

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

MINUTES – 18 June 2019

The Federal Advisory Committee on Insurance (FACI) convened via teleconference at 2:00 pm., with Dan Glaser, Chair, presiding.

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

Committee Members Present

DAN GLASER, Chief Executive Officer, Marsh & McLennan
ERIC ANDERSEN, Co-President, Aon
AMY BACH, Executive Director, United Policyholders (by proxy, EMILY ROGAN)
BIRNY BIRNBAUM, Executive Director, Center for Economic Justice
QUINCY BRANCH, Chief Executive Officer, Branch Benefits Consultants (by proxy, JOSEPH CORTINA)
GREG CRABB, President & CEO, Amerisure
MARK GRIER, Vice Chairman, Prudential
GEORGE KEISER, Representative, North Dakota House of Representatives
SEAN MCGOVERN, General Counsel, AXA XL
ANDREW STOLFI, Administrator, Oregon Division of Financial Regulation
KENT SULLIVAN, Commissioner, Texas Department of Insurance
BILL WHEELER, President & CEO, Athene

Also Present

STEVEN SEITZ, Director, Federal Insurance Office (FIO)
LINDSEY BALDWIN, Senior Policy Analyst, FIO (Designated Federal Officer)

Welcome and Introduction

Chairman Glaser welcomed the committee members and conducted a roll call. He announced the newest member of the FOCI, Bill Wheeler, President & CEO of Athene. Mr. Wheeler's appointment was recently finalized and at the time of the meeting, he had not yet joined any subcommittees.

Chairman Glaser stated that the FOCI would continue its conversation from its April 2019 public meeting by having each subcommittee choose 2-3 topics to work on leading up to the September 2019 public meeting.

Chairman Glaser announced the subcommittee chairs selected by FOCI, and provided clarification on the focus of the availability and protection gap subcommittees:

- **Availability of Insurance Products:** Co-chairs: Amy Bach and Birny Birnbaum. Focused on availability of insurance products from a consumer perspective.
- **FOCI's International Work:** Chair: Mark Grier. Upon finalization of FOCI appointment, he will be joined as co-chair by Tom Leonardi of AIG.
- **Addressing the Protection Gap Through Public-Private Partnerships and Other Mechanisms:** Co-Chairs: Dan Glaser and Sean McGovern. Has been re-named from "Addressing the Protection Gap." Will focus on protection gap issues that may require an element of government involvement, whether through a public-private partnership or a government program.

Chairman Glaser acknowledged potential overlap between the three subcommittees, and encouraged members to work together as appropriate across the subcommittees.

Update on FOCI Activities

Director Seitz thanked the members for their time and commitment, and provided a status update on FOCI's work:

- **Secretary Mnuchin's Speech at the National Association of Insurance Commissioners' (NAIC) International Forum:** Secretary Mnuchin spoke at the NAIC's Washington D.C. forum in May 2019, and expressed FOCI and Treasury's continued engagement with other "Team USA" members (U.S. states, the NAIC, and the Federal Reserve Board) in international standard-setting work at the International Association of Insurance Supervisors (IAIS). The Secretary highlighted three key areas of focus for FOCI and Treasury on the insurance capital standard (ICS) work at the IAIS: (1) improving the ICS design to more appropriately reflect the unique business model of insurers, particularly with respect to the market valuation approach, and the negative effects it could have on the ability of insurance companies to provide long-term savings products; (2) Treasury's belief that IAIS needs to create a defined structure and process for further work and revisions during the ICS monitoring period (2020-2024); and (3)

working with Team USA and the broader IAIS membership to develop the criteria and process by which the U.S. approach to group capital may be deemed outcome-equivalent to the ICS. The Secretary also highlighted the IAIS's proposed holistic framework for assessing and mitigating systemic risk, and confirmed Treasury's support for moving systemic risk analysis away from individual entities toward the activities-based approach.

- **June 2019 IAIS Meetings in Buenos Aires:** FIO attended the recent IAIS meetings in Buenos Aires, which served as a check-in as FIO works with Team USA to prepare for the November 2019 IAIS meetings in Abu Dhabi.
- **US-EU Covered Agreement:** During the last week of June, the NAIC plans to adopt a model law related to the implementation of the U.S.-EU and U.S.-UK Covered Agreements. FIO has been closely following this work and remains committed to serving as a resource to NAIC and the states as they begin the implementation process.
- **Terrorism Risk Insurance Program (TRIP):** TRIP will expire on December 31, 2020 and activity regarding reauthorization is increasing. The Senate Banking Committee held a hearing on reauthorization on June 18, 2019 and GAO is currently conducting a study on the Terrorism Risk Insurance Act's (TRIA) expiration, processes, and exposure. FIO continues its evaluation of the Program through stakeholder and regulator engagement, as well as analysis of the Program's data calls. FIO will be holding a meeting of the Advisory Committee on Risk-Sharing Mechanisms later this summer (date to be determined). This committee provides Treasury with advice on matters related to the Program and the terrorism risk insurance market in general. FIO concluded its mandatory TRIP data call in May 2019, and is finalizing its study on the competitiveness of small insurers in the Program.
- **InsurTech:** Treasury directly tasked FIO with further exploring InsurTech issues in its July 2018 report on Non-Bank Financials, Fintech, and Innovation. On June 7, GAO published a report highlighting the need for the NAIC, FIO, and state insurance regulators to continue monitoring InsurTech developments. Over the past several months, FIO has met with stakeholders to hear viewpoints on InsurTech-related issues. Based on this outreach, FIO intends to further review issues related to speed-to-market, data privacy, and how InsurTech may affect long-term trends in consumer choice for insurance products. FIO is planning to include a detailed InsurTech discussion in its 2019 Annual Report. FIO's InsurTech efforts will likely be a multi-year effort.

Director Seitz concluded by stating that FIO will provide support and guidance to the FOCI, but emphasized FIO's desire for the Committee and subcommittees to drive the conversation forward.

Establish 2019 Priorities for the Subcommittee on the Availability of Insurance

Chairman Glaser summarized the topics related to the availability of insurance that were discussed at the April 2019 FOCI meeting:

- Long-term care insurance and retirement security

- Regulatory impediments to availability
- InsurTech (including technological challenges to affordability)
- Consumer confidentiality, privacy, transparency (including big data)
- Aspects of cyber insurance related to building resilience and the availability of risk transfer

Mr. Birnbaum suggested narrowing the subcommittee's work to two workstreams: (1) InsurTech and big data; and (2) long-term care and retirement security products. He referenced current efforts related to retirement security products, including suitability, illustrations, and best interest efforts. Mr. Birnbaum stated that the topic of regulatory impediments to availability would be best addressed within the topics of InsurTech and retirement security products.

Ms. Rogan agreed with the idea of combining InsurTech and big data into one workstream, and that long-term care and retirement security products should be the subcommittee's other priority. She expressed United Policyholders' concerns that the long-term care market has problems keeping prices stable and affordable, and social security benefits will not be sufficient to cover long-term care costs for every American.

Mr. Birnbaum suggested that the subcommittee do an in-depth review on FIO's work related to InsurTech and long-term care to ensure that the subcommittee's contributions are helpful. Director Seitz agreed with the approach proposed by Mr. Birnbaum and said FIO can assist with setting up calls and briefing the subcommittee on FIO's activities to assist with drilling down into concrete sub-topics and deliverables.

Establish 2019 Priorities for the Subcommittee on FIO's International Work

Chairman Glaser summarized the topics related to the FIO's international work that were discussed at the April 2019 FOCI meeting:

- ICS
- Treatment of war exclusions in cyber insurance
- FIO's promotion of the industry's ability to access international markets
- Holistic framework
- Systemic risk, including financial guarantee products

Mr. Grier said that the IAIS is aware of objections to the ICS, so it would not be beneficial for the subcommittee to debate methodology. Rather, he suggested that the subcommittee examine the impact of the ICS, particularly with respect to long-term products and other issues that are most important to U.S. insurers. Mr. Grier also suggested that the subcommittee review the structure of the ICS monitoring period and examine sub-topics such as confidentiality. He said

that Prudential had not considered U.S. equivalence as a potential topic, but this could be revisited as a possibility by the subcommittee.

Mr. Grier stated that the FIO's role in the industry's ability to access international markets was important and would be an appropriate topic for the subcommittee's attention. He suggested this could include level-playing field regulatory issues as well as topics such as market entry and joint venture.

Mr. Grier also suggested considering systemic risk and the holistic framework together, and said that these topics are important to companies designated as internationally-active insurance companies (or designated by the Financial Stability Oversight Council).

Mr. Grier said he did not have any objections to reviewing war exclusions in the context of cyber insurance. Chairman Glaser, who raised this topic in the April 2019 meeting, suggested that the subcommittee should not review this item given the broad scope of the other three topics Mr. Grier proposed. He added that the market is moving, and some insurers are offering broader levels of protection and clarity around when war exclusions would apply to a policy. Mr. Grier and Director Seitz agreed that the topic could be de-prioritized as a separate workstream, but could be considered as a regulatory issue within the scope of the other workstreams.

Mr. Grier said that subcommittee members (and their organizations) have already been engaged in ICS discussions and are in a good position to contribute resources, but suggested that the subcommittee would need to speak to FIO to clarify the topics and determine the source of the most valuable resources. Mr. McGovern agreed and suggested that although the subcommittee's members have extensive experience in various markets, it would be valuable to have a conversation with FIO in the near future regarding international markets and level-playing field access to ensure that the subcommittee's activities align with FIO's priorities.

Mr. Birnbaum suggested that focusing on something other than IAIS activities might be more beneficial to FIO, given the extent of industry engagement with FIO, the Federal Reserve, and the NAIC that already occurs with respect to the ICS and holistic framework. Director Seitz responded that the subcommittee would need to find a way to differentiate itself from other avenues of work, but suggested that this should be feasible, given the wide-ranging nature of the ICS. He added that the market access topic referenced by Mr. McGovern was separate from IAIS, and that FIO would be able to set up a conversation with the subcommittee on this topic.

Mr. Grier that the subcommittee's mission to support FIO could be distinguished from the individual company engagement that has been happening at the IAIS, and said that because the Secretary has laid out priorities related to the IAIS, the subcommittee should ensure that it is providing the proper support.

Establish 2019 Priorities for the Subcommittee on Addressing the Protection Gap Through Public-Private Partnerships and Other Mechanisms

Chairman Glaser emphasized that FIO wants this subcommittee to focus on areas where the government would play a role in closing the protection gap, whether through public-private partnerships or government programs. Chairman Glaser reviewed the potential topics discussed during the April 2019 meeting:

- Survey of best practices and lessons learned from existing programs to understand the overall dynamics of public-private partnerships in the area of risk transfer
- Risk mitigation and remediation, including the use of infrastructure funding
- National Flood Insurance Program
- Cyber
- Terrorism Risk Insurance Program
- Education and financial literacy

Mr. McGovern suggested that rather than immediately focusing on specific programs and risks, a starting point could be for the subcommittee to level-set and define the extent of protection gaps in the United States in order to understand what problems need to be fixed. He added that this would be easy to accomplish due to existing resources on the topic. He identified known protection gaps as flood, earthquake, and cyber (potentially in the future). He added that the frequency and severity of the gap is growing, and population and economic shifts are compounding the problem. Level-setting would permit the subcommittee to define the protection gap, understand the implications of the gap (such as reliance on government; lack of individual, corporate, and community resilience; and economic stability). After this, he suggested the subcommittee could take a holistic view of how the government can create better conditions for risk-taking and deploy private capital; and how the industry can continue to innovate and incentive mitigation and the use of new products (such as parametric products). Mr. McGovern said the subcommittee could use this information to identify the characteristics of a “good” government program. He suggested the subcommittee could add value with respect to public-private partnerships by giving FIO the opportunity to engage and facilitate industry conversations with other federal agencies having an interest in financial protection and/or resilience.

Mr. Birnbaum agreed that level-setting was a good idea, but suggested this work should lead into identifying the reasons for the protection gaps. He stated that discussing a solution to protection gaps is not feasible without an understanding of why the market is failing. Mr. Andersen agreed it was important to understand why markets struggle in certain areas, whether because of risk-based pricing, take-up rate, or other market aspects, and stated that he believed Mr. McGovern had identified the best approach to the topic.

Mr. Birnbaum identified retirement security as an area with a significant protection gap and asked whether it should be addressed by the availability subcommittee or the protection gap subcommittee. Chairman Glaser suggested that retirement security could be examined as a part of the protection gap subcommittee's review, but should remain a primary focus of the availability subcommittee.

Mr. Andersen asked whether the protection gap subcommittee would focus primarily on property & casualty (P&C) related topics. Chairman Glaser responded that this could be a good focal point for the subcommittee, but it could also identify retirement security as a protection gap issue being primarily handled by the availability subcommittee.

Mr. Birnbaum identified advances in InsurTech with respect to mitigation, and suggested that there would need to be collaboration between the subcommittees when discussing mitigation.

Chairman Glaser noted that several topics are being addressed by other entities (including legislative bodies, government agencies, and advocacy groups), such as terrorism and the National Flood Insurance Program. He asked whether the Committee's members agreed it would be best for the Committee to avoid advocating for a position in these areas, and instead maintain a high-level overview of these topics. Mr. McGovern also noted subject-matter crossover with the Advisory Committee on Risk-Sharing Mechanisms with respect to terrorism, and agreed it would be best to avoid duplicating efforts. He suggested that performing a level-set as a first step would help prevent these types of issues. Chairman Glaser agreed that this could serve as a base for the Committee to decide the areas it would like to assess more closely.

Mr. Andersen asked Director Seitz whether FIO would rather have the Committee take policy positions or simply outline the issues. Director Seitz responded that he would defer to the Committee as to whether it would be helpful for them to take positions, but agreed that using an iterative approach would be beneficial.

Chairman Glaser provided a summary of each subcommittee's decisions:

Subcommittee on Availability:

- Two workstreams:
 - InsurTech and Big Data (including privacy and confidentiality)
 - Retirement Security and Long-Term Care Products
- Regulatory impediments in these areas will be part of the focus
- Subcommittee plans to closely examine FIO's existing work in these workstreams
- Each subcommittee member will provide resources from their organizations
- Subcommittee will rely on FIO to assist with scheduling follow-up calls

Subcommittee on FIO's International Work:

- Three workstreams:
 - ICS: impact of capital requirements on products and capabilities, understanding the monitoring process (e.g., confidentiality provisions)
 - Access to international markets and ensuring a level-playing field
 - Holistic framework and systemic risk
- Subcommittee will use individual company materials as resources and have separate conversations with FIO on the ICS impact study and international markets

Subcommittee on Addressing the Protection Gap Through Public-Private Partnerships and Other Mechanisms:

- Emphasis on P&C
- Multi-phase workstream; first step will be to create level-set by examining the following issues:
 - Definitions and parameters around identifying protection gaps
 - Determining size of the overall protection gap in the United States
 - Identifying current efforts to address protection gaps
 - Understanding reasons why protection gaps exist
 - Determining how the government can reduce protection gaps
 - Determining how industry can innovate to reduce partnerships
 - Understanding what a good public-private partnership will look like
- Following this level-setting exercise, subcommittee will be able to identify the way forward and conduct a “deeper dive” into specific risks
- Some issues, like retirement security and innovation related to mitigation efforts, will be alluded to, but will remain the primary responsibility of the availability subcommittee
- Subcommittee will avoid policy positions in areas handled by other entities, unless a clear way forward is identified

Adjourn:

No new business was presented.

Chairman Glaser announced that the next FOCI meeting will be held at the U.S. Treasury in Washington D.C. on September 23, 2019.

Chairman Glaser reminded Committee members that all subcommittee work is preparatory in nature, and therefore at the next public meeting each subcommittee co-chair will be asked to present a summary of their subcommittee's work. The full FOCI will consider this summer, have a full discussion, and make final decisions on providing advice and recommendations to FIO.

At 3:01 pm, Chairman Glaser concluded the meeting.

I hereby certify these minutes of the June 18, 2019 Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.



Dan Glaser
Chair