

**UNITED STATES DEPARTMENT OF THE TREASURY
FEDERAL ADVISORY COMMITTEE ON INSURANCE
SUMMARY OF PUBLIC MEETING**

May 26, 2016

The Federal Advisory Committee on Insurance was convened at 1:00 P.M. on May 26, 2016 in the Cash Room at the U.S. Department of the Treasury, 1500 Pennsylvania Avenue, N.W., Washington, D.C., 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

DAVID (BIRNY) BIRNBAUM, Executive Director, Center for Economic Justice

KURT BOCK, Chief Executive Officer, Country Financial

ELIZABETH BROWN, Professor, Georgia State University

BRENDA CUDE, Professor, University of Georgia

JOHN FRANCHINI, Superintendent, New Mexico Office of Superintendent of Insurance
(represented by proxy Alan Seeley)

LORETTA FULLER, Chief Executive Officer and Chief Financial Officer, Insurance Solutions Associates (represented by proxy Zachary Alexander)

NICHOLAS GERHART, Commissioner, Iowa Insurance Division

GEORGE KEISER, Representative, North Dakota House of Representatives

THEODORE MATHAS, Chairman, President, and Chief Executive Officer, New York Life Insurance Company

SEAN MCGOVERN, Chief Risk Officer & General Counsel, Lloyd's of London

TERESA MILLER, Commissioner, Pennsylvania Insurance Department Insurance

AL REDMER, Commissioner, Maryland Insurance Administration

MICHAEL RILEY, Commissioner, West Virginia Offices of the Insurance Commissioner

MARGUERITE SALAZAR, Commissioner, Colorado Division of Insurance

Also Present:

TOM BAKER, University of Pennsylvania Law School

ED DUNNE, National Academy of Sciences

MARY HEEN, University of Richmond, School of Law

CAROLYN KOUSKY, Resources for the Future

HOWARD KUNREUTHER, University of Pennsylvania, Wharton School of Business

MIKE PRITULA, McKinsey & Company

ALLEN SCHIRM, Mathematica Policy Research

DANIEL SCHWARCZ, University of Minnesota Law School

Welcome Introduction and New Members

Director McRaith welcomed the members of the Federal Advisory Committee on Insurance (FACI) and convened the meeting.

Update from the Affordability and Accessibility Subcommittee

Chairman Glaser then introduced Birny Birnbaum, Chair of the Affordability and Accessibility Subcommittee. Mr. Birnbaum provided a summary of Subcommittee calls held to hear from stakeholders who submitted comments on the proposal by the Federal Insurance Office to develop an Affordability Index for private automobile insurance premiums. Calls were on January 19 and 21, and on March 1, 2016, respectively. Participants included the Insurance Research Council and the Financial Services Roundtable on January 19; the Consumer Federation of America and a coalition of New York consumer groups on January 21; and the Property Casualty Insurers Association and the National Association of Mutual Insurance Companies on March 1. Mr. Birnbaum reported that some stakeholders on the calls questioned the use of a single percentage of income as a threshold for affordability; suggesting instead that a comparison of auto expenditures to other optional household expenditures would be a better approach. In addition, he reported that subcommittee members asked if an affordability analyses could be constructed by collecting data generated in the normal course of business, as opposed to asking insurers to create new data. Mr. Bock added that the questions of how costs drive affordability and how to obtain the data as some outstanding issues.

Discussion of the Globalization of the Insurance Market

Chairman Glaser introduced the topic, and noted that in the U.S. in recent years there has been a fair amount of discussion and interest in the development of global insurance standards. He noted that the topic has been around since at least the mid-1990s, but has become increasingly important because of the dramatic globalization of the insurance industry over the last 20 years. Chairman Glaser then introduced Mike Pritula, a Director at McKinsey & Company for a presentation on the topic. Mr. Pritula provided an overview of the overall insurance market measured by premium and provided estimates of the property-casualty market at approximately 1.5 trillion and the life market at 2.4 trillion. He indicated that for the last five years the U.S. and China contributed the lion's share of the growth in global property-casualty market. He concluded that the larger carriers are growing more international, are likely to consolidate, but will become more focused and perhaps easier to regulate because they are less complex from an insurance standpoint. Chairman Glaser, Mr. Birnbaum, Mr. Keiser, and Mr. McGovern asked questions of Mr. Pritula.

Discussion of the Role of Behavioral Economics in the Insurance Industry

Chairman Glaser introduced the topic and noted that behavioral economics, in part, is the study of how individuals contemplate and make economic decisions, and stated that a fundamental aspect of insurance is how a consumer perceives and values different forms of risk, making behavioral economics an important feature of the insurance value proposition. He then introduced two professors from the University of Pennsylvania, Tom Baker from the Law School, and Howard Kunreuther from the Wharton School of Business, to make their presentation. The professors shared that academia is still at an early stage of understanding behavioral economics and the insurance industry, but offered some observations: over confident

consumers are less likely to buy insurance for matters over which they have control; take-up rates tend to be higher after a disaster, such a flood or an earthquake; insurance premiums should reflect risk and should be transparent so that a consumer knows that the premium charged is connected to certain risk the consumer presents; and, as it relates to flood insurance, policymakers should consider such issues as implementing mitigation measures and addressing affordability. Professor Cude, Mr. Mathas, Mr. Bock, Commissioner Gerhart, and Director McRaith asked questions of Professors Baker and Kunreuther.

Discussion of Anti-Discrimination Efforts in Insurance

Chairman Glaser introduced and welcomed Professor Mary Heen from the University of Richmond School of Law, and Professor Daniel Schwarcz from the University of Minnesota Law School. Professor Heen provided a brief historical perspective on anti-discrimination efforts in insurance; outlined nondiscrimination in insurance as an important civil rights issue, as well as an issue of accessibility and affordability of insurance; and, emphasized the need for effective leadership on these issues from state or federal lawmakers, regulators, and the industry. Professor Schwarcz presented on state anti-discrimination insurance laws and noted that there are a lot of variabilities with respect to the laws on the books and how they are applied. Among his observations are that discrimination should be prohibited for both rating and underwriting; and a better understanding is needed of how insurers use characteristics that correlate with suspect characteristics as an effective a proxy to evade state law. Mr. Birnbaum, Rep. Keiser, Mr. Bock, and Director McRaith asked questions of the professors.

Discussion of Affordability in the National Flood Insurance Program, NFIP

Chairman Glaser introduced the topic and then called on Professor Ed Dunne from the National Academy of Sciences to provide an update on the work performed by the committee formed by the National Academy Sciences to study the National Flood Insurance Program (NFIP). Professor Dunne introduced, Dr. Carolyn Kousky, a Research Fellow at Resources for the Future; Professor Howard Kunreuther, the James G. Dinan Professor at the University of Pennsylvania, Wharton School of Business, and Co-Director of the Wharton Risk Management and Decision Process Center; and, Dr. Allen Schirm, Director of Methods and a Senior Fellow at Mathematica Policy Research. Professor Dunne and fellow presenters reported on and provided a summary of the two reports produced by the committee. The first report focuses on an affordability framework and provides advice on how FEMA might go about designing such a framework. The second report provides advice on how FEMA might develop policy options to evaluate affordability issues. Rep. Keiser, Professor Cude, Mr. Birnbaum asked questions of the presenters.

Update on the Progress of Negotiating a Covered Agreement with the EU

Chairman Glaser call on Director McRaith who provided on update on the negotiations of a “covered agreement” with the European Union (EU). Director McRaith explained that a “covered agreement” is an agreement between the United States and one or more foreign jurisdictions that relates to prudential insurance or reinsurance measures. Director McRaith reported that Treasury and the United States Trade Representative notified Congress on November 20th of 2015 of the intent to negotiate a covered agreement with the EU on a number

of prudential insurance and reinsurance measures that have been a source of conflict or contention with the EU for a number of years. Director McRaith reported that the first meeting of the negotiations took place in Brussels in February, and the second in Washington in May 2016.

New Business

Prior to the Committee adjourning, Chairman Glaser raised the item of new business, certifying the minutes from the November 4, 2015 FOCI meeting. The minutes were then certified.

At 4:50 P.M., Chairman Glaser concluded the meeting.