

Draft: 7/28/17

International Insurance Relations (G) Committee
Conference Call
July 27, 2017

The International Insurance Relations (G) Committee met via conference call July 27, 2017. The following Committee members participated: Katharine L. Wade, Chair (CT); David Altmaier represented by Ray Spudeck (FL); James J. Donelon (LA); Gary Anderson (MA); Richard J. Badolato represented by Kristine Maurer (NJ); Maria T. Vullo represented by Martha Lees (NY); John D. Doak represented by Cuc Nguyen (OK); Raymond G. Farmer represented by Casey Clyburn (SC); and David Mattax represented by Kevin Brady (TX).

1. Discussed Comments on ICP 13 and Draft Application Paper

Commissioner Wade explained the purpose of the call was to discuss and approve the submission of any NAIC comments on the International Association of Insurance Supervisors (IAIS) revised Insurance Core Principle (ICP) 13, Reinsurance and Other Forms of Risk Transfer, and its draft *Application Paper on Product Oversight in Inclusive Insurance*.

Commissioner Wade said the revision process for ICP 13 was based on recommendations from the IAIS self-assessment and peer review process undertaken in 2016, as well as to reflect developments in the reinsurance market and supervisory practices. She said the application paper provides guidance when considering, designing, and implementing regulations and supervisory practices on product oversight in inclusive insurance markets.

Commissioner Wade explained that per the usual NAIC process, both consultation documents were reviewed internally, noting that this review did not result in any initial draft comments. On July 10, state insurance regulators and interested parties were asked to review the consultation documents and provide any input for consideration. She said the Committee received comments from the Reinsurance Association of America (RAA), which were circulated in advance of the call (Attachment One-A).

Commissioner Wade said the RAA's comments on revised ICP 13 do highlight some areas where some clarification would be beneficial, noting that the NAIC representative on the IAIS Reinsurance Task Force will address these during the comment resolution process.

Commissioner Wade said that with respect to the application paper, while there were no initial draft NAIC comments, some issues of concern to the NAIC were addressed during the internal IAIS process prior to the application paper's release for consultation.

Adam Kerns (RAA) highlighted three of the RAA's comments on ICP 13, which suggest clarification be made to text relating to: 1) the need for reinsurance contracts to include a transfer of risk; 2) how basis risk is defined and used; and 3) the need for transactions to be both appropriately segregated and legally insulated. Commissioner Wade thanked Mr. Kerns for pointing out these issues and said the NAIC representatives at the IAIS would work to have these issues clarified.

2. Discussed IAIS Consultation Process for ICP 1, ICP 2, ICP 18, ICP 19 and ICP 24

Commissioner Wade said the IAIS currently has a consultation process underway for ICP 1, Objectives, Powers and Responsibilities of the Supervisor; ICP 2, Supervisor; ICP 18, Intermediaries; and ICP 19, Conduct of Business. Commissioner Wade noted that initial draft NAIC comments on these ICPs would be circulated by Aug. 7, at the latest; any input for consideration would be due by Aug. 21 in advance of a conference call Aug. 24 for the Committee to review and approve submission of comments to the IAIS by its Aug. 29 deadline. She also noted revised ICP 24, Macprudential Surveillance and Insurance Supervision, would be released by the IAIS for public consultation shortly.

Commissioner Wade noted that the Committee plans to meet Sunday, Aug. 6, at the Summer National Meeting.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 7/24/17

International Insurance Relations (G) Committee
Conference Call
May 30, 2017

The International Insurance Relations (G) Committee met via conference call May 30, 2017. The following Committee members participated: Katharine L. Wade, Chair (CT); David Altmaier (FL); James J. Donelon (LA); Gary Anderson (MA); Bruce R. Ramge represented by Justin Schrader (NE); Richard J. Badolato (NJ); Maria T. Vullo represented by Martha Lees (NY); John D. Doak (OK); Raymond G. Farmer (SC); and David Mattax represented by Kevin Brady (TX).

1. Approved Draft NAIC Comments on IAIS Revised ICPs and ComFrame Material

Commissioner Wade explained that at the beginning of March, the International Association of Insurance Supervisors (IAIS) released a number of documents for public consultation covering: 1) the introductions to the Insurance Core Principles (ICPs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame); 2) the ICP Assessment Methodology; 3) ComFrame-specific material on governance, including material integrated with ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance) and ICP 8 (Risk Management and Internal Controls); 4) supervisor and supervisory measures-related material, including revised ICP 9 (Supervisory Review and Reporting) and revised ICP 10 (Preventive Measures, Corrective Measures and Sanctions), as well as ComFrame-specific material integrated within those ICPs; 5) supervisory cooperation and coordination-related material, including revised ICP 3 (Information Sharing and Confidentiality Requirements) and ICP 25 (Supervisory Cooperation and Coordination), as well as ComFrame-specific material integrated with ICP 25; and 6) resolution-related material, including revised ICP 12 (Exit from the Market and Resolution), as well as the related ComFrame material.

Commissioner Wade said the relevant NAIC working groups and NAIC staff reviewed the material and put together initial draft comments, which were circulated on May 8 to state insurance regulators and interested parties for review and any additional input. She noted that revised draft NAIC comments (Attachment Two-A) were circulated in advance of the call, along with comments received from interested parties (Attachment Two-B).

Ryan Workman (NAIC) explained the draft NAIC comments, as well as some additions and revisions that were made to the version, circulated on May 8.

Michelle Rogers (National Association of Mutual Insurance Companies—NAMIC) raised the issue of direct and indirect authority. She said the distinction between these two types of authority may not be clear throughout the revised draft comments. Mr. Workman responded that the distinction between direct and indirect authority is included in the introduction to the ICPs, but it may be an issue to include in the introduction to ComFrame as well. Joseph Sieverling (Reinsurance Association of America—RAA) noted some specific areas in the ComFrame material where direct supervision is mentioned, which could be used in the introduction to ComFrame.

Jeff Schlinsog (American Academy of Actuaries—Academy) said there are some areas in the material related to ICP 5, ICP 7 and ICP 8 that are too prescriptive and that instead should be more principles-based. Mr. Workman responded that revisions were intended to make the governance-related material more flexible.

Ms. Rogers asked whether the NAIC planned to comment on ComFrame 8.2(b), regarding the requirement that there be an objective third party to conduct annual testing on internal controls, which she said could be a rather costly process. Mr. Workman responded that the NAIC did draft a comment on this section to seek clarification on the intended meaning of this requirement.

Wally Givler (Northwestern Mutual) raised some concerns about duplication, where there could be overlap between recovery plans required by ICP 10 and material covered in ICP 16 (Enterprise Risk Management for Solvency Purposes).

Diana Keegan (MetLife) added that a requirement for a recovery plan seems better suited to the range of tools covered ICP 16, such as the Own Risk and Solvency Assessment (ORSA). She noted that if an insurer has a robust ORSA, additional plans for recovery may not be needed. Commissioner Wade responded that there are challenges posed by integrating the ICPs and ComFrame and that the conversation on some of these concepts is ongoing. She proposed including an NAIC comment

asking for clarification on the concept of recovery plans and for the IAIS to consider whether this material would be better suited to ICP 16.

Ms. Rogers (NAMIC) raised concerns regarding the concept of recognition being included in ICP 25, saying it could reflect the European concept of requiring equivalence or recognition under the Solvency II approach.

Director Farmer made a motion, seconded by Commissioner Badolato, to approve submission of the NAIC's comments to the IAIS, including the additional comment as proposed by Commissioner Wade. The motion passed.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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Draft: 4/20/17

International Insurance Relations (G) Committee
Denver, Colorado
April 8, 2017

The International Insurance Relations (G) Committee met in Denver, CO, April 8, 2017. The following Committee members participated: Katharine L. Wade, Chair (CT); Gordon I. Ito, Vice Chair (HI); Stephen C. Taylor (DC); David Altmaier (FL); Doug Ommen (IA); James J. Donelon and Tom Travis (LA); Gary Anderson represented by John Turchi (MA); Patrick M. McPharlin (MI); Bruce R. Ramge (NE); Richard J. Badolato and Peter L. Hartt (NJ); Maria T. Vullo (NY); John D. Doak (OK); Raymond G. Farmer represented by Lee Hill (SC); and David Mattax represented by Doug Slape (TX).

1. Adopted its March 30 Minutes

Commissioner Doak made a motion, seconded by Commissioner Badolato, to adopt the Committee's March 30 (Attachment One) minutes. During this meeting, the Committee took the following action: 1) adopted the 2017 revised proposed charges of the Committee and its working groups; and 2) agreed to submit National Association of Insurance Commissioners (NAIC) comments on the International Association of Insurance Supervisors (IAIS) Application Paper on Group Corporate Governance. The motion passed.

Commissioner Wade also noted the Committee met March 23 via conference call in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss issues related to the development of the IAIS insurance capital standard (ICS) version 1.0.

2. Adopted its Working Group Reports

a. ComFrame Development and Analysis (G) Working Group

Commissioner Altmaier reported that the ComFrame Development and Analysis (G) Working Group met April 4, March 13 and Feb. 23 in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) to discuss and receive regulator feedback on issues related to the development of the IAIS ICS Version 1.0 and planned enhanced field testing.

Commissioner Altmaier said IAIS members continue to hold differing views on some issues related to the ICS, specifically those related to capital resources, capital requirements and valuation. He said the Working Group continues to provide direction to NAIC staff and state insurance regulators participating in the relevant IAIS meetings.

Commissioner Altmaier noted the IAIS released a sizable amount of material for public consultation at the beginning of March, including revised versions of qualitative material in the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which covers corporate governance, supervisory process and resolution. He said the Working Group will review and draft comments on the ComFrame material, which will then be reviewed by the Committee, before being approved for submission by the IAIS' June 1 consultation deadline.

Commissioner Altmaier made a motion, seconded by Commissioner Donelon, to adopt the report of the ComFrame Development and Analysis (G) Working Group. The motion passed.

b. International Regulatory Cooperation (G) Working Group

Mr. Travis said that while the Working Group is not meeting at the Spring National Meeting, it continues to provide oversight to regulatory cooperation projects underway, including the NAIC International Fellows Program. He noted that the Fellows Program, which is in its 13th year, recently welcomed six fellows from four countries as part of the spring 2017 session. He said that last week, fellows traveled from India, Kenya, Saudi Arabia and South Korea to Kansas City, MO, where they spent a week at the NAIC Central Office learning about all aspects of U.S. state-based insurance regulation. The fellows will travel to their host states, which include Georgia, Louisiana, Maine and New York, where they will spend the next five weeks engaged in the work of insurance departments and observing the U.S. system first-hand and then conclude

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the program at the NAIC Capital Markets Bureau in New York City. Mr. Travis thanked the host states for their participation and urged states to volunteer to host fellows in the future. He added that the fall 2017 program will be held from Oct. 9–Nov. 21.

Mr. Travis said throughout the rest of the year, the Working Group intends to continue to look for opportunities to engage in various bilateral regulatory dialogues on the sidelines of other meetings and to further deepen relationships to ensure cross-border cooperation on the supervision of internationally active insurance groups (IAIGs).

Mr. Travis made a motion, seconded by Commissioner Altmaier, to adopt the report of the International Regulatory Cooperation (G) Working Group. The motion passed.

3. Heard an Update on the OECD

Commissioner Doak reported that the Organisation for Economic Co-operation and Development (OECD) Insurance and Private Pensions Committee (IPPC) will meet in late June in Paris. He said the IPPC will hold a roundtable discussion on Islamic insurance and takaful, a specialized insurance practice that is provided primarily to Muslims wishing to acquire Sharia-compliant insurance products. He said the roundtable is being organized to inform delegates of the Committee on what takaful insurance is, how it is regulated and what can be expected in terms of market development. Commissioner Doak said the meeting also will provide an opportunity to discuss various projects of the IPPC currently proposed or underway.

4. Heard an Update on Regional Supervisory Cooperation Activities

- Asia

Commissioner Ito reported that in mid-March, he, Commissioner Nickel and NAIC staff participated in the seventh NAIC-Japan, Financial Services Agency (FSA) Insurance Regulatory Dialogue in Tokyo. He said the meeting allowed insurance regulators an opportunity to discuss issues of mutual concern, including cross-border reinsurance treatment, the implications of the low and negative interest rate environment on insurance, and key activities at the IAIS, including the ICS and systemic risk assessment. Commissioner Ito added the U.S. delegation also met with the U.S. Department of the Treasury (Treasury Department) Attaché in Tokyo and U.S. industry members.

Commissioner Ito said that following the Tokyo meetings, the delegation traveled to Singapore to participate in the Asian Forum of Insurance Regulators, a regional gathering of Asian supervisors. While there, he said Commissioner Nickel participated in a panel discussion on raising natural catastrophe insurance penetration and U.S. experiences with natural disasters.

Commissioner Ito noted that later this year, the NAIC will be organizing a joint roundtable on insurance and retirement saving in Bangkok in coordination with the OECD and Office of the Insurance Commission (OIC), Thailand.

Finally, Commissioner Ito noted the NAIC will host the fourth annual Asia-Pacific International Forum in Honolulu later this year on the sidelines of the NAIC Fall National Meeting.

- Latin America

Ekrem Sarper (NAIC) reported NAIC engagement with the Latin American region through the Association of Latin American Insurance Supervisors (ASSAL) has been deepening for the past few years. He noted the upcoming ASSAL annual meeting in Santiago, Chile, where Commissioner Nickel, Commissioner McPeak and NAIC staff will participate in the meeting and on various panels, as well as hold a bilateral meeting with ASSAL's Executive Committee, focusing on international standard-setting issues being discussed at the IAIS and OECD. He said the NAIC also is exploring the timing for a joint NAIC-ASSAL meeting on risk-based supervision and reinsurance—topics of great interest in the region.

- Europe

Mr. Sarper said that last November, an NAIC team met with representatives of the European Insurance and Occupational Pensions Authority (EIOPA) in Frankfurt, Germany, to discuss a range of regulatory matters of mutual concern, and another

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meeting with EIOPA is being planned for May in Washington, DC, on the sidelines of the NAIC International Forum. He said state insurance regulators are having more frequent bilateral discussions with European Union (EU) member states to share objectives and concerns regarding international standard setting activities.

Mr. Sarper noted that the covered agreement was submitted by Treasury Department and the Office of the U.S. Trade Representative (USTR) to Congress on Jan. 13. He said that under the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), a period of 90 days following the date of submission must expire before the covered agreement may enter into force. If Congress takes no action to disapprove the agreement, the Treasury Secretary would be authorized to execute the agreement on or about April 13, though he need not do so by that date and could instead sign it at a later date. Mr. Sarper said that as there is some confusion on this issue, the NAIC's understanding of the law and the agreement is that the 90-day congressional review period is a necessary condition that must be met before the agreement can be signed or otherwise enter into force. However, it is not the only condition, and the Treasury Department is in the process of thoughtfully evaluating the agreement and hearing from various stakeholders, including Congress, insurance regulators, industry and others.

Mr. Sarper said that because of numerous substantive and procedural concerns, state insurance regulators have urged Congress and the administration to expeditiously seek clarification of the terms to reach an agreement, with the direct involvement of the states, in order to bring finality to these issues, and better protect U.S. consumers and insurers. Mr. Sarper mentioned, as an example, section 4(h) of the covered agreement, which requires a group capital assessment. He said the current text is ambiguous and may be open to interpretation and that the NAIC has asked for clarification as to whether the NAIC's ongoing work to develop a group capital calculation will satisfy the provisions in the Treasury Department's view or the EU's view. He said it also is unclear whether reporting currently authorized under state group supervision laws will be preempted. Mr. Sarper said the Joint Committee established by the covered agreement appears to invite perpetual renegotiation of the agreement's terms that could significantly affect the insurance sector, with no assurance that state insurance regulators will be among the Joint Committee's members, even though the states are responsible for key components of the agreement's implementation.

Mr. Sarper said that while state insurance regulators recognize the U.S. received some benefits, the current agreement does not provide for full equivalence or recognition of the U.S. state-based regulatory system. He said clarifications are necessary to fully evaluate whether the agreement is truly in the best long-term interest of the U.S. insurance sector, and also to ensure that any implementation of the agreement is consistent with the intent of those who negotiated it. He said that U.S. state insurance regulators feel that any final agreement should provide: 1) permanent recognition of the U.S. regulatory system or comparable treatment for U.S. firms operating in the EU; 2) clarity in the agreement's terms; and 3) finality in its application. Mr. Sarper said that going forward, state insurance regulators have urged the administration to establish a transparent process allowing for more robust congressional and stakeholder engagement, and providing meaningful and direct participation by all impacted insurance regulators.

Mr. Sarper said that as a result of the covered agreement process and the recently concluded negotiations, the U.S./EU Dialogue Project has evolved away from technical work products and joint projects with the original intent to resolve the question of mutual recognition and moved into a more conventional dialogue with occasional exchanges of information on a few specific topics. He noted that in October 2016, the Dialogue Project held a public event in Frankfurt, Germany—the fourth annual forum of its kind.

Mr. Sarper added that while both sides are assessing the potential impact of a covered agreement, the NAIC remains fully committed to maintaining close working relationships and regular ongoing dialogues with European counterparts.

5. Heard an Update on the IAIS

a. Standard-Setting

Commissioner Wade reported that a number of revised Insurance Core Principles (ICPs) and draft ComFrame material was released by the IAIS for consultation in March, with comments due by June 1. She noted the consultation covers a range of material and that with the exception of the material on resolution, the ICPs and ComFrame material out for consultation are revised versions of existing material. She said revisions to the ICPs have been informed by recommendations from the IAIS

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self-assessment and peer review process, which aims to ensure that IAIS standards are understandable and implementable and that the ComFrame material has been informed by the results of field testing and other market and supervisory developments.

Regarding resolution, Commissioner Wade explained the current ICP 12 (Winding-up and Exit from the Market) is relatively short and that the revised version reflects IAIS efforts to enhance its standards setting material on resolution.

Commissioner Wade said the current consultation also reflects the IAIS decision last year to reformat and streamline ComFrame material, integrate it directly into relevant ICPs, and align some ComFrame terminology and numbering with that used in the ICPs.

Commissioner Wade noted that the ICP and ComFrame consultation material is currently being reviewed, and initial draft comments are being drafted by relevant NAIC groups and staff. Initial draft NAIC comments will be circulated on May 8 to Committee members, interested state insurance regulators and interested parties for review, with input due May 22 in preparation for a Committee call scheduled for May 30 to review and approve the submission of NAIC comments.

Commissioner Wade said that with respect to the revised ICPs, the revisions provide more clarity and consistency to the material overall, and the standards have moved towards being more outcomes-focused, though some concepts need further clarification, such as material on coordination agreements and information exchange in ICP 3 (Information Sharing and Confidentiality Requirements) and ICP 25 (Supervisory Cooperation and Coordination).

With regard to ICP 12, Commissioner Wade said state insurance regulators have concerns about striking the right balance in describing broad authorities that may be used in a resolution versus prescribing explicit authorities. She added ICP 12 and the related ComFrame material should provide appropriate flexibility to reflect the fact that resolution regimes vary across jurisdictions.

Commissioner Wade noted other areas of ComFrame material seem overly prescriptive, rather than outcomes-based. She said, for example, some of the governance-related material takes a centralized-only approach to governance structures, but some additional text on materiality and proportionality could help add needed flexibility in these standards and guidance. Commissioner Wade also said ComFrame material related to supervisory colleges and crisis management groups could benefit from clarification and does not seem to include guidance specific to IAIGs.

Commissioner Wade noted that ICS Version 1.0 is scheduled to be adopted by the IAIS in June to be used for extended field testing. She said that the IAIS has been working hard to finalize some outstanding issues and that the IAIS Capital, Solvency and Field Testing Working Group and the Financial Stability and Technical Committee have been meeting frequently to meet this deadline. Commissioner Wade added that as part of this enhanced field testing, IAIS members are encouraging all potential IAIGs to participate, as well as provide all requested data elements, to allow for robust field testing of the various design elements so the IAIS is well-informed and has sufficient data as it makes future decisions on ICS design elements. She said ICS Version 2.0 is scheduled to be adopted by the IAIS in the latter part of 2019, with implementation by jurisdictions in 2020.

Commissioner Wade concluded her update by highlighting other ongoing work of the IAIS, including an application paper on cyber risk being developed by the Financial Crime Task Force, and an issues paper being developed by the Market Conduct Working Group focused on the increased use of technology by consumers. She added the Governance Working Group released its Application Paper on Group Corporate Governance, which was the subject of a Committee call on March 30. Commissioner Wade said some additional comments on the paper were received from interested parties since the call and that any other comments should be sent to Ryan Workman (NAIC) by April 21. Commissioner Wade said any additional input would be reviewed and a Committee call would be scheduled for the last week of April if needed; if not, the draft NAIC comments will be approved via written procedure in order to meet the IAIS' May 1 comment deadline.

b. Financial Stability

Director Hartt reported the IAIS is in the process of conducting its fifth assessment of global systemically important insurers (G-SIIs). He said a number of U.S. firms that meet certain size and global activity thresholds were identified to be included in the scope of the G-SII data collection exercise and that more than 50 insurance groups worldwide are participating in the data collection exercise. Director Hartt noted the data collection exercise was launched in March, with responses expected from

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the firms the first week of May. He said that as in the past, the relevant state insurance regulators are encouraged to request that firms domiciled in their states also submit the data to the state insurance regulators.

Director Hartt said the IAIS formed the new Systemic Risk Assessment Task Force, which has a mandate to develop a holistic framework for systemic risk assessment and measurement, building on the prior work by the G-SII Methodology and Non-Traditional Non-Insurance (NTNI) Task Forces and reports directly to the IAIS Executive Committee (ExCo). He said the new task force is also responsible for: 1) improvements to the G-SII assessment methodology; 2) improvements to cross-sectoral consistency in systemic risk assessment, with input from the Basel Committee on Banking Supervision (BCBS); and 3) assessment and measurement of systemically risky activities, also known as the activities-based approach.

c. Implementation Activities

Mr. Sarper reported that at its meeting in November 2016 in Paraguay, the IAIS ExCo recognized the need to do more to engage emerging markets and asked the chair of the Implementation Committee to present a possible emerging markets strategy to the ExCo.

Mr. Sarper said that following discussion on this topic at the January IAIS meeting, an Emerging Markets Small Group, comprised of ExCo members and the chairs and vice chairs of the Implementation Committee and its working parties, was formed to work on three deliverables: 1) a revised coordinated implementation framework; 2) a proposal on how to enhance the IAIS' implementation assessment program; and 3) proposals on how a third vice chair of the ExCo could support greater focus on emerging markets. He said the Emerging Markets Small Group will meet in May to finalize its proposals, which will be presented to the Implementation Committee for further discussion and approval to send to the ExCo in June.

Mr. Sarper said the IAIS promotes supervisory cooperation and information exchange among its members through the multilateral memorandum of understanding (MMoU), which currently has 63 signatories representing nearly 71% of worldwide premium volume. He said there are now 16 U.S. state signatories, with Maryland and Vermont becoming the most recent additions. He said five states are in various stages of the application process, with a few more states interested in applying.

Steve Broadie (Property Casualty Insurers Association of America—PCI) asked what the change in the International Monetary Fund's (IMF) approach to its Financial Sector Assessment Program (FSAP) would mean for the U.S. Mr. Sarper replied that the IMF was still finalizing its revised approach to the FSAP but that it seemed likely that that fewer ICP assessments will be completed in the coming years, with a primary focus of IMF assessments on macrofinancial issues. Full assessments of the ICPs would occur in the future, but at a more limited frequency.

Commissioner Wade asked interested parties if they saw improvement in the latest version of ComFrame. Mr. Broadie replied PCI was in the process of reviewing the consultation material and that having a comparison chart of the changes would have been helpful. Morag Fullilove (Fullilove Consulting Group) said the revisions were generally an improvement, but that while the text may be shorter, one sentence may still have a lot of importance. Michelle Rogers (National Association of Mutual Insurance Companies—NAMIC) commented that the number and scope of ICPs and ComFrame material in this consultation was significant and suggested the IAIS consider breaking up future consultations into smaller batches.

6. Heard a Presentation on Activities-Based Approach to Systemic Risk Assessment

John Hele (MetLife) and Tom Wilson (Allianz) provided a presentation reflecting their ideas on an activities-based approach to systemic risk assessment.

Director Hartt asked how to deal with substitutability in an activities-based approach. Mr. Wilson replied that in insurance, the challenge of substitutability in the short term may be high, but in the longer term, it is less of an issue. He added an activities-based approach may help focus on those activities where substitutability may be a problem.

Director McPharlin asked whether one would consider a threshold of activity being conducted in order to be considered systemic as moving to an activities-based approach could mean relatively small, local insurers could be deemed systemic alongside very large, global ones and be subject to the same policy measures, which could be costly and burdensome. Mr. Hele said the concern is a number of firms engaging in a risky activity and, thus, the need to look at the total amount of activity. Mr. Wilson added the current G-SII process may identify entities that represent a percentage of systemic risk, but it may not prevent other non-G-SIIs from engaging in the same risky activity; defining risk by activity may better identify what

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actually matters systemically. He added the policy measures to address systemic risk in an activities-based approach may look very different from those used in the entities-based approach.

Elise Liebers (NAIC) commented that the IAIS found it problematic to identify systemic risk stemming from specific products and questioned whether identifying activities would be equally challenging. Mr. Hele agreed it is difficult to identify systemic products, which is why NTNI did not work for the IAIS. He added looking at activities more broadly, such as writing derivatives or owning bonds of global systemically important banks, could be an easier approach and avoid the pitfalls of trying to identify products.

Roy Woodall (Financial Stability Oversight Council—FSOC) commented that the Dodd-Frank Act provides for two ways to determine systemic risk: 1) material financial distress; or 2) an activities-based approach. He said the international and domestic experiences have shown the shortcomings of trying to designate specific firms. Mr. Woodall added that an activities-based approach in which one can treat risks on an industry-wide approach may be preferable.

7. Discussed Other Matters

Commissioner Wade said the IAIS Secretariat would be having its question-and-answer session with interested parties following the conclusion of the Committee meeting. She also noted the NAIC's 11th annual International Insurance Forum will be held in Washington, DC, May 15–16 and encouraged anyone interested in international insurance developments and their impact on the U.S. insurance regulation framework should register to attend.

Having no further business, the International Insurance Relations (G) Committee adjourned.

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