

Draft: 11/28/17

International Insurance Relations (G) Committee
Conference Call
November 13, 2017

The International Insurance Relations (G) Committee met via conference call Nov. 13, 2017. The following Committee members participated: Katharine L. Wade, Chair (CT); Stephen C. Taylor (DC); David Altmaier (FL); James J. Donelon represented by Tom Travis (LA); Gary Anderson represented by Rachel M. Davison (MA); Bruce R. Ramage represented by Elizabeth Hofker (NE); Richard J. Badolato (NJ); Maria T. Vullo represented by Martha Lees (NY); John D. Doak (OK); Raymond G. Farmer (SC); and Kent Sullivan (TX).

1. Adopted its 2018 Proposed Charges

Commissioner Wade said that in addition to some minor editorial changes, the only substantive change to the Committee's 2018 proposed charges as compared to its 2017 charges is to absorb the role and responsibilities of the International Regulatory Cooperation (G) Working Group, which will be dissolved. She noted the reason for doing so is to streamline the Committee's structure and to elevate the issues the Working Group is charged with, including training seminars for international regulators in which the NAIC participates and the NAIC International Fellows Program.

Director Farmer made a motion, seconded by Commissioner Doak, to adopt the Committee's 2018 proposed charges (Attachment One-A). The motion passed.

2. Heard an Update on IAIS Committee Meetings

Commissioner Wade said that several commissioners and National Association of Insurance Commissioners (NAIC) staff recently returned from Committee meetings of the International Association of Insurance Supervisors (IAIS) in Kuala Lumpur, Malaysia. She noted an IAIS press release following the meetings attempted to provide clarity regarding how the IAIS plans to move forward on its insurance capital standard (ICS).

Commissioner Wade reminded the Committee that the IAIS published ICS version 1.0 for extended field testing in July 2017, and is currently analyzing data submitted by participating firms in late September. She said the IAIS also committed to delivering an ICS version 2.0 fit for implementation by the end of 2019.

Commissioner Wade said the NAIC, U.S. Department of the Treasury (Treasury Department) and the Federal Reserve Board (FRB) (collectively, Team USA) have been working with IAIS members and Secretariat staff to articulate shared U.S. concerns regarding the direction and timing of the ICS project. She said this concern culminated in Team USA communicating these concerns to the IAIS, including with regard to a recent IAIS proposal to move forward with a single reference method approach to the ICS, based on a consolidated market adjusted valuation (MAV) approach and an indication that internal models would be given consideration as an alternative to the standard method, with no mention of the aggregation approach being developed in the U.S. Commissioner Wade said the joint communication noted the IAIS was at a pivotal point in the development of the ICS and that the U.S. hopes the IAIS will provide a viable path forward for an ICS that can be implemented by all major jurisdictions as a global standard.

Commissioner Wade said the joint communication requested that the U.S.-supported aggregation approach for assessing group capital be considered as an alternative to the standard method, similar to treatment of internal models. She said Team USA requested that the IAIS incorporate information needed to assess the aggregation approach into field testing in 2018, with the objective of having the IAIS evaluate how it could be included in version 2.0 and future iterations of the ICS. Additionally, Team USA would provide the resources needed for this work. Commissioner Wade said the joint communication asked that the IAIS retain the two current valuations in the standard method—both generally accepted accounting principles with adjustments (GAAP+) and MAV. Finally, she said Team USA urged the IAIS to postpone any immediate decisions and announcements in Kuala Lumpur that would pre-empt the ability of the IAIS to achieve consensus on this crucial project.

Commissioner Wade said that despite the good faith effort on behalf of Team USA to scope in an approach to the ICS that would be implementable in the U.S., it became immediately apparent during the meetings that Team USA was in the absolute

minority in pushing back on a single, MAV/internal model-centric approach. She said that while the IAIS has been historically consensus-driven, it was clear in Kuala Lumpur some IAIS members were prepared to move forward with a “majority view” that would have presented the U.S. views as a “minority opinion.” She added there was no support among other jurisdictions for including an aggregation approach in the ICS. Commissioner Wade noted that while the NAIC and the FRB are developing their respective capital approaches based on aggregation and that the international process may inform this domestic work, there was no support to take the necessary time to do so. Commissioner Wade explained that IAIS members indicated skepticism that an aggregation approach could produce comparable outcomes to the ICS, and many non-U.S. members indicated they are unwilling to require their participating firms to provide information necessary for assessing aggregation.

Commissioner Wade reiterated that at no point during the discussions did the NAIC or other members of Team USA consider walking away from the table of ICS decision-making and development. She noted the NAIC has been clear that U.S. state insurance regulators cannot implement a standard that does not fit with its regulatory structure and needs. Nevertheless, the NAIC’s work has been informed by interactions with U.S. interested parties and internationally active insurance groups (IAIGs), and the NAIC recognizes the importance of remaining engaged on this project.

Commissioner Wade said that given these circumstances, the NAIC sought the best possible outcome for the U.S. system and firms. She said that in Kuala Lumpur, the IAIS agreed that the implementation of ICS version 2.0 will be conducted in two phases. The first phase, referred to as the “monitoring period,” will last for five years, during which ICS version 2.0 will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges. She added that this will allow group-wide supervisors and host supervisors to discuss and assess the ICS in comparison with existing group capital standards or calculations that are in development. Commissioner Wade said the second phase will be implementation of the ICS as a group-wide prescribed capital requirement (PCR).

Commissioner Wade explained that implementation of ICS version 2.0 will have two equally important components: 1) a reference ICS; and 2) additional reporting. Implementation will include confidential reporting by all IAIGs of a reference ICS, which will be based on MAV, a standard method for capital requirements and converged criteria for qualifying capital resources. She said that additional reporting, at the option of the group-wide supervisor, of the ICS based on GAAP+ valuation and/or an internal model-based capital requirement calculation could be conducted during the monitoring period. She said that both GAAP+ and internal models were considered viable options that will be considered for inclusion in the ICS by the end of the monitoring period.

Commissioner Wade explained that the next two years of field testing and a five-year monitoring period effectively delay the impact of the ICS and give the NAIC and the FRB time to further develop their respective capital approaches in collaboration, and with the support of the Treasury Department as articulated in its recent report on insurance. She added that this timing also recognizes that international accounting standards could change and that Europe is in the process of reviewing Solvency 2, both of which could affect the ICS.

Commissioner Wade said the IAIS agreed to collect data from interested jurisdictions relevant to the development of the aggregation method, with the goal of being in a position by the end of the five-year monitoring period to assess whether the aggregation method provides comparable outcomes to the ICS. If it does, it will be considered an outcome-equivalent approach for implementation of ICS as a PCR. She said this establishes an important beachhead for aggregation in the process, which did not exist just six months ago.

Commissioner Wade acknowledged concerns that the IAIS describes the reporting of a reference ICS as “mandatory,” but explained that like any other IAIS standard, implementation is ultimately up to each individual jurisdiction. She stressed the need for support from U.S. industry participants to provide the data necessary to reinforce the NAIC’s policy arguments for an aggregation approach.

Commissioner Doak commented that the discussions in Kuala Lumpur were very challenging and commended the NAIC’s team at the IAIS for its work. Commissioner Altmaier echoed these comments and noted that the outcomes of these discussions highlight the importance of moving the group capital calculation forward.

Steven Seitz (Federal Insurance Office—FIO) reiterated Commissioner Wade’s comments on the significance of the beachhead for an aggregation approach established in Kuala Lumpur and said the IAIS needs an ICS that can implementable

by the U.S. He noted the timeline for implementation is important as it gives Team USA time to build out the aggregation approach, leading to an outcomes-based ICS.

Tom Leonardi (American International Group—AIG) said that he knew firsthand how challenging discussions at the IAIS can be and congratulated the NAIC team for its hard work in Kuala Lumpur. He noted that AIG is committed to participating in the data collection and working with the NAIC as the process moves forward.

Michelle Rogers (National Association of Mutual Insurance Companies—NAMIC) welcomed the developments on the aggregation approach and asked whether the discussions included how the different approaches could be comparatively measured. Commissioner Wade indicated that these details were not fully discussed and that further dialogue would take place over the next seven years. Commissioner Altmaier added that while the NAIC would consider IAIS developments in this area, NAIC work towards an risk-based capital (RBC) aggregation approach would continue.

David Snyder (Property Casualty Insurers Association of America—PCI) asked what IAIGs and those firms participating in supervisory colleges should expect going forward. Commissioner Wade responded that while this announcement provides a way forward on implementation, there will be a number of issues and logistics to consider going forward in order to put this into practice within the supervisory colleges.

Steve Broadie (PCI) asked about how these developments may influence the NAIC and FRB capital work, including the group capital calculation. Commissioner Wade responded that the NAIC and FRB continue to dialogue on their respective work and that while international standards may help inform such work, development of an aggregation approach will continue.

Steven Simchak (American Insurance Association—AIA) inquired whether there was discussion in Kuala Lumpur about measures if supervisors do not comply with the ICS. Commissioner Wade responded that this was not a subject of conversation in Kuala Lumpur and noted that as the ICS is still under development, it will be a while before the IAIS turns to considerations on non-implementation.

Robert Neill (American Council of Life Insurers—ACLI) asked whether there would be opportunities for stakeholders to follow up on the decisions made in Kuala Lumpur. Commissioner Wade responded that she assumed the IAIS would plan to do so but did not have any firm details at this stage.

Jeff Alton (CNA) asked whether the ICS would be assessed as part of the Financial Sector Assessment Program in 2020. Commissioner Wade responded that while the IAIS has said implementation of ICS version 2.0 will begin in 2020, it is up to the individual jurisdictions to implement the ICS, but further details regarding this matter were not discussed.

Mr. Alton asked whether U.S. IAIGs would need to supply both MAV and aggregated data. Commissioner Wade said the idea is that firms would do a reference ICS based on MAV, and U.S. firms would provide data using an aggregation approach, along with other jurisdictions that may choose to do so as well.

Tom Finnell (Finnell & Co. LLC) asked if the aggregation approach is deemed comparable at the end of the monitoring period, would it become part of the ICS. Commissioner Wade responded that U.S. state insurance regulators hope it will be incorporated into the ICS.

Mr. Finnell asked about the status of other key ICS version 2.0 development issues, such as capital requirement and capital resources. Commissioner Wade replied that these are subject to ongoing discussions and should be informed by results of this year's field testing exercise.

Ms. Rogers asked about the communication of results from the field testing of GAAP+. Commissioner Wade responded that the analysis of the field testing is occurring now and would likely be communicated in early 2018.

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

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International Insurance Relations (G) Committee
E-Vote
September 29, 2017

The International Insurance Relations (G) Committee conducted an e-vote that concluded Sept. 29, 2017. The following Committee members participated: Katharine L. Wade, Chair (CT); Gordon I. Ito, Vice Chair (HI); Stephen C. Taylor (DC); David Altmaier (FL); Gary Anderson (MA); Patrick M. McPharlin (MI); Bruce R. Ramge (NE); Richard J. Badolato (NJ); Maria T. Vullo (NY); John D. Doak (OK); Jessica Altman (PA); Raymond G. Farmer (SC); and Kent Sullivan represented by Doug Slape (TX).

1. Approved Submission of NAIC Comments on IAIS Revised ICP 24

As there was not a quorum on the Sept. 28 conference call, the Committee conducted an e-vote to consider submission of the National Association of Insurance Commissioners (NAIC) comments on the International Association of Insurance Supervisors' (IAIS) revised Insurance Core Principle (ICP) 24, Macroprudential Surveillance and Insurance Supervision (Attachment Two-A), including the additional comment as proposed by Commissioner Wade on the Sept. 28 conference call.

A majority of Committee members voted in favor of approving submission of the NAIC comments. The motion passed.

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

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Draft: 11/28/17

International Insurance Relations (G) Committee
Conference Call
September 28, 2017

The International Insurance Relations (G) Committee met via conference call Sept. 28, 2017. The following Committee members participated: Katharine L. Wade, Chair (CT); David Altmaier (FL); James J. Donelon (LA); Richard J. Badolato (NJ); Maria T. Vullo represented by Scott Fischer (NY); John D. Doak represented by Cuc Nguyen (OK); Raymond G. Farmer (SC); and Kent Sullivan represented by Doug Slape (TX). Also participating were: Robert Wake (ME); and Doug Hartz (WA).

1. Discussed Draft NAIC Comments on IAIS Revised ICP 24

Commissioner Wade explained the purpose of the call was to discuss and consider approving submission of NAIC comments on the International Association of Insurance Supervisors' (IAIS) revised Insurance Core Principle (ICP) 24, Macprudential Surveillance and Insurance Supervision.

Commissioner Wade said the revision process for ICP 24 was based on recommendations from the IAIS Self-Assessment and Peer Review process, as well as developments occurring in the market and supervisory practices since the last revision. She said that per the usual process, the consultation document was reviewed internally, resulting in initial draft NAIC comments (Attachment Three-A) that were circulated to regulators and interested parties prior to the call for review and input. She said the Committee received comments from the Property Casualty Insurers Association of America (PCI) (Attachment Three-B).

Commissioner Wade said the NAIC comments are editorial in nature or suggest where clarification would be helpful. She said the first comment asks for clarification of the term "systemic risk," as it is used inconsistently in the revised ICP – at times, referring to general, macroprudential risks to the market and, at other times, referring more specifically to systemically important financial institution types of systemic risk. Commissioner Wade said the distinction between these concepts and their usage should be clearer.

Commissioner Wade said, with regard to comments by PCI, the Committee was aware of some stakeholders' suggestion that given the ongoing work of the IAIS Systemic Risk Assessment Task Force, particularly on the activities-based approach, the scheduled consultation on ICP 24 should be postponed. She noted the IAIS has acknowledged that relevant ICP material will be reviewed once the activities-based approach work is concluded and any revisions will be made as appropriate to ensure consistency. She added that feedback from the ICP 24 consultation may further inform the activities-based approach work, providing a more holistic perspective on systemic risk in insurance. Commissioner Wade said the Committee did not view the timing of the ICP 24 consultation as problematic.

Mr. Hartz suggested clarifying the comment to ICP 24.1.1 to include addressing systemic risk, in addition to identifying systemic risk concerns. Mr. Wake and Mr. Hartz suggested including additional language to the comment to ICP 24.3.2 to explain that even factors that cannot be qualified with precision still need to be reflected in quantitative analyses. Commissioner Wade proposed to include these clarifications.

Robert Neill (American Council of Life Insurers—ACLI) raised postponing the work on revising ICP 24 until after the IAIS Systemic Risk Assessment Task Force concludes its work. He also noted the potential impact of the work of the NAIC macroprudential initiative currently being developed by the Financial Stability (EX) Task Force. Commissioner Wade reiterated that work on revising ICP 24 will go forward at the same time as the IAIS Systemic Risk Assessment Task Force activities-based approach work and may help inform that work.

As there was not a quorum on the conference call, the Committee subsequently conducted an e-vote on Sept. 29 to approve submission of the NAIC's comments to the IAIS, including the additional comment as proposed by Commissioner Wade.

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

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International Insurance Relations (G) Committee
Conference Call
August 24, 2017

The International Insurance Relations (G) Committee met via conference call Aug. 24, 2017. The following Committee members participated: Katharine L. Wade, Chair (CT); Gordon I. Ito, Vice Chair (HI); David Altmaier (FL); Doug Ommen (IA); James J. Donelon represented by Tom Travis (LA); Gary Anderson (MA); Patrick M. McPharlin (MI); Bruce R. Ramage represented by Christy Neighbors (NE); Richard J. Badolato represented by Peter L. Hartt (NJ); Maria T. Vullo represented by Martha Lees (NY); John D. Doak (OK); Raymond G. Farmer (SC); and TBD represented by Doug Slape (TX).

1. Approved Submission of NAIC Comments on IAIS Revised ICP 1, ICP 2, ICP 18 and ICP 19

Commissioner Wade explained the purpose of the call was to discuss and consider approving submission of NAIC comments on the International Association of Insurance Supervisors' (IAIS) revised Insurance Core Principle (ICP) 1, Objectives, Powers and Responsibilities of the Supervisor; ICP 2, Supervisor; ICP 18, Intermediaries; and ICP 19, Conduct of Business.

Commissioner Wade said the revisions for these ICPs were based on recommendations from the IAIS Self-Assessment and Peer Review process, as well as developments occurring in the market and supervisory practices since the last revision. She said that per the usual process, the consultation documents were reviewed internally, resulting in initial draft NAIC comments that were circulated to regulators and interested parties Aug. 7 for review and any input for consideration. Commissioner Wade explained that updated NAIC comments were circulated for the conference call, and they include a revision based on input received from the Independent Insurance Agents and Brokers of America (IIABA) (Attachment Four-A).

Ryan Workman (NAIC) explained the substantive draft NAIC comments, as well as the additional comment that was added to the version circulated Aug. 7.

Birny Birnbaum (Center for Economic Justice—CEJ) stated that he did not understand the NAIC's first comment on ICP 1.2, as legislation should define objectives, not simply reflect them. He also disagreed with the NAIC's second comment on ICP 1.2, as he viewed financial stability as one of the objectives of insurance supervision, noting that such an objective is important to the balance of micro versus macro in supervision. Mr. Workman explained that the first comment on ICP 1.2 was not intended to question the role of legislation, but rather highlight that the standard is focused more on the form rather than the outcome to be achieved. Commissioner Wade proposed that the comment be revised to better reflect the intended point.

Mr. Birnbaum stated it was not clear what the NAIC's comment on ICP 18.0.4 was intended to mean, and disagreed with the NAIC comments to delete "best" when "best interest" is used as, in his view, "best interest" reflects the appropriate level of duty to customers.

Wesley Bissett (IIABA) supported the additional NAIC comment on ICP 18.0.4, which aims to provide clarification to the revised text. He also agreed with the NAIC comments to delete "best," as there could be different interpretations as to what this could mean.

Robert Neill (American Council of Life Insurers—ACLI) suggested that the power to maintain confidentiality could be added to ICP 1.3 and the obligation to protect confidential information made explicit in ICP 2.

Commissioner Ito made a motion, seconded by Commissioner Doak, to approve submission of the NAIC's comments to the IAIS, including the revision proposed by Commissioner Wade (Attachment Four-B). The motion passed.

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

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Draft: 8/15/17

International Insurance Relations (G) Committee
Philadelphia, Pennsylvania
August 6, 2017

The International Insurance Relations (G) Committee met in Philadelphia, PA, Aug. 6, 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 represented by Tom Travis (LA); Gary Anderson (MA); Patrick M. McPharlin represented by Randall Gregg (MI); Bruce R. Ramge (NE); Richard J. Badolato (NJ); Maria T. Vullo represented by Martha Lees (NY); John D. Doak represented by Cuc Nguyen (OK); Raymond G. Farmer (SC); and TBD represented by Doug Slape (TX).

1. Adopted its July 27, May 30, and Spring National Meeting Minutes

Commissioner Altmaier made a motion, seconded by Commissioner Ito, to adopt the Committee's July 27 (Attachment One), May 30 (Attachment Two) and Spring National Meeting (*see NAIC Proceedings – Spring 2017, International Insurance Relations (G) Committee*) minutes. The motion passed.

During these meetings, the Committee took the following action: 1) discussed comments on the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 13, Reinsurance and Other Forms of Risk Transfer, and its draft *Application Paper on Product Oversight in Inclusive Insurance*; 2) discussed the IAIS consultation process for ICP 1, Objectives, Powers and Responsibilities of the Supervisor, ICP 2, Supervisor, ICP 18, Intermediaries, ICP 19, Conduct of Business, and ICP 24, Macroprudential Surveillance and Insurance Supervision; 3) approved draft NAIC comments on IAIS revised ICPs and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) material.

Commissioner Wade noted the Committee also met May 25 in regulator-to-regulator session pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee and Working Group reviewed and approved the NAIC responses to the ComFrame qualitative field testing questions, which were available to IAIS members only.

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 earlier in the day. He noted the Working Group also met May 1, in regulator-to-regulator session pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to discuss and provide input on the draft NAIC comments on the IAIS ComFrame material that was out for public consultation.

Commissioner Altmaier said the Working Group received an update from Peter Windsor (IAIS) on recent and ongoing IAIS activities related to the development of ComFrame and the insurance capital standard (ICS). He noted that earlier this year, the IAIS released for public consultation a substantial amount of revised ComFrame material related to governance, supervisory measures and coordination, and resolution. He said relevant IAIS subcommittees are in the process of reviewing and resolving the comments received from the consultation process. He also reported that on July 21, the IAIS announced the release of its ICS version 1.0 for extended field testing. He said this year's field testing process is already underway and work continues as the IAIS moves toward ICS version 2.0, which is due in late 2019.

Michelle Rogers (National Association of Mutual Insurance Companies—NAMIC) asked for clarification regarding the NAIC's views on the ICS. Commissioner Wade responded that the NAIC's position regarding the ICS has not changed, noting that state insurance regulators will continue to advocate for standards that work for the U.S. state-based insurance regulatory system.

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

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b. International Regulatory Cooperation (G) Working Group

Mr. Travis said the International Regulatory Cooperation (G) Working Group met via conference call July 26. On the call, the Working Group discussed the NAIC International Fellows Program, which is in its 13th year. He noted that many strong applications from a diverse range of jurisdictions were received for the upcoming fall session, including five regulators from four Association of Latin American Supervisors (ASSAL) jurisdictions: Argentina; Brazil; Ecuador; and Panama. Mr. Travis said applications were also received from Bermuda, Cameroon, the Czech Republic, Ethiopia, India, Taiwan, Thailand and the Conf rence Interafricaine des March s d'Assurances, an organization of French-speaking West African insurance supervisors.

Mr. Travis said U.S. host jurisdictions for the fall session include: District of Columbia; Louisiana; Missouri; New York; Oklahoma; Pennsylvania; Puerto Rico; South Carolina; Tennessee; and Texas. Mr. Travis added that Louisiana has hosted more than 20 fellows over the years.

Mr. Travis thanked participating host states and said the Working Group is always looking for new states to volunteer to host fellows. He encouraged those interested in learning more about the fellows program and possibly hosting a fellow during the spring 2018 session, to contact him or Rashmi Sutton (NAIC).

Mr. Travis said the Working Group also discussed a proposal to allow international regulators who are not participating in the full fellows program to attend the one-week training in Kansas City. He said that while the fellows program remains popular, the NAIC periodically receives training requests from individuals and foreign regulatory bodies that cannot participate in the full seven-week fellows program for various reasons, but still want to learn more about the U.S. state-based insurance regulatory system. He added that this would create a new training opportunity for foreign regulators with no additional state department resources and minimal impact on NAIC staff resources. Mr. Travis said NAIC staff was asked to further develop this proposal for presentation to be discussed on a future call of the Working Group.

Mr. Travis made a motion, seconded by Commissioner Altmaier, to adopt the report of the International Regulatory Cooperation (G) Working Group, including its July 26 minutes (Attachment Four). The motion passed.

3. Heard an Update on the OECD

Ekrem Sarper (NAIC) reported that the OECD Insurance and Private Pensions Committee (IPPC) met in mid-June in Paris, France. He said the U.S. delegation to the IPPC includes the NAIC, the U.S. Department of Commerce and the Federal Insurance Office.

Mr. Sarper said he and Commissioner Doak participated in IPPC sessions; Commissioner Doak participated in the IPPC's half-day roundtable discussion on the Islamic insurance/Takaful market and its development. Mr. Sarper presented a regulatory and statistical update and described several current NAIC priorities, including the development of a group capital calculation, a work stream on FinTech and cybersecurity initiatives.

He said the IPPC meeting provided follow-up information on various OECD projects, including: 1) a project proposal on the macroeconomic role of the insurance/reinsurance market, including alternative risk-transfer mechanisms in helping economies manage risk; 2) proposed revisions to the OECD *Guidelines on Insurer Governance*; 3) a draft questionnaire on the institutional structure of insurance regulation; and 4) a draft report on the cyber insurance market and nature of coverage available.

Mr. Sarper added that the Committee also agreed to hold a roundtable on the institutional structure of insurance regulation and supervision during its December 2017 meeting, as part of the 100th IPPC session. He said that on the sidelines of this meeting, the OECD will organize an ad hoc meeting that brings together the different parts of government to discuss various workstreams on disaster risk financing and management in a more integrated manner.

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4. Heard an Update on the IAIS

a. Standard-Setting

Commissioner Wade reported that the IAIS recently approved the ICS version 1.0 for extended field testing. She said that with version 1.0, the IAIS narrowed the options in key areas and expanded the number of participants in the field testing exercise. She said that through version 1.0, the IAIS hopes to achieve additional progress toward convergence within version 2.0 by collecting more extensive data to inform a future direction without limiting IAIS discretion to current options. She said there are still a number of important issues to address related to valuation, capital resources and capital requirements as the IAIS moves toward version 2.0, as well as looking at approaches to implementation and how the ICS will be incorporated into the rest of ComFrame.

Commissioner Wade noted that earlier this year, the IAIS released a number of revised ICPs and ComFrame material, and that relevant IAIS subcommittees are in the process of reviewing and resolving the received comments. She said the goal is to have final drafts of these revised ICPs ready for the committee meetings at the end of October and the revised ComFrame material ready in early 2018, as that process will require more coordination.

Commissioner Wade said the IAIS currently has ICP 1, ICP 2, ICP 18 and ICP 19 out for public consultation. She said initial draft NAIC comments will be circulated and that input for consideration should be provided by Aug. 21. She said a Committee call to review and approve submission of the comments has been scheduled for Aug. 24 in order to meet the Aug. 29 IAIS deadline.

Commissioner Wade added that revised ICP 24 was recently released for public consultation, with comments due to the IAIS by Oct. 1. She said the NAIC will begin the internal review process and a Committee call to discuss the comments will be scheduled in late September.

Commissioner Wade noted that documents, as well as some background information for all consultations mentioned, are available on the IAIS public website.

Finally, Commissioner Wade said that in order to address innovation and InsurTech issues, the IAIS decided to create a virtual group of subject-matter experts whose first task will be to suggest specific, focused activities the IAIS could undertake as part of its next roadmap for 2018–2019.

b. Financial Stability

Commissioner Wade said the IAIS launched its fifth global systemically important insurers (G-SII) assessment exercise in March, for which more than 50 insurers submitted data. She said Phase 2 of the G-SII assessment exercise, which involves a quantitative analysis and the establishment of a quantitative threshold above which firms advance to the next phase of the process, was completed in June. Phase 3, which involves a qualitative analysis to determine which insurers should advance to Phase 4, was completed in July. Phase 4, which involves an exchange of information between the prospective G-SIIs and the relevant authorities, should be completed by the end of August. Commissioner Wade said that in September, as part of Phase 5, the IAIS is expected to make a recommendation on a list of potential G-SIIs to the Financial Stability Board (FSB), which plans to publish a list of designated G-SIIs in November.

Commissioner Wade said the IAIS Systemic Risk Assessment Task Force (SRATF) has continued its work on a variety of issues, including: improving the cross-sectoral analysis of banking and insurance with respect to systemic risk assessment; developing an activities-based approach for systemically risky activities; and improving the G-SII assessment methodology. She said the SRATF aims to launch an interim public consultation toward the end of 2017 on its findings on cross-sectoral consistency in systemic risk assessment and the development of a conceptual framework for the activities-based approach. She said a public consultation on a revised entities-based approach and a new activities-based approach, as well as on cross-sectoral risk assessment, is planned for the end of 2018.

c. Implementation Activities

Commissioner Wade said the IAIS Implementation Committee has been working on revisions to the Coordinated Implementation Framework and possible approaches to enhancing the IAIS assessment program. She said the IAIS has been

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exploring ways in which to build on the success of its Self-Assessment and Peer Review (SAPR) process and to address the gap left by the International Monetary Fund's (IMF) decision to reduce the frequency and breadth of its Financial Sector Assessment Program, and, more generally, to support the IAIS' broad membership. To that end, Commissioner Wade said the IAIS is considering three separate processes for strengthening assessments: 1) strengthening self-assessment tools; 2) enhancing the SAPR process with more guidance on observing standards; and 3) test piloting more intensive reviews of member observance to address the gap left by the IMF. Commissioner Wade said the Implementation Committee hopes to seek the Executive Committee's approval of these revisions later this year and implemented as part of the 2018–2019 roadmap.

Commissioner Wade said that with regard to the IAIS multilateral memorandum of understanding (MMoU), there has been a significant increase in the amount of recent applications including from U.S. states. She said several states are currently in various stages of the application process and several more may be interested in applying. Commissioner Wade said that 16 states are MMoU signatories: California; Connecticut; Delaware; Florida; Iowa; Maine; Maryland; Michigan; Missouri; Nebraska; New York; Pennsylvania; Tennessee; Vermont; Virginia; and Washington.

Finally, Commissioner Wade noted that registration for this year's IAIS annual conference in Kuala Lumpur is now open, with details available on the IAIS website.

Steve Broadie (Property Casualty Insurers Association of America—PCI) inquired about an FSB project on data gaps and whether it is being conducted jointly with the IAIS. Mr. Windsor responded that this is an FSB proposal and that the IAIS has provided input; in particular, the need for the FSB project not to get ahead of IAIS work on systemic risk.

5. Heard an Update on Regional Supervisory Cooperation Activities

Commissioner Nickel said that since 2011, the NAIC and Thailand's Office of Insurance Commission (OIC) have been co-hosting an annual seminar for the Asia-Pacific region. He said that last year, more than 45 regulators from the region attended and actively participated in discussions, and this year, in addition to the OIC, the NAIC is partnering with the OECD to hold a roundtable on insurance and retirement savings. Commissioner Nickel said this roundtable will gather key stakeholders from the Asia region to discuss policy issues that will lead to the sound development of insurance and private pensions markets. Commissioner Nickel also noted the upcoming, fourth annual NAIC Asia-Pacific International Forum, which will be held in Honolulu immediately before the Fall National Meeting.

Commissioner Nickel said U.S. state insurance regulators and the NAIC continue to maintain good working relationships with the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission, as well as various European Union (EU) member state jurisdictions, and communicate directly with them on a regular basis. He said that in September, he and Mike Consedine (NAIC) will participate in the Conference on Global Insurance Supervision organized by EIOPA and others in Frankfurt, Germany. He said several bilateral meetings are also planned in Frankfurt and Brussels, Belgium, to discuss a range of regulatory matters of mutual concern.

Commissioner Nickel said state insurance regulators and the NAIC also remain committed to the U.S./EU Insurance Dialogue Project to share best practices and discuss emerging issues. He said that while energy behind the project waned during covered agreement proceedings, for the remainder of 2017 and into 2018, a return to the usual dialogue topics is expected, with such issues as cybersecurity and consumer protection on the agenda.

With regard to the covered agreement, Commissioner Nickel said the U.S. Department of the Treasury and the Office of the U.S. Trade Representative (USTR) recently announced their intent to sign the covered agreement with the EU and to issue a policy statement regarding its terms and implementation. He said state insurance regulators had urged several clarifications of the agreement relating to capital, group supervision, reinsurance and the joint committee, among others. He said state insurance regulators have been in close communication with the Treasury Department and the USTR regarding this policy statement, noting that both agencies have been willing to engage with state insurance regulators and have recognized the primacy of state-based insurance regulation in the U.S.

Commissioner Nickel said state insurance regulators have been working closely with ASSAL for the past few years as part of an effort to share best practices with other insurance supervisory authorities and enhance regulatory cooperation to help with the supervision of internationally active insurance groups.

Draft Pending Adoption

He said that earlier this year, the NAIC participated in ASSAL's annual meeting in Santiago, Chile, where he—along with Commissioner McPeak, Mr. Consedine and Mr. Sarper—spoke on various topics.

Commissioner Nickel said the NAIC also held a bilateral meeting with the ASSAL Executive Committee to discuss international standard-setting issues from the IAIS, the OECD and the coordination of the supervision of internationally active insurers. He said the NAIC's International Fellows Program was also discussed.

Commissioner Nickel added that earlier in the day, the NAIC signed its 17th memorandum of understanding (MOU) with Argentina's National Superintendence of Insurance. He said that following the signing of the MOU, the NAIC held a meeting with Superintendent Juan Pazo to discuss working closely with Argentina in the coming years to provide technical assistance and training regarding risk-based supervisory approaches, including on cross-border reinsurance.

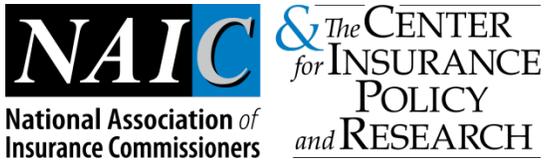
Commissioner Nickel noted that Argentina is president of the G-20 in 2018, and said state insurance regulators will discuss ways to make G-20 leaders aware of the strengths of the U.S. state-based approach to insurance regulation and the role the U.S. insurance industry can play in financing and promoting economic growth and financial inclusion.

6. Heard a Presentation on the Insurance Market and Supervisory Reforms in Argentina

Superintendent Pazo gave a presentation to the Committee that provided an overview of the insurance market in Argentina and reforms underway. Commissioner Taylor asked Superintendent Pazo what he would like to see the IAIS do to help regulatory regimes. Superintendent Pazo said the IAIS could provide more technical assistance to jurisdictions such as Argentina.

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

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MEMORANDUM

To: International Insurance Relations (G) Committee
From: International Regulatory Cooperation (G) Working Group
Date: December 2, 2017
Re: NAIC International Fellows Program Week-long Training Program Proposal

Background

The NAIC International Fellows Program was created in 2005 and is offered twice-yearly, in the spring and fall. The Program is designed to give participants a deep understanding of the U.S. state-based insurance regulatory system and to strengthen relationships among U.S. and foreign regulators. Since its founding, more than 270 regulators from 34 countries have participated and 38 U.S. jurisdictions have hosted these non-U.S. regulators. Fellows first spend a week at the NAIC Central Office in Kansas City, learning how insurance regulation works in the U.S. and how the NAIC supports state-based regulation. Following this training, fellows spend five weeks in a U.S. host jurisdiction, working in technical areas of their specialization where they see first-hand how states approach financial regulation, market conduct, licensing and many other aspects of insurance regulation. Finally, fellows spend two days at the NAIC's Capital Markets & Investment Analysis Office in New York City, learning how the NAIC keeps state regulators informed regarding investment risks and market trends.

Several foreign insurance regulatory agencies regularly rely on the NAIC International Fellows Program as a major training exercise for their employees, and budget accordingly. As prospective fellows are made aware, all costs associated with the program beyond NAIC and state insurance department training are to be covered by the fellow's home agency and/or the fellow. These costs – airfare, lodging, meals, and incidental expenses – mean foreign regulatory agencies restrict participation by generally nominating no more than two regulators per session. Further, fellows commit to being away from their home agency for seven weeks, which many foreign regulators are unable to do. Ancillary to the International Fellows Program, the NAIC periodically receives training requests from individuals and foreign regulatory bodies that cannot participate in the full, seven-week fellows program for various reasons, but still want to learn more about the U.S. state-based insurance regulatory system. Often the NAIC is not able fulfill these ad-hoc requests.

Proposal

To meet the needs of non-Fellows Program foreign regulators who seek training from the NAIC on the fundamentals of the U.S. state-based insurance regulatory system, the International Regulatory Cooperation (G) Working Group, during its July 26, 2017 conference call, asked NAIC staff to develop a proposal to enhance the existing International Fellows Program by allowing non-fellow international regulators to participate in the week-long training for the International Fellows in Kansas City. Opening this week-long session up to non-fellow international regulators on a space-available basis, beginning with the Spring 2018 Kansas City training session (scheduled for April 9-13, 2018), will have a minimal impact on NAIC resources and no impact on state insurance department resources. Under this proposal, participants and their home agencies would cover all associated costs other than the training (i.e., airfare, lodging, meals, and incidental expenses), just as fellows do.

Availability will be determined by the size of the Spring 2018 class of Fellows and the NAIC training room (which accommodates up to 30 individuals). Invited jurisdictions will be selected by the International Insurance Relations (G) Committee Chair in consultation with NAIC staff *after* the Spring 2018 class of NAIC International Fellows has been invited and assigned to host states.

Recommendation

The Working Group approved this recommendation during its November 14, 2017 call, and now recommends the Committee approve this proposal to allow non-fellow international regulators to participate in the week-long Kansas City training, on a space-available basis, starting with the Spring 2018 session as a pilot program. NAIC staff will report back to the Committee following its conclusion.