PCI Property Casualty Insurers Association of America

Shaping the Future of American Insurance

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May 23, 2011

Jennifer L. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Notice of Intent to Apply Certain Supervisory Guidance to Savings and Loan Holding Companies (Docket No. OP-1416)

Dear Ms. Johnson:

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to provide comments in response to the Notice of Intent and Request for Comment (the Notice) issued by the Federal Reserve Board (the Board) on April 22, 2011 providing certain supervisory guidance to savings and loan holding companies (SLHCs). PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write over $175 billion in annual premium and 37.4 percent of the nation's property casualty insurance.

PCI has numerous member insurers that own or are affiliated with thrifts and are a part of SLHCs. Typically, insurance-affiliated thrifts are relatively small in terms of revenue and many serve the primary purpose of providing asset management services to affiliated companies within the group or other largely incidental business services. They tend not to be engaged in activities of a nature or scope that would pose significant threats to affiliated companies, the broader markets, the Deposit Insurance Fund, nor do they involve the same volatility or solvency risks that characterize depository institutions that are independent or primary operations.

Respect Separate Bank and Thrift Charters. We certainly concur with the Board's belief stated in the Notice that "it is important that any company that owns and operates a depository institution be held to appropriate standards of capitalization, liquidity, and risk management consistent with the principles of safety and soundness." We are concerned, however, about the Board's expressed intent to "apply the supervisory program [already] in place for BHCs to SLHCs to the fullest extent possible . . ." Congress did not intend to transform SLHCs (including those with insurance parents or affiliates) into mini-BHCs and specifically preserved the separate thrift charter.

As the Congress worked on the Dodd-Frank Act, it considered abolishing the thrift charter and forcing existing SLHCs to convert to bank holding companies BHCs. Congress ultimately decided to abolish the Office of Thrift Supervision (OTS) and to transfer supervisory authority of SLHCs to the Board, but it also affirmatively decided to retain the current thrift charter – a clear indication that the Congress did not intend the Bank Holding Company Act to be applied to SLHCs. Thus, any attempt by the Board to apply the BHC regulatory structure to SLHCs indiscriminately would contravene Congress's intent. We therefore recommend that the Board revise its proposed approach to supervision of SLHCs to focus more on unique regulatory principles and tools that are appropriate to SLHCs rather than on attempting to squeeze SLHCs into the existing BHCA regulatory structure.

Minimize Regulatory Conflicts. Insurers are regulated for solvency by state regulators, whose function is to ensure that insurers maintain adequate capital and surplus to support their underwriting obligations to their policyholders. SLHCs are regulated for solvency by the Board, whose function is to ensure that SLHCs maintain adequate capital and surplus to support their depositors. Both regulators share a similar solvency regulatory objective. That shared objective, however, can be impeded where lines of authority and responsibility are not clear. Here, there is an inescapable potential for conflict between the Board's regulation of an entity as a SLHC and the state insurance department's regulation of the same entity as an insurance holding company. For example, the Notice refers to DFA's requirement that the SLHCs and their nondepository subsidiaries serve as a source of strength to subsidiary depository institutions. That requirement would in many cases conflict with an insurer's duty to preserve its assets for its policyholders in cases where an insurer is or exists within a SLHC. State insurance regulators ensure that insurers' underwriting obligations are backed by strong levels of capital and surplus, which are stringently walled off from affiliated entities within a holding company structure. Indeed, this was a significant factor contributing to the resilience of the insurance sector during the recent financial crisis. State insurance regulators will not permit insurers to provide capital infusions to a failing affiliates or subsidiaries if doing so would significantly impair the insurer. Accordingly, it is imperative that the Board and state insurance regulators jointly adopt mechanisms for addressing the inevitable conflicts that can be expected between the obligations of the Board and the obligations of the state insurance departments.

Make the Regulation Fit the Regulated Entity. We also commend the Board's general determination to apply less stringent regulation to small, noncomplex SLHCs. We note that the OTS currently applies relatively light regulatory oversight to low-risk or noncomplex SLHCs, which the OTS determines on a case-by-case basis, irrespective of size. (This approach comports with our general view that size alone is not an indicator of risk; for example, there is considerable evidence that systemic risk can only be determined by analyzing numerous potential indicia as a whole.) We likewise believe that the level of supervision appropriate to an individual SLHC should not be dependent on size alone and we encourage the Board to maintain the OTS's current case-by-case approach. We nevertheless commend the Board for endeavoring to reduce burden on smaller, noncomplex companies and even possibly to reduce the burden of onsite examinations for certain companies. We would also suggest extending the less stringent regulatory treatment to small, noncomplex thrifts that are part of larger holding companies, particularly those where most of the other holding company activities are already heavily regulated for solvency, such as most insurance holding companies.

We hope these comments are helpful to the Board. If we may be of further assistance in answering questions or providing additional information, please do not hesitate to contact me at (202) 349-7469.

Respectfully submitted,

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