

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

August 7, 2014

The renewed Federal Advisory Committee on Insurance was convened for its first meeting at 2:00 P.M. on August 7, 2014, in the Cash Room at the U.S. Department of the Treasury, 1500 Pennsylvania Avenue, NW, 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

ELIZABETH BROWN, Professor, Georgia State University

BRENDA CUDE, Professor, University of Georgia

JACQUELINE CUNNINGHAM, Commissioner, Virginia Bureau of Insurance*

THEODORE MATHAS, New York Life Insurance Company (represented by proxy Sheila Davidson)**

JOHN FRANCHINI, Superintendent, New Mexico Office of the Superintendent of Insurance

LORETTA FULLER, Chief Executive Officer and Chief Financial Officer, Insurance Solutions Associates

NICHOLAS GERHART, Commissioner, Iowa Insurance Division

MARK GRIER, Vice Chairman, Prudential Financial, Inc.

DAVID HERZOG, Executive Vice President and Chief Financial Officer, American International Group, Inc.

MICHAEL CONSEDINE, Pennsylvania Department of Insurance (represented by proxy Stephen Johnson)**

GEORGE KEISER, Representative, North Dakota House of Representatives

JAMES KELLEHER, Executive Vice President and Chief Legal Officer, Liberty Mutual Insurance

SCOTT KIPPER, Commissioner, Nevada Division of Insurance

BENJAMIN LAWSKY, Superintendent, New York Department of Financial Services

JULIE MCPEAK, Commissioner, Tennessee Department of Commerce and Insurance

FRANKLIN (TAD) MONTROSS, Chairman, President, and Chief Executive Officer, General Re Corporation

THEODORE NICKEL, Commissioner, Wisconsin Office of the Commissioner of Insurance

Also Present:

MICHAEL MCRAITH, Director, Federal Insurance Office, U.S. Department of the Treasury
MICHAEL NEWMAN, Designated Federal Officer, Federal Insurance Office, U.S. Department
of the Treasury

ELIZABETH HORTON, Deputy Assistant General Counsel for Ethics, U.S. Department
of the Treasury

*Participating via teleconference

**Represented by proxy

Introductory Remarks

Michael McRaith, Director of the Federal Insurance Office (FIO), called the meeting to order and welcomed the members of the Federal Advisory Committee on Insurance (FACI) to the meeting, also acknowledging the members that were unable to attend. Director McRaith explained that the first meeting would primarily consist of administrative and procedural items.

Director McRaith then acknowledged the service of James P. Brown, who had previously served as the Designated Federal Officer for the FACI, and who would be retiring at the end of August. Director McRaith also acknowledged the service of members of the previous advisory committee who are no longer on the FACI.

Director McRaith stated that the renewed FACI had increased to 21 members, eight of which are state regulators. He explained that the increased size is intended to reflect the diversity of the insurance sector in the United States. Director McRaith then discussed the purpose of the FACI and noted that the FACI would have two subcommittees: (1) the Affordability and Accessibility Subcommittee, chaired by Birny Birnbaum; and (2) the International Developments Subcommittee, chaired by Julie McPeak.

Ethics Presentation

Elizabeth Horton, Deputy Assistant General Counsel for Ethics at the U.S. Department of the Treasury, gave a presentation on the Federal Advisory Committee Act and the ethics rules for members of the FACI. Ms. Horton discussed the purpose of the FACI, the members' role as a spokesperson for a representative group, and ethical standards for advisory committee members.

Presentation of Bylaws and Charter

Director McRaith provided an overview of the FACI Bylaws and Charter. In particular, Director McRaith noted that Section 2 of the Bylaws sets forth (i) the role and purpose of the FACI, and (ii) FIO's authorities under Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and then explained the scope of these authorities. Director McRaith encouraged all FACI members to review the Bylaws and Charter in detail.

Discussion of Areas of Interest for FOCI Members

Director McRaith invited the members to discuss topics of interest and subjects on which they believe the FOCI should focus.

Representative Keiser noted that he would like to see focus on (1) transparency in the international process of standard setting; (2) long-term care insurance; (3) surplus lines; (4) market conduct examinations; and (5) making the Affordable Care Act work more successfully. Director McRaith reminded Representative Keiser and the other members that FIO is not involved with health insurance.

Mr. Kelleher noted that he would like an update on the field testing of the International Association of Insurance Supervisors (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups.

Ms. Fuller stated that she would like to have dialogue on the affordability and accessibility of insurance, and noted that the FOCI had previously talked about the Terrorism Risk Insurance Act.

Superintendent Lawskey stated that he would like the FOCI to focus on the use of captives to finance risk. He also noted that he thought it would be interesting to focus on the insurance aspects of emerging technologies and technology-driven companies, such as Uber or Lyft.

Commissioner Gerhart stated that he would like the FOCI to address (1) the affordability of long-term care and (2) the purchase of life insurance carriers by private equity firms. Director McRaith clarified that long-term care, unless sold in connection with life insurance or an annuity, is not within the FIO portfolio.

Mr. Birnbaum identified several issues that interested him. First, he also raised the issue of affordability and accessibility of insurance products, with a particular emphasis on how data mining and predictive analytics relate to affordability and accessibility. Second, he stated a desire to focus on credit-related insurance, noting that this fell within a regulatory gap between federal and state regulators. Third, Mr. Birnbaum stated that he wanted to focus on market regulation and market conduct examination. Finally, he said that he wanted the FOCI to contribute to a national conversation on national disaster strategy and resiliency.

Mr. Grier stated that the FOCI should address issues related to large, systemically important insurance companies like Prudential. He also raised the issue of solvency models for the insurance sector.

Ms. Davidson (proxy for Mr. Mathas) raised the issue of international capital standards and the development of domestic capital standards for companies regulated by the Federal Reserve. She also stated that the FOCI should look at the state guaranty association system.

Chairman Glaser noted that the FACI should address the issue of certification following large loss events such as terrorist attacks and hurricanes. He also wanted the FACI to focus on cyber risk and cyber insurance. In addition, Chairman Glaser seconded Mr. Birnbaum's idea of focusing on disaster resilience and disaster pre-planning.

Professor Brown stated that she was concerned with (1) regulatory gaps created by the way in which insurance products and financial products are defined and (2) international solvency issues.

Superintendent Franchini stated that he was concerned with fairness, transparency, and the openness of insurance companies, and how they function in every state and internationally.

Commissioner Nickel raised the issue of developments in the mortgage insurance area, and suggested that the FACI, and the Treasury in general, coordinate with the work done by the NAIC relating to mortgage insurance.

Commissioner Kipper agreed with previous ideas expressed by members of the FACI, including transparency in international standard-setting, the use of captives both onshore and offshore, the affordability of business insurance and automobile insurance, and long-term care insurance.

Commissioner McPeak reemphasized the need to focus on the purchase of life insurers by private equity firms as well as consolidation in the marketplace across lines of insurance. She also expressed an interest in looking at the use of captives and, more broadly, reserve methodologies used by insurance companies.

Professor Cude expressed interest in consumer choice and improving consumer information, education, and disclosure. She also noted concerns with regulatory gaps caused by the silo effects among various regulatory bodies that have some level of supervision over the insurance sector.

Mr. Johnson (proxy for Commissioner Consedine) opined that a good topic of focus for the FACI would be best practices for enterprise risk management, so both companies and regulators can learn from the mistakes that led to the financial meltdown.

Director McRaith echoed calls for FACI attention on alternative risk transfer mechanisms and new forms of raising capital and/or transferring risk in the insurance industry.

Mr. Birnbaum seconded Mr. Johnson's points, noting that systemic risk requires a focus on the inherent risk of products as well as capital standards. He noted the importance of the Consumer Financial Protection Bureau in this respect.

Mr. Montross said that, with regard to risk modeling, many of the risks assumed by the insurance industry cannot be effectively modeled, and the industry should adopt a more robust, qualitative approach to thinking about risk.

Commissioner Kipper cautioned that the FOCI members should be mindful that many insurers are small, and such companies should be considered by the FOCI as well.

Discussion of FOCI Report, *How to Modernize and Improve the System of Insurance Regulation in the United States*

Director McRaith provided a high-level summary of the conclusions of the report, which was required by the Dodd-Frank Act and released by FOCI in December 2013. As described by Director McRaith, the report recognized and discussed the integration, where appropriate, of state-based regulation of insurance with national and international standards, emphasizing support for state-based regulation while acknowledging the complementary role of the federal government. Director McRaith noted that the report makes 27 recommendations regarding the regulation of insurance in the United States. He explained that priority areas for FOCI in prudential oversight are international standard-setting activities, reinsurance collateral reform, increased uniformity of solvency oversight, and the proliferation of reinsurance captives. With regard to marketplace oversight, Director McRaith highlighted FOCI's interest in market conduct examination, the portability of automobile insurance for members of the military and their families, and suitability standards for the sale of annuities.

Discussion of International Developments

Director McRaith discussed the purpose of international work relevant to insurance supervision, noting that the promotion of global financial stability and the increasing globalization of the insurance market as driving forces. International collaboration allows regulators and supervisors from around the world to work closely with each other to understand the totality of global firms and how risk management at such firms is impacted by working in different markets. Director McRaith noted that global markets are growing: between 2008 and 2013, premium volume increased by \$133 billion in China, \$48 billion in South Korea, and \$41 billion in Brazil. Director McRaith then stated that the consultation period on an IAIS paper regarding basic capital requirements (BCR) would close on August 8. He noted that BCR was an example of global cooperative work that, while simplistic, showed international commitment to the IAIS's work.

Commissioner McPeak noted that the U.S. risk-based capital system is very different from the rest of the world, as is the U.S. accounting system and classification of assets and liabilities. As such, a BCR is about finding a comparable and reliable standard to use internationally. She reiterated the importance of the work, and its relevance to global financial stability.

Director McRaith emphasized that international standards cannot be imposed on the United States; rather, an international standard must be implemented by each jurisdiction according to its own approach. Accordingly, such standards only will be implemented by state regulators and, where relevant, the Federal Reserve. He also noted that such standards would not be implemented until after several more years of direct testing with firms and a broader analysis of the potential impact on the U.S. marketplace.

Mr. Kelleher questioned the purpose of international standards, stating that Liberty Mutual did not lack a level playing field in its international work.


Chairman Glaser stated that variability across jurisdictions, particularly when some jurisdictions have higher standards than others, can impact competitiveness.

Mr. Johnson (proxy for Commissioner Consedine) added that the supervisory college system has been enormously successful, allowing regulators from around the world to talk about internationally-active companies and how those companies manage risk. He also expressed confusion as to what group capital requirements would entail.

Mr. Montross expressed an interest in discussing, at a future meeting, equivalences in the context of active global companies, particularly with regard to structuring a global business in multiple jurisdictions.

At 3:52 P.M., Director McRaith concluded the meeting.

I hereby certify these minutes of the August 7, 2014 Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.

A handwritten signature in blue ink, appearing to read 'Dan Glaser', with a long horizontal flourish extending to the right.

Daniel S. Glaser, FOCI Chairman