NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

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3601 Vincennes Road, Indianapolis, Indiana 46268
Phone: 317.875.5250 | Fax: 317.879.8408

www.namic.org

122 C Street N.W., Suite 540, Washington, D.C. 20001
Phone: 202.628.1558 | Fax: 202.628.1601

January 4, 2016

Mark Carney
Chair
Financial Stability Board
Centralbahnplatz 2
CH-4002
Basel, Switzerland

VIA Email: fsb@fsb.org

RE: National Association of Mutual Insurance Companies Submission on Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms.

Dear Mr. Carney:

The National Association of Mutual Insurance Companies (NAMIC) welcomes the opportunity to comment on the consultation entitled "Proposed Framework for Post-Implementation Evaluation of the Effects of the G20 Financial Regulatory Reforms. " (hereinafter "Consultative Document")

NAMIC is the largest property/casualty insurance trade association in the United States, with more than 1,400 member companies representing 39 percent of the total U.S. property/casualty market. NAMIC supports regional and local mutual insurance companies on main streets across the country and many of the country's largest national and international insurers. A portion of these insurers may be designated Internationally Active Insurance Groups. NAMIC member companies serve more than 170 million policyholders and write more than $230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets in the United States.

Through NAMIC advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies. Our members have a keen interest in the FSB efforts to evaluate financial reforms since the 2008 financial crisis and appreciate the opportunity to share our thoughts about the framework set forth.

The G20 gave the FSB a very challenging task following the crisis -- to ensure that global financial solvency regulation was rigorous and fairly uniform. The FSB has made considerable progress toward this goal in the banking industry, but achieving the goal in other industries, like insurance, has proven to be a greater challenge. Engaging in several projects at the FSB and the IAIS has given NAMIC a perspective that might help improve the global efforts. At a minimum, we hope to provide insight into unintended consequences that could be avoided by careful analysis before implementation.

Discussion Question 1. Suggestions for Main Elements of the Evaluation Framework

International standards designed for diverse industries, operating in diverse parts of the world should not impede competition at either the local level or the global level. Such standards should not show preference to one jurisdiction over another requiring extremely expensive changes to the basic legal structure in one jurisdiction to keep changes to a minimum in another. The changes cannot be so costly to the regulators in a jurisdiction that they could not be supported by existing government funding for the regulatory agency overseeing the changes. And they must not dampen growth in a $4 Trillion industry to avoid serious global repercussions. The only way to accomplish a proportionate global standard setting system is to ensure that it is flexible enough to provide all jurisdictions opportunities for successful implementation and an outcomes-focused assessment of that implementation.

NAMIC has been working with the IAIS to protect against a formulaic group capital standard for the insurance industry for 4 years. Our efforts have always been intended to eliminate provisions that would have resulted in drastic changes many countries could not afford to adopt, or if adopted would have profound consequences on their insurance market. From the beginning of the debate about international insurance capital standards, NAMIC argued for flexibility.[1] In 2014 we stated,

> "The application of the same capital standard to unique companies that come from very different regulatory environments with very different economic and political goals will not produce comparable conclusions about capital or solvency. Every country has a unique regulatory system with unique features that influence the solvency of the companies doing business in that regulatory environment."

The IAIS iterated from the outset that they were required to develop a capital formula that all jurisdictions would adopt, and that the FSB would accept nothing less. Consequently, all of NAMIC's concerns and those of trade associations around the world communicating through the Global Federation of Insurance Associations (GFIA) were not addressed.

[1] See attached NAMIC comment letter June 10, 2014, RE: Global Insurance Capital Standards – June 17, 2014 Observer Hearing and Memo

A. Study Consequences of Global Consistency/Comparability in FSB Assessment Framework – Is it achievable? Is it preferable? When will it help and when will it hurt?

Requiring the creation of a formulaic capital standard to be applied in all countries around the globe, that will apply to all sectors of the business, life, health, property-casualty and to all structures of companies, stock, mutual, and cooperatives without impacting the cost of insurance is a near impossible task. These companies can have differences in products offered, geographic risks, legal climates, political goals, regulatory maturity, company structure, and government support mechanisms etc.

We know that consistency or comparability in this situation would create significant requirements for change in the U.S. It would require changes to our definitions of corporations and the liabilities thereof; changes in accounting to the IAIS-created market adjusted valuation system; and significant infusions of capital, since many of the forms of capital allowed in the U.S. would be eliminated from tier 1 or 2 treatment. These unique features in our system are addressed in other regulatory processes and are built into our legal and regulatory framework. The U.S. insurance regulatory outcomes are as strong as those of any other jurisdiction in the world. Insolvencies are very minimal and policyholders' needs are addressed through the guaranty fund system. The adoption of the current version of the ICS in the U.S. would cost billions of dollars. This is an unreasonable solution.

Requiring comparability or consistency is not the answer. The FSB should study the potential dangers of requiring such consistency/comparability or heterogeneity of a standard. The study of this issue may help the FSB better determine when to hold the standard setters to such a strict requirement on financial regulation and when to allow more flexible, principle-based, outcomes-focused regulation.

We assert that the potential turmoil such changes would cause in global insurance markets would not have the intended affect and certainly would not support FSB goals for sustainable and balanced growth. More likely they would result in a volatile and uncertain climate for the global insurance markets. Most certainly increased and complex group capital requirements will not result in strong growth. In fact, most analyzing the impacts suggest major restrictions on growth.

B. Additional Main Element: Reforms Should be Principle-Based and Outcomes-Focused

The stated goals of the FSB are clearly principle-based and outcome-focused. The goal to increase resilience of the global financial system to reduce the likelihood and severity of crisis with reforms that support the G20 objective of strong, sustainable and balanced growth are completely principle-based and outcomes-focused. These goals recognize the importance of balance and of resiliency around the globe and clarify what we want to see as the outcome – reduced possibility of crises, and strong growth. To take such goals and require detailed prescriptive standards and requiring every G20 country to adopt them--whether the regulation will achieve those goals in their specific jurisdiction or not--does not support the FSB mission.

The FSB should communicate clearly to standard-setters that consistency or comparability should not come at the price of new and different crises or flat or negative growth. Flexibility is demanded to make regulatory standards work in a global market.

C. Additional Main Element: Reforms Should be Assessed before Implementation, for Costs as Well as Benefits to the Global Economy

To accomplish the objective of assuring no harm to the growth potential around the world, the FSB should make a rationale judgement about costs to the global economy of making the changes and make sure they do not equal or exceed the intended benefits. Implementation of new regulatory standards with a "wait and see" attitude toward the consequences is dangerous. No industry should be subject to such significant changes without this meaningful first step.

The FSB has been charged with one of the most difficult tasks – trying to find the answer to eliminating future global crises without impeding growth. The task is daunting and the consequences of erring critical to the global economy. The best approach is to be measured, cautious and conduct many qualitative impact studies and so we all know what more about the consequences and fully understand the costs. Thank you for your careful consideration of these issues.

If there are any questions about the recommendations or suggestions made in NAMIC's comments please contact Michelle Rogers at mrogers@namic.org. Thank you for the opportunity to comment.

Respectfully Submitted,

Michelle Rogers

Michelle Rogers
Director of Financial and Regulatory Policy
National Association of Mutual Insurance Companies

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June 10, 2014

Michael McRaith, Chair - Technical Committee
Julian Adams, Chair - Financial Stability Committee
International Association of Insurance Supervisors
Attn. Peter Windsor and Nina Moss
VIA Email: Peter.Windsor@bis.org and Nina.Moss@bis.org.

Re: Global Insurance Capital Standards – June 17, 2014 Observer Hearing and Memo

Dear Messrs. McRaith and Adams:

The National Association of Mutual Insurance Companies (NAMIC) appreciates the opportunity to engage with the IAIS Technical and Financial Stability Committees on the important discussions surrounding a global insurance capital standard. This is a critical issue and will require multiple discussions to evaluate the many complex issues, so we encourage significantly longer comment periods for future opportunities. We request the opportunity to make oral remarks at the Observer Hearing in Quebec City on June 17 as well. Our comments are outlined below.

NAMIC is the largest property/casualty insurance trade association in the U.S.A., serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC's 1,400 member companies serve more than 135 million auto, home and business policyholders, and write more than $196 billion in annual premiums.

Most of our members do business exclusively in the United States, but all feel the impact of international standards for several reasons. The IAIS decisions influence regulation in the United States, influence the assessment of U.S. regulation, and impact the reinsurance market. While a small number of our members meet the definition of internationally active insurance groups, over 650 of our members are part of registered holding companies. The proposed global group insurance capital standard would have significant impacts on many of these holding companies if it were ever adopted under state insurance laws in the United States. While the likelihood of such adoption in the U.S. is not within the purview of this discussion, it should be the responsibility of the IAIS to design a capital standard that can work in all jurisdictions with varying governmental, legal and corporate structures or to turn to a more flexible approach. An effort that creates disruption in global insurance markets for several years will not accomplish the goal of financial stability as it will result in increased enterprise risks, not diminish them.

The proposed approach to insurance capital will not produce “comparability” even if a valuation model, qualifying capital, target level and capital formula is agreed upon. The application of the same capital standard to unique companies that come from very different regulatory environments with very different economic and political goals will not produce comparable conclusions about capital or solvency. Every country has a unique regulatory system with unique features that influence the solvency of the companies doing business in that regulatory environment. For instance, U.S. companies are subject to rate regulation, legal entity risk-based capital requirements, financial statement filing requirements, regulatory financial analysis, periodic risk-focused financial examinations, market conduct examinations, guaranty fund assessments, Enterprise Risk Reports, ORSA filings, and a highly litigious environment. This system is based upon an economic and political philosophy that supports limited barriers to entry and exit, and a competitive insurance market with protection of policyholders the primary role of the regulator. Many of these features of the U.S. system result in higher levels of solvency, a stronger more competitive system, and earlier identification of hazardous conditions that are not provided in all regulatory systems. At a minimum, the features of the U.S. system are different from those of other countries.

The U.S. environment differs from that of Europe or China for example. The proliferation of state based insurance entities in China, monthly financial reporting requirements and the percentage of companies below 100% solvency reported in their 2011 FSAP are features of the unique Chinese environment. In the EU, the future implementation of Solvency II with its very high capital requirements and desired protection of creditors and investors poses another unique regulatory and political environment. None of these systems are right or wrong, they are just different. The level of supervision of insurers is sound and while the means are different, they have all found effective ways to supervise their insurance industry. But it is important to recognize that these are not comparable systems – the companies from these countries do not have comparable regulatory oversight. Any effort to create one capital standard should be principle-based, outcomes-focused and fluid enough to recognize these very major differences in approach.

In addition to regulatory environment and economic/political philosophy, unique characteristics from company to company will also affect any effort at comparability as all differing characteristics cannot be measured fully in a single capital formula. Companies could have the same level of “written premium” but very different levels of volatility due to differing concentrations of catastrophe risk or terrorism risk, for example. Companies could have the same amount invested in “derivatives” with one engaged only in simple interest rate swaps and the other invested in highly complex, multiple level derivatives similar to those that were related to the financial crisis. Companies could have the same ERM framework, but the incorporation of an ERM risk and capital analysis throughout the enterprise in all decision-making could be quite varied. These are just a few of the examples of the very significant differences between different insurance groups that are not “comparable.” These variations will result in very different solvency concerns and capital needs.

A successful global effort would not create unnecessary competitive issues for companies domiciled in one well-supervised jurisdiction over companies from another. The IAIS should instead focus on enhancing understanding of different regulatory approaches and constantly striving for consistency. We propose a flexible and dynamic capital assessment that would recognize and improve understanding of diverse, successful approaches to solvency regulation and would create a principle-based, outcomes-focused approach for regulatory capital assessments.

- To enhance understanding, the IAIS should work with supervisors to develop a comparison of each of the regulatory environments, which will facilitate understanding of each regulatory philosophy and how the checks and balances work in different jurisdictions. This tool should be enhanced by regulators from each jurisdiction periodically to reflect the changing regulatory framework and impacts on insurer solvency and financial stability. While this could start with the FSAPs for each jurisdiction, this is more than a comparison of FSAP findings as it would include features that are not part of the ICPs that jurisdictions have implemented to address solvency, market conduct and policyholder protection beyond the ICP requirements.
- To enhance consistency, any capital proposal should provide the outcomes and principles desired; should consider local capital requirements and differences in regulatory environments; and should alert regulators to a wide variety of unique features they may find among the individual companies they assess. So instead of layering a formulaic approach on top of non-comparable regulatory environments, the IAIS would develop principles reflecting the parameters of a strong local jurisdictional capital requirement that do not dictate the actual formula and valuation approach. This should include those systems that are designed to focus on legal entities as well as those that address groups.

Using this approach, the IAIS would be able to improve understanding between jurisdictions and could strive continuously for consistency across jurisdictions that would help supervisors achieve the desired goals of policyholder protection and insurer solvency. In short, we favor a dynamic solvency assessment process that will continuously improve. It should feature enhanced understanding that includes learning through supervisory college experiences, dynamic movement toward consistency and a principle-based, outcome-focused approach to a global capital levels instead of a factor-based formulaic capital standard.

Clearly this effort will not be easy and will not be achieved overnight. In fact, we would suggest that it should not be considered as a “project” with a beginning and end to be implemented at a time certain. But if IAIS proceeds with improvement in mind it could facilitate a stronger global insurance regulatory environment instead of imposing one-size-fits-all requirements on every country in the world.

Despite our suggestion that the path to better global group regulation be revised, we offer the following responses to the specific questions, in order to advance the efforts of the committees on the best way forward. Incorporated in our responses are the basic principles of a flexible, dynamic, principle-based, outcomes-focused approach that will enhance understanding of different jurisdictional goals and frameworks and make efforts to continuously improve regulation of insurance groups.

[specific questions and answers omitted]

As earlier stated in this letter, we urge the IAIS to work toward true understanding between supervisors in the elements of each jurisdiction's regulatory, legal and risk environment. Following basic principles of a flexible, dynamic, principle-based, out-comes focused approach that will enhance understanding of different jurisdictional systems and making efforts to continuously improve consistency of regulation has the best chance of resulting in favorable results, for consumers, companies, economies and regulators.

We look forward to discussing these concerns in Quebec City and officially request time to present during the hearing. Thank you for the opportunity to comment. If there are any questions about these NAMIC comments please contact me at 317-876-4270.

Respectfully Submitted,

Michelle Rogers

Michelle Rogers
Director of Financial and Regulatory Policy
National Association of Mutual Insurance Companies