GAO Highlights

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

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INTERNATIONAL INSURANCE CAPITAL STANDARDS

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

Why GAO Did This Study

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

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

What GAO Recommends

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

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What GAO Found

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

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

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

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