TESTIMONY OF
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BEFORE THE U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE

HEARING ENTITLED: "THE IMPACT OF INTERNATIONAL REGULATORY STANDARDS ON THE COMPETITIVENESS OF U.S. INSURERS"

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Thank you, Chairman Neugebauer, Ranking Member Capuano, and members of the Subcommittee for inviting me to appear before you today.

Next month will mark the third anniversary of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). In September, I will complete the second year of my six-year term as a voting member of the Financial Stability Oversight Council ("the Council").

As provided in Dodd-Frank, I serve as "*an independent member appointed by the President, by and with the advice and consent of the Senate, having insurance expertise*." Other than a few lines in the statute, the law does not set out specific duties and authorities for my position, other than being a voting member of the Council. Accordingly, I have had to define and establish my evolving role with my fellow Council members, as well as others, while relying on the Council's authorities, consistent with the intent of Dodd-Frank. My precise role regarding international matters, however, has not yet been settled; but I have tried to be guided by the duties outlined by Congress for the Council, and which would apply to me as a voting member.

Section 112 of Dodd-Frank lists among the Council's duties the monitoring of domestic and international financial regulatory proposals and developments, including insurance and accounting issues, as well as advising Congress and making recommendations in areas that will enhance the integrity, efficiency, competitiveness, and stability of the U.S. financial markets.

In terms of fulfilling my duties as a member of the Council, I monitor developments at the Financial Stability Board ("FSB"), based on information shared by Treasury through its Office of International Banking and Securities Markets, and through consultations with officials of the three U.S. members of the FSB – Treasury, the Securities and Exchange Commission ("SEC"), and the Board of Governors of the Federal Reserve System ("Federal Reserve") – all three of whom are also member agencies of the

Council. International financial markets developments have been discussed collectively at Council meetings on numerous occasions.

I also endeavor to monitor the work and proposals under consideration by the International Association of Insurance Commissioners ("IAIS") by monitoring public consultative documents and information shared with me by our State insurance regulators, the National Association of Insurance Commissioners ("NAIC"), and Treasury through its Federal Insurance Office ("FIO") and its International Affairs division. Through outreach conducted with industry stakeholders, some of whom participate at the IAIS as non-member observers, I gain insight into industry perspectives regarding progress on a variety of IAIS initiatives. However, notwithstanding my official role as the voting member of the Council with the insurance portfolio, I am often told that some IAIS matters are confidential and cannot be shared with me. This, in turn, limits my ability to provide meaningful input to the Council, and to Treasury and its FIO, which Title V of Dodd-Frank charges with representing the United States, "as appropriate," at the IAIS. This inability for me and other voting Council Members to fully monitor and discuss relevant issues, in my view, hampers the ability of the Federal Government to carefully consider how international insurance regulatory developments could enhance, or interfere with, the integrity, efficiency, competitiveness, and stability of the U.S. financial markets and the U.S. insurance sector.

To date, the Council has not made recommendations to Congress related to domestic or international insurance regulatory matters. However, in its 2013 Annual Report, the Council did inform Congress that it intends to continue to monitor international insurance regulatory developments. In the meantime, Congress is due a Report from Treasury, through its FIO, on how to modernize and improve the system of insurance regulation in the U.S. Dodd-Frank directs that this Report consider, among other factors: systemic risk regulation, international coordination, and international competitiveness of insurance companies.

Section 175 of Dodd-Frank provides that the Chairperson of the Council, in consultation with the other members of the Council, shall regularly consult with the financial regulatory entities and other appropriate organizations of foreign governments or international organizations on matters relating to systemic risk to the international financial system.

The Secretary of the Treasury and my Council colleagues in exercising their broader responsibilities as heads of their respective agencies, regularly consult with their foreign counterparts, including regulators and other officials regarding systemic risk. Both the Dodd-Frank Act itself and the Council's Final Rule and Guidance setting forth the Council's process for considering nonbank financial companies for potential supervision by the Federal Reserve ("Guidance"), provide for consultation with foreign regulators. In my role as a Council member, to date I personally have met with officials from Canada, Japan, Mexico, and the U.K. There may be an opportunity for more extensive, meaningful, and systematic engagement with foreign financial markets supervisors and

international organizations by the Council as a whole, rather than solely through separate engagement by its members.

In looking for ways to better align, coordinate, and complement the work of the Council and international efforts currently underway, there are two approaches worthy of consideration in order to better achieve the goals set out by Congress.

(1) International Association of Insurance Supervisors ("IAIS")

The IAIS is a membership organization for insurance regulators and supervisors from some 200 jurisdictions. The IAIS's objectives, as set forth in its bylaws, are *"to promote effective and globally consistent insurance supervision in order to develop and maintain fair, safe, and stable insurance markets for the benefit of policyholders, and to contribute to global financial stability."*

The IAIS has both "Members" and "Observers." Observers, who are generally insurers and their trade associations, pay dues; do not have a vote; and are allowed to attend some, but not all meetings of the IAIS and its committees. Many meetings are "members-only" and exclude Observers.

Currently, there are four Member classes:

1. An insurance industry supervisor who exercises its function within its jurisdiction;
2. the NAIC;
3. the FIO; and
4. an international organization made up of governments or statutory bodies that the Executive Committee may recommend to be eligible for membership for the purpose of furthering the objectives of the Association.

U.S. state insurance regulators are Members under the "insurance industry supervisor" criteria. The NAIC organization, the founding member of the IAIS, is itself a Member. Treasury's FIO, even though it is not a supervisor or regulator, was authorized by Dodd-Frank to represent the United States, as appropriate, at the IAIS; and the IAIS bylaws were amended in 2011 to make FIO a Member.

While the IAIS consists primarily of insurance supervisors and regulators, membership is also open to "international organizations," and the Asian Development Bank, the International Monetary Fund and the World Bank are currently non-voting Members of the IAIS. The Council, however, is not an "international organization," and thus not currently eligible to become an IAIS member notwithstanding its statutory mandate to consider international insurance issues and make recommendations to Congress.

Seeking a way to improve communication and coordination with members of the Council, the IAIS's Financial Stability Committee approved and forwarded a proposed

IAIS bylaw amendment to the IAIS's Executive Committee in October of 2012. The amendment proposed to add a new IAIS membership class that, if established, would allow me and other Council Members to attend closed IAIS members-only meetings as non-voting Members. The IAIS's Financial Stability Committee is the primary IAIS forum where systemic risk issues are discussed among international insurance regulators and supervisors. Among such issues are the IAIS's on-going efforts, at the request of the FSB and in furtherance of the financial regulatory reform agenda of the Group of Twenty Finance Ministers and Central Bank Governors ("G-20"), to identify global systemically important insurers (also referred to as "G-SIIs"). This work has been proceeding parallel to, but separately from, the Council's review of nonbank financial companies as systemically important financial institutions ("SIFIs").

The proposed IAIS bylaw amendment would:

- allow (but not require) voting Council Members and their representatives to attend closed IAIS members-only financial stability meetings;

- enable me and other voting Council Members, and thereby in turn the Council itself, to more effectively fulfill the Council's statutory responsibilities to monitor international insurance developments, advise Congress and make recommendations, as well as to regularly consult with international insurance supervisors within this forum. I believe that attendance at IAIS systemic risk meetings is critical to fulfilling my responsibilities as a voting Member of the Council, given the centrality of systemic risk to Council responsibilities; and

- lead to more support for the U.S. representative at the IAIS. Council Member attendance at closed IAIS meetings would lead to more informed constituent input to the U.S. representative, and a greater ability to reflect the views of independent agencies and their actions that serve to promote financial stability.

The proposed IAIS bylaw amendment does not seek to supplant FIO's statutory role as part of Treasury in representing the U.S., as appropriate, at the IAIS – nor is it my desire to do so. The new non-voting membership category is solely intended to allow me and other Council Members to participate as non-voting members at closed IAIS members-only meetings, similar to the role the FIO plays as a non-voting member of the Council.

It is my understanding that the IAIS's Executive Committee will meet again in October of this year, and that the proposed IAIS bylaw amendment may well come up for further discussion. I support the efforts underway at the IAIS that would permit the Council and its members to attend IAIS members-only meetings and monitor important IAIS developments, and in particular, those related to global and U.S. financial stability.

(2) Financial Stability Board

In response to 2008 financial crisis, the G-20 established the FSB in April 2009, expanding the membership and role of its predecessor organization, the Financial

Stability Forum. The FSB's Charter was adopted in September 2009, before the enactment of Dodd-Frank in July 2010.

One of the FSB's tasks, as set forth in its Charter, is to *"assess vulnerabilities affecting the global financial system and identify and review on a timely and ongoing basis the regulatory, supervisory and related actions needed to address them."* Another task is to *"promote coordination and information exchange among authorities responsible for financial stability."*

According to its 2009 Charter, FSB membership is available to *"national and regional authorities responsible for maintaining financial stability, such as ministries of finance, central banks, supervisory and regulatory authorities."* Current FSB members from the U.S. are Treasury, the SEC, and the Federal Reserve.

As noted, the adoption of the FSB's Charter and its inaugural membership predated the establishment of the Council, its statutory purposes, duties and authorities, all of which principally relate to financial stability matters. However, to date, the Council is not itself a member of the FSB. Congress has clearly contemplated that our national authority chiefly responsible for U.S. financial stability is the Council as a whole. This situation may require some discussion as to whether U.S. membership at the FSB should be updated to reflect current statutory responsibilities of the Council.

G-SIIs and SIFIs

Lastly, while there are many important international insurance regulatory developments underway, I do wish to share with this Subcommittee my perspectives on one area capturing recent headlines.

Last week, the Council voted to make proposed determinations regarding an initial set of nonbank financial companies under section 113 of Dodd-Frank. A company subject to a proposed determination has 30 days to request a hearing. After any hearing (or if one is not requested or waived) the Council may make a final decision regarding the designation of a nonbank financial company. As noted in its Guidance, the Council does not intend to announce publicly the name of any nonbank financial company that is under evaluation before a final determination is made. Accordingly, I cannot testify today concerning any specific company. However, I would like to mention my personal perspective as to how any designation of a G-SII by the FSB might relate to the Council's process.

The Council has demonstrated that it will proceed with its responsibilities in considering nonbank financial companies under section 113 of Dodd-Frank, even as international efforts might follow a different time line. My Council colleagues at the IAIS and FSB are proceeding in a manner consistent with the work and views of the Council. If and when any particular insurance company is designated a G-SII by the FSB, and should that nonbank financial company later come before the Council for consideration, I believe that the Council would certainly take note of its G-SII designation. However, it is my

personal view that any G-SII designation would have no binding effect on the Council's independent judgment, especially in view of the fact that while both the Council and the FSB apply similar tests, they are not identical.

Conclusion

I appreciate the efforts of the Chairman and Members of this Subcommittee in evaluating the many important international issues associated with the supervision and regulation of insurance companies, both from prudential and systemic risk perspectives. I look forward to continuing to work with Congress, my colleagues on the Council, and our state insurance regulators on these critical issues. Thank you. I look forward to answering any questions you may have.