Statement of the

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The Financial Services Roundtable

before the

Committee on Financial Services

Subcommittee on Insurance and Housing and Community Opportunity

U.S. House of Representatives

May 17, 2012

Chairwoman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, thank you for the opportunity to testify on behalf of the Financial Services Roundtable (the Roundtable).

I am Steve Bartlett, the President and CEO of the Roundtable. The Roundtable is a national trade association composed of 100 of the nation's largest banking, securities and insurance firms. Our members provide a full range of financial products and services to consumers and businesses. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

Making the U.S. insurance sector more competitive at home and abroad is critical to sustaining our economic recovery. U.S. insurance companies create jobs in every congressional district; finance municipal, state, and federal investment; help small and large business mitigate risk; and support individuals and families when they most need assistance. Insurance is a part of every aspect of our economy. Without insurance, people could not drive cars or eat in restaurants, cities could not build bridges or highways, and companies could not build plants or create new jobs. Insurance is critical to our economy and the Roundtable is proud to represents 30 companies that provide this important service.

My testimony will highlight priorities that will materially impact the U.S. insurance sector's international competitiveness. These priorities include: the role of the Federal Insurance Office (FIO); the designation of Systemically Important Financial Institutions (SIFIs) and Global Systemically Important Financial Institutions (G-SIFIs); domestic regulations that hinder U.S. competiveness; and expanding U.S. insurers access to markets throughout the globe.

**Federal Insurance Office**

First, we support a strong and effective Federal Insurance Office (FIO). To that end, we support an increase in the FIO's funding, staffing levels, and stature. The creation of the FIO, for the first time, places an office in the Department of Treasury to increase federal understanding of insurance matters and regulation. An important task before the FIO is identifying ways to improve and modernize the current domestic insurance regulatory system.

The FIO also has the mandate to represent our domestic sector internationally. We have long believed that a principal short-coming of the state-based regulatory regime is the constitutional inability of the individual states or the NAIC to bind our country. This can compromise the effective representation of the insurance industry internationally and preclude U.S. negotiators ability to speak to international regulators

with a unified voice. The FIO can make up for that short-coming by serving as our nation's voice in international forums. The FIO has the statutory mandate to fulfill this role, is a federal government entity, and possesses the consistent and steady institutional support to effectively engage in international forums. As the strong voice for the U.S. insurance industry, the FIO director can protect the industry from duplicative or contradictory regulations.

We are pleased that the FIO has joined the International Association of Insurance Supervisors (IAIS) and encourage its full participation to enhance the voice of U.S. insurance market participants internationally. Regulations being crafted abroad already have a significant impact on U.S. insurers in their operations both domestically and outside the U.S.

One important example is the European Union's Solvency II regime. Solvency II will stipulate the amount of capital insurance companies must hold against their risk exposure. The Solvency II requirements differ substantially from many of the individual State solvency requirements. Unless and until the U.S. regulatory system is deemed "equivalent" to the Solvency II system, U.S. insurers operating in Europe, as well as U.S. insurers that have a foreign parent subject to Solvency II will be required to comply with Solvency II rules. EU subsidiaries of US groups will also need to comply with Solvency II in such circumstances.

Internationally active insurer groups cannot continue to effectively manage their businesses if forced to meet differing regulatory standards. Compliance with diverging regulatory requirements decreases their efficiency, presents significant obstacles and creates an uneven playing field. To avoid this onerous result, it is critical that a period of "transitional equivalence" be permitted during which the U.S. and Solvency II countries can work toward jointly determined standards. During this period of transition, the FIO, in consultation with State regulators, must continue discussions with the European Commission to ensure that the State solvency system will ultimately be deemed equivalent to Solvency II. The FIO is to be commended for bringing various regulators together to agree on a work plan to assure that international accords are made in the best interests of the U.S. insurance market participants.

It is also important to note that the insurance business bears unique risks and should be regulated differently than other financial services sectors. This is an important consideration as the Common Framework for Supervision of Internationally Active Insurance Groups (ComFrame) initiates the interaction between supervisors to identify internationally active insurance groups and delegate roles and responsibilities of group-wide and host supervisors. These will be complex deliberations and decisions that require a strong, unified voice. The Roundtable supports the FIO's statutory authority to serve as that voice.

**Systemically Important Financial Institutions**

Second, it is critically important that global regulators' efforts to monitor and regulate systemic risk in international markets not be allowed to upset the carefully calibrated system that U.S. regulators have designed for domestic purposes. The Financial Stability Oversight Council (FSOC) has been charged with designating nonbank systemically important financial institutions (SIFIs) that will be subject to supervision by the Federal Reserve. After a long and deliberative public process, FSOC has finalized a three-stage methodology that screens companies early in the process, using publicly available data to filter out the majority of nonbank financial institutions from further consideration. This methodology is designed to ensure that only a small number of institutions are subject to enhanced Federal Reserve supervision.

Global regulators at the Financial Stability Board intent on designating so-called global systemically important financial institutions (G-SIFIs), would do well to follow the United States' lead and adopt a similar screening process, after adequate public consultation, that reserves the systemic label for only those international companies whose global reach presents risk to the world's financial system. Anything less has the potential to put U.S. insurance companies and other nonbanks at a competitive disadvantage and act as a further brake on an already weak economic recovery.

The FSB and FSOC, along with the IAIS, must undertake this coordination to prevent international financial institutions from facing redundant, and even worse, conflicting regulations. One concept would be to provide deference to the primary regulator of a consolidated group company with respect to regulation for systemic purposes. This would have the additional benefit of focusing scarce regulatory resources and making one entity responsible for the group company.

Finally, it is important that both the FSOC and FSB understand the unique risk characteristics of insurance companies, which are very different than the risks associated with banks and other financial institutions. We encourage the FIO to assist both bodies in making their judgments.

**Domestic Regulatory Burdens**

Third, in addition to the explicit international issues, it is also important to recognize that the domestic regulatory environment can hinder U.S. insurer's ability to compete internationally.

For example, the rulemaking process for the Volcker Rule has created unnecessary uncertainty concerning Congress's decision to preserve longstanding regulated insurance company investment activities. A U.S. insurer's ability to manage long-term liabilities through diverse allocation of investment assets is a key component

of its business model, but some have contemplated that the Volcker Rule might prevent U.S. insurance companies from investing in "covered funds." Domestic insurers will be placed at a competitive disadvantage compared to international companies if this misinterpretation of the statute and Congressional intent is applied.

Also, as discussed earlier, the risks associated with insurance companies cannot be treated the same as the risks associated with banks. This distinction must be noted as domestic capital standards are implemented. Administering identical stress tests to insurance companies and bank holding companies confuses the risk profiles of the different businesses. This one-size-fits-all application fails to provide effective supervision and adversely affects U.S. insurance companies as they seek to compete in the increasingly competitive global environment.

**Market Access**

Fourth, we strongly support efforts to eliminate barriers to foreign insurance markets. This can best be accomplished by the United States engaging in trade matters impacting insurers through the FIO.

The United States Trade Representative (USTR) has effectively worked to expand U.S. access to foreign markets, completing in the past few years free trade agreements with Columbia, Korea, and Panama. We applaud Congress for passing the trade agreements. The terms are positive and will provide U.S. insurance companies the opportunity to access new, important markets. The Roundtable believes that the FIO's participation in future trade dialogues will bring increased expertise to these discussions and will enhance the good work of the USTR.

In addition, the Administration should continue to engage China through its Strategic and Economic Dialogue (S&ED). Though progress has been at times frustratingly slow, it has produced some success. For example, earlier this year the Chinese government announced it would lift the prohibition on foreign firms offering mandatory auto insurance policies. This expands access to China's $50 billion auto market.

Through this same example of auto coverage, however, it is clear that much remains to be done to enhance the competitiveness of U.S. firms operating in China. In addition to the limitation on product offerings, a foreign firm attempting to sell auto insurance can only open one branch at a time. And opening a branch takes approximately 18 months. Such restrictions impede U.S. competitiveness and must be addressed.

On the life-side of the business, China has placed a moratorium on new licenses approvals for foreign firms offering retirement security products, including enterprise annuity and group annuity products. This moratorium has been in place since October

2008. There is a pending backlog of applications that should be acted on, and we encourage China to establish a first to market U.S. licensee. This is just one example of the obstructions that U.S. insurers face and that we ask Congress to work with the Administration to remedy.

Reform efforts should not, however, be limited to China. The U.S. government should engage with Latin American nations, India, and other countries to encourage open markets.

For instance, in December 2010, the Brazilian Ministry of Finance ordered the country's insurance regulator to promulgate new reinsurance regulations that dramatically restrict the ability of U.S. insurers and reinsurers to do business in this market. These actions reverse market liberalizing actions Brazil took in 2007 to de-monopolize its reinsurance sector and, as a result, have severely restricted development of the country's insurance industry, undermined Brazil's ability to obtain reinsurance, restrained competition, and increased the cost of reinsurance for Brazilian companies.

Another example of barriers to entry of U.S. insurers in foreign markets is the limits imposed on investment by non-domestic insurers in other markets (the "FDI cap"). India opened up its insurance market to non-Indian insurers 12 years ago; however, foreign direct investment by insurers in the Indian insurance market is capped at 26%. Efforts to raise the 26% FDI cap to 49% have not proven successful.

The Roundtable encourages the administration to expand trade and access wherever possible. The progress being made by the eight other countries in the Trans-Pacific Partnership (TPP) is promising. And Congress should welcome additional bi-lateral and multi-lateral trade efforts to expand access to foreign markets.

**Conclusion**

In conclusion, Madame Chairwoman, I again commend the Subcommittee for examining the important topic of international competitiveness in the insurance sector. Both the industry and policymakers will face some critical tests in the near- and medium-term. Policymakers will be asked to craft appropriate domestic and international regulatory policies and expand U.S. access to growing markets. Companies will confront an increasingly competitive landscape in which the regulatory environment remains uncertain.

This hearing is an important step in meeting those challenges, and the Roundtable looks forward to working with the Committee in the months ahead to strengthen the international competitiveness of U.S. insurance companies.