Congress of the United States
Washington, DC 20515

December 11, 2012

The Honorable Ben Bernanke
Chairman
Board of Governors of Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke:

We are writing to express our concerns about the Federal Reserve Board's proposed capital standards rules announced on June 7, 2012, which would implement Basel III and Section 171 of the Dodd-Frank Act (the Collins Amendment). The bank-centric approach of the proposed rules is inconsistent with the unique nature of insurance and contradicts the intent of Congress. To address these concerns, we ask that the rules consistently reflect congressional intent by incorporating the state risk-based capital system and applying capital standards that accommodate the existing framework for companies engaged in the business of insurance.

Strong capital standards need to be consistent with the business models of the industry to which they are applicable. As you are aware, not all companies have the same business model and risk profile. Because of this reality, it is not workable to have one uniform capital standards regulation to apply across the whole spectrum of financial services companies. Recently, you acknowledged before Congress that "insurance companies have both a different composition of assets and a different set of liabilities, and appropriate regulation needs to take that into account." We are concerned the proposed rules do not consider these differences, nor do they take into account the state regulatory standards for insurance companies that emphasize long term solvency.

We are concerned the proposed capital standards do not properly measure the financial strength of insurance companies and contradict insurance risk-based capital standards, which emphasize solvency and asset/liability matching. For example, on a life insurer's balance sheet, its liabilities are the long-term commitments made to life insurance policyholders and annuity investors. Most of these liabilities represent commitments that will be repaid over the course of many decades and generally do not have an on-demand redemption feature like bank deposits. To safely manage these long term liabilities, insurers must hold assets such as highly rated corporate bonds with matching long-term maturities. Although these long term assets may be subject to short term volatility, over the long term they enable insurers to reduce reinvestment risk and safely meet their obligations to policyholders. Similarly, property-casualty insurance capital is regulated under state law in various specific baskets of risk to ensure the necessary balance between liquidity and long-tail liability exposures. As such, insurers have a completely different business model and capital requirements than banks, which must be appropriately recognized in the rules.

In addition, all insurers are required by law to annually report on their financial health using Statutory Accounting Principles (SAP), which are specifically designed for insurance company solvency regulation. The proposed rules' sole reliance on Generally Accepted Accounting Principles (GAAP) for an insurance company can result in a different set of measurements and incentives that are not always consistent with insurer solvency standards. Furthermore, for insurance companies not currently required to prepare financial statements using GAAP, a new mandate requiring additional statements using GAAP would be costly with no improvement in understanding the financial health of the insurance company. It is important the Federal Reserve utilize existing, less costly and more appropriate alternatives in order to review the financial health of a holding company that has a depository institution.

The final rules should reflect and consider the unique insurance business model without undermining prudential supervision. We ask that the Federal Reserve, including the regional Federal Reserve Banks, consult with the National Association of Insurance Commissioners (NAIC), to design appropriate capital requirements specifically for insurance that complement existing state regulatory requirements. Also, we would appreciate a written description of your development of the capital standards for insurance companies thus far, including a description of the Federal Reserve's engagement with the NAIC and regional Federal Reserve Banks. Thank you for your consideration of our views and we look forward to your response.

Sincerely,

List of Signers

Gary Miller
Spencer Bachus
Judy Biggert
Shelley Moore Capito
Scott Garrett
Peter King
Patrick McHenry
Ruben Hinojosa
Gwen Moore
Stephen Lynch
Donald Manzullo
Robert Hurt
Jim Himes
Andre Carson
Blaine Luetkemeyer
Robert Dold
Nan Hayworth

Carolyn McCarthy
Carolyn Maloney
Michael Capuano
Ed Perlmutter
Brad Sherman
Gregory Meeks
Joe Baca
Steve Stivers
Stephen Fincher
Bill Huizenga
John Carney
James Renacci
David Scott
Michael Grimm
Gary Peters
Emanuel Cleaver