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STATEMENT

OF

AMERICAN INSURANCE ASSOCIATION

ON

U.S. INSURANCE SECTOR: INTERNATIONAL COMPETITIVENESS AND JOBS

BEFORE

SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

OF

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

MAY 17, 2012

Distinguished Chairman and Members of the Subcommittee,

The American Insurance Association represents a diverse membership of 300 insurers that write more than $100 billion of premium annually in the U.S., and provide virtually every kind of property and casualty insurance coverage throughout the world. These companies are well capitalized, having weathered the financial crisis and recent natural catastrophes, and many have the interest and financial capacity to expand their global operations. At the same time, there is a tremendous unmet demand for insurance in much of the world, including especially in the emerging markets.

There is, however, a current disconnect between the significant global insurance capacity and the strong global insurance demand, that is largely created by protectionist barriers to trade often masquerading as regulation. The lost opportunities that result from these barriers not only adversely affect our companies, but also deny the many social benefits of insurance desired and needed by the rest of the world. Because it is in the economic and strategic interest of the U.S. to do everything we can to reduce these barriers, we appreciate Congress' focus on insurance trade barriers and related regulatory issues.

Both the Capacity to Write Insurance and the Global Demand for Insurance Are High.
National and international observers have documented that property and casualty insurers, despite the recent challenges, remain strongly capitalized and able to take on more business. In addition, insurance regulation in the U.S. and other developed markets is comprehensive and performed well during the financial crisis.

The potential growth in insurance is well documented by sources such as Swiss Re's Global Insurance Review 2011 and Outlook 2012/2013 (December 2011). According to that report, non-life insurance in industrialized countries is expected to grow 1.7% in 2012 and 2.9% in 2013. But in emerging markets, the growth is predicted to be 7.0% in 2012 and 8.6% in 2013. This latter set of numbers includes the expectation of South and East Asia growth of 10.6% in 2012 and 11.5% in 2013. Thus, as more countries in Latin America, Asia, the Middle East and Africa develop, their demand for insurance is expected to grow dramatically, as these numbers show.

Regulatory Barriers Are Standing in the Way of Insurers Meeting the Global Demand for Insurance.
The U.S. International Trade Commission (ITC), in its 2009 report, Property and Casualty Insurance Services: Competitive Conditions in Foreign Markets, well documented the extent to which foreign barriers to trade are inhibiting the international growth of U.S. insurers. Using a carefully constructed Insurance Trade Restrictiveness Index as a basic set of criteria for a liberalized market, the ITC concluded that if countries in its sample were completely open, the direct sales of U.S. insurers would increase 48%, or $870 million annually while the sales of the affiliates of U.S. insurers would increase 28%, or $39.1 billion annually. The ITC then estimated the U.S. job growth that would be possible if the barriers to trade were eliminated.

Trade Barriers Not Only Harm Insurers but Also Harm Potential Policyholders and the Countries in Which They Reside.
Insurance plays many roles in supporting economic development and improving the quality of life. Of course, insurers provide compensation for losses sustained by individuals and businesses. Not only do insurance claims payments benefit the victims, but they free up

government resources that would otherwise be spend on recovery to be expended for other purposes.

Insurers invest premiums until needed to pay claims. Because of the conservative business model of insurance and its regulation, these investments are heavily placed in government bonds that, in turn, finance roads, bridges, hospitals and ports. In the U.S. for example, property and casualty insurers held more than $300 billion in government securities. In combination, this infrastructure investment both supports economic growth and provides a higher quality of life.
Insurers also help societies identify and mitigate risk. This occurs through risk-based pricing, loss control services and political advocacy for safer workplaces, safer roads and safer buildings. As an example, the U.S. Department of Transportation recently announced the lowest number of highway fatalities and the lowest highway related fatality rate in recent history. This improvement came about largely through longstanding advocacy for better car designs and behavior modification through seatbelt and anti-drunk driving laws and public information. Insurers have often been among the leaders in these efforts. Now, insurers have turned more attention to building safety, with the opening of a major new test facility last year.
Thus, barriers to trade reducing private insurance activity harm not only the insurers but the public. Reducing those barriers is therefore a "win/win" for the industry and for the people of countries that open their insurance markets.

Insurers Are Innovating to Meet Changing Needs and Nontraditional Markets.
Our members not only write traditional insurance but also have the ability to offer nontraditional forms of coverage. For example, some write takaful, a coverage reflecting Islamic values. They also provide 'inclusive insurance', formerly called micro-insurance, offering coverage with small payouts and with premiums affordable for the very poor.

Achieving U.S.-EU Mutual Recognition Is a Current Issue and a Very High Priority.
Europe's new financial solvency system for insurers is set to go into effect at the beginning of 2014. Under it, a third country must be deemed equivalent for purposes of reinsurance, group capital and group supervision, if a company originating in that country is to be treated equally with European insurers in the European market. Omnibus II, the follow-on measure to Solvency II, is now being debated in Brussels, including how this equivalence process will work, with transitional provisions.

Meanwhile, the U.S. and EU have an intensive regulatory dialogue involving the Federal Insurance Office, National Association of Insurance Commissioners and State regulators to determine how differences between the two regulatory systems can be bridged so as to allow an equivalence finding for the U.S. While there is widespread hope on both sides of the Atlantic that this process will produce results, Congress should be monitoring the situation to assure that

mutual recognition is the ultimate outcome and that trans-Atlantic insurance commerce is not disrupted.

International Association of Insurance Supervisors' (IAIS's) Global Standard Setting, Including G-SIFI Methodology and ComFrame, Requires Constant Engagement.
As an Observer, AIA has been continuously engaged in all of the IAIS regulatory activities and work streams. Of greatest concern now, is its process for determining a G-SIFI methodology for insurers in response to the delegation from the Financial Stability Board. Most important to us is that this G-SIFI process be in sync both with the criteria and timing of the U.S. SIFI process under Dodd-Frank. It would make no sense for insurers not deemed systemic in the world's largest insurance market to face a contrary designation in the global market, using different, and perhaps inappropriate, criteria. Congressional focus on the international process to assure a consistent outcome with the U.S. process would be very helpful.

IAIS is also nearly mid-way through the creation of the Common Framework for the Supervision of Internationally Active Insurance Groups. So far, it has taken the path of imposing new requirements on globally active insurance companies, many of which are potentially U.S. based, depending on the definitions. We urge that Congress follow this project and insist that it not impose new layers of regulation, but instead that it create a framework of clear roles and responsibilities for supervisors so there are no gaps and also no duplication of regulatory functions.

Lack of Regulatory Transparency and Due Process Are a Consistent Issue for Insurers.
The U.S. is increasingly focused on streamlining its regulatory system, as witnessed by actions of the Congress and the Administration to engage in cost/benefit analysis and reviewing existing regulations to see if they should be repealed. In addition, Organization for Economic Cooperation and Development (OECD) countries (including the U.S.) have agreed to implement sound regulatory principles embodied in the OECD's Policy Framework for Effective and Efficient Financial Regulation. Among the OECD's recommendations for regulating financial services, including insurance, are: precise identification of the problem, selection of the policy option that is least costly to the industry but still effective, and periodic review of existing regulations.

Few countries, even OECD members, actually apply this framework and it seems not to be consistently followed by international standard setting bodies. We therefore request the Congress to inquire as to how the OECD framework is being followed in bodies in which the U.S. participates and by trading partners of the U.S.

Unfair Competition from State Owned or State Related Enterprises Is a Widespread Challenge.

There is a constant danger that current or former state owned enterprises are allowed to compete unfairly with foreign insurers, including those based in the U.S. Often they are able to do so because they are subject to different and lower regulatory standards, because they enjoy cultural and historical advantage, or both. Examples include Japan Post and Korea Post. We urge the Congress to be supportive of efforts to prevent and eliminate such advantages. A good example of a countermeasure is the language on Korea Post in the Korea-U.S. Free Trade Agreement.

Retrenchment by Major Regional Leaders, Such as Argentina and Brazil, Is Becoming an Alarming Trend.

These two countries are among Latin America's regional leaders. Both however have backpedaled on liberalization in critical and severe ways. Argentina may be violating its WTO commitments and is harming the insurance sector, as it is other sectors, in the drive to force the localization of capital.

Brazil liberalized its market by phasing out the reinsurance monopoly. Recently, however, the Finance Minister reversed that progress and limited foreign reinsurance cessions and mandated local reinsurance. All efforts have failed to achieve even a good faith discussion of the issues with Brazil. We therefore urge that Congress lend its weight to emphasize how strongly the U.S. protests the actions and requires that they be reversed.

China Shows Slow Progress in Granting True Competitive Market Access.

Twelve years after China's accession to the World Trade Organization (WTO), the country's insurance market remains extremely challenging for foreign insurers. As a result, some major foreign insurers have exited the market or substantially reduced their holding.

We have long engaged in issues in China and have seen some progress, including reducing minimum capital standards, improved regulatory transparency and the promised opening of the mandatory third party auto liability insurance market.

Many issues remain, however. For example, licensing is still consecutive by region and there are too many costly burdens imposed on each foreign insurance company office. These are both among the factors that slow expansion and limit the ability to bring new products and progressive practices to the China insurance market. Congress' constructive interest in continued progress on these issues is helpful.

India Shows Little Inclination to Increase its 26% Foreign Direct Investment Cap.
Despite repeated communications and promises of action, India's 26% foreign direct investment cap continues in force. This is particularly egregious, considering the size and sophistication of the Indian insurance market and its desire to be a global leader. Congressional interest in resolving this issue should be signaled in talks with India.

The Trans-Pacific Partnership (TPP) Offers Some Opportunities for Progress if We Set a High Bar.
AIA applauds the process so far in the talks and has supported consideration of the addition of Canada, Japan and Mexico, provided they do not dilute market access commitments and do not delay the negotiations. We urge Congress to remain engaged in these discussions to assure an outcome in insurance at least as beneficial as the results achieved under the Korea-U.S. Free Trade Agreement, with regard to limits on the postal service writing insurance, national treatment, movement of data, and consultation and dispute settlement mechanisms.

Privacy Concerns May Be Leading to Controls that Unnecessarily Inhibit Cross-Border Data Flows Needed by Insurers.
We are concerned with a growing trend to restrict the ability of insurers to analyze data outside the country of origin. This would, of course, add to operational costs and limit the competitive advantage our companies can achieve through centralized data processing and analysis. It is important therefore, that we assure that new privacy laws not inhibit the necessary transmittal and use of data for legitimate insurance purposes such as underwriting and claims settlement.

We Continue to Support Efforts to Achieve Real Progress at the WTO.
AIA has long been an active supporter of the multilateral trading system. WTO commitments can make a critical difference, because they are long term and are enforceable. However, the WTO has recently been ineffectual at achieving new market access. For this reason, we support reasonable efforts, such as a services plurilateral to try and end the impasse.

Conclusion

We appreciate the attention of Congress to these international trade and related regulatory issues. Without this focus, we fear that the global expansion of U.S. insurance companies may be inhibited, thereby harming not only our economic interests but also stunting the economic development of strategic partners.

Respectfully submitted,

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