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Statement by  
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before the  
Subcommittee on Housing and Insurance  
of the  
Committee on Financial Services  
U.S. House of Representatives  
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Chairman Neugebauer, Ranking Member Capuano, and other members of the subcommittee, thank you for inviting me to testify on behalf of the Federal Reserve.

The Federal Reserve welcomes the opportunity to participate in today's hearing and is pleased to be joined by our partners from the Federal Insurance Office (FIO) of the U.S. Treasury, the National Association of Insurance Commissioners (NAIC), and the National Conference of Insurance Legislators. While we each have our own unique authority and mission to carry out, we remain committed to working collaboratively on a wide range of insurance supervisory and regulatory issues, including the subject of today's hearing, international insurance regulation.

### **The Federal Reserve's Role in the Supervision of Certain Insurance Holding Companies**

The Federal Reserve assumed responsibility as the consolidated supervisor of certain insurance holding companies as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). Under the Dodd-Frank Act, the Federal Reserve is responsible for the consolidated supervision of insurance holding companies that own federally chartered thrifts or banks, as well as insurance holding companies designated by the FSOC. The insurance holding companies for which the Federal Reserve is the consolidated supervisor hold approximately one-third of industry assets and vary greatly in terms of size and the types of products they offer.

After the passage of the Dodd-Frank Act, the Federal Reserve moved quickly to develop a supervisory framework that is appropriate for insurance holding companies that own depository institutions and promptly assigned supervisory teams to handle day-to-day supervision of those insurance holding companies. While doing so, we have reached out to our colleagues in the state insurance departments. The Federal Reserve supervisory teams for insurance holding companies

are a combination of experienced Federal Reserve staff as well as newly hired staff with insurance expertise. The Federal Reserve is investing significant time and effort into enhancing our understanding of the industry and the firms we supervise, and we are committed to tailoring our supervisory framework to the specific business lines and risk profiles of the insurance holding companies we oversee. Our supervisory efforts to date have focused on strengthening firms' risk identification, measurement and management, internal controls, and corporate governance. Our principal supervisory objectives for insurance holding companies are protecting the safety and soundness of the consolidated firms and their subsidiary depository institutions while mitigating any risks to financial stability.<sup>1</sup> We conduct our consolidated supervision efforts in coordination with state insurance regulators, who continue their established oversight of insurance legal entities.

### **The Federal Reserve's Participation in the International Association of Insurance Supervisors (IAIS)**

Some of the insurance holding companies subject to Federal Reserve supervision are internationally active firms that compete with other global insurers to provide insurance products to businesses and consumers around the world. Our supervisory activities for these firms include collaborating with our regulatory counterparts internationally. As part of this role, last year, the Federal Reserve joined our state insurance supervisory colleagues from the NAIC and the FIO as members of the International Association of Insurance Supervisors (IAIS). Accordingly, the Federal Reserve has been and will continue to be engaged in the development of global standards

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<sup>1</sup> Board of Governors of the Federal Reserve System, Division of Banking Supervision and Regulation (2014), "Incorporation of Federal Reserve Policies into the Savings and Loan Holding Company Supervision Program," Supervision and Regulations Letter SR 14-9 (November 7), [www.federalreserve.gov/bankinfo/srletters/sr1409.htm](http://www.federalreserve.gov/bankinfo/srletters/sr1409.htm).

for regulating and supervising internationally active insurers. Global standard setting is not new to the Federal Reserve, as we have for decades participated in standard setting for global banks through our membership in the Basel Committee on Banking Supervision. As a general proposition, we believe in the utility of having effective global standards for regulation and supervision of internationally active financial firms. When implemented consistently across global jurisdictions, such standards help provide a level playing field for global financial institutions. Further, consistent global regulatory standards can help limit regulatory arbitrage and jurisdiction shopping and can promote financial stability.

Since joining the IAIS in late 2013, the Federal Reserve has been an active participant in several key committees, working groups, and work streams. We currently hold a seat on the Financial Stability Committee and the Technical Committee. Throughout our first year as a member of the organization, and consistent with our statutory mandate, the Federal Reserve has been particularly focused on the financial stability and consolidated supervision work of the IAIS.

### **IAIS Strategic Priorities**

At the heart of the IAIS' strategic priorities is the development of its Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). Among other things, ComFrame includes the development of a global consolidated capital standard for large, complex international insurance companies. A group capital requirement for insurers with significant international operations is a new concept for U.S. insurance companies. State law includes entity capital requirements but does not include a group or consolidated capital requirement. For the largest and most active global insurers, the Federal Reserve

supports group-wide consolidated capital standards that are well tailored to insurance risks. Such standards must be deliberately developed through transparent processes and properly calibrated.

A second key focus of the IAIS involves the identification of global systemically important insurers (G-SIIs) and the design of an enhanced regulatory and supervisory framework for G-SIIs. In 2013, the Financial Stability Board, in consultation with the IAIS and using a methodology developed by the IAIS, designated a set of nine global insurance firms (including three U.S.-based insurers) as G-SIIs. In addition to developing enhanced supervision standards and resolution planning requirements for G-SIIs, the IAIS continues to refine its G-SIIs designation methodology and to work diligently to design loss absorbency requirements for G-SIIs.

The IAIS recently released the Basic Capital Requirement (BCR) for G-SIIs. It is the first international consolidated capital requirement for the insurance industry. The IAIS developed the BCR to help provide a level playing field for the capital adequacy of the largest, most complex insurance companies in the world. The IAIS intends to supplement the BCR with a Higher Loss Absorbency (HLA) capital requirement for G-SIIs that present the greatest risk to financial stability.

In time, the IAIS expects that the BCR will be replaced by the more detailed and comprehensive Insurance Capital Standard (ICS), which is currently under development. Although the ICS likely will apply to a broader range of internationally active insurance groups, the IAIS expects that the ICS ultimately will also serve as the basis upon which HLA capital requirements are applied for G-SIIs. IAIS work on the ICS began last year and will continue for at least the next few years. This work includes the active participation of many volunteer

insurance companies, including U.S. insurance companies, through field testing of various approaches and options.

It is important to note that any standards adopted by the IAIS are not binding on the Federal Reserve, the FIO, state insurance regulators, or any U.S. insurance company. During the development of global standards for insurance firms by the IAIS, the Federal Reserve will work to ensure that the standards do not conflict with U.S. law and are appropriate for U.S. insurance markets and U.S. insurers. Moreover, the Federal Reserve would only adopt IAIS regulatory standards after following the well-established rulemaking protocols under U.S. law, which include a transparent process for proposal issuance, solicitation of public comments, and rule finalization.

#### **Cooperation and Coordination among U.S. Supervisors, Regulators, and the Industry**

The Federal Reserve, along with the FIO and the NAIC, continues to actively engage with U.S. insurance companies on the development of global regulatory standards for insurance firms. Recently, the FIO hosted a session with the Federal Reserve, the NAIC, state insurance regulators, and industry stakeholders to discuss the ICS project and solicit feedback. The Federal Reserve is committed to continuing this dialogue and to continuing our work with the FIO and state and international insurance regulators to develop a set of standards for global insurance firms that is consistent across countries and appropriate for internationally active U.S. insurers.

Nothing in ComFrame, including the group capital requirement, seeks to lessen the critical role of individual insurance legal entity supervision conducted by the U.S. states and foreign countries. Rather, group-wide consolidated supervision and consolidated capital

requirements supplement this approach with a perspective that considers the risks across the entire firm, including risks that emanate from non-insurance subsidiaries and entities within the group. The Federal Reserve is a consolidated holding company supervisor that focuses on identifying and evaluating risks, capital and liquidity adequacy, governance, and controls across its supervised organizations. U.S. insurers with a global footprint or global aspirations stand to benefit considerably from a level global regulatory framework that is strong but pragmatic. Reasonably consistent global insurance standards for internationally active insurers and international cooperation among global regulators provide the means to that end.

The Federal Reserve has acted on the international insurance stage in an engaged partnership with our colleagues from the FIO, the state insurance commissioners, and the NAIC. Our multiparty dialogue, while respectful of each of our individual authorities, strives to develop a central “Team USA” position on the most critical matters of global insurance regulatory policy.

### **IAIS Process and Transparency**

While the Federal Reserve has been a member of the IAIS for only a short time, the work of the IAIS has been underway for many years. The IAIS recently celebrated its 20th anniversary and continues to evolve as an organization. The IAIS, as an international standard-setting body, should be independent from industry. The IAIS recently voted to revise its approach for industry participation in standard setting. Under the new processes, industry will no longer provide financial support to the IAIS or be day-to-day participants in the development of international supervisory standards for insurance. The result will be a more transparent rulemaking process that will allow for input by the industry and the public more generally through the ability to provide public comments on rulemaking proposals. The Federal Reserve

supports transparency in rulemaking and policy development and believes that it is critical that standard-setting bodies be fully independent of the regulated.

Mr. Chairman, thank you for inviting me here today. I look forward to an active dialogue with you and other members of the subcommittee.