DEPARTMENT OF THE TREASURY
FEDERAL INSURANCE OFFICE (FIO)
FEDERAL ADVISORY COMMITTEE ON INSURANCE (FACI)

SUMMARY - 6 December 2017

The Federal Advisory Committee on Insurance (FACI) convened at 1:00pm on 6 December 2017 in the Cash Room at the US Department of the Treasury, 1500 Pennsylvania Ave., NW, Washington, DC, with Daniel Glaser, Chair, presiding.

In accordance with the provision of the Federal Advisory Committee Act, the meeting was open to the public.

Committee Members Present:
DANIEL GLASER, President and Chief Executive Officer, Marsh & McLennan Companies, Inc., Chair
LAURA BISHOP, Executive Vice President and Chief Financial Officer, USAA (By proxy, Erin Martinko
KURT BOCK, Chief Executive Officer, COUNTRY Financial (By proxy, Joshua Johnson)
ELIZABETH BROWN, Associate Professor, College of Business, University of Wisconsin-La Crosse
MARK GRIER, Vice Chairman, Prudential Financial, Inc.
GEORGE KEISER, Representative, North Dakota House of Representatives
JAMES (JIM) KELLEHER, Executive Vice President & Chief Legal Officer, Liberty Mutual Insurance (Participated by phone)
SEAN MCGOVERN, Chief Compliance Officer, Head of Government Affairs, XL Catlin
THEODORE MATHAS, Chairman, President and Chief Executive Officer, New York Life Insurance Company (By proxy, George Nichols)
AL REDMER, Commissioner, Maryland Insurance Administration (By proxy, Robert Baron)
CHRISTOPHER SWIFT, Chief Executive Officer, The Hartford (By proxy, John Kinney)
MARIA T. VULLO, Superintendent, New York Department of Financial Services
KATHERINE WADE, Commissioner, State of Connecticut Insurance Department

Committee Members Not Attending:
AMY BACH, Executive Director, United Policyholders
BIRNY BIRNBAUM, Executive Director, Center for Economic Justice
QUINCY BRANCH, Chief Executive Officer, Branch Benefits Consultants
THEODORE (TED) NICKEL, Commissioner, Wisconsin Office of the Commissioner of Insurance
MARGUERITE SALAZAR, Executive Director, Colorado Department of Regulated Industries

ALSO PRESENT:
JARED SAWYER, Deputy Assistant Secretary, Financial Institutions Policy, US Department of the Treasury
STEVEN SEITZ, Deputy Director, Federal Insurance Office (FIO)

LINDSEY BALDWIN, Federal Insurance Office (delegated responsibilities of Designated Federal Officer)
TERRY WILLIAMS, Federal Insurance Office

WELCOME AND INTRODUCTION:

FIO Deputy Director, Steven Seitz, welcomed committee members who were able to attend the 4th FACI meeting of 2017. He gave a brief history of the role of the FACI and its mandate to present advice and recommendations to the Federal Insurance Office. He then turned the meeting over to Chairman Glaser.

Chairman Glaser emphasized that FACI helps FIO fulfill its important role. He then thanked all members for their contribution.

Discussion of the New York State Cybersecurity Regulation

Mr. Glaser introduced FACI Committee Member, Maria Vullo, Superintendent of the New York Department of Financial Services (NYDFS), who spoke on the New York state Cybersecurity regulation.

The regulation requires banks, insurance companies and other financial services institutions regulated by the NYDFS to establish and maintain a cybersecurity program designed to protect consumers' private data and ensure the safety and soundness of New York's financial services industry. The regulation is the first of its kind at the state level and is similar to the recently adopted NAIC insurance data security model law.

Ms. Vullo explained why a cybersecurity regulation was needed. The reason for the regulation is to prevent cybersecurity attacks on the financial services industry. Regulation has two main principles: First, to provide minimum standards in order to prevent cybersecurity threats; second is the creation of a strong governance framework for the regulated entities in the area of cybersecurity.

[The regulation] sets minimum regulatory standards, it requires a risk-based approach to cybersecurity and it's a scalable approach to accommodate the breadth of the different sizes and scales and different businesses of the institutions regulated. We also made sure that the standards that we applied were consistent with other laws and standards including NIST, HIPPAA, Gramm-Leach-Bliley, etcetera.

The next provision of the regulation deals with penetration testing and vulnerability assessments. Our regulation requires entities to implement certain monitoring and testing as part of the program.

Superintendent Vullo noted the importance of monitoring and testing of regulation to ensure that threats of a breach are minimized. This is where "Penetration Testing" comes into play. The tester poses as an attacker that attempts to gain unauthorized access to a system. This should be done at least annually.

Vulnerability assessment has to be done at least biannually, which is an automated scan of systems which would identify vulnerabilities of the systems and devices. When vulnerabilities are identified, patches can be employed.

The regulation also requires an audit trail which means that the institution has to have as part of its policy the documentation and logs so that in the event of an attack they can reconstruct financial transactions.

Access controls. Many cyber-attacks are actually internal mistakes by your own employees; To adopt effective access controls to protect against unauthorized access is critically important.

Mr. Glazer commented on the exceptional quality of the Ms. Vullo's presentation. He then asked if there were any questions.

Mr. McGovern asked if the state of New York had any inquiries from other regulators who are thinking about what they can do and whether there's anything that New York can do to help drive a more consistent international implementation of these kinds of measures, because lots of regulators are embarking on this journey and the risk for us is we end up being pulled in lots of different directions.

Ms. Vullo explained that the state of New York has many foreign-based institutions with branches in New York and there have been some interactions.

There was a very robust discussion about many stakeholders--federal and state--that was initiated by a question from Representative Keiser of North Dakota.

Mr. Seitz made a point on information sharing between the federal and the state levels and asked whether there is a way for the Treasury Department to be helpful increasing information flow in this sector.

Discussion of the Effect of Recent Natural Catastrophes on the Insurance Industry

Chair Glazer: So by many accounts the third quarter of 2017 will be the costliest quarter for insurers and reinsurers on record. Hurricanes Harvey, Irma and Maria, recent wildfires on the West Coast, which unfortunately seem to be continuing, and earthquakes in Mexico might total $100 billion or more.

Due to prudent planning US property and casualty insurers and global reinsurers entered the 2017 hurricane season with a record amount of claims paying capacity. Insurers and reinsurers are and continue to be well-positioned to handle such events.

The entire insurance market: insurers reinsurers, agents, brokers and regulators, should be commended for their preparation for and quick response to these catastrophes that affected so many in the United States and abroad.

The effect of these catastrophes may be far-reaching and long-lasting. Chairman Glaser introduced Steve Murray, the CEO of Florida Farm Bureau Insurance and John Kinney, The Executive Vice President and Chief Claims Officer at The Hartford.

Mr. Murray: Over 27 million people were impacted by hurricanes Harvey and Irma. There were over 8 million homes, housing units affected. To put the recent storms into perspective, Harvey and Irma are likely to be the second and third costliest insured US catastrophes ever, larger than 9/11 and trailing only Katrina. Hurricane Maria comes in just a few places behind, greater than Sandy or the Northridge earthquake. The figures for these three storms include actual estimates based on insurance company claim reports and the range estimates from RMS, a leading modeling firm.

Despite record storm activity in 2017, primary insurers and reinsurers remain financially strong and resilient. While the 2017 catastrophes my ultimately be a capital loss, not merely and earnings event, the expected losses are still a small fraction of the surplus of the primary and reinsurer's market, meaning that our industry is still strong and well-positioned to fulfill our commitments to consumers.

Mr. Murray finished his remarks by saying that it is interesting to note in the 2017 hurricanes the significant percentage of private flood insurance in place. While the strength of both the private and federal flood insurance programs will be necessary for claims payment and the rebuilding effort, the private flood coverage provided, mostly commercial, is expected to be several times greater than NFIP's flood losses. In fact, based on the recent closed claims averages for NFIP. PCI estimates that the total about from the Harvey claims will be about $8 billion and less than $1 billion from Irma.

Mr. Kinney's of the Hartford opened by giving a little background of his company and noted that it is one of the oldest companies in the industry, with over 18,000 employees, 7,000 of whom are in the claims department.

Mr. Kinney emphasized the unique abilities of the Hartford to be flexible and manage data. At the end of the day, to be able to react to changing environments quickly to the data forms the basis for your preparation.

He reminded the committee that after a catastrophe there is a great potential for fraud. He mentioned that his company and the government agencies should make an effort to detect fraud.

Chair Glaser: Noted Executive Order 13772, issued by President Trump, which established the policy of his administration to regulate the US Financial system in a manner consistent with a set of core principles. Chairman Glaser then introduced Jared Sawyer, the Deputy Assistant Secretary for Financial Institutions Policy at the Treasury Department.

Chairman Glaser noted that, as required by the executive order, the Department of the Treasury under the direction of Secretary Mnuchin, submitted to the President a series of reports that identify laws, treaties, regulations and other requirements that promote or inhibit regulations and other requirements that promote or inhibit regulation of the US financial system from operating in a manner consistent with the executive order's core principles.

The third and most recent report addressed the asset management and insurance industries with specific examination of the regulatory structure of financial entities and products in these industries.

Published in October, the Asset Management and Insurance Report makes a number of recommendations regarding insurance regulation, including a number of directives aimed to increase the transparency and coordination of US insurance regulators and policymakers, especially with respect to international insurance matters.

The report also calls for policy makers and regulators to improve efforts to address cybersecurity concerns, the establishment of the National Association of Registered Agents and Brokers, the establishment of a Long-Term Care Insurance Task Force, and to renew considerations of the merit of an activities-based approach to addressing systemic risk, among other things.

Mr. Jared Sawyer, Deputy Assistant Secretary for Financial Institutions Policy at the Department of the Treasury. Highlighted the number of new developments from the Federal Insurance Office and Treasury as it relates to insurance this year. Most notably the Executive Order Report and several recommendations in the insurance. Mr. Sawyer also detailed Treasury's FSOC Report which made a number of recommendations that are applicable to the insurance industry.

Also, as part of Executive Order 13772, the President directed the Secretary of the Treasury to evaluate the existing financial regulatory framework and ensure that it was consistent with those core principles. And if we found that there were areas where there were inconsistencies or misalignment, we were to make certain recommendations.

Those core principles focused on ideas like ensuring that consumers have choice in the marketplace, making sure that investors have access to products and choices and are protected, making sure that American firms are competitive internationally and rightsizing and harmonizing our regulatory framework.

Now this undertaking across the three reports that we've published so far as it relates to the executive order have covered banks, credit unions, our capital markets and then asset management insurance with a fourth report planned for early next year focused on non-banks, fin-tech and other types of innovation.

The way we've approached these reports is to meet with a wide variety of stakeholders that encompass market participants, consumer groups, thin thanks, legal experts and other interested parties in an open-door approach because we really want to hear from all sides on how the regulatory framework aligns with those core principles, how it's working. This is a good time--several years post-crises--to do a stop and study of how things have progressed.

The first report came out in June and focused on banks and credit unions. The second report came out in October on the Capital Markets. A lot of attention [was placed] on how regulation affects the functioning of our markets.

Mr. Sawyer noted that the United States has the largest asset management and the largest insurance sector on the globe and that this is a testament to the regulatory framework we currently have, but believes in evaluating that regulatory framework and noted that Treasury did find some areas where things can be rightsized or tweaked to be even more effective and efficient.

The Asset Management and Insurance Report largely focused on four themes: ensuring appropriate evaluation of systemic risk and solvency; promoting efficient regulation and government processes; strengthening US engagement in international forums; and, promoting economic growth and informed choices.

As part of those five pillars Treasury focused on making sure that FIO can be a federal insurance expert for the other parts of the Federal Government. So when it did a due diligence in its analysis of the Federal Government and all the insurance programs outside of health insurance Treasury found a number of areas where we can be a resource to other federal agencies.

What comes to mind is the National Flood Insurance Program, particularly when they are exploring ways to look at credit risk transfer purchasing reinsurance. Treasury has a team that is well-steeped in the reinsurance market and can provide assistance to other federal programs. Obviously, there is a huge role for FIO and this Department in particular in administering the Terrorism Risk Insurance Program (TRIP), so we make a number of recommendations on how that process can be improved: public notice, more transparency when evaluating certain events that might trigger the program's features.

Cyber insurance and cybersecurity are two issues of critical importance. Cybersecurity is one of the top priorities of the Secretary. Treasury has a role from a cybersecurity operational standpoint as the sector-specific coordinator for cybersecurity-related issues and focus of attention not on setting standards, but advancing best practices, establishing better information flows, better communication processes, making sure that companies are ready to respond and recover if they ultimately have an event. Treasury hosts a number of simulated exercises to provide a healthy forum for companies to test run their communications, both public and private and amongst the sector themselves.

On data security or cybersecurity generally in setting the standards Treasury is supportive of the NAIC's work in establishing a data security standard through the model law process, but something to really stress in that area is cyber is certainly a national issue and there is certainly a lot of interest on Capitol Hill and amongst federal regulators on setting a national standard. Treasury is supportive of the states taking action here, and so we urge a harmonized and consistent and quickly-implemented data security standard in all 50 states. Treasury also advocates if that's not achieved within five years that Congress should take some action because this is a national issue.

Mr. Sawyer then discussed Treasury's FSOC Report, noting that the concept of shifting to an activities-based approach is an important one to the Department. Such an approach is consistent with our FSOC Report where Treasury calls for prioritizing an activities-based or industry-wide approach to address risks to US financial stability.

Treasury also made recommendations on increasing the analytical rigor of the designation analysis process. That's something we've certainly heard from a number of stakeholders through our engagement. Improve engagement and transparency at all stages of the designation process and just simplify FSOC's processes generally. Mr. Sawyer noted the increased attention regarding a clear off ramp so firms that may be designated know the expectations for becoming de-designated.

Mr. Sawyer then discussed the EU/US Covered Agreement and noted that Secretary Mnuchin charged staff with taking a very comprehensive stakeholder engagement process before he ultimately decided to sign the Agreement, in coordination with USTR. Treasury wanted to hear the concerns and the pros of the agreement from all parties: large companies, small companies, middle-size companies, consumer advocates, our international counterparts, but most importantly state insurance commissioners who would be charged with implementing the Agreement.

As a result of that stakeholder process we also published at the time of signing a US policy statement which clearly outlined how the United States would view and approach implementation of the covered agreement. There were a number of areas that were brought to Treasury's attention where the covered agreement could be clearer on issues like reinsurance collateral being retrospective or prospective the removal of that collateral on supervision and the calculation of capital, and also on the sharing of information between jurisdictions. These were areas that process really crystallized for Treasury to provide further clarity, and we did so with a very strong US policy statement.

Mr. Sawyer then requested that Mr. Steven Seitz discuss about some of the developments on the international front and some of our recommendations and recent activities.

Steven Seitz: Discussed a few of the recommendations in the Executive Order Report that relate to our international work and then just highlight a few of the recent developments at the IAIS, the FSB and in other bilateral and multilateral dialogues.

The first theme in Treasury's international section is the improved Team USA coordination. This is something FIO has taken very seriously over the last several months. As Commissioner Nickle noted at the last meeting, Treasury feels that it has made progress that has resulted in some of the recent developments we have seen at the IAIS and the FSB over the last few months.

The first issue is the Group Capital Initiative. There was a recommendation that the states, the NAIC and the Federal Reserve harmonize their respective group capital approaches in an effort to minimize duplicative and unnecessary burdens. There was an announcement last month in Kuala Lumpur regarding the ICS that mentioned explicitly the work that is ongoing here in the US with the aggregation approach and how that will be assessed by the IAIS. This is a new development regarding the Insurance Group Capital Standard.

Mr. Seitz then discussed the activities and the entities-based report in international forums and noted the work underway internationally at the IAIS over the last year on developing this approach to assessing systematic risk and this is work that FIO has been involved in with the other US members of the IAIS.

Mr. Seitz then noted that the FSB made a statement a few weeks ago regarding that it would not be publishing a 2017 G-SIB list and welcomed and encourages the work that the IAIS is doing on the activities-based approach, and that the IAIS will have an initial consultation paper at the end of 2018 with the goal of finalizing the project by the end of 2019.

New Business and Closing Remarks

Chairman Glaser thanked everyone.

At 4:40pm, Chairman Glaser concluded the meeting.