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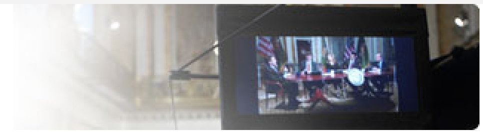

Remarks by Treasury Federal Insurance Office Director Michael McRaith at The Networks Financial Institute's 12th Annual Insurance Public Policy Summit

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As Prepared for Delivery

WASHINGTON - Good morning, and thank you to NFI for inviting me to the 12th Annual Insurance Public Policy Summit in Washington.

I'm very happy to be here on St. Patrick's Day – again – and great to see so many friends and familiar faces. It's also a pleasure to be on an agenda with Chairman Leutkemeyer and my friends Tom Sullivan and John Huff.

In particular, though, I want to acknowledge Chairman Frank and thank him for his leadership in financial services and in the LGBT community. As someone involved with both, it's a privilege to know and have worked with him, and to be on today's agenda with him.

To begin, since we've now been around for a few years, let me level set the statutory role of the Federal Insurance Office. Under Title I of the Dodd-Frank Act, the FIO Director serves as a non-voting member of the Financial Stability Oversight Council, or FSOC, and has the authority to recommend to the Council that an insurer be designated for supervision by the Federal Reserve.

Also under Title I, FIO coordinates with the Federal Reserve in the development of stress tests, and stress test rules, for insurers designated by the Council. Under Title II, the consent of the FIO Director and two-thirds of the Board of Governors of the Federal Reserve are required for a recommendation to the Treasury Secretary that an insurer be subjected to Title II liquidation.

Under Title V of Dodd-Frank, known as the "Federal Insurance Office Act of 2010," FIO has authority to monitor all aspects of the insurance industry, including gaps in regulation. FIO has authority to monitor the affordability and accessibility of non-health insurance products to traditionally underserved communities, and assists the Secretary with administration of the Terrorism Risk Insurance Program.

FIO coordinates and develops federal policy on prudential aspects of international insurance matters, including representing the United States at the International Association of Insurance Supervisors, and has authority to negotiate a covered agreement with other jurisdictions.

In addition, the Director advises the Secretary on major domestic and prudential international insurance policy issues. Title V also authorizes the Secretary of the Treasury to serve as the advisor to the President on major domestic and international prudential policy issues in connection with all lines of insurance except health.

FIO has now published a number of statutorily required reports and annual reports. This year, in addition to annual reports, FIO will also publish another TRIA-related report and its first report specific to consumer issues.

In all of our work, FIO welcomes the chance to work with and learn from our state and federal colleagues. In combination, our U.S. system of insurance oversight addresses fundamental supervisory objectives: consumer protection, financial stability, and global engagement. Needless to say, as a country, we are best served when we view state regulators, the Federal Reserve and FIO as complementary pieces.

We do not presently have a debate about whether the states should remain the primary regulators of the business of insurance – that fact was re-affirmed most recently through the Dodd-Frank Act and remains the case today.

In all of our public statements and reports, FIO has recognized both the merits and limitations of the U.S. system of insurance sector oversight. We have repeated our support for the localized consumer protection that state regulators can offer, and repeat again today our view that improvements in all financial regulatory systems, including in the state insurance regulatory system, are both constant and necessary.

Today's domestic and global insurance markets are decidedly different from five years ago, and those changes will only continue and increase in scope in the next five years. Some changes will result from evolving market conditions and others from exogenous factors like technology developments or demographic shifts.

As I've discussed previously, global standard setting will also continue, in recognition of the essential role of the insurance industry in the financial system and due to the increased globalization of the insurance marketplace. We recognize and support global standards for insurance sector oversight in order to promote global financial stability, benefits to U.S. consumers, and a level playing field for the globally active industry domiciled in the United States.

With each of these developments, we embrace and work to preserve the obvious: the United States has the most competitive and diverse insurance market in the world, including insurers operating in more than 100 countries and some operating in one part of one state. In addition, the United States is the largest and most important market for many insurers domiciled in other countries and markets, including insurers domiciled in the EU. These facts will remain true for years to come just as, at the same time, we expect more and more U.S. firms to generate a predominant share of revenue from outside the United States.

While I won't again burden you with the details of gross premium volume growth in developing economies over the last several years, I do note that voices in other developed economies are now repeating the same message. This is encouraging because it shows an increasing awareness that our global standard-setting work at the IAIS must be driven by facts and consensus.
Now, let me address a few specific topics of interest.

As many of you know, the EU's insurance oversight regime known as Solvency II became effective on January 1st of this year. We congratulate our EU colleagues on this significant achievement, and wish them well with implementation throughout the EU as they move forward. Solvency II is a regime on which many smart people in the EU worked hard for many years to develop and implement, and we applaud the concerted technical and political effort that led to its implementation.

Over the years, aspects of Solvency II have been considered and adopted by state insurance regulators including, for example, an Own Risk Solvency Assessment, or ORSA. Of course, it is entirely typical for financial supervisors to learn from one another, and the EU and others have also adopted aspects of the states' approach to insurance oversight.

Other aspects of Solvency II, while appropriate for the EU, will not be considered for adoption in the United States at any time in the foreseeable future. Although many other differences between the EU and the U.S. will not converge any time soon, we remain committed to working with our EU colleagues and to moving forward – to find opportunities for improved convergence – that are respectful of and account for our fundamental structural and technical differences.

To this end, we are currently engaged with the EU in negotiations of a covered agreement, a mechanism created in Title V of the Dodd-Frank Act. A covered agreement allows the United States to enter into an agreement on prudential insurance matters with one or more foreign jurisdictions, the terms of which may preempt state insurance laws.

To date, building on the technical understanding and good will developed through the EU – U.S. Insurance Project, our engagement with the European Commission has been positive and constructive. The issues to address in the covered agreement negotiations are limited in number and well-known, and we look forward to moving forward efficiently and expeditiously. We are pleased to have incorporated state regulators into our covered agreement process, and welcome their input and perspective as we move forward. We also welcome continued and regular engagement with the committees of oversight in Congress.

Our negotiations will only result in an agreement if the terms serve the best interests of the United States. We remain confident that we can find mutually agreeable terms that provide meaningful benefits to both the EU and the U.S., and that will bring respectful clarity to the years of uncertainty that have plagued the relationship between insurance supervisors in both jurisdictions.

At the IAIS, some important work streams remain under development and, again, the United States is well-represented through the Federal Reserve, state regulators and FIO.

First, though, it is important to note the IAIS's significant improvement in transparency and stakeholder engagement since the end of 2014. Hosting stakeholder events around the world, all interested members of the public were able to engage directly with the IAIS on the technical and substantive matters under development. Whereas through 2014 this access first required payment of a fee, that is no longer true. Whereas in 2014, stakeholders who paid the fee were entitled to between 12-20 hours of public sessions, in 2015 that total reached 140 hours for all members of the public.

Stakeholders receive briefings when consultation papers are released, receive summaries of comments received and how the comments are addressed, and are given frequent opportunities around the world to engage with the technical and policy leaders who are guiding the work.

One topic on which stakeholder comments has been especially helpful is the Methodology by which the IAIS identifies those insurers that are globally systemically important, or GSIIs. We are revising the methodology to identify those insurers that, upon material distress or failure could disrupt the global financial system. In this work, we coordinate closely with the Federal Reserve and state regulators, and authorities from many countries, and stakeholder comments have been especially helpful.

We are building a methodology that accounts for the heterogeneity of the industry, that accounts for differences in structure, lines of business, products and activities, differences in geographic exposures, and that allows for consideration of quantitative and qualitative factors – all with the objective of facilitating more thoughtful and reliable outcomes. Importantly, a principal goal for the revised GSII Methodology is to fashion an exercise that is not targeted to one country but that fairly reflects systemic risk in the insurance sector regardless of the market where it exists. In addition, we are building into the Methodology, for the first time, provisions that require a comprehensive cross-sectoral analysis before any conclusions are reached.

One key component of the GSII Methodology has been known as "non-Traditional, non-insurance" activities, or NTNI, a rather poorly styled label for a category of risk that may also affect the application of enhanced supervisory measures to any insurer identified as a GSII.

We welcome this review and, again, the United States, represented by FIO, the Federal Reserve and state regulators, has worked within the IAIS to develop an approach to NTNI that is consistently applied across products, activities and borders, and that accurately assesses risk within an insurer. As with the GSII Methodology, this work remains ongoing but we are pleased with the collaborative spirit of our U.S. partners and the international community on these difficult topics.

To be clear, no aspect of the IAIS work should be viewed by any member or stakeholder as a mechanism to endorse or give credence to one jurisdiction's supervisory structure or view of risk. Our global effort must be, and most often is, premised upon a respectful articulation of shared objectives and opportunities to learn of alternative approaches to identify and answer questions of supervisory best practices and financial stability.

Another topic of importance at the IAIS is the development of an insurance capital standard, or an ICS, that will serve as the second-ever global capital standard for insurers. The first, the basic capital requirement or BCR, was developed in 2014 but is recognized as an interim and blunt tool for assessing risk and appropriate capital levels. Again, working together, FIO, the Federal Reserve and state regulators have worked with our international counterparts to develop thoughtful alternatives to key issues that allow this work to proceed at the IAIS incrementally, based on facts and consensus, and in a manner that will allow for outcomes to be compared across jurisdictions.

We remain strongly committed to the development of capital standard-setting methodologies that allow for accurate cross-border comparison of insurers.

Moving to domestic matters, we continue implementation of the reauthorized TRIA, and greatly appreciate the input we've received from so many stakeholders on these difficult questions. We recently published a Federal Register Notice regarding the voluntary collection of data to support our statutorily required report on the overall effectiveness of the program. To the extent that insurers and reinsurers believe that TRIA is essential for the provision of terrorism risk insurance, the production of the requested data will help make that point.

While we did build the data collection exercise on the direct input from industry and the sample template developed by the state regulators, we also recognize this is our first time through the exercise. For this reason, we view this initial data collection process as an essential first step to industry participation while, at the same time, we satisfy important Congressional objectives as defined by statute.

In the coming weeks we also anticipate releasing our final index on the affordability of personal auto insurance. We selected personal auto insurance as the first area of personal lines insurance to monitor because of the importance of a personal vehicle to low- and moderate-income families in urban and rural areas around the United States. For many living in all areas of our country – urban, suburban and rural – a car is necessary for financial well-being and to maintain a job and a family. Again, as we did with TRIA, we greatly benefited from the insights of all stakeholders, including consumers, and intend to offer an affordability index that will serve as an appropriate benchmark for affected communities. In our work on this issue, we'll avoid a replay of the decades-old rhetoric on insurance topics such as this and provide some meaningful insight for policymakers, consumers and industry. Following two prior Federal Register Notices in which comments were sought, we expect to move forward with another Notice that will articulate how we define the index and why.

Resilience is another area in which FIO is involved. We have worked with DHS, FEMA and the White House to support initiatives aimed at improving our nation's resilience to an increasing number of severe weather events caused, at least in part, by climate change. To these conversations we have been able to provide expertise and perspective with respect to the insurance industry, its business model and its supervision. We have also been involved with a range of retirement security initiatives within Treasury and the Administration, and have worked to promote greater understanding of the insurance industry and its regulation in many ways throughout the federal government.

One area of continued and increasing focus is cyber security. Treasury serves as coordinator for cyber security issues within the U.S. financial sector, and coordinates and works closely on these issues with industry and with federal and state financial regulators. Our Office of Critical Infrastructure Protection, or OCIP, leads the coordination efforts within the federal government in relation to financial services, and Treasury's Deputy Secretary, Sarah Bloom Raskin, has worked to raise public awareness of both the threat of cyber attack and the need to address those threats in advance.

For some time Treasury has discussed the benefits of cyber insurance, and the potential cyber hygiene provided by the insurance underwriting process. Recently, Treasury also hosted a discussion of the challenges of increased capacity in the cyber insurance market, including increased clarity on coverage and benefit limits. We are concerned both with supply and demand, and the unusual dynamic and potential pace of growth in this increasingly important and complex market.

At FIO, we welcomed the introduction by state regulators of their first proposed Model Law on cyber security for insurers, and look forward to the states' continuing to move forward on this topic. In addition, through the IAIS, FIO leads the global effort to promote awareness among the global supervisory community, to develop appropriately consistent and rigorous supervisory standards, and to incorporate cyber risk into insurer governance standards. Stakeholders can look forward to an IAIS issues paper on these topics that will be released in the coming months.

Finally, as we move forward on these and many other issues, we welcome your input and the continued engagement of all stakeholders in the U.S. insurance sector. In all of our work, both internationally and domestically, Treasury priorities will remain the best interests of U.S. consumers, U.S. insurers, the U.S. economy, and jobs for the American people.

Thank you for your attention, and thanks again to NFI and all the hosts for including me in today's important discussion.

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