Remarks by Treasury Secretary Steven T. Mnuchin at the National Association of Insurance Commissioners International Forum

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As prepared for delivery

Washington – Good afternoon. I would like to begin by thanking Eric Cioppa and the NAIC for the invitation to be here today. Treasury coordinates with the states, their insurance supervisors, and the NAIC on a number of important issues, ranging from our work with international standard-setting bodies to our administration of the terrorism risk insurance program. We are pleased to continue this productive relationship as we work on the important issues and policies – both domestic and international – facing the U.S. insurance sector.

The U.S. insurance sector plays a critically important role to the U.S. economy and ensuring the stability of the U.S. financial system. Insurance touches the lives of nearly everyone, whether they rely on insurance to protect their home, automobile or business, or to assist with their financial security in retirement. The American people count on the insurance industry to help them in times of need. As the primary supervisors of insurance, you have an important job to make sure that insurance companies are able to protect policyholders and pay claims.

The U.S. insurance market is the largest in the world, with over $2 trillion in written premiums in 2017, an amount that exceeds 10 percent of the U.S. gross domestic product. U.S. insurers hold more than $9 trillion in total assets – with a large percentage of those assets held in bonds that play a direct role in funding the growth of our economy. The United States also has a tremendously diverse insurance market. Thousands of insurers operate in the United States, ranging from small mutual companies operating in a single town to large multinational firms that operate across the globe. Insurers compete locally in America's towns and cities to underwrite and support the personal risks of consumers. They also compete on a nationwide and global basis, and are increasingly looking to overseas markets for growth opportunities.

As we noted in our 2017 Executive Order report on Asset Management and Insurance, Treasury supports the state-based system of insurance regulation. Treasury also sees an important role for the federal government, including our own Federal Insurance Office (FIO), in the policymaking discussions on insurance issues. As U.S. insurance companies compete globally and increasingly look overseas for growth opportunities, the federal government plays an important and necessary role to ensure that our U.S. insurance sector and our companies remain competitive internationally. Given the nature of our state-based insurance regulatory system, the federal government needs to work closely with the states to ensure that the U.S. insurance market remains the safest, largest and most diverse in the world. This federal and state coordination is critical in Treasury's international work on insurance, which is increasingly important as financial services become increasingly globalized.

Given that this is the NAIC's international forum, I would like to discuss Treasury's international work, and discuss what we see as some of the most important global issues facing the insurance sector.

INTERNATIONAL ENGAGEMENT ON INSURANCE ISSUES AT THE IAIS

First, Treasury is committed to continued engagement in the international standard-setting work at the International Association of Insurance Supervisors (IAIS), working closely together with the other members of "Team USA" –U.S. states, the NAIC, and the Federal Reserve Board. The U.S. State regulators and the NAIC recognized the importance of international engagement years ago when the NAIC was a founding member of the International Association of Insurance Supervisors. Since then, U.S. representation at the IAIS has continued to increase, including with the addition of our Federal Insurance Office and the Federal Reserve Board.

It is important to note that international standards adopted by the IAIS are non-binding in the United States, unless they are adopted as domestic law. However, if these standards are adopted by foreign jurisdictions, they could have significant implications for U.S. insurers operating overseas, and potentially for our domestic insurance sector and regulatory regime. As U.S.-insurers expand into foreign markets, they will have to navigate the supervisory regimes of other jurisdictions that may be influenced by international standards being developed at the IAIS.

With regard to our work in these international standard-setting bodies, the U.S. representatives should advocate strongly and collectively for development of international standards that reflect the U.S. regulatory structure. As part of this advocacy, collaboration among the state insurance regulators, the NAIC, the Federal Reserve, and the Federal Insurance Office is critical to ensure that the United States carries a coordinated view in international discussions. The

United States should also be appropriately represented at the IAIS. At last year's Annual General Meeting, the IAIS and its membership approved a new governance structure. One result is that FIO now holds a permanent seat on the Executive Committee. This governance change should help us advance the best interests of the U.S. insurance sector, as all members of Team USA will now have a voice at the most senior levels of the IAIS. Treasury will continue to work with the IAIS on these governance issues and appropriate geographic representation for the United States at the IAIS.

I would now like to touch on two important work streams at the IAIS – the Insurance Capital Standard (or ICS) and the development of the holistic framework (or the activities-based approach).

As you know, the ICS is an ambitious project that aims to develop a global risk-based capital standard for supervisors around the world to use in assessing the financial health of insurance groups. The IAIS is nearing a milestone for this project at its upcoming Annual General Meeting in Abu Dhabi this November, with completion of ICS Version 2.0.

Treasury appreciates the effort of IAIS on this project. However, we have concerns about certain areas of how the ICS is being developed. Treasury recognizes that many large U.S. insurance companies have significant operations in foreign jurisdictions that may very well adopt some version of the ICS. Therefore, in advance of meetings in Abu Dhabi this year, we are working to develop a strong and coordinated position on the upcoming adoption of ICS 2.0 and the subsequent five-year monitoring period from 2020 to 2024.

I want to highlight three key areas of focus for Treasury on the ICS framework.

First, Treasury is working to improve the design of the ICS so that it more appropriately reflects the unique business model of insurers. In particular, one area we have identified is the ICS's market valuation approach and the negative effects it could have on the ability of insurance companies to provide long-term savings products, which are important to insurers and policyholders in the United States. The ICS needs to appropriately consider long-term savings products, which are critical to the millions of Americans entering retirement.

Second, Treasury believes it is important that the IAIS creates a defined structure and process for further work and revisions on the ICS during the monitoring period from 2020 to 2024. The reference ICS adopted in November 2019 will most likely need further development and revision. Therefore, the IAIS needs to develop a process that ensures appropriate confidentiality while allowing the IAIS, its members, and other important stakeholders to continue evaluating, revising and improving the ICS over the next five years. Team USA must also remain actively engaged during this period and advocate for U.S. interests so that the U.S. insurance sector remains competitive overseas.

Third, it is important that the IAIS strengthen its efforts to develop a final ICS that is implementable in the United States. Treasury is focused on working with our Team USA members, and the broader membership of the IAIS, to develop the criteria and process by which the U.S. approach to group capital may be deemed "outcome equivalent" to the ICS. As part of these upcoming discussions, the ICS should recognize and accommodate the diverse approaches to solvency regulation taken by various jurisdictions around the world, including our U.S. state-based regulatory system. FIO will continue to advocate that the IAIS increase its focus on the important issues of comparability of outcomes in order to enhance compatibility of the ICS with the U.S. insurance regulatory regime.

Finally, getting the ICS right at the IAIS is more important than meeting any fixed schedule that mandates completion of the ICS at a specific point in time.

In this broader context of group capital, it is also important that the Federal Reserve and the NAIC continue coordinating and making progress on their respective domestic group capital initiatives. The group capital work of the Federal Reserve and the NAIC are separate but inherently related initiatives. While being respectful of the different mandates of the Federal Reserve and the NAIC, the development of a harmonized approach will minimize regulatory burdens for U.S. insurers. Progress on both of these fronts will also help Team USA's collective advocacy for our U.S. state-based system and regulatory approach at the IAIS.

Before I leave the subject of work at the IAIS, I would like to highlight briefly the IAIS's proposed holistic framework for assessing and mitigating systemic risk in the insurance sector (also known as the activities-based approach), which was released for comment in November 2018. While the details of this framework remain under development, Treasury supports shifting the focus of systemic risk analysis away from individual insurance entities and instead toward looking at activities. In recognition of this shifting emphasis, the Financial Stability Board (FSB) did not publish a list of global systemically important insurers (G-SIIs) in 2017 or 2018.

Relatedly, on the domestic front, Treasury and the Financial Stability Oversight Council continue to work on the activities-based approach—rather than an entity-based approach—to the evaluation of potential systemic risk in the financial sector. As some of you are probably aware, earlier this year the FSOC proposed interpretive guidance and requested public comments regarding nonbank financial company determinations. This guidance describes the approach the FSOC intends to take in prioritizing its work to identify and address potential risks to U.S. financial stability using an activities-based approach—with an eye toward increasing transparency and enhancing analytical rigor. The comment period for the proposed guidance ended yesterday, so I cannot make further comments on this at this time. But, as you can see, Treasury strongly believes in the activities-based approach to evaluating financial stability. Treasury will continue to lead on this important issue and work with our international counterparts ultimately to develop a successful international framework for the insurance industry.

COVERED AGREEMENTS WITH THE EUROPEAN UNION AND UNITED KINGDOM

I also want to take a few minutes to discuss Treasury's work with the Office of the U.S. Trade Representative on our covered agreements with the European Union and the United Kingdom. In September 2017, Ambassador Lighthizer and I signed the U.S.-EU covered agreement. That agreement builds on the work of the states regarding reinsurance collateral reform efforts, and addresses regulatory restrictions faced by U.S. insurers under the EU's Solvency II insurance regime that became effective in 2016.

State insurance regulators played a key role in the original U.S.-EU covered agreement negotiations, and we improved upon that process during the U.S.-UK negotiations last year. Building on the success of the U.S.-EU covered agreement, the United States and the UK negotiated a second covered agreement late last year. We did this to ensure the benefits of the U.S.-EU covered agreement continue to apply to U.S. insurers operating in the UK, as well as to provide regulatory certainty and market continuity as the UK prepares to leave the EU.

As we move forward on implementation of these agreements, Treasury and USTR will continue to work with you, and with EU officials, to ensure that both sides realize the benefits of this deal. As you know, successful implementation of the U.S.-EU covered agreement contemplates action by each of the states to conform relevant laws to the provisions of the agreement. We are encouraged that the states and the NAIC view implementing the covered agreement as one of their priorities. Thus far, the NAIC, through modifications to its model law and regulations, has made considerable progress toward setting the stage for the states to conform their laws in the timeframe set forth in the covered agreement. I expect our Federal Insurance Office to remain a helpful resource to the NAIC in this process. Similarly, we look forward to the continued work of the NAIC and the state insurance regulators on a group capital calculation that is consistent with the covered agreement.

The U.S.-EU Covered Agreement also establishes a "Joint Committee" as a forum to exchange information on the administration of the Agreement and its implementation. While the Joint Committee does not have oversight of the Agreement, it provides a structure for consultation between the parties. The second meeting of the Joint Committee took place at Treasury last month. Both the United States and the EU delivered a positive message on their progress toward implementation.

I want to thank you for your coordination with Treasury as we continue our work to ensure that the U.S. insurance sector remains competitive internationally. The United States has the world's largest and most diverse insurance sector, and the Treasury Department will continue advancing U.S. interests abroad. In doing so, we are pleased to join both our state and federal partners in advocating for the U.S. state-based insurance regulatory system, the U.S. insurance sector, and U.S. policyholders. Thank you very much.