

Treasury's Federal Insurance Office Releases Modernization Report

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Report recommends a hybrid model for insurance regulation including improvements to state-based regulatory structure and federal involvement

WASHINGTON – The U.S. Department of the Treasury's Federal Insurance Office (FIO) today submitted to Congress and released a report on how to modernize and improve the system of insurance regulation in the United States. Given the significance of the insurance sector in the U.S. economy, and the globally active nature of U.S. insurance firms, the report concludes that in some circumstances, policy goals of uniformity, efficiency, and consumer protection make continued federal involvement necessary to improve insurance regulation. However, the report concludes that insurance regulation in the United States is best viewed in terms of a hybrid model, where state and federal oversight play complementary roles and where the roles are defined in terms of the strengths and opportunities that each brings to improving solvency and market conduct regulation.

"The U.S. insurance sector is an important part of our national economy, and an essential asset protection tool for American families and businesses," said Under Secretary for Domestic Finance Mary Miller. "Today's report details strengths and weaknesses of the current insurance regulatory system, considerations for determining where and how to modernize and improve that system, and a way forward to increase the effectiveness of insurance oversight in the United States. This is a significant step in understanding and strengthening the current system to better protect American consumers."

The report, mandated under Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), makes recommendations in the areas of insurance sector solvency and marketplace regulation. The recommendations outline near-term reforms that states should undertake regarding capital adequacy, safety and soundness, reform of insurer resolution practices, and marketplace regulation. In addition, the report outlines areas for federal involvement in insurance regulation.

"The report reflects an extensive study of the insurance sector and benefits from the collective expertise and experience of state, federal and international supervisors," said Michael McRaith, Director of the Federal Insurance Office. "It also recommends a hybrid approach to insurance regulation that provides a practical, fact-based roadmap to modernize and improve the U.S. system of insurance regulation. Importantly, this report reflects the dynamic nature of the regulatory system for insurers and provides an explicit path for state and federal regulatory entities to calibrate involvement going forward. We look forward to continuing our work with all stakeholders as the United States moves forward with modernizing insurance regulation."

While preparing the report, FIO engaged in an extensive consultation process, including with consumer advocates, market participants, and state officials and regulators. In October 2011, the Treasury Department solicited public comment regarding the modernization of the insurance regulatory system in advance of writing the report. Following that, FIO hosted a conference on regulatory modernization with participants representing consumers, insurers and reinsurers, agents and brokers, and academics. This report reflects continued engagement with a variety of stakeholders throughout 2012 and 2013.

In completing the study and report, the Dodd-Frank Act requires FIO to consider several factors, including systemic risk regulation with respect to insurance, capital standards, consolidated supervision, consumer protection and affordability, the degree of uniformity of state insurance regulation, and international coordination. Among other things, the Dodd-Frank Act also expressly requires a consideration of the costs and benefits of federal regulation across various lines of insurance and issues relating to regulatory arbitrage and competitiveness. The report examines all elements of the insurance industry, with the exception of health insurance.

The report is organized into five principal sections. The first section, an introduction, discusses the background to the report and the recommendations. The second section describes the history of insurance regulation in the United States, highlighting significant events in its development and the debate over the need for uniformity in regulation across state jurisdictions. The third and fourth sections include discussions of the specific recommendations regarding solvency

regulation and market conduct regulation, respectively. Section five assesses the report's recommendations and the Dodd-Frank Act from the point of view of criteria set forth in the statute for measuring the effectiveness of a regulatory system for insurance. Section six summarizes the report's conclusion.

Going forward, FIO will monitor, coordinate policy, and engage in other actions as necessary to pursue the recommendations made in this report.

Read the report here: www.treasury.gov/initiatives/fio/reports-and-notice/Pages/default.aspx