10th Annual Insurance Public Policy Summit

Confronting New Challenges in U.S. and International Regulations

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Few industries touch as many aspects of American life as insurance. From housing to healthcare, death to disability, retirement to recreation, cars to crops, insurance plays an integral role in securing and protecting the interests and livelihoods of American families and businesses. Like many parts of the financial services community in the aftermath of the Great Recession, the insurance sector is dealing with new rules, regulations and emerging questions about its role in an increasingly global marketplace.

Networks Financial Institute at Indiana State University (NFI) advanced its leadership role in addressing the regulatory and policy issues driving the insurance sector during the 10th Annual Insurance Public Policy Summit on March 12, at the Ronald Reagan Building and International Trade Center in Washington, D.C. The Summit convened congressional leaders, agency policymakers and industry thought leaders, including an address by Federal Insurance Office (FIO) Director Michael McRaith.

Following are select remarks from the day's presenters. The FIO Report to Congress in December 2013, NFI's FIO Report and presenters' papers and slide presentations are available at http://www.indstate.edu/business/nfi/events/10AIPPS/.

Reflecting on a Milestone

Indiana State University President Daniel Bradley welcomed the largest audience since the inaugural Insurance Public Policy Summit in 2005. While change and volatility have affected the financial services community over the past decade, NFI remains committed to serving as a non-partisan convener of influential partners, and committed to advancing risk management dialogue and thought leadership. President Bradley reflected that the Insurance Public Policy Summit has grown into a signature event that through research, education and awareness is informing the work of insurance leaders across the nation.

Brien Smith, Dean of the Scott College of Business at Indiana State University and Acting Executive Director of NFI, noted that the past four years have seen an unprecedented amount of lawmaking with more than 200 rules following the Dodd-Frank Act (DFA) legislative reforms. “Many believe that the industry will feel the biggest regulatory impact in 2014,” he said, noting that the industry is moving from a conversation about the laws to practical implementation. This implementation phase is occurring at a somewhat heartening time for the American economy on the heels of a robust 2013 stock market and solid levels of capital held by financial services firms. Yet concerns persist, including uncertainty about unemployment levels, potential interest rate increases on the horizon, and concerns about inflationary pressures.

A View from the House: Randy Neugebauer (R-TX), Chairman, House Financial Services Subcommittee on Housing & Insurance

Rep. Neugebauer affirmed his sub-committee's commitment to approach insurance regulation in a manner that cuts the regulatory burden and shifts risk from taxpayers to the private sector. He opened his remarks by quoting President Ronald Reagan, noting how the former President's statement is relevant in describing today's regulatory environment.

"Government doesn't solve problems, it subsidizes them," the Congressman said, referencing a wave of government programs emerging from the 2008 economic crisis. He also cited a second Reagan quote: "The closest thing to eternal life is a government program," and noted the persistence of government programs that were originally presented as temporary programs.

Yet Neugebauer noted that progress has been made in the insurance sector, including the long delayed FIO report published in 2013. The Congressman noted that the FIO seems to be trying to ascertain what their role should be in the insurance sector. He observed that while the FIO report does not specify what the FIO's role should be moving forward, the FIO was never intended to take on a regulatory role.

One area where the FIO may take on a heightened role relates to the increasingly global insurance arena. "The FIO report brought up that we're clearly operating in a global environment and a multi-state environment. U.S. companies currently have to register products in each state where they do business and this can make innovation and product introduction harder," Neugebauer stated. Harmonization will be the key to keeping what works well with the current state regulatory system and making adaptations that allow companies to be nimble and effective as they operate across broader geographies. A failure to create a harmonious system could create inefficiencies that would cost policyholders.

The House Financial Services Committee's Subcommittee on Housing and Insurance is aware that insurance regulators must consider how the industry is affected by other sectors of the financial community. For example, what are the proper levels of capital and what institutions should be designated as Systemically Important Financial Institutions (SIFIs)? Imposing bank-like capital requirements on insurance companies without realizing the inherent differences in their structure and risk models would be imprudent. Not only must regulators consider such questions for companies operating domestically, they must also consider such questions in a global context. Capital standards imposed on companies doing business in the United States versus overseas are somewhat up in the air and this is problematic, particularly when one considers that the Federal Reserve, Treasury and Financial Stability Oversight Council (FSOC) tend to be more attuned to the operation of financial companies outside the insurance sector. While regulators may like the idea of developing a set of standards that apply to all financial services firms, Rep. Neugebauer warned that it would be imprudent to create a one-size-fits-all approach to regulation.

What can be done to streamline regulations and optimize efficiencies? Rep. Neugebauer cited the National Association of Registered Agents and Brokers Reform Act (NARAB II) as one example of legislation that allows agents to operate in multiple states more efficiently. Rep. Neugebauer said the NARAB legislation could also potentially serve as a model for product development in the industry. He commented that NARAB II is stuck in the Senate attached to a flawed flood insurance bill. He also said he is not giving up on flood insurance reform on NARAB II and was confident they would get done.

Recalling President Reagan's quote about eternal life, Rep. Neugebauer remarked on the Terrorism Risk Insurance Act (TRIA) which was originally intended to serve as a temporary bridge following the September 11, 2001 terrorist attacks, but which remains in place more than a decade later. "The insurance industry did take on record losses, but we recovered and today the industry is well capitalized," he commented. Considering TRIA's future, Rep. Neugebauer put forth three scenarios:

1.) TRIA will be allowed to expire on December 31, 2014;

2.) TRIA will be extended and continue to function in its current form; or

3.) TRIA will be gradually phased out while providing the industry with time to build a model that removes taxpayers as funders. “The question for the insurance industry is how do we expand insurers’ book of business and shrink taxpayers’ responsibility,” he said.

The Congressman was pessimistic on reform of the Consumer Financial Protective Bureau or other Dodd-Frank Act reforms for another election cycle, but he indicated that the latter is beginning to get some traction.

A View From the Senate: Heidi Heitkamp (D-ND), Member Senate Banking, Housing & Urban Affairs Committee and its Subcommittee on Securities Insurance & Investment

Sen. Heitkamp opened her remarks with a focus on American policyholder families and noted that many Americans understand very little about the insurance they purchase. “For many families, insurance represents the largest percentage of the family budget for which they don’t know what they’re buying,” she said.

From a regulation perspective, Sen. Heitkamp observed that the best regulatory process should continue to be driven by the states and noted that legislation allowing broker agents to practice across state borders would enhance efficiency. The debate about cross-border and international regulation is indicative that the world in which insurance operates is getting smaller and will require regulators to reconsider how TRIA, flood insurance and other massive issues that extend beyond state boundaries are addressed.

In the wake of the 2008 economic crisis, Sen. Heitkamp said that the sector is undergoing tremendous change. “We are dealing with a paradigm shift of who is doing what,” she commented. Following the implementation of the DFA and the creation of a FIO, Sen. Heitkamp noted that collaboration will be key to strong regulation. “The federal regulators’ work is enhanced by a vast history of state regulation. The states essentially served as labs running experiments of what works in insurance regulation. We can't lose sight of the states' close relationships with the industry," she said. The senator indicated that she understands why we have the FIO, but is opposed to a rush to a new federal role.

Insurers should stay abreast of trade negotiations and what they might imply for the industry. "Things are being negotiated that could impact insurers," Heitkamp said. As an example, she noted that a World Trade Organization (WTO) challenge might affect insurers' ability to offer a particular product. "Foreign trade matters to state prerogatives," she said, noting that an increase in bilateral trade and NAFTA-style agreements will most certainly make the insurance regulatory landscape more complicated.

Senator Heitkamp closed her remarks by noting that it is critically important for insurance policymakers to think about how important insurance is to the American family. "There is hardly anything we do that is not touched by risk mitigation. Our industry cannot delegate decisions by moving them up the channel; we need to stay engaged to best represent the families we serve," she concluded.

Federal Insurance Office: Michael T. McRaith, Director

While Director McRaith serves as the first FIO director, he marked his second speaking engagement at the NFI Insurance Public Policy Summit. Established by Title V of the DFA, the FIO is a groundbreaking office and a sign that the Obama administration and lawmakers are "looking like hawks at the future shape of a $7 trillion financial sector with international reach," according to Charlie Richardson, partner with Faegre Baker Daniels in his introduction of Director McRaith.

Director McRaith spoke at the Summit and addressed modernization and international regulatory concerns.

A View from the NAIC: Monica Lindeen, Montana Commissioner of Securities and Insurance and NAIC President Elect

As President Elect of the National Association of Insurance Commissioners (NAIC), Commissioner Lindeen commended state regulators for doing an excellent regulatory job, while noting that there are opportunities for continual improvement as the world changes. She cautioned against trying to implement changes too quickly, noting, "It is important to take time to vet any and all changes thoroughly. Remarking on the NAIC's primary areas of focus, Commissioner Lindeen noted five key areas: Principle-Based Reserving (PBR); implementation of the Affordable Care Act (ACA); federal issues and relationships; international activities and relationships; and group supervision efforts.

The NAIC is advocating a move from traditional formulaic reserve requirements to a principle-based approach that more accurately serves today's dynamic insurance markets. The PBR approach engages risk, examines cash flows and determines reserves based on the level of risk assumed. "The PBR approach essentially right-sizes the process of assigning risk," Ms. Lindeen said. Several states are in the process of adopting the PBR approach and the NAIC has developed legislative information packets to help states move forward with PBR, along with educational tools provided on the NAIC web site. Captive reinsurance is another area demanding attention as regulators determine how to treat captive transactions for term and universal life policies. Ms. Lindeen stated that the NAIC is diligently working through the issues surrounding captives.

The NAIC did not take a position with regards to the ACA but has focused on providing states with flexible solutions to implementing the Act in a way that promotes stable state markets. The NAIC has dedicated significant resources to the oversight of marketing activities by health care navigators, complaint resolution, fraud reports, consumer outreach and education.

At the federal level, the NAIC is focused on ensuring that federal policy decisions do not adversely impact states, while recognizing the unique variances in market conditions between states. It views DFA regulations as a means of providing oversight, but is concerned about federal determinations of non-bank activity and SIFI's. "AIG was not unexpected, but it was federal regulators who missed the boat," Commissioner Lindeen said. She expressed that the NAIC found the FSOC's designation of Prudential as a SIFI to be especially disconcerting given dissents by presidentially-appointed FSOC member Roy Woodall and Missouri Insurance Director John Huff for. Ms. Lindeen said that traditional insurance activities don't pose a risk and the FSOC should focus on highly leveraged and other inherently risky entities when determining systemically risky institutions. The NAIC continues to stress the differentiation of insurance companies compared with other financial institutions. A systemic designation will pose the consequence of additional federal oversight.

Also at the federal level, the NAIC is engaged with Congress on TRIA. "We believe it is important to continue TRIA and in August, 2013, adopted a resolution expressing support for a continuation," Commissioner Lindeen said.

On the international front, the NAIC has closely monitored the designation of two U.S. insurers and nine internationally active insurance groups (IAIGs) as systemically important. Concern exists that a two-tiered system of risk could create market disruption and an unfair playing field. The NAIC has served as a founding member of the International Association of Insurance Supervisors (IAIS) and is committed to serving as a forum for coordination and global standard sharing. Ms. Lindeen noted some enhancements to the supervisory colleges and said that the NAIC believes a common framework (ComFrame) for cross-border supervision would be a positive step. However, she cautioned that a one-size-fits-all approach will not be effective in serving every jurisdiction's insurance marketplace.

Although not perfect, Ms. Lindeen noted that the "group supervision system has proven to work and is battle tested." The solvency modernization initiative has created changes to engage state regulators with federal authorities in the designation of systemic risk and supervisory colleges are serving their core function for international monitoring. The NAIC is also working on Own Risk and Solvency Assessment (ORSA) measures to address the capital requirements of larger groups.

Industry Insights Panel – U.S. and International Developments: Peter Gallanis, President, National Organization of Life and Health Insurance Guaranty Associations; Leigh Ann Pusey, President and CEO, American Insurance Association; Tim Pawlenty, CEO, Financial Services Roundtable; and panel moderator Charles Richardson, Faegre Baker Daniels.

Introducing the industry panel, moderator Charles Richardson quoted Thomas Edison: "Vision without execution is delusion." Mr. Richardson commended the panelists on their ability to execute and asked each panelist to provide a brief assessment of the U.S. and international insurance regulatory landscape.

Peter Gallanis, National Organization of Life and Health Insurance Guaranty Associations:

We cannot forget that complex legislation is not self-executing and this lesson can be seen in a number of instances including Dodd Frank and the Affordable Care Act. The primary goals of the DFA were to protect markets in the wake of the 2008 collapse and reduce negative impacts of future financial institution failures. Changing critical public policy is challenging and requires focus to avoid mission creep. We shouldn't fix what is not broken. Federal regulation may or may not be a good idea. Nothing in the Dodd Frank statute mandates a huge Federal Reserve footprint in the insurance sector. As the FIO report reiterated, traditional insurance did not cause the crisis and consumers did not suffer from the activities of traditional insurance companies. Four things worth considering: First, the core business models of traditional insurance mitigate volatility and the "high-flyer mentality" of other sectors. Second, for over two decades the industry has been tightly and expertly regulated to ensure solvency. Third, effective resolution mechanisms are in place for failed insurers. Finally, guaranty funds have protected consumers during rare past instances of company failures and can do so in the future. The real question should be, "What oversight should be in place to augment and not undermine existing systems?"

Leigh Ann Pusey, American Insurance Association:

The conversation has changed. Prior to the economic crisis, the regulatory discussion was about efficiency and effectiveness. The crisis changed the focus of insurance regulation to safety and soundness. The Congressional response was the Dodd Frank Act (DFA) that focused on systemic risk. There was unique treatment of insurance in some portions of DFA, which is good. We've now entered the most critical and challenging time of the regulatory conversation both here in the US and globally. As a result of DFA, we have a situation where 30 percent of life and 21 percent of non-life insurers are now under Federal Reserve supervision because they are either structured as thrift holding companies or deemed systemically risky. We're having a parallel conversation at the global level. The Financial Stability Board (FSB) is pushing the global insurance standard setters at the IAIS to look at group supervision of internationally active insurers and apply unique capital requirements on those insurers as well as those deemed systemically risky by the FSB. These rules will challenge local jurisdictions like the U.S. in terms of how they could be enforced and how they will impact competition.

Tim Pawlenty, Financial Services Roundtable:

State based regulation has worked. It's important that we know what problems we're fixing. There will be federal involvement. From Fannie and Freddie, to activities at the Department of Justice, Consumer Financial Protection Bureau and multiple other groups, there is a current state of federal involvement. Amid this situation, we need to ask how we improve insurance for consumers, the economy and the industry

Charlie Richardson (moderator): **The insurance industry has a voting member on the FSOC and other federal members will also be involved in our industry. What specific suggestions do you offer for how state and federal regulators could best serve the United States and international markets? What should the role of NAIC be and what should we expect to see over the next five years?**

Leigh Ann Pusey, American Insurance Association:

The FIO report was a watershed document and helped us avoid an irrelevant argument about state vs. federal regulation. The question is how do you effectively regulate? The good news is that leaders want to be part of a constructive solution. The challenge lies in coordinating two systems. On the policy side, the FIO report contained some positive recommendations studying impact of rate regulation to choices for consumers and uniformity as means of improving market conduct. The FIO report also recommended the use of a covered agreement on collateral – a provision in DFA – where the NAIC model for reinsurance collateral is executed through a federal covered agreement, acknowledging the limitations of the current state-based system and marrying them with limited federal strengths could be beneficial to resolving other issues as well. Group supervision in the United States is one area where our industry gets dinged on our global report card. It is incumbent on us as an industry to portray the effectiveness of the system. Uniformity is an important step in communicating that to the globe and we need to work with our state regulators and FIO to produce a workable solution.

Peter Gallanis, National Organization of Life and Health Insurance Guaranty Associations:

The FIO report was informed, pragmatic and objective. It covers the waterfront on insurance issues. Those who feared huge bombshells were pleased with the report and found it moderate. Looking at group supervision and the protection for solvency risks, there is a track record that should be thought about in this way: There is considerable focus today on modeled stress tests, but we sometimes forget that the economic crisis was itself a huge, “live-fire” stress test. We saw 400 banks/thrifts fail, 600 pension plans fail, two car companies fail, the rescue of Fannie and Freddie and the collapse of investment banking as we knew it. In all of this, the traditional insurance industry came through great. Solvency regulation proved itself during that most real of stress tests.

FIO has a basis for calling for strengthened receivership administration, particularly in the areas of greater transparency, accountability and consistency across states. There may be less basis for extolling uniformity in all cited cases as a goal for its own sake. I am not persuaded, for example, that sound public policy requires identical guaranty association coverage provisions in every state. However, on balance, the FIO report is a solid report.

Tim Pawlenty, Financial Services Roundtable:

NARAB II is noteworthy and a positive development. There is a need to understand more about covered agreements and rate regulation. With the exception of those institutions designated by FSOC, the likelihood of federal encroachment on the industry is not likely at least in the short term.

Charlie Richardson (moderator): **Two insurance companies have been designated as systemic risks. What are concerns in the industry?**

Peter Gallanis, National Organization of Life and Health Insurance Guaranty Associations:

There are three parts to this issue: the SIFI designation, orderly liquidation authority administered by the FDIC under the DFA, and the single point of entry construct as a method for implementing the orderly liquidation authority. Considering the SIFI designations, no one was surprised by AIG's designation. On the other hand, the Prudential decision was unexpected to many who found more persuasive the FSOC dissenting opinions.

Looking at orderly liquidation authority under the DFA, one can argue whether it is the right solution to the right problem, but it is the law under DFA.

Finally, regarding single point of entry, the feasibility of single point of entry to implement orderly liquidation authority will vary from entity to entity, based on capital and liquidity levels, compared with the funding needed to preserve the enterprise's value. Capital and liquidity needed for insurance operations is different from the capital and liquidity needed to operate banking enterprises. Single point of entry is a skeleton concept now that needs to be fleshed out. We need protocols for how the FDIC will work with various players, and this needs to be done before a major entity failure occurs.

Charlie Richardson (moderator): **The importance of the Federal Reserve has risen to the top of concerns in regards to capital standards. The Senate urged insurers to be treated differently than banks. Does the Fed have a clue about insurance?**

Tim Pawlenty, Financial Services Roundtable:

There is relative and changing good news. Earlier, the Federal Reserve was certainly bank-centric. However, it has recently shown a willingness to listen and engage with insurance staff. It's fair to say that they understand differences, at least rhetorically. They understand that bank assets tend to be more liquid than the long-term assets held by insurance companies and consequently, the process of winding down a bank is faster than for an insurer. The current DFA language is constraining and will need clarification. However, it appears that progress is being made.

Leigh Ann Pusey, American Insurance Association:

One challenge that the Federal Reserve is taking quite seriously is its role as a group supervisor. While the distinction between bank and non-bank entity is making progress, there will be a capital standard and the next challenge is defending our industry's risk-based capital standard. Our rules are set up to protect the policyholder. This is a very different capital philosophy and it dovetails with some questions about what is happening globally, as well as questions about what capital standards look like for thrifts and SIFIs.

Tim Pawlenty, Financial Services Roundtable:

As a big purchaser of public debt, future actions could also ultimately have repercussions for the bond market.

FSOC and International Regulatory Challenges, Peter J. Wallison, Co-Director, American Enterprise Institute's Program on Financial Policy Studies and Arthur F. Burns Chair in Financial Market Studies

Mr. Wallison discussed his recent paper, "The Authority of the FSOC and the FSB to Designate SIFIs: Implications for the Regulation of Insurers in the United States after the Prudential Decision." The paper is available for download at http://www.indstate.edu/business/NFI/events/10AIPPS/downloads.htm.

While the July 2013 decision to designate AIG as a systemically important financial institution was expected and perhaps even politically compelled, the FSOC's decision two months later to turn Prudential over to the Fed for what appears to be bank-like regulation under the provisions of DFA was a surprise to many within the industry. Among the 15 FSOC members, one "member with insurance expertise" sits on the Council and in the Prudential decision, Roy Woodall dissented from the group vote.

Mr. Wallison touched on the DFA standards that the FSOC is required to use when determining whether a non-bank financial institution threatens the stability of the U.S. financial system. Some key considerations include leverage; off-balance sheet exposures; relationships with other significant bank and nonbank financial firms; the degree to which the company is already regulated and reliance on short-term funding. Prudential's activities and market behavior with regards to any of these criteria were not significant.

Beyond the FSOC criteria, Mr. Wallison noted that the FSOC does not specify the degree to which Prudential might threaten the financial system's stability. In fact, he referenced the following language as the FSOC's complete statement on the subject:

> The financial system is exposed to Prudential through the capital markets, including, as derivatives, counterparties, creditors, debt and equity investors and securities lending and repurchase agreement counterparties . . . . Prudential also uses derivatives to hedge various exposures related to its assets and liabilities. Prudential's derivatives counterparties include several large financial firms, which are significant participants in the global debt and derivatives markets . . . Prudential's off-balance sheet exposures could serve as a mechanism by which material financial distress at Prudential could be transmitted to banks and to financial markets more broadly. For example, Prudential's total off-balance sheet exposure due to derivatives counterparty and credit facilities commitments with large global banks is significant.

Remarking on the FSOC statement, Mr. Wallison noted the definition of financial stress and market instability sheds no clear meaning and is inherently future focused. While acknowledging that the language is a remarkable grant of authority, Mr. Wallison said it is highly unlikely any financial firms will challenge the language for fear of retaliation.

In summary, Mr. Wallison noted that the FSOC decision regarding Prudential was largely perfunctory. In all likelihood, the Treasury and Fed had already approved Prudential as a SIFI based on FSB action in July. Financial designation as a SIFI provides regulators with unprecedented power to control the financial system. In the end, a SIFI designation is not about data, but about regulators and their capacity to capture the shadow banking system.

Remarking on the discussion of a SIFI's connection with other financial firms through its market activities, Mr. Wallison suggested the FSOC interconnection argument and its assumption that connections could inflict significant damage on the economy was organized under two channels: Asset Liquidation Channel and Exposure Channel. The asset liquidation channel model would propose that a rush to liquidate accounts by Prudential policyholders would render significant disruptions. Again, he noted that the FSOC provided no explanation of significant withdrawal metrics, or supporting data noting, “The only numbers in the decision document were page numbers.” Additionally, Wallison commented that the word “significant” was never defined, even though the word appears 47 times throughout FSOCs decision statement.

From an exposure channel perspective, whether Prudential’s failure would adversely impact markets because of its interconnectedness is also an invalid basis for defining a SIFI according to Mr. Wallison. This perspective assumes that when a financial institution fails it will have knock on effects on other financial institutions. Yet the financial industry knows from the Lehman bankruptcy that interconnectedness was not a factor. No major or even minor financial firm failed as a result of Lehman’s situation. In fact, the only serious knock on effect was a single fund that failed to hold a net asset value above $1 – an event known as “breaking the bank” in the industry.

Mr. Wallison touched briefly on the AIG debacle, noting the giant financial firm had no exposure to Lehman. Despite media speculation about the Fed’s rescue of AIG, officials have never said anything other than, “AIGs failure would have caused a meltdown.” “This idea is catnip for regulators,” stated Mr. Wallison, noting that it provides a basis for even more regulation. The DFA’s response to stringently regulating large financial institutions such as Prudential can dissuade other firms from any actions that might remotely concern regulators.

As the insurance marketplace becomes increasingly international, the actions of the FSB in conjunction with the G20 will likely come under increased scrutiny by insurance industry participants. It is worth noting that the FSB and the DFA do not designate SIFIs in the same manner. For example, Met Life has been designated by FSB, but not yet by FSOC. FSB purported to base its decision on the IAIS, but in the end, FSB ultimately designated nine institutions as SIFI’s, and gave no indication of whether IAIS guidelines had been applied.

The financial crisis has in many ways changed the rules that previously confined regulators. The narrative around the 2008 crisis was focused only on large financial institutions whose failure could cause a "downstream" crisis if the larger firms were not stringently regulated. It is entirely possible that many other types of firms such as securities firms, hedge funds, etc. could potentially be designated SIFIs and required to maintain bank-like capital requirements. There are many incentives for the FSB and the FSOC to expand their oversight, Mr., Wallison observed, noting that regulators always want more power just as corporations always want more profits. Indeed, the FSB's decision on nine large insurers considered potential SIFI's as well as Prudential's designation was not made based on facts. Size alone seems to have been the determining factor. When banks are exposed to SIFI scrutiny, the trigger threshold is $50B in assets. There are 26 U.S. insurers who meet the $50B asset tripwire.

How can the financial sector, specifically those operating in the insurance industry, express their concerns about regulation? Wallison suggested that an aggressive letter writing campaign to legislators leading up to mid-term elections might slow the pace of regulatory zeal.

International Regulatory Issues, Andrés Portilla, Director, Regulatory Affairs, Institute of International Finance (IFF)

The regulatory challenges facing U.S. regulators are not occurring in a vacuum, but are also challenging regulators at the global level. Mr. Portilla's remarks provided an overview of the global regulatory framework established at the Pittsburgh Summit. His slide presentation may be accessed at http://www.indstate.edu/business/NFI/events/10AIPPS/downloads.htm.

G20 members include: Argentina, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States and the European Union. Under the G20 structure, the FSB serves as the coordinating body working closely with the IAIS, which largely serves as the global standard setter. Mr. Portilla noted that despite the global standards, each participant nation must ultimately determine what rules it will implement, The US and EU tend to influence and drive discussion of global regulations and FIO Director McRaith chairs the IAIS technical committee.

A central regulatory objective for the G20 is the development of a harmonized, globally consistent regulatory framework for internationally active insurance groups. The FSB and IAIS are focusing on three main projects: setting basic capital requirements (BCR), establishing a common framework for the supervision of IAIGs, and setting global insurance capital standards (ICS). Capital requirements and other measures will vary based on whether an institution is deemed an IAIG or G-SII. For example, ICP will apply to all insurers. IAIG's will be subject to ComFrame and its capital adequacy component, and GSII's (currently nine firms) will be subject to BCR, ICS, ComFrame, ICP and Higher Loss Absorbency (HLA) requirements.

GSII companies will be required to hold higher levels of capital and meet HLAs for non-traditional insurance activities. Setting a common basis for all nine GSIIs will be challenging. "We're essentially trying to write a good solvency measure that can be applied across jurisdictions in a six month timeframe," Mr. Portilla said. By November, the G20 is expected to endorse IIF recommendations on BCR levels.

Looking at ComFrame, the regulators' goal is to create a common measure for internationally active insurance firms that takes into account a firm's leverage, capital levels, governance, etc. Three modules are shaping ComFrame: scope, capital adequacy and supervisors, including the establishment of supervisory colleges. Development of ComFrame regulations occurred between 2010 and 2013 and field-testing will continue through 2018 with expected implementation in 2019.

Global Insurance Capital Standards serve as the equivalent of BASEL in the insurance world. Development of ICS will be completed by the end of 2016. Testing and refining is scheduled to occur between 2016 and 2018, and global implementation of the new standards will begin in 2019.

Despite the designations and timelines, Mr. Portilla noted that addressing international regulation still requires each nation to adopt and apply the global standards. "Participation at the table is essential, otherwise, the standards will be written by someone else," he concluded.

Looking Toward the Future

As several Summit participants noted, the time of discussing what insurance regulation should look like has evolved into a period of implementation. As implementation proceeds, Networks Financial Institute will continue to advance research and dialogue that promotes the insurance sector's role as a driver of economic growth. Information on the 11th Insurance Public Policy Summit will be posted at http://isunetworks.org.

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