

Statement for the Record

The House Financial Services Committee

On

U.S Insurance Sector: International Competitiveness and jobs

On behalf of

The Council of Insurance Agents and Brokers

May 17, 2012

The Council of Insurance Agents & Brokers (The Council) appreciates the opportunity to submit a statement to the House Financial Services Committee on international insurance regulatory matters. A coordinated dialogue on international insurance issues at the federal level is a welcome development for insurance brokers. Strengthening America's voice on insurance matters in the international arena has been a long-sought goal of our membership as the insurance marketplace becomes increasingly global and the insurance industry – including our members – seek to enter markets, compete fairly, and serve their clients' interests around the world. As the focus on the insurance industry as part of the global review of the financial services sector intensifies, the stakes have never been higher and the importance of federal involvement never clearer.

We would like to take this opportunity to provide the following information to serve as an introduction to the most critical issues facing insurance brokers internationally.

The Council represents the largest and most successful property/casualty and employee benefits agencies and brokerage firms. Council member firms annually place more than \$200 billion in commercial insurance business in the United States and abroad. Council members operate both nationally and internationally, with nearly one in five members with presence outside the United States, conducting business in some 30,000 locations, and employing more than 120,000 people worldwide.

Coordinating international insurance regulatory policies is critical to insurance brokers, insurance consumers, and to U.S. economic growth. The U.S. insurance industry creates American jobs by exporting its products and services and by helping other U.S. industries take the risks they need to grow globally. Initiatives that open global insurance markets and create a level playing field will provide brokers the structural framework needed to allow them to service their clients wherever they operate around the world, thus benefitting the U.S. economy and job market, and, indeed, economies around the world. Much remains to be done, however, to reach

these goals. To that end, we believe that the creation of the Federal Insurance Office (FIO) is a game changer, the importance of which cannot be overstated.

Until the creation of the FIO under Title V of the Dodd-Frank Act, the U.S. lacked a single authoritative voice on international insurance matters. The FIO now brings together under one Federal office the authority to coordinate U.S. international insurance efforts. Furthermore, its advisory authority to the Secretary of Treasury on “major domestic and prudential international insurance policy issues,” will elevate insurance priorities to a level equal with banking and securities.

The Council enthusiastically supports FIO’s international authority and particularly looks forward to having a single U.S. voice engaging with the International Association of Insurance Supervisors (IAIS), as opposed to the state insurance regulators who have no authority to speak for the U.S. government on insurance policy matters. (Having said that, we note that the state regulators, through their trade association, the National Association of Insurance Commissioners (NAIC), remain involved with IAIS, and we believe their technical expertise will remain important in supporting the FIO and IAIS efforts.)

The IAIS has, among other responsibilities, international standard setting authority granted by member nations of the G-20. The IAIS’s standard setting authority, which is a fairly recent development, makes it even more critical that the interests of the U.S. insurance sector, from the market and regulatory perspectives, are methodically coordinated and represented by a federal office. The single voice that the FIO brings to the IAIS will be critical in ensuring that the U.S. perspective will be heard and heeded in that group’s development of “principal” papers on the regulation of intermediaries and insurance companies. These papers are intended to guide regulators around the globe on “best practices” in the development of insurance regulatory structures and rules, and it is critical that the U.S. approach to regulation have a strong advocate. Despite our concerns with the redundancy of 51+ different insurance regulators in the U.S. system, we generally believe that the U.S. approach – upfront licensure, with back-end enforcement – is one that works. To that end, we believe the FIO is better suited to represent American interests, than representatives of the individual state insurance commissioners. The FIO’s voice will strengthen insurance regulation, business development, and the broader U.S. economy. We look forward to working with the FIO, Congress, and international bodies on global issues impacting our sector and its global competitiveness.

Together with international regulatory standards, the FIO has an important role working with USTR in advancing U.S. insurance interests in international trade discussions, which are critical to insurance brokers and the entire industry as the U.S. marketplace matures and insurance is increasingly global in scope. Brokers’ business interests in the international arena are driven by issues impacting access to foreign and emerging markets, increasing regulatory transparency overseas, servicing U.S. business clients abroad, boosting international regulatory cooperation, and the development of international regulatory standards. Market liberalization policies that ease access for U.S. brokers and the insurance community will be a critical component to lifting the global economy, including the economy here at home, and creating American jobs. For example, the President’s National Export Initiative seeks to double U.S. exports by 2014, by increasing scrutiny on international insurance hurdles and demanding for cooperative and sound

international regulations. Market access and trade liberalization policies go hand in hand with economic growth strategies. The USTR has provided excellent leadership on this front for insurance brokers and in representing our interests in trade negotiations. The FIO can be of particular help in ensuring the USTR's success by using its bully pulpit to advance the interests of the U.S. insurance sector and by coordinating efforts to resolve any conflicts between the federal government and states over insurance.

To boost market access and regulatory cooperation, The Council is focused on the following areas of concerns;

- Removing unnecessary restrictions on the right of establishment of foreign insurance intermediaries. Insurance intermediaries should have the right to establish operations in a foreign country through either a wholly owned operation or some other business ownership vehicle. For example, Chinese and Indian governments continue to hinder growth opportunities by imposing strict ownership and joint-venture restrictions on foreign companies.
- Allowing foreign insurance intermediaries to compete on a level playing field with local intermediaries, with the same access to domestic and international markets. Foreign and domestic intermediaries should be treated as equals for regulatory and other purposes. For example, emerging markets for reinsurers like Argentina and Brazil impose lopsided regulatory burdens that favor domestic companies and ultimately punish consumers by increasing their liability with risk resulted by the lack of true market access.
- Removing unnecessary restrictions on cross-border insurance placements. All professional insurance intermediaries should be permitted to place business in the most suitable market for each risk and to render related services without being required to establish in the country where such services are delivered. This is of particular importance for marine, aviation, and transport placements, as well as for clients facing international risks, large-scale commercial undertakings, or the need for reinsurance support. As global trade expands, brokers face the challenge of placing insurance policies to cover global risks. "Master policies" are often used for certain types of global business risks, i.e. global property, Difference in Conditions (DIC) policies, umbrella liability, D&O liability and E&O coverage. The use of these policies can offer distinct advantages to the consumer by providing comprehensive coverage, helping to avoid coverage gaps and protecting the balance sheet. Furthermore, a master policy can help the insured manage its multi-national risks more efficiently. Unfortunately, there are many regulatory barriers to placing global policies. Conflicting tax and insurance laws and regulations country-to-country make it difficult to effectively use these policies.
- Removing unnecessary restrictions on the purchase of services from insurance intermediaries. Because insurance brokers facilitate trade in all sectors, exporters and importers of goods and services, along with parties to multinational or large undertakings, should have the right to choose an insurance broker based on professionalism, access, insurance expertise, and the commitment to long-term service. This marketplace should ideally be global in scope. However, unnecessary restrictions on monetary transfers and

restrictions on the exchange of information and technical services are hindered by undue foreign regulation.

- Creating a system of easily obtainable and renewable permits. This could facilitate the temporary posting of key business personnel so host countries can begin to enjoy the benefits of foreign agent/broker investment without undue delay.
- Promoting trade liberalization through WTO membership requirements. Countries seeking membership in the WTO should include commitments to liberalization of the insurance markets, resulting in commercially meaningful access.
- Increasing regulatory transparency. Domestic regulations impacting foreign companies should have a transparent and open process that allows for engagement and predictability.

Council members are involved in producing property/casualty and employee benefits insurance in every region of the world and assist client portfolios that are poised to lead the global economic recovery. Increasing access market access across the globe, easing regulatory barriers and promoting transparency and cooperation among foreign regulators are critical to enable our industry to grow and prosper – and to enable us to help grow the U.S. and global economies.

The Council very much appreciates the opportunity to submit this statement for the record and looks forward to working with the committee on international issues moving forward. If you have any questions or would like more information, please contact Joel Kopperud at joel.kopperud@ciab.com.