UNITED STATES DEPARTMENT OF THE TREASURY
FEDERAL ADVISORY COMMITTEE ON INSURANCE
SUMMARY AUGUST 18, 2016 OF PUBLIC MEETING

The Federal Advisory Committee on Insurance was convened at 1:00 P.M. on August 18, 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
LAURA BISHOP, Executive Vice President and Chief Financial Officer, USAA
KURT BOCK, Chief Executive Officer, Country Financial
ELIZABETH BROWN, Professor, University of Wisconsin - La Crosse
BRENDA CUDE, Professor, University of Georgia
JOHN FRANCHINI, Superintendent, New Mexico Office of Superintendent of Insurance
LORETTA FULLER, Chief Executive Officer and Chief Financial Officer,
Insurance Solutions Associates
MARK GRIER, Vice Chairman, Prudential Financial, Inc.
GEORGE KEISER, Representative, North Dakota House of Representatives
JAMES KELLEHER, Executive Vice President & Chief Legal Officer, Liberty Mutual Insurance
THEODORE MATHAS, Chairman, President, and Chief Executive Officer, New York Life Insurance Company (represented by proxy George Nichols)
TERESA MILLER, Commissioner, Pennsylvania Insurance Department Insurance
THEODORE (TED) NICKEL, Commissioner, Wisconsin Office of the Commissioner of Insurance
MICHAEL RILEY, Commissioner, West Virginia Offices of the Insurance Commissioner
MARGUERITE SALAZAR, Commissioner, Colorado Division of Insurance
KATHERINE (KATIE) WADE, Commissioner, State of Connecticut Insurance Department

Also Present:
GERALD COHEN, Deputy Assistant Secretary
(Macroeconomic Analysis), U.S. Department of the Treasury
MICHAEL McRAITH, Director, Federal Insurance Officer, U.S. Department of the Treasury
CHESTER McPHERSON, Designated Federal Officer
JEROME ALBRIGHT, Principal (Actuarial and Insurance Risk), KPMG
COLIN DEVINE, Principal, C. Devine & Associates
JOSEPH SCHNEIDER, Managing Director (Corporate Finance), KPMG
DALE THATCHER, Executive Vice President & Chief Financial Officer, Selective Insurance Group

Welcome Introduction and New Members

Director McRaith welcomed the members of the Federal Advisory Committee on Insurance (FACI) and turned the meeting over to FACI chairman Daniel Glaser who officially convened the meeting. Chairman Glaser welcomed FACI members, including Superintendent Maria Vullo of the New York State Department of Financial Services who joined FACI since the May 26, 2016 meeting. In addition, Chairman Glaser thanked former FACI members David Herzog and Sean McGovern, who left FACI after the meeting on May 26, for their many contributions and wished them well in future endeavors.

Discussion of Discussion of Brexit

Chairman Glaser introduced the topic, and noted that it is hard to overstate the importance of Brexit for certain companies on a go-forward basis. He observed that it may be many years before Brexit is fully understood; and, that because London is an important center for insurance business, Brexit will impact even companies that do not have any operations in the United Kingdom (U.K.). Chairman Glaser offered his perspective on how Brexit could impact the insurance industry and his company in particular. He underscored the anticipated multi-year level of uncertainty caused by Brexit, and noted the difficulty of predicting in advance what those impacts could be because of the many variables involved, especially given that London is the center of the insurance marketplace as it relates to complex specialty risk. Chairman Glaser said that many of the London market players, and other capital providers like banks, have created efficient structures where they are headquartered in the U.K. and use branch network within the European Union (EU) to service clients and manage their affairs. Chairman Glaser observed that because of this arrangement, Brexit has the potential of being far more complicated depending on what negotiations happen between the U.K. and the EU, and as a result, capital providers may need to establish another capital beachhead somewhere else in Europe in order to service the EU, other than the U.K. Chairman Glaser said that there will be a lot of work to determine whether or not companies will have to restructure their U.K. operations, depending on the impact of passporting negotiations or other arrangements between the U.K. and the EU.

Director McRaith added that the U.K. is an important partner and collaborator in many aspects of the work done at Treasury, as is also the European Union. He noted that there is continuing collaboration and partnership with the U.K. on many issues involved with financial services and the insurance sector; and, if there is an eventual withdrawal from the EU, FIO would work with the U.K.

Mr. Bock added that for purely domestic writers, Brexit has second order effects and is a great reminder of what uncertainty does to our markets. Mr. Keiser added his perspective that Brexit is an attack on the globalization of financial markets with uncertain outcomes, and expressed concerns about the international standards that are being developed. Mr. Birnbaum asked questions as to the impact of Brexit on prices in the reinsurance markets given that Lloyds is major reinsurer; he also asked what effect, if any, will Brexit have on the covered agreement negotiations. Superintendent Franchini and Mr. Kelleher inquired as to whether there need be a compilation of the types of issues that could impact the U.S. insurance market as a result of Brexit, and what role should the FIO play in engaging on these issues.

Discussion of the Impact of the Prolonged Low Interest Rate Environment on the Availability and Affordability of Insurance Products

Chairman Glaser introduced the topic. He noted that for insurers, fixed income assets, bonds, and mortgages comprise a significant part of their investment portfolios and underscored the significance of a low interest rate environment for insurers in a globally-connected industry. He then called on Gerald Cohen, Deputy Assistant Secretary for Macroeconomic Analysis, U.S. Department of Treasury. Mr. Cohen stated that the Administration, based on its forecasts, expects interest rates to rise over the coming years. He noted the importance of not underestimating interest costs while acknowledging at the same time, that if estimates are too high – indicating an expectation of high of borrowing costs – there would not be enough fiscal space to actually do policy work such as funding infrastructure or other initiatives that might benefit the economy other than paying interest. Chairman Glaser, Mr. Bock, and Mr. Birnbaum asked questions of Mr. Cohen.

Chairman Glaser called on Mr. Dale Thatcher to present his perspective on the impact of low interest rates on the property and casualty (P&C) industry. Mr. Thatcher noted that the returns on equity (ROE) in the P&C business are at somewhat of a disadvantage compared to other companies that the P&C industry competes with for capital in the United States. Mr. Thatcher noted that a significant portion of earnings in the P& C industry are from either underwriting income or from investment income. He said that the P&C industry currently is losing about 30 basis points (bps) of yield per year on their portfolios, generating approximately 6 percent ROE on investments compared to the expected yield on the S&P 500 of between 10 and 15 percent over a long historical horizon. Mr. Thatcher said that instead of a 6 percent ROE, earning 11 percent ROE would be a good range. Mr. Thatcher concluded that insurers will have to decide how to maintain strength and viability in the low interest rate environment. Mr. Birnbaum, Mr. Grier, Mr. Bock, and Superintendent Franchini asked questions of Mr. Thatcher.

Chairman Glaser called on Mr. Colin Devine to present on impact of low interest rates on life insurance companies. Mr. Devine shared that a low interest rate environment makes retirement products, such as an annuity, more expensive for consumers; has caused some insurers to reduce benefits and exit some product lines, such as long-term care; and has resulted in lower earnings and profits for insurers. He said that, as a result, there could be shifts to insurers offering combination-type products, such as LTC benefit embedded in a life insurance policy, and an annuity with some advanced death benefit payments. However, Mr. Devine noted that, in response to these potential concerns, the life insurance industry is already adjusting business models accordingly. He observed that the long-term growth potential in the industry, the ability to shift product offering and features, the resiliency of Japanese life insurance companies during long periods low interest rates, and the resiliency of the U.S. life insurance companies during the recent crisis are all reasons for optimism going forward. Mr. Devine concluded by underscoring the continuing important role that life insurers play by offering annuities to help retirees manage their longevity risk. Mr. Keiser, Mr. Grier, Ms. Bishop, Ms. Cude, Superintendent Franchini, and Director McRaith asked questions of Mr. Devine.

Discussion of Developments of Insurance Issues Related to Autonomous Vehicles

Chairman Glaser introduced and welcomed Jerome Albright and Joseph Schneider, both from KPMG, to share their presentation. Messrs. Albright and Schneider provided an overview of some of the issues they believe might impact the availability and affordability of insurance related to the operation of autonomous automobiles, in particular the following: the convergence of existing and new technology; the evolving capabilities of autonomous vehicles; the creation of smart infraction structure and roadways to support autonomous driving; the evolving regulatory landscape – adoption of new laws and legal requirements governing their operations; the reassignment of legal responsibilities from traditionally drivers to mainly manufactures in the future; whether consumers will adopt to autonomous vehicles, and at what rate; the increased use of car sharing and the reduction car-owning households; and, issues concerning who owns the data used, and generated, by autonomous vehicles. Messrs. Albright and Schneider shared that one major outcome of these developments in their opinion is that over the next 25 years accidents would be reduced by up to 80 percent, and they expect this loss frequency to initially reduce overall loss costs payments by 7 to 15 percent, thus resulting in lower premiums for consumers. They acknowledged that these developments will occur over several years as the industry evaluates the changing liability issues and determines the type of coverages to offer in response to the market. Ms. Cude, Mr. Keiser, Mr. Kelleher, Ms. Bishop, and Director McRaith asked questions Messrs. Albright and Schneider.

Federal Insurance Office Presentation on the Overall Effectiveness of the Terrorism Risk Insurance Program

Director McRaith provided a brief update. He reported that in June 2016 the Federal Insurance Office published a report on the "Overall Effectiveness of the Terrorism Risk Insurance Program" as required by the 2015 TRIA Reauthorization. He highlighted a few of the key points in the report, including the voluntary collection of data regarding the cost of terrorism risk insurance, and shared the conclusions in the report that the Terrorism Risk Insurance program is serving its statutory purpose of making terrorism risk insurance affordable and accessible. Ms. Bock and Mr. Birnbaum asked questions of Director McRaith.

New Business

Prior to the Committee adjourning, Chairman Glaser raised the item of new business, certifying the minutes for the May 26, 2016 FACI meeting. The minutes were then certified.

Director McRaith then reminded everyone that the Chicago Cubs were in the World Series and at the next FACI meeting, scheduled for Nov 2, 2016, and he looked forward to celebrating the Cubs victory.

At 4:45 p.m., Chairman Glaser concluded the meeting.

A majority of the members who attended the meeting on August 18, 2016 subsequently certified the meeting summary electronically.