

May 5, 2014

Chairman Jeb Hensarling
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building

Ranking Member Maxine Waters
Committee on Financial Services
U.S. House of Representatives
B301-C Rayburn House Office Building

Re: H.R. 4557, The Policyholder Protection Act of 2014

Dear Chairman Hensarling and Ranking Member Waters:

On behalf of the National Association of Insurance Commissioners (NAIC)¹, we write today in strong support for H.R. 4557, “The Policyholder Protection Act of 2014.” This legislation, introduced by Congressman Posey, provides certainty that critical regulatory protections for insurance policyholders will be consistent across insurer organizational structures. The bill preserves the walls around insurance legal entities that have protected policyholders for more than 150 years and ensures that consumers can continue to rely on insurance policies issued by Thrift Holding Companies to protect their property and livelihood.

As you are undoubtedly aware, insurance companies in the United States are subject to a stringent regulatory regime designed with the primary mission of protecting policyholders by ensuring that a company has sufficient funds to pay insurance claims when they come due. One of the most important tools state insurance regulators have to carry out this mission is the ability to protect or “wall off” the insurance legal entity from contagion in the rest of the company by preventing its funds or other assets from being used by other affiliated entities.

In cases where an insurance company is affiliated with a bank, insurers are subject to additional supervision by banking regulators as a result of their status as a Bank Holding Company or Thrift Holding Company. Where an insurer is organized as a Bank Holding Company, the Bank Holding Company Act contains a number of protections that limit the banking regulators’ ability to compel the movement of funds or other assets from the insurer to a troubled bank within the group by requiring specific consultations, conditions, and procedural steps. However, at this time, most insurance companies affiliated with banks are organized as Thrift Holding Companies, not Bank Holding Companies. The law governing Thrift Holding Companies does not contain the same procedural protections, and the source of financial strength provisions in the Dodd-Frank Act called into question whether policyholders are protected in this regard.

¹ 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.

This is a serious source of concern for state insurance regulators. If a healthy insurer, organized as a Thrift Holding Company, were compelled by the banking regulators to use its resources to provide funds or other assets to one of its troubled affiliates, the company's ability to pay out claims could be undermined and insurance policyholders could be harmed. In certain scenarios it is possible that an insurance company could become insolvent and policyholders might not obtain the full value of the promise their insurance premiums paid for. Insurance regulators recognize that there may be circumstances where it may be appropriate for an insurer to provide assistance to a troubled affiliated bank. However, forcibly removing funds or other assets from an insurer to bail out a troubled bank should not be done at the expense of policyholders, and certainly not without the protections afforded by the Bank Holding Company Act.

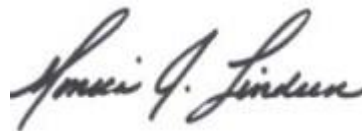
Congressman Posey's legislation addresses this concern by ensuring that the protections afforded to policyholders of insurance companies in Thrift Holding Company systems match those in Bank Holding Company systems. By applying the same standards to Thrift Holding Companies as Bank Holding Companies, H.R. 4557 ensures insurance companies are able to keep the promises they make to their customers, who have come to rely on their insurance policies to protect their home, livelihood, or retirement.

We commend Congressman Posey on this common-sense piece of legislation that protects policyholders and the insurance policies issued by insurance companies in Thrift Holding Company systems. We urge you to support this important effort to enhance policyholder protection. Should you wish to discuss this letter or any other matter relating to the NAIC's views on this legislation, 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 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 Honorable Bill Posey, U.S. House of Representatives