

**Statement for the Record
The National Association of Insurance Commissioners
Hearing on
Legislative Proposals on
Capital Formation and Corporate Governance
February 28, 2019**

On behalf of the regulators of the U.S. insurance sector, the National Association of Insurance Commissioners (NAIC)¹ submits this written statement for the Senate Banking Committee Hearing on “Legislative Proposals

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Recognition of the U.S. System of Insurance Regulation

One of the most important provisions of International Insurance Standards Act, Section 3(a)(1), would require that federal representatives only agree to international standards or agreements that would recognize the U.S. system of insurance regulation as satisfying such proposals. In so doing, the bill bolsters and complements the international insurance provisions found in S. 2155 by preserving the ability of domestic lawmakers and regulators—rather than international bodies—to determine appropriate insurance regulatory requirements for the United States.

The United States is the largest and most competitive insurance market in the world and our system of insurance regulation has been operating effectively for well over a century. While international standards are not legally binding, our system is held accountable to them even when they may not be appropriate for our market. For instance, international organizations such as the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) are developing new global regulatory standards that may be incompatible with the U.S. system of insurance regulation and not in the best interests of U.S. consumers and industry. While not binding, the IAIS's Insurance Core Principles (ICPs) form the basis for the International Monetary Fund's Financial Sector Assessment Program (FSAP). An FSAP encourages adherence to the standards often without regard for differences in legal and regulatory structures.

As the NAIC and state insurance regulators have been directly involved in the negotiations of international regulatory standards at the IAIS since its establishment, it is our considered view based on our experience, that Section 3(a)(1) will provide significant leverage for U.S. interests in international discussions. It makes clear to foreign participants that those representing the U.S. are not at liberty to negotiate away core aspects of the U.S. approach to regulation and therefore must work with U.S. federal and state representatives to develop standards that are compatible with the U.S. system. While we value the perspective of our international colleagues and have adapted some of their best practices for our own use through the years, we must do so through processes here at home, not through agreements at unaccountable international organizations abroad.

Full Participation of Insurance Regulators in International Discussions

Section 4 of the International Insurance Standards Act requires the federal government to “closely consult, coordinate with and seek to include” state insurance regulators (or designees)

regarding insurance regulatory matters, yet state insurance regulators have been predominantly excluded from such deliberations.

Similarly, in recent years, the Treasury's Strategic and Economic Dialogue with China and its successor, the U.S.-China Comprehen

Improvements to the Covered Agreement Process

Unlike S. 2155 which did not address the covered agreement process, the International Insurance Standards Act would apply greater transparency and congressional oversight to future covered agreements. Certainly, the covered agreement process with the EU demonstrated the need for these improvements. Covered agreements are unlike other international agreements in that the Treasury Department and the U.S. Trade Representative (USTR) can make commitments U.S. insurance regulators are required to implement or face preemption of state law. Unlike a trade agreement, which is subject to established procedures for input from the states and a vote by Congress, consultation with a broader group of U.S. stakeholders including industry and consumer participants is not required and did not occur. State regulators were assured we would have direct and meaningful participation in the covered agreement process, but we were relegated to mere observers, subject to strict confidentiality with no ability to consult staff and fellow regulators. Illustrating the need for coordination with primary regulators, the Treasury Department and the USTR were forced to provide a statement of U.S. policy clarifying the covered agreement with the