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April 30, 2018

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
E-mail: regs.comments@federalreserve.gov

Re: Proposed Guidance on Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System

Dear Ms. Misback:

I write on behalf of The Insurance Coalition, a group of federally supervised insurance companies and interested parties. We share a common interest in federal regulations that apply to insurance savings and loan holding companies ("insurance SLHCs") and insurers that have been designated as systemically important nonbank financial institutions ("insurance SIFIs"). In this case, we write because the Guidance[1] applies to our federally supervised insurance members. We appreciate the opportunity to comment.

We appreciate the Board's desire to modernize the appeals process, as the Board's supervisory framework has become significantly more complex since the guidelines for an appeals process were established in 1995. While insurance SLHCs and insurance SIFIs have only been subject to Board supervision following the enactment of Dodd-Frank, these companies' experience with the appeals process suggests that a review is appropriate and critical to achieving the goals of a strong and efficient supervisory framework.

Generally speaking, we support the intent of the proposed guidance, and believe that the changes suggested will help improve the supervisory framework of many Board-regulated institutions, including insurance SLHCs.

I. Most institutions do not use the appeals process, and we urge the Board to examine the reasons for this.

While we appreciate the Board's commitment to maintain "an effective independent, intra-agency appellate process to allow institutions to seek review of material supervisory

[1] Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System, 83 Fed. Reg. 8391 (Feb. 27, 2018).

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determinations,"[2] we caution the Board from implementing potentially burdensome changes to a process that is rarely used by institutions. The Board does not publicly release appeals decisions in any form; however, requests under the Freedom of Information Act have yielded that between 2001 and 2012, the Federal Reserve received only 25 appeals of material supervisory determinations ("MSDs").[3] In contrast, the Office of the Comptroller ("OCC") decided 157 appeals between 1994 and 2012,[4] and 56 appeals were filed to the Federal Deposit Insurance Corporation ("FDIC") between 2005-2012.[5]

In other words, while we support the specific suggested changes to the appeals process detailed in the guidance, we also urge the Board to examine why the appeals process is so rarely used in general. Our experience suggests that its lack of use is not necessarily related to general satisfaction with supervisory decisions. This lack of use of the appeals process may relate to issues other than those that the guidance currently addresses.

II. We urge the Board to also address the disproportionate burden on insurance SLHCs imposed by the current bank-centric supervisory regime.

We also note that, in general, the specifics of the appeals process aside, the Board supervisory framework for insurance SLHCs is bank-centric and disproportionate to the risks that such institutions pose. We greatly respect the day-to-day work of Board examiners who supervise insurance SLHCs, but also support a review of the appropriateness of the current framework. As Vice Chairman for Supervision Randal Quarles recently stated before the Senate Banking Committee, Federal Reserve officials "haven't got the balance right" with respect to regulating the insurance industry, and he views it as a "high priority" to ensure that the Board "doesn't impose excessive burden" on the insurance industry.[6] We applaud these comments and the commitment of Vice Chairman Quarles and other Federal Reserve officials to addressing this issue with the utmost urgency.

Under current law, the Board has a great deal of discretion regarding the specifics of the supervisory regime applicable to insurance SLHCs. While the statute does not require this, the Board has chosen, for example, to treat insurance SLHCs with total consolidated assets over $50 billion as "large banking organizations" for supervisory purposes.[7] In our view, this is inappropriate, as a $250 billion insurance SLHC should not be treated like a $250 billion bank holding company in terms of day-to-day supervision. In order to better align with Vice

[2] Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System, 83 Fed. Reg. 8391 (Feb. 27, 2018).
[3] Julie Andersen Hill, *When Bank Examiners Get It Wrong: Financial Institution Appeals of Material Supervisory Determinations,* 92 WASHINGTON UNIVERSITY L. REV. 1101, (2015).
[4] *Id.,* at 1123.
[5] *Id.*, at 1145.
[6] *The Semiannual Testimony on the Federal Reserve's Supervision and Regulation of the Financial System, S. Comm. on Banking, Hous., and Urban Affairs,* 115th Cong. (2018) (statement of Randal Quarles, Vice Chairman for Supervision, Board of Governors of the Federal Reserve System).
[7] See Home Owners' Loan Act of 1933, Pub. L. No. 43-73D § 5(a) (providing that the Board "may" make examinations of insurance SLHCs).

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Chairman Quarles' stated desire to relieve insurance SLHCs of unnecessary burdens, we suggest that the Board suspend this supervisory framework while it conducts a complete review of how best to supervise insurance SLHCs efficiently and in full recognition of the state regulatory regime.

Conclusion

Again, we appreciate the opportunity to comment on the proposed guidance and look forward to continued engagement as the development of this guidance proceeds. We generally support the Board's efforts to modernize the MSD appeals process and believe that our suggestions will improve firm safety and soundness and benefit policyholders. Please do not hesitate to contact Bridget Hagan (bridget@cypressgroupdc.com; 571-212-2036) with any questions regarding these comments.

Sincerely,

Bridget Hagan
Executive Director, The Insurance Coalition