

April 3, 2015

Mr. Robert deV. Frierson  
Secretary  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue N.W.  
Washington, D.C. 20551

Re: *Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies [R-1489]*

Dear Mr. Frierson:

I am writing on behalf of a coalition of US insurance companies that are either supervised by the Federal Reserve or take a strong policy interest in rulemakings affecting federally supervised insurers (“The Insurance Coalition”). These companies share certain perspectives with respect to the Federal Reserve Board’s (“the Board’s”) implementation of capital standards, particularly as potentially applied to companies that are substantially involved in the business of insurance.

We appreciate the opportunity to submit comments on the Board’s notice of proposed rulemaking (“the Proposed Rule”) to establish risk-based capital surcharges for U.S.-based global systemically important bank holding companies (“G-SIBs”) pursuant to Section 165 of the Dodd-Frank Act.<sup>1</sup>

While the Proposed Rule would not apply to Insurance Coalition companies, we are commenting to address the potential future application of the proposed G-SIB capital surcharge framework-- or indeed any risk-based capital surcharge-- to insurance companies designated by FSOC as nonbank systemically important financial institutions pursuant to Title I of the Dodd-Frank Act (“insurance SIFIs”).

#### **I Future Application of the Rule and its Methodology to Insurance SIFIs**

On December 9, 2014, the Board issued a request for public comment on a proposed rule to establish risk-based capital surcharges for US G-SIBs. The Rule does not discuss insurance activities or refer to insurance SIFIs except, indirectly, in Question 4 of the preamble, which reads as follows:

*If the proposed framework were applied to nonbank financial companies designated by the Financial Stability Oversight Council for Board oversight, how (if at all) should the framework be modified to capture the systemic risk profile of those companies?*<sup>2</sup>

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<sup>1</sup> Risk-Based Capital Guidelines: Implementation of Capital Requirements for Global Systemically Important Bank Holding Companies, 77 Fed. Reg. 75473 (Dec. 9, 2014).

We believe that the application of the Proposed Rule's methodology to insurance SIFIs would be inappropriate and harmful.

As we have stated in other settings, the Insurance Coalition opposes the designation of U.S.-based insurers as SIFIs and believes that the business of insurance does not pose systemic risk. As one example of this, the Proposed Rule discusses at some length the risk of "fire sales" of assets in GIBs as a main indicator of systemic risk. As we have noted in other comment letters, insurers are not subject to runs on assets in the same way as commercial banks, because insurance policies are purchased to protect against certain fortuitous life events, and are not payable on demand without significant penalties.

Having said that, we recognize that to date, three U.S.-based insurers have been designated as insurance SIFIs and G-SIFIs, and could ultimately be subject to a capital surcharge. We believe that the methodology laid out in the Proposed Rule should not be applied to these companies or any insurance company designated in the future.

Many of the indicators in the Proposed Rule are of little relevance to insurance enterprises. These indicators are not an accurate means of assessing risks in the insurance sector and would have little utility for that purpose. We also believe that if applied to insurance SIFIs, the proposed rule would cause confusion with respect to international developments in insurance regulation.

## **II. Opposition to Risk-based Capital Surcharge for Insurance SIFIs**

Even if the Board developed a tailored indicator-based methodology for insurance companies, we believe that the graduated risk-based capital surcharge discussed in the Proposed Rule should not apply to insurance SIFIs, because insurance SIFIs do not pose the systemic risk the Proposed Rule is designed to address. First, insurers are not susceptible to a run on assets because their assets are linked to liabilities that are not "callable" by policyholders, except under certain narrow circumstances and often with meaningful charges that discourage surrenders. Second, insurers are already subject to rigorous state risk-based capital requirements tailored to the business of insurance, and to state resolution procedures, significantly reducing the likelihood of extraordinary government intervention in the event of distress.

In addition, Congress has repeatedly expressed its intent regarding the need to tailor capital standards for insurers. Section 165 of the Dodd-Frank Act itself requires that capital requirements for nonbank SIFIs be tailored by business model. More recently, Congress reiterated its intent that the Board tailor requirements when it unanimously passed the Insurance Capital Standards Clarification Act.<sup>3</sup>

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<sup>3</sup> See S. Res. 2270, 113<sup>th</sup> Cong. (2014) (enacted), *amending* 12 U.S.C. § 5371.

### **III. The Development of Insurance Capital Standards**

As we have noted in previous comment letters, we respectfully request that the Board implement capital requirements for federally supervised insurance companies by a formal rulemaking, not by order. The same holds true for enhanced prudential standards for insurance SIFIs more broadly, including any capital surcharge that might be applied to insurance SIFIs. It is premature, however, for the Board to even consider whether it needs to develop a capital surcharge for insurance SIFIs without first having established a capital framework for insurance SIFIs. Without established risk-based capital and stress testing regimes for insurance SIFIs, it is impossible to ascertain whether an additional capital surcharge would be necessary or appropriate. Appropriately tailored and calibrated capital standards and stress testing would capture and address any risks posed by insurance SIFIs and thereby satisfy Dodd-Frank's mandate. We recommend that the Board complete its work on a capital framework, and any accompanying stress testing, first before giving further consideration to the appropriateness of a possible capital surcharge for insurance SIFIs.

### **III. Final Remarks**

We thank the Board for its consideration of our views and would be pleased to engage in further discussion of these matters as the Board works to implement rules for federally supervised insurers.

Sincerely,

A handwritten signature in black ink, appearing to read "Bridget Hagan", with a long horizontal flourish extending to the right.

Bridget Hagan  
Executive Director, The Insurance Coalition