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September 24, 2013

Mr. Robert deV. Frierson
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20th Street and Constitution Ave, N.W.
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Mr. Thomas J. Curry
Comptroller of the Currency
Office of the Comptroller
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400 7th Street, S.W.
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Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
55 17th Street, N.W.
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RE: Docket No. OP-1461 "Proposed Supervisory Guidance on Implementing Dodd-Frank Act Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of More Than $10 Billion but Less Than $50 Billion."

Dear Sirs:

The Auto Club Group ("ACG") and Auto Club Insurance Association ("ACIA"), each a grandfathered unitary savings and loan holding company ("SLHC"), appreciate the opportunity to submit these comments on the joint Proposed Supervisory Guidance on Company-Run Stress Tests for Banking Organizations with Total Consolidated Assets of more than $10 Billion but less than $50 Billion (the "Proposed Guidance") published by the Board of Governors of the Federal Reserve System ("FRB"), the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") in the Federal Register on August 5, 2013 (78 Fed. Reg. 47217). Our comments are directed primarily to the FRB as the federal regulator of SLHCs.

The Auto Club Group and Auto Club Insurance Association

The Auto Club Group is a member of the federation of automobile clubs doing business under the American Automobile Association ("AAA") banner. Established in the early 1900's, ACG provides roadside emergency, travel and other automotive services to its members. Auto Club Insurance Association and its property and casualty subsidiaries primarily underwrite automobile and homeowners insurance products. ACIA also provides life insurance through one of its subsidiaries. For purposes of regulation by the FRB, ACG is considered the top-tier holding company, although ACIA is the primary operating entity within the consolidated group. By virtue of their ownership and control of Auto Club Trust, FSB, each of ACG and ACIA is a registered savings and loan holding company pursuant to Section 10 of the Home Owners' Loan Act of 1933 ("HOLA"). Each company is qualified as a grandfathered unitary SLHC under Section 10(c)(9)(C) of the HOLA[1]. As of December 31, 2012, ACG had consolidated GAAP assets of $9.6 billion, while Auto Club Trust, FSB had total assets of $71 million, or less than 1% of total consolidated GAAP assets of ACG.

Comments on the Proposed Guidance

ACG and ACIA support the fundamental goals of stress testing that underlie the Proposed Guidance. We agree that stress tests are an invaluable tool to understanding the sufficiency of a banking organization's capital during periods of stress. However, the Proposed Guidance does not address the unique issues raised by companies such as ACG and ACIA – those SLHCs that are not shell holding companies, but are rather operating commercial and/or insurance entities with operations that are significantly greater than their subsidiary depository institutions. The bank-centric tests discussed in the Proposed Guidance are in many respects inapplicable to commercial or insurance SLHCs, and in certain cases, may encourage such SLHCs to take actions that may decrease the sufficiency of capital to the entire organization.

The Proposed Guidance provides that $10-$50 billion companies will be required to assess the potential impact of a minimum of three macroeconomic scenarios. These scenarios will be developed and issued by the regulatory agencies by November 15 of each year. We appreciate that the Proposed Guidance grants some flexibility that allows a $10-$50 billion company to modify the stress scenarios so that they may better reflect the company's specific circumstances. In this regard, the Proposed Guidance advises that a company should segment its portfolios and business activities into categories based on common or related risk characteristics. In addition, the Proposed Guidance allows a holding company to use all or some of the variables from the supervisory scenarios, or to create additional variables in conducting a stress test, in order to assess the effect of a scenario on the entire enterprise. For companies like ACG or ACIA however, it is likely that much of the supervisory scenarios will have to be substantially modified or completely revised in order to obtain a true picture of the impact of various stress variables on

[1] Auto Club Services, Inc. ("ACS"), a management corporation wholly owned by ACG, is also a registered, grandfathered SLHC. However, as ACS is a non-operating company, it is not affected directly by the Proposed Guidance.

the company. For instance, the Proposed Guidance requires a banking organization to utilize various risk scenarios to estimate the impact on losses, pre-provision net revenue ("PPNR"), provision for loan and lease losses ("PLLL") and net income. PPNR and PLLL do not apply directly to a commercial entity, such as ACG, or an insurance entity, such as ACIA. Given the size of our bank, the 2012 PLLL accounted for only .005% of total consolidated revenues. Thus, even in the worst case scenario, any change to the PLLL will have little to no impact on the consolidated net revenues. For this reason, as well as the reasons described in our comments below, we suggest that the FRB delay the effectiveness of the Proposed Guidance with respect to commercial or insurance SLHCs until such time as the FRB, working with industry representatives and state insurance regulators, can devise stress tests that address the unique circumstances of commercial and insurance SLHCs. With this background in mind, we offer the following comments for consideration:

1. ***There is a Fundamental Difference Between Banking and Property and Casualty Insurance.*** Although banking and insurance are both considered "financial services," each is a distinct industry with fundamentally different risks. Banks are funded by deposits and wholesale borrowings and use such funds to provide credit to borrowers and, to a lesser extent, to invest in securities. Loans are underwritten on the basis of the collateral provided and the customer's ability to repay. The primary risks of banking are credit risk (the risk that loans will be repaid) and liquidity risk (the risk that the bank will be able to meet depositors' demands for their funds). Insurance, however, is a far different business and consists primarily of customers purchasing a financial guarantee of future benefits in the event certain events arise, as specified in the policy. For property and casualty insurance, particularly, customers transfer pure risk (the risk of loss due to an event where no gain is possible). Unlike credit and liquidity risk, the primary risks associated with banking, the underwriting of pure risk must take into account each customer's potential loss claims, which are dependent upon an individual's risk characteristics, which may include history of similar losses; location, age and condition of the insured vehicle or property; financial history; and driving patterns (for vehicle insurance) and weather patterns (for home insurance). Thus, property and casualty insurance is based upon a series of actuarial models, many of which are local rather than national in scope. A one size fits all approach based upon bank-centric models will not address the business risks associated with insurance. Any stress test developed for insurance SLHCS, therefore, must take into account the significant differences between banking and insurance, and must address those risks that are particular to the insurance industry.

2. ***Insurance, By Its Nature, Takes Into Account Future Stress Scenarios.*** When a customer buys an insurance product, the insurance company must price that product based on the probability that the insured will make a claim at some time in the future taking into account a plethora of factors and scenarios. That is, when setting the appropriate premium or rate, the insurance company must take into account the probability of certain events occurring – some of which are based upon the insured (e.g., the insured's driving record) and some of which are based upon factors outside the insured's control (e.g., exposure to hail storms). Thus, rate-making is prospective in

nature and already takes into account various future stress scenarios and probabilities. As stated by the Casualty Actuarial Society ("CAS") in *Basic Rate Making*, "The first principle in the CAS "Statement of Principles Regarding Property and Casualty Insurance Ratemaking" states that 'A *rate* is an estimate of the expected value of future costs' (CAS Committee on Ratemaking Principles, p. 6)." Thus, the FRB should take into account the imbedded stress testing nature of insurance in devising stress tests for insurance SLHCs.

3. ***A "One Size Fits All" Approach to Stress Testing May Reduce the Sufficiency of Capital for Insurance SLHCs.*** A change in interest rates is a primary risk inherent in the banking industry. For a bank, an increase in interest rates will affect the value of its loan and investment securities portfolios, and will increase the costs of deposits. It is critical for a bank to understand completely the impact of increasing interest rates on future earnings and the economic value of the enterprise. Thus, for a bank, a projected rise in interest rates will lead managers to shorten duration through the purchase of shorter term securities or the origination of short term or variable rate loans. An insurance company's balance sheet, however, is quite different. Insurance companies generally match longer term assets with longer term liabilities. As an example, as of December 31, 2012, 95.5% of ACIA's investment portfolio consists of securities with a maturity greater than 1 year, and 68.1% have a maturity greater than 5 years. Effectively matching long-term liabilities with long-term assets is a fundamental risk management concept in the business of insurance. A bank centric stress test however that leads an insurance manager to shorten duration in the investment securities portfolio may meet banking standards, but would weaken the insurance company's ability to meet future obligations. In this event, the entire enterprise would be more vulnerable to the risks associated with insurance, thereby decreasing the sufficiency of capital.

4. ***Insurance Companies Are Already Stress Tested By State Insurance Regulations.*** Insurance companies utilize statutory accounting principles ("SAP") in reporting financial information to state insurance regulators. SAP includes stress testing principles as it measures the ability of insurers to pay claims in the future. SAP's future-oriented focus is significantly different than generally accepted accounting principles ("GAAP"), which focus on the measurement of earnings of a business from period to period, and the matching of revenues and expenses for the measurement period. In addition, insurance companies are stress tested through the Insurance Regulatory Information System, known as IRIS. IRIS was developed by the National Association of Insurance Commissioners and uses the financial statements of an insurer to calculate a series of 12 financial ratios, which are then taken as a measure of the insurer's overall financial condition. The NAIC (composed of state insurance commissioners) sets a range for each ratio and an insurance company's deviation from these ranges may result in a referral for additional scrutiny by the domestic state insurance regulator. Thus, similar to the purpose of stress tests, IRIS acts as an early-warning system, which aids state insurance departments to identify those companies that show financial problems and potential insolvency. The FRB should take into consideration the stress testing characteristics of the insurance regulatory scheme when determining the appropriate stress testing for insurance SLHCs.

5. ***The FRB Has Already Recognized the Difference Between Insurance and Banking in the Recently Issued Capital Rules***. The FRB recently adopted new capital rules for bank holding companies and SLHCs. Initially, the FRB had planned to make the capital rules applicable to all SLHCs, including insurance and commercial SLHCs. Many insurance SLHCs, however, commented that the proposed rules were inappropriate for insurance companies for many of the same reasons stated in this comment letter. Insurance companies commenting on the proposed capital rules noted that: the activities of these organizations are fundamentally different from traditional banking organizations and have a unique risk profile; capital requirements for insurance companies, which are based on the relationship between a company's assets and liabilities, are significantly different than the capital requirements for banks; the bank-centric rules as proposed would conflict with the capital requirements of state insurance regulators and provide regulatory incentives for unsound asset-liability mismatches; and the banking agencies should recognize capital requirements adopted by state insurance regulators. As a consequence of these and other comments submitted on behalf of insurance and commercial SLHCs, the FRB determined to delay the implementation of capital requirements for these entities. The FRB stated, "After considering the comments received from SLHCs substantially engaged in commercial activities or insurance underwriting activities, the Board has decided to consider further the development of appropriate capital requirements for these companies, taking into consideration information provided by commenters as well as information gained through the supervisory process. The Board will explore further whether and how the proposed rule should be modified for these companies in a manner consistent with section 171 of the Dodd-Frank Act and safety and soundness concerns." Similarly, we suggest that the FRB gather further information from insurance and commercial SLHCs in order to determine the appropriate method to stress test these organizations.

The Auto Club Group and Auto Club Insurance Association very much appreciate the FRB's consideration of the comments and would be pleased to answer any questions the FRB or the staff might have.

Very truly yours,

John Bruno

John Bruno
Vice President, Deputy General Counsel