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Hearing entitled “Insurance Oversight: Policy Implications  
for U.S. Consumers, Businesses and Jobs, Part 2”  
Before the Subcommittee on Insurance, Housing and Community Opportunity  
Committee on Financial Services  
United States House of Representatives

October 25, 2011

Chairman Biggert, Ranking Member Gutierrez, Members of the Subcommittee, thank you for inviting me to testify today regarding our initial activities and future plans to carry out the duties of the Federal Insurance Office (FIO) as authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

My name is Michael McRaith, and I am the Director of the FIO.

Only four months ago, I concluded more than six years as an insurance commissioner. State insurance commissioners have tremendous and broad responsibilities, and I respect the many demands on their time and energy. My aspiration is to develop a foundation of interaction between the FIO and state regulators, to establish customs and practices that best serve the United States, our economy, the insurance industry and consumers.

In the four months that I have had the privilege of heading the FIO, I am pleased to report on the progress made by the office.

*Federal Insurance Office*

The recent financial crisis highlighted the lack of insurance sector expertise within our federal government. The Dodd-Frank Act established the FIO within the Department of the Treasury as an office in the federal government focused on insurance. A federal insurance presence provides our international counterparts with a central point of contact for insurance-related matters, and facilitates the coordination of federal insurance efforts. The FIO will consult and work closely with the state insurance departments, which remain the functional regulators over the business of insurance, as we develop federal insurance policy on insurance matters.

Per its Dodd-Frank mandate, the FIO will monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the United States financial system; assess the accessibility and affordability of insurance products to minorities, low-and moderate-income persons, and underserved communities; coordinate federal policy in the insurance sector; and offer its insurance expertise to the Financial Stability Oversight Council (Council).

The Dodd-Frank Act authorizes the FIO to gather information to carry out its functions. Information about insurers and the insurance industry will enable the FIO to analyze data, assess threats to the financial system, and deepen the federal government's understanding of the insurance industry. As required by the statute, we will request information only if that information is not already available from public sources, a federal agency, or a state regulator. We will also coordinate with the Office of Financial Research to reduce reporting burdens by avoiding unnecessary or redundant data requests.

We have already made progress. In May, Treasury announced that we would establish a Federal Advisory Committee on Insurance (the FACI) to provide the FIO with advice on issues related to the responsibilities of the office. The FACI will be comprised of 15 members, approximately half of whom will be state insurance regulators. We received interest from over a hundred talented and qualified insurance experts, and hope to announce members in the near future.

The Dodd-Frank Act requires the FIO to issue a report for modernizing and improving the system of insurance regulation in the United States. On October 17, the FIO released a notice requesting public comment for this report. Interested parties should submit comments informing the topics identified in the notice, as well as on other areas that may be germane to the report. In addition, FIO has been and will continue consulting with a wide range of interested parties as we study this area.

Over the course of the next few months, we will continue to focus on building a strong and talented FIO team. Descriptions of open positions and application instructions are available at [usajobs.gov](http://usajobs.gov), and we encourage all interested parties to apply.

### *International Insurance Regulatory Matters*

An important priority for the FIO is to bring clarity in international fora about U.S. positions on international insurance regulatory matters. This includes articulating U.S. positions and participating in a number of ongoing international regulatory dialogues. In 2009, the European Union adopted Solvency II, its framework for regulating its insurance industry. Over the past two years, European regulators have been hard at work developing approaches for implementing this framework by their current deadline of 2014. European adoption of Solvency II may have important implications for U.S.-based insurers and our system of insurance regulation. The FIO has already begun engaging with state insurance regulators, U.S. companies, and our European counterparts.

The leading international insurance coordinating body, representing insurance regulators and supervisors from about 140 countries, is the International Association of Insurance Supervisors (IAIS). Until now, the United States engaged with the IAIS through the state insurance regulators. On October 1, 2011, the U.S. government, through the FIO, became a full voting member of the IAIS, providing a federal voice on international insurance regulatory matters for the first time. The FIO is already working with state insurance regulators so that the United States can continue acting as a global leader in the development of international insurance regulatory matters. The FIO appreciates the important work done by the IAIS, and looks

forward to working with our international counterparts as the IAIS develops international supervisory standards.

The IAIS has been developing a process for the designation of globally significant insurance institutions. Its effort is part of a wider initiative led by the Financial Stability Board (FSB) to designate global systemically important financial institutions. The FSB recognizes that the IAIS has the insurance expertise essential for developing methodology and criteria that recognize the important differences between insurance companies and other financial services companies. The IAIS has indicated that its process may involve requests for non-public information from large, internationally active insurers. State regulators have worked diligently to provide data from U.S.-based insurers to the IAIS as part of this endeavor. Going forward, the FIO will work with the state regulators and the IAIS to develop a process that guards against undue reporting burdens, builds in proper data confidentiality mechanisms, and preserves the competitiveness of the U.S.-based insurers.

In July 2011, the IAIS requested public comments on its proposal for a common framework, or ComFrame, for overseeing large, multinational insurers. The recent financial crisis made clear the gaps that exist in the supervision of internationally active insurance groups (IAIGs). Although a number of individual jurisdictions and regions have developed methodologies for supervising insurance companies, many of which are part of larger corporate groups that engage in other non-insurance businesses, there is no common framework for supervising IAIGs globally. The ComFrame initiative intends to fill this void and promote the global convergence of regulatory and supervisory measures and approaches. The FIO will coordinate with the state insurance regulators to develop and represent U.S. views on the different elements ComFrame proposes, including whether supervision should be based on a rules-based or principles-based approach and when to evaluate the financial burden on supervisors, industry, and consumers.

### *Insurance and Financial Stability*

The Dodd-Frank Act created the Financial Stability Oversight Council to, among other things, coordinate across agencies, foster joint accountability for the stability of the financial system, identify and monitor risks to U.S. financial stability, and respond to emerging threats in the system and promote market discipline. The FIO, as a member of the Council, informs the Council's work in these areas by providing it with advice and insurance expertise. The FIO is working closely with the two other Council members who provide insurance expertise and viewpoints: Roy Woodall, former Kentucky insurance commissioner, who serves as the Council's independent insurance expert, and Missouri Insurance Director John Huff who was selected by state insurance regulators.

Already, the FIO has served an important consultative role in advising on several Dodd-Frank Act studies, rule writing processes and ongoing responsibilities. In early October, the Council released for public comment a revised notice of proposed rulemaking regarding the designation of nonbank financial companies, for Federal Reserve supervision, which included proposed interpretative guidance. We encourage all interested parties to submit comments regarding the published guidance.

*Conclusion*

I look forward to working with Congress and this Subcommittee. The insurance sector is exceptionally diverse, and regulation of this enormous but multi-faceted industry is profoundly complex. Our aspiration is that you come to view the FIO as an objective, reliable resource for information on this industry.

Chairman Biggert and Members of the Subcommittee, thank you for inviting me to testify today to provide you with an update on the FIO's development. I would be pleased to answer any questions that you may have.