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May 23, 2011

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

Re: New Jersey Manufacturers Insurance Company ("NJM")
Comments to – Docket No. OP-1416
Notice of Intent to Apply Certain Supervisory Guidance to
Savings and Loan Holding Companies

Dear Secretary Johnson:

NJM is a unitary thrift holding company which has owned NJM Bank, FSB since 1999. NJM is a property/casualty insurance company founded in 1913, licensed and regulated by the New Jersey Department of Banking & Insurance. NJM appreciates the opportunity to comment on the consideration by the Federal Reserve Board ("Board") to apply bank holding company regulations to Thrift Holding companies. These comments are restricted to issues numbered three and four in the Board's notice that ask for comment on applying Basel III capital provisions to non-bank holding companies. As stated in your notice, the consolidated supervision program on which the Board supervises bank holding companies includes a program of continuous monitoring activity which is set forth in footnote No. 2 on Page 3 of your notice. As stated, such activities include "efforts to coordinate with, and utilize the work of, other relevant supervisors and functional regulators...."

NJM submits that references by the Board to functional regulation should not be relegated to a footnote and restricted to the consolidated supervision program. On the contrary, specific provisions should be incorporated into any proposed rule relative to the Board's oversight of a State licensed property/casualty insurance company that acts as a bank holding company. To avoid unnecessary and duplicative financial examination and the costs generated, thereby which are ultimately paid for by policyholders, consideration should be given to the comprehensive and effective financial oversight of State licensed property/casualty insurers by State Departments of Insurance.

Capital adequacy for NJM is monitored very closely by the New Jersey Department of Banking & Insurance through annual statement filings, quarterly filings and onsite financial examinations. Property/casualty insurance companies are subject to conservative statutory accounting principles and risk-based capital requirements that are specific to the property/casualty insurance industry. The NAIC Securities Valuation Office (SVO) perform credit quality assessment and valuation of securities owned by state regulated insurance companies, and property/casualty insurers receive credit only for the most conservative of investments in the state financial examination process. For these reasons, assessment of capital adequacy through Basel III principles should not be applied to determine the capital adequacy of property/casualty insurance companies. The Federal Reserve Board, in assessing capital adequacy of a property/casualty insurer that is also a thrift holding company, should consult with State Departments of Insurance that are accredited through the NAIC. Indeed, because of the uniqueness of the Statutory accounting process, it would be difficult and time consuming for the Federal Reserve to undertake a comprehensive independent review of the financials of a State-regulated insurance company, and the imposition of GAAP-based minimum capitalization requirements could have unintended consequences.

For these reasons, we recommend that only when the comprehensive state-based financial examination process demonstrates that the current level of an insurer's capital is not adequate to support the risks in the company's business, including acting as a source of financial strength for the owned thrift, should an insurance thrift holding company be subject to the regulatory capital requirements of non-regulated bank holding companies. Indeed, placing reliance on the functional regulator and recognizing the financial strength demonstrated through financial examinations by State Insurance regulators as evidence of being "well capitalized" and "well managed" is consistent with, if not required by the principle espoused in Dodd-Frank that to the fullest extent possible the Board will utilize examinations of state regulatory authorities. It is respectfully submitted that failure to heed this principle likely will result in unnecessary, costly and duplicative administrative costs, with marginal, if any, benefits.

Very truly yours,

Robert H. Zetterstrom

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