United States Government Accountability Office

Report to Congressional Requesters

June 2015

INTERNATIONAL INSURANCE CAPITAL STANDARDS

Collaboration Among U.S. Stakeholders Has Improved but Could Be Enhanced

Accessible Version

GAO-15-534

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Collaboration among U.S. Stakeholders Has Improved but Could Be Enhanced

GAO

Highlights

Highlights of GAO-15-534, a report to congressional requesters

Why GAO Did This Study

Large, internationally active insurance companies accounted for 28 percent of the aggregate insurance premiums underwritten in the United States in 2014. IAIS is developing international group-level capital standards for these insurers. Although these standards are not yet complete and U.S. regulators have not yet determined how they might be implemented, some regulators and insurers have expressed concerns. GAO was asked to review the potential effects of the standards, the need for them, and U.S. involvement in their development.

This report examines (1) the status of the development and implementation of the international standards; (2) what is known about their potential effects; (3) views on the need for the standards; and (4) the extent to which U.S. regulators are collaborating in developing a U.S. position on the standards. To address these questions, GAO reviewed IAIS and U.S. agency documentation and relevant literature; assessed the extent of collaboration compared to leading practices; and interviewed regulators, IAIS officials, insurers, academics, and other stakeholders that would be affected by or have commented on the standards.

What GAO Recommends

To enhance and sustain U.S. involvement in the development process, FIO, in consultation with the Federal Reserve and NAIC, should take steps to sustain leadership over the long term and publicly report on their collaborative efforts.FIO concurred with the recommendation, stating that it would build on existing collaboration efforts.

View GAO-15-534. For more information, contact Lawrance Evans at (202) 512-8678 or evansl@gao.gov

What GAO Found

International capital standards establishing the amounts of capital that large, internationally active insurers could be required to maintain are in the early stages of development, and much about them remains uncertain. For example, the International Association of Insurance Supervisors (IAIS) has not finalized the methodologies that will be used to determine the required capital levels. Further, implementing the standards at the group level in the United States could be challenging since states, the primary regulators, focus on individual insurance entities rather than on group-level entities or holding companies. At this time, it is unclear which U.S. regulator would implement and enforce the standards or how they would compare with current U.S. capital standards.

With so many unknowns, some stakeholders agreed that it was too early to determine the effects of the proposed standards. However, some stakeholders said that any effects could be minimal, since U.S. insurers generally hold high levels of capital. Other stakeholders said that potential positive effects could include the promotion of comparable standards across jurisdictions and the removal of incentives for companies to select locations based on regulatory differences. Some stakeholders also mentioned potential negative effects, including higher costs for insurers required to hold additional capital that could create incentives to stop offering some products or to raise prices.

Stakeholders expressed mixed views on the need for international capital standards to address systemic risk. Many stakeholders said that traditional insurance activities were not likely to pose systemic risk, which has been described as a key reason for pursuing the standards. But other stakeholders said that nontraditional noninsurance activities, such as credit default swaps and guaranteed investment contracts, could increase insurers' interconnectedness with other financial market participants and cause systemic effects should an insurer fail. These types of activities contributed to financial problems for the American International Group, Inc. during the 2007-2009 financial crisis. IAIS officials and others said that international capital standards could help address risks from these activities. But some state regulators and industry representatives noted that current U.S. risk-based capital standards and other regulatory tools adequately protected U.S. policyholders and that regulators were coordinating to address potential group-wide risks.

The U.S. members of IAIS—including the Federal Insurance Office (FIO), the Federal Reserve, and the National Association of Insurance Commissioners (NAIC)— have improved coordination among themselves as a group but could do more to incorporate leading practices for collaboration. GAO found that the collaborative efforts members had made were consistent with some leading practices, such as establishing shared goals. But U.S. IAIS members have not followed other leading practices, such as ensuring that leadership will be sustained in the long term and publicly reporting on their collaborative efforts. The members said that their efforts were still in the early stages. Adopting these practices would allow U.S. IAIS members to better advocate for standards that reflect the interests of U.S. insurance regulators, industry, and consumers.

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Abbreviations

AIG	American International Group, Inc.
BCR	Basic Capital Requirements
ComFrame	Common Framework for the Supervision of Internationally Active Insurance Groups
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FACI	Federal Advisory Committee on Insurance
Federal Reserve	Board of Governors of the Federal Reserve System
FIO	Federal Insurance Office
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
G20	Group of Twenty
GAAP	U.S. Generally Accepted Accounting Principles
G-SII	global systemically important insurer
HLA	Higher Loss Absorbency
IAIG	internationally active insurance groups
IAIS	International Association of Insurance Supervisors
ICS	International Capital Standard
NAIC	National Association of Insurance Commissioners
P/C	property and casualty
SIFI	systemically important financial institution
Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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June 25, 2015

The Honorable Blaine Luetkemeyer
Chairman
Subcommittee on Housing and Insurance
Committee on Financial Services
House of Representatives

The Honorable Randy Neugebauer
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
House of Representatives

The Honorable Dennis Ross
House of Representatives

As of December 2014, large, internationally active insurance companies accounted for 28 percent of the over $1 trillion in aggregate insurance premiums underwritten in the United States. In response to financial stresses faced by some insurers during the 2007-2009 financial crisis, U.S. regulators and international bodies have taken steps to enhance supervision of certain insurers such as internationally active large insurance companies that could be considered systemically risky, including the introduction of new insurance capital standards. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) gave the Financial Stability Oversight Council (FSOC) authority to designate nonbank financial companies for enhanced prudential standards and supervision by the Board of Governors of the Federal Reserve System (Federal Reserve).[1] In addition, the Financial Stability Board (FSB), the international body that coordinates the work of national financial authorities and international standard-setting bodies in the interest of global financial stability, has designated three U.S. companies as global systemically important insurers (G-SII). The International Association of Insurance Supervisors (IAIS), the international standard-setting body responsible for the insurance sector, is in the process of developing international capital standards for these

[1]Pub. L. No. 111-203, § 113, 124 Stat. 1376, 1398 (2010) (codified at 12 U.S.C. § 5323).

insurers, as well as another capital standard for all internationally active insurance groups (IAIG). While it is not yet certain whether or how the United States would implement these standards, U.S. regulators have been involved in their development.

You asked us to review the development and potential effects of these international capital standards for U.S. insurers. This report examines (1) the status of the development and implementation of the international standards, (2) what is known about the potential effects of applying international capital standards to U.S. insurers, (3) views on the need for an international group-level capital standard for insurance companies, and (4) the extent to which U.S. regulators are collaborating with each other, and considering the views of industry and other stakeholders, in developing a U.S. position on international capital standards.

To address all of these objectives, we reviewed IAIS documentation, attended relevant meetings and conferences, and interviewed insurance industry stakeholders. Specifically, we interviewed federal agencies—the Federal Insurance Office (FIO), the Federal Reserve, and FSOC, as well as the National Association of Insurance Commissioners (NAIC) and several former and current state insurance regulators that will likely supervise IAIGs. We also interviewed representatives of IAIS, credit rating agencies, the American Academy of Actuaries, and the National Conference of Insurance Legislators. In addition, we interviewed representatives of all three insurance groups that have been designated as G-SIIs, as well as five companies that could be designated as IAIGs based on IAIS criteria. We also interviewed two large, internationally active U.S.-based insurers that would not likely meet the IAIS criteria for being IAIGs; one large, domestic-only U.S.-based insurer that has participated in the U.S. collaborative efforts; and two insurance industry associations that represent U.S. life and property and casualty (P/C) insurers. Additionally, to obtain non-U.S. views on the development of international capital standards, we interviewed two regulators and three insurance industry associations from countries that had primary regulatory responsibility for at least one G-SII or potential IAIG domiciled in the country, or had implemented or were in the process of implementing group-wide insurance capital standards. We also reviewed relevant documentation related to the international standards, including consultation drafts of the standards, stakeholder comments on the draft standards, and IAIS documentation such as on financial stability and identifying G-SIIs. Finally, we attended the 2014 IAIS annual meeting, an IAIS stakeholder meeting, and three NAIC meetings related to the development of the standards.

To examine the need for and potential effects of the international capital standards, we conducted a literature review and identified 38 studies, including academic studies that discussed insurance, capital standards, and systemic risk. We determined these studies were reliable for the purpose of capturing viewpoints and information on the insurance industry and the potential effect of enhanced capital standards. We also interviewed two academics who have studied these issues. In addition, we analyzed data from SNL Financial to determine the number of G-SIIs and IAIGs that were offering variable annuities with guaranteed benefits or guaranteed investment contracts. We determined the data to be reliable for these purposes. To assess the extent to which U.S. regulators are collaborating with each other and industry stakeholders in developing a U.S. position on the standard, we reviewed our past reports that establish criteria for effective collaboration.[2] We also reviewed agency documentation such as strategic plans and annual reports to better understand the extent to which the agencies were meeting these criteria. For additional information, see appendix I.

We conducted this performance audit from July 2014 to June 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

[2]GAO, *Results-oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005); *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012); and *Managing for Results: Implementation Approaches Used to Enhance Collaboration in Interagency Groups,* GAO-14-220 (Washington, D.C.: Feb.14, 2014).

Insurance Industry Overview

Insurers offer several lines, or types, of insurance to consumers and others, including life, health, annuity, and P/C products.[3] The U.S. life/health and P/C industries reported approximately $583 billion and $481 billion of aggregate net written premiums in 2013, respectively. These insurers have two primary sources of revenue: premiums (from selling insurance products) and investment income. Both life and P/C insurers earn income from premiums they collect but, because of differences in potential claims, their investment strategies generally differ. For instance, life insurance companies typically have longer-term liabilities than P/C insurers, so life insurance companies invest more heavily in longer-term assets, such as high-grade corporate bonds with 30-year maturities. P/C insurers, however, tend to have shorter-term liabilities and tend to invest in a mix of lower-risk, conservative investments such as government and municipal bonds, higher-grade corporate bonds, short-term securities, and cash.

The United States is the world's largest insurance market by premium volume. In 2014, the United States had a total of roughly $1.16 trillion in premium volume. FSB has designated three U.S. insurance groups as G-SIIs and, according to our analysis, nine additional U.S.-based insurance groups generally meet the criteria for becoming IAIGs.[4] Table 1 shows the relative sizes of these companies, based on total assets, compared with other U.S. companies with insurance subsidiaries.

[3]P/C insurance provides protections from risk in two basic areas: protection for physical items such as houses, cars, commercial buildings, and inventory (property), and protection against legal liability (casualty). Property insurance is coverage for losses related to a policyholder's own person/property. Casualty (or liability) insurance is coverage for a policyholder's legal obligations against losses the policyholder may cause to others.

[4]According to IAIS, insurance groups classify as IAIGs if they: (1) write premiums in not fewer than three jurisdictions and have at least 10 percent of gross premiums written outside of their home jurisdiction; and (2) have at least $50 billion in total assets, or have at least $10 billion in gross written premiums. We analyzed data from SNL Financial and AM Best to determine which U.S.-based insurance groups met the IAIG criteria for total assets, gross written premiums, and international jurisdictions. We were not able to fully calculate the percentage of gross written premiums written outside of the home jurisdiction for some groups, which is one of the IAIG criteria.

Table 1: Total Assets of U.S. Companies with Insurance Company Subsidiaries, Fourth Quarter of 2013 (dollars in millions)

	Number	Total assets		
		Minimum	Median	Maximum
Global systemically important insurers	3	541,329.0	731,781.0	885,296.0
Internationally active insurance groups, excluding global systemically important insurers	8	50,433.0	105,928.5	484,931.0
Large insurance underwriters	9	59,403.6	123,520.0	277,884.0
Medium-sized insurance underwriters	48	2,899.6	16,605.2	49,764.8
Small insurance underwriters	33	23.2	563.6	2,837.5
Bank holding companies	17	417.1	144,576.0	2,102,273.0

Source: GAO analysis of SNL Financial data. | GAO-15-534

Note: Our analysis sample includes publicly traded U.S. companies with insurance company subsidiaries and some large private U.S. companies with insurance company subsidiaries that file with the U.S. Securities and Exchange Commission. One of the 9 companies that generally met the criteria for being an IAIG was not included in the database. We divided the companies in our sample into the following groups: G-SIIs, potential IAIGs, other insurance underwriters as identified by SNL Financial, and bank holding companies. We further divided insurance underwriters into three groups based on their total assets. Large insurance underwriters are those with total assets greater than or equal to the 75th percentile of all companies we analyzed (about $50 billion). Medium insurance underwriters are those with total assets less than the 75th percentile but greater than or equal to the 25th percentile of all companies we analyzed (about $3 billion). Small insurance underwriters are those with total assets less than the 25th percentile of all companies we analyzed.

Insurance Regulation in the United States

Insurers in the United States are regulated primarily by state insurance regulators, but FIO, the Federal Reserve, and FSOC also play roles.

- **State insurance regulators:** State insurance regulators are responsible for enforcing state insurance laws and regulations. State regulators license agents, review insurance products and premium rates, and examine insurers' financial solvency and market conduct. NAIC is the voluntary association of the heads of insurance departments from the 50 states, the District of Columbia, and five U.S. territories. While NAIC does not regulate insurers, according to NAIC officials, it does provide services designed to make certain interactions between insurers and regulators more efficient. According to NAIC, these services include providing detailed insurance data to help regulators analyze insurance sales and practices; maintaining a range of databases useful to regulators; and coordinating regulatory efforts by providing guidance, model laws and regulations, and information-sharing tools. Generally, a model act or law is meant as a guide for subsequent legislation by states. State legislatures may adopt model acts in whole or in part, they may modify them to fit their needs, or they may opt not to adopt them.

- **FIO:** FIO was established by the Dodd-Frank Act.[5] Although FIO is not a regulator or supervisor, it has the statutory authority to represent the United States at IAIS, as appropriate, and to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters. FIO also monitors certain 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 U.S. financial system.

- **FSOC:** FSOC is authorized to determine that a nonbank financial company shall be subject to Federal Reserve supervision and enhanced prudential standards if FSOC determines that the company's material financial distress—or the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities—could pose a threat to U.S. financial stability.[6] As of March 2015, FSOC had designated American International Group, Inc. (AIG), General Electric Capital Corporation, Inc., MetLife, Inc., and Prudential Financial, Inc. for Federal Reserve supervision and enhanced prudential standards.[7]

- **The Federal Reserve:** The Federal Reserve supervises holding companies that may own insurance companies on a consolidated basis if the holding companies are either savings and loan holding companies or nonbank financial companies designated by FSOC for Federal Reserve supervision and enhanced prudential standards.[8]

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[5]Pub. L. No. 111-203, § 502(a), 124 Stat. 1376, 1580 (2010) (codified at 31 U.S.C. § 313(a)).

[6]§ 113, 124Stat. 1376 at 1398 (codified at 12 U.S.C. § 5323).

[7]MetLife has publicly stated that it disagrees with FSOC's decision and in January 2015, MetLife filed a lawsuit seeking to overturn its designation as a systemically important financial institution. *MetLife, Inc. v. Financial Stability Oversight Council*, No. 1:15cv45 (D.D.C. Jan. 13, 2015). In its reply filed last month, FSOC asked the court to dismiss MetLife's lawsuit, stating that it conducted a thorough review of the company's information prior to concluding that material financial distress at the company could threaten U.S. financial stability.

[8]According to Federal Reserve officials, it was initially unclear whether the Dodd-Frank Act allowed the Federal Reserve to apply insurance-based capital standards—as opposed to bank-based standards—to the insurance portion of any insurance holding company it oversees. However, in December 2014, Congress amended the Dodd-Frank Act to clarify that the Federal Reserve may apply bank capital rules only to the banking portions of a company it oversees, with separate capital rules for insurance portions. Insurance Capital Standards Clarification Act of 2014, Pub. L. No. 113-279, 128 Stat. 3017.

Insurance supervision in the United States is generally at the legal entity level, rather than the holding company or group level, in cases where a company owns one or more insurance companies. That is, state insurance regulators are authorized to supervise individual insurance companies, but lack the legal authority to directly supervise a company that might own an insurer, or to supervise a noninsurance affiliate or any affiliate domiciled and operating outside of the state. However, NAIC officials noted that states that have adopted NAIC's Insurance Holding Company System Regulatory Act can serve as the group-wide supervisor for an insurance firm that includes noninsurance affiliates, obtain reports and information directly from a noninsurer holding company or affiliate of an insurer, and approve or reject intercompany transactions between the holding company and insurers.[9] State regulators also require insurance companies to maintain specific levels of capital. NAIC's Risk-Based Capital for Insurers Model Act applies to life and P/C insurance companies. Most U.S. insurance jurisdictions have adopted statutes, regulations, or bulletins that are substantially similar to this model law, according to NAIC, as enactment of this model law is required for a state to be accredited by NAIC.[10] Under this model law, state insurance regulators determine the minimum amount of capital appropriate for a reporting entity (i.e., insurers) to support their overall business operations, taking into consideration their size and risk profile. The model law also provides the thresholds for regulatory intervention when an insurer is financially troubled. Risk-based capital standards aim to require a company with a higher amount of risk to hold a higher amount of capital. Generally, the risk-based capital formulas focus on risk related to (1) assets held by an insurer, (2) insurance policies written by the insurer, and (3) other factors affecting the insurer. A separate risk-based capital

[9]According to NAIC, all states have adopted the Insurance Holding Company System Regulatory Act (Model #440). As of April 2015, 44 U.S. jurisdictions had also adopted revisions that make the group supervisory authority of state regulators more specific, according to NAIC.

[10]NAIC accredits state insurance departments. Accreditation is a certification given to a state insurance department once it has demonstrated it has met and continues to meet an assortment of legal, financial, and organizational standards as determined by a committee of its peers (e.g., compliance with Model Act laws). According to NAIC, it was established to develop and maintain standards to promote effective insurance company financial solvency regulation. It allows state insurance departments to meet baseline standards of solvency regulation, particularly with respect to regulation of multistate insurers. States can rely on other accredited states regulators to fulfill a baseline level of effective financial regulatory oversight.

formula exists for each of the primary insurance types that focus on the material risks common to each type. For example, risk-based capital for life insurers includes interest rate risk, because of the material risk of losses from changes in interest rate levels on the long-term investments that these insurers generally hold. In addition to capital requirements, regulators use other tools to supervise insurers. For example, supervisory colleges facilitate oversight of IAIGs.[11] U.S. state insurance regulators both participate in and convene supervisory colleges. State insurance commissioners may participate in a supervisory college with other regulators charged with supervision of such insurers or their affiliates, including other state, federal, and international regulatory agencies.

Insurers operating in multiple jurisdictions may maintain multiple accounting records in order to satisfy domestic regulatory reporting requirements. U.S. insurers that issue publicly traded securities report financial holdings information to the Securities and Exchange Commission using U.S. Generally Accepted Accounting Principles (GAAP). Additionally, U.S. insurers are required to report their financial holdings on an individual legal entity basis to their state of domicile regulators using Statutory Accounting Principles. Some jurisdictions in the European Union may require insurers to report regulatory requirements using International Financial Reporting Standards, or the valuation system used in Europe's insurance regulatory rules under Solvency II following its implementation.[12] Finally, some foreign jurisdictions may require reporting with valuation standards in alignment with those developed by the International Accounting standards Board.

[11]IAIS defines a supervisory college as "a forum for cooperation and communication between the involved supervisors established for the fundamental purpose of facilitating the effectiveness of supervision of entities which belong to an insurance group; facilitating both the supervision of the group as a whole on a group-wide basis and improving the legal entity supervision of the entities within the insurance group."

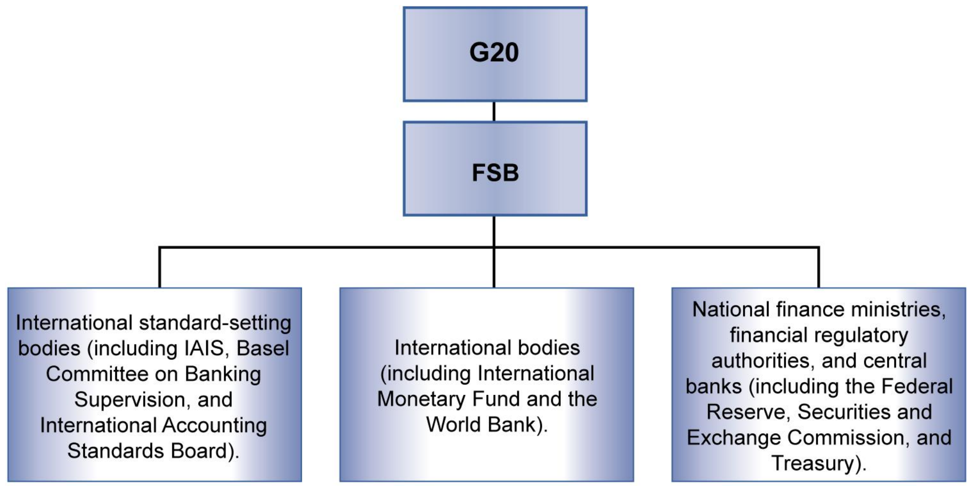
[12]Solvency II is a European Union Directive that will be implemented in January 2016 for all 27 member countries. It provides a risk-based framework, including capital requirements, for insurance supervision. In June 2015, the European Union determined U.S. standards to be equivalent to Solvency II, meaning U.S.-based insurers operating in Europe would only have to comply with their home regulation.

International Bodies with Roles in the Development of International Standards or Insurance Regulation

In response to the 2007-2009 financial crisis, the Group of Twenty (G20) forum—representing 19 countries (including the United States) and the European Union—positioned itself as the main international forum for reforming financial regulations. In 2008, the G20 leaders committed to implementing a broad range of reforms designed to strengthen financial markets and regulatory regimes. To implement their reforms, the G20 leaders generally have called on their national authorities—finance ministries, central banks, and regulators—and international bodies, including FSB and standard-setting bodies such as IAIS.

Established by the G20 in 2009, FSB is the international body that coordinates the work of national financial authorities and international standard-setting bodies in the interest of global financial stability. According to FSB, it seeks to support the multilateral agenda for strengthening financial systems and the stability of international financial markets. Its mandate includes reviewing the policy development work of the international standard-setting bodies that jurisdictions use to establish rules or policies through, for example, legislation or regulation. FSB has developed a framework intended to reduce the probably and impact of failure of systemically important financial institutions (SIFI). In 2013 and 2014, FSB also worked with IAIS and national authorities to identify and designate nine insurers as G-SIIs, which will be subject to a set of G-SII policy measures developed by IAIS consistent with FSB's general SIFI framework. FSB member institutions include national finance ministries, financial regulatory authorities, and central banks, as well as international standard-setting bodies, such as IAIS. U.S. FSB members include the Federal Reserve, the Securities and Exchange Commission, and Department of the Treasury (Treasury)—which serve on the FSB's Steering Committee and Plenary, FSB's decision-making body—and other banking regulators (see fig. 1).

Figure 1: International Bodies with Roles in the Development of International Standards or Insurance Regulation



Legend

G20 – Group of Twenty
FSB – Financial Stability Board
IAIS – International Association of Insurance Supervisors

Source: GAO. | GAO-15-534

IAIS is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards, and other supporting material for the supervision of the insurance sector. Established in 1994, IAIS's mission is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe, and stable insurance markets, and to contribute to global financial stability. It operates by consensus, and its members include insurance supervisors and regulators from more than 200 jurisdictions in approximately 140 countries. According to NAIC, these members account for 97 percent of the world's insurance premiums.[13] As noted above, FIO has statutory authority to represent the United States at

[13]In general, member representation is based on geographic diversity rather than being directly proportionate to insurance market size. For example, although the United States makes up roughly one-third of the global insurance market, it has less than one-third of the votes in the General Meeting. IAIS also aims for the Executive Committee and the chairs and vice chairs of other committees to reflect a balance of different geographic areas, as well as different types of insurance markets and supervisory approaches.

IAIS. In addition, the Federal Reserve and NAIC are also members.[14] IAIS does not have regulatory power or legal authority over its members, but it influences national and regional regulators by publishing supervisory principles, offering training and support, and advancing the latest developments in international regulation.

There are four key IAIS bodies involved in the development of international capital standards—the General Meeting, the Executive Committee, the Technical Committee, the Financial Stability Committee—and related subcommittees (see fig. 2).

- **The General Meeting:** The General Meeting comprises all IAIS members (of approximately 190, approximately 160 are voting members) who elect members of the Executive Committee and can adopt supervisory and supporting materials. To decide upon an issue, the General Meeting requires either a simple or a two-thirds majority of votes, depending on the issue. For example, with a simple majority the General Meeting can elect members of the Executive Committee, and with a two-thirds majority the General Meeting can vote to adopt supervisory and supporting material not already adopted by the Executive Committee.[15]

- **The Executive Committee:** The Executive Committee has 9 to 24 voting members elected by the General Meeting and up to 4 additional nonvoting members (the chairs of certain committees if they are not already voting members). The Executive Committee is responsible for ensuring that supervisory and supporting material to be adopted by IAIS has been adequately vetted by IAIS members and stakeholders; adopting supervisory and supporting material; appointing all other committee chairs and vice chairs; and ensuring that working structures fulfill the IAIS mission.[16]

[14]Each of the 50 U.S. state regulators, as well as regulators from the District of Columbia and the five U.S. territories also has their own membership in IAIS.

[15]According to IAIS, as of April 2015, the General Meeting has yet to adopt supervisory or supporting material related to the international capital standards. This is because the Basic Capital Requirement is the only capital standard adopted by IAIS to date, and this was done at the Executive Committee level.

[16]The Executive Committee adopts supervisory and supporting material unless they either decide to defer such decision to the General Meeting or at least 10 percent of members who have the right to cast a vote at the General Meeting request to defer such decision to the General Meeting.

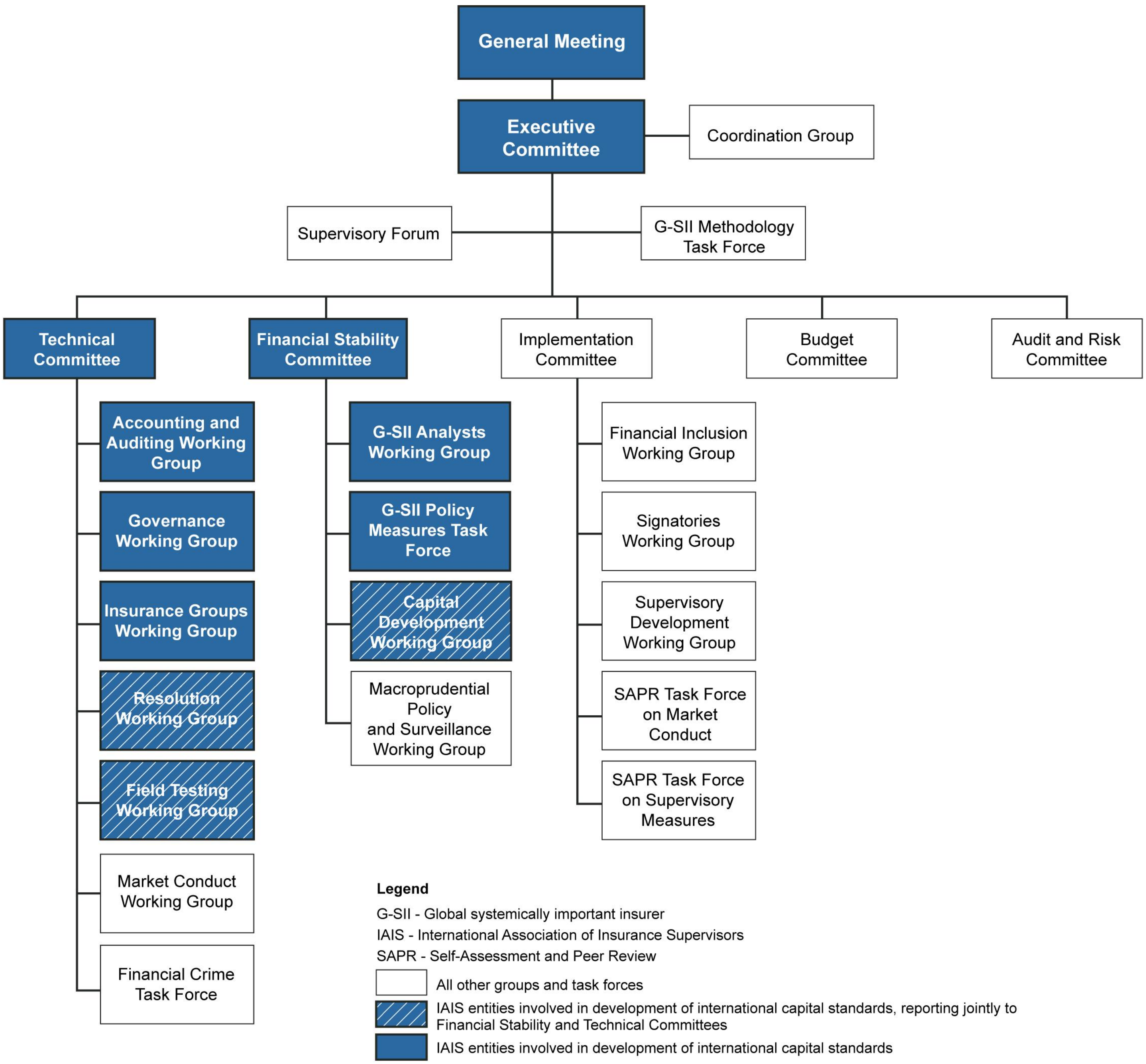
- **The Technical Committee:** The Technical Committee develops international principles, standards, guidance, and other documents related to insurance supervision. Specifically, the Technical Committee is responsible for setting standards in response to developments in industry structures, financial markets, business practices, and policyholders' needs; completing, reviewing, and updating the comprehensive set of high-level principles-based supervisory and supporting material; and establishing the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), including the Insurance Capital Standard (ICS).[17] Relevant groups reporting to the Technical Committee include the Accounting and Auditing Working Group, the Governance Working Group, the Insurance Groups Working Group, the Resolution Working Group, and the Field Testing Working Group.[18]

- **The Financial Stability Committee:** The Financial Stability Committee works on issues related to financial stability, systemic risk, and supervision and surveillance of industry-wide solvency (macroprudential supervision and surveillance). Specifically, the Financial Stability Committee is responsible for developing and refining an assessment methodology to identify G-SIIs; performing an annual assessment of the G-SII status of insurers and reinsurers; developing, in cooperation with Technical Committee, policy measures related to heightened prudential standards for G-SIIs; providing guidance to supervisors and firms on other components of the package of enhanced policy measures that apply to G-SIIs; coordinating IAIS activities with FSB and the G20; preparing papers on issues related to financial stability, systemic risk, and macroprudential surveillance as they relate to insurance; and developing tools to enhance macroprudential surveillance and supervision. Relevant groups reporting to the Financial Stability Committee include the G-SII Analysts Working Group, the G-SII Policy Measures Task Force, and the Capital Development Working Group.

[17]ComFrame is a set of international supervisory requirements focusing on the effective group-wide supervision of IAIGs. ComFrame and the Insurance Capital Standard are discussed more fully later in this report.

[18]Three IAIS working groups report jointly to the Technical Committee and Financial Stability Committee: the Resolution, Field Testing, and Capital Development Working Groups.

Figure 2: Organizational Structure of IAIS, as of March 2015



Source: GAO. | GAO-15-534

International Capital Standards Are Not Yet Finalized, and U.S. Implementation Could Be Challenging

International Capital Standards Are in Early Stages of Development and Implementation

IAIS is developing three international capital standards for insurers.[19] The standards are the Basic Capital Requirements (BCR), the Higher Loss Absorbency (HLA), and the ICS. The three capital standards serve different purposes and are in different stages of development.

1. **BCR:** The BCR is a straightforward, basic, risk-based capital requirement that would apply only to G-SIIs and is intended to be used as a globally comparable foundation for the calculation of the HLA requirement. It has three basic components—an insurance component, a banking component that applies the Basel III leverage ratio to regulated banking entities, and a component for noninsurance activities (financial and material nonfinancial)—that are currently not subject to regulatory capital requirements. To set required capital levels, it uses a factor-based approach that applies 15 risk factors to defined segments of traditional life insurance, traditional nonlife insurance, nontraditional insurance, noninsurance, and assets. All holding companies, insurance legal entities, banking legal entities, and any other companies in the group are included in the consolidated capital requirement.[20] In October 2014, IAIS issued and the Financial Stability Board endorsed the finalized BCR. According to IAIS, during 2014 it completed its first round of quantitative field testing, which incorporated the BCR, and beginning in 2015 the BCR was being reported on a confidential basis to group-wide supervisors

[19] IAIS does not have regulatory power or legal authority over its members. IAIS members must choose to implement the international capital standards before they would be binding.

[20] Individual non-financial entities within the group may be excluded if the risks they pose to the group are deemed negligible.

and shared with IAIS for purposes of additional refining.[21] Once the HLA is complete, the BCR will serve as a foundation for the HLA. The development of the ICS will be informed by the work of the BCR, and when finalized, it will replace the BCR in its role as the foundation for the HLA.

2. **HLA:** The HLA requirement is a capital add-on that would apply only to G-SIIs to account for their nontraditional, noninsurance activity, as well as other factors that led the Financial Stability Board to designate them as G-SIIs. The sum of the BCR and HLA would form a consolidated group-wide minimum capital requirement that would be higher than the requirement for firms that are not G-SIIs. In September 2014, IAIS issued a set of principles to guide the development of the HLA. For example, one principle states that outcomes should be comparable across jurisdictions. IAIS plans to issue the first HLA consultation document for comment in mid-2015, and plans for implementation to begin in 2019.

3. **ICS:** The ICS is a risk-based, group-wide capital standard that is intended to apply to all IAIGs and G-SIIs as part of IAIS's ComFrame. ComFrame is a set of proposed international supervisory requirements focusing on the effective group-wide supervision of IAIGs—as well as related international capital standards.[22] According to IAIS, the ICS is being developed to promote effective and globally consistent supervision of the insurance industry, and should help develop and maintain fair, safe, and stable insurance markets. In March 2015, the IAIS announced that the ultimate goal of the ICS is a common methodology that achieves comparable outcomes across jurisdictions. Once finalized and agreed upon, the ICS would be the minimum standard that IAIS members would be encouraged to implement. According to IAIS, supervisory colleges would identify

[21] According to IAIS, the 2014 round of field testing included 33 volunteers and the 2015 round is expected to include 36 volunteers. All nine G-SIIs participated in the 2014 round and are expected to participate in the 2015 round.

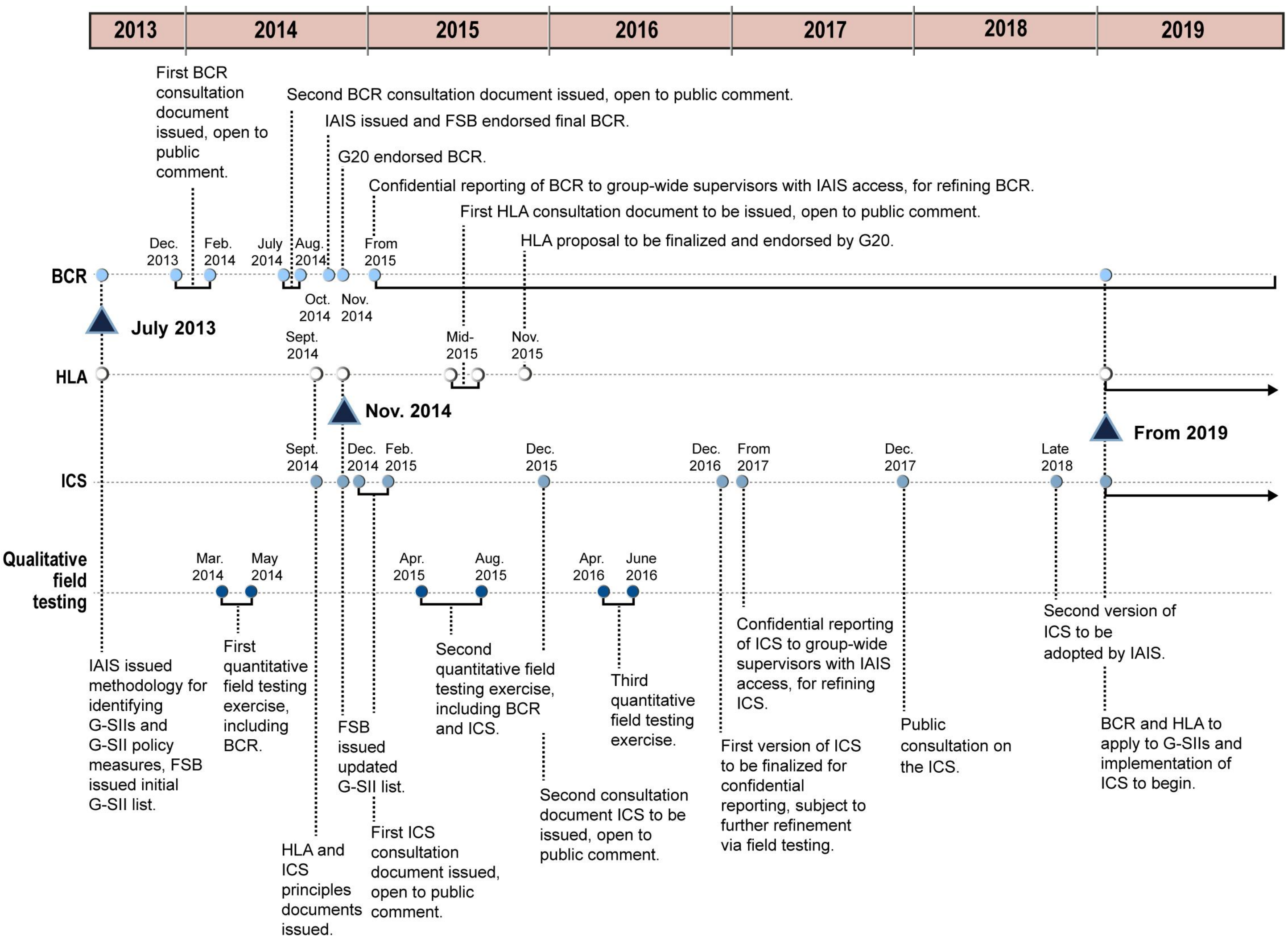
[22] Similar to the international capital standards, IAIS members must choose to implement ComFrame before it would be binding. ComFrame is built and expands upon the high-level requirements and guidance currently set out in the IAIS Insurance Core Principles, which generally apply on both legal entity and group-wide levels, and are comprised of both quantitative and qualitative components. IAIS has stated its commitment to begin implementing ComFrame in 2019 following 2 years of testing and refinement.

IAIGs by applying ComFrame criteria.[23] IAIS issued a set of ICS principles in September 2014 and the first of three ICS consultation documents in December 2014. As of April 2015, IAIS is incorporating feedback received on the first consultation document and has said that 2015 priorities include developing an example of a standard method for determining the ICS, further considering approaches to valuation, and defining qualifying capital resources. IAIS is scheduled to conduct its second round of quantitative field testing from April through August 2015, which will be the first time that IAIS will field test the proposed ICS.

IAIS is staggering the implementation of the three capital standards, with the full package scheduled for implementation beginning in 2019 (see fig.3).

[23]IAIS has proposed criteria to define an IAIG as an insurance group that writes premiums in three or more jurisdictions, with at least 10 percent of gross premiums written outside the home jurisdiction and at least $50 billion in assets (or $10 billion in gross written premiums), based on a rolling 3-year average.

Figure 3: Key Milestones for the Implementation of International Capital Standards for Insurers, as of March 2015



Legend

BCR - Basic Capital Requirements
FSB – Financial Stability Board
G20 - Group of Twenty forum
G-SII - global systemically important insurer
HLA - Higher Loss Absorbency
IAIS - International Association of Insurance Supervisors
ICS - Insurance Capital Standard
Applies to more than one international capital standard

Source: GAO analysis of IAIS documents. | GAO-15-534

Several Key Aspects of the International Capital Standards Are Largely Unknown

Because the capital standards are still in the relatively early stages of development and adoption, several important aspects of the design of the standards are still unknown, as the following examples illustrate:

- **Quantity and quality of capital:** Whether the ICS would require U.S. insurers to hold or raise additional capital is largely unknown. Some stakeholders believe that it would be unlikely that the ICS would be higher than what U.S. insurers currently hold. They stated that to maintain desired credit ratings, some U.S. insurers hold more capital than the state risk-based capital standard requires. For example one credit rating agency said that most insurers can sometimes hold approximately 11 times more capital than regulatory requirements mandate. However, it is unknown how the ICS capital requirements would compare with the risk-based capital standard required by state insurance regulators. IAIS has sought stakeholder feedback on the appropriate approach for determining capital standards, which could include a factor-based approach, stress testing approach, or modeling approach.[24] Additionally, it is not yet known whether insurers would be able to include senior debt as qualifying capital, something insurers can currently do in the United States. Some insurers have stated that not being able to include senior debt as capital could potentially result in insurers being considered undercapitalized, requiring them to raise more capital though public offerings or private investment. Finally, some insurers we spoke with raised concerns about group-level capital requirements resulting in a need to hold duplicative capital. For example, one insurer said that foreign jurisdictions would not likely count capital being held elsewhere within a holding company. As a result, insurance holding companies might then have to hold capital at the local entity level, as they do now, and also at the group level for the same risks.

- **Valuation approaches:** IAIS has yet to determine which methodologies ICS will use to assess the value of insurers' assets and liabilities. As of April 2015, IAIS was testing two valuation

[24]Under a factor-based approach, the capital requirement for a risk would be calculated by applying factors to various elements of an entity's exposure. Under a stress testing approach, the capital requirement would be determined by the difference in capital resources on the entity's balance sheet before and after applying a stress testing scenario. The capital requirement under a modeling approach would be determined by setting a capital level such that the entity would avoid default through an acceptable percentage of potential scenarios.

approaches—a market-adjusted valuation approach where the values of assets and liabilities are adjusted to current market rates, which is not the approach used by most U.S. insurers, as well as a GAAP approach with adjustments. A few U.S. stakeholders stated that using a market-adjusted approach could potentially conflict with the way U.S. GAAP values insurers' assets and liabilities. According to one insurance association, differences in valuation methods are so substantial that one method may make an insurer appear financially strong while another may make the same insurer appear financially insolvent. Therefore, depending on the valuation methods used, U.S. insurers could be required to raise and hold additional capital. One credit rating agency also said that different countries measure capital and solvency in different ways. This may make it difficult for IAIS to develop a standard that would be accepted internationally. Additionally, one insurance association noted that if the capital standards valuation methodologies do not align with U.S. practices, U.S.-based insurers may need to keep an additional set of regulatory accounting records to demonstrate evidence that they are in compliance with both sets of standards.

- **Risk assessment:** Some details about how the ICS will assess risk are still unknown. As previously stated, the BCR uses 15 factors associated with insurance activity and assigns capital charges according to their estimated risks. Some insurers said that the BCR is not granular enough in its classification, or segmentation, of insurance products and business activities. For example, one insurer noted that some of its products that carry different risk characteristics fit into the same category in the BCR, resulting in the possibility of either under- or over-assessing risk charges. In commenting on the draft ICS, which is intended to replace the BCR, some stakeholders said the categories used in the draft ICS were adequate, but others expressed concern about the categories potentially needing to become more granular. Furthermore, one insurer stated that products can carry different risks in different jurisdictions, exacerbating the difficultly of correctly assessing risk with the international capital standards without becoming excessively granular.

Other areas of uncertainty include questions of the appropriate time horizon for the development and implementation of the standards and tiering of capital resources, as well as other technical issues.[25] Several

[25]Capital resources—including both financial instruments and other capital elements—can be categorized into tiers according to their quality.

stakeholders said that given the significant uncertainties around the design of the standards, IAIS is not allowing sufficient time to develop the capital standards. Federal Reserve officials noted that IAIS aims to identify and address questions and concerns about the standards through its field testing process.

Implementation of International Capital Standards in the United States Could Pose Challenges

Questions also remain about how the standards would be implemented in the United States, a process that could pose challenges. For example, U.S.-based G-SIIs would be subject to the BCR and HLA. They have also been designated by FSOC for enhanced supervision, meaning that they would be subject to enhanced prudential standards from the Federal Reserve as well. However, because neither the Federal Reserve's capital requirements for SIFIs nor the HLA had been finalized as of April 2015, it is difficult to know what, if any, challenges the Federal Reserve might face in concurrently implementing these two sets of standards. In addition, one state commissioner noted that it is unclear which regulator would have responsibility for implementing the ICS for the IAIGs. Currently, state regulators supervise individual insurance entities domiciled in their state, but all three of the proposed international capital standards would establish group-level capital requirements. According to NAIC, state regulators would still implement these requirements for insurance groups not supervised by the Federal Reserve. However, a few stakeholders stated that it is unclear who the group-wide regulator would be for these insurers. Furthermore, some stakeholders remarked that having group-level capital standards for U.S. insurers also raises questions about fungibility—the extent to which capital could be moved between entities. Insurers in the United States are not required to move capital among regulated insurance entities, and some stakeholders noted that the extent to which the international capital standards would require group-wide capital to be fungible among legal entities is uncertain. Making capital fungible would raise questions about where group capital would reside (i.e., within the legal entities or in a holding company), and when regulators could move it among entities or across jurisdictions from financially strong entities to aid failing ones. Without a single regulator for the holding company, questions remain about how such decisions would be made.

Furthermore, there is some uncertainty about the legal mechanisms that would be used to implement the standards in the United States. NAIC officials said implementation of new capital standards in the United States would likely require individual states to pass legislation that incorporates the standards. They also noted that NAIC could encourage states to adopt such legislation by developing a model law and including it in NAIC's accreditation requirements. However, one state regulator noted getting all states to adopt and implement it might take time. Representatives of state legislators said that they would work with insurance regulators to determine which requirements were appropriate for their states. Alternatively, NAIC noted the possibility of a federal mandate through Congress to implement the standards. Despite the uncertainties about how the standards would be implemented, several stakeholders we spoke with said that the United States would likely implement the standards once IAIS has completed them. Several stakeholders noted the potential negative consequences of not implementing the standards, such as having international market access issues such as regulatory barriers to conducting business abroad. Two stakeholders also noted the possibility of the United States receiving a poor review from the International Monetary Fund's Financial Sector Assessment Program or political pressure that could have trade implications between the United States and foreign jurisdictions.[26]

Effect of International Group-Level Capital Standards Is Unknown

Because the international capital standards are still largely in the early stages of development, it is difficult to determine their potential effects on U.S. insurers. IAIS plans to engage in field testing before finalizing the capital standards but has not yet completed any prospective quantitative or cost-benefit analyses to understand the potential effects on insurers, consumers, or the broader economy. Many stakeholders we spoke with thought it was too early to discuss the likely effects of the standards, but others identified possible effects, including improved comparability, increased costs, and competitive disadvantages.

[26]The Financial Sector Assessment Program is a comprehensive analysis of a country's financial sector that the International Monetary Fund conducts in advanced economies (the assessment is conducted jointly with the World Bank in emerging markets). The stated goal of the assessments is to gauge the stability of a country's financial sector and to assess its potential for growth and development. The International Monetary Fund released a detailed assessment of the United States' insurance regulation in April 2015.

IAIS Intends Capital Standards to Improve Comparability but Some Stakeholders Expressed Concerns

IAIS has stated that having a common means to measure capital adequacy on a group-wide consolidated basis could benefit both regulators and insurers. A single international standard would allow regulators to compare IAIGs across jurisdictions. It would also increase mutual understanding among regulators who regulate at the holding company level as well as regulators of nondomestic companies operating in their country, and give them more confidence in cross-border analyses of these companies. Similarly, Federal Reserve officials we spoke with said that international capital standards would limit the possibility for regulatory arbitrage, or “jurisdiction shopping,” where companies choose where they are domiciled based on more favorable standards. One large, internationally active company we spoke with also said that an international capital standard that was comparable across jurisdictions would help regulators address failing companies. International regulators need to agree on a level of capital adequacy and to have comparable means of measuring capital in order to move it across borders to help a failing company. A common standard could make this process easier.

For insurers conducting business internationally, a single capital standard could reduce the complexities of complying with many different standards. However, some industry representatives we spoke with said that while a single capital standard could be beneficial to companies that are operating in multiple jurisdictions, they are skeptical that the IAIS standards would create uniformity. Specifically, one insurer noted that IAIS standards would likely not replace local standards, but instead be an additional layer of standards. An industry stakeholder also noted that while it is important for regulators to be able to assess risks faced by IAIGs, it was unclear whether a single capital standard could result in true comparability across national boundaries or different products. As an example, the risk associated with auto insurance in a nonlitigious country that has national health care, where policyholders are less likely to be sued for medical damages, is different from the risk associated with auto insurance in a litigious country that does not have national health care, where policyholders are more likely to be sued for such costs. A U.S. insurance industry group commented that applying the same capital standard to companies from different regulatory environments with different economic and political goals would not produce comparable conclusions about capital or solvency. It noted, for example, that the U.S. regulatory system was based on an economic and political model that supported relatively easy entry into and exit from the market, with policyholder protection as the primary goal. In contrast, it said that capital standards being developed by the European Union may place more emphasis on protecting creditors and investors. Some stakeholders have suggested that IAIS should focus on comparability of outcomes rather than developing a single capital formula. For example, several stakeholders who commented on the draft ICS suggested a stress testing approach that could help identify common risks and better ensure that all IAIGs could survive certain prescribed stress scenarios without prescribing a specific capital requirement.

Stakeholders Expressed Concern That Standards Could Result in Increased Costs and Competitive Disadvantages

In the face of limited empirical work conducted to date and the lack of details on final capital requirements, there is considerable uncertainty about the effect on insurance companies, the industry, consumers, and the larger macro economy. However, if insurance companies were forced to raise capital or hold more capital it could carry costs. Consistent with this, several stakeholders we spoke with said that if the capital standards required insurers to hold more capital, they could result in higher costs for insurers, and therefore higher prices for consumers. In addition, requiring insurers to hold more capital could be costly for all affected insurers but could also disproportionately affect some types of insurers. For example, two insurers we spoke with said that mutual insurance companies cannot raise equity easily because they do not issue stock and are owned by policyholders rather than shareholders and use senior debt as part of their qualifying capital. If the ICS does not recognize such unique features of mutual insurance companies, then mutual insurance companies could be significantly disadvantaged in the marketplace with lower qualifying capital as a result of the ICS. These companies would likely have to increase capital by taking actions such as selling assets, increasing retained earnings, and shifting their portfolio toward lower-risk assets. Some insurers we spoke with also said that increased capital requirements could result in opportunity costs. That is, having to hold more capital could result in these resources not being invested to generate higher financial returns, invest in product innovation, or expand to other markets. Many stakeholders we spoke with also said that the standards could result in increased compliance costs. In particular, depending on the accounting method that is used, the standards could result in insurers having to maintain an additional set of accounting records for recordkeeping purposes.

Many insurers and state regulators we spoke with said that any increase in costs for insurers could translate into higher prices and fewer product offerings for consumers. Specifically, several insurers and state regulators noted that if the IAIS standards imposed higher costs on IAIGs through higher capital requirements or compliance costs, IAIGs would have to raise product prices to offset these additional costs. As a result, the companies would be less competitive with both large domestic insurers and smaller insurers, neither of which would be affected by the international capital standards. However, the extent to which costs might be passed on to consumers would depend on the degree of competition. NAIC suggests that U.S. markets are quite competitive, which may limit the degree to which insurance companies can raise prices on insurance products. A few stakeholders said that as an alternative or in addition to raising prices, IAIGs may choose to discontinue some products. As an example, some stakeholders said this would most likely affect longer-term insurance products such as annuities. Because long-term liabilities could be considered riskier than short-term liabilities, they can carry higher capital charges. Consumers could have fewer product choices and the markets for some products could become less competitive. One insurer we spoke with stated that the uncertainty regarding the international capital standards was already affecting its decisions on products offered and pricing.

Further, two stakeholders told us that if insurers raise prices or discontinue products in response to international capital standards, they may also change the types of assets they hold to match with their liabilities. Specifically, if the capital standards result in disincentives to offer certain long-term products, insurers may no longer purchase the same amount or type of long-term assets to match the liabilities of these products. This, in turn could affect the markets for those long-term assets. For example, insurers are significant investors in some long-term assets, such as corporate and municipal bonds, and a reduction in insurers' purchases of these bonds could potentially result in disruptions to these markets.

Another important factor is how shareholders and other investors may react to additional capital holdings and the possibility of lower return on equity. Some stakeholders said that holding additional capital could benefit insurers if investors viewed the more stringent regulations as a sign of increased financial resilience and reliability. Credit rating agencies we spoke to said that while being subject to the standards would not necessarily increase insurers' ratings, being subject to international capital standards could be a positive signal to investors. However, some stakeholders expressed concern that increased costs resulting from higher capital requirements could reduce shareholder returns, making insurers a less attractive investment opportunity. Companies can also adjust to heightened capital requirements by shifting to lower risk assets; shrinking the volume of business; merging with other insurance companies to diversify business lines; or relying more on reinsurance.

Views Differ on the Need for the International Group-Level Standards

Stakeholders Disagreed on the Systemic Risk Posed by Insurance Activities

In its support for the development of an international capital standard for insurers, the Financial Stability Board has cited supporting financial stability as a reason the standards are needed. However, views differed on whether and to what extent insurance companies pose a risk to financial stability—and therefore whether the standards were actually needed. According to many of the stakeholders we spoke with, traditional insurance activities would likely not pose systemic risk or threaten financial stability, but engaging in nontraditional, noninsurance activities could create such risks. These views were supported by a number of the studies we reviewed. For example, IAIS has noted that the bulk of traditional insurance risks are idiosyncratic—that is, they tend not to be correlated with each other or with the economic business cycle and financial market developments, which decreases their likelihood of contributing to systemic risk. However, IAIS also stated that substantial nontraditional and noninsurance activities have the potential to make insurers more prone to posing systemic risk, and may contribute to making insurance groups systemically important. While there is no single agreed-upon definition of nontraditional, noninsurance activities, some research has described these activities as more bank-like in nature and provided examples that included third-party asset management, investment banking, and hedge fund and credit default swap activities. Insurance activities can also have nontraditional features that may increase their systemic risk. For example, if variable annuities contain guaranteed returns, attempting to pay guaranteed amounts could result in increased asset sales by an insurer and exacerbate already distressed market conditions. One study we reviewed noted that capital infusions were needed for several large insurers during the last financial crisis because some insurers' investment-oriented life insurance policies had minimum guarantees and other contract features.[27] We found that the three U.S.-based G-SIIs all offered variable annuities with guaranteed

[27] Viral V. Acharya, John Biggs, Matthew Richardson and Stephen Ryan, "On the Financial Regulation of Insurance Companies" (New York University Stern School of Business, 2009).

benefits and guaranteed investment contracts. Also, four of the seven additional U.S-based companies that generally met the criteria for being an IAIG offered variable annuities with guaranteed benefits, and two offered guaranteed investment contracts.

Nontraditional, noninsurance activities may also increase the likelihood that an insurance company will contribute to systemic risk because they can increase the company's interconnectedness with the broader financial sector. Most of the insurance industry representatives we spoke with, as well as some of the literature we reviewed, noted that insurers generally did not have interconnections with broader financial markets that would pose systemic risk. However some stakeholders said that nontraditional, noninsurance activities could increase a company's interconnections. IAIS has stated that the systemic importance of such activities increases as the activities expand the company's interconnectedness with noninsurance financial sectors. For example, IAIS noted that through its credit default swaps, securities lending, and other noninsurance activities, AIG was connected with many large commercial banks, investment banks, and other financial institutions. As a result, the U.S. government concluded that without assistance, AIG's failure could have caused cascading losses throughout the financial system. We have also pointed out the impact of AIG's activities in prior work.[28] Literature we reviewed also noted that increasing involvement of insurance companies in nontraditional, noninsurance activities was also increasing the interactions between insurance and banking, a development that has implications for financial stability. For example, one study concluded that in recent years, insurance companies had increased their involvement in alternative risk transfer instruments, such as insurance-linked securities, and that this activity had increased interconnectedness between insurers and banks.[29] Another study found that interconnectedness between insurers and the financial system has

[28] GAO, *Troubled Asset Relief Program: Status of Government Assistance Provided to AIG,* GAO-09-975 (Washington, D.C.: Sept. 21, 2009) and *Troubled Asset Relief Program: The Government's Exposure to AIG Following the Company's Recapitalization,* GAO-11-716 (Washington, D.C.: July 18, 2011).

[29] Faisal Baluch, Stanley Mutenga, and Chris Parsons, "Insurance, Systemic Risk, and the Financial Crisis," *The Geneva Papers*, vol. 36 (2011).

increased over time, largely because of life insurers and insurers specializing in financial guarantees.[30]

The extent of systemic risk posed by nontraditional, noninsurance activities likely depends on how an insurance company is managing the risks associated with the activities. For example, guaranteed investment contracts may create a systemic problem if an insurer is unable to manage liquidity demands created by higher than expected policyholder withdrawals. This could happen if, for example, interest rates rise sharply above what policyholders are receiving on their accounts, motivating them to move their money to the higher yields. However, maximum contribution and withdrawal rates, as well as penalties, can be written into the contracts to mitigate this risk. In addition, insurers may engage in hedging to mitigate this risk.[31] They could, for example, enter into interest rate derivatives contracts, whose values rise when interest rates rise. In its most recent Financial Sector Assessment Program report on the U.S. insurance sector, IMF noted that the insurance industry has made improvements in the management of exposures created by guarantees, including using certain hedging strategies. However, the report also noted that the effectiveness of these strategies during times of market turmoil remains uncertain.

In addition to nontraditional, noninsurance activities, some stakeholders have noted that even traditional features of insurance products can lead to systemic risk. For example, while some industry representatives we spoke with said that insurance products were not subject to bank-like runs that could lead to systemic failure, others have said that life insurers could be subject to such runs. In its justification for designating one insurance company for Federal Reserve supervision and enhanced prudential standards, FSOC wrote that the company could experience significant asset liquidations as the result of surrender and withdrawal requests, and that such liquidations could cause significant disruption to key markets. Dissenting views on FSOC's designation of this company noted that there are protections and disincentives that mitigate the risk of these runs on

[30]Faith Roberts Neale, Pamela Peterson Drake, Patrick Schorno, and Elias Semaan, "Insurance and Interconnectedness in the Financial Services Industry" (2012).

[31]Hedging is a method of mitigating risk where the risk bearer assumes two offsetting positions at the same time to mitigate the likelihood and size of a potential loss, regardless of the outcome of an event.

insurance companies, such as the ability of an insurance company to delay payment of early withdrawals and charge surrender fees, as well as the ability of state insurance regulators to manage significant policyholder surrender activity. FSOC wrote that although the company has the contractual ability to defer payouts on withdrawable liabilities and thus to reduce the need for asset liquidations, if this action were to be taken at a time when the company was experiencing material financial distress, it could spread concern about the company. Such concern could exacerbate the company's material financial distress and result in negative effects for counterparties, policyholders, and the broader industry. In addition, customers could become concerned about access to funds at other insurance companies with similar assets or product profiles, especially in the context of a period of overall stress in the financial services industry and in a weak macroeconomic environment.

Other factors that could contribute to systemic risk include the size of the company and the nature of its assets. Many experts and industry representatives we spoke with said that insurers do not pose systemic risk based on size alone, but some have said that size is an important factor. For example, a study analyzing insurers' contribution to systemic risk during the economic crisis showed that insurers' size, as measured by total assets and net revenues, was a significant factor.[32] The study noted that failures of large insurers could lead to doubts about the health of other insurers, potentially destabilizing the financial system. While insurers are connected to other counterparties through their assets, a few insurance industry representatives noted that their connections were not sufficiently large to pose systemic risk. However, one study we reviewed found that insurers' assets were distributed across a wide range of financial sectors, including corporate bonds, stocks, government bonds, and commercial mortgages.[33] The study asserts that the failure of an insurance company and the subsequent unwinding of its assets could trigger asset fire sales and pose a threat to the financial system.

IAIS has stated that it considers its capital standards to be essential for supporting international financial stability. Specifically, the HLA is designed to address notable risk posed by G-SII's nontraditional,

[32]Gregor N.F. Weiß and Janina Muhlnickel, "Why do some insurers become systemically relevant?" (Technische Universit¨at Dortmund, 2014).

[33]Acharya, Biggs, Richardson, and Ryan, 2009.

noninsurance activity and interconnectedness. As previously noted, the HLA is a capital add-on applied to the BCR, and while the standard is still in the early stages of development, it is intended to be a capital charge specifically for G-SIIs. In addition, according to IAIS, the ICS will reflect all material risks of IAIGs, including noninsurance risks. While IAIS has not yet specified how noninsurance risk will be accounted for in the ICS, the first ICS consultation draft states that the capital treatment of noninsurance financial activities will be expanded upon in future consultation processes. Also, group-wide capital standards could be used to help noninsurance affiliates of insurance groups in times of financial distress by moving capital from insurance entities to the affiliates. However as previously noted, uncertainties remain about when and how capital could be moved from one entity to another and how such transfers would be impacted by state insurance laws in the United States. IAIS has also stated that the capital standards for G-SIIs would reduce the probability and impact of any failure of these companies and thus reduce the expected systemic impacts of disorderly failure. In addition, according to IAIS these standards should be disincentives for other insurers to become systemically important and therefore designated as G-SIIs.

While, according to IAIS the main objective of the ICS is policyholder protection and financial stability, some industry representatives and state regulators we spoke with said that the current U.S. regulatory system was sufficient for its purpose—protecting policyholders—and that additional international capital standards were not needed. Specifically, once state insurance regulators determine an insurer is having solvency issues, they work with the insurer to resolve the issue, and if necessary can appoint a receiver and attempt to rehabilitate the company. If that fails, the state guaranty funds, which pay for covered claims in the event of an insurance company insolvency, help ensure that policyholders are protected. The funds do not prevent an insurance company from failing, but according to NAIC, they generally help policyholders to receive their claims quickly and help to ensure the stability of the insurance market.[34] Some stakeholders have noted that this focus on protecting policyholders made the U.S. regulatory approach different from other international systems that may

[34]Guaranty funds for life and P/C insurance are similar to the Federal Deposit Insurance Corporation for insured depository institutions. Guaranty funds pay covered claims within limits set by individual state laws and the insurance contract. For instance, the overall benefit "cap" in most states for an individual life or P/C policy is $300,000, though some states have maximums that are higher.

be more focused on preventing insurance company failures. These stakeholders said this system is appropriate for the United States and should not be changed by the introduction of international capital standards. For example, in commenting on the ICS consultation draft, officials from one internationally active insurance company noted that the ICS should be focused on requiring that insurance companies have the capital necessary to meet policyholder obligations and not on protecting other creditors. One researcher we spoke with, however, has expressed concern that state guaranty funds would not be sufficient to protect all policyholders if a large insurance company were to fail. In addition, in its most recent Financial Sector Assessment Program report, IMF noted that the overall soundness of the U.S. insurance sector cannot be adequately assessed without group-level capital requirements.

In addition, some insurance industry representatives and state regulators we spoke with said that insurance companies generally fared well during the last economic crisis, suggesting that the current regulatory structure and current capital standards were sufficient for helping insurance companies withstand downturns. Although insurance companies received various sources of assistance during the recent financial crisis, including direct capital support and liquidity support, IAIS has reported that, in general, the insurance business model enabled the majority of insurers to withstand the last financial crisis better than other financial institutions. In our June 2013 report on this issue, we also found that the effects of the financial crisis on insurers and policyholders were generally limited.[35] However, we found that some life insurers that offered variable annuities with guaranteed living benefits, as well as financial and mortgage guaranty insurers, were more affected by their exposures to the distressed equity and mortgage markets. We and others have also pointed to AIG as an example of an insurance group that suffered large losses and threatened broader financial stability, but some state regulators and industry representatives we spoke with noted that AIG's distress could not have been avoided even by having higher capital requirements in place. They also noted that the supervisory colleges that

[35]GAO, *Insurance Markets: Impacts of and Regulatory Response to the 2007-2009 Financial Crisis,* GAO-13-583 (Washington, D.C.: June 27, 2013).

are now in place would have detected risky activities involving AIG's insurance companies.[36]

Some Stakeholders Said That Tools Other Than Capital Requirements Also Help Reduce Risk

Many industry representatives and U.S. federal and state regulators we spoke with discussed the importance of tools other than capital requirements in monitoring and mitigating potential risk posed by insurance companies. FIO, the Federal Reserve, and NAIC described capital requirements as one of many tools available to regulators. Other tools that both regulators and industry representatives cited included the following:

- **Supervisory colleges:** These joint meetings of all regulators involved in supervising a company can include detailed discussions about a company's financial data, corporate governance, and enterprise risk management functions. According to NAIC, supervisory colleges, which generally started after the last financial crisis, are intended to facilitate oversight of internationally active insurance companies at the group level. Regulators and industry representatives we spoke with said that while supervisory colleges were a newer practice, they had shown promise in helping regulators detect and manage risk at the group level. One state regulator that had hosted supervisory colleges for two large insurance groups said the colleges were taken very seriously and serve as an opportunity for open and candid conversations about a company and its strategic objectives. Officials from another state regulator said the colleges had enhanced communications among international regulators and had proven to be effective in identifying group-wide risks. In addition, he said that the colleges had allowed regulators from various countries to better understand each other's practices and processes.

- **Own Risk and Solvency Assessments:** An Own Risk and Solvency Assessments is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and

[36]In December 2010, NAIC amended the Insurance Holding Company System Regulatory Act (Model #440) to address the way regulators determine risk by adding language related to supervisory colleges, among other things. Specifically, the amendments included introduction of and funding for supervisory colleges to enhance the regulators' ability to participate in the colleges and provide guidance on how to conduct, effectively contribute to, and learn from them. As previously noted, according to NAIC, 44 U.S. jurisdictions had adopted the model law revisions as of April 2015.

current and prospective solvency positions under normal and severe stress scenarios. Large- and medium-size U.S. insurance groups were required to begin regularly conducting Own Risk and Solvency Assessments starting in 2015. One insurance company representative said that Own Risk and Solvency Assessments had helped the company maintain an awareness of all of the risks they have undertaken. State insurance regulators we spoke with also told us that Own Risk and Solvency Assessments would be an important regulatory tool for them.

- **Enterprise Risk Management tools:** Insurance companies engage in enterprise risk management practices to obtain an enterprise-wide view of their risks and help management engage in risk-based decision making. Enterprise risk management generally has two goals: (1) to identify, evaluate, and quantify risks, and (2) to ensure that the organization actively implements risk treatment strategies and manages appropriate risk levels. Examples of specific enterprise risk management practices include identification and categorization of risks, well-defined risk tolerances, risk mitigation with cost-benefit analyses, and stress tests and other modeling approaches. FIO representatives and some state regulators we spoke with said that enterprise risk management practices were important to companies' risk management.

Supervisory colleges, Own Risk and Solvency Assessments, and enterprise risk management are practices that work together to reduce risk. For example, enterprise risk management practices can be used to conduct Own Risk and Solvency Assessments, and one insurer noted that supervisory colleges can help ensure that a company's enterprise risk management practices are properly identifying and mitigating risks. In its comments to IAIS on the ICS consultation draft, one insurance company suggested that the ICS should be made compatible with other regulatory tools such as Own Risk and Solvency Assessments and supervisory colleges. The comments stated that a supervisory college would likely voluntarily take action if a consolidated assessment of an insurance group revealed solvency concerns. The comments also noted that IAIS should develop standards and processes for supervisors to use in conducting such an assessment and not simply create a prescriptive formula for capital requirements.

Collaboration among U.S. IAIS Members Has Improved, but Opportunities to Enhance Collaboration Exist

U.S. IAIS members actively participated in the development of the new international capital standards for insurers at IAIS and in related U.S. collaborative efforts, which incorporated some leading practices for collaboration but not others. They led and participated in key IAIS committees and voted in the General Meeting. Collaboration among U.S. IAIS members has improved, and U.S. IAIS members and industry stakeholders were generally optimistic. We found that while the U.S. collaborative efforts were consistent with certain leading practices that we have identified, the U.S. IAIS members have opportunities to take additional steps in line with leading practices to enhance and sustain those efforts. U.S. industry stakeholder participation in the development of international capital standards has evolved, and occurs through IAIS, the U.S. collaborative efforts, and through individual agency efforts.

U.S. IAIS Members Participate in Key IAIS Committees and Vote in the IAIS General Meeting, and Other U.S. Stakeholders Have Limited Influence

As of March 2015, the U.S. IAIS members are NAIC, FIO, and the Federal Reserve.[37] NAIC was a founding member of IAIS in 1994. FIO became a member in 2011, after the Dodd-Frank Act created the office and gave it a range of authorities, including coordinating on international insurance matters, and representing the United States in IAIS, as appropriate.[38] The Federal Reserve became a member in 2013, after FSOC designated some insurers for enhanced supervision by the Federal Reserve.

The U.S. IAIS members have played an active role in the development of the international capital standards by participating in the IAIS General Meeting, voting in the Executive Committee, leading and participating in other relevant IAIS committees and subcommittees, and providing comments on IAIS consultation drafts (see fig. 4), as illustrated by the following:

- **General Meeting:** The U.S. IAIS members have 17 of approximately 160 votes in the General Meeting. Through this mechanism, U.S. IAIS members can help elect members of the Executive Committee, and

[37] As previously noted, NAIC represents the 50 U.S. state regulators, as well as regulators from the District of Columbia and the 5 U.S. territories. Each of these entities is also a member of the IAIS.

[38] Pub. L. No. 111-203, § 502, 124 Stat. 1376, 1580-81 (codified at 31 U.S.C. § 313).

adopt supervisory material developed by IAIS that has not already been adopted by the Executive Committee.

- **Executive Committee:** As of March 2015, the U.S. IAIS members had 3 of 24 votes in the Executive Committee: one NAIC member as the co-vice chair, another NAIC member as a voting member, and FIO.[39] Through this mechanism, the U.S. IAIS members (1) help ensure that any supervisory and supporting materials to be adopted by IAIS have been subject to an adequate consultation process among IAIS members and stakeholders, (2) adopt supervisory and supporting material developed by IAIS unless such a decision is deferred to the General Meeting, and (3) appoint Chairs and Vice Chairs for other committees.

- **Other relevant committees:** The U.S. IAIS members have leadership roles on six relevant IAIS committees, subcommittees, working groups, and task forces and membership in four additional relevant groups. For example, one NAIC member is the vice chair of the Financial Stability Committee and FIO is the chair of the Technical Committee. Through these mechanisms, U.S. IAIS members can contribute to reaching international consensus through discussions on issues related to financial stability, systemic risk, and macroprudential supervision and surveillance and development of international principles, standards, guidance, and other documents related to insurance supervision. These discussions generally are led by committee chairs and influence the development of consultation documents before the documents are made public.

- **Comments on IAIS consultation documents:** In addition to participating in discussions on issues related to international capital standards through work in relevant committees, the NAIC provides additional input to the development of the standards by submitting comments on IAIS consultation documents. For example, the NAIC has submitted comments on the BCR and ICS consultation documents.

[39]U.S. IAIS members have four members on the Executive Committee, three of whom are voting members. FIO would be an ex officio, non-voting member of the Executive Committee due to its role as Technical Committee Chair. However, NAIC and FIO officials told us that as of March 2015, one NAIC voting member ceded his vote to FIO as a proxy. The two remaining NAIC members have votes as the co-vice chair and a voting member. All NAIC Executive Committee members are state insurance commissioners.

Figure 4: U.S. Participation in IAIS Groups Involved in Development of International Capital Standards, as of March 2015

	Federal Reserve	FIO	NAIC
IAIS Entity			
Executive Committee		Member	Vice chair or co-vice chair
Technical Committee	Member	Chair	Member
Accounting and Auditing Working Group	Member	Member	Member
Governance Working Group		Member	Vice chair or co-vice chair
Insurance Groups Working Group	Member	Member	Member
Financial Stability Committee	Member	Member	Vice chair or co-vice chair
G-SII Analysts Working Group	Member	Member	Member
G-SII Policy Measures Task Force	Member	Chair	Member
Working Groups Reporting Jointly to the Technical Committee and the Financial Stability Committee			
Resolution Working Group	Member	Member	Member
Field Testing Working Group	Member	Vice chair or co-vice chair	Member
Capital Development Working Group	Member	Member	Member

Key: Member; Vice chair or co-vice chair; Chair

Legend

G-SII – global systemically important insurers
IAIS – International Association of Insurance Supervisors
NAIC – National Association of Insurance Commissioners
FIO – Federal Insurance Office

Sources: GAO analysis of information from IAIS, the Federal Reserve, FIO, and the NAIC. | GAO-15-534

The U.S. IAIS members told us that their work through these mechanisms contributed significantly to the development of the IAIS international capital standards. U.S. IAIS members who chaired committees and subcommittees had the authority to set timelines for reaching decisions on issues and then decide when to bring up an issue for formal decision, and U.S. IAIS members who were members of committees and subcommittees also contributed to consensus building. According to the U.S. IAIS members and several industry stakeholders, their efforts also had a significant effect on specific topical areas. For example, they told us that the U.S. IAIS members were largely responsible for developing the international consensus that led IAIS to include a GAAP-adjusted valuation approach in the ICS consultation document and 2015 field testing. IAIS originally intended for the ICS to use the market-adjusted valuation approach, which many U.S. stakeholders have said is incompatible with U.S. accounting standards, but the U.S. IAIS members said that they had made a successful coordinated effort for the ICS to include the GAAP-adjusted valuation approach as a second approach. FIO also said that setting the final scaling factor in the BCR formula, which can increase or decrease the overall BCR results, was another area where U.S.IAIS members had worked with international counterparts to shape an appropriate consensus.[40]

Collaborative Efforts among U.S. IAIS Members Have Improved, but Are Not in Line with Some Leading Practices

U.S. IAIS members and many industry stakeholders we interviewed indicated that initially, after FIO and the Federal Reserve joined NAIC as U.S. IAIS members, U.S. IAIS members did not collaborate effectively or speak with a unified voice on international capital standards for insurers. Given their different authorities, the U.S. IAIS members each had different focuses and perspectives related to international capital standards. For example, in 2015, the International Monetary Fund reported that state insurance regulators and the Federal Reserve had different focuses and potential conflicts between their mandates regarding group-wide supervision. The International Monetary Fund found that the state insurance regulators focused on policyholder protection, while the Federal

[40]The scaling factor may be modified depending on the HLA requirements as well as refinement work during the period of confidential BCR reporting, the results of further analyses through additional data collection and field testing, and consensus by IAIS members as to final changes and adoption of a final standard.

Reserve focused on depositor protection.[41] Furthermore, FIO and the Federal Reserve were new to IAIS and said that they did not have official policies guiding their work in IAIS or in collaboration with other U.S. IAIS members on international capital standards. U.S. IAIS members and stakeholders pointed to areas of public disagreement between FIO and NAIC on issues such as FIO's potential role in supervisory colleges, the general need for the ICS, and which insurance products would count as nontraditional, noninsurance—a major factor in the formula used to determine which insurers would be designated as G-SIIs. Also, one industry association said that FIO and NAIC running against each other for the chair of the IAIS Technical Committee in the fall of 2012 detracted from the U.S.'s ability to speak with a united voice. Most insurers and an industry association we interviewed indicated that the lack of a unified U.S. view initially reduced U.S. influence in the IAIS, and some insurers indicated that this was one factor that enabled foreign regulators to strongly influence initial IAIS work on capital standards.

Early on, the U.S. IAIS members took some steps to coordinate their positions on various substantive and procedural issues at IAIS through information sharing. FIO officials said that, as authorized in the Dodd-Frank Act, FIO began to coordinate the U.S. IAIS members by organizing regular phone calls among high-level U.S. officials to discuss key items for IAIS meetings and among staff on technical issues. The Federal Reserve and the NAIC also took steps that helped coordinate their work with the other U.S. IAIS members. For example, Federal Reserve officials told us that they continued sharing information with state regulators on SIFIs that were also designated as G-SIIs with state regulators, and NAIC officials said that FIO and the Federal Reserve responded to some NAIC invitations to participate in NAIC meetings that addressed international capital standards, such as NAIC conference calls leading up to IAIS meetings, relevant parts of NAIC national meetings, and NAIC ComFrame Development and Analysis Working Group calls. Additionally, all three U.S. IAIS members said that their staff members had long been in regular, informal communication regarding international capital standards.

[41] International Monetary Fund, "United States: Financial Sector Assessment Program: Detailed Assessment of Observance of Insurance Industry Core Principles," *IMF Country Report No. 15/90* (Washington, D.C.: April 2015).

U.S. IAIS members strengthened their focus on collaboration as IAIS activity related to international capital standards increased, and our analysis of information they provided shows that their collaborative efforts are in line with some but not all leading practices for implementing and sustaining interagency collaborative efforts. In our September 2012 report on interagency collaboration, we found that it is difficult to sustain collaborative efforts on issues that touch upon the responsibilities of multiple agencies and identified leading practices for implementing and sustaining interagency collaborative efforts.[42] Although collaborative mechanisms differ in complexity and scope, they all benefit from certain key features that agencies should consider when implementing and sustaining these mechanisms, such as leadership, outcomes and accountability, and participants, among other things. Appendix II contains more information on the key features we have identified in past reports.

Leadership

The U.S. IAIS members have taken some steps that are in line with leading practices related to leadership and collaborative efforts. But they have not yet taken steps to help ensure that leadership will be sustained over the long term, consistent with leading practices that we have previously identified. Officials from FIO, the Federal Reserve, and NAIC cited the following examples:

- The members developed an informal leadership structure and decision-making process for their collaborative efforts, with FIO coordinating the efforts. They established an unofficial steering committee of high-level officials from FIO and the Federal Reserve, and three state insurance commissioners appointed by NAIC. The steering committee provides general leadership and organizes monthly teleconferences to discuss agenda items for upcoming IAIS meetings and coordinates issues and strategies across work streams. Members also established an informal decision-making process in which they aim for consensus while accepting that they might not always reach it. We have previously said that agreeing on roles and responsibilities helps agencies organize joint and individual efforts, and facilitates decision making.[43]

[42] GAO-12-1022. We determined that leading practices related to leadership, outcomes and accountability, and participants were the most notable for this report.

[43] GAO-06-15.

- The members identified and agreed on four key technical areas of the ICS to work on—segmentation, valuation, capital requirements, and capital resources—and created work streams around them. Although the work streams do not have official chairs, leadership has been shared among the U.S. IAIS members. FIO has taken the lead in the segmentation work stream and the valuation work stream, with the Federal Reserve leading technical work on a data template and instructions. The Federal Reserve has taken the lead in the capital requirements work stream, with FIO and NAIC leading work in specific risk categories. Leadership of the capital resources work stream is more evenly distributed among members, with FIO serving as the overall coordinator. We have previously found that distributing leadership responsibility for certain group activities among members can help keep members engaged.[44]

- High-level staff from each member provided strong leadership to the efforts by actively participating in regular meetings, often in person. We have previously said that committed leadership at all levels of an organization is needed to overcome the many barriers to working across agency boundaries.[45] In addition, we have previously found that interagency groups benefit from involving high-level leaders who could help recruit key participants and make policy-related decisions requiring a high level of authority.[46]

- The U.S. IAIS members have not yet taken steps to help ensure that leadership will be sustained over the long term.[47] The tenure of high-level officials who participate in the U.S. collaborative efforts—especially the state insurance commissioners who are political appointees—is not guaranteed through the scheduled start of implementation of the ICS and ComFrame in 2019. Federal Reserve and FIO officials said that personal commitment from high-level officials contributed to the effort's success to date, and said that a change in leadership would be a setback for the effort. Federal Reserve officials also said that there was a need to strategically

[44]GAO, *Managing for Results: Implementation Approaches Used to Enhance Collaboration in Interagency Groups*, GAO-14-220 (Washington, D.C.: Feb. 14, 2014).

[45]GAO-06-15.

[46]GAO-14-220.

[47]GAO-12-1022 and GAO-14-220.

consider how to sustain the collaborative efforts, and said that they were in the process of filling five related positions and were beginning to consider succession planning. FIO officials said that they have not yet considered succession planning, but they have been trying to establish a precedent for collaboration. NAIC officials agreed that it was important to sustain leadership in the collaborative efforts, noting that they tried to select commissioners who were better able to make long-term commitments for participation in the collaborative effort. NAIC officials also said that because there was external pressure to remain involved in IAIS and that interest in the process was not likely to subside, signing a memorandum of understanding or similar document would likely not significantly increase agency commitment. As we have previously said, given the importance of leadership to any collaborative effort, transitions and inconsistent leadership can weaken its effectiveness.[48] Consequently, it is important for participating agencies to consider how leadership will be sustained over the long term.

Outcomes and Accountability

The U.S. IAIS members have taken steps in line with leading practices related to outcomes and accountability for collaborative efforts, but could take additional steps to improve organizational accountability, such as addressing the work done in U.S. collaborative efforts in agency annual reports, as shown in the following examples:

To establish shared goals that resonate with all participants, the members took steps, such as starting the collaborative effort with the most directly affected participants and then broadening it to include other stakeholders, as well as identifying shared interests early. The members agreed to aim to establish consensus on each of the four technical issues mentioned earlier, and then build on work in these areas to establish a more unified U.S. view on the ICS. We have previously identified that these approaches are effective ways to help define outcomes that represent the collective interests of all participants and gain support in achieving the objectives of the collaboration.[49] We have also identified that establishing such goals provides agencies with a reason to continue participating in the process.[50]

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[48]GAO-12-1022.

[49]GAO-14-220.

[50]GAO-12-1022.

- The Federal Reserve and FIO, through Treasury, have goals in their strategic plans that are compatible with those of the collaborative efforts.[51] For example, the Federal Reserve's 2012-2015 Strategic Framework has a strategic objective related to strengthening the stability of the financial sector through the development of policies, tools, and standards.[52] Also, Treasury's 2014-2017 Strategic Plan has strategic objectives related to implementing financial regulatory reform initiatives, addressing threats to financial stability, and advancing U.S. interests through multilateral mechanisms.[53] We have previously identified that federal agencies can use their strategic plans to reinforce accountability for the collaboration by aligning agency goals and strategies with those of the collaborative efforts.[54]

- Federal Reserve and FIO annual reports have not yet addressed the work done in U.S. collaborative efforts. While Federal Reserve and FIO officials both mentioned IAIS in their most recent annual reports, the annual reports do not discuss their agencies' actions in IAIS or in the collaborative efforts.[55] NAIC's most recent annual report discusses NAIC's actions in IAIS and mentions ongoing discussions with FIO and the Federal Reserve regarding group capital.[56] One high-level FIO official said FIO would consider including discussions of progress made in the collaborative efforts in future annual reports, but as of 2014, the reports have generally been focused on the status and progress of broader efforts. Federal Reserve officials also said that there could be an opportunity to report on the collaborative efforts in future annual reports. NAIC officials said that details of collaborative efforts were discussed in NAIC national meetings. We have previously identified that reporting publicly on collaborative efforts can strengthen

[51]Because NAIC is not a federal agency, it is not required to have a strategic plan.

[52]Board of Governors of the Federal Reserve System, *Strategic Framework for 2012-2015* (Washington, D.C.: February 2013).

[53]Department of the Treasury, *Strategic Plan for Fiscal Years 2014-2017*(Washington, D.C.: Mar. 10, 2104).

[54]GAO-06-15.

[55]Federal Insurance Office, Department of the Treasury, *Annual Report on the Insurance Industry* (Washington, D.C.: September 2014). Board of Governors of the Federal Reserve System, *100th Annual Report* (Washington, D.C.: May 2014).

[56]National Association of Insurance Commissioners, *2014 Annual Report* (Kansas City: March 2015).

participating agencies' commitment to working collaboratively by reinforcing accountability through public reporting of results so that efforts can be tracked and monitored.[57]

There are several reasons why the collaborative efforts do not include some leading practices that we had identified as being key to implementing and sustaining interagency collaborative efforts. Primarily, U.S. IAIS members and industry stakeholders mentioned:

- this is the first time that the federal agencies and state regulators had worked together on international insurance matters in IAIS, and the United States has never before had a supervisory standard for group capital for insurers;
- U.S. activity surrounding the capital standards was still in its early stages and had increased only recently;
- U.S. IAIS members are not statutorily required to collaborate with each other, and are sorting through ideological challenges related to the integration of federal authorities in U.S. insurance regulation; and
- the responsibility for the implementation and enforcement of the proposed standards would be split among many regulators.

While U.S. IAIS members and most U.S. insurers and insurance associations we interviewed were optimistic about the recent collaborative efforts, some industry stakeholders said that it was too soon to tell whether the efforts would be effective. U.S. IAIS members and most industry stakeholders we interviewed generally agreed that recent collaborative efforts improved upon past coordination and helped create a more unified U.S. view on the ICS, and also improved engagement with U.S. industry stakeholders. Additionally, U.S. IAIS members and some industry stakeholders said that the collaborative efforts had generated new ideas, such as the GAAP-adjusted valuation approach, which NAIC officials said met the needs of all U.S. parties. FIO also said that collaboration had improved over time as the participants learned through experience how to best coordinate and share analysis, information, and views. However, some stakeholders said that the effectiveness of the collaborative effort remained unproven because it had yet to achieve its long-term goal of establishing a more unified U.S. view on the ICS, and

[57] GAO-06-15 and GAO-12-1022.

that it was unclear whether the U.S. IAIS members would be able to agree on related issues, such as insurance group capital standards. Another stakeholder noted that they would like the collaborative efforts to increase interaction with U.S. G-SIIs because such interaction would encourage greater transparency and generate specific, technical feedback from G-SIIs that was necessary to develop and implement the international capital standards.

Following additional leading practices related to leadership and outcomes and accountability could help U.S. IAIS members enhance and sustain their collaborative efforts. Although U.S. IAIS members have different authorities and are not required to collaborate in IAIS, they have said that establishing a more unified U.S. view on the ICS is important because doing so would allow the U.S. IAIS members to better contribute to IAIS discussions on capital standards. Because the U.S. IAIS members have yet to meet this goal and will need to collaborate until at least 2019, the scheduled date for IAIS to pass and ask countries to begin to implement the ICS, it is important to ensure that collaborative efforts are effective and can be sustained. Additional steps taken now to enhance and sustain collaboration, while the development of international capital standards is in the relatively early stages, could help U.S. IAIS members better advocate for standards that reflect the interests of U.S. insurance regulators, industry, and consumers over the long term.[58]

U.S. Industry Stakeholder Participation in Development of International Capital Standards Has Evolved

U.S. industry stakeholders provided some direct input to IAIS on the development of international capital standards. According to FIO, eight insurance companies served as field testers for proposed standards. Also, most of the insurers and insurance industry associations we interviewed submitted comments on consultation documents to IAIS, and two had also submitted relevant research for IAIS consideration. While IAIS received comments representing a diversity of views, some noted that IAIS did not always incorporate the comments they submitted via

[58]Treasury's Office of the Inspector General also reported that while FIO has engaged in numerous activities as a member of IAIS, it could improve its consultative efforts with state insurance regulators. Specifically, the Office of the Inspector General recommended that FIO build on its existing consultation processes with state insurance regulators to provide more consistent communication, timely dissemination, consideration of solicited feedback, and increased transparency of FIO's activities relating to IAIS. See Department of the Treasury, Office of Inspector General, *FIO's Consultation Process with State Insurance Regulators Could Be Improved*, OIG-15-032 (Washington, D.C.: May 15, 2015).

these mechanisms. Additionally, although attendance at IAIS committee meetings was often open only to IAIS members, under earlier IAIS policy many industry stakeholders held observer status, which allowed them to pay annual membership fees in order to participate in select IAIS meetings but not to vote. For example, we observed that IAIS meetings preceding the 2014 IAIS annual conference included a session where five sets of observers gave presentations on the proposed structure and nature of the ICS, and a dialogue between observers and members of the IAIS Technical and Financial Stability Committees subsequently occurred.

However, IAIS recently changed its policies for stakeholder consultation and meeting attendance. IAIS issued related consultation documents, solicited stakeholder comments, and voted to pass and implement the policies between July 2014 and January 2015. The new stakeholder consultation policy eliminated observer status but established public consultation sessions with stakeholders on the development of all supervisory and supporting material, public sessions with the Executive Committee, public dialogues and/or hearings, and timely public information on IAIS activities. IAIS has taken steps that demonstrate how it may implement the new stakeholder consultation policy. For example, beginning in February 2015, IAIS started a series of six meetings to discuss ComFrame and capital standard development. We observed that the first meeting offered stakeholders the opportunity to provide comments on the ICS consultation document and ask related questions to members of the IAIS Capital Development and Field Testing Working Groups, who said that feedback would be incorporated into the 2015 round of field testing. as appropriate. Under the new policy for meeting attendance, committee or subcommittee chairs could invite guests to closed meetings when there was a specifically identifiable need for input in order to provide additional perspective or input into matters being developed at the committee/subcommittee levels and help ensure that all relevant substantive views are being considered.

While not enough time has passed to assess the effects of changes to IAIS policies for stakeholder consultation and meeting attendance, IAIS, U.S. IAIS members, and U.S. industry stakeholders we interviewed had mixed views on the changes. IAIS said that these changes would make the process of obtaining stakeholder input more effective, efficient, consistent, transparent, and predictable. The Federal Reserve said that the new policies would make the IAIS rulemaking process more transparent and help IAIS be fully independent of the entities it regulates. FIO said that the new policies would promote IAIS efficiency, independence, and transparency. NAIC voted against the new policies, and said that they would decrease IAIS transparency and make it more difficult for IAIS to achieve optimum regulatory outcomes or reach broad consensus on the standards. NAIC noted that those most affected by the standards—the industry and consumers—would not be able to provide as much input as before. U.S. industry stakeholders we interviewed generally expressed negative opinions on the new policies. Specifically, they were often concerned that the new policies could decrease the transparency of the IAIS capital standard development process and that by the time IAIS allowed them to provide input, it would be too late to make a difference because the decisions would have effectively been made. However, one G-SII said that the new policy for stakeholder engagement was appropriate, reflected key alterations sought by both U.S. industry stakeholders and U.S. IAIS members, and encouraged significant interaction with regulatory standard setters.

U.S. industry stakeholders have also been involved in the U.S. collaborative efforts, providing input that informs U.S. IAIS members' efforts related to the development of international capital standards for insurers in IAIS. For example, agency officials told us the following:

- U.S. IAIS members worked with eight U.S. insurers who were IAIS field testers. Specifically, they communicated with the field testers and their primary regulators on their experience testing the proposed international capital standards and reviewed the data the field testers planned to submit to IAIS. Officials said that this effort helped them verify that the data were of good quality and understand U.S. data before holding related discussions with foreign regulators in IAIS committees.

- U.S. IAIS members have involved industry stakeholders with technical expertise in the four work streams mentioned earlier, and incorporated some of the industry stakeholder feedback in their work.

- U.S. IAIS members held four meetings to discuss the results of field testing and technical issues related to the ICS consultation draft with IAIS field testers and other insurers in August 2014, October 2014, January 2015, and February 2015. The last three meetings included additional industry stakeholders, such as large domestic-only insurers and insurers with foreign parent companies. Federal Reserve officials said that they were reviewing comments and considering them as they developed their own position on the ICS in areas such as field testing specifications and potential changes in approach. Additionally, according to Federal Reserve officials, the U.S. IAIS members are planning to hold meetings on similar topics in the near future.

Although U.S. IAIS members disagreed on whether the FSOC independent member with insurance expertise would be a relevant participant in U.S. collaborative efforts, U.S. IAIS members agreed that FIO had generally involved the right industry stakeholders. We have previously identified that ensuring that the relevant participants have been included in the collaborative effort, including organizations from the private sector, is important.[59]

In addition to providing direct input to IAIS and being involved in the U.S. collaborative efforts, U.S. industry stakeholders have also discussed the development of international capital standards with U.S. IAIS members through other mechanisms, described in the following examples:

- FIO discussed international capital standards with the Federal Advisory Committee on Insurance (FACI), a committee that Treasury created to provide advice and recommendations that assist FIO in carrying out its statutory authority, and has members including a range of industry representatives. For example, according to FACI documents from September 2013 and August 2014, FIO provided FACI with high-level explanations of objectives for international capital standards and issues related to implementation, and responded to questions from FACI members. In November 2014, FIO gave a presentation to FACI that provided additional information on topics including U.S.-specific activities related to the international capital standards, such as field testing and collaborative efforts to develop a unified U.S. view.

- Federal Reserve officials told us that they had accepted numerous requests for informal meetings with insurers on how international policies could potentially affect them.

- NAIC committees that address international capital standards for insurers—such as the International Insurance Relations Committee and ComFrame Development and Analysis Working Group—held open meetings, through which industry stakeholders could learn about NAIC's work at IAIS and provide both conceptual and technical input.

[59] GAO-12-1022.

For example, from 2013 through 2015, the NAIC groups held open conference calls and meetings on issues such as IAIS observer and stakeholder meetings; designation of G-SIIs and development of G-SII policy measures; the role of capital in ComFrame; IAIS work related to the development of the BCR, HLA, and ICS; and NAIC comments for submission to IAIS on the BCR and ICS consultation documents.

Conclusions

IAIS is in the early stages of developing international capital standards for insurers, and key decisions still need to be made. The development process will continue until at least 2019 and could affect large, internationally active U.S. insurers. Effective long-term collaboration among U.S. interests in this process is essential to ensuring a reasonable outcome for the U.S. insurance industry and its regulators. The international standards are being developed in a large multilateral forum in which many national regulators advocate for standards that will align with their national interests. In this multilateral setting, the U.S. members could better advance U.S. interests and concerns with a more unified voice. Given that U.S. IAIS members have different authorities and areas of focus, they may not be likely to reach similar positions without effective coordination. Further, because the development process will span at least 4 more years, a unified U.S. presence with sustained leadership is essential. Recently, the U.S. IAIS members have increased their focus on collaborating with each other and with U.S. stakeholders, and are aiming to establish a more unified U.S. view on the ICS. Engaging in leading collaboration practices, such as sustaining long-term leadership and developing better public reporting of its efforts, would help U.S. IAIS members enhance their efforts and better advocate for the interests of U.S. insurance regulators, industry, and consumers.

Recommendation

To enhance and sustain future U.S. participation in the development of international capital standards for insurers, the Secretary of the Treasury should direct the Director of FIO, in consultation with the Federal Reserve and NAIC, to enhance future collaborative interagency efforts by following additional leading practices for collaboration, such as taking steps to sustain leadership over the long term and publicly reporting on their efforts, for example in annual reports.

Agency Comments and Our Response

We provided a draft of this report to FIO, the Federal Reserve, FSOC, the Office of the U.S. Trade Representative, and NAIC for review and comment. FIO concurred with our recommendation, and its written comments are reprinted in appendix III. The Federal Reserve, FSOC, the U.S. Trade Representative, and NAIC provided us with technical comments, which we incorporated as appropriate.

In concurring with our recommendation that FIO enhance future collaborative efforts by following additional leading practices, FIO said that the agency would build on its existing collaboration process by following leading collaboration practices discussed in the report. Further, FIO said that it would discuss U.S. IAIS members' collaboration in FIO's annual report. Finally, it noted that the office would take steps to sustain U.S. leadership at IAIS over the long term.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Director of the Federal Insurance Office, the Chair of the Board of Governors of the Federal Reserve System, the Secretary of the Treasury as the Chairperson of FSOC, the U.S. Trade Representative, and the President of NAIC. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or evansl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Lawrance L. Evans, Jr.

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Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

To examine the development and potential effects of these international capital standards for U.S. insurers, we reviewed (1) the status of the development and implementation of the international standards; (2) what is known about the potential effects of applying international capital standards to U.S. insurers; (3) industry and other stakeholder views on the need for an international group-level capital standard for insurance companies; and (4) the extent to which U.S. regulators are collaborating with each other, and considering the views of industry and other stakeholders, in developing a U.S. position on international capital standards.

To address all of these objectives, we interviewed insurance industry stakeholders, reviewed IAIS documentation, and attended relevant meetings and conferences. Specifically, we interviewed federal agencies—the Federal Insurance Office, the Board of Governors of the Federal Reserve System, and the Financial Stability Oversight Council (FSOC)—as well as the National Association of Insurance Commissioners (NAIC) and several former and current state insurance regulators that will likely supervise internationally active insurance groups (IAIG). We spoke with the offices of the former insurance commissioner from Connecticut, as well as the offices of the current insurance commissioners from New Jersey, New York, Nebraska, and Pennsylvania. Additionally, we spoke with the current insurance commissioner from Missouri because he was a member of FSOC. We also interviewed representatives of the International Association of Insurance Supervisors (IAIS), credit rating agencies, the American Academy of Actuaries, and the National Conference of Insurance Legislators.

In addition, we interviewed representatives of all three U.S.-based insurance groups that have been designated as global systemically important insurers (G-SII). Using the IAIS criteria for identifying IAIGs and SNL Financial data, which we determined to be reliable for these purposes by reviewing related documentation and conducting electronic testing of the data, we identified the U.S.-based companies that would likely meet the criteria and interviewed three of these companies. We also interviewed two non-U.S.-based companies that would likely be IAIGs; two large, internationally active U.S.-based insurers that would not likely meet the criteria for being IAIGs; as well as a large U.S.-based company that is not internationally active but had participated in the U.S. collaborative efforts. We selected companies to include both property/casualty and life insurers, as well as those that were participating as field testers for the international capital standards. We also interviewed two insurance industry associations—the Property Casualty Insurers Association of America and the American Council of Life Insurers. Additionally, to obtain their views on the international capital standards, we interviewed regulators from two other countries and insurance industry associations from three other countries that had recently implemented similar types of capital standards for insurers, had a large presence of U.S.-based insurers, and had either a G-SII or potential IAIG domiciled in the country. We also reviewed relevant documentation related to standards, including consultation drafts of the standards, stakeholder comments on the draft standards, and IAIS documentation, such as on financial stability and identifying G-SIIs. Finally, we attended the 2014 IAIS annual meeting in Amsterdam, an IAIS stakeholder meeting in Los Angeles, as well as three NAIC meetings related to the development of the standards.

To examine the need for and potential effects of the international capital standards, we conducted a literature review of 38 studies that reviewed systemic risk or international capital standards, identified through online databases such as ProQuest and EconLit. We created a standardized template to capture information from each study. We used the studies as testimonial evidence regarding differing viewpoints on the need for and the potential effect of enhanced capital standards, and we reviewed their methodologies to ensure that they were sufficiently reliable for these purposes. We also interviewed two academics who have studied these issues. In addition, we analyzed data from SNL Financial to determine the number of G-SIIs and IAIGs that were offering variable annuities with guaranteed benefits, and guaranteed investment contracts. We determined the data to be reliable for these purposes by reviewing related documentation and conducting electronic testing of the data. To assess the extent to which U.S. regulators are collaborating with each other and industry stakeholders in developing a U.S. position on the standard, we reviewed past GAO reports that establish criteria for effective collaboration.[1] We also reviewed agency documentation, such as strategic plans and annual reports, to better understand the extent to

[1]GAO, *Results-oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: October 21, 2005) and GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022 (Washington, D.C.: September 27, 2012). GAO, *Managing for Results: Implementation Approaches Used to Enhance Collaboration in Interagency Groups,* GAO-14-220 (Washington, D.C.: February 14, 2014).

which the agencies were meeting these criteria. We also spoke with officials at the U.S. Trade Representative about its potential involvement in the implementation of the standards. The officials clarified that the U.S. Trade Representative would not be involved in the implementation of international capital standards for insurers.

We conducted this performance audit from July 2014 to June 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Key Features and Issues to Consider When Implementing Collaborative Mechanisms

Given agencies' long-standing challenges working across organizational lines, in 2005 we identified the following practices that can help enhance and sustain collaboration among federal agencies, including:[1]

- define and articulate a common outcome;
- establish mutually reinforcing or joint strategies;
- identify and address needs by leveraging resources;
- agree on roles and responsibilities;
- establish compatible policies, procedures, and other means to operate across agency boundaries;
- develop mechanisms to monitor, evaluate, and report on results;
- reinforce agency accountability for collaborative efforts through agency plans and reports; and
- reinforce individual accountability for collaborative efforts through performance management systems.

In 2012, we built on our past work and developed key issues for Congress and others to consider when implementing interagency mechanisms that the federal government uses to collaborate.[2] These key issues and features are listed in table 1, below.

[1]GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

[2]GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms,* GAO-12-1022 (Washington, D.C.: Sept. 27, 2012).

Table 2: Key Features and Issues to Consider When Implementing Collaborative Mechanisms

Key feature	Issues to consider
Outcomes and accountability	Have short-term and long-term outcomes been clearly defined?
	Is there a way to track and monitor their progress?
	Do participating agencies have collaboration-related competencies or performance standards against which individual performance can be evaluated?
	Do participating agencies have the means to recognize and reward accomplishments related to collaboration?
Bridging organizational cultures	What are the missions and organizational cultures of the participating agencies?
	What are the commonalities between the participating agencies' missions and cultures and what are some potential challenges?
	Have participating agencies developed ways for operating across agency boundaries?
	Have agencies agreed on common terminology and definitions?
Leadership	Has a lead agency been identified?
	If leadership is shared, have roles and responsibilities been clearly identified and agreed upon?
	How will leadership be sustained over the long term?
Clarity of roles and responsibilities	Have participating agencies clarified roles and responsibilities?
	Have participating agencies articulated and agreed to a process for making and enforcing decisions?
Participants	Have all relevant participants been included?
	Do they have full knowledge of the relevant resources in their agency; the ability to commit these resources; the ability to regularly attend activities of the collaborative mechanism; and the appropriate knowledge, skills, and abilities to contribute?
Resources	How will the collaborative mechanism be funded? If interagency funding is needed, is it permitted? If interagency funding is needed and permitted, is there a means to track funds in a standardized manner?
	How will the collaborative mechanism be staffed? Are there incentives available to encourage staff or agencies to participate?
	If relevant, do agencies have compatible technological systems? Have participating agencies developed online tools or other resources that facilitate joint interactions?
Written guidance and agreements	If appropriate, have participating agencies documented their agreement regarding how they will be collaborating?
	Have they developed ways to continually update and monitor these agreements?

Source: GAO-12-1022 | GAO-15-534

Appendix III: Comments from the Federal Insurance Office

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 2, 2015

Mr. Lawrance L. Evans, Jr.
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G St. NW
Washington, DC 20548

Dear Mr. Evans:

This letter responds to the draft report (Draft) regarding collaboration among U.S. stakeholders, including the Federal Insurance Office (FIO), in the International Association of Insurance Supervisors (IAIS) development of International Capital Standards (ICS). FIO appreciates the work of the Government Accountability Office (GAO) on this Draft, and values your office's feedback on these important issues. This letter provides FIO's official response to the Draft, supplementing earlier technical comments.

Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes FIO "to coordinate Federal efforts and develop Federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the [IAIS]." Separately, FIO is authorized "to consult with the States (including State insurance regulators) regarding insurance matters of national importance and prudential insurance matters of international importance."

We are pleased that the Draft recognizes that the U.S. IAIS members, including FIO, have played an active role in the development of the ICS. We also appreciate that the Draft concludes that collaboration between FIO, state insurance regulators, and the Board of Governors of the Federal Reserve System (FRB) is in line with some leading practices for implementing and sustaining interagency collaborative efforts.

We agree with the Draft's recommendation that FIO build on its existing collaboration process with State insurance regulators and the FRB by following the leading practices for collaboration identified in the report. For example, FIO agrees to discuss collaboration by U.S. IAIS members in FIO's Annual Report, and will also take steps to sustain U.S. leadership at the IAIS over the long term.

Thank you for your office's work on the Draft. We look forward to working with your office in the future.

Sincerely,

Michael T. McRaith
Director, Federal Insurance Office

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Lawrance L. Evans, Jr., (202) 512-8678, evansl@gao.gov.

Staff Acknowledgments

In addition to the contact named above, Patrick A. Ward (Assistant Director), Winnie Tsen (Analyst-in-Charge), Jordan Anderson, Nancy Barry, Bethany Benitez, Chloe Brown, Emily Chalmers, David Dornisch, Janet Eakloff, Courtney LaFountain, Scott McNulty, Joseph Silvestri, Jena Y. Sinkfeld, Sarah Veale, and Jack Wang made significant contributions to this report.

Appendix V: Accessible Data

Data Table for Figure 1: International Bodies with Roles in the Development of International Standards or Insurance Regulation

Tier 1	G20		
Tier 2	FSB		
Tier 3	International standard-setting bodies (including IAIS, Basel Committee on Banking Supervision, and International Accounting Standards Board).	International bodies (including International Monetary Fund and the World Bank).	National finance ministries, financial regulatory authorities, and central banks (including the Federal Reserve, Securities and Exchange Commission, and Treasury).

Source: GAO. | GAO-15-534

Legend: **G20** = Group of Twenty; **FSB** = Financial Stability Board; **IAIS** = International Association of Insurance Supervisors.

Data Table for Figure 2: Organizational Structure of IAIS, as of March 2015

	IAIS entities involved in development of international capital standards	IAIS entities involved in development of international capital standards, reporting jointly to Financial Stability and Technical Committees	All other groups and task forces
Tier 1	General Meeting		
Tier 2	Executive Committee		Coordination Group
Tier 3			Supervisory Forum, G-SII Methodology Task Force
Tier 4	Technical Committee, Financial Stability Committee		Implementation Committee, Budget Committee, Audit and Risk Committee
Technical Committee subgroups	Accounting and Auditing Working Group, Governance Working Group, Insurance Groups Working Group	Resolution Working Group, Field Testing Working Group	Market Conduct Working Group, Financial Crime Task Force
Financial Stability Committee subgroups	G-SII Analysts Working Group, G-SII Policy Measures Task Force	Capital Development Working Group	Macroprudential Policy and Surveillance Working Group
Implementation Committee subgroups			Financial Inclusion Working Group, Signatories Working Group, Supervisory Development Working Group, SAPR Task Force on Market Conduct, SAPR Task Force on Supervisory Measures

Source: GAO. | GAO-15-534

Legend: **G-SII** = Global systemically important insurer; **IAIS** = International Association of Insurance Supervisors; **SAPR** = Self-Assessment and Peer Review.

(250786)

Data Table for Figure 3: Key Milestones for the Implementation of International Capital Standards for Insurers, as of March 2015

	Date range	Milestone
BCR	July 2013	IAIS issued methodology for identifying G-SIIs and G-SII policy measures, FSB issued initial G-SII list. (Applies to more than one international capital standard)
	December 2013 to February 2014	First BCR consultation document issued, open to public comment.
	July 2014 to August 2014	Second BCR consultation document issued, open to public comment.
	October 2014	IAIS issued and FSB endorsed final BCR.
	November 2014	G20 endorsed BCR.
	From 2015	Confidential reporting of BCR to group-wide supervisors with IAIS access, for refining BCR.
	From 2019	BCR and HLA to apply to G-SIIs and implementation of ICS to begin. (Applies to more than one international capital standard)
HLA	July 2013	IAIS issued methodology for identifying G-SIIs and G-SII policy measures, FSB issued initial G-SII list. (Applies to more than one international capital standard)
	September 2014	HLA and ICS principles documents issued.
	November 2014	FSB issued updated G-SII list. (Applies to more than one international capital standard)
	Mid-2015	First HLA consultation document to be issued, open to public comment.
	November 2015	HLA proposal to be finalized and endorsed by G20.
	From 2019	BCR and HLA to apply to G-SIIs and implementation of ICS to begin. (Applies to more than one international capital standard)
ICS	September 2014	HLA and ICS principles documents issued.
	November 2014	FSB issued updated G-SII list. (Applies to more than one international capital standard)
	December 2014 to February 2015	First ICS consultation document issued, open to public comment.
	December 2015	Second consultation document ICS to be issued, open to public comment.
	December 2016	First version of ICS to be finalized for confidential reporting, subject to further refinement via field testing.
	From 2017	Confidential reporting of ICS to group-wide supervisors with IAIS access, for refining ICS.
	December 2017	Public consultation on the ICS.
	Late 2018	Second version of ICS to be adopted by IAIS.
	From 2019	BCR and HLA to apply to G-SIIs and implementation of ICS to begin. (Applies to more than one international capital standard)
Qualitative field testing	March 2014 to May 2014	First quantitative field testing exercise, including BCR.
	April 2015 to August 2015	Second quantitative field testing exercise, including BCR and ICS.
	April 2016 to June 2016	Third quantitative field testing exercise.

Source: GAO analysis of IAIS documents. | GAO-15-534

Legend: **BCR** = Basic Capital Requirements; **FSB** = Financial Stability Board; **G20** = Group of Twenty forum; **G-SII** = global systemically important insurer; **HLA** = Higher Loss Absorbency; **IAIS** = International Association of Insurance Supervisors; **ICS** = Insurance Capital Standard.

Data Table for Figure 4: U.S. Participation in IAIS Groups Involved in Development of International Capital Standards, as of March 2015

IAIS Entity	Federal Reserve	FIO	NAIC
Executive Committee		Member	Vice chair or co-vice char
Technical Committee	Member	Chair	Member
• Accounting and Auditing Working Group	Member	Member	Member
• Governance Working Group		Member	Vice chair or co-vice char
• Insurance Groups Working Group	Member	Member	Member
Financial Stability Committee	Member	Member	Vice chair or co-vice char
• G-SII Analysts Working Group	Member	Member	Member
• G-SII Policy Measures Working Group	Member	Chair	Member

Working Groups Reporting Jointly to Technical Committee and the Financial Stability Committee	Federal Reserve	FIO	NAIC
• Resolution Working Group	Member	Member	Member
• Field Testing Working Group	Member	Vice chair or co-vice char	Member
• Capital Development Working Group	Member	Member	Member

Source: GAO analysis of information from IAIs, the Federal Reserve, FIO, and the NAIC. | GAO-15-534

Legend: **G-SII** = global systemically important insurer; **IAIS** = International Association of Insurance Supervisors; **NAIC** = National Association of Insurance Commissioners; **FIO** = Federal Insurance Office.

Text in Appendix III: Comments from the Federal Insurance Office

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WASHINGTON, D.C. 20220

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Signed by
Michael T. McRaith
Director, Federal Insurance Office

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