting specific substantive comments across the material.

Commissioner Anderson noted that comments received from Northwestern Mutual focus on the holistic framework material and raise valid points. He said the NAIC plans to follow up on these comments as part of the internal IAIS review process.

Steven Simchak (American Property Casualty Insurance Association—APCIA) said substantial language was added to the holistic framework material in the consultation document that focuses on the size of insurance groups and such an emphasis on size is not constructive in moving toward an activities based approach to addressing potential systemic risk. Mr. Simchak commented the consultation document lacks clarity as to how, to whom, and under what circumstances these measures will be applied, which could be problematic during times of economic stress. He stated that in applying the principle of proportionality, it would be appropriate to be more specific about the lines of insurance and types of companies or business models for which liquidity and macroprudential effects have, or have not, been an issue. Mr. Simchak said it would be helpful for the final version of text to distinguish holistic framework material from the ICPs and ComFrame material given the different scopes of application.

David Snyder (APCIA) noted the APCIA is coordinating its comments with the Global Federal of Insurance Associations, which has similar concerns. He suggested the NAIC include in its submission a general comment on the importance of defining and using proportionality.

Robert Neill (American Council of Life Insurers—ACLI) supported the NAIC's comment on the holistic framework material related to the Own Risk and Solvency Assessment (ORSA) being non-prescriptive and comments on stress testing. He noted that data collections conducted as part of the holistic framework should be reasonable and leverage existing data where possible.

Tom Finnell (APCIA) said the ComFrame material is unclear regarding which supervisory requirements necessitate direct versus indirect power. Mr. Workman responded that the IAIS has tried to better clarify the distinction for direct and indirect in both the ComFrame Introduction and the relevant ComFrame material.

Commissioner Mais made a motion, seconded by Commissioner Donelon, to approve submission of the NAIC comments (Attachment A). The motion passed.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 8/9/19

International Insurance Relations (G) Committee
New York, New York
August 3, 2019

The International Insurance Relations (G) Committee met in New York, NY, Aug. 3, 2019. The following Committee members participated: Gary Anderson, Chair (MA); Andrew Stolfi, Vice Chair (OR); Andrew N. Mais (CT); Stephen C. Taylor (DC); David Altmaier (FL); Colin M. Hayashida represented by Gordon I. Ito (HI); Doug Ommen (IA); James J. Donelon represented by Tom Travis (LA); Anita G. Fox represented by Judy Weaver (MI); Chlora Lindley-Myers represented by John Rehagen (MO); Bruce R. Ramge (NE); Marlene Caride (NJ); John G. Franchini represented by Robert Doucette (NM); Jillian Froment (OH); and Jessica Altman (PA).

1. Adopted its Spring National Meeting Minutes

The Committee met April 6 and took the following action: 1) adopted the report of the ComFrame Development and Analysis (G) Working Group; and 2) discussed International Association of Insurance Supervisors (IAIS) key 2019 projects with interested parties.

Commissioner Anderson noted that the Committee also met July 30 and May 30 in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss key agenda items before the IAIS June committee meetings, the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP), and the IAIS international capital standard (ICS) and monitoring period.

Commissioner Altmaier made a motion, seconded by Director Froment, to adopt the Committee's April 6 minutes (*see NAIC Proceedings – Fall 2018, International Insurance Relations (G) Committee*). The motion passed unanimously.

2. Adopted the Report of the ComFrame Development and Analysis (G) Working Group

Commissioner Anderson said the ComFrame Development and Analysis (G) Working Group met prior to the Committee meeting in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to: 1) discuss and provide input on issues related to the ICS and monitoring period process; and 2) hear an update on the ICS and aggregation method field testing processes. He noted that in July, Working Group members were asked to review and provide input on the initial draft NAIC comments on new text and revisions to the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). He said these comments are currently being reviewed by Committee members.

Commissioner Altmaier made a motion, seconded by Commissioner Ommen, to adopt the report of the ComFrame Development and Analysis (G) Working Group. The motion passed unanimously.

3. Discussed IAIS Key 2019 Projects with Interested Parties

Commissioner Anderson said the majority of the meeting would focus on updates on some of the key projects at the IAIS, as well as its future. He welcomed Jonathan Dixon and Romain Paserot (IAIS Secretariat), and he said they would provide updates on the holistic framework for systemic risk, the ICS and monitoring period, and the IAIS' new Strategic Plan for 2020–2024. He said after the updates, interested parties with a special interest in these topics would be invited to speak before the Committee: Marty Hansen (American International Group, Inc.—AIG); Jeffery C. Alton (CNA Insurance); Joe Engelhard (MetLife); Ian Adamczyk (Prudential); Jack Armstrong (Liberty Mutual); Bruce Byrnes (Berkshire Hathaway, Inc.); D. Keith Bell (Travelers); Thomas Leonardi (AIG); Robert Neill (American Council of Life Insurers—ACLI); David F. Snyder (American Property Casualty Insurance Association—APCIA); Andrew R. Pauley (National Association of Mutual Insurance Companies—NAMIC); and Karalee Morell (Reinsurance Association of America—RAA).

Mr. Paserot discussed the timeline for the development and finalization for implementation of the holistic framework and the results of the November 2018 public consultation. He reported that members demonstrated support for a proportionate application of policy measures targeted at potentially systemic activities and exposures to a broader portion of the insurance sector, but they had concerns about how to ensure that supervisors follow due process and apply existing safeguards for powers of intervention based on macroprudential grounds. On the global monitoring exercise, he noted general support for the IAIS

recommendation to suspend the identification process of global systemically important insurers, requests for more clarity on the modalities of the global monitoring exercise, and support for a sector-wide assessment; but he noted concerns about the additional burden regarding data collection.

Comments made on the holistic framework included the following:

- The IAIS is moving in the right direction to create a meaningful framework for assessing systemic risk in the insurance sector that would make the current entity-based designation approach obsolete. As development of the framework moves forward, it needs to: 1) focus on activities, not products; 2) have a cross sectoral view; and 3) use and leverage existing tools and frameworks that jurisdictions already have in place.
- While some would like more specificity and guidance on the new holistic framework material to help ensure that it is not applied to insurers unnecessarily, some caution against being overly specific or prescriptive, as the supervisor should have flexibility to determine the appropriate approach based on the circumstances.
- The IAIS should provide greater clarity with respect to the implementation of proportionality and expectations on due process that supervisors should have in place before taking regulatory action.
- While there could be benefits to the IAIS doing cross sectoral monitoring, there is concern about focusing on annual data collections, as these may not necessarily capture the risks that supervisors should be looking at or how such risks are managed by insurers. The IAIS should recognize the limitations of data mining exercises and focus more on connecting the dots, which may point to potential systemic risk.
- The various elements of the holistic framework should help support the early identification of risks. When potential risks arise, it is important not to overlook the things that supervisors already have in place to address such risks.

Mr. Paserot provided an update on the ICS and monitoring period. He noted that the purpose of the ICS is to create a common language for supervisory discussions of group solvency. He said the intent of the ICS has never been to raise capital in the market, nor to suggest that the insurance sector is undercapitalized. He added that the purpose of the monitoring period is to monitor the performance of the ICS over a period of time, not the capital adequacy of Internationally Active Insurance Groups (IAIGs). A main objective of the monitoring period is to receive feedback from supervisors and IAIGs on the reference ICS and, if applicable, additional reporting. He said during the monitoring period, the ICS will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges, but it will not be used as a prescribed capital requirement (PCR). With regard to work on comparability criteria, he indicated that the IAIS will be in a position by the end of the monitoring period to assess whether the aggregation method provides comparable outcomes to the ICS.

Comments made on the ICS and monitoring period included the following:

- The IAIS communication from the Buenos Aires meeting addressed four important issues: 1) the ICS will not be used to assess an IAIG's capital adequacy; 2) commitment for ongoing public engagement and communication, including a future consultation prior to the adoption of the ICS; 3) the ICS is not a capital raising exercise; and 4) recognition of the aggregation method and that there will be continuing discussion on comparability.
- The IAIS may need to further clarify that the monitoring period will be a period of continued development, especially given the number of open ICS design issues that are supposed to be completed by November. There should be an explicit recognition that even though the monitoring period is a period of "stability," there is still more work to be done on the reference ICS.
- It is important to perform an impact study looking at the ICS through an entire business cycle and with different market stresses. The IAIS should not lose sight of broader public policy goals with regard to the role of insurers, providing long duration products to consumers, and the impact the ICS may have on such goals.
- There needs to be progress between now and the IAIS meeting in Abu Dhabi on the process for assessing comparability. Reaching an agreement on comparability assessment is important, not just for involved supervisors, but also for the involved IAIGs and stakeholders more broadly. In the absence of an agreement on a way forward for comparability criteria, there may be a need to delay the monitoring period.
- Looking at group capital in a vacuum does not really give the supervisor anything, so it is important to look at a jurisdiction's supervisory regime as a whole when looking at comparability.
- There are two levels of comparability that the IAIS should be considering: 1) the aggregation method compared to the ICS; and 2) comparing different versions of the ICS as implemented in various jurisdictions.

Commissioner Anderson noted that the NAIC, along with Team USA, continues to actively work on and engage with fellow IAIS members on comparability. He said the definition and process for assessing comparability needs to focus on the outcome,

not necessarily how it is reached. He said state insurance regulators proposed a definition of comparable outcomes, where the relevant outcome is supervisory intervention on group capital grounds, and the NAIC is in the process of further developing a proposal on the criteria for assessing comparable outcomes, which would have both qualitative and quantitative aspects. Commissioner Anderson noted that the IAIS is also working on the governance and timeline for the comparability process.

Commissioner Anderson said comparability will be the subject of upcoming IAIS meetings in September and October, as well as the November meeting in Abu Dhabi. He said from the NAIC's perspective, it is very important that by November, before moving into the monitoring period, the IAIS has a framework for comparability that provides the aggregation method with a viable path to recognition. He added that such a framework would cover: 1) a definition of comparable outcomes; 2) criteria, or at a minimum principles, for the comparability assessment process; and 3) corresponding timelines and governance, all of which would help to show the ongoing commitment of the IAIS to evaluation of the aggregation method.

Mr. Dixon provided an update on the new IAIS Strategic Plan, which reflected the following strategic priorities: 1) finalizing and implementing the IAIS' part of the post-financial crisis reform agenda, which includes ComFrame, ICS, and the holistic framework for systemic risk; 2) increased focus on emerged/emerging trends, such as Fintech, cyber risk, climate risk and sustainability; and 3) pivoting to increased focus on support for good supervisory practices and the implementation of agreed standards. He provided an overview of the Strategic Plan's high-level goals, and he indicated the need for greater coordination and cooperation with other standard setters, as many issues are cross sectoral in nature. He also indicated that there would be an increased focus by the IAIS on capacity building, and he indicated that the IAIS Strategic Plan would be supported by a more agile Secretariat committed to transparency.

Comments made on the IAIS Strategic Plan for 2020–2024 included the following:

- There is general support for the new IAIS Strategic Plan, especially relating to emerging areas such as Fintech, cybersecurity, sustainability and financial inclusion. Additionally, the IAIS should be looking at issues around market development and barriers to entry.
- The IAIS should adopt meaningful changes to its stakeholder procedures to allow for full and ongoing dialogue on each part of its Strategic Plan.
- IAIS work on technological innovation could focus on how insurers use new technology and data to strengthen solvency, more accurately address risks, and provide better products to consumers.
- Insurers and reinsurers have been leaders in identifying climate risk, modeling and pricing for climate risk, and urging action to adapt to and/or mitigate climate risk. As the IAIS does more work on climate risk, these efforts should be supported and leveraged.
- Work on financial inclusion and sustainable economic development should consider the role of government partnerships with insurers and reinsurers who can help close the coverage gaps and provide investments to build sustainable infrastructure, along with government funding.
- The IAIS should address the issue of forced localization of reinsurance, as some stakeholders see this as contrary to the Insurance Core Principles (ICP).

Commissioner Anderson thanked the speakers for their comments and views, and he noted that these topics are important workstreams that the NAIC will continue discussing throughout the remainder of 2019 and beyond.

4. Discussed Other Matters

Commissioner Anderson said time has run out for the update on international activities on the agenda, so a written update will be circulated following the meeting (Attachment One).

Commissioner Anderson said the Committee has a conference call scheduled for Aug. 13 to review and approve the submission of NAIC comments on the IAIS material currently out for public consultation. He said draft NAIC comments were circulated on July 25, and any input for consideration is requested by Aug. 8.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 10/14/19

Adopted by the Executive (EX) Committee and Plenary, Dec. __, 2019

Adopted by the International Insurance Relations (G) Committee, Dec. __, 2019

2020 Proposed Charges

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

The mission of the International Insurance Relations (G) Committee is to coordinate NAIC participation in international discussions on and the development of insurance regulatory and supervisory standards and to promote international cooperation. The Committee also coordinates on international insurance matters with the U.S. federal government, including the U.S. Department of the Treasury (Treasury Department), the Federal Reserve Board, the Office of the U.S. Trade Representative (USTR), the U.S. Department of Commerce, and other federal agencies. In addition, the Committee provides an open forum for NAIC communication with U.S. interested parties and stakeholders on international insurance matters.

Ongoing Support of NAIC Programs, Products or Services

1. The **International Insurance Relations (G) Committee** will:
 - A. Monitor and assess international activities at forums like the International Association of Insurance Supervisors (IAIS), the Financial Stability Board (FSB), and the Organisation for Economic Co-operation and Development (OECD), among others, that affect U.S. insurance regulation, U.S insurance consumers, and the U.S. insurance industry.
 - B. Support and facilitate the participation of state insurance regulators and the NAIC in relevant IAIS, FSB, OECD and similar workstreams.
 - C. Develop NAIC policy on international activities, coordinating as necessary with other NAIC committees, task forces and working groups, and communicating key international developments to those NAIC groups.
 - D. Coordinate and facilitate state efforts to participate in key bilateral and multilateral dialogues, projects, conferences and training opportunities with international regulators and international organizations, both directly and in coordination with the federal government, as appropriate.
 - E. Strengthen international regulatory systems and relationships by interacting with international regulators and sharing U.S. supervisory best practices, including conducting an International Fellows Program and educational (technical assistance) seminars to provide an understanding of the U.S. state-based system of insurance regulation.
 - F. Coordinate the NAIC's participation in the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Program (FSAP).
 - G. Coordinate state efforts to assist in achieving U.S. international trade objectives through reviewing relevant materials, developing input, and providing assistance and expertise on insurance matters to the USTR and/or other federal entities.

NAIC Support Staff: Ryan Workman/Ethan Sonnichsen

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