



Statement  
of  
National Association of Mutual Insurance Companies  
to the  
United States House of Representatives  
Committee on Financial Services  
Subcommittee on Insurance, Housing and Community Opportunity  
Hearing on  
The U.S. Insurance Sector: International Competitiveness and Jobs

May 17, 2012

The National Association of Mutual Insurance Companies (NAMIC) is pleased to offer comments to the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity.

We are 1,400 property/casualty insurance companies serving more than 135 million auto, home and business policyholders, with more than \$196 billion in premiums accounting for 50 percent of the automobile/homeowners market and 31 percent of the commercial insurance market. We are the largest and most diverse property/casualty trade association in the country, with regional and local mutual insurance companies on main streets across America joining many of the country's largest national insurers who also call NAMIC their home. More than 200,000 people are employed by NAMIC members.

NAMIC agrees with the need for American companies to be able to compete in the international insurance market and urges the subcommittee, Congress, and the new Federal Insurance Office (FIO) to work to assist companies seeking to do business abroad in emerging markets. For example, we believe increased coordination and cooperation among international regulatory authorities is desirable and would allow insurers more predictability when entering new markets. Present cooperation between the European Union and U.S. provides a sound basis for further collaborative efforts.

That said, too much of a focus on regulatory congruence and securing international trade agreements that benefit U.S. insurers seeking to do business abroad could lead to negative consequences for those only serving the domestic market. It is our position that cooperation and coordination on the regulatory front is a positive thing, but should not come at the cost of abdication of regulatory authority to foreign jurisdictions or quasi-governmental bodies. Any and all efforts toward promoting U.S. competitiveness abroad should take care not to impose new burdens on the U.S. market.

Currently, the movement of capital that is intended for risk or insurance generally flows freely into and out of the U.S. For example, we do not believe that the current system imposes an inappropriate or undue impediment to participation in U.S. markets by non-U.S. insurers. International coordination of reporting or presentation standards to permit review and evaluation help to foster greater regulatory transparency and encourage competition both at home and abroad.

## **Regulation at the International Level**

Efforts to regulate large, multi-national insurers has been an evolving process, one in which the U.S. has been actively engaged. U.S. insurance regulators – through the National Association of Insurance Commissioners (NAIC) and now the FIO – participate in the International Association of Insurance Supervisors (IAIS). The IAIS develops international standards for insurance supervision, provides training to its members, and fosters cooperation between insurance regulators, as well as forging dialogue between

insurance regulators and regulators in other financial and international sectors. Regulators and staff participate in the work of the IAIS on a variety of issues including international solvency supervision, accounting standards, and reinsurance regulation, among others. The IAIS has developed a set of Insurance Core Principles (“ICPs”) which lay out international requirements and best practices for regulators.

The IAIS has supported the use of supervisory colleges as a means for international regulators to convene and discuss a particular insurance group. We support the use of supervisory colleges and believe their use is largely consistent with the NAIC’s lead state concept, in which the states have held periodic regulator-to-regulator conference calls to discuss issues related to a particular insurance group. Supervisory colleges provide the opportunity for enhanced information sharing and regulatory dialogue affording regulators superior knowledge of the group and regulatory and environmental pressures. Such forums are particularly beneficial when they are developed around management’s discussion of the insurance group with the most impacted supervisors. It is NAMIC’s position that the international coordination of insurance regulation should be centered on understanding the risks of the insurance group from the perspective of how the insurance group identifies and manages its risk. We believe this type of communication is the foundation on which international coordination of insurance regulation should be developed.

NAMIC remains concerned, however. The IAIS has become far too prescriptive when it comes to ICP requirements and we are concerned that such principles, if forced onto the U.S. system, could weaken the U.S. regulatory system as opposed to strengthen it. The fact is, the realities of the U.S. insurance market are not always the same as those in other countries or regions. For instance, most European countries do not regulate the price of insurance products whereas price regulation is common in the U.S. Also, our tort environment is very different from most other countries; these realities must be considered and reconciled before the U.S. regulators adopt any policies designed to streamline international regulation. Additionally, we have concerns about the transparency and accountability of the IAIS process, especially in light of the potential impact of IAIS proposals on the substance of U.S. regulatory system. While improvements have been made, much work remains for the IAIS deliberations to be considered transparent.

In that vein, the E.U.’s Solvency II initiative raises concerns. Although not even implemented fully in E.U. countries, there is already talk of “equivalency” considerations for foreign insurance markets; in other words, a grading system of a country’s regulatory system. The U.S. has historically taken an approach to solvency of protecting the policyholder, while the European model tries to ensure there will never be an insolvency. The two fundamental differences in philosophy carry through to standards, making it difficult to achieve convergence or determine equivalency. This creates a serious concern – if the U.S. were not deemed equivalent, U.S. insurers seeking to do business in the E.U. would be subjected to an onerous set of additional requirements. NAMIC believes that the current U.S. system should be deemed equivalent as is, and

changes should not be forced on domestic regulators simply due to equivalence considerations.

We appreciate that both U.S. regulators at the NAIC and those at the FIO recognize the uniqueness of our system and have made statements to the effect that they will only accept the international best practices where they make sense for the U.S. market.

## **Trade Agreements**

Trade agreements can be important for securing U.S. insurers' access to foreign markets. However, in the quest to successfully negotiate these agreements, care must be taken not to subject U.S. insurers to complicated new prudential standards that do not make sense in a domestic context. To that end, the FIO has been empowered to coordinate federal efforts on insurance which includes assisting the Secretary of the Treasury in negotiating international insurance agreements on prudential measures. We believe that having someone at the table that understands the insurance market will go a long way to ensuring that we avoid unintended consequences for the U.S. market. Regardless, authority to enter into agreements and bind U.S. insurers and insurance regulators should not depend solely on the discretion of the Secretary of the Treasury; agreements affecting insurance must be negotiated in full coordination with state regulators and Congress must not abandon its oversight function and should exercise full consultative authority.

## **Conclusion**

NAMIC supports the participation of the FIO and state regulators in greater dialogue and coordination with international insurance regulators as this will lead to greater access to foreign markets for U.S. insurers. NAMIC also believes the current U.S. state-based insurance regulatory system is robust and well-positioned to meet the needs of the nation's insurance marketplace. While working closely to reduce redundancies and achieve greater transparency internationally, we caution policymakers to be wary of overlapping or dual regulatory processes that would significantly increase the cost of doing business for insurers in the U.S.