



Property Casualty Insurers
Association of America

Shaping the Future of American Insurance

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Vice President, Financial Policy

June 10, 2011

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

Robert E. Feldman
Executive Secretary
Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

**Re: FEDERAL RESERVE SYSTEM – 12 CFR Part 252 [Regulation YY, Docket No. R-1414] – RIN 7100—AD 73
FEDERAL DEPOSIT INSURANCE CORPORATION – 12 CFR Part 381 – RIN 3064-AD77
Resolution Plans and Credit Exposure Reports Required**

Dear Ms. Johnson and Mr. Feldman:

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to provide comments in response to the Notice of Proposed Rulemaking from the Board of Governors of the Federal Reserve System (“Board”) and Federal Deposit Insurance Corporation (“FDIC”) entitled “Resolution Plans and Credit Exposure Reports Required.” PCI is composed of more than 1000 member property/casualty insurance companies, representing the broadest cross-section of insurers of any national trade association. PCI members write approximately \$175 billion in annual premium, representing 37.4 percent of the nation’s property/casualty insurance.

Failure to Refer to Dodd-Frank Act Provision Regarding Resolution of Insurance Companies. The purpose of the proposed rule is to implement the resolution plan and credit exposure reporting requirements of section 165(d) of the “Dodd-Frank Wall Street Reform and Consumer Protection Act” (“Act”) that apply to large bank holding companies and nonbank financial companies supervised by the Board. PCI agrees with the rule’s objective to make sure that the resolution costs for failing systemically-important companies are borne by those companies and their owners and creditors to the extent possible, and that the need for any government support is limited. We note that the proposed rule does not directly refer to the resolution of insurance companies that could, in theory, be included within the “covered companies” to which the rule would apply.¹ Section 203(e) of the Act provides that any insurance company that is a “covered financial company” or subsidiary of such a company will be liquidated or rehabilitated under “applicable State law.” The Act thus recognizes that the U.S. state insurance regulatory system has a long-established and successful resolution system under which troubled insurers are resolved or liquidated in an orderly manner and in which policyholders and claimants are compensated under the state guaranty fund system. PCI believes that the proposed rule should be amended to reflect this provision and require that any resolution plan governed by the rule should conform to this requirement.

Bank-Centric Rules Do Not Fit Property/Casualty Insurers. The proposed rule requires covered companies to submit a plan for a “rapid and orderly resolution.” The reference to “rapid and orderly resolution”

¹ The only indirect reference is in footnote 5 on p. 7, which states in reference to the definition of “rapid and orderly resolution” under the Bankruptcy Code, “If an entity is subject to an insolvency regime other than the Bankruptcy Code, the analysis should be in reference to that applicable regime.”

illustrates how property/casualty insurers do not fit into the bank resolution paradigm that governs the proposed rule and the Act in general. Rapid and orderly resolution is of course critical for banks and other financial institutions whose liabilities are subject to immediate demand for payment to depositors or other counterparties and the need to avoid contagion is paramount. In contrast, the resolution system for property/casualty insurers, while orderly, is intentionally not rapid. Policyholders and other claimants do not have demand rights and are paid only over time as their claims come due. Insurers are not part of the payment system, and do not have the same type of interconnectedness to other financial counterparties as banks do. Because payments from the estates of insolvent insurers and guaranty funds are made over time, there is no need for immediate sales of invested assets that could disorient asset markets. These are some of the reasons why we believe that the core business of property/casualty insurance does not present systemic risk, and it should be very rare indeed that an insurer is subject to the provisions of this rule.

Nevertheless, if an insurer is ever subject to the rule, such insurer should not be required to file a plan for a “rapid” resolution, which would likely not be consistent with the approach a state insurance regulator resolving the company would take. We therefore urge that the final rule be revised to take account of differences between insurers and other covered companies and that, to the extent insurers are required to file or be included in resolution plans, those requirements be tailored to the unique nature of the insurance industry and its state-based regulatory regime.

We hope these comments are helpful to the Board and the FDIC, and we would be pleased to provide any additional information or assistance you may require.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Step W Broadie". The signature is fluid and cursive, with the first name "Step" and last name "Broadie" being more legible than the middle initial "W".

Stephen W. Broadie