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GOVERNMENT RELATIONS
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National Association of Insurance Commissioners
& The Center for Insurance Policy and Research

FSOC Vote for Insurance Regulators

- NAIC supports the Primary Regulators of Insurance Vote Act (H.R. 2479/S. 1298) which would grant a vote on FSOC to state insurance regulators. State insurance regulators are currently the only primary financial regulators of a financial sector without a vote on the Council and are the only regulators that can broadly address risks the Council identifies in the insurance sector.
- The Financial Stability Oversight Council (FSOC) was established by the Dodd-Frank Act to identify risks to the financial stability of the United States, promote market discipline, and to respond to emerging risks to the stability of the U.S. financial system.
- FSOC has the authority to designate insurance companies whose financial distress or activities could pose a threat to financial stability for heighted supervision by the Federal Reserve as well as make recommendations to regulators on improvements to the state insurance regulatory system.

Background

FSOC was established by the Dodd-Frank Act to identify risks to the financial stability of the United States. FSOC is composed of the Secretary of the Treasury, 8 voting members representing the primary regulators of all the financial sectors other than insurance, a voting independent member with insurance expertise, and 5 non-voting members including a non-voting state insurance regulator. FSOC has the authority to identify insurance companies (and other non-bank institutions) whose material financial distress or activities could pose a threat to the financial system of the United States. It also has the authority to make recommendations on regulatory changes to primary financial regulators. The Treasury Department has recently recommended that FSOC focus more on identifying activities of financial firms or industries that could pose risks to financial stability and work more closely with primary regulators to address them.

To ensure that the broader insurance regulatory perspective is adequately represented in FSOC decisions that could affect the insurance sector and its regulation, state insurance regulators, as the primary functional regulators of the U.S. insurance sector, should have a voting seat on FSOC just like the primary regulators of the other financial sectors. State insurance regulators have the necessary expertise and information regarding the sector to inform FSOC's risk monitoring work and help identify any systemic risks that could impact the insurance industry. Further, state insurance regulators are the only regulators that can commit to taking regulatory action across the insurance sector to address any risks the Council may identify or other relevant regulatory concerns that may arise. The Federal Reserve has limited regulatory authority within the insurance sector as they only regulate FSOC designated firms and Depository Institution Holding Companies with insurance operations. The voting Independent Member with Insurance Expertise has no regulatory authority and therefore cannot implement any FSOC recommendations to address risks in the insurance sector. The Director of the Federal Insurance Office serves as a non-voting member but does not have regulatory authority and ultimately reports to the Treasury Secretary who already has a vote and serves as chairperson of the Council.

Key Points

- ✓ Insurance regulators have the necessary expertise regarding the sector to inform FSOC's risk monitoring work and are the only regulators who can commit to taking regulatory action across the insurance sector in response to any risks the Council may identify.
- ✓ Providing state insurance regulators a vote on FSOC will ensure all primary financial regulators of the financial sector have a vote on the Council.
- ✓ A state insurance regulator vote on FSOC will only benefit the Council and its important work of monitoring and improving the financial stability of all the financial sectors in the United States.

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