

February 2, 2015

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

Re: *Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation [R-1503]*

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 enhanced prudential standards for nonbank financial companies overseen by the Board (nonbank SIFIs), particularly as applied to companies that are substantially involved in the business of insurance.

We appreciate the opportunity to submit comments on the Board's proposed order (the Order) to apply enhanced prudential standards to General Electric Capital Corporation (GECC). In the absence of a current proposed rulemaking applying enhanced prudential standards to insurers subject to Section 165 of the Dodd Frank Act, we are taking the opportunity presented by the Order to share our thoughts on how the Board can best tailor enhanced prudential standards for nonbank financial companies supervised by the Board that are substantially engaged in insurance activities. We respectfully submit the comments that follow for the Board's consideration.

I. Adapting Enhanced Prudential Standards

On November 25, 2014, the Board issued a request for public comment on a proposed order applying enhanced prudential standards to GECC, a nonbank financial company designated for Federal Reserve supervision by the Financial Stability Oversight Council, pursuant to Section 165 of the Dodd-Frank Act.

During the presentation of the final rule applying Section 165 to foreign banking organizations (FBOs) on February 18, 2014, Federal Reserve Director of Bank Supervision and Regulation Michael Gibson suggested that the Board could apply enhanced prudential standards to all designated nonbank SIFIs by rule or order. The business models of SIFIs that are substantially engaged in the business of insurance differ significantly from the business models of bank holding companies in terms of overall liabilities, risk profiles, product offerings, and other key characteristics.

In Section 165 of the Dodd-Frank Act, Congress directs the Board to take such characteristics into account in developing enhanced prudential standards for nonbank SIFIs: “In prescribing prudential standards under paragraph (1), the Board of Governors shall – (A) take into account differences among nonbank financial companies supervised by the Board of Governors and bank holding companies,” and “(D) adapt the required standards as appropriate in light of any predominant line of business of such company, including assets under management or other activities for which particular standards may not be appropriate.”¹ When it unanimously passed the Insurance Capital Standards Clarification Act (S. 2270), Congress recognized that banking and insurance are different, and that banking standards should not be applied to insurance companies.

The Board should follow a rulemaking process in setting enhanced prudential standards and capital requirements for insurance companies that are subject to supervision by the Board. The application of rulemaking is particularly important for insurers. Public notice and comment would ensure that the Board receives sufficient, and informed, input on proposed standards and requirements. That input would help to ensure that the standards and requirements are properly aligned with the risks and operations of insurers. Moreover, the Dodd-Frank Act is clear that the Board should fulfill its obligations to impose enhanced prudential standards, including capital standards, on nonbank SIFIs by issuing regulations. Specifically, Section 168 of Dodd-Frank provides “. . . the Board of Governors shall issue final regulations to implement subtitles A and C, and the amendments made thereunder.” Subtitle C includes Section 165 and the other requirements applicable to nonbank SIFIs.

Similar thoughts hold true for insurance savings and loan holding companies under the Board’s supervision. It may be appropriate for the Board to undertake one rulemaking process, including notice and a public comment period, for both types of insurers under its supervision, at least as it concerns capital standards. Regardless of whether the Board combines its rulemaking for both categories of federally supervised insurers, we believe that the Board should engage in a public notice and comment process before applying applicable prudential standards to any insurer under its supervision so as to ensure that any regime it applies is tailored to the business of insurance.

II. Adapting Capital Standards and the Quantitative Impact Study

We appreciate that the Board has recognized the need to engage in a deliberative process regarding the application of capital standards to insurers, and that it undertook a quantitative impact study (QIS) for federally supervised insurers. As the Board knows, the QIS was originated before the Insurance Capital Standards Clarification Act (S. 2270) was signed into law. We believe the data it yields will be useful to the Board in identifying the inappropriateness of applying Basel III capital standards to insurers, and we urge the Board to complete a second quantitative impact study based on the clear added flexibility provided by S. 2270. We believe this second study will provide the Board with additional data that can better inform the Board’s work in tailoring its

¹ Pub. L. 111–203, title I, § 165, July 21, 2010, 124 Stat. 1423.

rulemaking regarding capital standards for federally supervised insurers to be appropriate for the business of insurance.

We note that the Board identified areas of concern raised by commenters during the proposal stage of the revised regulatory capital framework rulemaking as causing the Board to perform further exploration through the QIS.² Clearly, the commentary generated by the rulemaking process helped inform the Board's thinking, which highlights a benefit to be gained through rulemaking.

III. Reporting Requirements

In the proposed order, the Board mandates at least fifteen new reporting requirements for GECC. Most of these forms are traditional bank reporting forms and are designed for large bank holding companies. We understand that the Board needs supervisory information to perform its oversight role. We respectfully request that the Board consider each additional reporting requirement applicable to SIFI insurers and adapt the reporting requirements and forms to the business of insurance before imposing them on those companies. Like the enhanced prudential standards, the reporting requirements applicable to SIFIs should be developed using a formal notice and comment process. In addition, we suggest that reporting requirements not be imposed until the capital standards have been finalized.

On a related subject, we urge the Board to review the reporting requirements currently applicable to insurance SLHCs (including the FRY-9 report) to eliminate or tailor bank reporting, which is time-consuming, costly, and does not yield the Board helpful supervisory information not already available from insurance-specific reporting sources.

IV. Timing of Implementation of Enhanced Prudential Standards


We note that the proposed order requires GECC to comply with the enhanced prudential standards and the reporting requirements in a short period of time, in many instances as early as July 2015. Such standards, data collection and analysis, reporting requirements, systems, and compliance requirements would all be new for insurance SIFIs. We think it would be impossible for the companies to build the systems, processes, and compliance infrastructure, and to train those who must implement them, in a time period like that provided for GECC. We respectfully urge the Board to consult with the companies themselves and with knowledgeable experts to develop reasonable time periods for the companies' compliance with any enhanced prudential standards and reporting requirements.

² Federal Reserve Press Release Announcing QIS, September 30, 2014

V. 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 cursive script, appearing to read "Bridget Hagan", with a long horizontal flourish extending to the right.

Bridget Hagan
Executive Director, The Insurance Coalition