



FedFin Client Report

Thursday, September 8, 2022

Senate Banking Considers Insurance Risk, Reach

Client Report: INSURANCE61

Executive Summary

Chairman Brown (D-OH) convened a hearing today focused on the insurance industry largely focusing on the extent to which private-equity takeovers endanger insurance solvency and threaten pensioners following risk transfers. Republicans generally denied any concerns but joined the chairman in urging U.S. agencies to play an active role in IAIS and decline to join global standards adverse to U.S. interests. Sen. Van Hollen (D-MD) also raised the issue of insurance-industry reliance on the [Home Loan Banks](#), but a witness representing the NAIC and the head of the Federal Insurance Office took no stand on any concerns here. Senators also addressed insurance discrimination, reparations, cyber risk coverage, and climate hazards, but no legislation in any of these arenas was advanced.

Analysis

Opening Statements

Chairman Brown (D-OH) listed climate disasters, racial discrimination, and industry interconnections as growing insurance-industry risks. He also stressed the importance of American representatives ensuring fair treatment of the US insurance system in discussions with IAIS.

Ranking Member Toomey (R-PA) echoed the Chairman's global-regulatory concerns, warning implementation of the current ICS would harm long term insurance products. He also denounced what he called partisan efforts to use insurance regulation to address climate change.

Testimony

Maryland Insurance Commissioner Kathleen Birrane, testifying on behalf of the National Association of Insurance Commissioners, and Federal Insurance Office Director Steven Seitz both noted climate risk, private equity's growing role, cybersecurity, inclusion, and ongoing ISC discussions as top priorities. Commissioner Birrane also urged Congress to pass long-term

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flood insurance reauthorization and supported legislation to give insurance regulators a vote on FSOC.

Q&A

- **Private Equity Growth:** Sen. Hagerty (R-TN) asked Commissioner Biranne if private equity-owned insurers are treated differently by state regulators; he stated that these companies generally face the same regulatory scrutiny although some states have even tighter regulations. Sen. Toomey asked Director Seitz to verify whether an internal memo is being drafted about the growth of private equity for discussions with IAIS; he did not confirm or deny, only stating that this issue is being discussed.
- **Pension Risk Transfer:** Chairman Brown asked Director Seitz what the impact of pension transfers will have on the financial system, with Mr. Seitz only mentioning that his agency is monitoring this issue. Sens. Hagerty and Warren (D-MA) asked whether pensions are less safe after transfer; Commissioner Biranne replied to Sen. Hagerty by emphasizing that the system is designed to avoid failure and make sure that insurers are adequately reserved, and Director Seitz only replied that FIO is working to ensure that state mechanisms properly address changes in the sector. Sen. Warren also endorsed her bill to strengthen private equity disclosures.
- **Cyber Insurance:** Sens. Reed (D-RI) and Tester (R-WY) asked Commissioner Biranne how NAIC is working with the industry to address cyber risk. The Commissioner noted that NAIC has developed a cyber security supplement to better track information, made a model law that many states have adopted to increase data security and event notification speed, and is actively engaged in finding an appropriate backstop. Sen. Reed also noted a GAO study that found increasing premiums and coverage gaps in cyber insurance, with Director Seitz agreeing with the report's findings and noting that FIO is currently looking into whether there is proper coverage among SMEs.
- **Climate Risk:** Sen. Tester asked Commissioner Biranne if the NAIC has taken increasing devastating weather events into account; she stated that NAIC has noted an exponential increase in weather-related claims. Sen. Van Hollen asked the Commissioner if the data state regulators use to assess climate data is up to date and whether it should be nationally standardized. Ms. Biranne responded by stating that NAIC has added more climate events to its risk-based capital framework, has rigorous data collection that is constantly being improved, and that discussions are ongoing about the appropriateness of national standards. Sen. Menendez (D-NJ) claimed that risk rating 2.0 has led to a significant drop in flood insurance coverage, calling on Director Seitz to work with his office to find a bipartisan solution.

- **FHLB Review:** Sen. Van Hollen asked Director Seitz if FIO plans to participate in FHFA's review of the FHLBs, given increasing insurance company use of FHLB funding; he did not clearly indicate FIO's position, only saying that it looks forward to working with FHFA on the issue.
- **IAIS Discussions:** Sens. Moran (R-KS) and Rounds (R-SD) claimed that the ISC being developed by IAIS is Eurocentric and would harm American insurance products. Both witnesses agreed, emphasizing the importance of US representatives advocating for standards that are compatible with the American insurance market.