

March 10, 2014

Chairman Tim Johnson
Senate Banking Committee
United States Senate

Ranking Member Michael Crapo
Senate Banking Committee
United States Senate

Chairman Sherrod Brown
Subcommittee on Financial Institutions and
Consumer Protection
United States Senate

Ranking Member Patrick Toomey
Subcommittee on Financial Institutions and
Consumer Protection
United States Senate

Re: Insurance Capital Regulations Hearing

Dear Senators:

We write today on behalf of the National Association of Insurance Commissioners (NAIC) to thank you for empaneling tomorrow morning's hearing on "Finding the Right Capital Regulations for Insurers." Founded in 1871, the NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and the five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

As the regulators of insurance in the U.S., we are keenly aware of the many complicated considerations involved in setting capital standards appropriate for insurers, which necessarily have different risk profiles and liquidity needs than banks. Insurance companies are already subject to very strict state capital and reserving requirements to protect policyholders by ensuring that a company has sufficient funds to pay claims. We applaud your efforts to address potential confusion with respect to the capital and leverage requirements that should apply to insurers subject to supervision by the Federal Reserve as a result of their status as a Thrift Holding Company or systemically important financial institution designated by the Financial Stability Oversight Council.

As you consider legislative reforms, such as those suggested by Senators Brown and Johanns to allow additional flexibility for the Federal Reserve to carefully tailor their holding company capital and leverage standards to the insurance business model, we want to emphasize that it is critical that you preserve the walls around insurance legal entities that have protected policyholders for more than 150 years. Such walls ensure that a company has the ability to pay out claims to insurance consumers who purchased insurance to protect their home, their livelihood, or their retirement.

Historically, the Federal Reserve has been limited by provisions in the Bank Holding Company Act that required insurance regulator consent (subject to certain conditions) before using the capital or assets of an insurer to prop up a troubled bank. Unfortunately, the Dodd-Frank Act called this requirement into question with respect to insurers organized as thrift holding companies in its Source of Financial Strength provisions (Section 616) that require non-bank companies to have the ability to prop up a troubled bank, even if it means such assistance could be to the detriment to insurance policyholders who have acted responsibly by purchasing insurance. Consent of the appropriate state insurance regulator should remain a requirement for any capital transfer with the potential to affect policyholder protections.

Thank you again for your careful attention to this matter. We look forward to working with you as you consider these important issues affecting the entities we regulate and the policyholders we protect. Should you wish to discuss this letter or any other matter relating to the NAIC's views on insurance capital standards, please do not hesitate to contact Ethan Sonnichsen, Director of Government Relations, at (202) 471-3980 or Mark Sagat, Counsel and Manager, Financial Policy and Legislation, at (202) 471-3987.

Sincerely,



Adam Hamm
NAIC President
North Dakota Insurance Commissioner



Monica J. Lindeen
NAIC President-Elect
Montana Commissioner of Securities and Insurance



Michael F. Consedine
NAIC Vice-President
Pennsylvania Insurance Commissioner



Sharon P. Clark
NAIC Secretary-Treasurer
Kentucky Insurance Commissioner

CC: The Hon. Susan Collins, U.S. Senate
The Hon. Mike Johanns, U.S. Senate