STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA

FOR THE HOUSE FINANCIAL SERVICESS COMMITTEE HEARING ON

THE FINANCIAL STABILITY BOARD'S IMPLICATIONS FOR U.S. GROWTH AND COMPETITIVENESS

September 23, 2016

The Property Casualty Insurers Association of America (PCI) represents roughly 1000 insurers and reinsurers that write more than $200 billion in coverage throughout the U.S. and the world. We appreciate this opportunity to comment on the current status and issues relating to the Financial Stability Board, created as one of the global responses to the financial crisis.

In our statement below, PCI first addresses general areas for possible improvement including enhancing the role of state insurance regulators and increasing transparency. Next, we discuss specific work streams such as governance, global systemic risk designation and resolution. And finally we suggest that policymakers urge the FSB to focus more on stopping the growing international trend of self-defeating protectionism in the guise of prudential regulation.

General Issues

Include State Insurance Regulators

The charter of the FSB is exceptionally broad, encompassing insurance regulation as well as banking and securities regulation. And, many of its work streams, including macro-prudential risk, resolution, conduct of business and governance apply to insurers and reinsurers. FSB members commit to developing guidance that local authorizes are encouraged to implement in supervisory regulatory frameworks. Yet, the U.S. delegation does not include the primary insurance regulators, the states, which have traditionally and effectively regulated insurance in the U.S. This primacy of state regulation was recently reiterated by Congress in Dodd-Frank.

Without formal inclusion of state regulators, errors can be made about how best to apply general principles to the very different realities of insurance and insurance regulation when compared to the banking and securities sectors. For example, the state resolution system for insurers recognizes that there is a long time horizon for resolution for insurers, often years if not decades, when compared to banks which may need to be resolved in hours.

Including insurance regulators from the U.S. more generally in the FSB will also help prevent the inappropriate migration of banking regulatory concepts onto insurers. This will avoid a "one size-fits-all" regulatory approach that will not work for insurance and may actually harm both consumers and well managed companies.

More Transparency and Consideration of Costs and Benefits

The OECD in its Policy Framework for Effective and Efficient Financial Regulation recommended a transparent approach to regulation and selection by regulators of the policy option that is the least burdensome and yet still effective. We think that a closer adherence to that policy framework would improve the work of the FSB.

The vast majority of meetings of the FSB are conducted behind closed doors. PCI appreciates the formal consultations provided to stakeholders and rare invitations to attend meetings. PCI also appreciates that confidentiality is appropriate when discussing the specifics of particular companies. However, the FSB is unnecessarily secretive with regard to its deliberations on public policy matters of general applicability. The lack of transparency reduces the ability of stakeholders to better understand the underlying issues and problems sought to be addressed. It also inhibits the ability of regulators to fully understand industry practices to be able to tailor any regulatory proposal to effectively address real world gaps. Further, any international guidelines are more likely to be implemented in local jurisdictions when stakeholders have been involved throughout the process of their development.

PCI also endorses the notion of the FSB incorporating an element of cost/benefit analysis in its work. Regulations can sometimes have consequences such as unnecessarily increasing consumer costs and reducing competition and consumer choice. On the other hand, everyone benefits when abusive practices are prevented and consumers pay the least they need to, with the greatest degree of choice.

Current Issues

Governance

The FSB is in the midst of reviewing its governance recommendations. PCI is pleased to have drafted comments on behalf of the global insurance industry, which are attached. We also much appreciate the invitation to appear before the FSB on September 30 to provide further information.

FSB governance guidelines should remain high level and respect differences in jurisdictional laws and should be applied proportionally, based on the nature, scale and complexity of the entity at issue. Overall, the OECD/IAIS governance materials focused specifically on the insurance sector currently accomplish that goal. Because of this activity specifically geared to the insurance sector, there would be little value in the FSB's governance work becoming more prescriptive, at least with respect to insurance.

Resolution

The U.S. has a comprehensive, time-tested system of resolution for insurers. Our system works because of several factors including comprehensive and consistent laws, a strong role for the courts, and in particular the consumer protection and safety net provided by the state guaranty funds. The FSB should recognize our system as at least one way to comply with its general principles.

The FSB's work on resolution should also recognize the unique nature of the insurance business model including the long term nature of many insurance liabilities, the lack of runs on insurance companies and the very long-term nature of most insurance resolutions in the U.S. Accordingly, PCI recommends a principles based, high level and flexible approach that reflects sectoral differences and local jurisdictional systems. Vague references in FSB documents to the insurance industry providing "critical functions" as a justification for global insurance resolution standards are also problematic and unwarranted, particularly if applied beyond the confines of designated systemically important financial institutions.

Global Systemic Risk Designation Process

PCI has previously submitted testimony regarding our concerns about the back-room process of designating Global Systemically Important Insurers (G-SIIs). That process should seek to manage systemic risk by focusing on risky *activities*. While most international institutions have recognized that traditional insurance activities are not systemically risky, the FSB seems driven to designate a group of the largest insurers as G-SIIs, even if the systemic importance of those institutions was far less than undesignated banks or securities firms. Recent publications promote a methodology focused on activities as a more effective way of managing systemic risk. The shift will take time, and we suggest in the interim that FSB G-SII designations should be based on a credible demonstration of exposure to systemic risk, not based on size and global footprint. In addition, potential G-SIIs should be provided with appropriate due process and a clear path towards adequately de-risking to avoid a designation or consider working towards a future off ramp.

An Additional Area for FSB Focus

Making the Case for Open Markets and Removing Barriers to Trade in Insurance and Reinsurance

Open, competitive and well-regulated insurance markets provide significant value to the public welfare, including financial security, identification of risk and a focus on risk mitigation. Instead of more market opening, however, barriers to trade in insurance and reinsurance are increasingly being erected around the world. These include discriminatory limits on foreign reinsurance, unfair advantages for state-owned enterprises and data localization mandates. As markets become less competitive and more domestically focused, they become more vulnerable to systemic shocks. While generally appearing in less developed large and small markets, we even see discrimination against U.S. companies in developed markets such as the EU. The FSB should take up this challenge, particularly as many of these barriers are being erected in the name of prudential regulation.

Conclusion

Several fundamental reforms such as enhancing the role of insurance regulators and increasing transparency and cost/benefit analysis will greatly improve the work of the FSB. The FSB is considering important reforms in corporate governance, resolution, and designation of global systemically important insurers, where PCI believes more work needs to be done in appropriately tailoring the approach of global standard setting and implementation. Beyond our comments on current work streams, PCI encourages the FSB to more strongly advocate for open and well-regulated markets and thereby help combat the alarming negative trend of protectionism being imposed in the guise of prudential regulation.