ANNUAL REPORT ON THE INSURANCE INDUSTRY

FEDERAL INSURANCE OFFICE, U.S. DEPARTMENT OF THE TREASURY

Completed pursuant to Title V of the Dodd-Frank Wall Street Reform and Consumer Protection Act

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Glossary

A&H	....	Accident and Health Insurance
AIG	....	American International Group, Inc.
BHC	....	Bank Holding Company
Certification Report	....	U.S. Department of the Treasury, *The Process for Certifying an "Act of Terrorism" under the Terrorism Risk Insurance Act of 2002* (October 2015)
CISA	....	Cybersecurity Information Sharing Act
CMG	....	Crisis Management Group
CPMI	....	Committee on Payments and Marketing Infrastructure
ComFrame	....	IAIS Common Framework for the Supervision of Internationally Active Insurance Groups
Council	....	Financial Stability Oversight Council
Dodd-Frank Act	....	Dodd-Frank Wall Street Reform and Consumer Protection Act
EU	....	European Union
FACI	....	Federal Advisory Committee on Insurance
FCTF	....	IAIS Financial Crime Task Force
FDIC	....	Federal Deposit Insurance Corporation
Federal Reserve	....	Board of Governors of the Federal Reserve System
FIO	....	Federal Insurance Office
FSB	....	Financial Stability Board
FSTC	....	IAIS Financial Stability and Technical Committee
G-20	....	Group of Twenty
GAAP	....	Generally Accepted Accounting Principles
GDP	....	Gross Domestic Product
GE Capital	....	General Electric Capital Corporation
G-SIFI	....	Global Systemically Important Financial Institution
G-SII	....	Global Systemically Important Insurer
IAIG	....	Internationally Active Insurance Group
IAIS	....	International Association of Insurance Supervisors

iCBCM	....	FSB Cross-Border Crisis Management Group for Insurers
ICPs	....	Insurance Core Principles of the IAIS
ICS	....	IAIS Insurance Capital Standard
IOSCO	....	International Organization of Securities Commissioners
IPO	....	Initial Public Offering
IPPC	....	OECD Insurance and Private Pensions Committee
LAE	....	Loss Adjustment Expenses
L/H	....	Life and Health Insurance
LMI	....	Low- and Moderate-Income Consumers
M&A	....	Mergers and Acquisitions
MetLife	....	MetLife, Inc.
Model Holding Company Act	....	NAIC Model Insurance Holding Company System Regulatory Act
Modernization Report	....	Federal Insurance Office, U.S. Department of the Treasury, *How to Modernize and Improve the System of Insurance Regulation in the United States* (December 2013)
NAIC	....	National Association of Insurance Commissioners
NARAB II	....	National Association of Registered Agents and Brokers Reform Act of 2015
NIST	....	National Institute of Standards and Technology
NTNI	....	Non-Traditional and Non-Insurance
OECD	....	Organisation for Economic Co-operation and Development
P/C	....	Property and Casualty Insurance
PBR	....	Principles-Based Reserving
Prudential	....	Prudential Financial, Inc.
RBC	....	Risk-Based Capital
Report	....	Federal Insurance Office, U.S. Department of the Treasury, *2016 Annual Report on the Insurance Industry* (September 2016)
ReSG	....	FSB Resolution Steering Group
ReWG	....	IAIS Resolution Working Group
S&P 500	....	Standard and Poor's 500 Index

Secretary	....	Secretary of the Treasury
SLHC	....	Savings and Loan Holding Company
SMRTF	....	Supervisory Materials Review Task Force of the IAIS
SNL Financial	....	SNL Financial LC
Treasury	....	U.S. Department of the Treasury
TRIA	....	Terrorism Risk Insurance Act of 2002
TRIP	....	Terrorism Risk Insurance Program
TRIP Reauthorization Act	....	Terrorism Risk Insurance Program Reauthorization Act of 2015
USTR	....	Office of the United States Trade Representative
WGCR	....	Joint Working Group on Cyber Resilience of CPMI and IOSCO

I. INTRODUCTION

The 2016 Federal Insurance Office (FIO) Annual Report on the Insurance Industry (Report) is submitted pursuant to Section 502(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which requires the FIO Director to report annually to the President, the Committee on Financial Services of the House of Representatives, and the Committee on Banking, Housing, and Urban Affairs of the Senate "on the insurance industry and any other information as deemed relevant by the Director or requested by such committees."[1]

A. Structure of Report

The Report begins with an overview of the domestic insurance industry that presents and analyzes the financial performance and condition of the key U.S. insurance industry sectors, namely the life and health (L/H) sector and the property and casualty (P/C) sector. This year's report also includes an "outlook" section previewing industry financial performance and trends for 2016 based on interim results reported through June 30, 2016.

The Report next addresses a range of developments – at the state, federal, and international levels – which have occurred over the past year, and which will or may have implications for the U.S. insurance sector. Discussions of domestic regulatory activities include updates on: the insurance-related activities of the Financial Stability Oversight Council (Council); supervision of insurers by the Board of Governors of the Federal Reserve System (Federal Reserve); cybersecurity developments in the insurance industry; the Terrorism Risk Insurance Program (TRIP); the establishment of the National Association of Registered Agents and Brokers; and a range of state-based regulatory initiatives. The international section includes an overview of the progress of the U.S. Department of the Treasury (Treasury) and the Office of the United States Trade Representative (USTR) regarding a potential covered agreement with the European Union (EU). The international section next addresses FIO's engagement with the International Association of Insurance Supervisors (IAIS) and the Organisation for Economic Co-operation and Development (OECD); this section also outlines FIO's engagement with stakeholders concerning international matters.

B. Federal Insurance Office

Title V of the Dodd-Frank Act established FIO within Treasury.[2] In addition to advising the Secretary of the Treasury (Secretary) on major domestic and prudential international insurance policy issues and having its director serve as a non-voting member of the Council, FIO is authorized to:

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[1] 31 U.S.C. § 313(n)(2).

[2] 31 U.S.C. § 321(a)(9). Title V also designates the Secretary as advisor to the President on "major domestic and international prudential policy issues in connection with all lines of insurance except health insurance."

- 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 U.S. financial system;
- monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance;
- recommend to the Council that it designate an insurer, including the affiliates of such insurer, as an entity subject to regulation as a nonbank financial company supervised by the Federal Reserve;
- assist the Secretary in administering the TRIP established in Treasury under the Terrorism Risk Insurance Act of 2002, as amended (TRIA);
- coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS and assisting the Secretary in negotiating covered agreements;
- determine whether state insurance measures are preempted by covered agreements;
- consult with the states (including state insurance regulators) regarding insurance matters of national importance and prudential insurance matters of international importance; and
- perform such other related duties and authorities as may be assigned to FIO by the Secretary.[3]

Also, before the Secretary may make a determination as to whether to seek the appointment of the Federal Deposit Insurance Corporation (FDIC) as receiver of an insurer under Title II of the Dodd-Frank Act, the Secretary must first receive a written recommendation from the FIO Director and the Federal Reserve.[4] Additionally, FIO and the Federal Reserve coordinate on the conduct of annual analyses of nonbank financial companies supervised by the Federal Reserve, particularly with respect to stress testing, to evaluate whether such companies have the capital, on a consolidated basis, necessary to absorb losses as a result of adverse economic conditions.[5]

A summary of FIO activities pursuant to these authorities during the period covered by this Report (some of which are further detailed in this Report) is provided below.

In September 2015, Treasury published FIO's report on the *State of the U.S. Market for Natural Catastrophe Insurance*, presenting an overview of natural catastrophe insurance in the United

[3] 31 U.S.C. § 313(c)(1).

[4] 12 U.S.C. § 5383(a)(1)(C).

[5] 12 U.S.C. § 5365(i)(1)(A).

States, including homeowner insurance, flood insurance, and earthquake insurance, as well as the reinsurance market for natural disasters.[6]

In October 2015, Treasury released a report entitled *The Process for Certifying an 'Act of Terrorism' under the Terrorism Risk Insurance Act of 2002* (Certification Report).[7] Following the release of the Certification Report, Treasury embarked on updating the regulations under TRIP to reflect changes included in the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIP Reauthorization Act),[8] including reforms relating to the certification process. On April 1, 2016, Treasury published a notice of proposed rulemaking,[9] in response to which Treasury received 26 comment letters from the public.[10] Treasury continues to evaluate the comments received in connection with the development of a final rule implementing the changes to TRIP.

In addition, pursuant to the TRIP Reauthorization Act, in June 2016 Treasury published a report on the effectiveness of the TRIP program, concluding that TRIP remains an important mechanism in ensuring the availability and affordability of terrorism risk insurance in the United States.[11] This report was based in part on FIO's voluntary data call of insurers conducted between January and April 2016.

In order to facilitate dialogue with the state insurance departments, the Director of FIO also has joined information sharing memoranda of understanding with the Council, the Office of Financial Research, and 38 state insurance departments.

FIO has continued working with state, federal, and international policymakers on the subject of cybersecurity in the financial sector, and particularly with respect to the insurance sector. During 2016, FIO hosted a roundtable at Treasury to discuss issues related to the growing awareness of and market for cyber risk insurance.

[6] The Natural Catastrophe report is available at https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx. FIO also discussed catastrophe insurance at length in last year's Annual Report on the Insurance Industry, found at the same link.

[7] The Certification Report is available at https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

[8] Pub. L. No. 114-1, 129 Stat. 3 (2015).

[9] The notice of proposed rulemaking is available at https://www.regulations.gov/document?D=TREAS-TRIP-2016-0005-0001.

[10] All public comments are available at https://www.regulations.gov/docketBrowser?rpp=25&so=DESC&sb=commentDueDate&po=0&dct=PS&D=TREAS-TRIP-2016-0005.

[11] The 2016 TRIP Program Effectiveness Report is available at https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

FIO also continued its work related to the affordability of personal auto insurance, adopting a study methodology after consideration of public comment.[12] The core of the methodology is centered on the calculation of an affordability index (Index), developed by FIO for use exclusively in its auto insurance affordability study. The Index is further addressed in this Report. The results of the study will be published at a later date.

The Federal Advisory Committee on Insurance (FACI), which provides advice and recommendations to FIO in performing its duties and authorities, met in Washington, D.C. in November of 2015 and in May and August of 2016. In addition, the Advisory Committee on Risk-Sharing Mechanisms, which provides advice and recommendations to Treasury with respect to private market risk-sharing mechanisms for protection against losses arising from acts of terrorism, met in Washington, D.C. in February and June of 2016.

Throughout 2015 and 2016, FIO has continued to reinforce its statutory role representing the United States in the IAIS and elsewhere (both bilaterally and multilaterally) on prudential insurance measures. In November 2015, Treasury and USTR sent letters to Congress noting that FIO and USTR intended to initiate negotiations with the EU on a covered agreement related to certain prudential insurance matters, and those negotiations formally began in February 2016.[13] FIO has taken numerous actions to coordinate U.S. efforts on international insurance matters, including ensuring that U.S. stakeholders have opportunities to meet and work with all of the U.S. participants at the IAIS. Working with state insurance regulators and the Federal Reserve, FIO regularly convenes U.S. stakeholders, including industry and consumer advocates, to meet and present to all U.S. members of the IAIS at one time. FIO will continue such engagement, which enables the U.S. members of the IAIS to receive the views of a wide range of U.S. stakeholders in a U.S.-based forum. FIO has also continued its work with the EU- U.S. Insurance Project, and frequently consults with supervisors from various jurisdictions on a bilateral basis. These and related international initiatives are addressed in this Report.

[12] The auto affordability methodology was published in the Federal Register: Monitoring Availability and Affordability of Auto Insurance, 81 Fed. Reg. 45,372 (July 13, 2016).

[13] The November 20, 2015 letter to Congress is available at https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx. On September 30, 2015, FIO published its annual "preemption report," noting that during the preceding year FIO did not take any actions regarding the preemption of any state insurance measures, also available at https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

II. EXECUTIVE SUMMARY

A. Insurance Industry Financial Overview

This section of the Report provides an overview of the financial condition and performance of both the life and health (L/H) and property and casualty (P/C) sectors of the U.S. insurance industry in 2015.

For 2015, the U.S. insurance industry reported another year in a run of solid financial performance, and, in the aggregate, remained in sound financial condition. Positive net income again raised the reported surplus level of the L/H sector to a record level of $367 billion at the end of 2015. The P/C sector was also profitable, but net unrealized capital losses caused surplus to remain essentially flat at $687 billion as of year-end 2015.

L/H sector aggregate net written premiums decreased very slightly to $638 billion in 2015, compared to $648 billion in 2014; lower sales of annuity products were the main reason for the decline. In 2015, P/C sector aggregate net written premiums increased three percent to a new record high level at $520 billion due to lower reinsurance costs and general economic growth. Premiums written in personal lines of insurance grew slightly faster than those in commercial lines.

Both sectors of the insurance industry were profitable in 2015. Net income for the L/H sector for 2015 increased to $40 billion from $38 billion in 2014 as a decline in revenues was more than offset by a decline in total benefits and expenses. Pretax income increased 11 percent in 2015, but higher realized capital losses compared to 2014 held the gain in net income to seven percent. The P/C sector reported net income of $58 billion in 2015, lower than the $68 billion reported in 2014. The sector showed an underwriting gain for the third consecutive year, but an increase in the combined ratio and lower investment income were responsible for the 10 percent drop in net income.

The insurance industry remained active in the capital markets in 2015. In the aggregate, the industry raised $6 billion of new equity capital in 2015. Debt financing remained attractive as interest rates remained historically low, and the insurance industry issued $46 billion in new debt. Merger and acquisition (M&A) activity was significant in 2015, as a number of large transactions were announced. Several of these transactions were in the health insurance sector, and some have met with resistance due to market concentrations that could result from their completion. The aggregate value of the 87 insurance M&A deals announced between January 1, 2015 and March 31, 2016 was over $150 billion, a level more than ten times the aggregate value of all insurance M&A transactions announced in 2014.

B. Domestic Regulatory Developments

This section of the Report addresses a number of regulatory developments in the United States relating to insurance.

The Financial Stability Oversight Council (Council) has previously voted to make a final determination that four nonbank financial companies, including three insurers, should be subject to supervision by the Federal Reserve and enhanced prudential standards. The four companies are American International Group, Inc. (AIG), MetLife, Inc. (MetLife), Prudential Financial, Inc. (Prudential), and General Electric Capital Corporation (GE Capital). In 2015, the Council completed its second annual reevaluations of AIG and Prudential and did not rescind the determinations regarding either company. On March 30, 2016, the U.S. District Court for the District of Columbia rescinded the Council's determination regarding MetLife; the government has appealed the decision to the appellate court. In 2016, the Council voted to rescind the designation of GE Capital.

The Report examines the effects of the low interest rate environment on insurers—particularly life insurers. The effects of the low interest rate environment are exacerbated as life insurers also may face challenges constructing investment portfolios that properly match liabilities. The Report next assesses the progress state insurance regulators have made to improve regulations relating to captive reinsurers that assume risk from affiliated life insurers. On this issue, state insurance regulators have improved standards applicable to ceding life insurers that engage in such transactions with captive reinsurers, but additional work is needed to develop a consistent oversight regime aimed at improving the transparency and solvency of captive life reinsurers.

The Report discusses actions by the Federal Reserve in its role as the consolidated supervisor for insurance holding companies that own insured depository institutions, i.e., an insured bank or savings and loan association, as well as insurers designated by the Council. In 2016, the Federal Reserve published an advance notice of proposed rulemaking on *Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities*. The Federal Reserve proposed two different approaches for consolidated capital requirements, one for insurance depository institution holding companies and another for insurers designated by the Council. In 2016, the Federal Reserve also proposed rules which would apply enhanced prudential standards to insurance companies designated by the Council, as well as a proposal to collect data on the Federal Reserve's consolidated financial statement form.

The Report also examines certain recent state-based insurance regulatory developments, in particular, the ongoing work related to the development of a "group capital calculation." Another development is the adoption of Principles Based Reserving (PBR) by a sufficient number of states to trigger the commencement of a three year implementation period, beginning January 1, 2017, for new standards governing reserving requirements for life insurers. The Report acknowledges that adoption of PBR is a significant accomplishment, but cautions that PBR presents certain concerns and may not eliminate the use of captive reinsurers. The Report also notes additional developments relating to the supervision of insurance groups by state insurance regulators.

Efforts are underway at both the federal and state levels to address cybersecurity issues relevant to the insurance sector, including information sharing. In December 2015, President Obama signed into law the Cybersecurity Information Sharing Act, which establishes a framework for cybersecurity information sharing among federal government agencies and private sector participants. In 2015 and 2016, FIO hosted discussions with insurance stakeholders relating to cybersecurity issues. State insurance regulators have taken steps to address cybersecurity concerns in the past year, including the development of the *Insurance Data Security Model Law* and adoption of new (but not mandatory) resources to enhance examinations of insurers' cybersecurity posture. The Report also discusses the current state of the cyber risk insurance market, including a summary of common cyber risk insurance products currently offered by insurers.

The Terrorism Risk Insurance Program (TRIP), administered by the Secretary with the assistance of FIO, was reauthorized in 2015. On April 1, 2016, Treasury issued a notice of proposed rulemaking to implement changes to TRIP required by the TRIP Reauthorization Act, and FIO continues to consider comments received in developing a final rule. For the first time, FIO also collected terrorism risk insurance information from participating insurers pursuant to the new requirements of the TRIP Reauthorization Act and, based on that data, submitted a required report on Program effectiveness. That report concluded that TRIP remains an important mechanism in ensuring that terrorism risk insurance remains available and generally affordable in the United States.

This section of the Report concludes with an update on the establishment of a 13-member board of directors to govern the National Association of Registered Agents and Brokers and an overview of FIO's approach to measuring the affordability of personal automobile insurance for traditionally underserved communities, minorities, and low- and moderate-income consumers.

C. International Engagement and Standard-Setting

This section of the Report surveys and summarizes key developments with respect to international standard-setting and other international regulatory matters, including FIO's engagement with a broad spectrum of these issues.

FIO has authority to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS and assisting the Secretary in negotiating covered agreements. FIO is also involved in the OECD. In its international work, FIO coordinates with federal and state authorities, and proactively engages with consumer, industry, and other stakeholders.

FIO's work at the IAIS includes participating with other member jurisdictions in the development of international standards for the supervision of insurance. International standards are not self-executing in member jurisdictions. The United States separately considers any international standard and may implement it, as appropriate, through a federal or state process. Whether at the state or federal level, implementation of an international standard occurs in a manner tailored to the unique features of the U.S. insurance sector – promoting competition and consumer choice, and supporting both consumer protection and financial stability.

Title V of the Dodd-Frank Act authorizes the Secretary and USTR jointly to negotiate a covered agreement on behalf of the United States. A covered agreement is a written bilateral or multilateral agreement between the United States and one or more foreign governments or insurance authorities regarding prudential measures with respect to the business of insurance or reinsurance. In November 2015, Treasury and USTR jointly sent letters to Congress regarding the intention to initiate negotiations to enter into a covered agreement with the EU that would level the regulatory playing field for U.S.-based insurers and reinsurers operating in the EU, and further confirm that the existing U.S. insurance regulatory system serves the goals of insurance sector oversight, policyholder protection, and national and global financial stability. Four negotiating sessions have been held thus far, in February, May, July, and September 2016. State insurance regulators are closely consulted throughout these negotiations, including in the development of U.S. proposals.

FIO is a member of the IAIS, the international standard-setting body for supervision of the insurance sector. Other U.S.-based members of the IAIS include the Federal Reserve, each of the 56 state and territory insurance regulators, and the National Association of Insurance Commissioners (NAIC). FIO coordinated the establishment of a Steering Committee comprised of the U.S. regulatory participants at the IAIS to address pending and emerging international insurance matters, and has since held regularly scheduled calls and in-person meetings, with additional ad hoc calls or meetings occurring as needed.

The Report also describes FIO's work at the IAIS on standard-setting activities. This work includes revisions in June 2016 to improve the IAIS methodology to assess and identify global systemically important insurers (G-SIIs), insurers that may then be subject to heightened prudential requirements to the extent implemented by the relevant supervisor. In 2015, following consultation with the IAIS and national authorities, the Financial Stability Board (FSB) identified nine insurers as G-SIIs, including three U.S.-based firms: AIG, MetLife, and Prudential. The IAIS also published the paper *Systemic Risk from Insurance Product Features* in June 2016, revising and clarifying the concepts of substantial liquidity risk and macroeconomic exposure. In this paper, the IAIS discontinued its use of the previous non-traditional product criteria, replacing it with a more granular assessment of insurance product features, noting that certain insurance products may have a greater potential to pose systemic risk. This work should lead to identification of activities and products that contribute to higher systemic risk potential in insurance markets around the world.

The IAIS continues to develop the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), an integrated, multilateral, and multidisciplinary framework for the heightened supervision of Internationally Active Insurance Groups (IAIGs). The initial development phase of the qualitative standards within ComFrame, pertaining to governance and risk management, was completed in 2014, followed by a public consultation phase. ComFrame is being field tested, and for the 2015 exercise a group of 34 volunteer insurers participated, including nine from the United States. The IAIS currently expects to continue to develop and field test ComFrame through 2019.

ComFrame also aspires to provide a more common approach to group capital requirements through a calibrated group capital standard that is understood by supervisors across jurisdictions. To that end, work continues at the IAIS on a risk-sensitive Insurance Capital Standard (ICS), which is a proposed group capital standard, i.e., a measure of the capital adequacy of the entire insurance group. The IAIS began field testing of the ICS in 2013, with the process evolving through annual iterations to include testing of each of the relevant components of the ICS: valuation, capital requirements, and capital resources.

Through the Financial Crime Task Force (FCTF), led by FIO, the IAIS engages in international efforts related to combating the role of insurance in financial crime including fraud, the financing of terrorism, and money laundering. The FCTF also addresses matters of cybersecurity in the insurance sector, and developed an *Issues Paper on Cyber Risk to the Insurance Sector* for publication in 2016.

U.S. stakeholders have numerous opportunities to engage with FIO and with other IAIS members about matters before the IAIS. In recent months, these have included the development of the ICS, revisions to the IAIS G-SII Methodology, and resolution-related matters. IAIS engagement includes more than 140 hours of stakeholder sessions and meetings in 2015; open dialogue sessions, including with the IAIS Executive Committee during its 2016 Global Seminar; the release of formal consultation documents for public comment regarding a range of issues; engagement with insurance groups that are participating in the field testing of the ICS, including nine U.S.-based insurers; and a monthly newsletter that updates stakeholders regarding developments and frequent updates to the IAIS website.

FIO also provides U.S. stakeholders opportunities to engage directly with U.S.-based members of the IAIS. Such opportunities include sessions at Treasury that allow U.S. stakeholders interested in IAIS activities to meet jointly with FIO, the Federal Reserve, and state insurance regulators; frequent informal conference calls and meetings with U.S.-based IAIS members prior to IAIS meetings; frequent engagement with U.S. insurers participating in the IAIS field testing; and daily outreach to numerous stakeholders on nearly every issue on which FIO works, both in the IAIS and domestically.

III. INSURANCE INDUSTRY FINANCIAL OVERVIEW

In the aggregate, the U.S. insurance industry, i.e., those U.S.- or foreign-owned regulated insurance entities operating in the United States, reported another year of solid financial performance, and remained in sound financial condition through 2015.[14] L/H sector net premiums written decreased slightly, primarily due to a decline in annuity premiums and deposits. Despite a higher invested asset base, investment yield continued to decline as a result of the current low interest rate environment. Total expenses decreased at a faster pace than the decline in revenues, leading to an increase in operating income compared to 2014. Net income and return on average equity both improved over 2014 levels. Capital and surplus attained a record high level, and leverage decreased slightly to its lowest level in the past ten years.

Total property and casualty (P/C) insurance premiums increased to yet another record level in 2015. Underwriting activities again produced positive contributions to the bottom line; while the combined ratio[15] for the P/C sector increased slightly, to approximately 98 percent in 2015, it remained below 100 for the third consecutive year. The increase in the combined ratio was driven by higher losses primarily in commercial automobile and non-catastrophic, weather-related personal lines of business. Net investment income and investment yield decreased in 2015, with investment yield reaching its lowest level in the past ten years. The P/C sector's net income decreased for the second consecutive year, driven by the decrease in the underwriting gain. The P/C sector's policyholder surplus showed an essentially flat comparison with the record high achieved in 2014.

A recurring theme throughout the Report is the impact of the continued low interest rate environment on the insurance industry. While the low interest rate environment has been in place for a number of years, its negative impacts on the insurance industry have become more visible in 2015. Investment income for both L/H and P/C insurers has stagnated, and net yields on invested assets have continued to decline, reaching their lowest levels in the past ten years in 2015. Reinvestment risk – the inability to reinvest funds from maturing investments at rates of return equal to what existed when the maturing investments were originally purchased – is making it difficult for life insurers in particular to match asset and liability cash flows. Insurers have taken measured steps to address the effect of low interest rates, but those steps may not be

[14] Except as otherwise indicated, data cited in this section of the Report are as of December 31, 2015, as derived from SNL Financial LC (SNL Financial) on April 25, 2016. These data are on a statutory accounting basis. SNL Financial continuously updates its data for corrections in filings; 2014 data in this report are based on updated data available as of April 25, 2016, and thus may be different in some respects from corresponding figures reported in FIO's 2015 Annual Report on the Insurance Industry. Due to certain conventions used by SNL Financial for aggregation of industry data, some columns in the accompanying tables may not sum to the totals which have been separately accumulated by SNL Financial from individual legal entity data. Some figures may not add to 100 percent due to rounding.

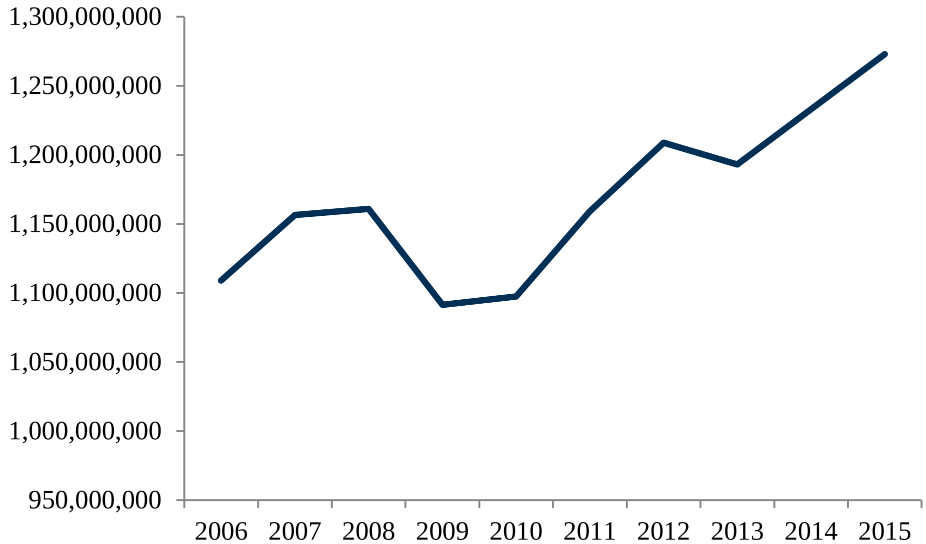
[15] The combined ratio is an accepted metric used to compare underwriting performance in the P/C sector; it is the sum of the loss ratio (incurred loss divided by earned premiums) and the expense ratio (incurred expenses divided by written premiums).

adequate if interest rates continue to remain historically low. The potential exit of the United Kingdom from the EU (Brexit), as the resulting heightened market volatility and uncertainty in financial markets suggests, may exacerbate these concerns.

A. Domestic Insurance Marketplace Overview

In 2015, total direct written premiums for the L/H and P/C sectors combined were $1.27 trillion, or approximately seven percent of the Gross Domestic Product (GDP) of the United States.

Figure 1: Total Direct Premiums Written for Life and Property and Casualty ($ thousands)



Source: SNL Financial

1. Financial Performance and Condition

This section focuses on the financial performance and condition of the 995 L/H insurers, the 2,673 P/C insurers, and the 1,077 health insurers licensed in the United States.[16] Insurers in the L/H sector offer products in two segments: (1) life insurance and annuities, which generally protect against the risk of financial loss associated with an individual's death and provide income streams for retirement, respectively; and (2) accident and health (A&H) products, which cover expenses for health and long-term care or provide income in the event of disability. Insurers in the P/C sector offer products that generally protect against the risk of financial loss associated with damage to property or exposure to liability for individuals and families (personal lines) or for businesses (commercial lines).

[16] A.M. Best Aggregates and Averages (2015) and SNL Financial. The L/H and P/C sectors are the primary insurance industry sectors in the United States. The Health sector includes companies licensed solely as health insurers or as Health Maintenance Organizations, but is not the focus of the remainder of this report.

Net written premiums for the L/H sector were approximately $638 billion in 2015, or 37 percent of net written premiums for the combined L/H, P/C, and Health sectors.[17] For the P/C sector, net written premiums were approximately $520 billion, or 30 percent of net written premiums for the combined L/H, P/C, and Health sectors. The Health sector reported $581 billion of net written premiums for 2015, or 33 percent of the combined total for the three sectors. At the end of 2015, the L/H sector held approximately $6.3 trillion of total assets (including $2.4 trillion held in separate accounts), the P/C sector held approximately $1.8 trillion, and the Health sector held approximately $355 billion. Capital and surplus in the L/H sector stood at approximately $367 billion as of December 31, 2015, the P/C sector reported capital and surplus of approximately $687 billion, and the Health sector reported approximately $153 billion.

Figures 2 and 3 present snapshots of the L/H sector market, showing the ten largest L/H insurance groups measured by direct written premiums, and market share for life insurance (including annuities and other deposit-type contracts) and for A&H lines of business, respectively. Premiums shown in Figures 2 and 3 aggregate all L/H sector products and all geographies of the United States.

Figure 2: L/H Insurance Groups by 2015 U.S. Life Insurance Lines Direct Premiums Written

2014 Rank	**2015 Rank**	**Insurance Group**	2014 Direct Premiums Written ($000)	Share of Total (%)	**2015 Direct Premiums Written ($000)**	**Share of Total (%)**
1	1	MetLife Inc.	$ 95,331,132	16.14	$102,487,074	16.43
2	2	Prudential Financial Inc.	44,720,129	7.57	43,134,670	6.91
3	3	New York Life Insurance Group	28,393,849	4.81	29,647,519	4.75
4	4	Jackson National Life Group	26,708,218	4.52	27,457,195	4.40
5	5	AEGON NV	25,339,180	4.29	24,983,201	4.01
7	6	American International Group	23,279,901	3.94	24,976,781	4.00
8	7	Principal Financial Group Inc.	18,894,839	3.20	23,416,059	3.75
10	8	Massachusetts Mutual Life Insurance Co.	16,818,431	2.85	23,117,904	3.71
6	9	Lincoln National Corp.	24,329,107	4.12	22,676,916	3.64
15	10	AXA SA	13,236,998	2.24	19,478,236	3.12
		Combined Top 10	$ 322,328,544	54.57	$ 341,375,555	54.72
		Combined Top 25	$ 466,673,804	79.01	$ 496,278,055	79.56
		Combined Top 100	$ 582,917,306	98.68	$ 616,328,687	98.80
		Total U.S. Life Insurance Lines	$ 590,586,565		$ 623,800,268	

Source: SNL Financial (includes Life Insurance (No Annuity), Annuity Considerations, Deposit-type Contracts (State Page), Other Considerations (State Page))

The data presented in Figures 2 and 3 for life and annuity business, and in the comparable figures that follow for other lines of business, are aggregated at a group level from filings made with state insurance regulators by individual legal entity insurers. For example, premiums shown for

[17] Net written premiums means direct written premiums less net ceded reinsurance premiums.

MetLife, Inc. include premiums written by all of its insurance subsidiaries in the United States, but exclude business written by affiliated entities in other jurisdictions. Similarly, Jackson National Life Group is foreign-owned, and results shown only include U.S. operations.

Over 2015, the market share rankings changed little among the five largest writers of life insurance and annuities. MetLife Inc. remained the largest writer of life insurance products in the United States. Growth at Massachusetts Mutual Life Insurance Co. raised the firm to the eighth-largest writer of life insurance products from its tenth place position in 2014. Additionally, solid growth from AXA SA's U.S. businesses (primarily AXA Equitable Life Insurance Company and MONY Life Insurance Company of America) raised it into the top ten writers of life and annuity products at tenth place for 2015, while Manulife Financial Corporation, in ninth place in 2014, dropped out of the top ten in 2015.

Figure 3: L/H Insurance Groups by 2015 U.S. A&H Lines Direct Premiums Written

2014 Rank	**2015 Rank**	**Insurance Group**	2014 Direct Premiums Written ($000)	Share of Total (%)	**2015 Direct Premiums Written ($000)**	**Share of Total (%)**
1	1	UnitedHealth Group Inc.	$ 43,507,883	26.21	$ 43,817,056	25.80
2	2	Aetna Inc.	23,151,559	13.95	24,962,250	14.70
4	3	Cigna Corp.	13,410,940	8.08	14,795,932	8.71
3	4	Aflac Inc.	14,601,368	8.80	13,643,143	8.03
5	5	MetLife Inc.	6,657,580	4.01	6,979,479	4.11
6	6	Unum Group	5,259,763	3.17	5,450,922	3.21
7	7	Mutual of Omaha Insurance Co.	3,262,797	1.97	3,473,322	2.05
8	8	Guardian Life Insurance Co. of America	3,214,961	1.94	3,413,472	2.01
9	9	Assurant Inc.	2,849,114	1.72	3,057,806	1.80
10	10	Genworth Financial Inc.	2,605,503	1.57	2,637,316	1.55
		Combined Top 10	$ 118,521,468	71.42	$ 122,230,698	71.97
		Combined Top 25	$ 143,006,952	86.17	$ 146,781,917	86.44
		Combined Top 100	$ 164,473,914	99.08	$ 168,489,631	99.20
		Total U.S. A&H Lines	$ 166,000,384		$ 169,815,927	

Source: SNL Financial

Figure 3 shows A&H premiums written by insurers authorized to offer both life and health insurance; it excludes A&H premiums written by insurers authorized to offer only health insurance (see Figure 7 below). Thus, for example, the data presented in Figure 3 for UnitedHealth Group Inc. does not reflect that insurer's total health insurance premiums on a consolidated basis, but only premiums written by its subsidiaries licensed to offer both life and health insurance. UnitedHealth Group Inc. also writes health insurance business through subsidiaries that offer only health insurance, and those premiums are reflected in Figure 7.

Cigna Corp. and Aflac Inc. exchanged third and fourth places (with Cigna Corp. rising to third) in 2015; otherwise, the market share rankings among the top ten writers of A&H business over the year did not change.

As noted above, P/C insurers underwrite a variety of products, generally categorized as either personal lines or commercial lines. Figure 4 reports market share information on a combined P/C sector basis, which is then detailed for commercial lines (Figure 5) and personal lines (Figure 6). Figures 4 and 5 include 2014 and 2015 data for The Chubb Corp. on a combined basis with ACE Ltd.; in January 2016, ACE Ltd. acquired The Chubb Corp. and changed the name of the combined insurer to Chubb Ltd.

On a combined basis (including all lines of P/C business), over 2015, Allstate Corp. and Berkshire Hathaway Inc. each gained one spot in market share, rising to second and third, respectively, due to strong premium growth. Due to relatively flat premiums compared to 2014, Liberty Mutual dropped to fourth place. Market share rankings did not change significantly among the top ten writers of commercial lines or the top ten writers of personal lines.

Figure 4: P/C Insurance Groups by 2015 U.S. Combined Lines Direct Premiums Written

2014 Rank	**2015 Rank**	**Insurance Group**	2014 Direct Premiums Written ($000)	Share of Total (%)	**2015 Direct Premiums Written ($000)**	**Share of Total (%)**
1	1	State Farm Mutual Automobile Insurance	$ 58,508,587	10.25	$ 59,361,685	10.12
3	2	Allstate Corp.	28,892,088	5.06	30,180,756	5.14
4	3	Berkshire Hathaway Inc.	26,585,999	4.66	29,967,354	5.11
2	4	Liberty Mutual	29,364,559	5.14	29,848,412	5.09
5	5	Travelers Companies Inc.	22,790,776	3.99	23,200,304	3.95
7	6	Progressive Corp.	20,056,860	3.51	21,346,246	3.64
6	7	Chubb Ltd.	20,173,757	3.53	20,610,781	3.51
8	8	Nationwide Mutual Group	18,935,862	3.32	19,577,849	3.34
9	9	American International Group	18,653,981	3.27	19,066,161	3.25
10	10	Farmers Insurance Group of Cos	18,611,695	3.26	19,050,733	3.25
		Combined Top 10	$ 262,574,164	45.99	$ 272,210,281	46.40
		Combined Top 25	$ 368,967,388	64.63	$ 383,402,686	65.35
		Combined Top 100	$ 485,462,432	85.04	$ 504,526,812	86.03
		Total U.S. P/C Sector	$ 570,782,303		$ 586,704,646	

Source: SNL Financial (including all lines of business)

Figure 5: P/C Insurance Groups by 2015 Commercial Lines Direct Premiums Written

2014 Rank	**2015 Rank**	**Insurance Group**	2014 Direct Premiums Written ($000)	Share of Total (%)	**2015 Direct Premiums Written ($000)**	**Share of Total (%)**
1	1	American International Group	$ 17,116,239	6.03	$ 16,980,061	5.90
2	2	Chubb Ltd.	16,367,803	5.77	16,626,321	5.77
3	3	Travelers Companies Inc.	16,164,807	5.70	16,347,492	5.68
4	4	Liberty Mutual	14,047,958	4.95	13,801,267	4.79
5	5	Zurich Insurance Group	12,986,152	4.58	13,403,445	4.66
6	6	CNA Financial Corp.	8,633,944	3.04	9,203,419	3.20
7	7	Nationwide Mutual Group	7,978,557	2.81	8,401,984	2.92
8	8	Hartford Financial Services	7,265,273	2.56	7,478,308	2.60
9	9	Berkshire Hathaway Inc.	5,990,165	2.11	7,056,856	2.45
10	10	Tokio Marine Group	5,712,232	2.01	5,956,554	2.07
		Combined Top 10	$ 112,263,130	39.56	$ 115,255,707	40.04
		Combined Top 25	$ 169,440,000	59.70	$ 174,079,000	60.47
		Combined Top 100	$ 237,774,248	83.76	$ 246,417,152	85.60
		Total U.S. P/C Commercial Lines	$ 283,724,026		$ 287,931,459	

Source: SNL Financial

Figure 6: P/C Insurance Groups by 2015 Personal Lines Direct Premiums Written

2014 Rank	**2015 Rank**	**Insurance Group**	2014 Direct Premiums Written ($000)	Share of Total (%)	**2015 Direct Premiums Written ($000)**	**Share of Total (%)**
1	1	State Farm Mutual Automobile Insurance	$ 53,481,180	19.01	$ 54,340,977	18.57
2	2	Allstate Corp.	26,713,088	9.50	27,963,957	9.56
3	3	Berkshire Hathaway Inc.	20,525,245	7.30	22,828,453	7.80
4	4	Progressive Corp.	17,386,523	6.18	18,374,148	6.28
5	5	Liberty Mutual	15,312,058	5.44	16,039,932	5.48
7	6	USAA Insurance Group	14,540,246	5.17	15,562,507	5.32
6	7	Farmers Insurance Group of Cos	14,854,795	5.28	15,270,479	5.22
8	8	Nationwide Mutual Group	10,948,729	3.89	11,163,343	3.81
9	9	Travelers Companies Inc.	6,624,648	2.36	6,852,414	2.34
10	10	American Family Mutual Insurance Co.	6,071,432	2.16	6,420,260	2.19
		Combined Top 10	$ 186,457,944	66.29	$ 194,816,470	66.57
		Combined Top 25	$ 224,074,980	79.68	$ 234,115,970	79.99
		Combined Top 100	$ 263,556,358	93.70	$ 275,437,309	94.13
		Total U.S. P/C Personal Lines	$ 281,293,906		$ 292,660,077	

Source: SNL Financial

As shown in Figure 7 below, market share rankings among the top seven health insurance groups in 2015 did not change, although the largest, UnitedHealth Group Inc., increased its market share by approximately one percentage point. Molina Healthcare, Inc. entered the top ten for the first time in 2015, as Highmark Insurance Group (eighth-largest in 2014) dropped out of the top ten.

Figure 7: Health Insurance Groups by 2015 U.S. Health Lines Direct Premiums Written

2014 Rank	**2015 Rank**	**Insurance Group**	2014 Direct Premiums Written ($000)	Share of Total (%)	**2015 Direct Premiums Written ($000)**	**Share of Total (%)**
1	1	UnitedHealth Group Inc.	$ 54,974,350	10.32	$ 67,313,486	11.35
2	2	Anthem Inc.	52,217,810	9.80	54,715,501	9.23
3	3	Humana Inc.	45,598,914	8.56	51,405,175	8.67
4	4	HealthCare Services Corp. a Mutual	28,740,192	5.40	32,644,621	5.51
5	5	Aetna Inc.	23,099,513	4.34	24,417,307	4.12
6	6	Centene Corp.	15,104,519	2.84	20,261,187	3.42
7	7	Independence Health Group Inc.	12,509,845	2.35	14,291,608	2.41
10	8	WellCare Health Plans Inc.	10,970,446	2.06	12,229,584	2.06
9	9	Kaiser Foundation Health Plan Inc.	11,173,259	2.10	11,934,022	2.01
15	10	Molina Healthcare Inc.	8,406,736	1.58	11,928,515	2.01
		Combined Top 10	$ 266,218,327	49.98	$ 301,141,004	50.79
		Combined Top 25	$ 375,662,412	70.53	$ 419,926,407	70.83
		Combined Top 100	$ 504,169,106	94.66	$ 561,090,519	94.64
		Total U.S. Health Lines	$ 532,627,687		$ 592,895,074	

Source: SNL Financial

a. Life and Health Sector

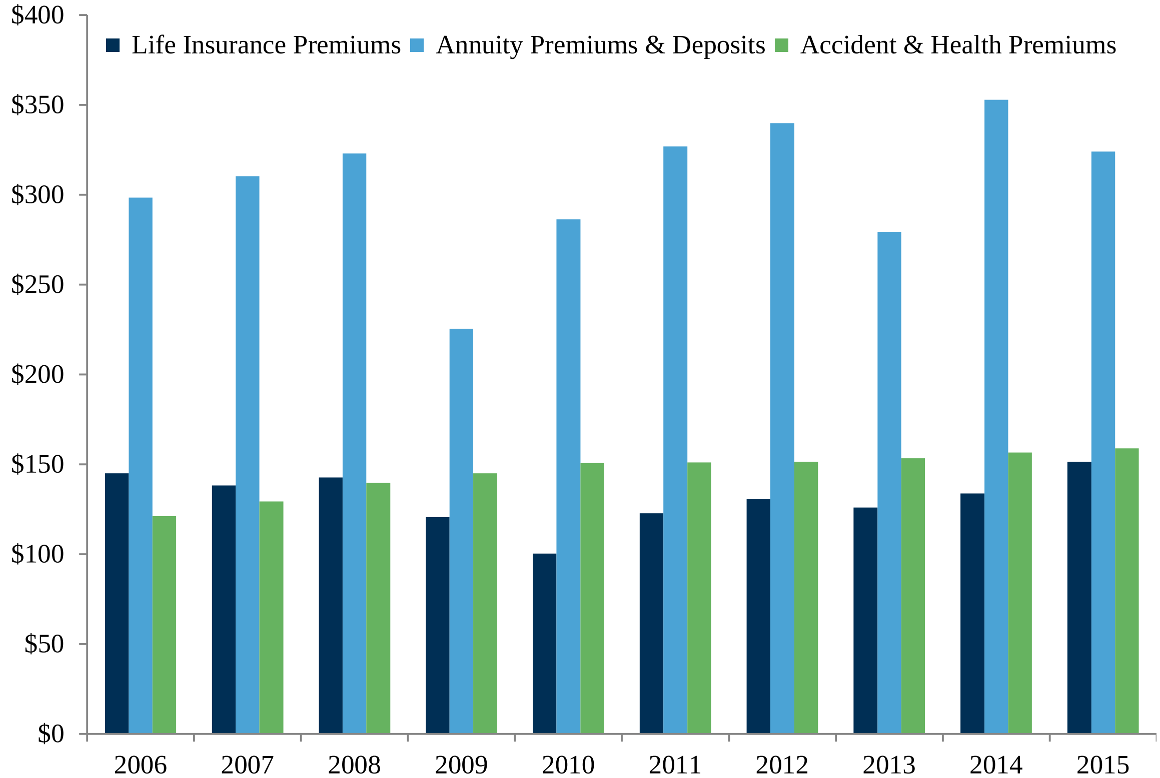
i. Performance

This section presents additional analysis of the financial performance of the L/H sector in 2015 and is followed by a section that analyzes the L/H sector's overall financial condition.

(a) L/H Sector Net Written Premiums

Net written premium (i.e., direct written premiums less net reinsurance premiums ceded) is a principal measure of the size and growth of the insurance industry. Net written premiums accounted for 75 percent of total L/H sector revenues in 2015, a level slightly higher than the historical average. L/H sector net written premiums of $638 billion in 2015 marked a one percent decrease from the $648 billion reported in 2014. The slight decline in total net written premiums was primarily the result of an eight percent decrease in annuity premiums and deposits, which was somewhat offset by a 13 percent gain in life insurance premiums. In 2015, annuity premiums and deposits still represented the majority (51 percent) of total net written premiums but this contribution was somewhat below the 54 percent level recorded in 2014, as shown in Figures 8 and 9. Sales of traditional life insurance products rose to 24 percent of 2015 L/H sector net written premiums from 21 percent in 2014, with the remaining 25 percent comprised of A&H and other premiums. Higher reinsurance usage as compared to 2014 also contributed to the decrease in 2015 net written premiums.

Figure 8: L/H Sector Net Premiums ($ billions)



Source: SNL Financial

Figure 9: L/H Sector Net Premiums, Considerations, and Deposits ($ thousands)

	2011	**2012**	**2013**	**2014**	**2015**
Life Insurance Premiums	$ 122,812,480	$ 130,546,216	$ 125,958,978	$ 133,829,367	$ 151,352,648
Annuity Premiums & Deposits	326,985,000	339,914,846	279,434,360	352,823,672	324,034,800
Accident & Health Premiums	151,068,078	151,396,375	153,305,130	156,634,527	158,755,638
Credit Life & Credit A&H Premiums	1,556,674	1,556,674	1,445,214	1,388,591	1,382,988
Other Premiums & Considerations	2,247,325	2,247,325	2,345,600	2,554,791	2,497,634
Total	**$ 604,669,557**	**$ 625,661,436**	**$ 562,489,282**	**$ 647,230,948**	**$ 638,023,708**
Share of Total	**2011**	**2012**	**2013**	**2014**	**2015**
Life Insurance Premiums	20%	21%	22%	21%	24%
Annuity Premiums & Deposits	54%	54%	50%	54%	51%
Accident & Health Premiums	25%	24%	27%	24%	25%
Credit and Other	1%	1%	1%	1%	1%
	100%	**100%**	**100%**	**100%**	**100%**

Source: SNL Financial

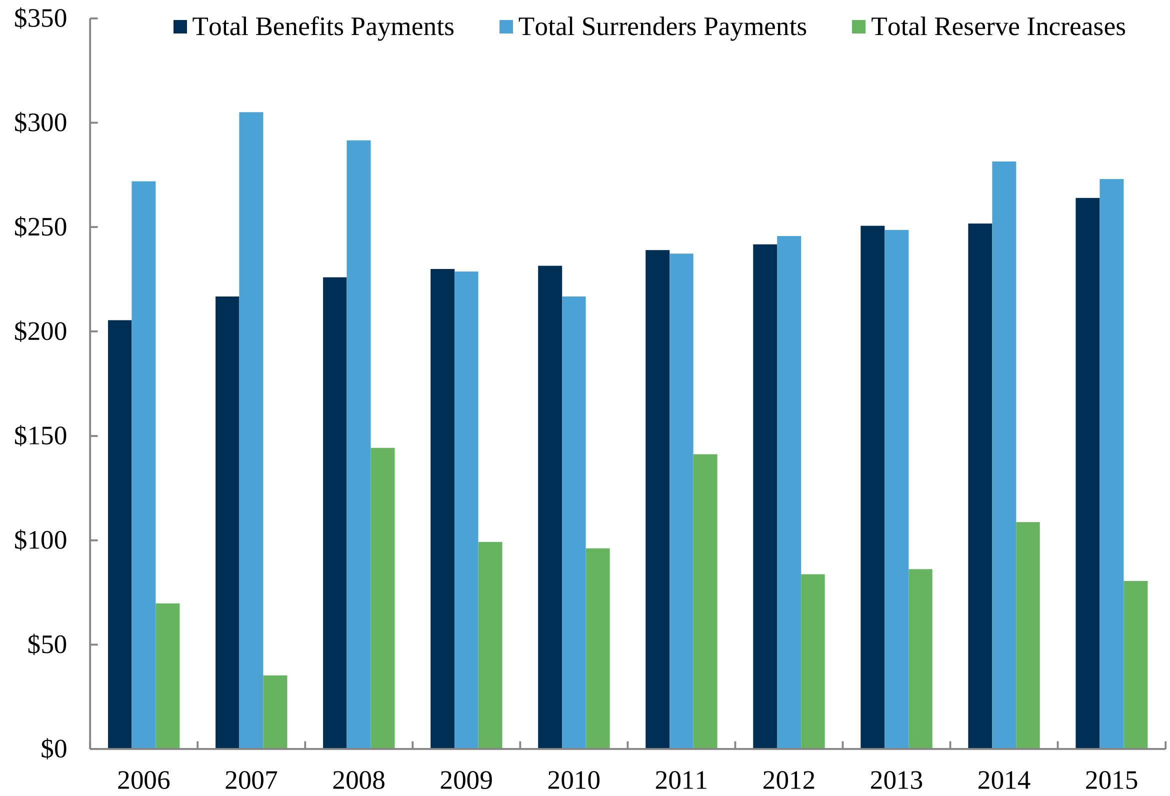
In 2014, aggregate net premiums written were increased by a one-time, large transaction in which a subsidiary of Hartford Financial Services Group, Inc. terminated a reinsurance arrangement with an affiliated captive insurer, and received approximately $41 billion of ceded premiums.[18] Absent this transaction, net written premiums would have approximated $606 billion for 2014, leading to a positive comparison for 2015.

(b) L/H Sector Policyholder Contract Benefits, Surrenders, and Other Expenses

Policyholder contract benefits are claims or obligations of L/H insurers under life insurance, annuity, and other contracts and policies. Contract surrenders occur when a policyholder or contract holder elects to cancel a policy or contract before the end of its contractual term and to receive its accumulated cash value. Contract benefit payments and contract surrenders make up the majority of total expenses for L/H insurers. Non-benefit-related expenses include general administrative and overhead expenses, expenses incurred in acquiring business (particularly producer commissions), and expenses related to payments made under contractual provisions of polices, including loss verification and adjustment expenses. Figures 10 and 11 show aggregate L/H sector benefit payments, surrenders, reserve increases, and all other expenses for recent years.

[18] Tim Zawacki, "Many moving parts in lower 2014 life profits," SNL Financial LC (May 5, 2015).

Figure 10: L/H Sector Expenses ($ billions)



Source: SNL Financial

Figure 11: L/H Sector Expenses ($ thousands)

	2011	2012	2013	2014	2015
Total Benefits Payments	$ 238,949,720	$ 241,773,268	$ 250,650,267	$ 251,769,459	$ 263,860,413
Total Surrenders Payments	237,281,666	245,728,327	248,702,088	281,532,892	272,978,642
Total Increase in Reserves	141,164,423	83,760,841	86,223,072	108,733,074	80,560,532
Total Transfers to Separate Accounts	32,427,424	61,550,446	(771,523)	(16,464,689)	36,922,715
Commissions	51,369,302	52,614,950	53,015,154	52,064,515	55,459,053
General & Administrative Expenses	56,409,654	57,208,315	58,465,900	58,953,181	60,068,823
Insurance Taxes, Licenses and Fees	7,804,219	8,039,539	8,194,034	9,981,625	10,473,603
Other Expenses	8,132,687	6,681,631	(373,487)	65,834,251	(5,016,895)
Total	**$ 773,539,096**	**$ 757,357,317**	**$ 704,105,504**	**$ 812,404,309**	**$ 775,306,888**

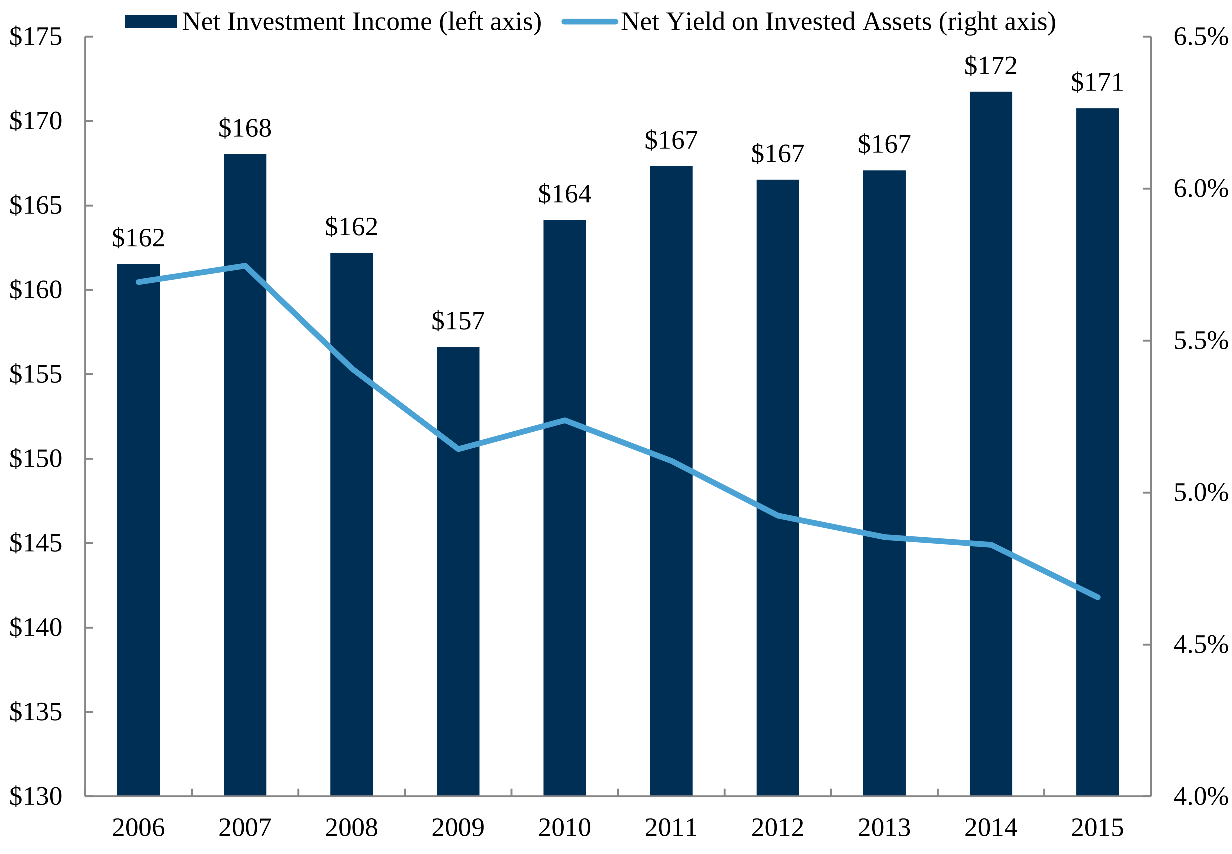
Source: SNL Financial

In 2015, the decrease in total expenses for the L/H sector exceeded the decline in revenues; total expenses decreased nearly five percent to $775 billion, led by the change in other expenses, which swung from a $65 billion expense in 2014 to $5 billion in income in 2015. Although total benefit payments increased five percent, surrenders declined three percent. Transfers between general and separate accounts shifted from a net transfer *from* separate accounts in 2014, to a net transfer *to* separate accounts in 2015. Also, there was a seven percent increase in commissions expense. The large reinsurance termination by a subsidiary of Hartford Financial Services (noted above) also increased aggregate expense figures for 2014.

(c) L/H Sector Investment Income

Net investment income represented about 20 percent of aggregate L/H sector revenues in 2015, at the low end of the range over the past ten years. Figures 12 and 13 show L/H sector net investment income from invested assets (excluding net realized gains and losses on the disposition of assets) and the net investment yield for recent years.

Figure 12: L/H Sector Annual Net Investment Income ($ billions) and Net Yield on Invested Assets



Source: SNL Financial (Net Yield based on Average Net Admitted Invested Assets)

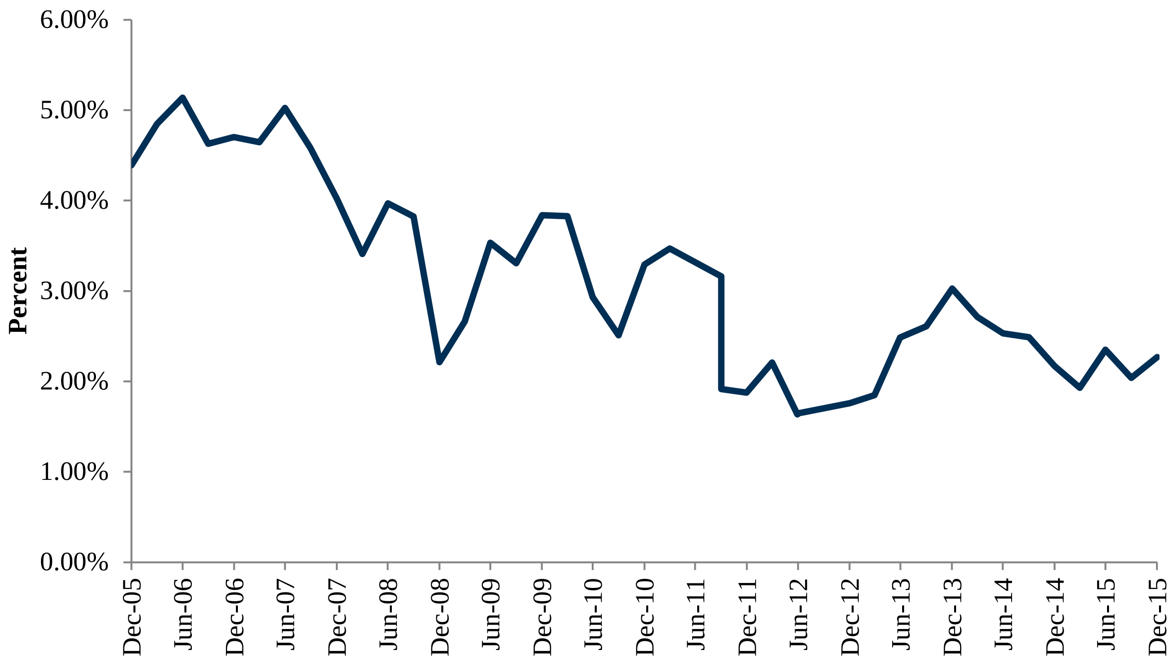
Figure 13: L/H Sector Investment Income ($ thousands) and Net Yield

	2011	2012	2013	2014	2015
Net Investment Income	$ 167,322,081	$ 166,522,938	$ 167,085,528	$ 171,732,395	$ 170,721,775
Total Cash & Investments	3,360,535,194	3,403,292,657	3,482,338,468	3,631,660,457	3,703,355,921
Net Yield on Invested Assets	**5.10%**	**4.92%**	**4.85%**	**4.83%**	**4.65%**

Source**:** SNL Financial (Net Yield based on Average Net Admitted Investment Assets)

After falling over most of 2014, longer-term interest rates ended up slightly higher at the conclusion of 2015 (see Figure 14); nonetheless, the L/H sector continued to experience lower investment yields, falling to 4.65 percent for 2015, its lowest level in the past ten years. Net investment income decreased slightly, falling slightly less than one percent. The continued low interest rate environment continued to present risks to the L/H sector, as noted in FIO's 2015 Annual Report on the Insurance Industry. A more detailed discussion of these risks can be found in Section IV.A.2.a. of this Report.

Figure 14: Percentage Yield on 10-year U.S. Treasury Bonds



Source: Bloomberg LP

As shown in Figure 15, growth of life insurer investments in some other asset classes outpaced growth in traditional bond investments in 2015, continuing the trend seen over the past several years. Of particular note were the eight percent increases in both mortgage loans (primarily commercial mortgage loans) and equity real estate investments. These assets tend to be less liquid than investment-grade fixed income investments. Unlike the past several years, investments in "Other Investments" decreased three percent in 2015.[19]

Figure 15: L/H Sector Invested Asset Compositions ($ thousands)

	2011	2012	2013	2014	2015
Bonds	$ 2,531,747,961	$ 2,543,145,116	$ 2,601,087,323	$ 2,684,898,636	$ 2,733,495,665
Preferred Stocks	8,082,049	7,781,708	8,259,459	9,140,252	9,643,097
Common Stocks	70,349,507	70,327,976	72,363,508	76,974,196	75,310,892
Mortgage Loans	323,074,554	335,592,215	353,149,725	373,011,956	404,214,467
Real Estate	20,576,284	21,369,248	22,352,892	21,885,613	23,700,250
Contract Loans	125,975,993	127,479,821	128,437,758	130,133,863	126,838,540
Derivatives	44,356,616	41,576,588	37,806,864	56,487,932	53,830,051
Cash & Short Term Investments	96,472,480	106,598,497	94,766,349	99,974,893	103,316,493
Other Investments	139,899,750	149,421,490	164,114,590	179,153,117	173,006,467
Total Cash & Investments	**$ 3,360,535,194**	**$ 3,403,292,657**	**$ 3,482,338,468**	**$ 3,631,660,457**	**$ 3,703,355,921**

	2011	2012	2013	2014	2015
Bonds	75%	75%	75%	74%	74%
Preferred Stocks	0%	0%	0%	0%	0%
Common Stocks	2%	2%	2%	2%	2%
Mortgage Loans	10%	10%	10%	10%	11%
Real Estate	1%	1%	1%	1%	1%
Contract Loans	4%	4%	4%	4%	3%
Derivatives	1%	1%	1%	1%	1%
Cash & Short Term Investments	3%	3%	3%	3%	3%
Other Investments	4%	4%	5%	5%	5%
	100%	**100%**	**100%**	**100%**	**100%**

Source: SNL Financial

In 2015, the L/H sector recorded net capital losses of $3.5 billion, nearly triple the $1.3 billion in realized capital losses reported in 2014, due primarily to increased losses on derivative instruments (almost exclusively used for hedging transactions).

(d) L/H Sector Net Income and Return on Equity

Figure 16 presents a summary income statement for the L/H sector. Total revenues in the L/H sector were $848 billion in 2015, a decrease of three percent from the record $878 billion in 2014. The decrease in net written premiums (discussed above) and increased reinsurance

[19] The "other investments" entry includes, but is not limited to, assets such as surplus notes, limited partnerships, joint ventures, hedge funds, and private equity funds and direct investments. Figure 15 excludes $2.4 trillion held in separate accounts.

allowance, i.e., reserve adjustments on reinsurance ceded, were partially offset by a significant increase in "Other Income." Total expenses decreased by slightly less than five percent to $775 billion, leading to an 11 percent gain in pretax income. Net income increased only seven percent to $40 billion in 2015, largely due to the increase in net realized capital losses.

Figure 17 shows key operating ratios for the L/H sector. The L/H sector's 2014 pretax operating margin improved a bit to 6.4 percent from 5.6 percent in 2014. Similarly, the increases in operating income and net income led to a slight increase in the sector's return on average equity (ROAE) to 11.2 percent from the 11.0 percent recorded in 2014; growth in capital and surplus (discussed below) also dampened the improvement in ROAE.

Figure 16: L/H Sector Net Income ($ thousands)

	2011	**2012**	**2013**	**2014**	**2015**
Premiums, Consideration & Deposits	$ 604,504,205	$ 625,664,756	$ 562,581,362	$ 647,297,786	$ 638,023,707
Net Investment Income	167,322,081	166,522,938	167,085,528	171,732,395	170,721,775
Reinsurance Allowance	(16,268,042)	(30,779,711)	(21,247,568)	(14,987,927)	(86,443,933)
Separate Accounts Revenue	26,085,975	29,516,587	31,425,593	34,270,975	35,197,929
Other Income	53,326,999	41,547,171	42,818,740	39,533,842	90,382,066
Total Revenue	**834,971,218**	**832,471,742**	**782,663,655**	**877,847,071**	**847,881,543**
Total Expenses	773,539,096	757,357,317	704,105,504	812,404,309	775,306,888
Policyholder Dividends	15,099,874	15,211,990	15,660,306	16,430,515	18,271,869
Net Gain from Operations before Tax	28,002,719	59,568,028	62,897,846	49,012,247	54,302,786
Federal Income Tax	4,676,585	9,865,190	8,553,612	10,106,677	10,558,927
Net Income before Capital Gains	22,895,712	49,709,026	54,344,234	38,905,570	43,743,859
Net Realized Capital Gains (Losses)	(8,535,724)	(9,448,488)	(12,026,928)	(1,307,404)	(3,494,651)
Net Income	**$ 14,364,501**	**$ 40,260,418**	**$ 42,317,305**	**$ 37,598,166**	**$ 40,249,209**

Source: SNL Financial

Figure 17: L/H Sector Operating Ratios

	2011	**2012**	**2013**	**2014**	**2015**
Pre-Tax Operating Margin	3.35%	7.16%	8.04%	5.58%	6.40%
Return on Average Equity	4.66%	12.64%	12.85%	10.96%	11.16%
Pre-Tax Operating Return On Average Equity	9.08%	18.70%	19.10%	14.29%	15.05%
Return on Average Assets	0.27%	0.73%	0.73%	0.61%	0.64%

Source: SNL Financial

ii. Condition

This section presents information on the financial condition in 2015 of the L/H sector, highlighting common industry metrics associated with solvency and financial stability.

(a) L/H Sector Assets, Capital and Surplus, and Leverage

Figure 18 shows the financial condition of the L/H sector as represented by its assets, capital and surplus, and leverage ratios.

Figure 18: L/H Sector Financial Leverage ($ thousands)

	2011	2012	2013	2014	2015
Capital & Surplus	$ 310,372,997	$ 326,647,273	$ 331,982,056	$ 354,049,185	$ 367,385,297
General Account Assets	3,534,370,609	3,587,753,293	3,675,915,856	3,836,006,424	3,911,514,961
General Account Assets-to-Surplus Ratio	**11.39x**	**10.98x**	**11.07x**	**10.83x**	**10.65x**

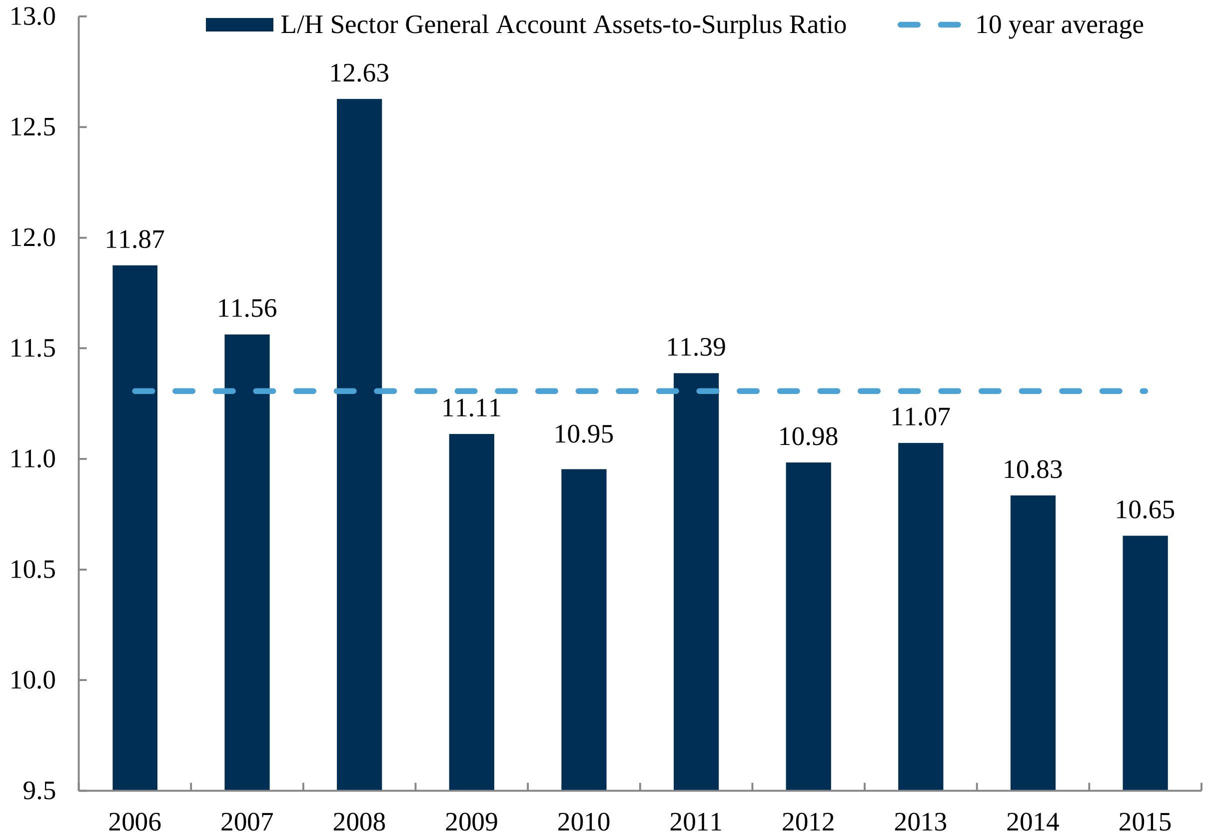
Source: SNL Financial

Capital and surplus is the regulatory measure of capital available to an insurer (i.e., the amount by which reported assets of an insurer exceed its reported liabilities), and measures financial health by reflecting the ability of an insurer to satisfy obligations to policyholders and consumers (particularly in the event of unexpectedly large or catastrophic losses). Surplus is also indicative of the capacity of an insurer to write new business (i.e., to make insurance products more available to consumers).

Over 2015, general account assets of the L/H sector increased by two percent, but capital and surplus increased by nearly four percent. Capital and surplus reached a record $367 billion on higher net income, slightly lower dividends, and additive other adjustments compared to 2014. The L/H sector's leverage ratio (i.e., assets-to-surplus) decreased for a second consecutive year, and reached its lowest level in the past ten years, indicating a stronger sector balance sheet.

Figure 19 presents a longer-term illustration of the L/H sector's financial leverage. Improvements in capital and surplus have contributed to the maintenance of relatively lower leverage ratios as compared to pre-crisis years.

Figure 19: L/H Sector General Account Assets-to-Surplus Ratio



Source: SNL Financial

(b) L/H Sector Reserves

Life insurance reserves generally represent the net present value of expected future obligations of a life insurer. Estimates of an insurer's long-term liabilities are dependent on a number of key assumptions (e.g., mortality rates and interest rates) and actuarial judgment. For interest rate sensitive life and annuity business, reserve increases can be attributed in part to actuarial cash flow testing, which considers the changes in assets and liabilities under a variety of scenarios.

As shown in Figure 20, in 2015, total L/H sector reserves increased by more than two percent to slightly over $3 trillion, and exceeded the previous record level recorded in 2014. A nearly three percent increase in reserves for life insurance policies and contracts (including annuities) drove the overall increase in reserves.

Figure 20: L/H Sector Reserves ($ thousands)

	2011	2012	2013	2014	2015
Net Policy Reserves - Life	$ 2,313,640,468	$ 2,305,692,228	$ 2,375,623,986	$ 2,467,613,650	$ 2,530,139,745
Net Policy Reserves – A/H	222,224,551	219,108,157	218,819,918	223,486,037	231,286,101
Liability for Deposit-Type Contracts	266,873,754	270,573,877	264,312,909	267,690,525	269,906,123
Total Policy Reserves plus Deposits	**$ 2,802,738,773**	**$ 2,795,374,262**	**$ 2,858,756,814**	**$ 2,958,790,213**	**$ 3,031,331,969**
Growth - Total Reserves & Deposits	**4.90%**	**-0.26%**	**2.27%**	**3.50%**	**2.45%**

Source: SNL Financial

b. Property and Casualty Sector

i. Performance

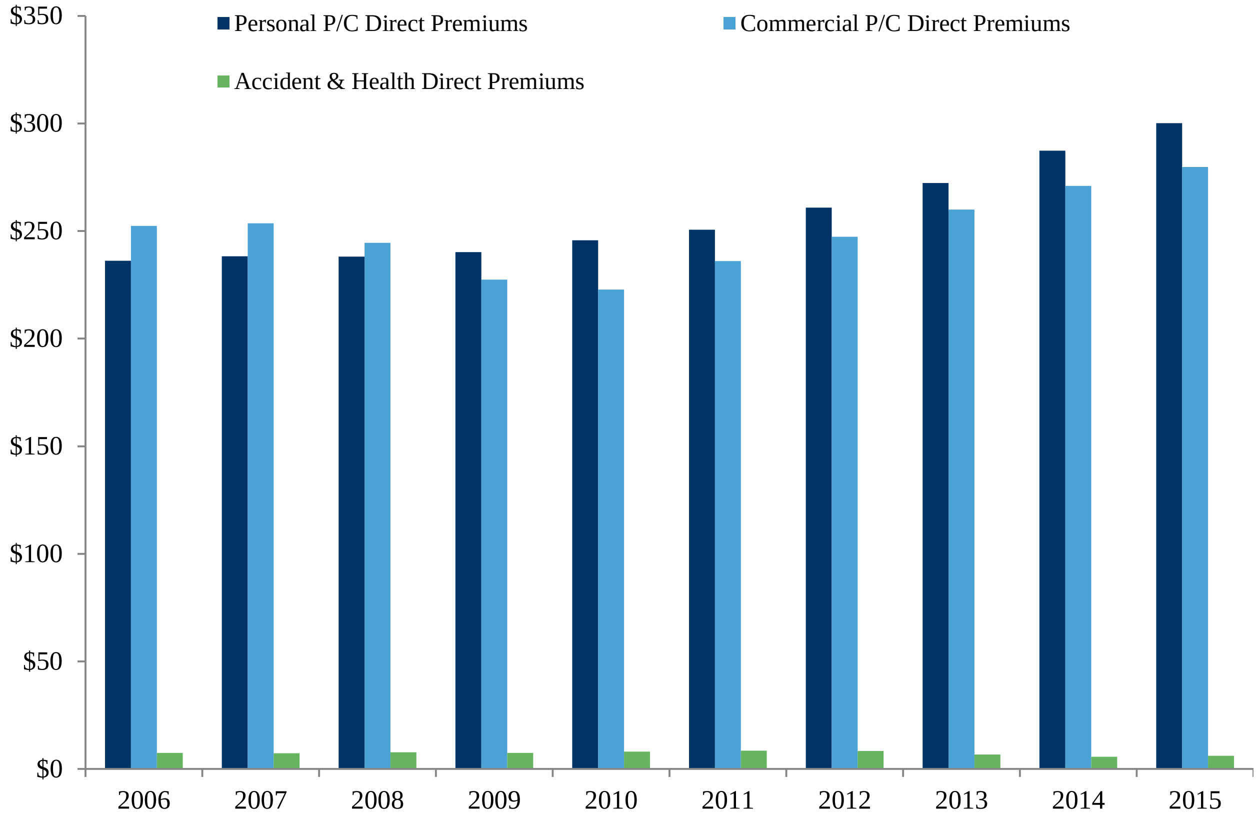
This section presents additional analysis of the financial performance of the P/C sector, followed by a section that analyzes the financial condition of the sector.

(a) P/C Sector Net Written Premiums

Figure 21 shows the level and composition of P/C sector direct written premiums by major lines of business, and Figure 22 shows the corresponding dollar values and a reconciliation to net premiums earned (i.e., direct premiums written less net reinsurance premiums ceded and the change in unearned premiums reserve). For 2015, total P/C sector net written premiums reached a record level at $520 billion, marking a more than three percent increase over the 2014 result. Premium growth reflects continuing national economic growth and decreased investment income. Direct written premiums for personal lines of business grew by more than four percent, while direct written premiums for commercial lines of business increased slightly more than three percent. One area in the P/C sector that has been exhibiting faster growth over the past several years is the “excess and surplus lines,” or “non-admitted” market (Box 1). Net reinsurance premiums ceded decreased slightly, leading to the growth in net written premiums. Modest economic growth in the United States and rate increases continued to drive premium growth despite growing market pressures, particularly in commercial lines.[20]

[20] Jennifer Marshall, “U.S. P/C Industry Marks Third Consecutive Underwriting Gain, but Surplus Declines on Investment Results,” A.M. Best Co. (May 16, 2016).

Figure 21: P/C Sector Direct Premiums Written ($ billions)



Source: SNL Financial

Figure 22: P/C Sector Premiums ($ thousands)

	2011	2012	2013	2014	2015
Personal P/C Direct Premiums	$ 250,654,728	$ 260,931,593	$ 272,367,335	$ 287,272,384	$ 300,054,004
Commercial P/C Direct Premiums	235,982,944	247,128,276	259,943,105	270,997,951	279,803,539
Accident & Health Direct Premiums	8,572,313	8,424,278	6,701,202	5,766,660	6,142,327
Direct Premiums Written	**502,011,305**	**523,914,193**	**546,334,118**	**570,782,303**	**591,758,049**
Net Reinsurance Premiums	(60,036,358)	(62,959,506)	(64,406,185)	(68,165,441)	(71,530,151)
Net Premiums Written	**441,974,947**	**460,954,687**	**481,927,933**	**502,616,863**	**520,227,898**
Change in Unearned Premiums Reserve	3,644,385	7,917,132	9,853,047	9,095,596	8,395,501
Net Premiums Earned	**$ 438,330,562**	**$ 453,037,555**	**$ 472,074,886**	**$ 493,521,266**	**$ 511,832,397**

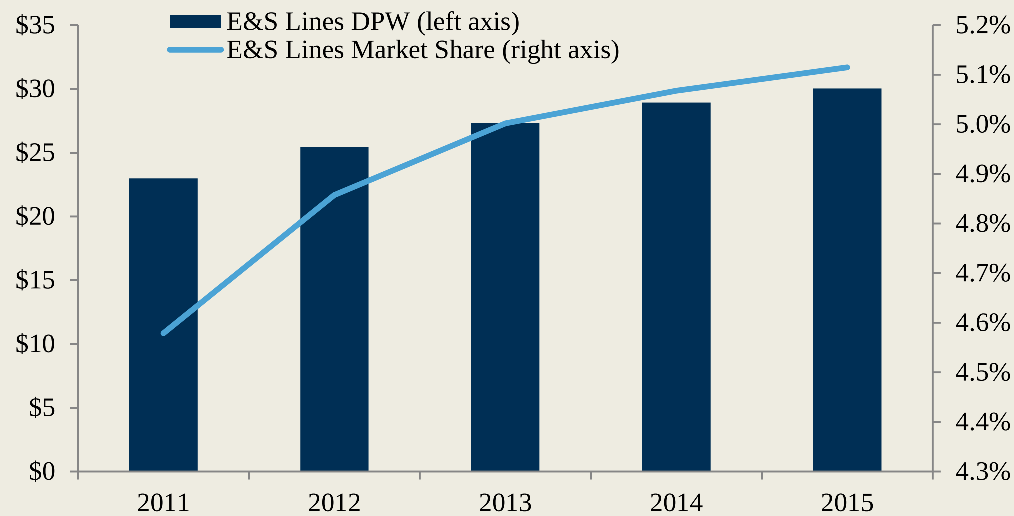
Source: SNL Financial

Box 1: Excess and Surplus (E&S) Lines Insurance

The U.S. excess and surplus lines, or nonadmitted, insurance market serves as an alternative market for insuring risks that are generally unacceptable to the standard or admitted insurance market. This market includes risks with unfavorable characteristics such as: a history of frequent or catastrophic losses; highly specialized or unusual risks; risks requiring high insurance limits; or new or emerging risks requiring special underwriting.

As shown in Figure A, over the past few years, growth in premiums in excess and surplus lines business has been strong, although the rate of growth has been slowing. The excess and surplus lines market is diverse, with over 150 insurer participants. The top five writers of this business, which include some of the largest U.S. insurers, are shown in Figure B. (The 2010 premium volume is attributed to all Excess and Surplus lines insurance operations consolidated in financial results of the relevant groups as of March 16, 2016, accounting for acquisitions occurring between 2010 and 2016.)

Figure A: Direct Premiums Written (DPW) and Market Share ($ billions)



Source: SNL Financial

Figure B: Excess & Surplus Lines Insurers

2015 Rank	Group	2010 Direct Premiums Written ($000)	2010 U.S. Market Share (%)	2015 Direct Premiums Written ($000)	2015 U.S. Market Share (%)
1	American International Group	$ 5,337,621	23.30	$ 4,659,354	15.43
2	Nationwide Mutual Group	1,149,824	5.02	1,770,685	5.86
3	Chubb Ltd.	1,344,069	5.87	1,671,739	5.53
4	W. R. Berkley Corp.	831,442	3.63	1,557,208	5.16
5	Zurich Insurance Group	1,217,132	5.31	1,231,600	4.08
	Sector Total	**$ 22,908,556,624**		**$ 30,204,399,113**	

Source: SNL Financial

(b) P/C Sector Underwriting Results

The combined ratio, a commonly accepted metric used to compare underwriting performance in the P/C sector, is the sum of the loss ratio (incurred loss and loss adjustment expense divided by earned premiums) and the expense ratio (incurred expenses divided by written premiums). Figure 23 shows the P/C combined ratio and its construction for the past several years.[21] While the combined ratio for the P/C sector increased slightly to approximately 98 percent in 2015, it remained below 100 percent for the third consecutive year. A combined ratio less than 100 percent indicates that premiums covered losses and expenses in a given period (i.e., underwriting operations made a positive contribution to net income). Investment income, realized capital gains/losses, and income taxes are not considered in the combined ratio. Catastrophe activity in the United States was relatively benign in 2015, but higher loss trends in commercial automobile insurance and higher non-catastrophic weather-related losses in personal lines drove the increase in the combined ratio.[22] The expense ratio rose in 2015, but it remained slightly below the levels of 2011, 2012, and 2013.

Figure 23: P/C Sector Operating Ratios

	2011	**2012**	**2013**	**2014**	**2015**
Loss Ratio	66.86%	61.95%	55.60%	57.20%	57.47%
Loss Adjustment Expense Ratio	12.58%	12.39%	11.94%	11.82%	11.84%
Loss and Loss Adjustment Expense Ratio	**79.45%**	**74.34%**	**67.54%**	**69.03%**	**69.31%**
Net Commission Ratio	10.22%	10.20%	10.24%	10.38%	10.55%
Salaries & Benefits Ratio	8.30%	8.41%	8.54%	8.14%	8.24%
Tax, License & Fees Ratio	2.60%	2.62%	2.60%	2.51%	2.54%
Administrative & Other Expense Ratio	7.25%	6.99%	6.78%	6.55%	6.71%
Expense Ratio	**28.37%**	**28.22%**	**28.17%**	**27.58%**	**28.05%**
Policyholder Dividend Ratio	0.53%	0.59%	0.64%	0.59%	0.59%
Combined Ratio	**108.34%**	**103.15%**	**96.35%**	**97.20%**	**97.94%**

Source: SNL Financial

(c) P/C Sector Investment Income

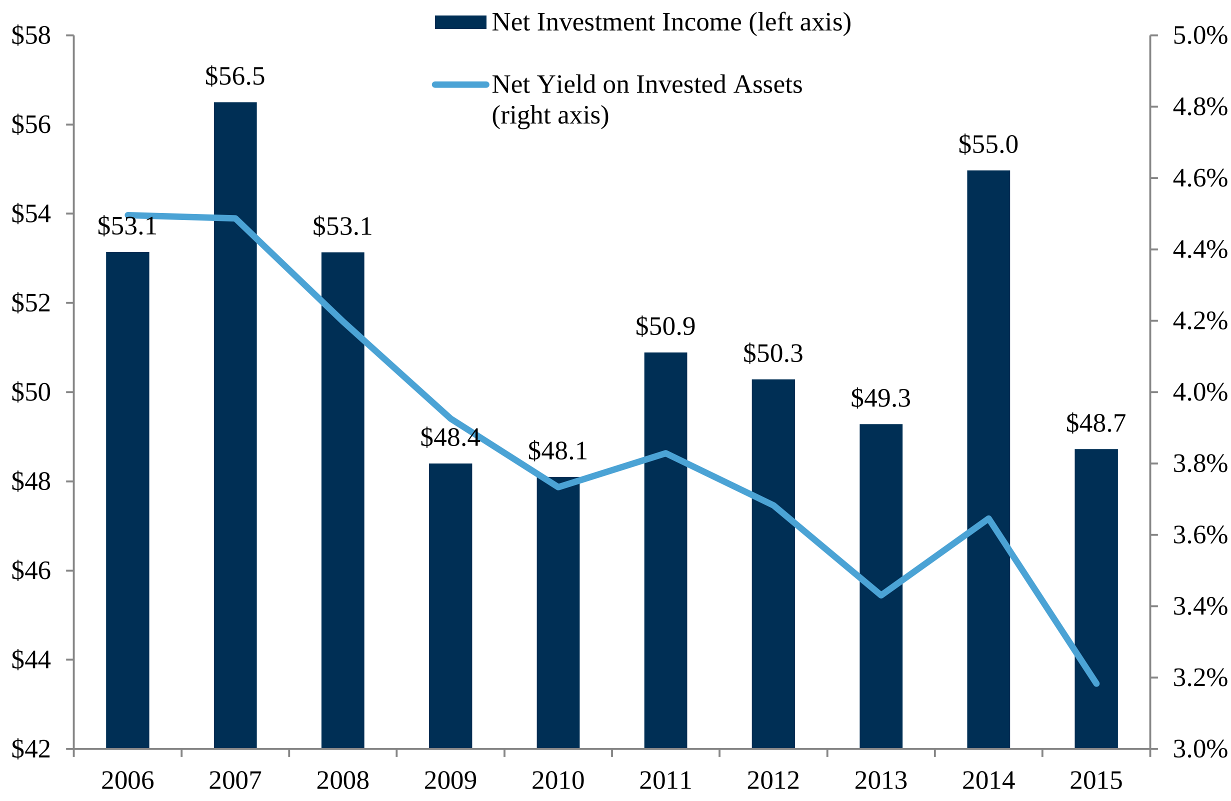
Net investment income for the P/C sector decreased by 11 percent to $49 billion in 2015, reverting back to a multiple year declining trend following an increase in 2014. Commensurately, the net yield on invested assets dropped 47 basis points to 3.18 percent, marking the lowest level in net yield in the past ten years. The 2014 measures were increased by

[21] SNL Financial ratios include the policyholder dividend ratio for transparency because dividends represent a cash outlay.

[22] Jennifer Marshall, "U.S. P/C Industry Marks Third Consecutive Underwriting Gain, but Surplus Declines on Investment Results," A.M. Best Co., (May 16, 2016).

a one-time extraordinary dividend of approximately $7 billion between subsidiaries of Berkshire Hathaway Inc. Figure 24 depicts a longer-term view of the trend in net investment income and net yield on invested assets for the P/C sector, and Figure 25 provides this data for the past five years. Realized capital gains and losses are reported separately and are not a component of net investment income.

Figure 24: P/C Sector Annual Net Investment Income ($ billions) and Net Yield on Invested Assets



Source: SNL Financial (Net Yield based on Average Net Admitted Invested Assets)

Figure 25: P/C Sector Investment Income ($ thousands) and Net Yield

	2011	**2012**	**2013**	**2014**	**2015**
Net Investment Income	$ 50,890,625	$ 50,284,734	$ 49,280,948	$ 54,970,232	$ 48,720,206
Total Cash & Investments	1,341,904,107	1,389,359,572	1,483,929,648	1,531,950,173	1,529,559,447
Net Yield on Invested Assets	**3.83%**	**3.68%**	**3.43%**	**3.65%**	**3.18%**

Source: SNL Financial

As P/C insurers are less dependent on net investment income to fund losses and expenses than are L/H insurers, net investment income accounted for nine percent of total sector revenues in

2015 (compared to approximately 20 percent in the L/H sector). Nonetheless, historically low interest rates have caused P/C insurers to look to investments in mortgage loans and "alternative" investments for higher rates of return. Figure 26 shows the composition of the P/C sector's invested assets over the past five years. Although bonds continue to receive the largest allocation, the balance grew by less than one percent in 2015. Large increases in mortgage loans and equity real estate investments (24 percent and 15 percent, respectively) in 2015 reflected reallocations from common stock (two percent decrease) and cash and short-term investments and other investments (three percent declines for both) resulting in year-end 2015 total cash and invested assets remaining essentially flat with 2014. These moves among asset classes left the allocation to bonds slightly higher compared to the 2014 level.

Figure 26: P/C Sector Invested Assets ($ thousands)

	2011	2012	2013	2014	2015
Bonds	$ 902,517,274	$ 907,500,784	$ 927,718,487	$ 942,388,043	$ 950,068,015
Preferred Stocks	11,619,100	11,929,781	11,553,193	14,585,403	13,996,520
Common Stocks	227,253,516	254,465,023	317,702,214	330,149,685	322,346,199
Mortgage Loans	4,969,359	5,682,044	7,985,242	10,020,467	12,451,815
Real Estate	10,371,780	10,384,874	9,960,744	10,151,145	11,673,664
Derivatives	648,785	591,755	577,504	636,629	651,844
Cash & Short Term Investments	72,598,930	82,597,162	83,653,996	90,779,656	88,437,190
Other Investments	111,924,482	116,207,246	124,778,268	133,239,146	129,934,200
Total Cash & Investments	**$ 1,341,904,107**	**$ 1,389,359,572**	**$ 1,483,929,648**	**$ 1,531,950,173**	**$1,529,559,447**

	2011	2012	2013	2014	2015
Bonds	67%	65%	62%	61%	62%
Preferred Stocks	1%	1%	1%	1%	1%
Common Stocks	17%	18%	21%	21%	21%
Mortgage Loans	1%	1%	1%	1%	1%
Real Estate	1%	1%	1%	1%	1%
Derivatives	0%	0%	0%	0%	0%
Cash & Short Term Investments	5%	6%	6%	6%	6%
Other Investments	8%	8%	8%	9%	8%
	100%	**100%**	**100%**	**100%**	**100%**

Source: SNL Financial

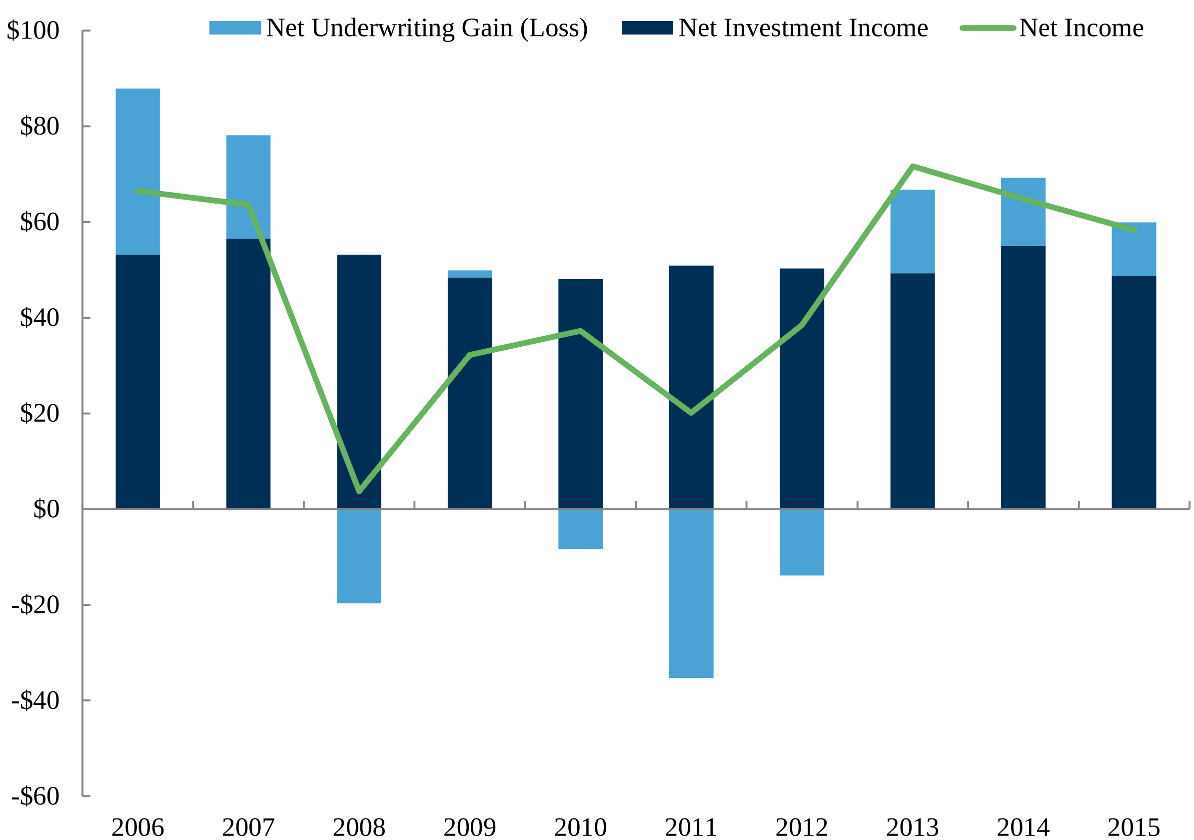
Realized capital gains on investments also contributed to the P/C sector's profitability, although to a lower extent than in the prior year; over 2015, the P/C sector recorded net realized capital gains of $10 billion, which was 14 percent less than the 2014 level. Declining equity markets led to the reduction in realized capital gains.[23]

[23] Jennifer Marshall, "U.S. P/C Industry Marks Third Consecutive Underwriting Gain, but Surplus Declines on Investment Results," A.M. Best Co. (May 16, 2016).

(d) P/C Sector Net Income

The P/C sector's net income decreased for the second consecutive year in 2015, dropping 10 percent to $58 billion from the $65 billion reported in 2014, as shown in Figure 27. The 11 percent drop in net investment income (discussed above) and a 21 percent decline in net underwriting gain were the main causes of the decrease in net income. A significant decline in "All Other" only partially offset these decreases. The combination of these factors led to a nine percent decrease in pretax operating income, but with income taxes remaining relatively flat, the end result was a 10 percent decrease in net income for 2015. Figure 28 provides a summary income statement for the P/C sector.

Figure 27: P/C Sector Net Income ($ billions)



Source: SNL Financial

Figure 28: P/C Sector Net Income ($ thousands)

	2011	2012	2013	2014	2015
Net Premiums Earned	$ 438,330,562	$ 453,037,555	$ 472,074,886	$ 493,521,266	$ 511,832,397
Losses and Loss Adjustment Expense Incurred	348,239,144	336,783,331	318,842,292	340,666,139	354,744,960
Other Underwriting Expense Incurred	123,907,662	129,766516	136,211,881	139,104,986	145,066,499
Other Underwriting Deductions	1,475,530	322,517	(471,225)	(475,218)	840,613
Net Underwriting Gain (Loss)	**(35,292,561)**	**(13,832,891)**	**17,489,999**	**14,225,359**	**11,180,325**
Policyholder Dividends	(2,313,871)	(2,655,098)	(3,017,264)	(2,931,501)	(3,016,579)
Net Investment Income	50,890,625	50,284,734	49,280,948	54,970,232	48,720,206
Net Realized Capital Gains (Losses)	7,577,786	8,658,738	18,399,919	11,772,541	10,069,696
Finance Service Charges	3,179,471	3,287,835	3,403,200	3,271,709	3,332,974
All Other	(869,762)	(1,063,361)	(1,892,032)	(6,158,575)	(1,808,534)
Net Income After Capital Gain (Loss) Before Tax	**23,155,391**	**44,670,672**	**83,663,527**	**75,149,624**	**68,478,086**
Federal Income Tax	3,030,002	6,257,395	12,038,618	10,318,140	10,188,552
Net Income	**$ 20,124,876**	**$ 38,415,881**	**$ 71,624,732**	**$ 64,830,436**	**$ 58,289,534**

Source: SNL Financial

Figure 29 displays key measures of returns for the P/C sector. Each of these metrics declined for a second consecutive year, but remained higher than the corresponding values recorded in all other post-crisis years with the exception of the peak year of 2013. The 2015 return on average equity of 8.5 percent was slightly below the average of nine percent for the past ten years.

Figure 29: P/C Sector Operating Ratios

	2011	2012	2013	2014	2015
Pre-Tax Operating Margin	3.17%	7.12%	12.48%	11.62%	10.39%
Return on Average Equity (Capital & Surplus)	3.59%	6.65%	11.35%	9.57%	8.47%
Pre-Tax Operating Return on Average Equity	2.78%	6.23%	10.34%	9.35%	8.49%
Return on Average Assets	1.28%	2.37%	4.23%	3.67%	3.24%

Source: SNL Financial

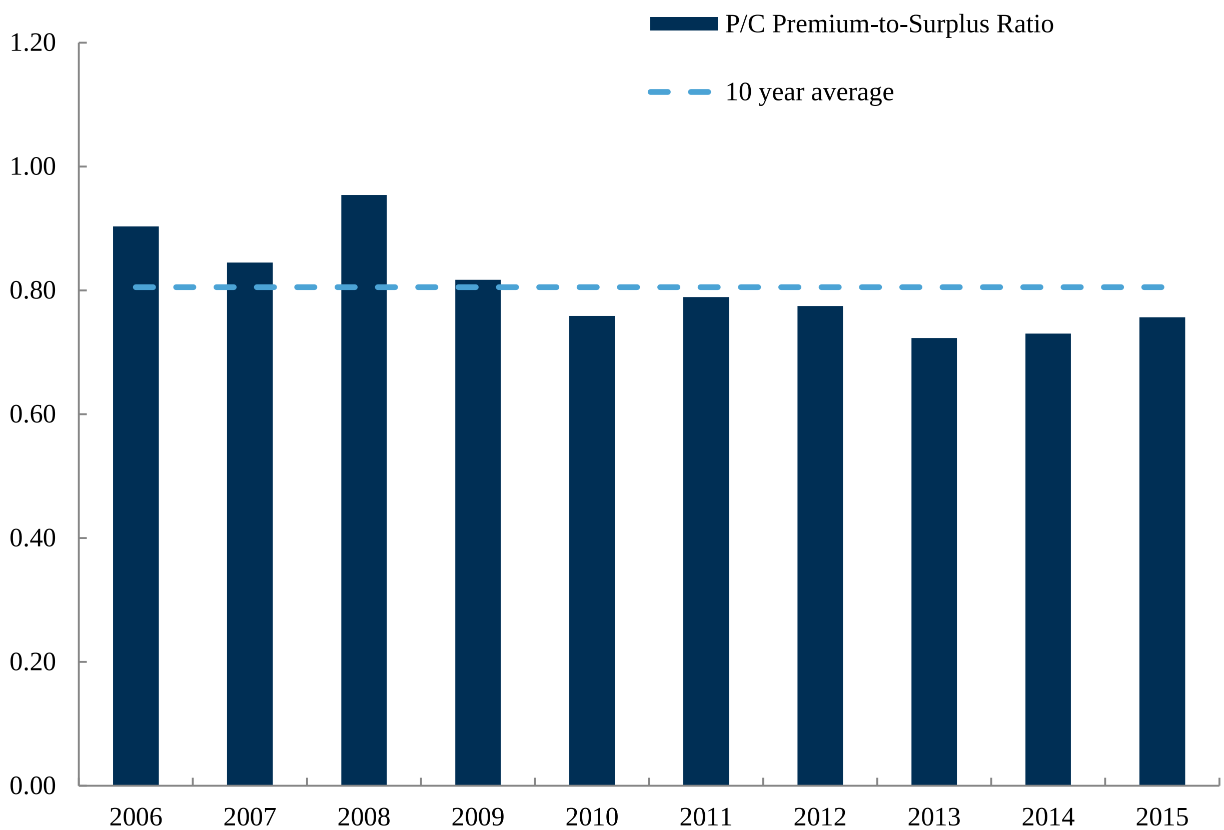
ii. Condition

This section presents additional information on the financial condition of the P/C sector, highlighting industry metrics associated with solvency and financial stability.

(a) P/C Sector Policyholder Surplus

After increasing every year since 2011, the P/C sector's policyholder surplus decreased very slightly (less than 50 basis points) to $687 billion at the end of 2015 from the record high $689 billion recorded in 2014. Figure 30 provides a longer-term perspective on the sector's leverage, with corresponding dollar values for periods since 2010 shown in Figure 31. The ratio of net premiums written to policyholder surplus is the standard measure of leverage in the P/C sector, as contrasted with the assets-to-surplus ratio used in the L/H sector; this is reflective of the shorter duration and higher volatility of P/C sector liabilities relative to L/H sector liabilities. As is also the case for the L/H sector, in recent years the P/C sector has been deleveraging (Figure 30). The 2015 premiums-to-surplus ratio of 76 percent was below the ten-year average, although it increased slightly from the 2014 level as surplus growth was slowed by lower profitability.

Figure 30: P/C Sector Annual Net Premiums-to-Surplus Ratio



Source: SNL Financial

Figure 31: P/C Sector Financial Leverage ($ thousands)

	2011	2012	2013	2014	2015
Net Premiums Written	$ 441,974,947	$ 460,954,687	$ 481,927,933	$ 502,616,863	$ 520,227,898
Policyholder Surplus	560,322,549	595,162,557	666,745,679	688,567,272	687,331,911
Net Premiums Written/Average Policyholder Surplus	**78.78x**	**79.79x**	**76.38x**	**74.17x**	**75.62x**

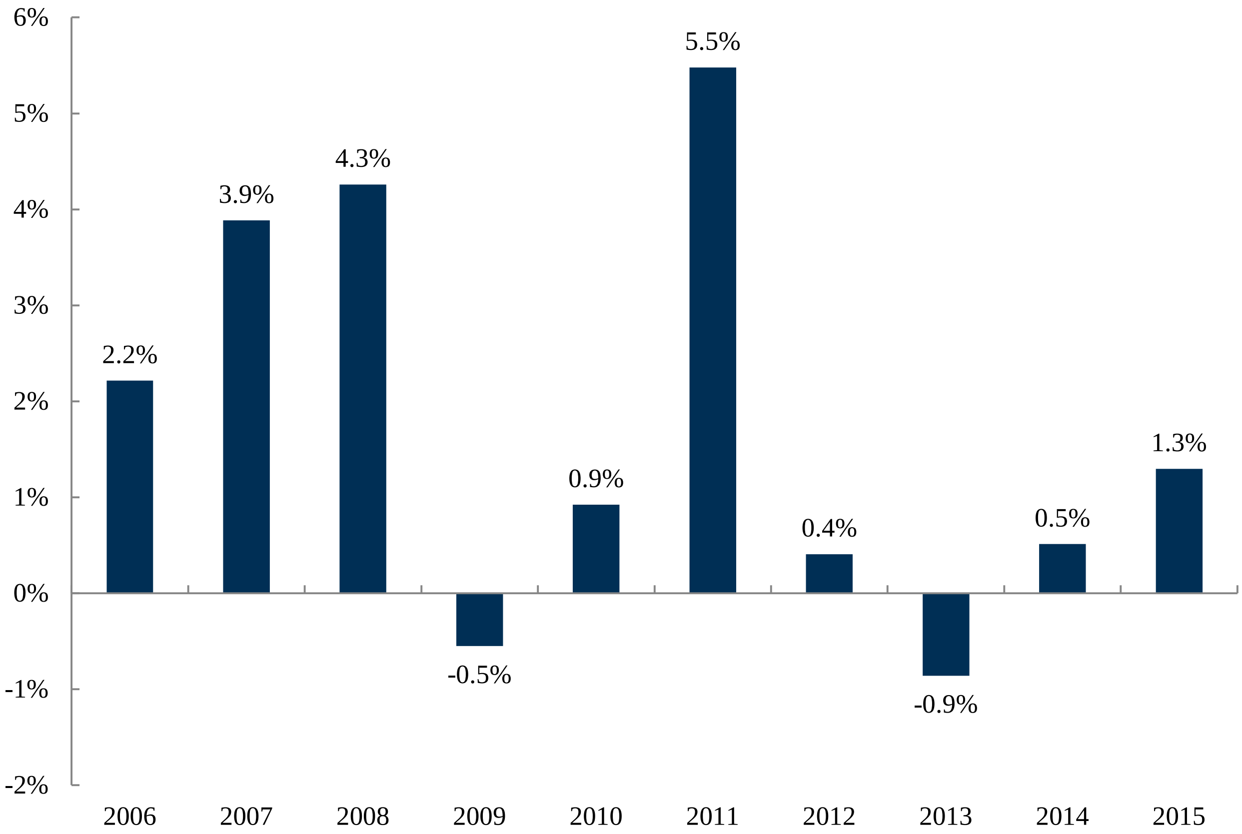
Source: SNL Financial

(b) P/C Sector Reserves

P/C sector reserves represent estimates of the ultimate incurred losses and loss adjustment expenses (LAE) for events that have already occurred, but that remain unpaid as of the balance sheet date. Estimation of P/C sector reserves includes a significant degree of professional actuarial judgment, as is the case for L/H sector reserves.

Total P/C sector reserves increased by slightly more than one percent in 2015, as shown in Figures 32 and 33. The increase in total reserves was mainly the result of a five percent increase in personal lines reserves, while commercial lines reserves remained essentially flat for the second consecutive year.

Figure 32: P/C Sector Change in Loss and LAE Reserves



Source: SNL Financial

Figure 33: P/C Sector Reserves ($ thousands)

	2011	2012	2013	2014	2015
Major Segment - Personal	$ 123,939,203	$ 124,837,760	$ 125,430,095	$ 128,970,336	$ 135,869,443
Major Segment - Commercial	471,810,967	473,384,558	467,433,830	466,400,530	467,019,133
Major Segment - Accident & Health	5,005,952	5,205,155	5,388,272	5,922,874	6,193,944
Total Loss and Loss Adjustment Expense Reserves	**$ 600,685,813**	**$ 603,162,056**	**$ 597,988,984**	**$ 601,051,981**	**$ 608,848,146**
Change in Loss & Loss Adjustment Expense Reserves	**5.48%**	**0.41%**	**-0.86%**	**0.51%**	**1.30%**

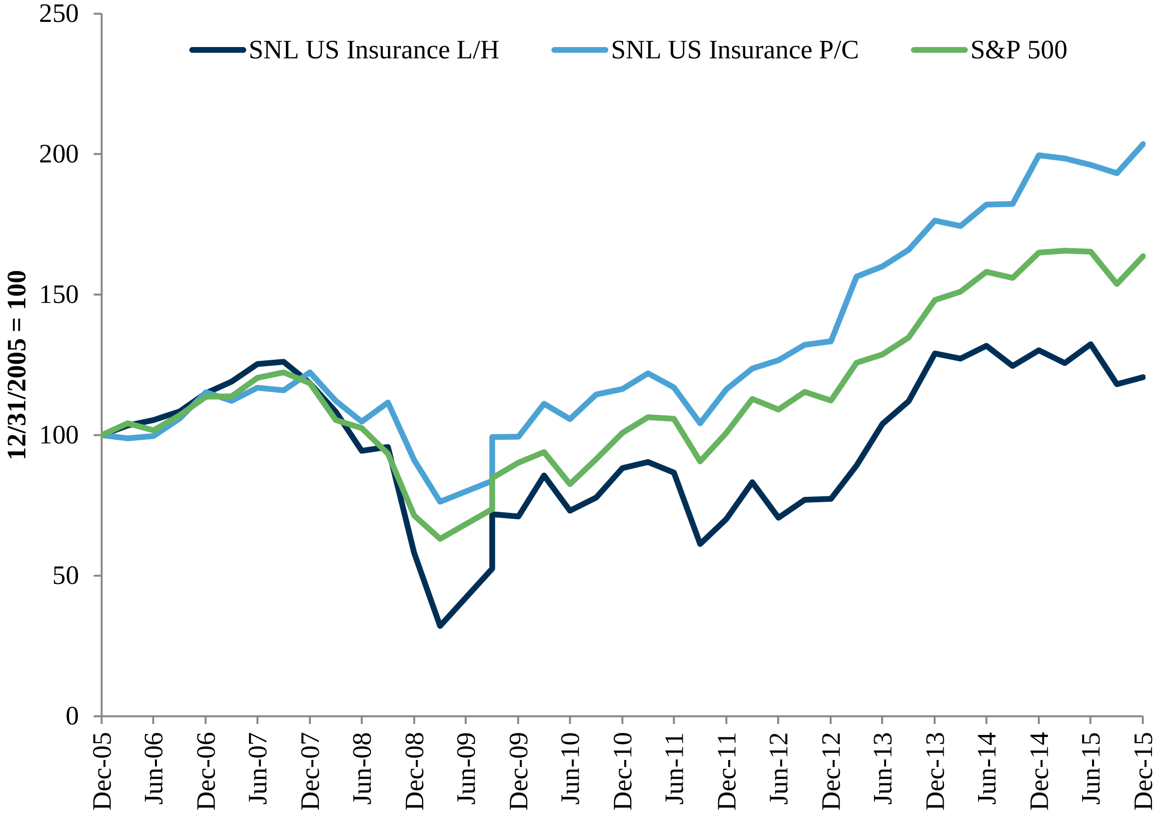
Source: SNL Financial

2. Market Performance

Stock price movements are indicators of investors' perceptions about the recent financial results and future financial prospects of a firm, an industry sector, or in a broader context, the general economy. The discussion that follows considers the price performance of stock indices for the L/H and P/C sectors, as compared to the performance of the Standard and Poor's 500 Index (S&P 500).

Over the ten year period from December 31, 2005 through the end of 2015, the SNL Stock Price Index for the U.S. P/C sector outperformed the S&P 500, as shown in Figure 34. On the other hand, the L/H sector stock index underperformed the S&P 500 during this period. The P/C sector was basically a market performer leading up to the financial crisis, but has outperformed the S&P 500 since the crisis. The L/H sector slightly outperformed the S&P 500 leading up to the financial crisis, and has underperformed during and since the crisis. Since the end of 2005, the P/C stock index gained 104 percent and the L/H stock index increased 21 percent; over the same period, the S&P 500 gained 64 percent. In the short-term, for 2015, the P/C stock index increased two percent, outperforming the S&P 500's one percent loss, but the L/H sector stock index significantly underperformed, depreciating seven percent, as shown in Figure 35.

Figure 34: Insurance Sector Stock Prices vs. S&P 500



Source: SNL Financial

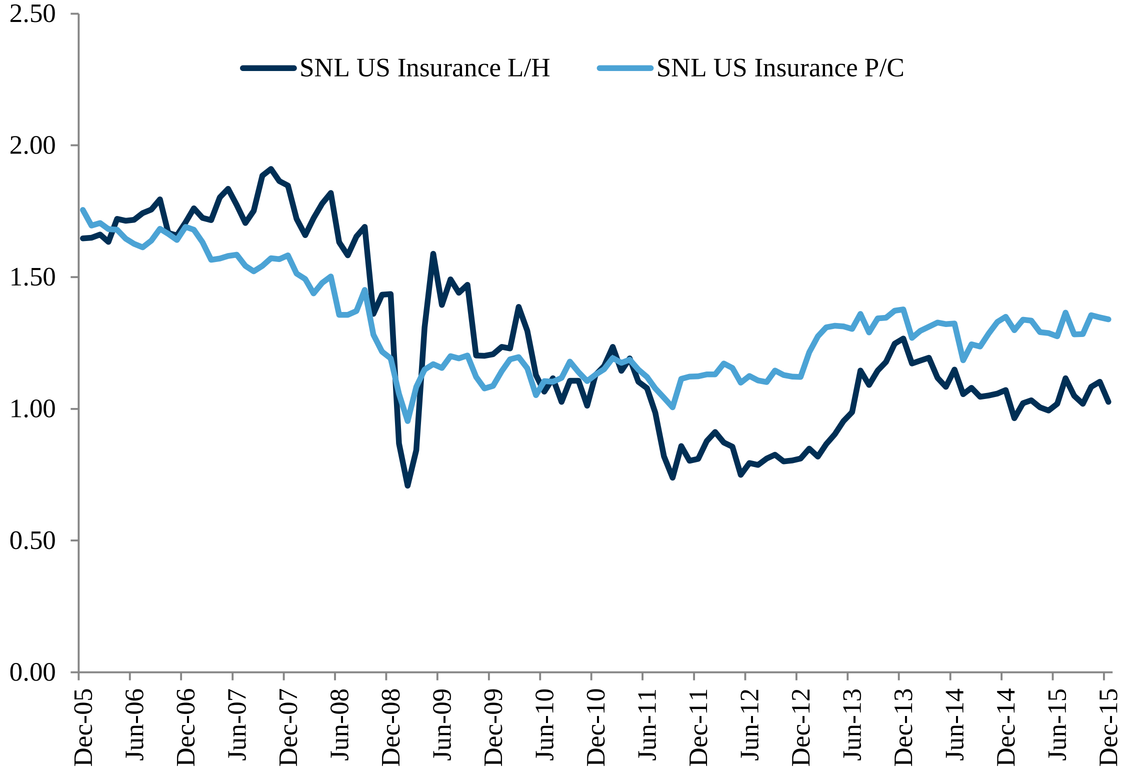
Figure 35: Insurance Sector Indexed Stock Prices vs. S&P 500

	Dec - 14	Mar -15	Jun - 15	Sep - 15	Dec - 15	Qtr/Qtr	Yr/Yr
SNL Life	130	126	132	118	121	2.1%	-7.3%
SNL P/C	200	198	196	193	204	5.3%	2.0%
S&P 500	165	166	165	154	164	6.5%	-0.7%

Source: SNL Financial

The price-to-book value multiple, which compares on a per share basis the market value of a firm to its book value (i.e., reported equity on its balance sheet) is a popular metric by which to measure valuation. If a share of an insurer's stock is selling for less than its book value per share, the market is valuing the firm at less than its assets minus its liabilities (net worth); the opposite is true if the stock is trading at a premium to its book value. Figure 36 compares L/H and P/C sector price-to-book value ratios from year-end 2005 through year-end 2015. The narrowing in the premium of L/H sector stocks to book value that began in 2014 continued over 2015, settling at a multiple of 1.03 times book value at the end of the year, down slightly from the 1.07 multiple at the end of 2014. P/C sector stocks saw premium over book value remain essentially flat, ending 2015 at a multiple of 1.34 times book value compared to a multiple of 1.35 times book value at the end of 2014.

Figure 36: Insurer Price / Book Value Ratios



Source: SNL Financial

3. 2016 Insurance Market Outlook

Full-year 2016 industry results will be reviewed in FIO's 2017 Annual Report on the Insurance Industry. Based on financial results reported by insurers in the first six months of 2016, several notable trends already have emerged. The negative impacts of the continued low interest rate environment became more prominent as the larger U.S. life insurers reported declines in investment income on top of significant losses from "alternative investments," i.e., hedge funds, in the first quarter of 2016.[24] Insurers and analysts also attribute declining sales of annuity products to low interest rates, especially variable annuities linked to equity markets. Some market observers expect that the U.K.'s referendum vote to leave the EU (Brexit) will prolong the current low interest rate environment.[25] In the P/C sector, commercial lines rates were under pressure and declined across the first half of 2016 in most product areas.[26] More generally, the P/C sector experienced a decline in underwriting gains as incurred losses increased faster than

[24] Sources: Company first and second quarters 2016 press releases.

[25] *See* Section IV.A.2.a. for additional discussion of interest rate risk.

[26] Matt MacFarland, "Commercial P&C Rates Fell Further in Q2, Industry Survey Shows," SNL Financial LC (August 5, 2016).

earned premiums; nonetheless, the sector maintained underwriting profitability in the first quarter of 2016.[27] Market observers expect challenges in private auto insurance, higher natural catastrophe losses in the first half of 2016, and pressure on pricing in commercial lines to continue to compress underwriting results.[28]

B. International Insurance Marketplace Overview

In real terms, according to Swiss Re Sigma, global insurance direct written premiums grew by 3.8 percent to $4.6 trillion in 2015, led by a 4.0 percent increase in life insurance direct written premiums, while non-life direct written premiums increased by 3.6 percent.[29] Life direct written premiums represented 56 percent of the global total. This growth was achieved despite more moderate global growth in real gross domestic product, which expanded globally by only 2.5 percent in 2015.[30] As shown in Figure 37, the United States remains the world's largest single-country insurance market, with 29 percent of global total direct written premiums; this market share increased year-over-year from 27 percent in 2014, and marked the highest level since 2008. For 2015, the Peoples' Republic of China overtook the United Kingdom as the third largest insurance market, and Taiwan replaced the Netherlands in tenth place. Globally, profitability remained challenged by the prevailing low to negative interest rate environment in most developed economies.

[27] Tim Zawacki, "First Look at Q1 P&C Statutory Results Finds Erosion in Underwriting Profits," SNL Financial LC (May 19, 2016).

[28] Tim Zawacki and Terry Leone, "Industry Faces Compression in Underwriting Margins, U.S. P&C Insurance Market Report Projects," SNL Financial LC (July 25, 2016).

[29] Swiss Re Sigma, "World Insurance in 2015: Steady Growth Amid Regional Disparities" (June 29, 2016), *available at* http://media.swissre.com/documents/sigma_3_2016_en.pdf. Swiss Re Sigma examines insurance and macroeconomic data from 147 countries sourced through Swiss Re Economic Research and Consulting. Growth rates are presented in real terms, i.e., adjusted for inflation as measured by local consumer price indices. Swiss Re Sigma separates the insurance industry into "life" and "non-life" sectors as is the practice outside of the United States; under this convention, the "non-life" sector includes health insurance.

[30] *Id.* at 1.

Figure 37: Gross Premium Written in Market Share by Country, 2010 vs. 2015

2010 Rank	2015 Rank	Country	2010 Premium Volume ($ millions)	2010 World Market Share (%)	2015 Premium Volume ($ millions)	2015 World Market Share (%)	Change in World Market Share (%)
1	1	United States	$ 1,162,160	26.88	$ 1,316,271	28.90	7.55
2	2	Japan	563,866	13.04	449,706	9.88	-24.27
6	3	China	214,626	4.96	386,500	8.49	71.00
3	4	United Kingdom	300,242	6.94	320,176	7.03	1.26
4	5	France	283,227	6.55	230,544	5.06	-22.70
5	6	Germany	234,985	5.43	213,263	4.68	-13.82
7	7	Italy	174,347	4.03	165,036	3.62	-10.11
8	8	South Korea	114,064	2.64	153,619	3.37	27.89
9	9	Canada	113,694	2.63	114,967	2.52	-3.98
11	10	Taiwan	76,425	1.77	95,979	2.11	19.26
10	11	Netherlands	102,280	2.37	80,595,	1.77	-25.17
12	12	India	74,393	1.72	71,775	1.58	-8.38
14	13	Australia	72,728,	1.68	70,586	1.55	-7.84
15	14	Brazil	64,264	1.49	69,091	1.52	2.09
13	15	Spain	73,072	1.69	61,315	1.35	-20.32
16	16	Switzerland	52,827	1.22	61,288	1.35	10.17
18	17	Ireland	48,073	1.11	55,174	1.21	8.99
17	18	South Africa	48,632	1.12	45,958	1.01	-10.26
24	19	Hong Kong	23,096	0.53	45,748	1.00	88.09
21	20	Sweden	38,218	0.88	33,502	0.74	-16.76
		World	**$ 4,324,239**		**$ 4,553,785**		

Source: Swiss Re Sigma

According to the International Monetary Fund, the economic growth of emerging markets increased 4.0 percent in 2015 compared to 1.9 percent for advanced economies.[31] Likewise, 2015 growth in total insurance direct written premiums was stronger in emerging markets than in advanced economies. Total direct written premiums increased nearly 10 percent in emerging economies, compared to a 2.5 percent increase in developed economies.[32] For emerging markets, life direct written premiums grew by 12 percent, and non-life direct written premiums

[31] International Monetary Fund, "World Economic Outlook: Too Slow for Too Long" (April 2016), p. 168, *available at* http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf. *See also* pp.148-49 noting the countries included in emerging markets and advanced economies.

[32] Swiss Re Sigma, pp. 35, 38. Swiss Re Sigma's country classifications of "advanced" and "emerging" generally follows the International Monetary Fund classification.

increased nearly 8.0 percent, compared to 2.5 percent and 2.6 percent, respectively, for advanced economies.

Insurance penetration, which is measured as the ratio of premiums to real GDP, was 2.9 percent for emerging markets and 8.1 percent for advanced economies in 2015. On a year-over-year basis, insurance market penetration increased 7.7 percent for emerging economies but decreased 0.3 percent in advanced economies, which suggests that, compared to the prior year, insurance premiums constitute a larger percentage of GDP in emerging markets and a smaller percentage of GDP in advanced economies.

India and China – the two largest emerging economies – experienced increases in real GDP of 7.6 percent and 6.9 percent, respectively, in 2015.[33] India is the world's 12th largest insurance market, with about 1.5 percent of worldwide premium volume.[34] Life insurance dominates the Indian market, constituting 79 percent of all premium volume. China is the world's 4th largest insurance market, and about 54 percent of its premium volume is life insurance. Total insurance premiums in China increased 18 percent year-over-year with life insurance premium increasing almost 20 percent.

C. Capital Markets Activity

Despite less than favorable equity market conditions for much of the year,[35] the U.S. domestic insurance industry continued to access the capital markets for new capital in 2015. During the year, 27 insurance-related equity offerings were announced, with an aggregate value of $5.9 billion.[36] This level of activity was somewhat lower in terms of both the number of deals and the aggregate value compared to 2014 (37 offerings valued at $8.0 billion). Of the total offerings, only one transaction valued at $34.7 million was an initial public offering (IPO), marking a significant decline from the six IPOs valued at $604 million that occurred in 2014. Private equity investors continued to cash out investments in the insurance industry as 12 of the equity offerings in 2015 included some level of selling of interests by private equity investors; this compares to three such transactions in 2014.

Debt markets remained the preferred source of additional capital for insurers in 2015. During the year, U.S. insurers raised an aggregate $46.1 billion in 89 separate debt offerings, continuing to benefit, at least in that respect, from the historically low interest rate environment. Debt issuance increased from the $37.3 billion raised in 86 offerings in 2014. UnitedHealth Group Inc. was the largest issuer of debt in 2015, raising $10.5 billion (23 percent of the industry total) through eight

[33] The World Bank, "GDP growth (annual%)" (last accessed September 29, 2016), *available at* http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IN-CN.

[34] Swiss Re Sigma, p. 40.

[35] The S&P 500 traded in a narrow band of plus or minus three percent until mid-August 2015, when the index turned decidedly negative, ending the year down one percent.

[36] All data in this section sourced from SNL Financial LC, as collected and calculated by FIO.

separate offerings. The next largest issuer of debt was the combination of MetLife, Inc. and its largest operating subsidiary, Metropolitan Life Insurance Company, which together raised an aggregate $8.6 billion, or 19 percent of the total for the industry. The remainder of the top five issuers of debt included American International Group ($8.3 billion), Berkshire Hathaway Inc. ($4.3 billion), and New York Life Insurance Company and an affiliate ($2.8 billion); together, the funds raised by the top five issuers of debt accounted for 75 percent of the 2015 industry total. The largest single offerings during 2015 were two separate $2.0 billion issues sold by UnitedHealth Group Inc.

1. Mergers and Acquisitions

Several very large mergers were announced in 2015. In the P/C sector, ACE Ltd. announced its merger with Chubb Corp. through a transaction valued at $28 billion. In addition, two announcements were made of significant mergers in the Health sector, with Aetna Inc. acquiring Humana Inc. and Anthem Inc. buying Cigna Corp. in deals estimated at $35 billion and $48 billion, respectively.[37] Other M&A activity of note included Tokio Marine Holdings, Inc.'s acquisition of HCC Insurance Holdings, Inc. and Exor SpA's (headquartered in the Netherlands) purchase of Bermuda-based PartnerRe Ltd.

Altogether 87 deals were announced or completed in the 15 months following January 1, 2015. Of these, 30 were still pending as of March 31, 2016. The estimated total sum of the announced deals for which data is available was $154 billion.[38]

2. Alternative Risk Transfer Market

The global reinsurance industry continues to be affected by innovation and developments in the "alternative risk transfer" market segment, including insurance-linked securities, industry loss warranties, collateralized reinsurance, and reinsurance sidecars.[39] This market supplements traditional reinsurance markets by linking insurance risk transfer to securities, derivatives, and other secured investment vehicles. Aon Benfield reports that the amount of alternative capital in this risk transfer market reached $72 billion in 2015 and now amounts to 12 percent of global reinsurance capital.[40]

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[37] On July 21, 2016, the U.S. Department of Justice and attorneys general from multiple states and the District of Columbia filed suits to block Anthem's proposed acquisition of Cigna and Aetna's proposed acquisition of Humana, alleging that the transactions would increase concentration and harm competition across the country.

[38] SNL data on industry merger and acquisition activity since January 1, 2015.

[39] U.S. Department of the Treasury, "Annual Report on the Insurance Industry" (2015), p. 43, *available at* https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

[40] Aon Benfield Reinsurance Market Outlook (April 2016), p. 1, *available at* http://thoughtleadership.aonbenfield.com/sitepages/display.aspx?tl=567.

As a consequence of tapping into global capital and derivatives markets, this alternative segment increases the supply of global reinsurance. The greater supply puts downward pressure on reinsurance premiums at a time when premiums have also been facing pressure from higher retentions by primary insurers and an extended period of below average catastrophic losses. Aon Benfield's 2016 Reinsurance Outlook observed that catastrophic losses decreased for the fourth consecutive year in 2015, and that insured losses as a percentage of global insurer capital reached a 10-year low.[41] Altogether, these factors have contributed to lower reinsurance premiums. Both as a source of risk transfer capacity and as a potential challenge to traditional markets, the alternative risk transfer market segment continues to garner attention.[42]

[41] Aon Benfield Reinsurance Market Outlook, (January 2016) pp. 21- 23, *available at* http://thoughtleadership.aonbenfield.com/sitepages/display.aspx?tl=551.

[42] *See, e.g.*, Leslie Scism and Anupretta Das, "The Insurance Industry Has Been Turned Upside Down by Catastrophe Bonds," Wall Street Journal (August 8, 2016).

IV. DOMESTIC REGULATORY DEVELOPMENTS

A. Financial Stability Oversight Council

The Financial Stability Oversight Council (Council) was established by Title I of the Dodd-Frank Act and is charged with: (1) identifying risks to the financial stability of the United States; (2) promoting market discipline; and (3) responding to emerging threats to the stability of the U.S. financial system.[43] The Council consists of ten voting members and five nonvoting members. The Director of the Federal Insurance Office serves as a nonvoting member of the Council.

The Dodd-Frank Act also authorizes the Council to designate a nonbank financial company to be subject to supervision by the Federal Reserve and enhanced prudential standards if the Council determines that the company's material financial distress—or the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities—could pose a threat to U.S. financial stability.[44] The Dodd-Frank Act requires the Council to take into account 10 specific statutory considerations when evaluating those companies.[45]

The Council has voted to make a final determination that four nonbank financial companies, including three insurers, should be subject to supervision by the Federal Reserve and enhanced prudential standards. These four companies are American International Group, Inc. (AIG), General Electric Capital Corporation (GE Capital), MetLife, Inc. (MetLife), and Prudential Financial, Inc. (Prudential).[46]

1. Annual Review of Designated Nonbank Financial Companies

Under Section 113 of the Dodd-Frank Act, the Council is required at least annually to reevaluate each existing determination and rescind any determination if the nonbank financial company no longer meets the statutory standards.[47] The Council will provide the company and its primary financial regulatory agency with a notice explaining the primary basis for any decision not to rescind the determination and addressing the material factors raised by the company in any submission to the Council contesting its determination.

In 2015, the Council completed its second annual reevaluations of AIG and Prudential. AIG did not contest the Council's determination in its 2015 reevaluation. Subsequently, during a meeting

[43] 12 U.S.C. § 5322(a)(1).

[44] *Id.*

[45] 12 U.S.C. § 5323(a)(2).

[46] A list of nonbank financial company designations is available at https://www.treasury.gov/initiatives/fsoc/designations/Pages/default.aspx.

[47] 12 U.S.C. § 5323(d)(1).

of the Council on July 31, 2015, the Council did not rescind its determination regarding AIG.[48] Prudential did contest its determination during the most recent reevaluation. As part of the reevaluation, staff of the Council members and member agencies met with Prudential to discuss the company's annual review, considered information submitted by Prudential, and consulted with certain of the company's regulators. On December 17, 2015, the Council voted not to rescind the designation of Prudential.[49]

In October 2015, the Council notified MetLife of its annual review of the company's December 2014 designation. The Council invited the company to meet with staff of the Council to discuss the annual review and submit information regarding any changes that the company deemed relevant to the threat the company could pose to financial stability. Staff of the Council members and member agencies considered information submitted by MetLife and consulted with certain of the company's regulators. On March 30, 2016, the U.S. District Court for the District of Columbia rescinded the Council's determination regarding MetLife; the government has appealed, and the appellate court scheduled oral argument for October 24, 2016.

On June 28, 2016, the Council voted to rescind the designation of GE Capital.[50]

2. Areas of Heightened Risk Management and Supervisory Attention

The Council, in its 2015 Annual Report, made several recommendations to its members and member agencies regarding areas which the Council identified for heightened risk management and supervisory attention. As part of these recommendations, the Council recommended that FIO and state insurance regulators continue to closely monitor and assess the growing risks that insurers have been taking by extending the duration of their portfolios and by investing in lower quality or less liquid assets in order to increase investment yield in the current low interest rate environment. Additionally, the Council also recommended that state insurance regulators continue to work to improve the public availability of data, including financial statements of captive reinsurers, and that FIO continue to monitor and publicly report on the regulatory treatment of issues relating to captive reinsurance.

a. Risk Taking by Insurers in a Low Yield Environment

A significant aspect of interest rate risk for insurers is the prospect of investment returns that decline despite the static nature of the insurer's contractual promises to policyholders. For life insurers in particular, assets with the longest available durations (typically 30 years) often do not cover the full length of liabilities. In an extended period of declining interest rates, when those investments mature, the proceeds must be reinvested in securities earning lower yields. Lower

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[48] *Available at* https://www.treasury.gov/press-center/press-releases/Pages/jl0135.aspx.

[49] *Available at* https://www.treasury.gov/initiatives/fsoc/council-meetings/Documents/December%2017,%202015.pdf.

[50] *Available at* https://www.treasury.gov/press-center/press-releases/Pages/jl0503.aspx.

interest rates mean lower reinvestment returns, less attractive and/or more expensive retirement security products, and increased risks to insurers resulting from the inability to adequately match asset and liability cash flows. The United Kingdom's recent vote to leave the EU (Brexit) has elevated global concerns in the insurance industry about the risks of low interest rates, particularly as Brexit-imposed heightened volatility and uncertainty in financial markets may exacerbate the continuing protracted low- and negative-interest rate environment. The longer the low-interest rate environment persists, and the more protracted the reinvestment activity that occurs in such an environment, the lower the overall yield on an insurer's entire investment portfolio. These circumstances challenge the ability of life insurers to construct investment portfolios to support contractually guaranteed benefits on various insurance and retirement security products entered into years or even decades earlier, when interest rates were higher. Put differently, low interest rates challenge the ability of insurers to continue to offer such guaranteed benefits, at least at certain levels and on affordable terms, at a time when consumers need them the most.

Fixed-income assets such as bonds and mortgages comprise a significant part of an insurer's investment portfolio. As of year-end 2015, approximately 72 percent of the industry's assets were invested in these investment classes (85 percent for L/H insurers, and 63 percent for P/C insurers).[51] In part, U.S. life insurers have responded to the low interest rate environment by increasing exposures to both commercial and residential mortgage loans. In the years leading up to the financial crisis, mortgage loans comprised slightly less than 11 percent of the L/H sector's total cash and invested assets. This figure dropped below 10 percent in 2010, but rose back to 11 percent by 2015.[52] In addition, since the financial crisis, the percentage growth in both commercial and residential mortgage loans has far outpaced the increase in total cash and invested assets in general, and bonds in particular. Still, mortgage loans remain a relatively small component of the L/H total investment portfolio.

[51] Source: SNL Financial and FIO calculations.

[52] Source: SNL Financial and FIO calculations.

Box 2: Infrastructure Investments

Interest in infrastructure investments as a potential mitigant for life insurers' interest rate and reinvestment risks has been growing. The concept of infrastructure investments was discussed in FIO's 2015 Annual Report on the Insurance Industry, noting that such investments could take several forms.[53] The more recent discussion has centered on public-private partnerships that would require a direct equity investment in a project with distinct cash flows from which to pay consistent dividends to investors. In May 2016, the Bipartisan Policy Center released a report on modernizing the U.S. infrastructure (the BPC Report).[54] The BPC Report notes that the insurance industry has been a long-time investor in the traditional municipal debt market, and thus has familiarity with funding infrastructure projects. Further, the BPC Report postulates that direct investments in infrastructure are an "attractive asset class for life insurers," among other types of investors, which are looking for "long duration, safe, stable assets."[55] However, under the current state regulatory capital regime, the high required capital charges on equity investments may make such investments in infrastructure unattractive; the BPC Report recommends that "insurance regulators should consider the performance history of infrastructure investments in setting capital requirements for insurers participating in this asset class."[56] In an October 2013 paper, the OECD noted that institutional investors such as insurance companies are frequently cited as an alternative source of financing for infrastructure investments.[57]

Similar discussions have taken place in Europe. In October 2015, the European Commission (EC) asked the European Insurance and Occupational Pensions Authority (EIOPA) for technical advice on direct infrastructure investments. After conducting research and due diligence, EIOPA submitted its final advice to the EC on June 30, 2016.[58] In summary, EIOPA concluded that high quality infrastructure investments by insurers should qualify under the infrastructure asset class in Solvency II, risk charges for such investments should be calibrated differently and, to benefit from a different treatment, insurers should conduct due diligence and have adequate risk management systems in place to monitor credit risks of infrastructure investments.

The issue of different treatment for infrastructure investments in the United States was discussed at an August 2016 meeting of the NAIC's Valuation of Securities Task Force.

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[53] U.S. Department of the Treasury, "Annual Report on the Insurance Industry" (2015), pp. 45-46, *available at* https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

[54] Bipartisan Policy Center, "Bridging the Gap: A New Model to Modernize U.S. Infrastructure" (May 2016), *available at* http://cdn.bipartisanpolicy.org/wp-content/uploads/2016/05/BPC-New-Infrastructure-Model.pdf.

[55] *Id.*, p. 68.

[56] *Id.*, p.76.

[57] Della Croce, R., and Yermo, J., "Institutional Investors and Infrastructure Financing," OECD Working Papers on Finance, Insurance, and Private Pensions, No. 36, OECD Publishing, October 2013, p. 7.

[58] EIOPA Press Release, *available at* https://eiopa.europa.eu/Publications/Press%20Releases/2016-06-30%20Advice%20on%20infrastructure%20corporates.pdf.

Insurers place significant emphasis on the development and implementation of strategies to manage interest rate risk. For example, life insurers typically seek to match liabilities with assets of corresponding durations. Practically, however, asset-liability management strategies have limitations, e.g., the duration of available assets in which to invest in the marketplace is often not as long as that of the liabilities which an insurer seeks to match. Alternatively, and subject to prior regulatory approval, insurers may be able to lower contractually guaranteed interest rates paid on certain existing (or "in force") products. However, such actions may have competitive and reputational implications, and the timeliness or outcome of the regulator's decision cannot be assured. Also, insurers have discretion in establishing contractually guaranteed rates for newly issued policies, but lowering guarantees may reduce the competitiveness of those policies in the marketplace compared to investment and savings products offered by non-insurance financial services providers. Additionally, insurers can mitigate the impact of interest rate swings on operating results through hedging programs that use derivative instruments such as interest rate swaps (i.e., contractual agreements between the insurer and a counterparty to exchange interest rate cash flows). However, abnormally low interest rates increase the risks posed by upward swings in rates, which in turn can raise hedging costs and add another source of volatility to an insurer's balance sheet as the values of interest rate-related derivatives fluctuate.

b. Regulatory Treatment of Captive Reinsurance

Captive insurers typically are entities (usually corporate affiliates set up by a parent company) that provide a self-funded insurance-like product for non-insurance businesses. Captive insurers include a diverse set of entities and are most often established to meet the unique risk transfer needs of the owner.

As first discussed by FIO in its 2013 *Modernization Report*, however, captive insurers have also been established as a tool for insurers to transfer risk within an affiliated insurance group. Certain U.S. life insurers transfer insurance risk to affiliated captive reinsurers (reinsurance captives) as a means of addressing regulatory reserve requirements for some life insurance and annuity products. When used in this manner, reinsurance captive programs "can be mechanisms by which insurers decrease capital and reserves at the insurance entity level through intra-group reinsurance arrangements while also reducing overall regulatory scrutiny across the group."[59] The impetus for certain reinsurance captives allegedly arises from statutory reserve requirements that some claim result in excessive (i.e., "redundant" or "non-economic") required reserves in relation to the reserves that life insurers will need to meet policy obligations when they become due. In the *Modernization Report*, FIO recommended that state insurance regulators improve the manner in which reinsurance captives are regulated by developing a consistent capital requirement for reinsurance captives and requiring reinsurance captives to publically disclose financial statements. Concerns about the increasing amount of risk being ceded to reinsurance

[59] U.S. Department of Treasury, "How to Modernize and Improve the System of Insurance Regulation in the United States" (December 2013), p. 32, *available at* https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

captives, the lack of financial information disclosed by reinsurance captives, and the inconsistent approach to regulation of captives across the states were also raised by other federal regulatory agencies, including the Council, as well as various state regulators and commenters.

In 2014 and 2015, state insurance regulators developed, adopted, and began to implement a framework (Captive Framework) to enhance regulations and disclosure requirements governing the cession of risk for term life and secondary guarantee universal life insurance to a reinsurance captive. Among other things, the Captive Framework outlines new standards that a life insurer must satisfy in order to receive reinsurance credit for such cessions. In brief, the Captive Framework requires that a ceding insurer receive collateral from the reinsurance captive sufficient to assure recovery of the so-called "economic" portion of the ceded statutory reserves in the event that payment from the reinsurance captive may not be forthcoming, while any additional statutory reserve amount (the so-called "redundant" or "non-economic" portion) may be collateralized by lower quality security.

In January 2016, state insurance regulators adopted amendments to the Credit for Reinsurance Model Law that would provide states with the authority to implement regulations relating to the Captive Framework, as well as regulations applicable to reinsurance captives outside the scope of the Captive Framework (e.g., captives reinsuring long-term care insurance and variable annuities). State insurance regulators continue to develop model regulations that relate to reinsurance captives. Until these regulations are adopted and implemented, Actuarial Guideline 48, which became effective January 1, 2015 as a component of the Captive Framework, applies to the reserving methodology for cessions to captive reinsurers.

The steps discussed above demonstrate progress in efforts to address concerns about the use of reinsurance captives, but these changes are indirect and focus primarily on ceding life insurers. Reinsurance captives will continue to operate under less stringent requirements than life insurers and, because financial statements of such captives remain largely exempt from disclosure, without sufficient transparency. While the states have improved the oversight of ceding life insurers, reinsurance captives are U.S.-domiciled insurance entities that warrant appropriate, rigorous, and nationally uniform regulation. Accordingly, state insurance regulators should continue to develop a nationally consistent and appropriately tailored capital, solvency, and disclosure framework for reinsurance captives.

B. Supervision of Insurance Companies by the Federal Reserve

As a result of the Dodd-Frank Act, the Federal Reserve serves as the consolidated supervisor for a number of insurance holding companies, including insurance holding companies that own an insured bank or savings and loan association, as well as insurers designated by the Council for Federal Reserve supervision and enhanced prudential standards. The principal supervisory objectives for the Federal Reserve are protecting the safety and soundness of the consolidated firms and subsidiary depository institutions, while mitigating risks to financial stability.[60] The insurers supervised by the Federal Reserve vary in size and collectively hold approximately $2 trillion in total assets, representing approximately one-fourth of U.S. insurance industry assets.[61]

1. Capital Standards

Under section 165 of the Dodd-Frank Act, the Federal Reserve is required to establish enhanced prudential standards for nonbank financial companies that have been designated by the Council. Among other things, these prudential standards must include more stringent requirements related to risk-based capital, leverage, liquidity, and overall risk management, as well as stress tests.[62] In December 2014, the President signed into law the Insurance Capital Standards Clarification Act of 2014,[63] which provides the Federal Reserve with flexibility to tailor its capital framework to companies that are substantially engaged in insurance underwriting activity.

On June 14, 2016, the Federal Reserve published an advance notice of proposed rulemaking (ANPR) on *Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities*.[64] Through the ANPR, the Federal Reserve has invited comment on two approaches to consolidated capital requirements for these institutions: an aggregation approach that uses existing legal entity capital requirements as building blocks for insurance depository institution holding companies – bank holding companies (BHCs) and savings and loan holding companies (SLHCs) – and a consolidated approach for insurance companies designated by the Council.

Under the Federal Reserve's proposed aggregation approach that would apply to BHCs and SLHCs, capital resources and capital requirements across different legal entities in the group would be aggregated to calculate combined, group-level amounts. Capital requirements would generally be the sum of the capital requirements at each regulated insurance or depository institution's subsidiary based on the regulatory capital rules of each respective subsidiary's lead insurance or banking regulator. Adjustments may be needed to address other exposures, e.g., to harmonize permitted accounting practices that vary across states.

The consolidated approach for insurers designated by the Council would categorize all consolidated assets and insurance liabilities into risk segments tailored to account for the liability structure and other unique features of the insurer. The proposal would then apply risk factors to the amounts in each risk segment. The approach would be based on U.S. GAAP, with appropriate adjustments for regulatory purposes. Furthermore, the consolidated approach would allow for supervisory stress testing.

[60] "Insurance Companies and the Role of the Federal Reserve," Speech by Federal Reserve Governor Daniel K. Tarullo (May 20, 2016), *available at* https://www.federalreserve.gov/newsevents/speech/tarullo20160520a.htm.

[61] *Id*.

[62] 12 U.S.C. § 5365(b)(1).

[63] Pub. L. No. 113–279, 128 Stat. 3017 (2014) (amending 12 U.S.C. § 5371).

[64] 81 Fed. Reg. 38,631 (June 14, 2016).

2. Enhanced Prudential Standards for Insurance Companies Designated by the Council

In June 2016, the Federal Reserve published a proposed rule to apply enhanced prudential standards to insurance companies designated by the Council.[65] These standards would subject insurers to liquidity, corporate governance, and risk management standards. The proposal includes the implementation of an enterprise-wide risk management framework, maintenance of a risk committee, and appointment of a chief risk officer and chief actuary. Under the proposal, these insurers would also be required to implement a number of prudential standards to manage liquidity risk, including key internal control requirements with respect to liquidity risk management, comprehensive cash flow projections, monitoring of liquidity risk tolerance, a contingency funding plan to manage liquidity stress events when normal sources of funding may not be available, and liquidity stress testing together with a liquidity buffer.

3. Data Reporting

In April 2016, the Federal Reserve published a proposal to collect data on its consolidated financial statement form applicable to nonbank financial companies designated by the Council.[66] These reports would keep the Federal Reserve informed as to: the financial condition and risk profile of the insurers; systems in place for monitoring and controlling financial, operating, and other risks; and the extent to which activities and operations of these insurers comply with federal law. On a quarterly basis, the new form would collect consolidated financial information on a U.S. GAAP basis including a balance sheet, an income statement, and a statement of changes in equity, as well as supporting schedules that would provide additional or more detailed information.

4. Orderly Liquidation

Title II of the Dodd-Frank Act provides enhanced systemic protection through the orderly liquidation of large financial institutions, including insurers.[67] Under Title II, if certain statutorily prescribed criteria are met,[68] an insurer, or a holding company for which the largest subsidiary is an insurer, can be placed into receivership by the Secretary (in consultation with the

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[65] 81 Fed. Reg. 38610 (June 14, 2016). *See also* Federal Reserve System, Draft Notice of Proposed Rulemaking, "Enhanced Prudential Standards for Systemically Important Insurance Companies" (June 3, 2016), *available at* http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20160603a2.pdf.

[66] 81 Fed. Reg. 24097 (April 25, 2016).

[67] 12 U.S.C. §§ 5381-5394.

[68] 12 U.S.C. § 5383(b). A financial company can be placed into receivership if it is in default or danger of default (with no viable private sector alternative to prevent default), and the default would have serious adverse effects on U.S. financial stability. A federal regulatory agency must have ordered the financial company to convert all of its convertible debt instruments subject to the regulatory order. Furthermore, placing the insurer into receivership must mitigate adverse effects on the claims or interests of creditors, counterparties, and shareholders.

President of the United States). Prior to a determination by the Secretary under Title II with respect to an insurance company, the Secretary must receive a recommendation from the Director of FIO and a majority of the Board of Governors of the Federal Reserve System (in consultation with the FDIC).

Following a determination by the Secretary to place such an insurer into receivership, the applicable state insurance regulator(s) must begin liquidation proceedings for the insurer under the applicable state law(s). If a state regulator fails to act within sixty days of the Secretary's determination, the FDIC has the authority to "stand in the place of the appropriate regulatory agency and file the appropriate judicial action in the appropriate State court to place such company into orderly liquidation or rehabilitation under the laws and requirements of the State."[69]

In December 2015, Congress passed, and the President signed into law, the Consolidated Appropriations Act, 2016 (2016 Omnibus), which includes provisions relating to the orderly liquidation authorities under Title II of the Dodd-Frank Act as it applies to insurers and insurance subsidiaries.[70] The 2016 Omnibus provides state insurance commissioners with the authority to protect funds and assets of insurance companies, or insurance subsidiaries, from being used to provide capital as a source of strength to a distressed affiliated financial institution within an SLHC. The impact of this change is minimal: the Bank Holding Company Act already provided this authority to state insurance regulators as it pertains to BHCs; the 2016 Omnibus also now provides this authority as it pertains to SLHCs.

C. Regulatory Developments at the State Level

In addition to the regulatory developments ongoing at the federal level, state insurance regulators have a number of ongoing regulatory development work streams. While these work streams are coordinated at the NAIC, they do not have legal effect except to the extent that each individual state insurance regulator, or in some cases the individual state legislature and the respective Governor, implements the changes within the respective states. The independent sovereignty of the NAIC's 56 members can lead to variances in regulatory requirements across states.

1. Capital

In the United States, state insurance regulators impose minimum capital requirements on a legal entity basis but have not, to date, developed a capital requirement for insurance groups. In late 2015, state insurance regulators expressed a desire to construct a U.S. group capital "calculation" using an RBC aggregation approach. The states' proposed approach is conceptually similar to the "building block" approach being considered by the Federal Reserve for application to insured

[69] 12 U.S.C. § 5383(e)(3).

[70] Consolidated Appropriations Act, 2016, Pub. L. 114-113, 129 Stat. 2242 (2015).

depository institution holding companies (BHCs and SLHCs) subject to the Federal Reserve's supervision.[71]

The RBC aggregation approach would use existing regulatory capital calculations for all entities within the holding company structure, rather than developing replacement or additional standards. For example, this approach would use RBC for U.S. legal entity insurers, jurisdiction-appropriate calculations for non-U.S. legal entities, and Basel Committee on Banking Supervision requirements for banking entities. For legal entities without existing capital requirements, a standard would need to be adopted.[72] For multi-national insurers, this approach may need to address how to aggregate jurisdictional requirements of multiple countries that differ in design and calibration.

The RBC aggregation approach will be explored as a group capital "calculation," although regulators have not indicated when or how it may become a requirement by individual states.

2. Reserving Requirements

Insurers establish "reserves" as balance sheet liabilities in order to recognize obligations to pay policy benefits in the future. In the case of non-life insurers, such obligations include the estimated cost of claims and related expenses that have been incurred through the balance sheet date regardless of whether those claims have yet been reported to the insurer, as well as provisions for unearned income relating to the unexpired portion of policy contracts. For life insurers, reserves are established for future policy benefits that may be paid out under life insurance contracts, annuities, and other policies and contracts. The determination of reserves involves complex actuarial calculations and estimations based on past experience, and may also include additional margins for conservatism or to recognize regulatory prudence.

For decades, life insurers in the United States have followed a standardized formula prescribed under state insurance laws to calculate reserves for products. Critics of this approach contend that it is too static and conservative; that it fails to capture the risks associated with increasingly complex products and product features favored by consumers; and that it does not reflect life insurers' risk management practices. In addition, insurers argue that redundant reserve requirements have forced the expansion of captive reinsurance in order to allow life insurers to more efficiently use capital.

To address these issues, including limiting the use of reinsurance captives, state regulators have developed a new reserving method referred to as principles-based reserving (PBR). With PBR, reserving requirements reflect current mortality rates, the life insurer's particular business model,

[71] *See* Section IV.C.1 for additional information on the Federal Reserve's proposed approaches.

[72] "NAIC ComFrame Development and Analysis (G) Working Group Discussion Draft on Approaches to a Group Capital Calculation" (July 23, 2015), *available at* http://www.naic.org/documents/committees_g_cfwg_related_us_group_capital_calc_draft.pdf.

and the insurer's unique risk profile. Whereas the formula-based approach to quantifying reserves incorporates standardized calculations, PBR relies upon an insurer's individualized risk modeling and analysis techniques, including the use of insurer-specific claims experience with specific portfolio(s) of business, to incorporate consideration of particularized risks and, thereby, more closely tailor calculations to the actual attributes of an insurer's portfolio.

In December 2012, state insurance regulators adopted a Valuation Manual which contains details of the principles-based approach and defines the methods for calculating reserves under PBR. While the Valuation Manual was adopted by state insurance regulators, state law stipulates that in order to begin implementation of PBR, the revised reserving principles must be enacted by 42 state legislatures, representing 75 percent of total U.S. premium. In 2016, the 42nd state formally enacted the revised reserving principles, allowing for a three-year implementation period for PBR to begin on January 1, 2017 (although insurers may voluntarily implement PBR at any time during the three-year period). For life insurance reserves, PBR will apply only to policies issued on or after January 1, 2017.

State insurance regulators have developed a written implementation plan which includes: (1) having the NAIC, a non-regulatory private association, hire additional actuaries to support the states with implementation of PBR; (2) establishing a framework for development of risk-focused PBR examination procedures; (3) changing the schedules used by insurers to report reserves and enhance automated financial analysis and prioritization tools; and (4) training state insurance department staff.

While the adoption of PBR presents several potential advantages, it also raises concerns. PBR relies heavily on each insurer's application of internal models to complex data sets, which are unique to each insurer, and necessarily demanding of expertise and resources. The limited number of sufficiently trained expert actuaries and examiners on staff at most state insurance departments has raised questions regarding the ability of states to implement PBR in an effective manner.

In response to these concerns, some state insurance regulators have proposed to delegate central regulatory responsibilities to the NAIC, or to vendors or consultants hired by the NAIC. However, this approach may inappropriately delegate regulatory functions to a private association with limited oversight by state legislators and governors.

Finally, the NAIC has stated that once PBR is fully effective and implemented, incentives to engage in captive reinsurance financing transactions will be eliminated.[73] However, according to Fitch Ratings[74] the new standards will have mixed implications, and PBR "will reduce but not

[73] NAIC and The Center for Insurance Policy & Research, "Captive Insurance Companies" (July 15, 2016), *available at* http://www.naic.org/cipr_topics/topic_captives.htm.

[74]Fitch Rating Press Release, "Fitch: PBR Implications Mixed for US Life Insurers" (June 28, 2016), *available at* https://www.fitchratings.com/site/pr/1008105.

necessarily eliminate the industry's use of captive insurers to finance" policy reserves as described in Section IV.A.2.b of this Report.

3. Group Supervision

The U.S. system of insurance regulation provides complementary, tiered regulation, supervision, and oversight by state and federal authorities. As discussed earlier in this Report, the Federal Reserve is the consolidated supervisor of insurance holding companies that own an insured bank or thrift, as well as insurance companies designated by the Council for Federal Reserve supervision and enhanced prudential standards. FIO also serves an important role at the federal level. State insurance regulators focus supervision at the individual entity level. Taken as a whole, the U.S. insurance regulatory system achieves the fundamental goals of group supervision: consumer protection, financial stability, and global engagement.

In recent years, state insurance regulators have sought to establish certain consolidated supervisory authorities over insurers with multiple subsidiaries and affiliates. In 2010, state insurance regulators adopted, and state legislatures enacted, amendments to the Model Insurance Holding Company System Regulatory Act (Model Holding Company Act). The amendments authorize a state insurance regulator to obtain information about non-insurance entities within the holding company structure of an insurance entity domiciled in that state, and permit the regulator to access the books and records of the non-insurance entities. However, even with these amendments, state regulators' authority over non-insurance affiliates within groups is still exercised through its direct oversight of insurance entities rather than through direct oversight of the non-insurance affiliates, including parent holding companies. On January 1, 2016, the 2010 amendments to the Model Holding Company Act became a standard for accreditation under the NAIC Financial Regulation Standards and Accreditation Program.[75]

In late 2014, state insurance regulators further amended this model act to provide for the supervision of Internationally Active Insurance Groups (IAIGs) by a single group-wide supervisor. Under the amended Model Holding Company Act, a state insurance regulator may determine that it is the group-wide supervisor for an IAIG that conducts substantial insurance operations in the state. The 2014 amendments also authorize the group-wide supervisor, in coordination with other insurance regulatory officials of the jurisdictions where subsidiaries of the IAIG are domiciled, to compel development and implementation of reasonable measures to mitigate enterprise risk to subsidiaries of the IAIG that are engaged in the business of insurance. Additionally, the amended Model Holding Company Act provides for confidential treatment of information received though group-wide supervision.[76]

[75] The NAIC Financial Regulation Standards Accreditation Program evaluates member states for substantial compliance with NAIC-established solvency oversight standards and practices. To be accredited, a state must have in force laws that are substantially similar to the key provisions in each of the relevant NAIC model laws or regulations.

[76] Insurance Holding Company System Regulatory Act § 7.1 (2015), *available at* http://www.naic.org/store/free/MDL-440.pdf.

State insurance regulators have proposed that the 2014 amendments to the Model Holding Company Act become an accreditation standard and have sought public feedback on the issue. In particular, state insurance regulators are interested in obtaining public comments with respect to imposing the 2014 amendments as accreditation standards for (1) states that are the group-wide supervisor of an IAIG, (2) states that regulate an insurer that is part of a U.S.-based IAIG, which has (or may have) a U.S. state as the group-wide supervisor, and (3) states that do not regulate an insurer that is part of a U.S.-based IAIG.[77]

The 2014 amendments to the Model Holding Company Act raise important questions. For example, it is uncertain how a U.S. state insurance regulator that declares itself a group-wide supervisor under the laws of its state will resolve jurisdictional disputes with other state insurance regulators (including those in states that have not enacted the 2014 amendments to the Model Holding Company Act) or international regulators.

D. Cybersecurity

Insurers and insurance regulators have important and growing roles both in protecting the insurance sector from cyber risks and in providing policyholders with risk transfer opportunities to protect against losses arising from cyber incidents. As the data breaches at health insurers Anthem Inc. and Premera Blue Cross that were publicized in 2015 illustrate,[78] insurers – which collect and manage large stores of personally identifiable information and private health information from consumers – may be attractive targets for cyber criminals and other hackers. Insurers should continue to improve risk management practices that protect against this growing threat, and state insurance regulators should continue to improve oversight of such practices. In addition, the growing cyber insurance market provides an avenue for a degree of cyber risk transfer.

1. Federal Measures

As the sector-specific agency overseeing critical infrastructure for the U.S. financial services sector, Treasury serves as the federal interface for matters involving cyber threats and cybersecurity for institutions within the financial services sector, including insurers. In this role, Treasury acts as the coordinating agency with the Department of Homeland Security and other relevant federal agencies—including the regulatory, law enforcement, and intelligence communities. Treasury also collaborates with state government agencies and with the private sector. With regard to insurance, Treasury, through both FIO and more broadly, encourages state

[77] State insurance regulators in Pennsylvania and New Jersey have determined that they are the group-wide supervisors for American International Group, Inc. and Prudential Financial, Inc., respectively.

[78] Anthem, Inc., "Statement regarding cyber attack against Anthem," *available at* https://www.anthem.com/health-insurance/about-us/pressreleasedetails/WI/2015/1813/statement-regarding-cyber-attack-against-anthem; Premera Blue Cross, "About the Cyberattack" (March 2015), *available at* https://www.premera.com/wa/visitor/about-the-cyberattack.

insurance regulators to work in a coordinated manner with the federal and state supervisors of other sectors, including through Treasury's role as lead coordinator for cyber risk in the U.S. financial sector.

Information sharing is a vital part of cybersecurity risk management and government oversight. In addition to any other information sharing initiatives in which insurers may be involved, Treasury strongly encourages insurers and other financial institutions to join the Financial Services Information Sharing and Analysis Center (FS-ISAC), which provides a platform for the global financial services sector to exchange information about cyber threats.[79] Also relating to information sharing, in December 2015, President Obama signed into law the Cybersecurity Information Sharing Act (CISA), which establishes a system for cybersecurity information sharing within the federal government, between the federal government and the private sector, and within the private sector.[80] CISA also directs the Department of Homeland Security to build an automatic system to share cyber threat indicators. In addition to any other information sharing initiatives in which insurers may be involved, Treasury encourages insurers to participate in this capability, called Automated Indicator Sharing (AIS), which enables the exchange of cyber threat indictors between the Federal Government and the private sector at machine speed to quickly expose threats.[81]

Treasury encourages insurers and financial institutions to adopt best practices and baseline protections to enhance their cybersecurity. The National Institute of Standards and Technology's (NIST) Cybersecurity Framework offers a number of best practices and outlines a multitude of baseline protections to assist entities in developing ways to prevent breaches of their networks, systems, and data, and to prevent damage if there has been a breach. It can help identify an entity's cyber posture and determine its risk profile and tolerance.

It is important to note, however, that the Framework is an evolving guide and is not designed to serve as a regulatory standard. The NIST Cybersecurity Framework should serve as a common lexicon to facilitate the development of a common risk-based approach to cybersecurity across the financial sector. Informed by their regulatory and supervisory process, individual regulators could leverage that common risk-based approach to address any unique statutory and regulatory requirements, as well as any distinct cybersecurity risks presented by segments of the financial sector they oversee.

Treasury also encourages insurers and other financial institutions to prepare response and recovery plans that can be deployed if a cybersecurity incident occurs. A response and recovery

[79] Financial Services Information Sharing and Analysis Center, "About FS-ISAC," *available at* https://www.fsisac.com/about.

[80] Pub. L. 114-113, Div. N, Title I, § 102, 129 Stat. 2936; *see also* The National Law Review, "Happy New Year – Cybersecurity Information Sharing Act" (January 6, 2016), *available at* http://www.natlawreview.com/article/happy-new-year-cybersecurity-information-sharing-act.

[81] Department of Homeland Security, "Automated Indicator Sharing," *available at* https://www.dhs.gov/ais. *See* https://www.treasury.gov/press-center/daily-guidance/Pages/02122016.aspx.

plan, or "playbook," should clearly set out the roles and responsibilities of the board of directors, management, incident response teams, and other key individuals internally—as well as how those individuals will notify and coordinate with external parties, such as regulators, law enforcement, business partners, vendors, clients, and customers. The response and recovery plans should also be tested and exercised regularly to ensure they account for developments in the institution's risk exposure and the overall cybersecurity risk landscape. Insurers should consider reviewing the Presidential Policy Directive on United States Cyber Incident Coordination to understand how the Federal government will coordinate its incident response activities in the event of a large-scale cyber incident.[82]

Recognizing the potential benefits of cyber insurance, both in terms of risk transfer and in encouraging sound cyber hygiene practices, Treasury has supported private sector growth of this market. In 2015 and early 2016, FIO sponsored roundtable discussions on cyber insurance bringing together a range of stakeholders, including insurers, brokers, regulators, and policyholders.[83]

2. State Measures

FIO encourages state insurance regulators to develop, adopt, and uniformly implement cybersecurity examination standards for insurers that are consistent across all states and which comply with best practices for the oversight of financial institutions. For example, as noted above, the National Institute for Standards and Technology's *Framework for Improving Critical Infrastructure Cybersecurity* (NIST Cybersecurity Framework) provides a voluntary blueprint that insurers of all sizes can use to evaluate, maintain, and improve the resiliency of computer systems and reduce cyber risk.

State insurance regulators established a Cyber Security Task Force in 2014 to coordinate insurance regulatory activities relating to cybersecurity issues. In April 2015, state insurance regulators released *Principles for Effective Cybersecurity Insurance Regulatory Guidelines*—12 guiding principles to assist states in developing regulatory regimes intended to protect consumers and the insurance industry from cyber threats.[84] In December 2015, state insurance regulators adopted a *Roadmap for Cybersecurity Consumer Protections*. Among other things, the roadmap states that consumers have the right: (i) to know the types of information collected and stored by insurers, agents, and related third party service providers; (ii) to easily find a publicly available privacy policy posted by the insurer or agent; (iii) to expect that insurers, agents, and related third-party service providers are taking reasonable steps to protect consumer information; (iv) to

[82] The White House, "Presidential Policy Directive – United States Cyber Incident Coordination (July 26, 2016), *available at* https://www.whitehouse.gov/the-press-office/2016/07/26/presidential-policy-directive-united-states-cyber-incident.

[83] *See* https://www.treasury.gov/press-center/daily-guidance/Pages/02122016.aspx.

[84] "Principles for Effective Cybersecurity: Insurance Regulatory Guidance" (April 2015), *available at* http://www.naic.org/documents/committees_ex_cybersecurity_tf_final_principles_for_cybersecurity_guidance.pdf.

receive notice if the insurer, agent, or third party service provider has a data breach; and (v) to be provided with at least one year of identity theft protection paid for by the insurer or agent in the event of a data breach.[85] Also in 2015, state insurance regulators approved revisions to the information technology examination section of the NAIC's *Financial Condition Examiners Handbook*. New guidance in these revisions specifically addresses cybersecurity by guiding examiners to assess insurers' cybersecurity in an approach mapped to the NIST Cybersecurity Framework (i.e., identify, prevent, detect, respond and recover). These revisions are included in the 2016 edition of the Financial Condition Examiners Handbook and are self-executing, although they are considered guidance rather than a mandatory examination standard. Finally, in March 2016 the Cyber Security Task Force issued a draft *Insurance Data Security Model Law*.[86] The model law may be considered for adoption later in 2016.[87]

3. International Efforts

FIO is involved in international efforts addressing cybersecurity in the insurance sector. FIO chairs the International Association of Insurance Supervisors Financial Crime Task Force (FCTF), which is considering the development of internationally applicable guidance on cybersecurity for insurance supervisors.[88] FIO also participates in the Organization for Economic Cooperation and Development's Insurance and Private Pensions Committee, which in 2016 began a project assessing cyber risk insurance and the ways that such insurance products can contribute to improved cybersecurity for consumers.[89] Treasury is also co-chair of a working group impaneled by the finance ministers and central bank governors of the G-7 countries. The G-7 cyber expert group is mandated with exploring ways to address cybersecurity risks in the international financial system, including the development of non-legally binding principles that describe the fundamental elements of cybersecurity for public and private entities in the financial sector.

4. Cyber Risk Insurance

Cyber risk insurance is a broad term referring to insurance products that cover risks arising "from the use of electronic data and its transmission, including technology tools such as the internet and telecommunications networks," as well as "physical damage that can be caused by

[85] "NAIC Roadmap for Cybersecurity Consumer Protections" (December 2015), *available at* http://www.naic.org/documents/committees_ex_cybersecurity_tf_related_roadmap_cybersecurity_consumer_protections.pdf.

[86] *Available at* http://www.naic.org/documents/committees_ex_cybersecurity_tf_160524_draft_ins_data_sec_model_law.pdf.

[87] Sutherland, "Legal Alerts: NAIC Task Force Continues Work on Insurance Data Security Model Law" (June 6, 2016), *available at* http://www.sutherland.com/NewsCommentary/Legal-Alerts/189526/Legal-AlertNAIC-Task-Force-Continues-Work-on-Insurance-Data-Security-Model-Law.

[88] The FCTF is further discussed in Section V.D.1.e.

[89] OECD, "Cyber Risk Insurance," *available at* http://www.oecd.org/finance/insurance/cyber-risk-insurance.htm.

cyber attacks, fraud committed by misuse of data, any liability arising from data storage, and the availability, integrity, and confidentiality of electronic information."[90] The global cyber risk insurance market is relatively small but is predicted to continue experiencing rapid growth; the global market reached $2.75 billion in 2015,[91] and PricewaterhouseCoopers (PwC) has estimated that the global market will reach $5 billion by 2018 and at least $7.5 billion by 2020.[92] Currently, 90 percent of the demand for cyber insurance products comes from the United States.[93] Cyber insurance coverage is available through standalone policies or by endorsements to products such as Business Owners Policies, typically purchased by small businesses. Today, "most insurers offer cyber policies with coverage on an a la carte basis; a company can choose which coverages are right for it."[94]

A 2016 report on cyber insurance noted that 19 different categories of coverages are available to a greater or lesser extent in the cyber insurance market.[95] The most common cyber insurance coverages in place today relate to data breaches, including first party coverage for costs such as crisis management and identity theft response fund coverage and third party coverage related to, for example, privacy liability.[96] Other coverages under various cyber insurance products, such as cyber extortion, business interruption, data asset protection, and property damage and bodily injury, are also available under certain policies. In addition, many cyber insurance policies provide pre-claim risk mitigation and post-claim incident response services for policyholders.[97] To provide these services, insurers are increasingly partnering with cybersecurity firms.[98]

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[90] CRO Forum, "Cyber Resilience: The Cyber Risk Challenge and the Role of Insurance" (December 2014), p. 5, *available at* http://www.thecroforum.org/cyber-resilience-cyber-risk-challenge-role-insurance/.

[91] Standard & Poor's, "Looking Before They Leap: U.S. Insurers Dip Their Toes In The Cyber-Risk Pool" (June 2015), *available at* https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1403078&SctArtId=320678.

[92] PricewaterhouseCoopers, "Insurance 2020 & Beyond: Reaping the dividends of cyber resilience" (2015), p. 10, *available at* http://www.pwc.com/gx/en/industries/financial-services/insurance/publications/insurance-2020-cyber.html.

[93] Standard & Poor's, "Looking Before They Leap: U.S. Insurers Dip Their Toes In The Cyber-Risk Pool" (June 2015), *available at* https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1403078&SctArtId=320678.

[94] The Council of Insurance Agents & Brokers, "Cyber Insurance Market Watch Survey: Executive Summary" (October 2015).

[95] Centre for Risk Studies and RMS, "Managing Cyber Insurance Accumulation Risk" (February 2016), p. 10, *available at* http://static.rms.com/email/documents/managing-cyber-insurance-accumulation-risk-rms-crs-jan2016.pdf.

[96] Long Finance, "Promoting U.K. Cyber Prosperity" (July 2015), p. 22, *available at* http://www.longfinance.net/images/Promoting_UK_Cyber_Prosperity_28July2015.pdf.

[97] The Betterley Report, "Cyber/Privacy Insurance Market Survey - 2015" (June 2015), p. 7; 144-45, *available at* https://www.ciab.com/WorkArea/DownloadAsset.aspx?id=5513.

[98] Sonali Basak, "How AIG Is Using Cyber Intelligence to Protect Property from Cyber Attacks," Insurance Journal (July 22, 2015), *available at* http://www.insurancejournal.com/news/national/2015/07/22/375991.htm.

Some market participants have expressed the view that coverage limits currently available for these product are insufficient and that more capacity is needed.[99] A significant challenge for insurers offering cyber insurance products continues to be the management of accumulation risk, i.e., the risk that a single incident could cause losses to multiple policyholders, or the risk that a single incident will affect multiple lines of coverage placed by a policyholder with a single insurer.[100] A range of solutions to this potential impediment are being developed by the industry.[101]

In June 2015, state insurance regulators adopted a *Cybersecurity and Identity Theft Insurance Coverage Supplement* to collect data regarding cybersecurity and identity theft policies written including information regarding the number of claims reported and policies in force. Submission of such data became mandatory for the 2015 reporting year (collected in 2016), and is now required on an annual basis.[102]

E. Terrorism Risk Insurance Program

The September 11, 2001 terrorist attacks resulted in an insurance industry loss of about $32.5 billion (in 2001 dollars), which at the time was the largest insurance loss in history.[103] Following those attacks, insurers and reinsurers largely withdrew from the terrorism risk insurance market, threatening planned construction, property acquisition, business projects, and other economic

[99] Rachel King, "Cyber Insurance Capacity is 'Very Small': AIG CEO," Wall Street Journal (April 2, 2015), *available at* http://blogs.wsj.com/cio/2015/04/02/cyber-insurance-capacity-is-very-small-aig-ceo/; Gina Chon, "Cyber attack risk requires $1bn of insurance cover, companies warned," Financial Times (February 18, 2015), *available at* http://www.ft.com/cms/s/0/61880f7a-b3a7-11e4-a6c1-00144feab7de.html (referencing a Lockton executive); The Betterley Report, "Cyber/Privacy Insurance Market Survey – 2015" (June 2015), p. 8, *available at* https://www.ciab.com/WorkArea/DownloadAsset.aspx?id=5513 ("larger organizations are not able to secure the kinds of limits that they may need [especially] for the breach response costs, which are being severely sublimited by many insurers").

[100] Centre for Risk Studies and RMS, "Managing Cyber Insurance Accumulation Risk" (February 2016), p. 7, *available at* http://static.rms.com/email/documents/managing-cyber-insurance-accumulation-risk-rms-crs-jan2016.pdf.

[101] *See, e.g.*, *id.* p. 4; Lloyd's, "Lloyd's Leads Development of Core Data Requirements for Cyber Insurance" (January 19, 2016), *available at* https://www.lloyds.com/news-and-insight/press-centre/press-releases/2016/01/lloyds-leads-development-of-core-data-requirements-for-cyber-insurance; Sarah Veysey, "Lloyd's of London develops common core for cyber risks," Business Insurance (January 19, 2016), *available at* http://www.businessinsurance.com/article/20160119/NEWS06/160119825.

[102] NAIC, "Cybersecurity and Identity Theft Insurance Coverage Supplement" (June 2015), *available at* http://www.naic.org/documents/committees_ex_cybersecurity_tf_related_cyber_id_theft_ins_suplement.pdf;NAIC, "Early NAIC Analysis Sheds Light on Cybersecurity Insurance Data" (June 30, 2016), *available at* http://www.naic.org/Releases/2016_docs/cybersecurity_insurance_data_analysis.htm.

[103] President's Working Group on Financial Markets, "The Long-Term Availability and Affordability of Insurance for Terrorism Risk" (April 2014), p. 5, *available at* https://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/PWG_TerrorismRiskInsuranceReport_2014.pdf.

activity.[104] In response, the Terrorism Risk Insurance Act of 2002 (TRIA) was enacted,[105] which created the Terrorism Risk Insurance Program (TRIP) within Treasury.[106] TRIP was established to incentivize the private market to offer insurance for terrorism risk, while providing a transitional period for the private market to resume pricing terrorism risk and build capacity to absorb future insurance losses.[107] The Dodd-Frank Act authorizes FIO to assist the Secretary in administering TRIP.[108]

In general, TRIA requires each commercial P/C insurer to participate in TRIP and to make coverage available for terrorism risk insurance.[109] In addition, an insurer may be reimbursed by TRIP for "insured losses" resulting from one or more certified acts of terrorism. In this regard, when industry losses exceed the specified trigger amount, TRIA authorizes the Secretary to make federal payments to an insurer as reimbursement for a portion of insured losses resulting from a certified act of terrorism that exceeds the insurer's deductible as determined under TRIA. Insurers co-participate with federal funding with respect to payments for losses above the deductible, and would be required to impose a surcharge on policyholders in order to fund any recoupment payments to Treasury.

On January 12, 2015, President Obama signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIP Reauthorization Act),[110] which amended the termination date of TRIA to December 31, 2020 and reformed several provisions of TRIA. Shortly after the enactment of the TRIP Reauthorization Act, Treasury released interim guidance to reflect the immediate changes to certain requirements under the TRIP regulations as a result of the TRIP Reauthorization Act.[111] Since that time, Treasury has taken a number of steps to further implement the TRIP Reauthorization Act.

On April 1, 2016, Treasury issued a notice of proposed rulemaking for TRIP, which proposed amendments to the existing regulations to implement the changes to TRIP required by the TRIP Reauthorization Act. The proposed rules: (1) generally revised 31 C.F.R. Part 50 to incorporate the new financial and operational provisions for TRIP contained in the TRIP Reauthorization Act; (2) established new regulations regarding Treasury's data collection authority; and (3)

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[104] TRIA § 101(a)(5). Because the provisions of TRIA appear in a note (i.e., 15 U.S.C. § 6701 note), instead of particular sections, of the United States Code, references to its provisions in this Report are identified by the sections of the Act.

[105] Pub. L. No. 107-297, 116 Stat. 2322 (2002).

[106] For purposes of this Report, TRIP refers to the program, as it is administered through regulations found in 31 C.F.R. Part 50.

[107] TRIA § 101(b).

[108] 31 U.S.C. § 313(c)(1)(D).

[109] TRIA §§ 103(a)(3), 103(c)(1)

[110] Pub. L. No. 114-1, 129 Stat. 3 (2015).

[111] Interim Guidance Concerning the Terrorism Risk Insurance Program Reauthorization Act of 2015, 80 Fed. Reg. 6656 (Feb. 6, 2015), *available at* http://www.gpo.gov/fdsys/pkg/FR-2015-02-06/pdf/2015-02556.pdf.

proposed rules governing the certification process following Treasury's report on improving the certification process.[112] Treasury received 26 comments from interested parties in response to its notice of proposed rulemaking,[113] which it continues to evaluate as it develops the final rule implementing the changes to TRIP.

As required by the TRIP Reauthorization Act, beginning in 2016, Treasury will annually collect terrorism risk insurance information from insurers in order to analyze the overall effectiveness of TRIP.[114] In 2015, Treasury consulted extensively with insurance industry stakeholders and state regulators regarding the current availability of information from participating insurers, in order to identify the information that would be available and to develop the proposed data collection regulations published in Treasury's April 1, 2016 notice of proposed rulemaking.

Treasury's authority to collect data under Section 111 of the TRIP Reauthorization Act began "[d]uring the calendar year beginning on January 1, 2016." Treasury established a voluntary data collection process specific to 2016 to obtain information in a timely fashion for the initial report. Treasury's 2016 collection process consisted of a web portal for the reporting of certain specified information through an insurance statistical aggregator.[115] Although production of information for calendar year 2016 was voluntary, insurers representing approximately 41% of all TRIP-eligible insurance premiums in the United States provided some information in response to Treasury's data collection request.

Based upon the data collected, Treasury submitted its report on TRIP effectiveness on June 30, 2016.[116] In that report, Treasury concluded that TRIP remains an important mechanism in ensuring that terrorism risk insurance remains available and generally affordable in the United States. The report also addressed issues concerning the impact of TRIP on the workers' compensation market, the availability of private reinsurance capacity to support terrorism risk exposure that is not backstopped by TRIP, and the collection of terrorism risk premium by the industry since the inception of TRIP.

F. National Association of Registered Agents and Brokers

Under state insurance laws, insurance producers (agents or brokers) operating in more than one state must complete separate applications, pay separate licensing fees, and meet different pre-licensing and continuing education requirements established by each state in which they seek to

[112] 81 Fed. Reg. 18950 (April 1, 2016).

[113] All comments are available at https://www.regulations.gov/docketBrowser?rpp=25&so=DESC&sb=commentDueDate&po=0&dct=PS&D=TREAS-TRIP-2016-0005.

[114] TRIP Reauthorization Act § 111.

[115] 81 Fed. Reg. 11649 (March 4, 2016).

[116] *Available at* https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

be licensed. These often redundant regulatory burdens for producers can be prohibitively expensive, restrict economic activity, and are detrimental to the interests of consumers.

On January 12, 2015, as Title II of the TRIP Reauthorization Act, President Obama signed into law the National Association of Registered Agents and Brokers Reform Act of 2015 (NARAB II).[117] Its purpose is to provide a national, standardized licensing process, i.e., “a mechanism through which licensing, continuing education, and other nonresident insurance producer qualification requirements and conditions may be adopted and applied on a multi-state basis.”[118]

The National Association of Registered Agents and Brokers is governed and supervised by a 13-member board of directors. Members of the board of directors are appointed by the President, with the advice and consent of the United States Senate.[119] The board of directors consists of eight state insurance regulator members, three industry members with expertise and experience in property and casualty insurance producer licensing, and two industry members with expertise and experience in life or health insurance producer licensing.[120] As of July 31, 2016, President Obama has nominated ten candidates to serve on its board of directors.

G. The Availability and Affordability of Personal Automobile Insurance in the United States

For its first insurance affordability study pursuant to Title V of the Dodd-Frank Act,[121] FIO has focused on personal automobile insurance because of its importance to working families and individuals throughout the United States. In 2014 and 2015, through a Federal Register notice and extensive stakeholder outreach, FIO received public comments on a definition of affordability, a methodology for measuring affordability, and the best means for obtaining data to monitor affordability.[122] FIO considered comments from stakeholders – including state insurance regulators, consumer organizations, insurance industry representatives, policyholders, academics, and others – and also conducted its own additional research and consultation.

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[117] Pub. L. No. 114-1, Title II, 129 Stat. 12. The Gramm-Leach-Bliley Act provided that unless a majority of the states enacted uniform producer licensing laws or reciprocal frameworks by a specified date, the original National Association of Registered Agents and Brokers would be established by operation of law. *See* Pub. L. No. 106-102, Subtitle C, 113 Stat. 1338. The NAIC subsequently certified that a majority of states had adopted uniform laws or reciprocity, thus halting establishment of the original NARAB.

[118] 15 U.S.C. § 6752.

[119] 15 U.S.C. § 6754(c).

[120] *Id*.

[121] FIO is authorized to monitor the extent to which traditionally underserved communities and consumers, minorities, and low- and moderate-income persons have access to affordable insurance products regarding all lines of insurance, except health insurance. 31 U.S.C. § 313(c)(1).

[122] *See* Monitoring Availability and Affordability of Auto Insurance, 79 Fed. Reg. 19,969 (Apr. 10, 2014); Monitoring Availability and Affordability of Auto Insurance, 80 Fed. Reg. 38,277 (July 2, 2015).

On July 13, 2016, FIO published a methodology for measuring the affordability of personal automobile insurance for traditionally underserved communities, minorities, and low- and moderate-income (LMI) consumers (collectively, Affected Persons).[123] The methodology requires the calculation of an affordability index (Index), which is the ratio of the average annual written personal automobile liability premium in the voluntary market to the median household income for U.S. Postal Service ZIP codes identified as being majority-minority or majority-LMI.[124] Personal auto insurance is presumed to be affordable for Affected Persons if the Index is less than or equal to two percent.[125] Notably, FIO's Index does not reflect the affordability of personal auto insurance for every individual consumer, and does not reflect or analyze state-by-state differences in allowable rating factors. FIO also published notice of its intent to request that certain large insurers voluntarily provide premium data to statistical agents for analysis in connection with this ongoing study of personal auto insurance affordability.[126]

[123] Monitoring Availability and Affordability of Auto Insurance, 81 Fed. Reg. 45,372 (July 13, 2016).

[124] *Id.* The July 2016 notice details the methodology's rationale and its elements, describing, for example, insurance market segments based on risk profiles and explaining that the standard and non-standard markets together comprise the "voluntary market" (as distinct from the residual market and state-assigned risk pools).

[125] *Id.*

[126] Proposed Collection; Comment Request, 81 Fed. Reg. 45,381 (July 13, 2016).

V. INTERNATIONAL ENGAGEMENT AND STANDARD-SETTING

International standard-setting for insurance has significantly lagged behind that for other financial services such as banking, but as the experience of the financial crisis demonstrates, insurers are an essential part of the global financial system. In addition, multi-national insurers are becoming increasingly global and new markets are emerging around the world. In recognition of these developments, FIO has authority to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the IAIS and assisting the Secretary in negotiating covered agreements. In addition to the IAIS, FIO also is involved in various activities of other organizations, such as the Organization for Economic Co-operation and Development.

In its international work, FIO coordinates with federal and state authorities, and proactively engages with consumer, industry, and other stakeholders. This section of the Report describes FIO's engagement in these matters.

A. Covered Agreement

Title V of the Dodd-Frank Act authorizes the Secretary and the Office of the United States Trade Representative (USTR) jointly to negotiate a covered agreement on behalf of the United States. A covered agreement is a written bilateral or multilateral agreement regarding prudential measures with respect to the business of insurance or reinsurance that achieves a level of protection for insurance and reinsurance consumers that is substantially equivalent to the level of protection achieved under state insurance or reinsurance regulation.[127]

In November 2015, Treasury and USTR jointly wrote to Congress regarding the intention to initiate negotiations to enter into a covered agreement with the EU. Treasury and USTR advised Congress that a covered agreement with the EU would help level the regulatory playing field for U.S.-based insurers and reinsurers operating in the EU, and further confirm that the existing U.S. insurance regulatory system serves the goals of insurance sector oversight, policyholder protection, and national and global financial stability.[128] To facilitate technical feedback from state insurance regulators on the covered agreement negotiations, Treasury and USTR consult regularly with a group of state insurance regulators, including on development of U.S. proposals.

[127] Treasury publicly called for a covered agreement in FIO's 2013 Report, "How to Modernize and Improve the System of Insurance Regulation in the United States," *available at* https://www.treasury.gov/initiatives/fio/reports-and-notices/.

[128] The November 20, 2015 letter was addressed to the Chair and Ranking member of four committees (the House Committee on Financial Services, the House Committee on Ways and Means, the Senate Committee on Banking, Housing, and Urban Affairs, and the Senate Committee on Finance) and is available at https://www.treasury.gov/initiatives/fio/reports-and-notices/. *See also* Press Release (November 20, 2015), *available at* https://www.treasury.gov/press-center/press-releases/Pages/jl0284.aspx.

On February 18 and 19 of 2016, representatives of the United States – including Treasury and USTR officials – met in Brussels with EU officials to begin negotiating a covered agreement. During this meeting, both sides agreed to move forward efficiently and expeditiously and affirmed their good faith pursuit of a covered agreement relating to group supervision, exchange of confidential information between supervisory authorities, and reinsurance supervision including collateral requirements. Additionally, both sides agreed to meaningful stakeholder consultation and engagement throughout the negotiations.[129] Talks continued in Washington in May 2016, at the conclusion of which U.S. and EU representatives expressed commitment to pursuit of an agreement that will improve regulatory and supervisory treatment for insurers and reinsurers operating on both sides of the Atlantic.[130] A third negotiating session was held in Brussels on July 26 and 27, and a fourth in Washington D.C. on September 21 and 22. In a joint statement, EU and U.S. representatives advised that they had "made progress on key issues, and identified next steps toward a possible completion of negotiations in the near future."[131]

As noted, the key subjects for negotiation are group supervision, the confidential exchange of information across national borders, and reinsurance supervision, including collateral. With respect to collateral requirements in the United States for EU-based reinsurers, state regulators notably and unanimously adopted in 2011 a model law and regulation that would reduce or eliminate pre-reform collateral requirements.[132] To date, 32 states have adopted such reforms. Recently, to address the lack of consistency across the United States, state regulators have announced that adoption of reinsurance collateral reform may become a state-by-state accreditation standard.

B. FIO Coordination with U.S. Authorities in the IAIS

The IAIS, established in 1994, is the international standard-setting body for supervision of the insurance sector. IAIS membership consists of insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries, representing 97 percent of global insurance premiums. The IAIS mission is to: (1) promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe, and stable insurance markets for the benefit and protection of policyholders; and (2) contribute to global financial stability. The IAIS also provides a forum for members and stakeholders to share experiences and understanding of insurance supervision and insurance markets, and to develop standards based on best practices.

[129] Joint Statement (Feb. 23, 2016), *available at* https://www.treasury.gov/press-center/press-releases/Pages/jl0362.aspx.

[130] Joint Statement (May 27, 2016), *available at* https://www.treasury.gov/press-center/press-releases/Pages/jl0468.aspx.

[131] Joint Statement (September 27, 2016), *available at* https://www.treasury.gov/press-center/press-releases/Pages/jl0558.aspx.

[132] *See* FIO, "The Breadth and Scope of the Global Reinsurance Market and the Critical Role it Plays in Supporting Insurance in the United States " (February 11, 2015), *available at* https://www.treasury.gov/initiatives/fio/reports-and-notices/Pages/default.aspx.

FIO's participation at the IAIS and in other international initiatives benefits U.S. insurance consumers and the U.S. insurance industry by promoting high quality and consistent prudential standards around the world, which helps maintain a level playing field and prevent unaddressed financial vulnerabilities from flowing into the United States. However, international standards are not self-executing. Separately and independently, the United States considers and implements any international standards through federal or state regulatory authorities in a manner tailored to the U.S. market and regulatory structure.

The U.S.-based members of the IAIS include FIO, the Federal Reserve, the 56 state and territory insurance regulators who represent the individual sovereign jurisdictions within the United States, and NAIC. State regulators were among the founding members of the IAIS in 1994 and have been actively engaged ever since. FIO became a full member of the IAIS in 2012, and the Federal Reserve became a full member in 2014.

Title V of the Dodd-Frank Act authorizes FIO to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters.[133] Under this authority, in 2014, FIO coordinated the establishment of a steering committee comprised of the U.S. participants at the IAIS. While each member of the steering committee is independent of the others, including in their IAIS engagement, the steering committee works to promote shared understanding and open dialogue and alignment on relevant issues. Since being established, this committee has held regularly scheduled calls and in-person meetings, with additional ad hoc calls or meetings occurring as needed.

In addition to coordinating international efforts at the principal level through the steering committee, FIO works and communicates daily with counterparts at numerous state insurance departments and the Federal Reserve. This collaboration occurs in relation to various IAIS working group meetings and in related interim activities involving matters such as governance, risk management, capital standards, cybersecurity and financial crimes, and financial stability, among others. FIO coordinates and works with the Federal Reserve and state regulators by telephone, email, and full day in-person meetings. U.S. participants and the IAIS also meet before and during IAIS meetings. NAIC staff also join in this collaboration.

[133] 31 U.S.C. § 313(c)(1)(E).

C. Stakeholder Engagement

U.S. stakeholders have numerous opportunities, both formal and informal, to engage with FIO about matters before the IAIS. In recent months, these have included the development of the ICS and revisions to the IAIS G-SII Methodology, among other matters.

1. IAIS-Sponsored Engagement

In 2014, the IAIS adopted reforms to improve its financial independence, efficiency, and transparency by eliminating a prior IAIS policy under which stakeholders paid an annual fee to attend IAIS meetings as "observers." The new policy went into effect as of January 2015, such that the IAIS no longer differentiates among stakeholders through fees or special privileges. In 2015, the IAIS hosted more than 140 hours of stakeholder sessions and meetings with insurance industry experts on a variety of subjects. The IAIS also held open dialogue sessions, in person and by telephone, on IAIS activities such as insurance core principle (ICP) revisions, ComFrame, capital standards, and financial stability. In addition, the IAIS held open discussions between stakeholders and the IAIS Executive Committee during its 2016 Global Seminar. These discussions focused on ICS objectives, convergence of supervisory regimes, and the effects of recent organizational reforms.

The IAIS releases consultation documents for public comment regarding all substantive issues. For example, in December 2014 and again in July 2016, the IAIS published public consultation documents to solicit stakeholder comments and insights to help in its efforts to develop the ICS.[134] In November 2015, the IAIS published two separate documents for public consultation, one regarding the Proposed Updated G-SII Assessment Methodology and another regarding Non-Traditional and Non-Insurance (NTNI) activities and products.[135] The IAIS also engages extensively with at least 34 insurers, including nine U.S.-based insurers, through its work with insurance groups that participate in the ICS field testing. Following the release of consultation documents, the IAIS holds explanatory stakeholder discussions and, after the conclusion of each consultation, publishes replies to comments received. In addition, the IAIS publishes a monthly newsletter that updates stakeholders regarding prior and upcoming developments, and updates its website frequently.

[134] IAIS, "Consultation on Risk-based Global Insurance Capital Standard (ICS) Version 1.0 Public Consultation Document," *available at* http://www.iaisweb.org/page/consultations/current-consultations/risk-based-global-insurance-capital-standard--second-consultation.

[135] IAIS, "Global Systemically Important Insurers: Proposed Updated Assessment Methodology" (November 25, 2015), *available at* http://www.iaisweb.org/page/consultations/closed-consultations/g-sii-methodology//file/58005/g-sii-assessment-methodology-public-consultation-document; IAIS, "Non-traditional Non-insurance Activities and Products," *available at* http://www.iaisweb.org/page/consultations/closed-consultations/ntni.

2. Domestic Engagement with Stakeholders

FIO also provides U.S. stakeholders opportunities to engage with U.S.-based members of the IAIS. Since August 2014, FIO has convened sessions at Treasury for U.S. stakeholders interested in IAIS activities to meet jointly with FIO, the Federal Reserve, and state insurance regulators. Participating stakeholders have included consumer representatives, representatives of the U.S.-based global systemically important insurers (G-SIIs), U.S.-based potential IAIGs,[136] foreign-based IAIGs with U.S. operations and potential IAIGs with significant U.S. business operations, other U.S.-based insurers, industry trade groups, and other interested state and federal officials. Topics discussed in these sessions have included the development of global capital standards and ongoing IAIS field testing, cross-border resolution, and the G-SII assessment methodology. In addition to these meetings, U.S. stakeholders participate in formal and informal conference calls and meetings with U.S.-based IAIS members prior to IAIS meetings to further discuss these and other issues such as corporate governance and group supervision. Additionally, FIO and other U.S.-based IAIS members engage regularly through calls and meetings with the nine U.S. insurers participating in the IAIS field testing, in order to monitor progress and discuss relevant issues such as data quality.

FIO conducts outreach to numerous stakeholders – including consumer advocates, insurers, insurance agents and brokers, and insurance trade groups – for engagement on issues on which FIO works, both in the IAIS and domestically. This outreach includes discussions with CEOs and other executives, government affairs staff, and subject matter experts on topics including, among others, capital standards, cybersecurity, terrorism risk insurance, mortgage guaranty, and auto insurance affordability.

D. International Standard-Setting

The United States participates in a number of initiatives in international forums intended to improve the efficacy and consistency of insurance supervisory standards across jurisdictions, enhance financial stability, and promote a level playing field for U.S. insurers operating globally.

1. International Association of Insurance Supervisors

As an international standard-setting body for the supervision of insurance, the IAIS has a committee structure with numerous working groups and task forces that focus on a wide variety of topics involving prudential regulation and supervision, financial stability, and market conduct, among others. This section discusses some of the projects and work streams in which FIO is actively engaged at the IAIS.

[136] ComFrame has not been finalized, and no insurers have yet been formally identified as IAIGs.

a. Common Framework for the Supervision of Internationally Active Insurance Groups

Beginning in 2009, the IAIS set out to develop the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), an integrated, multilateral, and multidisciplinary framework for the supervision of IAIGs. ComFrame, an ongoing effort, is intended to be "a framework for supervisors to coordinate supervisory activities efficiently and effectively and share information about IAIGs at the group-wide level and between group-wide and host supervisors." ComFrame will include a quantitative Insurance Capital Standard (ICS) as well as qualitative standards for group-wide supervision, governance, risk management, and recovery and resolution.

As currently proposed, an IAIG is an insurance group that has either (1) total assets of at least $50 billion, or (2) gross written premiums of at least $10 billion (on a rolling three year average basis) across three or more jurisdictions, at least 10 percent of which is written outside its home jurisdiction. While some discretion in identifying IAIGs is left to the individual supervisors, approximately 50 global insurance groups appear to meet the proposed criteria for IAIGs.[137]

To develop ComFrame, including the quantitative ICS (see below), the IAIS established a field testing process through which the 34 participating insurers[138] provide data and perspective that shape the standard-setting exercise. The initial development phase of the qualitative standards within ComFrame, pertaining to governance and risk management, was completed in 2014, followed by a public consultation phase.[139] In 2015, the IAIS field tested those qualitative standards in order to determine the existence of gaps between the proposed ComFrame requirements and current jurisdictional supervisory requirements on the one hand, and actual insurer practices on the other. ComFrame field testing involves data collection from both volunteer insurers and insurance supervisors, with the goal of gathering information to improve both the qualitative and quantitative aspects of ComFrame, as well as to assess the estimated costs and benefits to both IAIGs and jurisdictions of implementing ComFrame.

The IAIS plans to continue to develop and field test ComFrame through 2019.

b. International Capital Standards

As insurance markets become increasingly global, supervisors are increasingly concerned with understanding the financial viability of insurers that are based elsewhere but operate in their

[137] IAIS, "Frequently Asked Questions for The IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame)" (June 25, 2015), p. 4, *available at* http://www.iaisweb.org/file/52819/comframe-frequently-asked-questions-updated-25-june-2015.

[138] While 34 insurers participated in 2015 field-testing, the number has increased for 2016.

[139] IAIS, "Common Framework for the Supervision of Internationally Active Insurance Groups," Revised Draft (September 2014), *available at* http://www.iaisweb.org/page/supervisory-material/common-framework.

markets. The amount and quality of an insurer's capital are important measures of the insurer's financial viability and its ability to absorb unexpected levels of losses which may occur, especially under stressed conditions.

One means to enhance a more common understanding among IAIG supervisors is through a commonly understood quantifiable capital standard. While the IAIS has long maintained ICPs, including with respect to valuation and capital adequacy, the ICPs "allow a wide range of regulatory approaches and supervisory processes to suit different markets and the range of insurance entities and groups operating within these markets."[140] In contrast, and with respect to IAIGs, ComFrame aspires to provide a more common approach through a calibrated group capital standard that is understood by supervisors across jurisdictions.

Work continues at the IAIS on a risk-sensitive ICS, or a proposed group capital standard, i.e., a measure of the capital adequacy of an entire insurance group. While some jurisdictions currently have a local group capital requirement applicable to insurers, such initiative has only recently been undertaken in the United States.[141]

The ICS has several foundational building blocks: (1) a valuation basis for assets and liabilities; (2) a capital requirement that considers all relevant and material risks and is calibrated at a sufficient level; and (3) criteria to determine qualifying capital resources that are available to meet that capital requirement.[142]

The IAIS began field testing the ICS in 2013, with the process evolving through annual iterations to include testing of each of the relevant components of the ICS: valuation, capital requirements, and capital resources. In 2016, capital requirements will be tested for each risk and under each of the two valuation bases currently being studied: a market adjusted valuation basis, and a valuation based on a firm's audited consolidated financial statements under the applicable jurisdictional set of generally accepted accounting principles. The ICS is intended to replace the Basic Capital Requirement as the foundation for the Higher Loss Absorbency requirement. Published by the IAIS in 2014 and 2015, respectively, these standards are subject to further review and improvement, and would apply only to G-SIIs.

ICS Field testing in 2016 is also evaluating the use of different options for discounting insurance liabilities. This is an issue of particular significance to insurers that issue long-term insurance contracts. Different criteria are also being explored to define qualifying capital resources,

[140] IAIS, "Common Framework for the Supervision of Internationally Active Insurance Groups," Revised Draft (September 2014), p. 2.

[141] As discussed in Sections IV.B.1. and IV.C.1. of this Report, both the Federal Reserve and the state insurance regulators have work underway regarding insurance group capital.

[142] Qualifying capital resources include accumulated earnings, capital instruments that meet specific criteria, and certain other items that can also provide loss absorbency.

including, for example, whether limits should be established on certain types of capital and, if so, at what levels.

While the ICS field testing does involve the consideration and evaluation of certain alternatives, e.g., with respect to valuation, IAIS members agreed in 2015 on an "ultimate goal" for the ICS to help steer the technical work that is currently underway and will continue for some time. IAIS members agreed:

> The ultimate goal of a single ICS will include a common methodology by which one ICS achieves comparable, i.e. substantially the same, outcomes across jurisdictions. Ongoing work is intended to lead to improved convergence over time on the key elements of the ICS towards the ultimate goal. Not prejudging the substance, the key elements include valuation, capital resources and capital requirements.[143]

The "ultimate goal" is a long-term and aspirational objective. In the near term, incremental progress will be made and convergence will improve by building upon data, analysis and testing. Work will proceed gradually toward milestones that are realistic, achievable, and driven by factual analysis and consensus.

Importantly, international standards are not self-executing and are not binding on member jurisdictions. If deemed appropriate, the United States would separately implement the IAIS standards through a federal or state process. Whether at the state or federal level, implementation of an international standard occurs in a manner tailored to the unique features of the U.S. insurance sector, promoting competition and consumer choice, and supporting both policyholder protection and financial stability.

c. Cross-Border Resolution Planning

In 2015, work on the development of international standards regarding the resolution of IAIGs continued through both the IAIS and Financial Stability Board (FSB). The IAIS Resolution Working Group (ReWG) was formed in late 2013 to develop and maintain supervisory guidance on the resolution of insurers, including G-SIIs, and to contribute to the resolution-related content of ComFrame and related ICPs. The ReWG also represents the IAIS at relevant FSB bodies such as the Resolution Steering Group (ReSG) and its subcommittee, the Cross-Border Crisis Management Group for Insurers (iCBCM).

The FSB is the standard-setting body for resolution issues, having promulgated the *Key Attributes for Effective Resolution Regimes for Financial Institutions*.[144] The FSB's iCBCM assists and supports regulatory authorities in the development and implementation of resolution-

[143] The ultimate goal of the ICS is addressed in the March 2015 IAIS Newsletter, *available at* http://www.iaisweb.org/page/news/newsletter-archive##.

[144] FSB, "Key Attributes of Effective Resolution Regimes for Financial Institutions" (October 15, 2014), *available at* http://www.fsb.org/wp-content/uploads/r_141015.pdf.

related policy measures. Specifically, the iCBCM assists the ReSG in: finalizing implementation guidance for resolution regimes for systemically important insurers; monitoring the progress of Crisis Management Groups (CMGs) for each G-SII and the negotiation of cross-border cooperation agreements among CMG members; and the development of guidance on resolution strategies and recovery and resolution plans for G-SIIs. In late 2015, the FSB published a consultation paper entitled *Developing Effective Resolution Strategies and Plans for Systemically Important Insurers.*[145] Following the receipt of public comments in early 2016, the iCBCM held a stakeholders' meeting on the development of effective resolution strategies and plans that reflected the common themes identified in those comments. A final version of the document is anticipated by the end of 2016.

While the FSB and the IAIS are both involved in work on resolution matters relating to GSIIs, the IAIS also works on the development of resolution-related policy standards for a broader range of insurance firms. During 2015, the ReWG continued its revisions to resolution-related content in the ICPs and ComFrame. In early 2016, the ReWG convened a stakeholders' meeting on the supervisory powers needed for resolution of non-GSIIs and the loss absorbing capacity of GSIIs in resolution.

In June 2016, the ReWG chose not to recommend establishing a common minimum loss absorbing capacity (LAC) standard for G-SIIs at this time.[146] The ReWG further proposed to reassess that conclusion after the ICS is further developed, and consider if, by then, critical functions are found to exist for G-SIIs, or if one or more of the CMGs consider LAC in resolution helpful to improve specific G-SII resolution plans.

d. Other Supervisory Developments

The IAIS's Governance Working Group, Insurance Groups Working Group, and Supervisory Materials Review Task Force, all of which report to the IAIS Financial Stability and Technical Committee (FSTC), are working towards improvements to the ICPs, ComFrame, and international supervision. The Governance Working Group develops high-level corporate governance principles, standards, and guidance for the supervision of insurers IAIGs. In 2015, the Governance Working Group finalized revising ICP 4 (Licensing), ICP 5 (Suitability of Persons), ICP 7 (Corporate Governance), ICP 8 (Risk Management and Internal Controls), and related terminology used in the ICP Glossary. The Governance Working Group is also working on revising corporate governance sections of ComFrame.

[145] FSB, "Developing Effective Resolution Strategies and Plans for Systemically Important Insurers" (November 3, 2015), *available at* http://www.fsb.org/2015/11/consultative-document-on-developing-effective-resolution-strategies-and-plans-for-systemically-important-insurers/.

[146] LAC in resolution is similar to the Total Loss Absorbing Capacity, or TLAC, construct used in the banking industry.

The Insurance Groups Working Group (IGWG) provides a framework for developing and advancing standards for effective and efficient group-wide supervision. In 2015, the IGWG finalized revisions to ICP 23 (The Group-wide Supervisor), sections of ICP 25 (Supervisory Cooperation and Coordination), and related glossary terms. The IGWG is also involved in recommending revisions to ComFrame related to the proposed qualitative standards on group supervision.

The Supervisory Materials Review Task Force (SMRTF), chaired by an NAIC staff member, is responsible for revising other principles, standards, and guidance that are otherwise the responsibility of any other IAIS working group or task force, as well as for assessing the ICPs' Introduction and Assessment Methodology. In addition, the SMRTF is responsible for overseeing the ICPs as a whole to ensure style consistency across the standards. In 2015, the SMRTF began revising ICP 9 (Supervisory Review and Reporting), ICP 10 (Preventative and Corrective Measures), and ICP 11 (Enforcement), as well as the Introduction to the ICPs.

e. Combating Financial Crime in Insurance

Through the Financial Crime Task Force (FCTF), chaired by FIO, the IAIS engages in international efforts related to the involvement of insurance activities in combating financial crime including fraud, the financing of terrorism, and money laundering. This work includes monitoring developments at the Financial Action Task Force (FATF), on which the FCTF represents the IAIS. [147] The FCTF reports to the FSTC, which, in 2014, expanded the work of the FCTF to address matters of cybersecurity in the insurance sector.

To raise awareness and identify areas of interest for insurers and supervisors of the challenges presented by cyber risk, including current and contemplated supervisory approaches for addressing these risks, during 2015, the FCTF developed an *Issues Paper on Cyber Risk to the Insurance Sector* for publication in 2016. An IAIS Issues Paper does not establish supervisory expectations, but may shed light on the need for additional, more specific IAIS material to support supervisors in addressing cyber risk.

Through the FCTF, the IAIS has been represented on the Joint Working Group on Cyber Resilience (WGCR) of two other international standard-setting bodies, the Committee on Payments and Marketing Infrastructure (CPMI) and the International Organization of Securities Commissions (IOSCO). On June 29, 2016, the WGCR published its *Guidance on Cyber Resilience for Financial Market Infrastructures*.[148]

[147] The FATF is an inter-governmental body established in 1989 the ministers of its member jurisdictions, the objectives of which are to set standards and promote effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system, Information is available at http://www.fatf-gafi.org/about/.

[148] Press release and link to the guidance are available at http://www.bis.org/ /publ/d146.htm.

2. Organisation for Economic Co-operation and Development

The Organisation for Economic Co-operation and Development (OECD) was created in 1961 to promote policies that improve the economic and social well-being of people around the world.[149] The OECD consists of membership from 34 countries and provides a forum in which governments work together to share experiences and seek solutions to common problems.[150] By working with governments to understand the drivers of economic, social and environmental changes, the OECD measures productivity and global flows of trade and investment. The OECD serves as a source of advice on various policymaking and implementation matters, and collects and publishes statistical data and analyses on economics, trade, employment, education, health, social issues, migration, the environment, and many other fields.[151]

The OECD operates through more than 200 committees and working groups, composed of national experts and supported by OECD Secretariat staff. Insurance issues at the OECD are discussed at the Insurance and Private Pensions Committee (IPPC), while the Working Party on Private Pensions (WPPP) may also engage on certain issues closely related to insurance. The official U.S. delegation to the OECD varies by committee, with representatives from the Departments of Commerce, Labor, and Treasury representing the views of the United States at the IPPC and WPPP. Recently, work at the IPPC and WPPP has included an examination of governance standards for institutional investors in relation to environmental and social factors, in particular those associated with climate change, the financial management of flood risks, disaster risk financing strategies, and cyber risk insurance.

E. Other International Cooperation

1. Updated Assessment Methodology for Global Systemically Important Insurers (G-SIIs) and Systemic Risk from Insurance Product Features

In July 2013, the IAIS developed a methodology (2013 Methodology) to identify as G-SIIs insurance-dominated financial conglomerates whose distress or disorderly failure, because of their size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity.[152] The 2013 Methodology involved three steps: collection of data, methodological assessment, and a supervisory judgment and validation phase. The 2013 Methodology, which disproportionately penalized activities and insurance products in the U.S. market, was based solely on quantitative indicators grouped into five categories

[149] OECD, *available at* http://www.oecd.org/about/.

[150] OECD, *available at* http://www.oecd.org/about/.

[151] OECD, "Secretary General's Report to Ministers" (2015), p. 4.

[152] IAIS, "Global Systemically Important Insurers: Initial Assessment Methodology" (July 18, 2013), *available at* http://www.iaisweb.org/page/supervisory-material/financial-stability-and-macroprudential-policy-and-surveillance/file/34256/final-g-siis-policy-measures-18-july-2013.

influenced by the specific nature of the insurance sector: size, global activity, interconnectedness, non-traditional and non-insurance (NTNI) activities, and substitutability.

In November 2015, the IAIS took steps to improve the assessment methodology with the publication of a public consultation document on proposed revisions to the 2013 Methodology, which culminated in the IAIS issuing the Updated G-SII Assessment Methodology (the 2016 Methodology) in June 2016. The 2016 Methodology outlines a five-phase approach to the G-SII assessment process that includes both qualitative and quantitative elements.[153] The 2016 Methodology also incorporates absolute reference values for certain indicators in Phase II of the 2016 Methodology, which allows the IAIS to better assess the systemic importance of insurers within the broader insurance sector and financial system. The 2016 Methodology reclassifies the Phase II indicators according to systemic risk transmission channels (e.g., the asset liquidation and interconnectedness categories). An additional assessment phase (Phase III) in the 2016 Methodology includes a supplemental reinsurance assessment for insurers with significant third-party reinsurance activities. The 2016 Methodology also includes significantly improved transparency measures for both the public and the insurers involved in the annual G-SII exercise. Prospective G-SIIs now have the opportunity to exchange information with the IAIS prior to the IAIS making a recommendation to the FSB to identify insurers as potential G-SIIs.

In November 2015, the IAIS also published a consultation paper on NTNI activities and products to: (1) further clarify the concept of NTNI, (2) analyze the characteristics, features, and risk profiles of a wide range of NTNI-like activities and products across jurisdictions, and (3) identify the transmission channels through which they could contribute to systemic risk.[154] The consultation paper is part of an effort by the IAIS to update and improve upon NTNI concepts that were published in a July 2013 G-SII Policy Measures paper and were largely focused on U.S.-only insurance activities.[155]

The IAIS published the paper *Systemic Risk from Insurance Product Features* in June 2016 (June 2016 paper), revising and clarifying the concepts of substantial liquidity risk and macroeconomic exposure.[156] This paper also discontinued the use of the non-traditional (NT) product label and

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[153] IAIS, "Global Systematically Important Insurers: Updated Assessment Methodology" (June 16, 2016), *available at* http://www.iaisweb.org/page/supervisory-material/financial-stability-and-macroprudential-policy-and-surveillance//file/61179/updated-g-sii-assessment-methodology-16-june-2016.

[154] IAIS, "Non-traditional, Non-insurance Activities and Products" (November 25, 2015), *available at* http://www.iaisweb.org/page/supervisory-material/financial-stability-and-macroprudential-policy-and-surveillance/file/34257/final-initial-assessment-methodology-18-july-2013.

[155] IAIS, "Global Systemically Important Insurers: Policy Measures" (July 18, 2013), *available at* http://www.iaisweb.org/page/supervisory-material/financial-stability-and-macroprudential-policy-and-surveillance//file/34256/final-g-siis-policy-measures-18-july-2013.

[156] IAIS, "Systemic Risk from Insurance Product Features (previously referred to as Non-traditional Non-insurance Activities and Products)" (June 16, 2016), *available at* http://www.iaisweb.org/file/61174/systemic-risk-from-insurance-product-features.

the first two NTNI-related principles from the 2013 G-SII Policy Measures paper. The IAIS replaced this NTNI label with a more granular assessment of insurance product features, noting that certain insurance products may have a greater potential to pose systemic risk. The IAIS also removed double counting in the assessment of risk of derivatives and variable annuities by removing the value of hedged exposures from the minimum guarantee on the variable products indicator. The paper concludes that "products with features that expose the insurer to substantial macroeconomic exposure risk (including credit guarantees) or substantial liquidity risk . . . contribute to the higher systemic risk potential of insurers."[157] While the IAIS analysis of insurance activities and products remains ongoing, the direction of its work – if globally focused – should lead to identification of such activities and products in insurance markets around the world. In particular, in the June 2016 paper, the IAIS committed to, among other things, "development of alternative approaches to better measure an insurer's macroeconomic exposure, including but not limited to, the various methods and tools within the ICS framework to measure macroeconomic exposure across an insurer's whole balance sheet."[158]

2. Financial Stability Board

The FSB is an international body that the Group of Twenty (G-20) established to implement the G-20 financial sector reform agenda. The FSB promotes international financial stability through cooperation among financial regulatory authorities and international standard-setting bodies as each works toward developing strong regulatory and supervisory policies across financial sectors. Through such efforts, the FSB seeks to strengthen financial systems and increase the stability of international financial markets. FSB-recommended reforms are not self-executing, and are not binding unless and until implemented by member jurisdictions and national authorities in accordance with domestic processes. The United States is represented at the FSB by Treasury, the Federal Reserve, and the Securities and Exchange Commission (SEC).

In 2009, in response to the global financial crisis, G-20 leaders asked the FSB to develop a policy framework to address the systemic and moral hazard risks associated with global systemically important financial institutions (G-SIFIs).[159] In response, the FSB developed a framework and called on the relevant international standard-setting bodies to, among other things, develop methodologies for identifying G-SIFIs in each financial services sector. To the extent implemented by the home jurisdictions, the framework recommends that G-SIFIs be subject to heightened prudential requirements, including enhanced group-wide supervision and group-wide resolution planning.

Based on the recommendation of the IAIS, and in consultation with national authorities, the FSB began in 2013 to identify on an annual basis a list of G-SIIs. Since 2013, the FSB has identified

[157] *Id.*, p. 4.

[158] *Id.*, p. 3.

[159] FSB, "Addressing SIFIs," *available at* http://www.financialstabilityboard.org/what-we-do/policy-development/systematically-important-financial-institutions-sifis/.

nine insurers as G-SIIs (see Box 3 for the 2015 list of G-SIIs). The 2015 list of G-SIIs includes Aegon N.V., which had not previously been identified as a G-SII, and excludes Assicurazioni Generali SpA, which had been identified as a G-SII in 2013 and 2014.

Box 3: Global Systemically Important Insurers Identified by the FSB in 2015

Aegon N.V.	Netherlands
Allianz SE	Germany
American International Group, Inc.	United States
Aviva plc	United Kingdom
AXA S.A.	France
MetLife, Inc.	United States
Ping An Insurance (Group) Company of China, Ltd.	China
Prudential Financial, Inc.	United States
Prudential plc	United Kingdom

Source: FSB, "2015 update of list of global systemically important insurers (G-SIIs)" (November 3, 2015), *available at* http://www.fsb.org/wp-content/uploads/FSB-communication-G-SIIs-Final-version.pdf.