

**TESTIMONY**

**OF**

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OPERATIONS  
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**HEARING ON  
"U.S. INSURANCE SECTOR: INTERNATIONAL  
COMPETITIVENESS AND JOBS"**

**BEFORE**

**THE HOUSE FINANCIAL SERVICES  
COMMITTEE SUBCOMMITTEE ON  
INSURANCE, BANKING AND COMMUNITY  
OPPORTUNITY**

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My name is Allan E. O'Bryant and I am Executive Vice President of Reinsurance Group of America, Incorporated ("RGA"), the largest U.S.-based life reinsurer. I am testifying today on behalf of the Reinsurance Association of America (RAA), a national trade association representing life and property and casualty companies that specialize in assuming reinsurance. The RAA's membership is diverse and includes large and small, broker and direct, U.S. companies and subsidiaries of foreign companies.

Reinsurance Group of America, Incorporated is a publically traded corporation listed on the New York Stock Exchange under the symbol "RGA." We are the only global reinsurance company to focus primarily on life and health-related reinsurance solutions. Our core products and services include individual life reinsurance, individual living benefits reinsurance, group reinsurance, financial support for life insurers, specialized underwriting and life insurance product development. Our world headquarters is located in St. Louis, Missouri, and we have operations in twenty-five countries. We are listed among the group of Fortune 500 companies.

Reinsurance is simply insurance for insurers. Reinsurance is usually available for all types of insurance. RGA provides "life reinsurance," or reinsurance to life insurers. Life reinsurance is a global business and the U.S. life insurance industry is a major employer, financier of real estate projects and investor in government and corporate bonds. In 2011, worldwide net life reinsurance premiums totaled about \$ 49.2 billion.<sup>1</sup> These dollars were invested in U.S. and foreign government bonds, corporate bonds and stocks, as well as real estate.

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<sup>1</sup>American Society of Actuaries/Munich American Re 2011 Reinsurance Survey (excludes group and portfolio business)

Life reinsurance plays a critical role in maintaining the financial health of the life insurance marketplace and ensuring the availability of life insurance for U.S. citizens and businesses. Life reinsurance can be used to help an insurer increase the volume of business it safely writes, reduce the volatility of an insurer's loss experience, assist an insurer in meeting regulatory requirements, or enhance an insurer's financial strength. RGA is the largest U.S.-based life reinsurer, the second largest life reinsurer in North America, and the third largest in the world.<sup>2</sup> Our clients are most of the life insurance companies that you hear about on a daily basis and that sell insurance in the U.S. and abroad, but some of our clients only sell life insurance in one or two countries and have names that you may never have heard of. In 2011, RGA had reinsurance premiums of about \$7.7 billion, life insurance reinsured of about \$2.7 trillion and assets of more than \$32.1 billion.<sup>3</sup> Of the life insurance reinsured, \$1.4 trillion was issued to persons living in the U.S., while the remaining \$1.2 trillion was issued to persons living outside of the U.S. You can see from this 51 % to 49% split, that our business is truly global.

I am pleased to appear before you today to provide the RAA's perspective on the international competitiveness of the U.S. insurance sector as well as the jobs created by U.S. firms transacting life insurance and life reinsurance in the U.S. and abroad. We applaud the Subcommittee's keen interest in this topic, and are especially grateful for Mrs. Biggert's leadership on this important issue. We also applaud the Subcommittee's acknowledgment that the international aspects of the insurance and reinsurance business require the attention of the U.S. federal government to address the needs of U.S. firms competing in the global insurance and reinsurance market. Today I would like to address domestic and international insurance regulation, state-owned insurance and reinsurance enterprises, and free trade agreements, as

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<sup>2</sup> American Society of Actuaries/Munich American Re 2011 Reinsurance Survey

<sup>3</sup> RGA 2012 Annual Report to Shareholders

these issues impact life insurers and life reinsurers. I would also like to comment on the role that we hope the newly formed Federal Insurance Office, as well as the members of the National Association of Insurance Commissioners (“NAIC”), might play in supporting U. S. insurers and reinsurers in transacting insurance business on a global basis.

### **THE FEDERAL INSURANCE OFFICE**

First, regarding the role of the recently formed Federal Insurance Office (“FIO” or “Office”), the RAA strongly supported the 2010 adoption of Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the measure which established the FIO. That legislation laid the foundation to ensure that the federal government has: 1) the authority to gather information so that it has a more thorough understanding of the complexities of insurance and reinsurance issues and how policy decisions may affect those markets; 2) the authority to coordinate federal efforts and establish federal policy on prudential aspects of international insurance matters; (3) the authority to enter into international insurance agreements on prudential matters; and 4) the authority to preempt state insurance measures that prejudice non-U.S. insurers and that are inconsistent with these international insurance agreements. Foremost among our concerns is that the FIO use its authority to take an active and meaningful international role as Congress intended. Through the FIO, the U.S. will, for the first time, be able to speak with one voice internationally and effectuate international recognition agreements with foreign nations on prudential insurance measures on an equal footing with other countries. The FIO, in coordination with the Treasury Secretary and the United States Trade Representative, should work to ensure equitable treatment for domestic, as well as foreign, insurers and reinsurers alike, promote job creation, and foster innovation and growth in the U.S. and international insurance markets.

We are optimistic and believe that the FIO, under the leadership of Director Michael McRaith, who has the experience and stature necessary to fully carry out and achieve the portfolio which Congress has handed to the Office, can function as a federal voice for U.S. firms transacting life insurance and life reinsurance business on a global basis. The ability of a U.S. firm such as our own, as well as our life insurer clients, to transact insurance business outside of the U.S., either directly or through subsidiaries, is critical to these firms' competitiveness and future growth. To ensure that U.S. firms can compete internationally, there must be a functioning U.S. governmental entity empowered to speak to and engage with foreign governments and insurance regulatory bodies for the U.S. on insurance and reinsurance issues and to advocate for U.S. consumers' and U.S. companies' interests abroad. In addition, public policy issues are often raised at the federal level which could have a significant impact, sometimes inadvertently, on the insurance and reinsurance industry. It is our hope and expectation that the FIO will be the entity that understands how decisions made by the federal government, including Congress, as well as by the states, can impact the insurance and reinsurance business. We hope that the FIO will receive the continued support of Congress in achieving these objectives. We are to date encouraged by Director McRaith's participation in the EU/U.S. "Transatlantic" Dialogue for example, as well as his participation in the meetings of the International Association of Insurance Supervisors (the "IAIS"), and we view such participation essential in helping U.S. insurers and reinsurers participate in global markets. We also support a process for a single body, perhaps the FIO, to vet insurance issues between the U.S. and other countries and to recognize, on a reciprocal basis, non-U.S. regulatory regimes.

As stated, FIO has already begun to take an active role in the IAIS dialogue and has changed the conversation from one that focuses only on U.S. equivalence to one that appreciates

the need for the EU to also be evaluated. The concept of mutual equivalence, where the insurance regulatory regimes of both the EU and the U.S. are evaluated, is being advanced by the FIO. We encourage these efforts, as we believe that the regulatory framework in place in the U.S., as expected to be enhanced by the NAIC's Solvency Modernization Initiative, will maintain world-class insurance regulation. Such regulation should not be discounted in global insurer and reinsurer solvency supervision discussions.

We also believe that the FIO will benefit from the NAIC's information and experience, and can draw from that information and experience to conduct its own analysis for the purpose of providing advice to Congress based on a perspective that is not driven by individual state interests. We commend the FIO on its coordination with the NAIC internationally as well as its acknowledgement of the NAIC's current dialogue with the IAIS on prudential insurance regulation.

The RAA wholeheartedly believes that the FIO will assist Congress and the federal government in making thoughtful decisions regarding national and international insurance policy, negotiating international insurance agreements, and enforcing international agreements uniformly across the U.S. states.

## **REGULATION**

Now, I would like to specifically address regulation. We believe that reinsurance laws and regulations should be uniformly applied to companies operating within a single country. Differences between laws and regulations among U.S. states should be minimal. Internationally, the insurance laws and regulations of individual countries should not favor local insurers and reinsurers over multi-national insurers. As I previously mentioned, reinsurance is a global business. Encouraging the participation of reinsurers worldwide is essential because reinsurance

provides the much needed capacity for life and property and casualty risks in the U.S. and abroad and in so doing makes more insurance available at a given price. Life reinsurance not only supports insurers as they make commitments to pay claims to consumers, it also helps make more insurance available to people who would not otherwise be able to obtain a given quantity of life insurance at a given price.

We believe that supervision of insurance groups should be improved, however we do not believe that there should be global standards imposed upon only select insurers and reinsurers, without giving deference to the prudential regulation of the insurer's and reinsurer's country of origin. The IAIS has undertaken significant efforts to create global regulatory standards aimed at international harmonization. These efforts, known as the Common Framework for the Supervision of Internationally Active Insurance Groups ("ComFrame"), are aimed at improving insurance group supervision and are part of a much broader project at the U.S. national and international level to understand what happened in the financial crisis of four years ago. The RAA supports the creation of a forum for discussion of global supervision of the insurance and reinsurance industry. We believe, however, that the project should be focused on improving group supervision through enhanced supervision and discussion among regulators, but not by applying global standards to a select group of insurers. Despite the NAIC's efforts to represent the U.S. in these discussions, the U.S. voice has been marginalized in these discussions because of the fractured application of the current regulatory system and the lack of a U.S. representative with authority to speak on behalf of the U.S. We are encouraged that the FIO can fill this past void and that the NAIC might work with the Office in the promotion of the U.S. interests in these discussions and promote appropriate group supervision without creating global standards that

will apply only to select insurers and reinsurers. We would simply state that regulatory supervision should be prudentially, not politically, driven.

We also believe that reinsurers should not be subject to duplicative regulation within the same country. This duplication can be avoided through the existence of a single central regulator or the existence of a group of regulators whose actions are coordinated, with no more than one of the regulators functioning as the lead regulator supervising the reinsurer. In the case of a country maintaining the latter scheme, we believe that there needs to be an empowered single voice to negotiate with foreign countries as a trading partner. We believe that an insurance trading partner was lacking for the U.S., but acknowledge that the FIO may be able to serve this role.

We also believe that laws and regulations should promote participation in the market, rather than function to limit the number of firms competing in a market. One example of laws being used to limit competition in markets is seasoning requirements. So called “seasoning requirements”, or rules that require an insurer to be in business for a prescribed number of years in order to obtain a license, are unnecessary and do not bring about healthier insurance markets. Such rules fail to focus on the quality of the insurer or reinsurer’s assets and management team. Seasoning requirements do not promote stronger insurance markets, rather, they simply limit the scope of companies that can participate in the market, resulting in less efficient insurance markets.

In our drive to improve the flow of capital for the reinsurance industry among different countries, it will be important not to put U.S. reinsurers at a disadvantage in their home market. This could happen if, for example, non-U.S. reinsurers were permitted to reinsure U.S. lives without safeguards, despite the existence of lower capital and reserving standards in place in their home jurisdictions. We have special concerns about the reinsurance of certain term life



insurance products because the U.S. states have strict reserving rules for such products that are not present in many other countries. If non-U.S. reinsurers would be permitted to provide reinsurance on U.S. term life insurance products or life insurance products featuring minimum benefit guarantees, without having to establish the strict, high reserve producing standards that are imposed upon U.S. firms reinsuring such products, U.S. firms would be disadvantaged in their ability to offer competitive prices to reinsure such products. We believe that it should be the goal of any U.S. insurance regulator, or insurance office, to make sure that a reinsurer is not disadvantaged simply because it is a U.S. firm. To this end, we would recommend that the FIO be required to use its ability to preempt state measures to ensure competitive equivalence in the U.S. market between U.S. and non-U.S. companies. Currently, under the Dodd-Frank Act, the FIO can only preempt state measures that discriminate against non-U.S. companies. There is nothing in the current law that ensures that U.S. firms will not be discriminated against.

### **STATE-OWNED INSURANCE AND REINSURANCE ENTITIES**

Government-owned insurance and reinsurance companies create a unique problem in many countries of the world. Both U.S. and non-U.S. based insurance trade associations have taken the position that there should be equal regulatory treatment of private and state-owned insurance and reinsurance firms. These state-owned companies are frequently supervised in a more lenient manner than private companies. They also tend to be large in size and may not be required to maintain the same internal controls and risk management programs that private companies maintain. Examples in the world today include, for example, the Life Insurance Corporation of India, the Brazilian Reinsurance Institute, and Korea Post Insurance. These entities typically operate in fewer than three countries, so they may not be deemed a global systemically important insurer even though they do provide substantial amounts of insurance to

the people in the countries they serve, making their management and solvency important. If such government owned entities are not subject to the same levels of supervision provided to private firms, the private firms will be disadvantaged in their efforts to serve the same markets. This is especially true if private firms must comply with capital requirements which are more stringent than those imposed upon the state-owned entities. We do not condemn the existence or operation of state-owned insurers and reinsurers, indeed we reinsure these entities as well as private entities, and they can be quite adequately run. We do, however, believe that it would be wrong to exclude state-owned insurers and reinsurers from consideration as systemically important insurers simply because they only function in one, two or three jurisdictions.

### **THE IMPACT OF FREE TRADE AGREEMENTS**

Free trade agreements can promote the competitiveness of U.S. insurance firms in international insurance markets by causing the U.S. and the foreign country to treat each other's insurers and reinsurers no less favorably than they treat insurers and reinsurers domiciled in their own country. These agreements also assist in harmonizing regulation of operational needs such as data privacy and data transfer standards. We are most encouraged by the recent execution of free trade agreements with Korea, Colombia, and Brazil. The true test of the value of these agreements is in the creation and enforcement of laws and regulations within each participating country that are consistent with the terms of the free trade agreement.

For example, U.S. and European insurers and reinsurers are currently faced with new privacy protection laws and data transfer rules in Korea that we believe are inconsistent with the data handling and data transfer rules agreed to in the U.S.–Korea Free Trade Agreement. The rules in Korea are unduly burdensome in that they go beyond requirements in the rest of the world by, in some cases, requiring data servers to be maintained in Korea and requiring consents

to share data with parties such as insurers, making policy administration costly, if not, in some cases, impossible. That is not only inefficient for an insurer, but it is unnecessary to achieve an appropriate level of protection for consumer privacy. While the U.S.–Korea Free Trade Agreement terms do not become effective for another two years, it is our hope that the U.S. government may be able to work with the members of the European Union in urging the Korean government to amend its data privacy and data transfer laws so that they are consistent with laws in place for similar purposes in Europe and the U.S. We note that the European–Korea Free Trade Agreement will go into effect sooner than the recently completed U.S.–Korea agreement.

There are other ways in which free trade agreements can promote offering of insurance and reinsurance products by U.S. based firms in other countries. These benefits can include protection and enforcement of agreements to protect confidential information exchanged between U.S. and foreign insurance regulators for the purpose of regulatory oversight. It may even be possible for U.S. insurers to participate in the development of insurance and reinsurance product standards in the free trade partner country.

## **CONCLUSION**

The RAA thanks Chairman Biggert and Ranking Member Gutierrez for this opportunity to comment on international competitiveness and jobs. We look forward to working with all Members of the House Financial Services Committee and this Subcommittee as the Subcommittee considers this most important topic. In summary, the RAA fears disparate treatment of firms providing reinsurance within the same country, whether based upon a company's non-U.S. status or simply upon an arbitrary characteristic, such as size alone or private vs. state ownership. We encourage Congress to consider expanding the scope of the

FIO's charge and believe that the funding of the Office is necessary if the charge of FIO is to be achieved.