

A Financial System That Creates Economic Opportunities

Asset Management and Insurance



THE EXECUTIVE BRANCH'S PLAN TO PROMOTE VIBRANT AND DIVERSE INVESTMENT AND SAVINGS OPPORTUNITIES THROUGH ASSET MANAGEMENT AND INSURANCE

SUPPORTING ASSET MANAGEMENT AND INSURANCE

The United States asset management and insurance industries are the global leaders in promoting vibrant capital markets and diverse investment opportunities for investors and businesses, and allowing Americans to safeguard themselves, their property, and their businesses against unexpected events. The United States is home to nine of the top ten largest global asset managers and the world's largest insurance market. Further, small and regional entities help diversify product offerings and the geographic reach of these industries.

ENSURING APPROPRIATE EVALUATION OF SYSTEMIC RISK AND SOLVENCY

The financial crisis led to questions about how to address financial stability and create a regulatory framework to mitigate systemic risk. Asset management firms and insurance companies have been evaluated for systemic risk and subjected to some enhanced regulatory standards. Yet, both have legal, structural, and operational characteristics that make them different than banks.

To better address systemic risk and solvency, the report finds:

- Entity-based systemic risk evaluations of asset managers or their funds, or insurance companies are generally not the best approach for mitigating risks arising from the asset management or insurance industries;
- Instead, primary federal and state regulators should focus on potential systemic risks arising from products and activities, and on implementing regulations that strengthen the asset management and insurance industries as a whole;
- A strong liquidity risk management framework is more effective approach to addressing liquidity risk than stress testing of asset management firms; and
- The state insurance regulators and the Federal Reserve should harmonize their respective ongoing domestic work on insurance capital initiatives, as well as continue their efforts to assess liquidity risk management in the insurance sector.

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PROMOTING EFFICIENT REGULATION AND GOVERNMENT PROCESSES

The asset management industry operates within a regulatory framework that, at its core, consists of laws with origins dating to the 1930s and 1940s. The insurance sector has operated under state laws and regulations for 150 years. Over time, laws have evolved as new products have developed and market events have occurred.

The report focuses on promoting efficient regulation and government processes by:

- Adopting a principles-based approach to liquidity risk management rulemaking for registered investment companies;
- Moving forward with a “plain vanilla” rule for exchange-traded funds that allows new entrants to avoid the cost and delay of obtaining individual exemptive orders;
- Modernizing shareholder reports to permit the use of implied consent for electronic disclosures;
- Realigning the Federal Insurance Office around five pillars of focus, including the promotion of the U.S. state-based insurance regulatory system and the U.S. insurance sector;
- Recommending that the Federal Reserve Board leverage the information that is received by the state insurance regulators and the NAIC from savings and loan holding companies, and that the Federal Reserve Board harmonize its financial reporting and recordkeeping requirements with corresponding state regulatory requirements;
- Encourage the states to expeditiously pass uniform legislation regarding data security and breach notifications for insurers; and
- Improving the coordination and collaboration among federal agencies and state insurance regulators on insurance issues.

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STRENGTHENING U.S. ENGAGEMENT IN INTERNATIONAL FORUMS

International regulatory forums addressing financial services policy have grown in importance since the financial crisis. The increased globalization of the asset management and insurance sectors necessitates the U.S. remaining engaged in ongoing international regulatory dialogue.

To strengthen U.S. participation, the report recommends:

- Promotion of the U.S. asset management and insurance industries and regulatory frameworks through a coordinated approach by U.S. members of international forums, and placement of appropriate domestic bodies in international forums to support policy development; and
- Increased transparency of the domestic policymaking and international standard setting process, including robust domestic stakeholder discussions to inform policy priorities.

PROMOTING ECONOMIC GROWTH AND INFORMED CHOICES

One of the key features of the asset management and insurance industry is the vast array of choices available to investors and policyholders. As Americans build wealth, plan for retirement, and protect their families and businesses, the inappropriate regulation of products and services can drive up costs or decrease options.

To promote economic growth and informed choices, the report recommends:

- The Department of Labor re-examine the implications of the Fiduciary Rule, and delay the full implementation of the rule until the relevant issues are evaluated and addressed to best serve retirement investors;
- The SEC, the DOL, and the states to work together to implement a regulatory framework appropriately tailored to both preserve investor choice and protect retirement investors in an efficient and effective manner;
- In order to encourage infrastructure investment, state insurance commissioners and the NAIC should evaluate potential ways to encourage the development of more calibrated regulatory treatment of high-quality infrastructure investments; and
- Treasury to convene inter-agency task force to develop policies to complement reforms at the state level relating to the regulation of Long Term Care insurance.