



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FEDERAL ADVISORY COMMITTEE ON INSURANCE

MEETING MINUTES

MONDAY, AUGUST 6, 2012

The Committee met in the Cash Room at the U.S. Department of the Treasury, 1500 Pennsylvania Avenue, N.W., Washington, D.C., at 1:30 p.m., Brian Duperreault, Chairman, presiding.

PRESENT

BRIAN DUPERRAULT, Chairman
DAVID (BIRNY) BIRNBAUM, Center for Economic Justice (by teleconference)
MICHAEL F. CONSEDINE, Commonwealth of Pennsylvania
JOHN J. DEGNAN, The Chubb Corporation
LORETTA FULLER, Insurance Solutions Associates (by teleconference)
SCOTT E. HARRINGTON, University of Pennsylvania
SCOTT KIPPER, State of Nevada (by teleconference)
BENJAMIN M. LAWSKY, State of New York
THOMAS B. LEONARDI, State of Connecticut (by teleconference)
MONICA J. LINDEEN, State of Montana
CHRISTOPHER C. MANSFIELD, Liberty Mutual Group
SEAN MCGOVERN, Lloyd's North America
MICHAEL E. SPROULE, New York Life Insurance Company
WILLIAM P. WHITE, District of Columbia

ALSO PRESENT

MICHAEL T. MCRAITH, Director, Federal Insurance Office, U.S. Department of the Treasury
JAMES P. BROWN, Designated Federal Officer, U.S. Department of the Treasury
MIKE PRITULA, McKinsey & Company
FRITZ NAUCK, McKinsey & Company

After welcoming remarks by Director McRaith, Chairman Duperreault called the meeting to order.

The Chairman noted that the first order of business was the approval of the minutes from the March meeting. After verifying that the minutes had been circulated, Commissioner White moved that the minutes be approved as submitted. The motion was seconded. The Committee unanimously approved the motion.

The next order of business was a presentation by representatives of McKinsey & Company regarding the internationalization of the insurance industry. Mike Pritula and Fritz Nauck made four key points at the outset of their presentation:

Firstly, over the past five years, the growth in the global property casualty life insurance markets has really been driven by the Asia Pacific and Latin American markets, reducing the United States' share of the global insurance markets. Secondly, over the coming decade, the share of the global property casualty and life markets will continue to shift away from North America to Asia Pacific and Latin America. Thirdly, the U.S.'s position in these global markets in insurance will continue to shrink. Finally, the insurance market is evolving in a way that large international carriers are becoming more important, increasing their share of the overall global market, and this trend is likely to continue. Mr. Pritula focused his remarks on the property and casualty insurance market, while Mr. Nauck concentrated on the life market.

The Committee members asked multiple questions regarding the methodology employed by McKinsey as well as whether the projections of trends might be affected by the effects of the recent recession. There was also discussion concerning whether the shrinking of United States market share will diminish its influence regarding international standards regarding, solvency, supervision and regulation.

At its conclusion, Chairman Duperreault expressed his and the Committee's appreciation to Messers, Pritula and Nauck for their presentation. Director McRaith added his thanks for the information imparted.

Chairman Duperreault called on Director McRaith to provide an overview of current international regulatory activity.

Director McRaith stated that the Federal Insurance Office ("FIO") by statute has authority to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States at the International Association of Insurance Supervisors ("IAIS"). He pointed out that the FIO serves on the Executive Committee, the Financial Stability Committee, and several of the subcommittees, including those involved with what is known as the ComFrame effort. He reported that the Financial Stability Committee is hard at work developing a methodology process for identifying and designating those insurance groups that would, if failing, threaten the stability of the global economy. The proposed methodology was exposed for public comment on May 31st. That period closed on July 31st.

The Director stated that the FIO's priorities are: (i) aligning the IAIS methodology and timing with the Financial Stability Oversight Council's criteria of methodology and timing and, (ii) ensuring that U.S.-based firms are not disadvantaged. He also gave an overview of the ComFrame concept and process. There ensued a detailed discussion among Committee members regarding the IAIS, ComFrame and other aspects of international solvency considerations.

Director McRaith observed that with the respect to the EU-US insurance dialogue, the work of state regulators, the Treasury Department and overseas colleagues has been a tremendous cooperative success. He added that the work is occurring on a daily basis by some extremely

capable people at both the state level and at the Treasury Department. There are also very skilled professionals from the EU who are engaged on these topics every day.

Member Consedine echoed the assessment that it's been a very collaborative process thus far between FIO and state regulators. He opined that it has worked very well and hoped that the current level of collaboration provides a template going forward.

Chairman Duperreault then asked Member White to report on the activities of Subcommittee I which is focusing on the impact of the affect of national and international demographic and socio-economic developments on the insurance sector on the affordability and accessibility of insurance.

Commissioner White reported that Subcommittee I had met twice since the March FACI meeting. He indicated that the discussions focused on definitions, the assessment process, and the sources of information. The group looked at the drivers for the demographic changes that are being considered and how they impact the market, *i.e.* the aging of the population in developed countries and the increased longevity of these populations as well as the development of middle class populations in developing countries and the impact of these populations on the international insurance market.

The group agreed that affordable and accessible means that essential personal and commercial insurance products can be obtained in the marketplace at a price that can be paid by those who need the products.

With a working definition agreed to, the subcommittee discussed the use of a matrix to measure changes in demand by product type and marketplace. It was decided to deploy the matrix over three ten-year periods, beginning with 2001, 2011 and then 2021, to see if there were

demonstrable trends in the product demand within the marketplace and contrast it against demographic and socio-economic factors.

Member Mansfield complimented Commissioner White for his work in summarizing the subcommittee's efforts. Chairman Duperreault confirmed that Member White had concluded the report and thanked him and the group for their work. He then called on Member Degnan to report on Subcommittee II.

Member Degnan reported that his group had met twice in furtherance of its charter to identify the key principles, objectives or concerns that promote supervisory balance that is essential to insurance firms looking to expand into emerging markets and the effect of national and international demographic and socioeconomic developments on those objectives or principles. The group's efforts were informed, *inter alia*, by a thoughtful article in Risk Management and Insurance that was circulated by the FIO in advance of the July 12 meeting, an article that Member Harrington wrote and a very long but selectively useful Geneva Association report.

The subcommittee identified the following principles:

- A robust rule of law in the emerging market
- Markets that are truly open to insurance entrants and competition
- A sustainable and improving economy, an economic climate which the data suggest does enhance the development of financial services and specifically the development and demand for insurance
- Consistency and/or compatibility of cross-border regulation
- An active intermediation marketplace
- Guideposts for striking an appropriate balance between consumer protection and solvency

- Access to reinsurance and as an extension of reinsurance reliable capital markets
- An appropriately fluid view regarding the treatment of cross-border capital, its availability to back up the risks that are being assumed and the regulator's need to ensure that, when consumers need to be protected, a regulator has access to the necessary capital.

Mr. Degnan indicated that his report was complete. Member Sproule complimented Mr. Degnan for his summarization of the subcommittee's work. Mr. Sproule pointed out that, although the group was in favor of the principle of consistency or compatibility across border regulation, it did not endorse specific measures such as Solvency II, ComFrame, group supervision and supervisory colleges.

Chairman Duperreault praised Members White and Degnan for their excellent work with the subcommittees.

At 3:19 PM a break was taken.

Chairman Duperreault reconvened the meeting at 3:32PM.

Chairman Duperreault shared his belief that that there would be value in providing the FIO with advice on some issues of immediate import in addition to the more mid-range issues assigned to the existing subcommittees.

Director McRaith agreed with the Chairman's comments and offered his view that there are some specific targeted international standards being developed right now, and it would be helpful to the FIO to have the views of members of this committee on those targeted standards.

Chairman Duperreault appointed Member Lawsky to head Subcommittee III. The membership of the group will be decided on after consultation but its meetings will be open to any of the members who wish to participate.

Chairman Duperreault asked whether this action created any issues or concerns among the committee membership. No negative comments were offered although Member Degnan suggested that care would need to be taken to minimize overlap of functions among the subcommittees. Chairman Duperreault suggested that some overlap would exist but that would not necessarily be a bad thing given that the new subcommittee would focus on issues which are under active discussion for potential near term implementation.

Director McRaith added his support of the appointment of Member Lawsky citing New York's status as the financial capital of the United States. He also welcomed other members of the committee to participate in the group's session.

The Director then posed a series of specific questions to all three subcommittees for them to research and respond to the full committee. The questions are attached hereto as an exhibit. The next item on the agenda was determining the date for the next meeting. There was a consensus that the next session should be set in late October to mid November. Alternative dates will be circulated to committee members to ascertain individual availabilities.

Chairman Duperreault asked if there was any other business to come before the committee. Member Harrington suggested that a website which contains information regarding the FACI such as minutes would be useful. Director McRaith agreed and said that such a site was under development.

Chairman Duperreault then asked if there was any additional business. Seeing none, he declared the meeting adjourned at 3:55PM.