



FINANCIAL
SERVICES
ROUNDTABLE

Committee on Financial Services

Subcommittee on Insurance and Housing

**“The Federal Insurance Office’s Report on Modernizing Insurance
Regulation”**

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Statement Delivered by

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Chairman Neugebauer, Ranking Member Capuano, Members of the Subcommittee, thank you for the opportunity to appear before you today.

My name is Anthony Cimino, and I am the acting head of government affairs for the Financial Services Roundtable. The Financial Services Roundtable is an advocacy organization for the financial services sector. Our members include the leading banking, insurance, asset management, finance, and credit card companies in America. An important note, FSR represents insurance companies in the life, property and casualty, and reinsurance sector. We bring a comprehensive and sector-wide voice to the important and necessary debate around modernizing the insurance regulatory system.

At FSR, we believe a competitive marketplace provides the best mechanism for financing and growing the American economy. Financial services companies provide the capital, security, and the foundation needed for economic growth in both the domestic and global markets.

We appreciate you holding this important hearing on the Federal Insurance Office's report, *How to Modernize and Improve the System of Insurance Regulation in the United States*, and thank you for the opportunity to testify.

My testimony will (1) detail the need for a strong, effective Federal Insurance Office; (2) identify the principles FSR believes should underpin insurance regulatory modernization; (3) address certain Report recommendations in greater detail; and (4) urge Congress and FIO and NAIC to develop an action plan to spur needed modernization of the insurance regulatory system.

The Existing Regulatory Structure

In the United States, the business of insurance is regulated at the state level, although many federal statutes and regulations also apply to insurance companies. The existing regulatory patchwork relies on a complex web of more than 50 separate state-based regulatory systems and 99 state legislative bodies, each with its own procedures, regulations, and legal definitions of insurance. This structure has deficiencies that should be addressed to further strengthen our market and meet consumers' needs more efficiently. The current regulatory system lacks uniformity and a comprehensive approach across the states.

The Dodd-Frank Act established the Federal Insurance Office (FIO) and charged it with identifying how to improve and modernize insurance regulation. In the December 2013 report, FIO identified actions that both the states and federal government can take to improve the regulatory environment in order to better serve consumers.

To address the lack of uniformity and short-comings in the existing insurance regulatory system, the Report makes eighteen recommendations to the states to modernize insurance in the near-term and nine recommendations where there is a role for direct federal involvement. What matters most is what comes next, and we believe that starts with an effective and robust Federal Office of Insurance.

The Federal Insurance Office and Insurance Regulation

FSR shares the view of many that insurance regulation can be significantly improved. To that end, FSR supports a strong, effective Federal Insurance Office. To advance reform beyond this point, FIO must be an effective and adequately-resourced force that can work with state regulators and be a leader in the federal government, state and international regulators.

A strong, effective FIO can advance the modernization effort by examining insurance reform on a broad, national scale, interacting with state regulators on a consistent and collaborative basis, and objectively measuring progress. FIO is well positioned to coordinate and understands how the broader insurance regulatory environment affects insurers and consumers. Structurally, FIO can fill this role. It can assist in evaluating whether state actions alone can achieve sufficient reform or whether other means, such as through interstate compacts or federal legislation, additional measures are needed. Individual state regulators will, rightly so, focus on their own state's needs and do not have the responsibility or the charter to act nationally and holistically. However, bringing more uniformity and consistency to the regulation that exists across the country will benefit consumers.

In addition, a strong, effective FIO should serve as an educational and coordinating resource to the federal government as it becomes more involved in the insurance sector. The Federal Reserve, for instance, will oversee certain insurers that qualify as savings and loan holding companies or have been designated by the Financial Stability Oversight Council (FSOC) as Systemically Important Financial Institutions (SIFIs). The Federal Reserve has historically supervised banks and must now develop expertise in the insurance sector, which has vastly different risk, capital, and business models than banking institutions. FIO has a clear role in serving as that scholastic resource to the Federal Reserve and other federal agencies that may undertake actions that impact the insurance sector.

Furthermore, international forums and standard-setting efforts are influencing U.S. insurance regulation. FIO must be a strong voice representing U.S. interests. FIO currently sits on the International Association of Insurance Supervisors' Executive and Financial Stability Committees and chairs its technical Committee. In addition to FIO, representatives from the NAIC and the Federal Reserve participate in the IAIS. If U.S. representatives do not coordinate effectively, the U.S. voice and influence could be diluted or fragmented, undermining our ability to assert U.S. interests and to assure a level playing field for companies and consumers around the globe. An effective FIO can, and should, facilitate that coordination and ensure that the U.S. interests are advanced.

This will be equally important as the Financial Stability Board (FSB), in consultation with the IAIS policy methodology and policy measures, identifies globally systemic insurance institutions. As this process continues to unfold, it will be critical that the U.S. has a strong voice to influence consideration and any designation decisions.

Principles of Reform

As Congress considers reform, FSR urges policymakers use the following principles to underpin necessary modernization efforts: (1) establish uniform regulatory standards across the states; (2) facilitate open and competitive markets; (3) and implement effective, streamlined regulations.

Uniform Regulatory Standards

Uniformity is a critical aspect of effective insurance regulation. Different standards and treatment across states increase compliance costs that drive prices up for consumers and may restrict product offerings. Although the mechanism exists to adopt uniform standards, it has not been effective. The NAIC has, since its inaugural meeting in 1871, posited its goal of uniform standards, but because its model laws and regulations must be adopted by each state's legislature or insurance department, they are often not adopted uniformly or across the country. While considering reforms, FIO should elaborate on a set of uniform standards that are widely acknowledged to bring greater efficiency to consumers and carriers with a focus on speed to market and competition.

Open and Competitive Markets

Regulatory policy should encourage innovation in product offerings and spur healthy price competition. Consumers benefit from competition and the ability to choose the products and services that suit their needs and priced appropriately because competitive market pressure.

Effective, Streamlined Regulation

The FIO Report recommends actions the states and the federal government can take to improve insurance regulation. While FSR supports improved regulation, we caution that the model articulated in the Report could lead to increased dual regulation, which may result in duplicative, inconsistent, or possibly even conflicting demands. This would be an unproductive and burdensome outcome for insurers and their consumers, as costs would increase and product offerings restricted. FSR urges Congress and FIO to ensure that needed reforms do not lead to increased dual regulation.

Report Recommendations

For purposes of today's testimony, I will not address each recommendation, but rather focus on a few areas.

The Report includes a number of recommendations that FSR supports and believes would have a positive impact on the market and consumers in the near term.

- *Capital Standards* – FIO notes in its Report the different business model and risk profile of insurers compared to banking institutions, and as a result the need to craft different and appropriate capital standards for insurers. For example, while banks rely on a shorter-term funding model and have greater exposure to interest rate and credit risk, insurers use a longer-term funding model and invest in assets that match the duration of their liabilities. FSR represents both banks and insurance companies and is uniquely positioned to understand this difference and the need to apply different capital standards for each sector.

As the Federal Reserve provides prudential oversight to insurers that have banking operations and insurers that are designated as SIFIs, FSR supports efforts to tailor capital standards to insurers' unique business model and risk profile.

- *Product Approval* – FSR agrees with FIO's recommendation to improve the product approval process. Establishing a more streamlined and uniform nationally standardized process can improve speed to market and innovation. Coupled with expanding the eligible product lines, this reform, if implemented appropriately, can increase consumer choice and lower consumer costs.
- *NARAB II* – FSR supports FIO's recommendation that Congress adopt legislation on the National Association of Registered Agents and Brokers. This legislation would establish a multi-state licensing process for agents and brokers, improving the process for agent licensing.
- *Natural Catastrophe Mitigation* – FSR agrees that addressing natural catastrophe risk and damage is necessary. Best practices surrounding building codes and construction standards, as well as incentives for mitigation efforts should be identified and adopted.

FSR would also like to note issues where we look forward to development of FIO's plans.

- *Rates and Actuarial Pricing* – The Report recommends states examine the impact of different rate regulation regimes to identify the optimal practices. In addition, the Report recommends FIO work with the states to establish a pilot program for rate regulation to maximize insurers offering products. FSR believes that a competitive environment that increases competition ultimately drives prices down and best serves consumers.

FIO points out that studies suggest rate regulation may adversely affect market supply and pricing and that rate regulation should ensure solvency and encourage competition as much as possible. We will look for more guidance from the FIO on how it might advance this objective.

Credit for Reinsurance and Covered Agreements – The Report recommends the Treasury and United States Trade Representative pursue a covered agreement on reinsurance

collateral requirements to achieve national uniform treatment of reinsurers. FIO's desire to achieve this uniform treatment is welcome, but at this time the contours of such an agreement are unknown. FSR requests the opportunity to work with FIO and other stakeholders to shape the contents of such an agreement to achieve the desired goal.

The Path Forward

FSR commends FIO for its recommendations on how to modernize the insurance regulatory system and looks forward to working to advance the process. We share FIO's desire to improve the insurance regulatory system, and we are eager to learn more about the policy and process FIO intends to use to further its recommendations.

To the extent Congress agrees with certain recommendations, or has its own reforms to advance, FSR recommends it work with FIO to put in place metrics and deadlines for the states to adopt standards or conduct activities.

The patchwork insurance regulatory system we have today can be improved to serve the insurers and, most importantly, their consumers. Currently, the system lacks uniformity and is burdened by costly and sometimes inconsistent regulations that stifle competition, increase consumers' costs and decrease consumers' access to products and services.

FSR urges Congress to work with FIO, the states, and other interested parties, to chart the way forward.

Conclusion

Chairman Neugebauer, Ranking Member Capuano, Members of the Subcommittee, thank you for the opportunity to testify today.

Insurance is an integral part of the U.S. and global economy, touching the lives of nearly everyone. You are undertaking a critical effort in building on FIO's Report to modernize the insurance regulatory system. At this point many questions remain, but we look forward to working together to resolving those issues and putting in place an insurance regulatory regime that better serves our consumers.

Thank you. I am happy to answer your questions.