

**INSURANCE OVERSIGHT: POLICY
IMPLICATIONS FOR U.S. CONSUMERS,
BUSINESSES, AND JOBS, PART 2**

HEARING
BEFORE THE
SUBCOMMITTEE ON
INSURANCE, HOUSING AND
COMMUNITY OPPORTUNITY
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED TWELFTH CONGRESS
FIRST SESSION

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**INSURANCE OVERSIGHT: POLICY
IMPLICATIONS FOR U.S. CONSUMERS,
BUSINESSES, AND JOBS, PART 2**

Tuesday, October 25, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INSURANCE, HOUSING
AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:02 p.m., in room 2128, Rayburn House Office Building, Hon. Judy Biggert [chairwoman of the subcommittee] presiding.

Members present: Representatives Biggert, Hurt, Westmoreland, Duffy, Dold, Stivers; Gutierrez, Velazquez, Cleaver, Sherman, and Capuano.

Also present: Representatives Royce and Green.

Chairwoman BIGGERT. This hearing of the Subcommittee on Insurance, Housing and Community Opportunity will come to order, and we will begin with opening statements. I recognize myself for 4 minutes.

Good afternoon and welcome to this hearing, the second in a series, entitled, "Insurance Oversight: Policy Implications for U.S. Consumers, Businesses, and Jobs."

I welcome today's witness, Mr. Michael McRaith, Director of the Federal Insurance Office at the Department of the Treasury. In his new capacity—this is the Director's first appearance before any congressional committee, and we are so happy that he is here. He served as the Director of the Illinois Department of Insurance and as part of the National Association of Insurance Commissioners leadership team. We look forward to the Director describing his initial activities and future plans to carry out his duties as authorized by the Dodd-Frank Act.

The new Federal Insurance Office, also called FIO, has an important but limited role, and this hearing will give us an opportunity to discuss ways to keep the U.S. insurance market free of any unnecessary regulatory burden and internationally competitive.

In addition, much like our first insurance oversight hearing in July, we will continue to examine how provisions in the Dodd-Frank and other recent domestic and international initiatives affect the insurance industry. For over 150 years, the State-based system of insurance regulation has worked and endured, even during turbulent economic times, allowing the U.S. insurance industry to become a growing and vibrant source of financial security for millions

of Americans. That financial security includes providing 2.3 million wage and salaried jobs.

Congress occasionally reviews the State-based system to ensure uniformity and effectiveness. The McCarran-Ferguson Act of 1945 maintained the States' regulatory authority over insurance unless a Federal law expressly provides otherwise, such as flood and terrorism insurance. However, for U.S. insurers, the Dodd-Frank Act unnecessarily upset this well-functioning and proven system of regulation.

In July, we heard from a spectrum of witnesses that the Dodd-Frank Act as well as international regulatory initiatives have created great uncertainty for U.S. companies that are in the business of insurance. Our U.S. insurers are holding their breath in anticipation of being subject to new regulations issued by Federal bank regulators, higher capital standards, restrictions on investment, payments to a new Federal bailout fund, and to what end? As a result, insurers have told me that they are not expanding their companies and creating jobs, consumer costs may rise, and they may become less competitive abroad. These are very serious and real results of uncertainty created by Washington.

I hope that today's hearing can shed light on how the FIO can help provide guidance to regulators and much-needed clarity to our U.S. insurers. It is my hope that today's hearing also will reveal how the FIO Director will use his office to help our insurers remain internationally competitive.

With that, I yield to the ranking member, Mr. Gutierrez from Illinois, for his opening statement.

Mr. GUTIERREZ. Thank you so much.

Thank you, Madam Chairwoman, and thank you, Director McRaith, for joining us this afternoon to provide an update on the important work that you have started at the Federal Insurance Office, or FIO.

When the subcommittee met in July to discuss the Federal Government's role in insurance policy, almost every witness conveyed one clear message, that you were going to be very important, vitally important. Even though our State regulators and legislators have been very effective, there is a gap at the Federal level in our understanding of the insurance industry and our ability to coordinate domestic and international insurance policy. The FIO attempts to fix this by working with State officials to improve the regulatory environment, protect U.S. interests internationally, and prevent systemic risks and failures related to the insurance industry.

Some of my Republican colleagues have characterized the FIO as a regulatory threat and have attacked it just like they have attacked the Consumer Financial Protection Bureau. They have these "Chicken Little" theories, constantly warning us that the regulatory sky is going to fall on us if we let the FIO move forward.

I want to remind my colleagues that we were very careful to define the FIO in such a way that limits any negative impact on the industry and keeps it focused on necessary interstate coordination, data gathering, and monitoring. I understand that my colleagues on the other side of the aisle are particularly concerned with the role FIO plays on the Financial Stability Oversight Council, or

FSOC, and the Director's ability to recommend the FSOC consider a potentially risky insurance company for higher prudential standards. This policy acknowledges that not all insurance companies have the same business model, and that the AIGs of the world are interconnected, even that their failure would have a serious impact on financial markets. As I understand it, the FSOC is developing strict criteria for this designation, which I find appropriate.

Unfortunately, some seem to agree with the insurance industry and say that any regulation is just no regulation to many. How high do we expect to set the bar in order for an insurance company to be considered risky so that we can have additional oversight to keep it from bringing down our entire economy? No matter where we end on this question, some will say we set the bar too high, others will say we set it too low. And, fortunately, the FIO and Director McRaith will provide specific insurance expertise to help State and Federal regulators reach an effective, workable standard.

I look forward to hearing about how the FIO is starting to fulfill its mission to make insurance regulation in this country better and more efficient, not more cumbersome. In that, I agree with the Majority. I think this hearing will be an important reminder of the real value that the FIO adds to the U.S. insurance, ultimately making it more stable and more competitive, and I thank the gentlelady from Illinois, our chairwoman, once again.

Chairwoman BIGGERT. Thank you, Mr. Gutierrez.

I now yield 1 minute to the gentleman from Virginia, our vice chairman, Mr. Hurt.

Mr. HURT. Thank you, Madam Chairwoman.

First, I would like to welcome Director McRaith to our subcommittee. I appreciate your appearance here, and your willingness to have a dialogue with us about what you see for the future of this newly created Federal Insurance Office.

Today, the subcommittee continues its important oversight of the insurance industry and the impact of Dodd-Frank on the manner in which insurance is regulated. Dodd-Frank created the FIO to represent the interests of insurers in the context of international regulatory negotiations as well as advise the FSOC on the risks associated with the insurance industry.

In our last hearing on these issues, I asked witnesses whether the FIO would signify an expansion of Federal power and bureaucracy in the arena of insurance regulation. With the Federal Government's nose now under the tent of insurers, so to speak, it is my hope that the FIO will not engage in mission creep and instead adhere to the limited mission that Congress intended it to serve. With our Nation over \$14.5 trillion in debt, my constituents, the citizens of Virginia's 5th District, know that we cannot afford any new duplicative regulations or bureaucracy. Excessive and unnecessary regulation of insurance would only restrict consumer choice and hinder the growth of free and open insurance markets.

Again, I want to thank the Chair for holding this hearing today. I look forward to the testimony, and I yield back the balance of my time.

Chairwoman BIGGERT. Thank you, Mr. Hurt.

The gentleman from Illinois, Mr. Dold, is recognized for 3 minutes.

Mr. DOLD. Thank you, Madam Chairwoman, and I certainly want to thank you for holding this important hearing.

Director McRaith, thank you so much for being here and for your time.

As we all know, the insurance industry is a large and critical component of our financial services industry and of our economy generally. The insurance industry generally employs well over 2 million Americans with stable and well-paying private-sector jobs.

Our insurance industry is also the source of many billions of dollars of private-sector investment capital every year. These investments help other businesses get started, expand, and create even more good, stable, well-paying private-sector jobs in all kinds of various industries. And while providing these direct and indirect jobs and other economic benefits, our insurance industry provides many millions of American policyholders with peace of mind, security, and compensation in difficult, unfortunate, and oftentimes tragic circumstances.

But along with all of these positive factors, the insurance industry has some challenges that Congress can and should address.

The first and most urgent challenge is getting Congress to pass responsible, long-term National Flood Insurance Program reauthorization. Under Chairwoman Biggert's leadership, the House has overwhelmingly passed that kind of legislation with over 400 votes. We are all looking forward to a prompt Senate passage and the President signing this important legislation.

But now we have an equally important obligation, to carefully examine how Congress can help modernize the insurance industry's regulatory framework while identifying and supporting helpful industry-related initiatives. This raises important questions about the interaction between Federal, State, and other regulators, the interaction of regulations among the different States, and how our domestic regulations in trade agreements compare to those of foreign nations in an interconnected global marketplace.

In the end, our objective here is to create the conditions that will maximize private-sector job growth, economic prosperity, and global competitiveness, while also ensuring that consumers are adequately protected and have access to a broad range of affordable insurance products. I look forward to hearing from Mr. McRaith about how we can achieve these objectives.

I won't have time to ask all of my questions during the allotted period, so I will be submitting some written questions, just to give you a heads-up on that. But my questions will include things about the Volcker Rule, the SIFI designations, regulatory uniformity and modernization, and the NAIC's regulatory role.

Given this industry's vital importance to the policyholders, American jobs, and the American economy generally, we need to make sure that our legislation and regulatory framework aren't going to have negative, unintended consequences, aren't going to impose undue costs on insurers and their policyholders, and aren't going to unnecessarily limit our economic growth and our job growth as well.

So, with that in mind, I thank you in advance both for your testimony here today and for your responses to the written questions.

And, with that, Madam Chairwoman, I yield back.

Chairwoman BIGGERT. Thank you, Mr. Dold.

Without objection, all Members' opening statements will be made a part of the record.

Now, we will hear from our esteemed witness, the Honorable Michael McRaith, Director, Federal Insurance Office, U.S. Department of the Treasury. You will be recognized for 5 minutes, and then the Members will have 5 minutes each to ask their questions.

STATEMENT OF THE HONORABLE MICHAEL MCRAITH, DIRECTOR, FEDERAL INSURANCE OFFICE, U.S. DEPARTMENT OF THE TREASURY

Mr. MCRAITH. Chairwoman Biggert, Ranking Member Gutierrez, and members of the subcommittee, thank you for inviting me to testify today. I am Michael McRaith, Director of the Federal Insurance Office in Treasury.

The Dodd-Frank Act created the Federal Insurance Office, or FIO, and, among other things, gave it the authority to monitor the insurance industry, to monitor the accessibility and affordability of insurance to underserved communities, to develop and coordinate Federal policy on international insurance regulatory matters, and to represent the United States at the International Association of Insurance Supervisors. In a role that will continue to develop, FIO is now a central point of contact for insurance supervisors from around the world. Our leadership will provide needed clarity on relevant U.S. positions.

On October 1st, FIO became a full member of the International Association of Insurance Supervisors (IAIS), marking the first time the United States Government has a voice in the coordination and development of international insurance regulatory standards. With the IAIS moving to designate globally significant insurers, FIO involvement has arrived at a critical moment. The IAIS is also developing a common framework for the supervision of internationally active insurance groups, a project with which the FIO will be increasingly engaged. And with the EU and the U.S. discussing regulatory equivalence, the FIO will work with State insurance regulators and our EU counterparts so that the regulatory systems of one country or continent do not favor or disadvantage insurers based elsewhere. In every forum, our objective shall be to shape international consensus where appropriate on issues important to the United States.

FIO is authorized to gather information, as required by the Dodd-Frank Act. We will first seek data from public sources, a Federal or State regulator, or the Office of Financial Research before seeking information from an insurer. As we have to date, FIO expects to work closely with regulators when data is needed.

The Financial Stability Oversight Council was created to, among other things, identify and respond to threats to financial system stability. FIO is an advisory member of the Council, and I look forward to working with Roy Woodall, the Council's independent insurance expert, and Director John Huff of Missouri, the State insurance commissioner. With Mr. Woodall's recent confirmation, the Council now benefits from the input of three insurance experts.

FIO has made progress in other important ways. In May, we announced the formation of a 15-member Federal Advisory Com-

mittee on Insurance, approximately one-half of whom will be State insurance regulators. Applicants include many leaders from across the industry spectrum. We are completing the evaluation process and hope soon to announce our appointments.

FIO is preparing a study and report on how to modernize and improve the system of insurance regulation in the United States. A Federal Register notice seeking comment was published on October 17th, and the comment period closes December 16th. We welcome comments on all relevant topics.

We continue to build FIO to expand resources and expertise. This week, four positions were posted at USAjobs.gov as part of our effort to construct a strong and talented team.

To be sure, FIO is not a regulator. That remains the province of the States. In June, I concluded more than 6 years as the Illinois insurance commissioner and have great respect for the work of State regulators. State regulators have broad daily responsibilities including solvency oversight, product form approval, consumer complaints, and producer licensing.

FIO is committed to establishing a collaborative relationship with State insurance regulators, and we have worked to develop the custom and practice of interaction with the States that will serve the best interests of the U.S. economy, the insurance industry, and our insurance consumers.

Insurance is an enormous, multifaceted industry subject to complicated regulatory oversight. Chairwoman Biggert, I affirm our commitment to work with and to support Congress, this committee, and others as you seek analyses or perspectives on insurance topics of local, national, or international interest.

Thank you for your attention. I look forward to your questions. [The prepared statement of Mr. McRaith can be found on page 24 of the appendix.]

Chairwoman BIGGERT. Thank you for your testimony.

Without objection, your written statement will be made a part of the record. With that, I will recognize Members for 5 minutes to ask questions. I yield myself 5 minutes.

In your written testimony, you state that the FIO will consult and work closely with State insurance departments which remain the functional regulators over the business of insurance as we develop Federal insurance policy on insurance matters. I know that you just said that FIO was not a regulator, but would you repeat that and give us some more insight into why it is not a regulator?

Mr. McRAITH. Sure. We should start, of course, with the Dodd-Frank Act itself, which is explicit that the Federal Insurance Office is not a regulator, it is not a supervisor. The authority, the day-to-day responsibility to regulate the insurance sector remains the province of the States.

Chairwoman BIGGERT. Thank you.

As our country struggles with a slow economic recovery, and national unemployment is 9.1 percent, do you think that Congress and the Federal agencies or States should take any action to foster our insurance markets or are they functioning well?

Mr. McRAITH. The measurement of a well-functioning insurance market is subjective. Depending on which economist you ask, which

consumer you ask, which company you ask, you are likely to receive many different viewpoints.

For example, the property and casualty market, by and large, is extremely competitive. Those of us who watch sporting events see the competition for personal lines' auto coverage, for example, and we know how competitive many of those lines of insurance are.

Having said that, we should evaluate and continue to evaluate all aspects of the insurance regulatory system, the insurance sector, and evaluate whether there is a better way to do what we are doing now, a better way to protect consumers, a better way to provide affordable, accessible coverage, a better way to allow the insurance sector based in the United States to compete internationally.

Chairwoman BIGGERT. I am sure that, like me, you have heard from our U.S. insurers that they face great regulatory uncertainty, especially as it relates to the Dodd-Frank Act provisions that could lead to insurers being regulated by Federal bank regulators and being subject to higher capital standards and restrictions on investment and payments to a new Federal bailout fund. What are your plans in addressing these uncertainties?

Mr. MCRAITH. I would clarify that those uncertainties at this point are largely hypothetical. There is no definition as to what any enhanced supervisory standard might be with respect to an insurance company. We do know that the FSOC has recently published a proposed rule and guidance that gives some clarity on how a company will be designated. That, of course, would be the first step before any enhanced supervisory standards are applied.

Chairwoman BIGGERT. I think the one thing about the—

Mr. MCRAITH. Just to finish that thought, Madam Chairwoman.

Chairwoman BIGGERT. Okay, sure.

Mr. MCRAITH. And I apologize. As a member of the Financial Stability Oversight Council, I will work with Mr. Woodall, as I mentioned, the independent insurance expert on the Council, and John Huff, the State insurance commissioner, and we will do our best to inform the Council and the members of the Council as to the operations of the insurance sector, why it operates or behaves in a certain way in any given circumstance.

Chairwoman BIGGERT. Thank you.

I think one of the things that this committee was concerned about and one of the things that the industry was concerned about was the lack of having you and Mr. Woodall at the table when FSOC was making policy, and I—was there anything, have you found, that transpired that would affect the insurance when you weren't there and could be corrected or should be corrected?

Mr. MCRAITH. I think it is notable that the Council published the proposed rule and guidance in 2010. There were many comments, including from the insurance sector, asking for more clarity, and just recently the Council re-proposed the rule and guidance with the benefit of insights not only from Director Huff but also from me as the FIO Director, and Mr. Woodall had been in his position for a few weeks prior to the publication of that proposed rule and guidance.

Chairwoman BIGGERT. So you think that there wasn't anything that transpired that you would like to undo?

Mr. McRAITH. No, I have not seen anything like that, Madam Chairwoman.

Chairwoman BIGGERT. Okay. Thank you.

My time has expired, and I recognize the ranking member, Mr. Gutierrez, for 5 minutes.

Mr. GUTIERREZ. Thank you very much.

Welcome, Mr. McRaith. We are happy to have you here. I am happy we cleared up the regulatory issue, although we were very explicit in the Dodd-Frank bill, as you have repeated here again, in terms of the regulatory.

I guess the first thing on regulatory—back in Illinois, I guess the gas company would charge whatever they want. I am sure they are saying regulation gets in the way of their profit. The electric company would say the same thing. I guess a slum landlord would say the same thing about regulatory issues when it comes to certain standards that you have to give housing. I could just go on and on and start thinking about people who would love not to have any regulation. I guess the guys at Worldcom, too, a little regulation got in their way, along with Enron, because they kind of created their own regulations.

So I just want to talk about why is it that we have the FIO. Does it have anything to do with regulations or lack of regulations in the past, and what is your role in the future?

Mr. McRAITH. Thank you, Congressman, for your kind words. I am happy to be here to work with you in this capacity.

The FIO will monitor the industry, attempt to serve the Financial Stability Oversight Council and other aspects of the Federal Government, including Congress and this committee, by providing insurance expertise, by providing a solid, objective, reliable understanding of the operations of the sector, and the impact on consumers. In that, we are also required to monitor the affordability and accessibility of insurance to traditionally underserved communities; we will be working with State insurance regulators.

Mr. GUTIERREZ. But that might cost the insurance industry money and be regulatory, wouldn't it, if you have to monitor them? It might cost money to make sure that poor people can get car insurance and underserved communities might be able to—

Mr. McRAITH. I think that—

Mr. GUTIERREZ. Not that I mind, because I think everybody should be served, just to make that point.

Mr. McRAITH. I think the word “monitor” is an important word that we are working to define as we move forward. Our objective is to be faithful—

Mr. GUTIERREZ. Then let me ask you the question, who monitored and regulated AIG at the Federal level before its collapse and subsequent bailout by the Federal Government?

Mr. McRAITH. So AIG had 247 different operating companies. At the holding company level, it was regulated by the Office of Thrift Supervision.

Mr. GUTIERREZ. Okay, and so were they doing a very good job of watching them? Did they ever warn them? Did they tell them, you shouldn't do this? Did they tell them about the credit swaps? Did they tell them about the potential that they had for crippling our financial markets in the United States? Were there any warnings?

Mr. MCRAITH. I think Congress and the country have addressed that question by passing the Dodd-Frank Act.

Mr. GUTIERREZ. So the answer is no?

Mr. MCRAITH. I think it is clear that AIG at the holding company level did have a number of deficiencies, and many would argue that it was not properly supervised.

Mr. GUTIERREZ. Because, basically, insurance has always been regulated at the State level, hasn't it?

Mr. MCRAITH. That is correct.

Mr. GUTIERREZ. And it really hasn't been regulated at the Federal level?

Mr. MCRAITH. That is correct.

Mr. GUTIERREZ. Wouldn't you say that insurance companies have not been monitored and regulated at the Federal level, though, in the same way a bank or a savings and loan is regulated and monitored at the Federal level?

Mr. MCRAITH. I would say that the Federal Insurance Office marks the first time within the Federal Government that there is an office dedicated to monitoring the insurance industry.

Mr. GUTIERREZ. So it would be fair to say that the creation of the FIO gives the first monitoring level to insurance companies at the Federal level?

Mr. MCRAITH. It is fair to say that we are the first office in the Federal Government created with the explicit statutory responsibility—

Mr. GUTIERREZ. So are you watching out to make sure AIG doesn't go adrift once again?

Mr. MCRAITH. We are absolutely engaged with the Financial Stability Oversight Council. One of our core objectives, of course, is to identify regulatory gaps, where are there potential inadequacies in our regulatory system, to support the efforts of the Council, which has the objective of preserving and enhancing financial system stability.

Mr. GUTIERREZ. I want to thank you.

Let me just suggest to you, since you are not a regulator and you are a monitor, if you monitor AIG, could you call me right away so we can tell the world about the pending disaster in case they come once again to cripple our economic system?

Thank you so much.

Mr. MCRAITH. Thank you.

Chairwoman BIGGERT. Thank you.

The gentleman from Virginia is recognized for 5 minutes.

Mr. HURT. Thank you, Madam Chairwoman.

Just to clarify, based on the last line of good questioning, it is my understanding that the FIO is not going to be looking at holding companies like AIG. You will be looking specifically at insurance companies; is that right?

Mr. MCRAITH. If that is—

Mr. HURT. Or insurance-related business.

Mr. MCRAITH. Excuse me?

Mr. HURT. Insurance business.

Mr. MCRAITH. The statutory language, Congressman, is that the Federal Insurance Office will monitor the insurance industry, in-

cluding identifying gaps in the regulatory system that may contribute to or threaten financial system stability.

Mr. HURT. But just so we don't get confused and we remain focused on trying to get at the issues that we want to get at, honestly, in an effective way, it is important to note—and this is my recollection—but at the end of the day, the insurance business at AIG was not the problem. It had to do with its holdings and derivatives?

Mr. McRAITH. It is absolutely correct that the FIO will not be regulating financial holding companies.

Mr. HURT. Okay.

I have the same concern I think the Chair expressed, that at a time when we have 9.1 percent unemployment—I come from a rural southern Virginia district. We have 20 percent unemployment in some parts of my district. We are borrowing 40 cents on every dollar. So I think that no one here—or I can't speak for anyone else, but I will say for myself, I am not here to say that we don't need any regulations. I am not saying that at all. But what I am saying is that when we do know that regulations cost money and they cost—and that money translates to jobs, I think we need to be aware of that.

I think we also need to be aware of the fact that the government is borrowing 40 cents on every dollar it spends and therefore has fewer resources to do proper regulation, just to do a proper job.

So I think that as we look at your role going forward, we need to keep those things in mind, and the two questions that I have really relate to what I said in my opening statement, but the first is on data collection. Can you talk a little bit about what you think that you will be able to do without requiring additional burdens on the private sector and be able to get from regulators?

And then, what is it that you contemplate, if you can tell us, will have to be obtained over and above and create new and additional burdens that I am sure the companies will want to provide to you and be cooperative, but, at the same time, these are burdens, and let's be clear.

Could you talk just specifically about that? And then, I have one other question.

Mr. McRAITH. Sure. Congressman, the Dodd-Frank Act requires us to seek, request, obtain information from publicly available records, from State or Federal regulators, from the Office of Financial Research, before we ever ask an industry participant.

Mr. HURT. Okay, so what does that mean practically? Do you know enough yet to know whether or not that means that there will be a great deal of volume that you will have to ask for that won't currently be provided through the regulators?

Mr. McRAITH. As you have heard today, I spent more than 6 years as the insurance commissioner in Illinois. I am very well versed on the extensive reporting that insurance companies are required to do on a quarterly or annual basis to the State regulators. That information is then compiled through the National Association of Insurance Commissioners.

At this point, Congressman, I can tell you that we have not needed information beyond what the regulators have already collected.

Having said that, it would be—and I hope you understand I can't predict all of the information we will need in the future.

Mr. HURT. Of course.

Mr. MCRAITH. But, again, our statutory obligation we intend to honor both in the spirit and the letter of the law. We will always pursue the information we need from a Federal agency or publicly available source, and only if it is unavailable at that point would we ask the industry for anything.

Mr. HURT. Thank you. It looks like my—I don't have time for another question, so I will yield back. Thank you.

Chairwoman BIGGERT. Thank you.

The gentlelady from New York, Ms. Velazquez, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Madam Chairwoman.

Good afternoon. Some experts are concerned that data-gathering activities of the FIO will impose duplicative requirements on insurers, ultimately resulting in higher costs for consumers and businesses. How does your office plan to mitigate the cost of data gathering?

Mr. MCRAITH. To be clear, the statute requires that the Federal Insurance Office first request, seek, obtain information from a public source or from a State or Federal agency or from the Office of Financial Research before asking the industry for anything. I know very well what data that companies are required to produce, and report every year to State insurance regulators. To date, we have not needed data beyond what is already reported by the companies to the States.

So to get to your question, because we are obligated to ask State regulators for information first or Federal regulators, whichever, we will never ask a company for information that they have already provided to another regulator. The possibility of a duplicative request, therefore, is not—it is, frankly, not possible.

Ms. VELAZQUEZ. Nor should costs be passed on to individuals or businesses?

Mr. MCRAITH. That is correct.

Ms. VELAZQUEZ. One function of the Office of Financial Research is to make data available to the general public to increase transparency of the financial industry. Can you tell us what benefits we should expect from increased transparency of the insurance industry?

Mr. MCRAITH. Much of the information that is collected and is company specific, if it is publicly available, that information may help this committee, may help Congress, may help the public understand what the financial status is of the company in which we are interested, and what the financial status is of the industry as a whole.

Ms. VELAZQUEZ. Even after passage of the Dodd-Frank Act, State regulators remain solely responsible for consumer protection in insurance matters. In your opinion, should the CFPB assume part of this responsibility to ensure uniformity and a level playing field, and how can the CFPB assist States in these efforts?

Mr. MCRAITH. The CFPB has explicit statutory authority and limitations. I would encourage you, Congresswoman, respectfully,

to reach out to that agency to ask how they can be helpful in that regard. It would be inappropriate for me to comment at this time.

Ms. VELAZQUEZ. Okay. Thank you.

Chairwoman BIGGERT. The gentlelady yields back.

The gentleman from Illinois, Mr. Dold, is recognized for 5 minutes.

Mr. DOLD. Thank you, Madam Chairwoman.

Director McRaith, as you know, the Volcker Rule prohibits or places restrictions on certain types of financial activities deemed high risk or that create potential for a high exposure to taxpayer losses. Insurance companies that own or operate an FDIC-insured thrift institution are covered entities and therefore must adhere to certain restrictions mandated by this rule.

Everyone recognizes the Dodd-Frank statutory exemption which would allow insurers to continue proprietary trading activities in their general accounts. This shows that legislators and agencies recognize that investing for insurance companies' general account should be permitted, as these investments are solely for the general account and are rigorously regulated by State insurance departments.

Although Dodd-Frank provided this proprietary trading exemption for insurers with small thrifts, there is an open question as to their ability to continue investing in private equity and hedge funds for their general accounts. Currently, many insurance companies invest in private equity long term to match the lives of their beneficiaries. These investments are not short-term or quick investments. They are along the lines of 10 to 15 years. Additionally, they are well regulated by the State insurance departments, as you are well aware.

As the FIO Director, one of your principal functions is to identify issues or gaps in insurance regulations. Based on your expertise and experience in State insurance regulation, do you see any reason to prohibit these types of investments?

Mr. MCRAITH. Congressman, I am very familiar with the operations of the industry and individual companies within the industry, including those within your home State, and my home State as well.

I am also aware that there are a couple of rules that have recently been proposed on this subject matter. The Federal Reserve, the OCC, and the FDIC proposed rules, and the comment period expires or closes January 12th. The FCC proposed a rule on this subject matter that closes January 13th. I think the CFTC has a rule on this subject matter that is forthcoming. I encourage all interested parties, including the insurance industry, to submit comments. I would prefer that those agencies directly involved with the development of that rule hear and develop their own rules on that.

Mr. DOLD. You understand my concern. You just named several different agencies that are all trying to weigh in on this, and the opportunity to have more confusion and uncertainty is certainly significant. So would you rank over them in terms of what an insurance company could and could not do or would you have to—will we have conflicting potential rules out there?

Mr. MCRAITH. The law is clear that those agencies—independent agencies, I might add—are all asked to develop the rule. Treasury

had a role in coordinating but not in developing the substance or content of the rule, Congressman.

Mr. DOLD. A couple of weeks ago, the FSOC released another proposed rulemaking notice on nonbank financial companies which provides more detail on the designation framework. Generally, the FSOC seeks to assess the company's financial distress on the broader marketplace based on three categories: size; substitutability; and interconnectedness.

As it relates to insurance companies, it seems that, based on the proposed framework, an insurance company may have sizable assets and operations. However, with respect to substitutability and interconnectedness criteria, insurance companies appear to be less systemically significant and thus would not pose a threat to the financial stability of the United States and therefore should not be subject to the supervision by the board and enhanced prudential standards.

Since the principal function of your position is to recommend which insurance companies may be subject to a designation as systemically significant, would you agree that nonbank financial companies should not be subject to a systemically important designation based on their size alone, as scale, interconnectedness, and substitutability of such entities all mitigate the impact of such entities on the financial stability of the United States?

Mr. McRAITH. As you point out, Congressman, the Dodd-Frank Act has established the criteria by which individual institutions will be evaluated. There is not, of course, a blanket exemption for an industry or category of institution. The proposed rule and guidance are open for comment at this time, I think it is until December 17th or 19th. Forgive me for not knowing the exact date.

Mr. DOLD. We will forgive you.

Mr. McRAITH. But in the middle of December, the comment period will close. I encourage any interested institution or industry to submit comments and reply to the proposed rule and guidance.

Mr. DOLD. In my last 9 seconds, Director McRaith, would you not agree that an institution that has filed for restructuring through bankruptcy provisions would not be or should not be subject to the SIFI designation?

Mr. McRAITH. Without knowing more about the individual company or the myriad variables that might apply, it would be irresponsible for me to answer that question, Congressman.

Mr. DOLD. Thank you.

I yield back.

Chairwoman BIGGERT. The gentleman yields back.

The gentleman from Missouri, Mr. Cleaver, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Mr. McRaith, welcome to the committee.

Mr. McRAITH. Thank you.

Mr. CLEAVER. This is your fourth, fifth month on the job?

Mr. McRAITH. Fourth.

Mr. CLEAVER. Fourth. Are you jubilant?

Mr. McRAITH. There are a lot of words I would use to describe my experience, but I would say, in all sincerity, it is a tremendous

privilege to work at the Department of the Treasury and to be able to work with this Congress and this committee again.

Mr. CLEAVER. Agree. John Huff from Missouri, my State, speaks highly of you and enjoys working with you; and my question, my single question relates to that.

You are working closely with two other Council members, Roy Woodall and, of course, John Huff, and I am just curious about how that plays out. Do you think we are duplicating anything? Do you think there are similarities that we can further separate or distinguish? What are the differences and how do you think this trio is working—

Mr. MCRAITH. Congressman, Director Huff is a tremendous professional and an example of the very best in State regulation, and he is also a great friend. I would say that, however, even if he were not a great friend. So I appreciate his kind words to you.

We will work closely together. The insurance sector reported in excess of \$7.1 trillion in assets in the end of 2010. That means that Mr. Woodall, the independent expert who is a voting member of the FSOC, of the Council, Director Huff, and I have a lot of work to do. We have to work closely together, we have to communicate on a regular basis, we have to be sure that the other members of the Council receive the benefit of our expertise, of our perspectives, and any decision made by the Council should be informed by our viewpoints. How that will play out in any one day or week, we will have to see. But I am entirely confident, knowing the professionalism of Director Huff and Mr. Woodall, that we will be able to handle any challenge that comes our way.

Mr. CLEAVER. So you don't envision any trespassing, where someone's turf is invaded intentionally or unintentionally.

Mr. MCRAITH. These are new interactions for the three of us. However, as mentioned earlier, the limitations of the FIO authority are clear. We do not regulate the business of insurance. That remains the province of the States. My expectation is whatever difficulties or challenges we encounter, we will be able to work through and establish a paradigm that will serve the Council and the country well going forward.

Mr. CLEAVER. Thank you.

Madam Chairwoman, I yield back the balance of my time.

Chairwoman BIGGERT. Thank you.

The gentleman from Ohio, Mr. Stivers, is recognized for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman.

Mr. McRaith, thank you for being here today. I appreciate your forthright answers.

I know you were formerly involved with NAIC, and I think you testified before a predecessor of this committee in June of 2008. I think you said something—and I will paraphrase your words for lack of an exact quote—like the State system of insurance regulation has outperformed the Federal counterparts that regulate the securities and banking industry as far as both protecting security of consumers and maintaining solvency of the industry.

Do you still feel like that is true?

Mr. MCRAITH. Congressman, as mentioned, I served over 6 years as a State insurance regulator, and I have tremendous respect for

the professionals who serve in departments around the country. In every State in this country, consumers are well served by very capable, hardworking, ethical regulatory professionals. The traditional PNC life insurers did fare well going through the crisis.

Mr. STIVERS. And as a follow-up to that, was it the regulated insurance products of AIG or the unregulated derivatives—and you have kind of already answered this—that helped lead to the downfall of the AIG and the collapse of the financial markets?

Mr. MCRAITH. The autopsy has, frankly, shown that it was not the insurers that caused problems for AIG as a holding company.

Mr. STIVERS. Great. Thank you.

The FIO is charged with doing a study of whether any additional—I won't use the word regulation—coordination is needed in the Federal office for insurance markets. What are you doing to make sure that the bias of your agency—basically, you are getting to answer the question, do I need to do more? What are you doing to make sure that there is not a bias toward additional Federal involvement in insurance?

Mr. MCRAITH. Congressman, let me be clear about AIG. We should not use that as an example, and we should not use the recent crisis as a reason not to examine or explore whether we can better regulate the insurance sector. Are there inefficiencies? Are there inadequacies in the system? For purposes of the modernization in improvement report that we are required to publish, we will study all challenges and problems within—or potential gaps within the existing insurance system.

Mr. STIVERS. And that is great. Are you doing anything to ensure that the bias doesn't come back that automatically says, I am the one deciding and I think I should do more? That is my question.

Mr. MCRAITH. I think you just asked me if I still agreed with my statement from 2008. I think I gave you a direct answer on that.

Mr. STIVERS. Yes.

Mr. MCRAITH. And I would say that the bias is framed by the statute. The statute requires us to study these issues, gave us considerations—six considerations, six factors. We will study those factors and considerations, we will consider comments we receive, and we will report back as required by the statute.

Mr. STIVERS. That is great. That is a good answer.

On subpoena authority, there seems to be a principle of regulatory law that usually it is only a regulator that has enforcement authority, that has subpoena power, but you have been given subpoena power. Do you expect to use that subpoena power or do you expect to work through State regulators? I think you have already answered this question, but I would just like to hear you kind of answer it directly.

Mr. MCRAITH. The subpoena power as framed by the statute would be used only in the event we cannot, for whatever reason, receive data from a State regulator, a Federal regulator, the Office of Financial Research, or we ask a business of insurance participant to produce information which they then refuse to produce. We then have to write findings in support of our subpoena and then issue the subpoena.

So the possibility of actually issuing a subpoena to collect information is extremely unlikely and would only be necessary, in my

view as I sit here today, in circumstances where all of us agree it would be appropriate for the company to provide us with information.

Mr. STIVERS. One last quick question and that is, do you expect to get involved in issues like the tax-free buildup of insurance? Frankly, there are a lot of Federal policies that sort of determine the viability of insurance. Do you expect to get involved? And I hope you will, because the other committees have jurisdiction matter on the viability of insurance.

Mr. MCRAITH. I think our portfolio and the range and breadth of that portfolio is still being defined, Congressman, so we look forward to suggestions from any interested party on any issues involving the insurance sector.

Mr. STIVERS. Thank you.

I yield back my nonexistent time, Madam Chairwoman.

Chairwoman BIGGERT. The gentleman's time has expired.

We are going to turn next to the gentleman from Texas, Mr. Green, for 5 minutes. Thank you for being here again.

Mr. GREEN. Thank you, Madam Chairwoman. I especially thank you for allowing me to be a part of the subcommittee. I thank the ranking member as well, in his absence.

And, Mr. Director, I thank you for appearing today.

You indicate on page 2 of your statement that—and I will try to quote you as accurately as possible—“The Dodd-Frank Act requires the FIO to issue a report for modernizing and improving the system of insurance regulation in the United States.” Could you just briefly give me your thoughts in terms of what this actually means, the insurance system in the United States? Federal, State, combinations thereof? Would you please, just briefly?

Mr. MCRAITH. The statute, Congressman, asks the Federal Insurance Office to study and report on how to modernize and improve the system of insurance regulation in the United States. In my view, the statute uses the word “system” in referring to the State-based system of insurance regulation. The statute lays out six considerations and six factors by which the study and report are to be guided.

Mr. GREEN. And one would assume that you are interested in hearing from consumers as to what their thoughts are to help you make prudent, judicious decisions with reference to modernizing. Is this a fair statement?

Mr. MCRAITH. Congressman, that is absolutely true. In fact, the statute requires us to consult with a full range of interested parties, including consumers. We would do it whether the statute required us to do it or not, but we absolutely are interested in and want to hear the consumer viewpoints on the regulation of the insurance industry.

Mr. GREEN. Thank you, and I greatly appreciate your desire to get that kind of input.

How do you publish your notice such that consumers across the length and breadth of a country may be aware that their comments are welcome? How do you publish it? Do you use newspapers, television, radio? What do you do to get the clarion call for input out?

Mr. MCRAITH. Congressman, it may surprise you that a request for comment on how to improve and modernize the U.S. system of

insurance regulation does not attract headlines in every newspaper. People Magazine is not actually interested in that topic. However, we did publish notice in the Federal Register in which we asked for comment. We also issued a press release announcing the request for comment that went out to publications and media outlets around the country.

Mr. GREEN. My suspicion is that a good number of persons in States along the Gulf Coast would be exceedingly interested, and the question becomes, how do you get this message beyond a press release? I understand that you don't have the funds to purchase the air time or to purchase the space in major newspapers, but it is important that we get this message to people in areas where they have been impacted by insurance issues, for example, whether it was wind or water that caused damage. It is a big deal along the Gulf Coast, and my suspicion is that people who live in these areas where they are impacted adversely would want to have some commentary.

The problem is, how do you get the message to them? And I don't know whether we need to come up with something more.

Would you be amenable to going into the area if a Member invited you to come to an area to discuss these issues at a town meeting? Is this something that you do? I am not trying to create new protocols for you. I am sincerely trying to find out how I can get my citizens, my constituents, my consumers, the opportunity to be heard.

Mr. MCRAITH. Allow me to add some depth to what will be our consultation and outreach program.

The Federal Register notice is just one component of that, Congressman. We will also engage individuals representative of communities like those you are describing. We will aggressively outreach to consumer advocacy groups and solicit their comments both in writing and verbally. If there is any group or individual you suggest that we meet with or hear from, please let us know.

Mr. GREEN. With the 9 seconds left, what about the town halls? Do you come into a district, if invited, to a town hall meeting and stand there with me as we embrace our constituents?

Mr. MCRAITH. Congressman, I know that we are open to any reasonable possibility to receive input from consumers, from the people in your district, and from around the country.

Mr. GREEN. Thank you very much, Madam Chairwoman. I am honored to yield back.

Chairwoman BIGGERT. The gentleman's time has expired.

The gentleman from Georgia, Mr. Westmoreland, is recognized for 5 minutes.

Mr. WESTMORELAND. Thank you, Madam Chairwoman.

Mr. McRaith, do you consider—I know the ranking member mentioned credit default swaps with AIG. You really don't have any jurisdiction over a credit default swap, do you?

Mr. MCRAITH. That is correct.

Mr. WESTMORELAND. Do you consider a credit default swap insurance?

Mr. MCRAITH. That is a subject matter that has been the focus of debate for at least a few years, as you perhaps know, Congressman. It was the subject of attention from I believe the New York

Insurance Department a couple of years ago. I think State insurance legislators attempted to pass a model law allowing the States to regulate those types of products. But as I sit here today, I am aware that there are Federal agencies, independent agencies evaluating that question, how to define a credit default swap.

Mr. WESTMORELAND. Do you consider a credit default swap insurance?

Mr. MCRAITH. Congressman, I need to defer to the agencies that have proposed a rule on that subject matter and are jointly working on it.

Mr. WESTMORELAND. So you don't have an opinion on whether it is insurance or not?

Mr. MCRAITH. Given the importance of the question, and given the range of comments those agencies received, I think it is appropriate for me to let them do the good work they are trying to do.

Mr. WESTMORELAND. Let me ask you about the statutory accounting principles that insurance uses, and the Federal Reserve uses, the Generally Accepted Accounting Principles (GAAP). Do you see a problem if the Federal Reserve wants to make the insurance companies start using their accounting methods, rather than the ones they have adopted or have adopted now?

Mr. MCRAITH. Congressman, the publicly traded insurance companies, of course, already prepare and report according to generally accepted accounting principles. The mutual companies do not publicly disclose accounting according to GAAP, but according to the statutory accounting practices and principles. I am not aware that the Federal Reserve has announced its intention or objective with respect to the accounting principles. As we move forward, my expectation is that the Federal Reserve would make a considered, thoughtful choice on that subject.

Mr. WESTMORELAND. But it could be rather expensive to the insurance industry if they did ask that these reports be changed to a different accounting practice. Is that true?

Mr. MCRAITH. Without knowing which company we are talking about, I would only be speculating, which I don't want to do, Congressman.

Mr. WESTMORELAND. Okay. Let me ask you, you worked in the State insurance industry for, I guess, 6 years in Illinois and evidently did a great job; and the monitoring that you are talking about doing, I noticed it talked about accessibility for minorities and low income. Did you have any of that information at the State level?

Mr. MCRAITH. At the State level, we saw insurance companies making homeowner or personal lines products available to people regardless of the communities in which they lived. Having said that, there are communities around the country asking the question of whether insurance is as accessible and affordable as it should be or can be.

Mr. WESTMORELAND. But, as far as Illinois went, you felt comfortable that you were doing your job as a State regulator to make sure that everybody had accessibility to these policies?

Mr. MCRAITH. We in Illinois have exceptionally competitive personal lines insurance markets, the most competitive markets in the country. One way we measure accessibility is participation in the

residual markets, the FAIR plans, the residual market for personal lines auto. The participation in those programs was so small, among the smallest in the entire country, and it is by that standard that I would take the view that accessibility was not a problem—Statewide accessibility was not a problem. There might be individuals who did encounter challenges, however.

Mr. WESTMORELAND. But these reports you are going to get are not going to make it any easier for you to tell where these areas are at, if you could not tell?

Mr. MCRAITH. In the Federal Register notice that I have mentioned a few times, we asked for interested parties to recommend what factors or indicators we should consider as we evaluate the best way to monitor accessibility and affordability. It is my view that the consumers and industry will allow us to develop a thoughtful approach on how best to monitor accessibility. What exactly those data points will be, Congressman, I can't tell you at this point.

Chairwoman BIGGERT. The gentleman's time is expired.

The gentleman from California is recognized for 5 minutes.

Mr. SHERMAN. Thank you.

I want to commend the gentleman from Georgia for his questions.

Credit default swaps make—there is a technical argument as to whether they are insurance, but functionally, they are insurance. And the fact that they have escaped the technical definition of insurance is why you and I and a few hundred million other taxpayers are bailing out AIG. When you allow insurance to be sold by companies that are not regulated insurance companies, the outcome is not good.

And now, Director McRaith, I assume that the Federal Insurance Office study due out in January on ways to improve and modernize the current insurance regulatory system is a de novo review that is going to take a fresh look at insurance regulation and not just be a recycling of studies Treasury has done in the past. Assuming I have read the old studies, am I going to see new stuff in the new report?

Mr. MCRAITH. Congressman, it will not be a recycling of anything that we have seen before.

Having said that, there may be principles that were announced or described in another report. We may echo some of those principles. However, the statute asks us to study, which we are doing, and then to report, and it prescribes the considerations and factors by which the study and report are to be guided.

As I sit here today, I can promise you that review will be based on the comments we receive, the consultation process we are required to complete, and, ultimately, we hope to provide you with a valuable piece of work.

Mr. SHERMAN. So everything in the new report is going to be the result of new thinking, a new look at the situation, and if it bears any resemblance to a former report that will be new thinking leading perhaps occasionally to the old comment, but it is 100 percent new thinking.

Mr. MCRAITH. That is a very broad statement, Congressman. What I can promise you is that the report will be based on the mer-

its and the substance of the issue, on the practical problem and practical solutions to any inefficiencies.

Mr. SHERMAN. Is there any page in the new report that you are going to say, we didn't bother to think that one through again, we just xeroxed an old report?

Mr. MCRAITH. Absolutely not.

Mr. SHERMAN. Okay. Now, do you anticipate that you will be able to release the report according to the original deadline, which was January 2012, or is that possibly going to slip?

Mr. MCRAITH. We are absolutely working with that deadline as our target.

Mr. SHERMAN. Thank you very much.

I think we have votes on the Floor, so I yield back.

Chairwoman BIGGERT. Thank you, Mr. Sherman.

I think I just have one more question, and we do have votes pending right now.

The United States is increasingly exporting services abroad, and this certainly includes the financial services such as insurance. How can we encourage this trend? And, in your view, did the recent House-passed free trade agreements with Colombia, Panama, and South Korea help U.S. insurers compete abroad?

And along with that, along a similar line, to help our U.S. insurers, including the reinsurance industry maintain a competitive edge, it certainly is important that the United States have a strong voice on related issues. Are you currently working with USTR or other Federal or foreign entities on any covered agreements or when do you plan to start working on covered agreements? I know it has only been 4 months, so I am sure you are quite busy with everything.

Mr. MCRAITH. Madam Chairwoman, we are, as you know, authorized to develop and coordinate Federal policy on international insurance regulatory matters for the United States. We are authorized to represent the United States at the International Association of Insurance Supervisors. In both of those roles, we intend to participate on behalf of the United States, and provide active, engaged leadership in a way that respects the importance of the U.S.-based insurance industry to the U.S. economy, and to the consumers and the employees of those companies within the United States.

Having said that, how we achieve issues, how we achieve goals like regulatory equivalence, how we achieve goals like protecting U.S. companies from inappropriate international standards, we intend to evaluate all of our options, including, first of all, leading the consensus, the development of consensus internationally, and, secondly, if needed, evaluate whether a covered agreement is appropriate.

Chairwoman BIGGERT. Thank you. And will these—the free trade agreements that were just passed, will they be of help?

Mr. MCRAITH. I would love to offer a view on that subject. It is my expectation that they will, but I have not studied those free trade agreements and can't give you an authoritative answer.

Chairwoman BIGGERT. I do think that working with the USTR in a global area was very important for FIO to be involved in, and I am happy that you are doing that.

Mr. MCRAITH. Absolutely.

Chairwoman BIGGERT. We are having votes. The Chair notes that some Members may have additional questions for you which they may wish to submit in writing. And, without objection, the hearing record will remain open for 30 days for Members to submit their written questions to you and to place your responses in the record.

And, with that, I would like to thank you again for being here.
Mr. MCRAITH. Thank you, Madam Chairwoman.

Chairwoman BIGGERT. And we really will welcome you back, probably in the near future, again. You have been a great witness. So thank you for being here.

And, with that, this hearing is adjourned.

Mr. MCRAITH. Thank you very much.

[Whereupon, at 3:13 p.m., the hearing was adjourned.]

A P P E N D I X

October 25, 2011

Embargoed Until Delivery

Statement of Michael T. McRaith
Director, Federal Insurance Office
U.S. Department of the Treasury
Hearing entitled "Insurance Oversight: Policy Implications
for U.S. Consumers, Businesses and Jobs, Part 2"
Before the Subcommittee on Insurance, Housing and Community Opportunity
Committee on Financial Services
United States House of Representatives

October 25, 2011

Chairman Biggert, Ranking Member Gutierrez, Members of the Subcommittee, thank you for inviting me to testify today regarding our initial activities and future plans to carry out the duties of the Federal Insurance Office (FIO) as authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

My name is Michael McRaith, and I am the Director of the FIO.

Only four months ago, I concluded more than six years as an insurance commissioner. State insurance commissioners have tremendous and broad responsibilities, and I respect the many demands on their time and energy. My aspiration is to develop a foundation of interaction between the FIO and state regulators, to establish customs and practices that best serve the United States, our economy, the insurance industry and consumers.

In the four months that I have had the privilege of heading the FIO, I am pleased to report on the progress made by the office.

Federal Insurance Office

The recent financial crisis highlighted the lack of insurance sector expertise within our federal government. The Dodd-Frank Act established the FIO within the Department of the Treasury as an office in the federal government focused on insurance. A federal insurance presence provides our international counterparts with a central point of contact for insurance-related matters, and facilitates the coordination of federal insurance efforts. The FIO will consult and work closely with the state insurance departments, which remain the functional regulators over the business of insurance, as we develop federal insurance policy on insurance matters.

Per its Dodd-Frank mandate, the FIO will monitor all 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 United States financial system; assess the accessibility and affordability of insurance products to minorities, low-and moderate-income persons, and underserved communities; coordinate federal policy in the insurance sector; and offer its insurance expertise to the Financial Stability Oversight Council (Council).

The Dodd-Frank Act authorizes the FIO to gather information to carry out its functions. Information about insurers and the insurance industry will enable the FIO to analyze data, assess threats to the financial system, and deepen the federal government's understanding of the insurance industry. As required by the statute, we will request information only if that information is not already available from public sources, a federal agency, or a state regulator. We will also coordinate with the Office of Financial Research to reduce reporting burdens by avoiding unnecessary or redundant data requests.

We have already made progress. In May, Treasury announced that we would establish a Federal Advisory Committee on Insurance (the FACI) to provide the FIO with advice on issues related to the responsibilities of the office. The FACI will be comprised of 15 members, approximately half of whom will be state insurance regulators. We received interest from over a hundred talented and qualified insurance experts, and hope to announce members in the near future.

The Dodd-Frank Act requires the FIO to issue a report for modernizing and improving the system of insurance regulation in the United States. On October 17, the FIO released a notice requesting public comment for this report. Interested parties should submit comments informing the topics identified in the notice, as well as on other areas that may be germane to the report. In addition, FIO has been and will continue consulting with a wide range of interested parties as we study this area.

Over the course of the next few months, we will continue to focus on building a strong and talented FIO team. Descriptions of open positions and application instructions are available at usajobs.gov, and we encourage all interested parties to apply.

International Insurance Regulatory Matters

An important priority for the FIO is to bring clarity in international fora about U.S. positions on international insurance regulatory matters. This includes articulating U.S. positions and participating in a number of ongoing international regulatory dialogues. In 2009, the European Union adopted Solvency II, its framework for regulating its insurance industry. Over the past two years, European regulators have been hard at work developing approaches for implementing this framework by their current deadline of 2014. European adoption of Solvency II may have important implications for U.S.-based insurers and our system of insurance regulation. The FIO has already begun engaging with state insurance regulators, U.S. companies, and our European counterparts.

The leading international insurance coordinating body, representing insurance regulators and supervisors from about 140 countries, is the International Association of Insurance Supervisors (IAIS). Until now, the United States engaged with the IAIS through the state insurance regulators. On October 1, 2011, the U.S. government, through the FIO, became a full voting member of the IAIS, providing a federal voice on international insurance regulatory matters for the first time. The FIO is already working with state insurance regulators so that the United States can continue acting as a global leader in the development of international insurance regulatory matters. The FIO appreciates the important work done by the IAIS, and looks

forward to working with our international counterparts as the IAIS develops international supervisory standards.

The IAIS has been developing a process for the designation of globally significant insurance institutions. Its effort is part of a wider initiative led by the Financial Stability Board (FSB) to designate global systemically important financial institutions. The FSB recognizes that the IAIS has the insurance expertise essential for developing methodology and criteria that recognize the important differences between insurance companies and other financial services companies. The IAIS has indicated that its process may involve requests for non-public information from large, internationally active insurers. State regulators have worked diligently to provide data from U.S.-based insurers to the IAIS as part of this endeavor. Going forward, the FIO will work with the state regulators and the IAIS to develop a process that guards against undue reporting burdens, builds in proper data confidentiality mechanisms, and preserves the competitiveness of the U.S.-based insurers.

In July 2011, the IAIS requested public comments on its proposal for a common framework, or ComFrame, for overseeing large, multinational insurers. The recent financial crisis made clear the gaps that exist in the supervision of internationally active insurance groups (IAIGs). Although a number of individual jurisdictions and regions have developed methodologies for supervising insurance companies, many of which are part of larger corporate groups that engage in other non-insurance businesses, there is no common framework for supervising IAIGs globally. The ComFrame initiative intends to fill this void and promote the global convergence of regulatory and supervisory measures and approaches. The FIO will coordinate with the state insurance regulators to develop and represent U.S. views on the different elements ComFrame proposes, including whether supervision should be based on a rules-based or principles-based approach and when to evaluate the financial burden on supervisors, industry, and consumers.

Insurance and Financial Stability

The Dodd-Frank Act created the Financial Stability Oversight Council to, among other things, coordinate across agencies, foster joint accountability for the stability of the financial system, identify and monitor risks to U.S. financial stability, and respond to emerging threats in the system and promote market discipline. The FIO, as a member of the Council, informs the Council's work in these areas by providing it with advice and insurance expertise. The FIO is working closely with the two other Council members who provide insurance expertise and viewpoints: Roy Woodall, former Kentucky insurance commissioner, who serves as the Council's independent insurance expert, and Missouri Insurance Director John Huff who was selected by state insurance regulators.

Already, the FIO has served an important consultative role in advising on several Dodd-Frank Act studies, rule writing processes and ongoing responsibilities. In early October, the Council released for public comment a revised notice of proposed rulemaking regarding the designation of nonbank financial companies, for Federal Reserve supervision, which included proposed interpretative guidance. We encourage all interested parties to submit comments regarding the published guidance.

Conclusion

I look forward to working with Congress and this Subcommittee. The insurance sector is exceptionally diverse, and regulation of this enormous but multi-faceted industry is profoundly complex. Our aspiration is that you come to view the FIO as an objective, reliable resource for information on this industry.

Chairman Biggert and Members of the Subcommittee, thank you for inviting me to testify today to provide you with an update on the FIO's development. I would be pleased to answer any questions that you may have.

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