Washington, D.C.—
The New Insurance Capital?
In Focus: Government In Insurance Seminar

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MANY CAPITALS AND MANY ISSUES

- The Dodd--Frank legislation assures a larger and continuing role for the Federal Government in U.S. insurance regulation.
- Despite the changes that will occur as a result of Dodd-Frank however, Washington will not be *the* insurance capital, but will, instead be one among many insurance capitals as there continue to be, for the time being, 51 State level U.S. regulators and several global insurance business and/or regulatory centers, including London, Zurich, Basel, Tokyo, Bermuda, Frankfurt, not to mention the growing insurance markets of Brazil, China and India.
- Before the financial crisis, there was significant discussion on regulatory efficiency. Since the financial crisis, the focus in the U.S. and globally has been almost solely on new and more regulation.
- Insurance regulation is being used as a trade barrier by many countries.
- This poses significant challenges to insurers and regulators on how to evolve a U.S. and global regulatory system that is both effective and efficient and promotes the growth of private insurance.

THE U.S. DEBATE BEFORE THE FINANCIAL CRISIS

- The U.S. was engaged in debate over who should regulate insurance.
- There was also significant domestic and international criticism of the U.S. regulatory system both as to its efficiency and its focus on things such as prior approval rate and form regulation.
- The leading reform proposal was Optional Federal Charter:
  - Companies could choose to remain in the State system or opt for a national charter and be regulated by the Office of National Insurance, where rate and form regulation were almost exclusively to be left to the market. Consumers could also choose among companies regulated at the State or Federal level. This would create competition between the regulatory systems, to determine which would be the most effective and efficient.
- Larger US and international insurers and brokers supported it, other industry elements did not, nor did the NAIC.

THE U.S. DEBATE AFTER THE FINANCIAL CRISIS

- Dodd-Frank legislation
  - Systemic Risk Regulation
  - Resolution Authority
  - Consumer Protection
  - **Federal Insurance Office and Insurance Regulation Reform**
  - Derivatives and Proprietary Trading Restrictions
- **International Monetary Fund Financial Sector Assessment Program (IMF FSAP) review and report on the US.**
- **NAIC's Solvency Modernization Initiative work streams.**
- **Continued developments at the International Association of Insurance Supervisors (IAIS).**
- **Continued discussion sparked by Europe via the Solvency II Equivalence issue and other developments.**
- **Pressure on all financial services regulators from the G-20, Financial Stability Board and other bodies.**

INTERNATIONAL DEVELOPMENTS NOW AFFECTING THE U.S.

- **Solvency II, a new Europe-wide insurance solvency regime, was proposed before, adopted during and implemented after the financial crisis.**
- **Recently approved overhaul of EU regulatory structure, creating a systemic risk council and three Europe-wide sector regulatory bodies.**
- **Advice from European regulators to the European Commission that would only partially assess the US for equivalence to Solvency II, creating potential negative effects on US-EU commerce.**

INTERNATIONAL DEVELOPMENTS NOW AFFECTING THE U.S. (CONT'D)

- **The IAIS represents more than 140 countries and while its standards are not legally binding they are used in connection with the International Monetary Fund's Financial Sector Assessment Program to evaluate financial services systems for compliance with international standards (the IAIS' Insurance Core Principles are the standards for insurance regulation).**
- **IAIS has recognized three pillars of insurance regulation—solvency, corporate governance and market conduct.**
- **IAIS is increasingly pushed by the G-20, FSB and what they call "political masters" to issue more detailed regulatory papers.**
- **Most of the IAIS' detailed work has occurred on solvency regulation, including group supervision, but work is now underway on corporate governance and market conduct issues.**

OTHER INTERNATIONAL DEVELOPMENTS

- Switzerland, Bermuda, and some other regulators are adopting Solvency II type systems.
- The Organization for Economic Cooperation and Development, the world's largest "think tank", has issued a Policy Framework for Effective and Efficient Financial Regulation that emphasizes a regulatory process that involves careful identification of the problem to be regulated, selection of the least costly policy, and regular reviews and is working on a corporate governance paper.

CHALLENGES

- Evolving a regulatory system in the US and globally that is both effective and efficient.
- Encouraging the development of common and high regulatory standards that reflect an objective view of regulatory gaps and the business model of insurers.
- Moving toward a US and global regulatory framework where regulatory duplication and contradiction are minimized, while effective regulation is assured.
- Avoiding disruption of trans-Atlantic commerce in insurance through a Solvency II equivalence process that results both in U.S. domestic reform and equal treatment of companies on both sides of the Atlantic.

CHALLENGES (CONT'D)

- Effectively preventing insurance regulation from being used for protectionist purposes, an abuse that is costing U.S. property and casualty insurers a revenue loss of nearly $40 billion annually.
- Working with IAIS and regulators to achieve a cross-border regulatory system for internationally active insurers that clearly establishes a group supervisor and avoids duplicative regulation.

CONCLUSION

- Washington will play a greater role in U.S and global insurance regulation.
- Even so, there will be multiple insurance “capitals” and increasing regulatory activity.
- The challenges for the industry are also many, including achieving effective and efficient regulation in the U.S. and globally and regulation that is not used for protectionist purposes.