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Governor Dirk Kempthorne
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Thank you.

It is wonderful to be on British soil. In my roles as president and CEO of ACLI and chair of the Global Federation of Insurance Associations, I've had the opportunity to quote Winston Churchill, who in 1909 said and I quote:

"If I could, I would write the word 'Insure' over the doorway of every cottage. Because, for sacrifices so small, you can keep a family from being smashed up forever."

Note that Winston Churchill said "insure" should be written over *every cottage* not just cottages in the United Kingdom. Imagine every cottage in the UK, all of Europe, America and throughout the world having the word "insure" *written over every doorway.*

To Winston Churchill, our industry is noble.

I just came from Santiago, Chile, where the Inter-American Federation of Insurance Associations asked me: Will retirement become a luxury?

It is a great question. Around the world, the ratio of workers to retirees is declining. Taxpayers from London to Los Angeles will not be financially able to support the avalanche of retirees joining government retirement systems. Whether governments will be able to continue providing benefits at the level they do now is uncertain.

Demographic trends like these beg for solutions to ensure that retirement does not become a luxury. The insurance industry plays a leading role in providing those solutions.

But our ability to offer solutions will be significantly restricted if global standards are written improperly.

I thank ABI for inviting me to join this panel to talk about the U.S. perspective on global capital standards and the proposed HLA -- Higher Loss Absorbency requirement.

Life insurers know capital standards are important. Sound regulation and capital standards helped life insurers during the 2008-2009 financial crisis. Then-U.S. Treasury Secretary Timothy Geithner reported to Congress in 2011, insurers made it through the crisis, quote, "Quite well." End quote.

But, we all should recognize that if new standards are poorly drafted, they will do more harm than good.

So, let's consider Solvency II. Solvency II took over a decade to develop and incorporates some sophisticated measures of risk in its formula for capital requirements. However, because European regulators quickly realized that Solvency II's mark-to-market valuation methodology results in significant and unwarranted volatility, they had to pass a major reform even before Solvency II became effective. On the eve of its effective date, doubts about the effectiveness of the volatility adjustment are increasing, and we likely won't know the true volatility of Solvency II until the next crisis.

From a U.S. perspective, pure mark-to-market accounting is inappropriate for the insurance business model. It deviates from a highly reliable and crisis tested risk-based capital model in the U.S.

Governor Daniel Tarullo of the Federal Reserve Board, our central bank, recently said: "In some respects, Solvency II ignores the strength of conventional insurance funding — that assets can be held for the truly long-term, through multiple business cycles — even as it focuses directly on the fluctuations in asset values that are indeed relevant to many less conventional activities."

The problem with mark-to-market is that it assumes that company liabilities need to be paid at a point in time, and that assets need to be sold at that same exact point in time. At its core, it is a hypothetical view of a company's balance sheet. If U.S. insurers had to mark their assets to market they likely would not be able to continue making as many long-term investments.

From a regulator's perspective, it does not make sense to discourage long-term investments which are sorely needed right now to improve economic growth. The bonds we purchase today have an average maturity of over 18 years.

In the U.S. we are the Number 2 investor in domestic corporate bonds. They fund business expansion, job growth and innovation. We are a significant source of potential long-term capital for infrastructure. Immediately after the financial crisis, the insurance industry purchased 33 percent of the Build America Bonds. These were investments in hospitals, roads and other infrastructure projects.

We play a fundamental role in the U.S. economy and we don't want standards that put at risk our ability to invest for the long term and protect families and retirees. In sum, from both a U.S. regulatory and industry perspective, mark-to-market accounting will never work in the U.S.

Now, insurers in America have not been around as long as they have been here in the UK. I know that Lloyds of London started back in 1688.

But, we have some history.

Did you know that in the U.S. only one percent of businesses ever reach 100 years of age? But, 144 life insurance companies are 100 years old or older, representing 70 percent of ACLI member companies have been open for more than a century.

The business world envies our longevity! We thrive because we provide solutions and help families and people maintain their dignity throughout their lives. Significantly, that's our past … and that is our future.

Financial security for families and dignity for all in retirement should be a goal of governments around the world. These should be promoted through smart, long-term policies. This is why ACLI and GFIA work hard to make sure international capital standards are not rushed but are written correctly. These standards need to be sequenced properly, with domestic regulators taking the lead and coordinating with regulators worldwide. That will help produce results we all desire. No one will benefit from rules that undermine our mission.

Not long ago I testified before the U.S. Senate Banking Committee. It is important for me to say on this side of the Atlantic what I said on the other side of the Atlantic back in Washington D.C. I said, quote: "It is important for the U.S. Federal Reserve's capital standards and the Financial Stability Board's international capital standards to work in harmony, not in conflict." End quote.

Working in harmony will be essential in connection with the HLA requirement.

Fortunately, both the IAIS and the FSB recognize their version of the HLA is a first draft. As the FSB has noted: "The HLA standard will be revised before its implementation in 2019 to reflect further work by the IAIS."

A revision is needed because this first draft is seriously flawed. The HLA considers variable annuities as non-traditional activities subject to a higher capital charge. This is not appropriate.

Variable annuities are one of our core retirement planning products in the United States. They are strictly regulated by federal and state authorities. They have helped consumers in America for 60 years. They are a means to remain self-reliant, and not government reliant.

As I said before, the IAIS and the FSB recognize they have more work to do on the HLA. This includes revising the IAIS principles used to identify non-traditional, non-insurance activities. Any revision should better recognize the true nature of risk from an insurance balance sheet perspective and result in a level playing field.

ACLI is working with our member companies so that annuities are properly accounted for and understood by international standard setters. We will emphasize that the final version of the HLA must not have the unintended consequence of making it harder for consumers to purchase them, especially compared to products with similar market risks.

With so much to be done on variable annuities and other topics covered by the HLA, I have a question: What's the rush?

Basel II took 11 years. Solvency II took some 13 years to develop and implementation is still underway. It is critically important to get it right, not just get it done.

I am encouraged that leading international standard setters have said that it is important to get these standards right. Standards need to be developed in an open, sensible and cohesive way – with an impact assessment and cost-benefit analysis much like the European Commission undertakes.

Redrafting the HLA is absolutely necessary and needs a balanced policy framework. It must support the private sector in helping to provide financial security for our populations so they can supplement governmental safety nets.

At the same time, the HLA must also deter future financial crises. A policy framework that works has to effectively achieve both results.

In developing these policies, and communicating them to regulators, we need to remind ourselves of the noble work we do. Life insurance and annuities provide peace of mind. That's priceless.

We have been emphasizing this to our domestic regulators because they are considering an idea that, unfortunately, you all know too well. I am talking about the ban on sales commissions. In the United States we call it the fiduciary rule.

CEOs have told me the proposed fiduciary regulation is aimed at the very heart of our business models. We have learned from news reports that the UK's adoption of the commission ban has created a huge financial advice gap in your country. Eleven million people here in the UK have less access to financial advice now than they did a few years ago. ACLI is not being shy about sharing these facts with our regulators.

We are also pointing out to our regulators that their fiduciary regulation mentions annuities 172 times, but there is no mention of annuities in their cost-benefit analysis.

That is why what we do today is so important. Let's keep talking. Let's keep sharing.

You in the United Kingdom have shared with America and the world so much: ideas of democracy, as we find in the Magna Carta; a template for insurance, as reiterated by Winston Churchill; a love of literature, through the works of William Shakespeare.

Let’s take an optimistic attitude as we negotiate and borrow a theme from a small group of lads from Liverpool, the Beatles, who sang: We can work it out.

We are relevant. We solve problems. And we plan to continue in our effort to write the word ‘insure’ over the doorway of every cottage.