GOVERNMENT RELATIONS
ISSUE BRIEF

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Federal Reserve Supervision and Basel III: Insurer Impact

- *"One size fits all" bank-centric Basel III capital rules are inappropriate for insurance companies, which have very different business models, risk profiles, and capital needs than banks.*
- *Federal Reserve supervision of bank and thrift holding companies that include insurers should not undermine or preempt the strong state capital requirements that protected consumers during the worst financial crisis since the Great Depression.*
- *The regulatory "walls" protecting insurance company assets – which are there to honor promises to policyholders – should not be breached and used to bail out risk-taking by the holding company or other affiliates without insurance regulator approval.*

Background

On June 7, 2012, the Federal Reserve, OCC, and the FDIC issued three joint notices of proposed rulemaking regarding capital standards to be applied to thrift and bank holding companies, including insurers affiliated with banks or thrifts. The NAIC submitted a comment letter to the federal banking agencies and has testified on the rules before a joint hearing of two House Financial Services subcommittees.

The NAIC's letter and testimony focused on helping federal officials better understand the insurer business model, state based insurance regulation and our specific concerns with the proposed rule. We expressed our ongoing concern with applying "one size fits all" bank-centric rules that fail to properly capture the risks and business model of an insurance enterprise. We also emphasized that the new rules need to be consistent with insurance regulatory requirements that have protected policyholders for decades. In this regard, we commented on the rule's definition of separate accounts, the treatment of surplus notes and policy loans for risk weighting, and distinctions between Statutory Accounting Principles (SAP) and Generally Accepted Accounting Practices (GAAP). Where insurance underwriting is concerned, we clarified that state regulators monitor each legal entity insurer's financial position and results on an ongoing basis through the use of Risk Based Capital (RBC) requirements, which are **regulatory tools, not target levels**, and require companies to address issues well before they become a solvency concern. It is our hope that the federal banking agencies continue to engage with the NAIC in a productive dialogue and will revise their rules to more appropriately fit insurance companies and their regulatory regime.

Key Points

- The NAIC looks forward to working with federal regulators to help develop a regulatory approach that captures the complete risk profile of an insurance enterprise.
- It is critical that the regulatory walls around legal entity insurers that have protected policyholders for decades not be displaced or disrupted.
- The NAIC's Risk Based Capital levels are a regulatory tool, not a target amount as the proposed rule suggests. They are also appropriately applied to insurance legal entities, not to the entire holding company system.

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