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Chairman Biggert, Ranking Member Gutierrez, Members of the Subcommittee, thank you for inviting me to testify today regarding the international issues affecting the ability of U.S.-domiciled insurance and reinsurance companies to compete globally and create jobs.

My name is Michael McRaith, and I am the Director of the Federal Insurance Office (FIO).

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established the FIO and gave it broad authority, including "to coordinate Federal efforts and develop Federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the International Association of Insurance Supervisors (or a successor entity)[IAIS], and assisting the Secretary in negotiating covered agreements[.]"

Until the establishment of FIO, the United States was not represented by a single, unified federal voice in the development of international insurance supervisory standards. I am pleased to report that FIO is a growing international presence on matters affecting the U.S. insurance sector, and we will further increase our global activities in the coming months. I am grateful for this opportunity to highlight some of our initial accomplishments.

In recognition of interest expressed by members of this Committee and others, FIO greatly benefits from the support of Secretary Geithner and leadership of Treasury. While our staff is not yet complete, we will be adding four new employees in May and expect to build to a staff of approximately 15 professionals.

The FIO study and report on how to modernize and improve the system of insurance regulation in the United States has not been released. I recognize the high level of interest in this report and appreciate the patience and understanding of this Committee. Once released, we trust you will find the report to be of appropriate depth and quality.

FIO also benefits from our experienced and skilled colleagues in Treasury's International Affairs (IA) division. FIO depends upon the IA team's expertise, and appreciates Treasury's integrated and collaborative support of FIO's development.

Although FIO has myriad responsibilities, including providing insurance sector expertise to the Financial Stability Oversight Council (Council), FIO's immediate predominant focus is on international issues, involving key bilateral relationships and critical international initiatives that I will discuss later in more depth. FIO provides the United States with a sophisticated, experienced and authoritative voice on international insurance matters. Given the current fast-paced development of international insurance supervisory standards, and the explosive growth of premium volume in emerging markets, FIO's participation and engagement arrives at an opportune moment for U.S-based insurance consumers and industry.

Insurance markets are increasingly global. The growing global market implies huge growth opportunities for the U.S. industry, and underscores the increased importance of FIO participation in international fora to secure sufficiently robust international standards. Insurers are generating more revenue from outside the home jurisdiction than ever before, and that trend appears to be increasing dramatically. Excluding health insurance, the United States constitutes more than 27 percent of global premium volume, an enormous concentration of revenue for internationally-active insurance groups. However, the development of middle classes and the increased market sophistication in many emerging economies emphasize the importance of appropriate international regulatory standards to serve as a platform for U.S.-based insurers to participate in non-U.S. markets.

The U.S. insurance marketplace is, itself, growing more international. The Reinsurance Association of America published a study in 2011 that reported 60 percent of the U.S. reinsurance market was ceded to non-U.S. reinsurers. A recent McKinsey study showed that insurers, including U.S.-based insurers, are far more global today than even 5 or 10 years ago, now generating almost 33 percent of premium volume from outside the insurers' home countries. The exact percentage varies by company and country, of course, with European-based insurers collecting as much as 65 percent of revenue from outside the home countries.

For purposes of developing federal policy on international insurance matters, FIO intends to work closely and consult with state insurance regulators and other federal agencies. The states remain the primary regulators of the insurance sector in the United States – FIO's creation and development do not alter the locus of insurance regulation. My friends and former colleagues at the state level are talented, hard-working, and are supported in every state by career regulators who are skilled and dedicated public servants. Consultation with state insurance regulators will remain an essential component of FIO's international policy development process.

On a personal and professional note, I recognize and appreciate the leadership of Florida Commissioner Kevin McCarty, with whom I testify today. Commissioner McCarty has ably represented state regulators in international matters for several years, and I look forward to continued engagement with him and his colleagues on the important international matters that form the basis for today's hearing.

Nevertheless, whether we support state-based or federal insurance regulation, we must consider best practices which are evolving globally. The U.S. economy and consumers benefit from fact-based appraisals of best regulatory practices developed elsewhere, even if those practices deviate from practices historically employed by state-based regulators.

Europe

The European Union (EU), the European Parliament and the European Commission (EC), and the European Insurance and Occupational Pension Authority (EIOPA), are modernizing the EU's insurance regulatory regime through the Solvency II Framework Directive. First adopted in 2007, Solvency II is now scheduled for implementation in 2014.

Solvency II reflects the collective effort of experienced insurance supervisors and professionals who designed the framework to foster financial stability and support the collective interests of the EU-wide insurance market. The EC and EIOPA employ some of the most capable insurance professionals in the world, and the world outside the EU can benefit from studying and understanding the Solvency II approach to insurance supervision.

One aspect of Solvency II requires the EC to determine whether non-EU regulatory systems provide a similar level of solvency protection to policyholders as does Solvency II and, therefore, whether that system is "equivalent." Insurers based in an "equivalent" jurisdiction will be able to access the EU market without additional supervisory expectations, such as additional capital requirements.

Working with representatives of the EC, EIOPA and the Financial Services Authority of the United Kingdom (FSA), as well as with representatives of the state insurance regulators, FIO is engaged in a mutual assessment of the U.S. and EU insurance regulatory systems. The objective is to compare the design and efficiency of the respective supervisory regimes in order to promote consumer protection, business opportunity and effective regulation.

As an alternative to either or both jurisdictions entering into unilateral equivalence exercises, FIO initiated an EU – U.S. insurance dialogue (Dialogue) because the insurance industry based on both sides of the Atlantic needs greater clarity and certainty as to regulatory expectations and capital requirements. We commend our partners from the EC, EIOPA, the FSA, as well as the state regulators, in this constructive and good faith engagement. In two meetings hosted at Treasury, another meeting held in Basel, Switzerland, and on several telephone calls, all six members of the leadership team, or the Steering Committee, have committed to bring these discussions to conclusion by December 2012.

Technical committees comprised of experts from both the EU and the United States are evaluating seven critical substantive areas:

- Group supervision;
- Capital and use of internal models;
- Reinsurance, including collateral;
- Professional secrecy/ confidentiality;
- Financial reporting, data collection and analysis;
- Supervisory peer reviews; and,
- Independent audits, actuarial reports and on-site regulatory examinations.

The technical committees will prepare written, factual assessments explaining how the supervisory regimes of both jurisdictions address each of these seven areas. This will allow the Steering Committee to evaluate similarities and differences in the two systems. The Steering Committee is committed to allowing ample participation by interested parties, including release of the assessments for public review and comment. These assessments can inform the final phase of the Dialogue in which the Steering Committee members will determine the regulatory areas for which increased convergence can be expected, the areas for which enhanced understanding will be the goal, and those areas for which convergence or harmonization will not be immediately contemplated.

For several years, interaction between the insurance regulators in both jurisdictions has not been constructive. With due regard to business development opportunities around the world, FIO will bring the EU – U.S. insurance Dialogue to a timely conclusion to allow insurers based in either the EU or the U.S. to compete fairly in any jurisdiction and with the clarity needed to plan strategically over the long term.

International Association of Insurance Supervisors (IAIS)

As stated above, the Dodd-Frank Act authorizes FIO to represent the United States at the IAIS, establishing for the first time an office within the U.S. government to participate in and represent the collective interests of the United States on international prudential insurance matters. FIO became a full member of the IAIS on October 1, 2011, and joined the IAIS Executive Committee on February 24, 2012.

The IAIS, which includes insurance supervisors and regulators from 140 countries, has two primary objectives:

1. To promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and
2. To contribute to global financial stability.

IAIS – Financial Stability Committee

The G-20 Leaders, at the Seoul Summit in November 2010, endorsed a policy framework developed by the Financial Stability Board (FSB) to address the moral hazard posed by systemically important financial institutions. Last November, at the Cannes Summit, the Leaders requested extension of the FSB's policy framework to nonbanks of global systemic importance. The IAIS, in cooperation with the Financial Stability Board (FSB), is developing the methodology and indicators to identify global systemically important insurers (GSIIs). The IAIS Executive Committee assigned this important task to its Financial Stability Committee (FSC), and FIO has participated in the FSC's work since July 2011. FIO has developed solid working relationships with our counterparts on the FSC, and is working to ensure this process will align with the criteria, methodology and timing of the Council's process for designating systemically important nonbank financial institutions. The FSC, led by Chairman Yasuhiro Hayasaki of the Japan Financial Services Authority, is doing sophisticated and thoughtful work. We expect the

IAIS will soon release a paper describing its draft criteria and methodology for public consultation. Under current plans, the IAIS plans to finalize the criteria and methodology in November, and use this methodology to produce, early in the second quarter of 2013, an initial list of insurers considered of global systemic importance. This timeline, slower than originally envisioned, which has been approved by the FSB Steering Committee, allows more time for thoughtful and considered development by IAIS experts, and aligns with plans applicable to the Council process.

IAIS – Common Framework for the Supervision of Internationally Active Insurance Groups

FIO is increasingly engaged in the IAIS effort to develop a common framework, or "ComFrame," for the supervision of internationally active insurance groups. The objectives of ComFrame are to:

1. Develop methods of operating group-wide supervision of internationally active insurance groups;
2. Establish a comprehensive framework for supervisors to address group-wide activities and risks and also set grounds for better supervisory cooperation; and,
3. Foster global convergence of supervisory approaches and measures.

ComFrame confronts the difficult task of establishing a common translation of different regulatory systems that, among other things, evaluate capital adequacy differently, employ unique accounting approaches, evaluate and weigh risks differently, and/or utilize varied approaches to regulation of insurers' investments. These differences often render the work of the ConFrame subcommittees complex and challenging. While recognizing these hurdles, FIO supports the objectives of the ComFrame initiative as critical to the increasingly global nature of insurance markets across jurisdictions.

FIO supports the ComFrame objectives as developed under the leadership of Monica Machler, Vice Chair of the Board of Directors of FINMA, Switzerland's financial regulatory authority. FIO has been involved with and followed ComFrame since October 2011, and is increasingly engaged with the technical aspects of its development. FIO will continue to provide support to the subcommittees providing technical input for the ComFrame initiative. FIO looks forward to coordinating with state insurance regulators and interested parties as we develop the policy of the United States on this important initiative.

Organization for Economic Cooperation and Development (OECD)

The OECD is another multilateral organization in which FIO is working to advance U.S. objectives. The OECD's current work on insurance includes considering how to manage large-scale disasters, including terrorism risks, and how to establish alternative policyholder protection schemes, including guaranty fund protections. FIO is working within a multiagency team on the OECD's Insurance and Public Pensions Committee (IPCC), led by the Commerce Department, to provide U.S. expertise and views on relevant insurance issues. In particular, FIO's experience in administering the Terrorism Risk Insurance Program may provide a template for other OECD jurisdictions. As with many topics, FIO will consult with state insurance regulators as this work program progresses.

U.S. Insurance Sector: International Competitiveness and Jobs

The Administration is working to address several country-specific concerns of the U.S. insurance industry. The office of the U.S. Trade Representative (USTR) has the lead responsibility for market access issues. Treasury, however, including FIO, provides assistance and prudential expertise as necessary, including working directly with our international counterparts on matters of prudential oversight.

China

To support Secretary Geithner's role as co-chair, FIO participated in the U.S.-China Strategic and Economic Dialogue (S&ED) held in Beijing on May 3, 2012. Implementing an earlier S&ED commitment, on May 1st, the China Insurance Regulatory Commissions (CIRC) announced that it was accepting applications from non-Chinese insurers to offer third-party auto liability insurance. The Administration welcomes this important market liberalization. During this S&ED I met with the CIRC to discuss issues of mutual concern and look forward to working with it on the prudential issues relating to bilateral and multilateral insurance matters, including those that arise at the IAIS. In this effort, as with the EU – U.S. Dialogue, we will continue to draw upon the expertise and resources of the state insurance regulators, such as the Iowa Insurance Commissioner who attended the S&ED at our invitation.

Japan

Japan Postal Insurance Company (Japan Post), benefits from its position as a state owned enterprise to the detriment of its private sector competitors. Recent legislation reverses a previously enacted privatization program and could allow Japan Post to further encroach on its private sector competitors. The Treasury Department and the Office of the U.S. Trade Representative have consistently advocated the establishment of a level playing field – including the end of anti-competitive benefits enjoyed by Japan Post as a government owned and *de facto* guaranteed entity -- as a prerequisite to new insurance product offerings. This is a long-standing issue that predates the creation of FIO, but illustrates the importance of international supervisory standards. Treasury looks forward to continued work with our USTR colleagues to resolve this problem.

Brazil

In 2010-2011, Brazil imposed regulatory measures that required 40 percent of all reinsured risks to be reinsured with local reinsurers (*i.e.* reinsurers established in Brazil), and imposed a 20 percent limit on the amount of affiliated reinsurance that can be ceded to a non-Brazilian affiliate. The reinsurance limitations imposed by Brazil restrict the investment of non-Brazilian capital into its reinsurance market. While Brazil can evaluate whether available reinsurance capital is sufficient to support a recovery from a catastrophic event, these unnecessarily restrictive reinsurance regulations illustrate the need for globally and fairly applied reinsurance supervisory standards.

With rare exception, property reinsurers manage risk through geographic diversification, thereby spreading risk around the world and reducing the likelihood of multiple concurrent large-scale losses. From a prudential perspective a reinsurance regulatory regime should facilitate reinsurers' ability to move risk-bearing capital from one jurisdiction to another, either through affiliated reinsurance transactions or retrocessions generally. Brazil's regime does not do that. As a global marketplace, reinsurance should be subjected to consistent and fairly applied oversight standards. FIO will work with our counterparts in the IAIS and related supervisory associations, including the Association of Latin American Insurance Supervisors (ASSAL), to develop and improve globally applicable reinsurance regulatory standards.

Conclusion

FIO provides a single point of contact and voice for the United States on prudential aspects of international insurance matters. FIO will continue to expand its engagement on international insurance matters as well as develop federal policy on these important issues. We will continue to build upon our frequent interaction with all aspects of the U.S insurance sector – the states, the industry, and consumers – as we exercise our statutory authority. At every point and on every issue, our priorities will be a strong American economy, the creation of jobs for the American people, protection of our insurance consumers, and the fairness, efficiency, safety and soundness of both the national and international insurance markets.

I look forward to working with Congress and this Subcommittee on these issues. The U.S. and international insurance sectors are exceptionally diverse, and the objectives of sector participants are varied and numerous. As we work through these issues and assert relevant U.S. policy, we will keep you and your staff informed of developments.

Chairman Biggert and Members of the Subcommittee, thank you for inviting me to testify today to highlight FIO's early work on international insurance matters that affect the ability of U.S.-domiciled insurance and reinsurance companies to compete globally and create jobs. I am pleased to answer any questions that you have.