

## **Crapo Statement at Hearing on International Insurance**

*September 12, 2019*

**WASHINGTON** – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks at a hearing entitled, “Developments in Global Insurance Supervisory and Regulatory Forums.”

*The text of Chairman Crapo’s remarks, as prepared, is below.*

“Today, we welcome to the Committee the three members of ‘Team USA’ representing the U.S. in international insurance supervisory and regulatory forums, including: Steven Seitz, Director of the Federal Insurance Office in the Treasury Department; Thomas Sullivan, Associate Director at the Board of Governors of the Federal Reserve System; and Eric Cioppa, Superintendent of the Maine Bureau of Insurance, on behalf of the National Association of Insurance Commissioners.

“On September 6, 2019, the Treasury and Federal Reserve issued its annual report regarding their efforts, with the National Association of Insurance Commissioners (NAIC), in international forums, such as the International Association of Insurance Supervisors (IAIS).

“The report, and accompanying testimony, are required by the Economic Growth, Regulatory Relief and Consumer Protection Act, to encourage greater transparency into, and reinforce a unified approach to efforts by ‘Team USA’ at those international forums.

“A key driver of this provision is the IAIS’s multi-year effort to develop a group-wide, risk-based insurance capital standard, often referred to as ICS 2.0, as a part of its Common Framework for the Supervision of Internationally Active Insurance Groups.

“In July 2018, the IAIS issued a consultative document proposing ICS 2.0, and several aspects of the proposal and process have caused serious concern in the U.S. insurance market. Among those concerns are: the proposed use of a market-adjusted valuation; use of internal models; and a lack of clarity about the processing moving forward and how outcome equivalency will ultimately be determined.

“ICS 2.0 is set to be implemented in two phases, including a five-year ‘monitoring period,’ at the end of which the IAIS will assess whether it considers the U.S. approach to be ‘outcome equivalent.’

“There should be clarity about the path forward for further adjusting ICS 2.0 during the monitoring period, as well as a better understanding of how outcome equivalency will be determined.

“It is important that ICS 2.0 be structured in a way that appropriately reflects the uniqueness of insurers and that works for U.S. insurers, including those operating abroad.

“Treasury Secretary Mnuchin spoke earlier this year about ICS 2.0’s development, where he highlighted three areas on which the Treasury is focused, including: working to improve the design of ICS so it more appropriately reflects the unique business model of insurers; advocating for the IAIS to create a defined structure and process for further work and revision of ICS during the monitoring period; and ensuring that the final ICS is implementable in the U.S.

“Also, while speaking about the Federal Reserve’s ‘Building Blocks Approach’ to a risk-based insurance capital requirement, Federal Reserve Vice Chairman for Supervision Randy Quarles acknowledged the challenges of ICS 2.0 and potential consequences for consumers.

“He said, ‘A capital standard that uses market-based valuation can introduce volatility and procyclicality, and one that is excessively volatile or procyclical can influence a firm to veer away from a long-term perspective and concentrate instead on the short term. This can have undesirable consequences, including diminishing product availability.’

“He also added about efforts at the IAIS on ICS 2.0, ‘In order for any form of an ICS to be implementable globally, it needs to be suitable for the U.S. insurance market. The current core proposal in the ICS would face implementation challenges in the U.S.’

“While the IAIS has been working on its standard, the NAIC has worked on a Group Capital Calculation that is currently in field testing and the Federal Reserve recently issued its proposed ‘Building Blocks Approach.’

“Prior to a vote on ICS 2.0 and during the monitoring period, ‘Team USA’ should leverage its work and progress on these U.S.-based standards to continue advocating for a more appropriate international standard and toward ultimately achieving outcome equivalency.

“Furthermore, the Economic Growth, Regulatory Relief, and Consumer Protection Act calls for the Treasury and Federal Reserve, in consultation with the NAIC, to complete and submit to Congress a study on the impact on U.S. consumers and markets before supporting or consenting to the adoption of any final international ICS. I look forward to that update at the appropriate time.

“Aside from a group capital standard, ‘Team USA’ has also been engaged on several other projects at international forums, including a holistic framework for the mitigation of systemic risk; continued development of Insurance Core Principles; cyber resilience and big data; and governance, among others.

“During this hearing, I look forward to receiving an update on ‘Team USA’s’ ongoing efforts to influence the development of ICS 2.0 so that it works for U.S. insurers, including those operating abroad, and consumers; what aspects of group capital standards developed in the U.S. can help to improve ICS 2.0; changes that could be made to the ICS 2.0 development process going forward to better understand opportunities to improve ICS 2.0 and how to achieve outcome equivalency; and other key initiatives at international forums on which “Team USA” is actively working.

“I appreciate each of you joining us today and the work you have done to advance U.S. interests abroad.”

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