

Testimony of
Katharine L. Wade
Commissioner
Connecticut Insurance Department
On Behalf of the National Association of Insurance
Commissioners

Before the
Subcommittee on Housing and Insurance
Committee on Financial Services
United States House of Representatives

Regarding:
The Federal Role in the Insurance Industry

by the Federal Reserve. In the same vein, FIO has no regulatory or supervisory authorities, but

insurance. It sets forth formal mechanisms for Congress to conduct oversight and assess the potential impacts of major international insurance agreements on U.S. insurance interests. Importantly, this legislation ensures that when the Federal Reserve and FIO engage internationally on insurance matters, they defend the United States system of insurance regulation, deferring to the judgments of Congress, state legislatures, governors, and U.S. insurance regulators to determine the appropriate regulatory requirements for the U.S. insurance sector.

The legislation addresses several of our concerns with the negotiation and review process for covered agreements. A few weeks ago, the U.S. and EU formally signed the Bilateral Agreement between the United States and the European Union on Prudential Measures Regarding Insurance and Reinsurance. In conjunction with that agreement, the Treasury and the Office of the United States Trade Representative (USTR) provided a statement of U.S. policy clarifying their interpretation of the covered agreement in key areas like capital, group supervision, reinsurance and the Joint Committee. We worked closely with Treasury and USTR on these clarifications and appreciate their affirmation of the primacy of state regulation. In the months ahead, NAIC members will assess the impact of the covered agreement on state regulation consistent with our open and transparent process, and consider any changes to insurance regulation that may be necessary.

Though we are generally satisfied with the result and be necessary since the agreement with the EU was the product of fairly unique circumstances, there are several improvements contained within the International Insurance Standards Act that would ensure a smoother process and perhaps better outcomes for the U.S. going forward. First, the legislation requires state insurance regulators be included in any negotiations of a covered agreement. Unfortunately, during the negotiation of the recently signed agreement, only a few regulators were permitted to participate and they could not share information and obtain reactions from the other states until after the agreement was finalized and announced. This made the evaluative process opaque to many of the regulators impacted by it and limited the ability to achieve buy-in from states prior to the conclusion of the negotiations. Second, consistent with its provisions regarding international standard setting, the act prohibits the use of a covered agreement for new prudential regulatory requirements. This ensures the U.S. federal government does not use a covered agreement to import new requirements that are in conflict with the current U.S. regulatory regime. Third, the legislation provides for additional transparency by allowing additional access to negotiating texts, including classified materials for congressional committees, staff with security clearances and International Trade Advisory Committees to the USTR. In this regard, one improvement worth considering is adding more formal mechanisms for stakeholder comment such as requiring the publication of any agreement and the solicitation of comments in the federal register. The current agreement was published in the federal register and the Treasury and USTR convened stakeholder meetings on their own accord, but

Conclusion

In conclusion, the NAIC strongly supports these legislative proposals. They encourage cooperation, clarify the respective roles of FIO, the Federal Reserve, and state insurance regulators