

May 21, 2015

Chairman Richard Shelby
U.S. Senate
Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Shelby:

On behalf of the National Association of Insurance Commissioners (NAIC)¹, we appreciate your leadership in proposing legislation aimed at enhancing certain aspects of our financial regulatory system. As financial markets continue to evolve, we understand that it is appropriate to periodically reassess regulations to ensure that they are achieving their intended purpose, appropriate for the business model they impact, and in the best interests of the consumers they are meant to protect. The bill includes several critical provisions for state insurance regulators that we believe will protect insurance consumers, help reduce systemic risk in our financial system, and encourage more transparency regarding international insurance standard-setting discussions.

Policyholder Protection Act

We appreciate the inclusion of the bipartisan Policyholder Protection Act, which clarifies our authorities to protect consumers within complex financial firms so that policyholder dollars necessary to pay claims for a damaged home or a deceased bread winner are not jeopardized by complex bets, risk taking, or poor management elsewhere within the firm. Insurance regulators have long had the ability under state and federal law to “wall off” an insurance company operating within large, diverse financial groups from the risks posed by other affiliates to protect policyholders. This legislation guarantees a level playing field and confirms that authorities in existing state law and federal law governing bank holding companies also apply to insurers organized as savings and loan holding companies. It also clarifies the need for policyholders to be protected during the resolution of an insurance company or its affiliate. This bill ensures that state insurance regulators continue to have the ability to specifically protect insurance-related assets in order to pay claims when they come due and that policyholders remain protected from undue harm.

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.

The Financial Stability Oversight Council (FSOC) and its Non-Bank Designation Process

We also appreciate your proposals to improve FSOC. State insurance regulators have been deeply troubled by the lack of transparency in FSOC's operations, process, and reasoning for its decisions. FSOC's opaque process and failure to provide clarity on the specific activities that lead to a company's designation undermine its fundamental mission to mitigate risks to the financial system. Without this precise information, as fellow financial regulators we cannot fully understand FSOC's concerns about the nature of the risks or take appropriate action to reduce such risks. In this same regard, we need further clarity and guidance from FSOC on identifying what steps need to be taken to be de-designated. An explicit de-designation process should be a critical and necessary component of FSOC. The goal of FSOC should not be simply to capture certain large firms and subject them to additional regulation, but rather to take meaningful and appropriate steps to mitigate the likelihood that failure of those firms jeopardizes the financial system or economy. We believe your proposed reforms address many of our concerns and represent a positive step forward in improving FSOC's operations, processes, communication, and transparency.

International Insurance Capital Standards Accountability Act

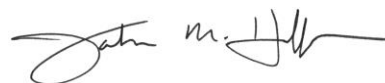
We also support the addition of the bipartisan International Insurance Capital Standards Accountability Act to the underlying bill. We believe Congress has an important role to play in overseeing the policy objectives of the Treasury Department and the Federal Reserve in international standard-setting discussions. State regulators are committed working with Federal agencies to ensure that any international standards are appropriate for and adaptable to our markets, and we appreciate legislative efforts to encourage more effective coordination. We applaud efforts to promote a more transparent decision-making process at the international level and ensuring our national state-based system has a prominent voice in the development and potential consideration and implementation of international insurance supervision standards that could impact U.S. insurance market stakeholders.

Thank you again for your leadership on these issues, and we look forward to working with you.

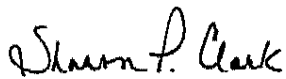
Sincerely,



Monica Lindeen
NAIC President
Montana Commissioner of
Securities and Insurance



John M. Huff
NAIC President-Elect
Director of Missouri's Department of Insurance,
Financial Institutions, and Professional Registration



Sharon P. Clark
NAIC Vice President
Kentucky Insurance Commissioner



Theodore K. Nickel
NAIC Secretary-Treasurer
Wisconsin Insurance Commissioner



The Honorable E. Benjamin Nelson
NAIC Chief Executive Officer
United States Senator (Ret.)