MetLife

Statement of

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"Seeking a Level Playing Field in Regulation and Markets"

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Chairwoman Biggert, Ranking Member Gutierrez, members of the Subcommittee, my name is Bill Toppeta and I am MetLife's Vice Chairman for Europe, Middle East, Africa and Asia. I spent 10 of my 38 years at the company as President of MetLife International where I had the opportunity to lead MetLife's insurance and employee benefits businesses in over 50 countries outside the United States.

You likely know MetLife to be the largest life insurer in the United States. In recent years, we have grown to become a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 50 countries. Through its subsidiaries and affiliates, MetLife holds leading market positions in the United States, Japan, Latin America, Asia, Europe, and the Middle East and Africa. In 2011 our businesses outside the US contributed approximately 35% of MetLife's operating earnings.

In addition to my MetLife responsibilities, I would like to cite here some of the additional roles that influence and inform my testimony today. I represent our company's close international involvement with the US Chamber of Commerce, as well as our engagement with the American Chambers of Commerce around the world. I serve on the Executive Committee of the US-Korea Business Council, the Board of the Korea Society, and the Board of the Council of Americas. I also serve as Chairman of the Coalition of Service Industries, a group of industry leaders that champions the cause of free trade specifically in the service sector. Further, I am a past chair of the International Committee of the American Council of Life Insurers (ACLI) where I remain a member.

Although I am not testifying today on behalf of the ACLI membership, I know from my involvement there that we will be working shoulder to shoulder with other ACLI members who are globally engaged in finding solutions to distortions in the competitive landscape.

<u>Barriers Come in All Forms</u>

Relevant to the purpose of this hearing, MetLife's global brand promise is to help our customers overcome barriers. In our global business we have discovered a great commonality among consumers. The commonality is that there are barriers that prevent consumers from getting the financial security that they want and deserve. The barriers may vary in different countries, but we view it as our role to enable and embolden our customers to take action to protect their families and to save for retirement.

But the barriers I am here to talk about today are regulatory and market access barriers that inhibit our competitiveness globally, and the impact those competitive challenges can have on jobs. I mention the consumer barriers because for MetLife that is our primary business focus, and because the challenges that arise from regulatory obstacles inevitably affect the affordability, availability and complexity of the products our company offers across the globe.

We recognize that coming up with the appropriate regulatory balance is not easy. Critical to today's discussion is to gain an appreciation for the costs and consequences of over-regulation or competing regulation, and that striking the right balance is a large part of the challenge.

First I plan to discuss the proliferation of regulation and the competitive challenges that represents in the global marketplace. Then I will turn to the market-specific challenges which are primarily non-tariff regulatory and market access barriers.

Our recommendations are simple. First, policymakers should weigh carefully the impacts of duplicative or conflicting regulation. Second, insurance should be regulated as insurance, not as banking. And third, policymakers should address non-tariff barriers impacting insurers operating abroad through trade agreements and intergovernmental dialogues.

I. Regulatory Proliferation and Competing Standards

It is hard to imagine an industry that has more layers of regulation than the life insurance industry, and that situation appears to be getting worse, not better. Although we favor good, strong regulation, multiple layers can actually be self-defeating to say nothing of confusing and expensive.

In the United States, insurance companies, products and agents are licensed and approved at the state level. State insurance departments also regulate company solvency and oversee consumer protection. State level regulation is influenced and guided by the National Association of Insurance Commissioners (NAIC). Federal departments and regulatory agencies, such as the US Department of Labor or the Securities and Exchange Commission, also oversee certain products sold by life insurers. The Internal Revenue Code, state revenue commissions, and state tax commissions govern the tax treatment of some products. Now, if a life insurer is deemed to be systemically important under the Dodd-Frank legislation and accompanying regulation then the Federal Reserve may apply additional regulation or capital adequacy requirements.

As Members of Congress, you are well aware of the complexities of insurance regulation in the US. You may be less familiar with the impact on our industry of G-20 initiatives to reform international financial regulation. So, it may be useful if I map out the players, how they are connected and will impact the manner in which multinational insurers, including US-based insurers, are supervised.

On April 5, 2009, in response to the 2008 financial crisis the G-20 issued a Global Plan for Recovery. This Plan established an international body, the Financial Stability Board (FSB), to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability. FSB members include central banks, finance ministries, international organizations and international standard setting bodies. The United States is represented on the FSB by the US Federal Reserve, the Securities and Exchange Commission, and the US Treasury.

The global insurance industry is represented by its international standard setter, the International Association of Insurance Supervisors (IAIS). The IAIS membership comprises supervisors and regulators from some 190 jurisdictions, including major insurance markets. The US representative to the IAIS is the Director of the Federal Insurance Office (FIO) supported by the NAIC.
The FIO was created under Dodd-Frank to monitor all aspects of the insurance industry, including coordinating and developing Federal policy on prudential aspects of international insurance matters. The NAIC is the organization of insurance regulators from the 50 states, the District of Columbia and five US territories.

The FSB implements G-20 initiatives through international standard setters and therefore the IAIS is charged with developing implementation frameworks for the international insurance industry.

This intersection of global and domestic policies and standard setting creates an increasingly complex global regulatory environment. Duplicative or conflicting regulations may inhibit growth and fail to address the very issues they were intended to cure. This situation may negatively affect the competitive position of US insurers with attendant adverse consequences for US customers, shareholders and employees.

I would like to address several major initiatives to illustrate my point.

<u>Systemic Risk: Domestic and Global Designation Methodology and Prudential Measures</u>

As we work to grow economically, we cannot lose sight of the lessons of the financial crisis. It is appropriate for regulators and politicians to focus on systemic risk issues and the increasingly global nature of the financial services industry.

Initiatives to assess and manage systemic risk in the insurance industry are under way in the US – under Dodd-Frank – and at the international level – at the direction of the FSB.

Internationally, the FSB is responsible for identifying financial institutions that may pose risk to the global financial system (global SIFIs), and for implementing measures to mitigate the risks they pose.

In the US, the Dodd-Frank Act created the Financial Stability Oversight Council (FSOC) to provide comprehensive monitoring of the United States financial system, including the authority to designate domestic systemically important financial institutions (domestic SIFIs).

Both the FSB and the FSOC will assess insurers as part of their mandates to manage systemic risk. Timing and differences in assessment and management of domestic and global SIFIs raise significant concerns that US insurance companies will be inappropriately regulated in a bank-centric manner and potentially in ways materially different from their non-US competitors. The Federal Reserve has already proposed draft rules for regulating insurers designated systemically important, but other countries are expected to do so once international standards are developed. This approach could make US companies less competitive than their international counterparts. Let me explain.

At the global level, the IAIS is developing an *insurance-specific* assessment method to identify global systemically important insurers (SIIs). Its draft is expected to be released soon, and an IAIS November 2011 Report has already concluded that traditional insurance activities do not generate or amplify systemic risk. The IAIS continues its work on prudential measures to apply to global SIFIs with a target of end 2012.

As neither the FSB nor the IAIS has the legal authority to regulate in individual markets, they will defer to national regulators to manage any insurer designated a global SIFI.

Although the IAIS will assess and manage insurance as a distinct sector, the FSOC appears poised to apply its assessment criteria to all potential non-bank SIFIs without regard to the particular industry within which a company operates. In addition, the Federal Reserve's proposed prudential standards for non-bank SIFIs are currently bank-centric and do not adequately reflect the nature of insurance business.

As a result, US insurers may be placed at a competitive disadvantage to their non-US counterparts unless the FSOC and the Federal Reserve promptly recognize and acknowledge the differences between the insurance industry and other parts of the financial sector as they implement the Dodd-Frank Act.

All this activity must be understood against the backdrop of the general agreement by US and international regulators that there is little evidence of traditional insurance activities generating or amplifying systemic risk.

We acknowledge that engaging in material amounts of non-regulated or non-insurance activities may pose a risk to the system, but would underscore that no past insurance company failure involving regulated, traditional insurance activities has generated systemic failure. My colleague, Bill Wheeler, MetLife's President of the Americas, offered testimony to this effect yesterday before the Financial Institutions and Consumer Credit Subcommittee.

In spite of this, debate continues on whether insurance is systemically risky and proposals are put forward that would distort competition.

We propose that the most efficient and cost effective approach policymakers and regulators could take to avoiding repetitions of the 2008 crisis is to focus on unregulated and non-insurance activities. Those activities identified as problematic could be further evaluated against agreed criteria to measure the potential exposure to systemic failure.

For all these reasons, we urge the Federal Reserve and FSOC to work with the IAIS and the FSB, through the FIO and the NAIC, to coordinate the development of frameworks for the management of domestic and global SIFIs based on the existing insurance risk-based framework. This would avoid inefficiency, increased costs, the creation of an un-level playing field and resulting market distortion.

Equivalence and the EU Solvency II Directive

Another example of regulation that may negatively impact the competitiveness of US insurers is the Solvency II Directive in the European Union (EU). Solvency II is an EU Directive to regulate the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.

One of the components of Solvency II is a greater focus on group supervision, or looking at risks across anentire corporate group of insurance operations, in addition to assessing the solvency of each legal entity. Since many insurance groups operating in the EU also have businesses outside the EU, the EU proposes to assess the "equivalence" of these "third country" supervisory regimes for the purposes of group supervision.

It will not surprise you to learn that, as a large US-based insurer with operations in Europe, MetLife would like to see the EU recognize the US system of regulation as equivalent for Solvency II purposes. The EU concept of 'equivalence' is challenging because it tends to look at supervisory structures as well as the outcomes they achieve. We would argue that regulators should focus on the outcomes provided by regulation, rather than the structure of the regulatory system.

We are wary of premature arguments for regulatory 'convergence.' What we need at this stage is consistency achieved through mutual recognition of the outcomes of our respective systems, rather than pressure to replicate or adapt models from other countries.

In this view we are in line with our European industry counterparts. Mutual recognition will benefit consumers, markets and businesses on both sides of the Atlantic. Solvency II is also being considered as a model for adoption in numerous other markets where US insurers compete. A positive conclusion to the EU-US dialogues on insurance regulation will set a strong precedent for regulatory cooperation on insurance around the world.

Congress is in an excellent position to elevate the US-EU dialogue on equivalence. Rather than focusing on the differences between US and EU regulatory structures, the congressional spotlight can be shone on the benefits of mutual recognition, which flows to consumers, EU and US businesses, regulators and our two economies. Whenever transatlantic dialogues take place, it will be helpful to hear a chorus of congressional support for transatlantic cooperation on insurance regulation. The world's two largest insurance markets deserve the level playing field that will come from mutual recognition.

The IAIS ComFrame Initiative

MetLife supports the IAIS initiative to develop a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), as a way to enhance group supervision. ComFrame proposes an internationally coherent framework for supervising large multinational insurers that draws on agreed international insurance core principles and standards.

We believe that ComFrame could provide the basis for greater mutual recognition and coordinated supervision. This belief is predicated on the assumption that ComFrame will be designed as a supervisory tool for comprehensive oversight that recognizes different regulatory architectures and defers to existing regulation where adequate.

There are risks of duplicating quantitative and qualitative reviews and reporting requirements, which may result in added cost for insurance groups and their clients, which could also impact competitiveness. The current draft of ComFrame recognizes this risk and defers to existing adequate national provisions for group supervision.

However, a critical portion of ComFrame remains to be developed--the so-called "common language," or the translation of the results of different capital adequacy and solvency assessment methods into numbers all supervisors can understand. We certainly appreciate the need for this common understanding. However, since global accounting standards for insurers have not yet been agreed, there is no uniform basis for identifying a common metric at this time. Thus, moving prematurely to develop a common metric could undermine the achievement of ComFrame's most valuable and realizable goal: improving supervision of internationally active insurance groups through cooperation and consistent supervisory practices around the world.

II. Market Specific Challenges to Competitiveness

I have discussed the increasingly complex regulatory environment and the challenges it creates for US insurance companies at home and abroad. Now I would like to turn to market access barriers that can hamper the competitiveness of US insurers operating globally.

Free Trade Agreements and Life Insurers

As a life insurance company, we have operations in many countries around the world, but we do not export physical products—instead, we export competencies and expertise. This has significant implications for the creation of US-based jobs and for the obstacles we sometimes face in foreign markets.

For us, and for many in the services industries, the most important challenge to doing business is not tariffs, but non-tariff barriers that exist in areas such as regulation, investment restrictions, and data management rules, to name a few. Trade agreements are an important vehicle for us to address those non-tariff barriers to doing business abroad.

Additionally, in many markets, we compete with businesses that are either owned by or affiliated with the foreign government. Trade agreements are one of the most effective ways for us to get commitments to level the playing field for competition between state-owned or state-affiliated enterprises and private businesses like ours.

Unlike here in the US, where our competitors are other private businesses and government is the impartial regulator, in some foreign markets we actually compete against government-owned or government-affiliated enterprises. So the foreign government is both our competitor and our regulator. In FTAs foreign governments can agree to correct this imbalance.

Regulatory certainty and predictability are essential to the insurance business and the financial services market in general. Higher standards of regulatory transparency like those in trade agreements give US financial services companies greater confidence and ability to make the large capital investments needed to expand their businesses into new and growing markets.

The FTAs contain significant and rigorous regulatory transparency obligations. In the United States, we may take for granted that we know what the law requires. In many other markets this is not at all the case, making market entry, product approvals, commitment of capital, and operations less predictable.

Under the Korea US Free Trade Agreement (KORUS FTA), for instance, US insurers will have notice of, and a more meaningful opportunity to comment on, Korea's insurance regulations in a predictable manner and well in advance of these regulations taking effect. The KORUS FTA provides standardized "notice and comment" procedures for the insurance sector and grants US firms access to regulatory information on an equal basis with Korean competitors. Furthermore, it implements the adoption of a "negative list" approach for financial sector regulation, meaning insurers will be allowed to provide any product or service unless specifically prohibited or curbed by regulation. This reform is particularly useful for introducing new, innovative products to the market, benefitting consumers and enabling our business to grow.

Trans Pacific Partnership

Following the passage of the FTAs with Korea, Panama and Colombia, the next big opportunity to enhance the competitiveness of the US economy is the Trans Pacific Partnership (TPP). The TPP is a high-standard trade agreement being negotiated between the US, Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam.

The financial services provisions in TPP were built on the outstanding foundation established by the KORUS FTA. TPP also seeks commitments to level the playing field for private businesses competing with state-owned or state-affiliated enterprises. Not only is the TPP on track to conclude this year, but its open architecture allows for more countries to join, making it a model for 21st century trade deals.

Foreign Direct Investment Restrictions

One of the ways countries seek to protect their domestic industries is by restricting foreign direct investment (FDI) in certain sectors, usually for a limited period of time. Two of the world's largest markets, India and China, maintain tight restrictions on FDI in life insurance. In India, foreign insurers are limited to 26% FDI, and in China, the limit is 50%. This means that companies like MetLife, which want to provide world class services to customers in the world's two most populous nations, must identify local partners to invest and jointly govern their operations.

While a case was made for imposing FDI caps at the outset of developing the insurance industry in both markets, FDI restrictions are no longer valid for either market. After more than 15 years of competition with foreign-invested life insurers, domestic insurers dominate the Chinese market with more than 90% market share. In India, the government-owned life insurer maintains more than 70% market share after more than 10 years of competing with private insurers. So the original concern that foreign companies would dominate these markets has not come to pass in either case.

FDI caps are particularly challenging for life insurers because we must commit substantial capital not only to bricks and mortar, marketing and distribution of our products, but even more so to backing up the financial guarantees we make to our customers. The initial investment period for starting up a new life insurance venture is often ten or more years, and local investors may not always have the patience or the capital to sustain such long-term investments.

Reduction or elimination of FDI caps in these key markets will take the concerted effort of the federal government through all available channels. This includes bilateral and multilateral trade agreements, dialogues such as the China Strategic and Economic Dialogue, as well as the World Trade Organization. Congress is in an excellent position to keep a spotlight on this issue, and to support ongoing efforts by the White House, USTR, and the Departments of State and Treasury to eliminate or reduce FDI caps.

III. Job Growth: The Opportunity for Financial Services Companies and Life Insurers Presented By Free Trade Agreements

The expansion of American companies into international markets has long supported economic growth and employment here at home. Insurance premium growth rates outside the United States are double or triple those here at home and in some developing markets the growth rates are even greater. This relative growth opportunity, coupled with the recent economic challenges, makes it more critical than ever for US workers and businesses to be able to compete and succeed in the global marketplace.

There are many benefits to operating internationally for US companies. For one thing, having diverse international operations provides a natural hedge for market risk. While one market might be contracting, another may well be expanding, so diverse presence helps companies balance their performance. We saw this very clearly in the recent financial crisis. While some of our markets were hit very hard by the crisis, others saw little impact or recovered very quickly (like South Korea). This geographic market diversification allowed us to sustain the number of US-based employees supporting our business as we navigated through the crisis.

To fully recover from this recession and ensure long-term growth, one of our nation's top priorities must be to create millions of jobs; and especially high paying ones like investment and export-oriented jobs that global American companies can create. President Obama announced the National Export Initiative in his 2010 State of the Union address and set the ambitious goal of doubling US exports by the end of 2014 to support millions of jobs here at home. With the service sector generating four-fifths of our economic output, and comprising 80 percent of US private sector employment, our sector cannot afford to be handcuffed if we are to do our part in doubling exports in the near term and in so doing supporting substantial US job growth.

A recent study released by the Business Roundtable and the United States Council Foundation showed that US workers at global American companies make on average about 20% more than at companies that operate only domestically. The study confirms that American multinational companies, which account for a quarter of all private sector output and employ 22 million US workers, create more US jobs through their participation in the global economy. Furthermore, their international operations complement – rather than substitute for – domestic employment, employee compensation and investment. The equation is simple – more business overseas means more jobs at home.

To tap that overseas growth, it is essential to have free and open trade between nations, and agreements that recognize the importance of the services sector and create level playing fields for our business to compete in vibrant markets around the world. This is core to free trade agreements and why MetLife strongly supports the recently enacted free trade agreements with Colombia, Panama, and South Korea, and the pending TPP agreement.

Conclusion

The services sector is an American success story and an engine for growth and jobs. Without question, MetLife is enthusiastic about the opportunities to compete in the global marketplace.

We have three basic policy recommendations.

First, policymakers, both the in US and internationally, should weigh carefully the impacts of duplicative or conflicting regulation. Second, insurance should be regulated as insurance, not as banking. And third, policymakers should address non-tariff barriers impacting insurers operating abroad through trade agreements and intergovernmental dialogues.

Let me conclude by affirming that American companies are innovative; American workers are highly productive. Given a fair chance we can compete <u>and</u> win against anybody in the world.

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