

**Prepared Remarks – Keynote Address  
Director John M. Huff, on behalf of the NAIC  
IAIS Annual General Meeting  
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Thank you for the opportunity to speak to you today. It truly is an honor to be here with you.

In particular, I want to thank Peter Braumueller, the Chairman of the Executive Committee, for his gracious invitation, and Yoshi Kawai, the Secretary-General of the IAIS for his support.

And, of course, I want to thank our kind hosts, the Bank of the Netherlands and, in particular Joanne Kellerman along with my friend, Petra Hielkema. It's been a great series of panels and speakers so far, and you have really made us all feel welcome here in Amsterdam.

Last but not least, I want to acknowledge my fellow U.S. state insurance regulators and NAIC colleagues in the audience today, including all of our current NAIC officers --- Commissioners Hamm, Lindeen, Consedine & Clark --- and our CEO, former U.S. Senator Ben Nelson, in addition to our Team USA partners from the Federal Reserve and Treasury.

We have a large delegation here this week for one reason: the work of the IAIS is very important to the United States, to our markets, our consumers, our industry, and to our future.

The U.S. state insurance regulators and the NAIC are well aware of the value and need for supervisory cooperation, and therefore were proud to be founding members of the IAIS. We like to remind Yoshi that we provided the seed money and initial staffing and office resources for the IAIS – unfortunately he keeps coming back for more and more! Regardless, we are all proud of the important work and significant achievements of this organization over the past two decades.

This year marks the 20th anniversary of the IAIS, which I believe is the largest financial services standard setting body in the world by membership, including 210 members from more than 150 nations and six continents. The size and diversity of the IAIS membership is one of its strengths.

The adoption of the IAIS Insurance Core Principles in 2003, and their revision in 2011 in the wake of the financial crisis form the basis for international standards of insurance regulation and

supervision that guide IAIS members and help us safeguard insurance markets for people in every corner of the world.

In this era of increased regulatory change, and necessary regulatory cooperation, the forum of the IAIS is invaluable to our work and critical to ensuring that these changes reflect the unique nature of insurance and its regulatory approaches. IAIS members come to the table with a variety of experiences and knowledge which help enrich our collective work.

For the past 4 years, I was a member of the U.S. Financial Stability Oversight Council or FSOC, which has the responsibility to identify and respond to risks to our financial system and to identify Systemically Important Non-Bank Financial Institutions or SIFI's for heightened supervision by the Federal Reserve.

My role on the Council since 2010 was to represent U.S. state insurance regulators and to contribute our experience and perspective to assist the Council in its mission.

I also serve the NAIC in various capacities, including Chair of our Accreditation Committee, which ensures all states have the laws,

rules, tools, resources, and people in place to regulate and supervise the business of insurance in a consistent manner.

In addition, I Chair the NAIC Reinsurance Task Force, which considers and makes improvements to the regulation of reinsurers. At the reinsurance task force we are making substantial progress in methodically and progressively reducing the need for foreign reinsurers to post reinsurance collateral in the U.S.

I have also participated in many international discussions on insurance standards and best practices, and I have a deep respect for all the insurance regulators here this week dedicating their time and energies all year long to improve the quality and effectiveness of insurance regulation and to further enhance our abilities to cooperate with each other worldwide.

However, while I have served at the FSOC, the IAIS, and the NAIC, I am first and foremost the Director of the Missouri Insurance Department.

Our Department's mission statement talks about encouraging fair and open markets, maintaining consumer confidence, protecting

the public interest, increasing regulatory efficiency, and driving a competitive insurance environment.

These are important and lofty ambitions, but put more simply, it's my job in Missouri to ensure that promises made by insurers, are promises kept.

Some of you may have heard of a city in Missouri called Joplin. Three years ago Joplin was ravaged by a category EF5 tornado with winds that exceeded 200 miles per hour in what would become our largest insurance event in Missouri history.

161 Missourians lost their lives that day and many more lost their livelihood. There was approximately 2.8 billion dollars' worth of damage in that city of just 50,000 people.

Schools, homes, and small business were destroyed. When I visited Joplin to determine how my department could best help policyholders affected by the tornado, it was clear people were distressed but hopeful. Amidst the death, devastation and loss, people knew that they would persevere, in large part because they could rely on their insurance policies to help piece their lives back together. I've often said Joplin is being rebuilt because of the resilience of its people and because of the reinsurance from

the global marketplace. My experience in Joplin has shaped how I carry out my duties, focusing on solvency and consumer confidence and protection, and I am sure many of you have similar stories.

So, as we here at the IAIS focus on the tools and rules of our profession, we must never lose sight of the real impact our work can have in protecting the financial security of people's lives and businesses.

My experience with Joplin has also highlighted the importance to me of working in collaboration with other officials and agencies, to pull together different authorities and perspectives with a common objective – in this case, rebuilding and restoring a community.

This type of collaboration is not limited to my interactions in Missouri. As I said, I was an active participant at the US FSOC for the past four years, and it was the intent of the U.S. Congress in creating FSOC to pull together different perspectives, different experiences, multiple eyes from insurance, bank, and market regulation to provide a more robust mechanism for monitoring the U.S. financial system for risks.

Indeed, Congress recognized that when it comes to financial stability, a set of financial regulators with diverse experiences could do more collectively than any of us could do individually.

At the IAIS, I believe we have that same opportunity. Together, we can develop standards and best practices that build on our diversity to better protect policyholders regardless of where they call home.

Given our diversity, sometimes collectively agreeing upon and achieving common outcomes at the global level can be a challenge (just ask anyone who was at the committee meetings here earlier this week). When we talk, debate, and discuss concepts at the IAIS like GSII's, capital requirements, ComFrame, and core principles, we must remember that our decisions may have both positive and negative implications for policyholders in our home markets. Therefore we must be sure to consider the unintended consequences of our work as it develops.

Let's also acknowledge that there are competitive implications as well. For example, right now, the IAIS is in the midst of developing three separate capital standards for SIFIs: the BCR and the HLA, and for IAIGs, the ICS. No doubt capital provides

protection for policyholders as it acts as a cushion for a firm to absorb shocks, but if regulators require too much capital, then prices for consumers go up.

A delicate balance needs to be achieved, and we must leverage other supervisory powers to complement capital such that we do not become over reliant on it.

Also, let's acknowledge that our approaches to capital can be very different. In the U.S. as an example, with the exception of SIFIs, which I will discuss in a moment, the goal of the insurance capital requirements is not to prevent failure of a firm but to ensure the impact to policyholders is minimized. In other words, firms are allowed to fail but policyholders still need to be protected.

When it comes to core principles, let's truly make them principles where there is broad agreement they are critical to policyholder protection; true international norms that individual members can implement in a way appropriate for their home jurisdiction. When it comes to the capital requirements, the BCR, HLA, and ICS, we need to recognize that given the timelines, we need to work with present supervisory systems rather than thinking such standards

could be used to dramatically reshape those established under existing law. As we move forward on these issues, practical and implementable change will be evolutionary, not revolutionary.

And let's also take the time we need to develop standards appropriate to the insurance industry, and resist the pressure to homogenize regulation to treat all products and all investments the same.

To resist this pressure, our work must be credible and it therefore must be transparent. Transparency is important Whether developing the national and global response to financial stability, or simply helping our community respond to a natural disaster, the work we collectively do, can have a tremendous impact on policyholders, the financial industry and the economy as a whole.

With that potential comes great responsibility, and I believe, a heightened obligation to be transparent in our work.

While we have important and ambitious projects, some with very tight timelines, we need to avoid trading a perceived need for

expedience for a very real need of conducting our business in an appropriately open and transparent manner.

I have every confidence in the professionalism of the regulators in this room, but we should leave no doubt of our convictions and our views by embracing a greater degree of input and transparency in our consequential efforts.

The success of these efforts, I believe, will hinge as much on HOW we conduct ourselves and our work, as on what we ultimately produce.

Therefore we must ensure we have meaningful avenues of engagement with all of our Members as well as with stakeholders at the various stages of IAIS deliberations.

Now let me turn to financial stability and GSII designations. If you can allow me to be somewhat provocative in saying I am a bit concerned that the conversations surrounding the identification of GSII's seem to involve a number of considerations other than simply the clear identification of systemic risk.

In my time thinking about financial stability, I have come to learn that there are two basic perspectives.

First, there are those who believe designation is designed to diminish moral hazard, eliminate too big to fail, and reduce reliance on government intervention. Those who ascribe to this view believe that firms should be incentivized --- through both the operation of regulation and the market --- to become less systemic. In other words, these firms should be placed at a competitive disadvantage from those that have not been designated.

Since the goal is to designate those firms that could actually wreak havoc on the economy, those who identify themselves with this paradigm believe that the identification of systemic firms should be a high threshold based on robust analysis designed to determine whether there will be broad based impacts on the financial system of a particular country or countries.

In my view, any systemic risk designations should, by definition, be considered temporary and extraordinary events, with some

urgency to remediate the factors believed to contribute to those unacceptable risks to the financial system.

Second, on the other hand, there are those who believe designation is merely a means to an end, designed to ensure the largest firms with significant scale and scope are subject to regulatory requirements designed only to reduce their likelihood of failure. The hope is such an approach subsequently will achieve other goals such as reducing moral hazard and systemic risk.

In this regard, similarly situated firms should have similar regulatory requirements and larger firms should all be designated to ensure that no firm of similar size and scope should have a competitive advantage over others both in the markets where they compete and in the capital markets.

Where, for example, insurance firms are of such size that they are as significant players in the capital markets as firms in other sectors, such as banks, then these insurance firms too should be subject to similar regulatory requirements, perhaps tailored to individual business models.

Should the identification of such larger firms lead to competitive

impacts relative to smaller firms in their sector, it is noteworthy but not necessarily a concern.

Because the goal is placing firms of similar size and scope in the same bucket, rough justice can be used to identify systemic firms. In short, those in this camp believe in managing the systemic footprint of such firms rather than reducing it.

Fundamentally, this is the policy divide.

There is no doubt to me that the second approach is the path of least resistance. It feels safer because all large firms are subject to heightened capital requirements; it is easier to implement because SIFI identification is done with a broader brush, it is simpler and requires less analysis; & last but not least, it keeps competitive distortions in the market place to a minimum because all firms of similar size and scope have the same regulatory requirements.

So let me try to explain why I think this approach *is* problematic for regulators and policymakers.

Applying the second approach simply perpetuates the myth that the financial system is safer because we have added regulation

rather than by having removed risk. That is an arms race regulators will lose in the long run. It's like putting a "danger" sign on a speeding truck, requiring its brakes and airbags to be checked for wear every year, but letting the driver continue to speed. The truck hasn't changed its behavior, it is just perceived to be safer because of the frequency of the tune-up.

Similarly, in the context of GSII's, we label companies systemic, apply a risk-based SIFI capital surcharge, and make them file a resolution plan to ensure there is some theoretical comfort that, in the event they fail, the resolution will be orderly.

Our hope is that we have made the system safer, but have we? While these policy measures can be useful, do they get at the core of the problem? Do they address the activities that CAUSE the concern? Have we even made an attempt to identify the "exit ramp" for companies to avoid the designation and the attendant policy measures? Not that I have seen in my experience.

In financial stability circles there is a narrative that insurers can be systemic through "asset liquidation," similar to a "run on the bank." That is to say, surrendering a life insurance policy or similar behavior can force a company to sell assets into a market,

depressing the prices and the value of those assets for other insurers and financial market participants, thereby causing significant market disruption that in turn, causes broad systemic effects throughout the financial system and the economy.

While I agree heightened surrenders, can and do occur, such an extreme scenario is beyond far-fetched, particularly in light of the regulatory authorities that exist, at least in the U.S., to address such events.

We cannot sacrifice the interests of the remaining policyholders of an insurance company for those of the surrendering policyholders, even in a dire economic environment.

That means I can NOT allow an insurance company to pay such surrender claims through asset liquidation if existing policyholder interests could be threatened, whether through the depletion of insurance company assets and other funding or even declining asset values in categories of investments, like long-dated bonds, that insurance companies tend to hold. Candidly, there are tools in my toolbox that are much more effective and much more targeted than additional capital for dealing with such concerns.

To be sure, additional capital can be a mitigant, if it is held in liquid assets. But when we talk about a systemic crises, we are talking about significant tail events. That means the scope and extent of the crisis is of such significance that additional capital needed to truly protect the system from any likely failure of a SIFI would be so significant that the company would be simply unable to operate in any traditional sense. Capital is merely an indirect mechanism for addressing concerns, and is not able to do so fully.

Rather, the primary focus should be on the identification of specific activities that cause the concern and addressing those activities through targeted tools.

- If it is surrenders you are concerned about, then put in place surrender disincentives, provide the company the ability to delay payment, or limit the amount of surrender-able products that companies can sell.
- If the concern is credit default swaps, put in place risk limits, appropriate liability recognition rules, and require margin.
- If the concern is concentrated exposures to specific types of firms, put in place concentration limits.
- If the concern is complexity, then require firms to restructure.

These are far more targeted approaches to dealing with specific issues with systemic implications.

Most importantly, when it comes to discussions of financial stability, we must remember who we are protecting the stability of the financial system for—it is not large, sophisticated counterparties, it is policyholders, depositors, small businesses, & individual investors that rely on the financial markets for their retirement.

At the core, the people we protect are the individuals and families that rely on financial products to help folks lead fulfilling lives and protect their livelihood.

So when I hear some try to distinguish the goals of financial stability supervision from the goals of policyholder protection, I take issue.

Those of us in the business of policyholder protection are necessarily in the business of financial stability—policyholders are not just part of the fabric of the financial system, they are among those we are seeking to protect.

Consequently, threats to financial stability that can impact policyholders whether created by the activities of banks, insurance companies, or other non-bank financial institutions are threats that we care about as insurance supervisors and need to protect against.

Whether at the FSB or the FSOC, we insurance supervisors need to provide clear and unambiguous guidance about how OUR sector functions to provide consumers with peace of mind, and to provide the financial system with a pillar of stability.

The role of insurance supervisors has never been more critical, and therefore the role of the IAIS has never been more necessary. We must take advantage and benefit from our individual and collective experiences as insurance supervisors. We must find our voice.

As I step back and reflect on the work that all of us have contributed to in just the past several years, I am in awe of the dedication, the professionalism, and the sense of purpose that our supervisory community has brought to bear to meet the challenges of our time.

Thank you once again for having me and enjoy the rest of the conference and annual meeting.