

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Date: January 12, 2022  
To: Board of Governors  
From: Staff<sup>1</sup>  
Subject: Proposed Framework for the Supervision of Insurance Organizations

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**ACTIONS REQUESTED:** Staff requests approval to publish in the Federal Register the attached notice seeking public comment on proposed guidance describing a framework for the supervision of depository institution holding companies significantly engaged in insurance activities, or supervised insurance organizations. Staff also requests authority to make technical, non-substantive changes to the attached materials to prepare them for publication in the Federal Register.

**EXECUTIVE SUMMARY:**

- The proposed supervisory framework consists of a risk-based approach to applying supervisory guidance, assigning supervisory resources, and conducting supervisory activities; the formalization of a supervisory rating system; and a description of how examiners would work with state insurance regulators to limit the burden associated with supervisory duplication.
- Supervisory guidance would be applied and supervisory activities would be conducted in a manner that is based explicitly on each supervised insurance organization's individual risk profile.
- Supervised insurance organizations have been subject to indicative supervisory ratings since 2011. The proposed framework includes a supervisory rating system that is modeled after the current large financial institution rating system, appropriately modified to support its use for supervised insurance organizations of all sizes and risk profiles.
- The proposal emphasizes the importance and benefits of the Board's longstanding policy on relying to the fullest extent possible on work done by other relevant supervisors. It describes, in particular, ways that Federal Reserve staff rely on the work done by state insurance regulators.

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<sup>1</sup> Michael Gibson, Arthur Lindo, Thomas Sullivan, Matthew Walker, Brad Roberts, and Joan Sullivan (Division of Supervision and Regulation); Mark Van Der Weide, Charles Gray, Jay Schwarz, Andrew Hartlage, and Christopher Danello (Legal Division).

- Public comment will be accepted for 60 days following publication in the Federal Register.

## **DISCUSSION:**

### **I. Background**

The Board has supervised a portfolio of depository institution holding companies significantly engaged in insurance activities since 2011 when provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)<sup>2</sup> transferred supervision and regulation over them from the Office of Thrift Supervision to the Board.<sup>3</sup>

The risks arising from insurance activities are materially different from traditional banking risks, and in view of these differences, the Board has sought to appropriately tailor its supervision and regulation of this portfolio. Notably, this includes proposing a risk-based capital framework specifically designed for supervised insurance organizations, termed the Building Block Approach.<sup>4</sup> In addition, in 2018, the Board determined not to apply to these firms the supervisory rating systems applicable to other depository institution holding companies.<sup>5</sup> The proposed supervisory framework represents a significant step in the continuation of the Board's tailored approach to supervision and regulation for these firms.

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<sup>2</sup> Pub. L. 111-203, 124 Stat. 1376 (2010).

<sup>3</sup> Dodd-Frank Act tit. III, 124 Stat. at 1520–70.

<sup>4</sup> Regulatory Capital Rules: Risk-Based Capital Requirements for Depository Institution Holding Companies Significantly Engaged in Insurance Activities, 84 Fed. Reg. 57240 (October 24, 2019).

<sup>5</sup> See Large Financial Institution Rating System; Regulations K and LL, 83 FR 58724 (November 21, 2018); Application of the RFI/C(D) Rating System to Savings and Loan Holding Companies, 83 Fed. Reg. 56081 (November 9, 2018).

## **II. Proposed Guidance**

The proposal would establish a supervisory framework designed specifically to consider the unique risks of supervised insurance organizations resulting from their insurance activities. A depository institution holding company is considered to be a supervised insurance organization if it is an insurance underwriting company or if over 25 percent of its consolidated assets are held by insurance underwriting subsidiaries. The framework consists of a risk-based approach to communicating supervisory expectations, assigning supervisory resources, and conducting supervisory activities; a unique supervisory rating system; and a description of how examiners would work with state insurance regulators to limit the burden associated with supervisory duplication. A key component of the proposal is the proportional application of supervisory guidance, resources, and activities. As shown in Table 1, while the portfolio is relatively small, the composition of the firms varies greatly. This translates into risk profiles that vary greatly, which the proposed framework recognizes and accommodates.

**Table 1: Assets of Supervised Insurance Organizations**

	Banking Assets	Life Insurance Assets	Non-Life Insurance Assets
Ameriprise Financial, Inc.	9.7	129.8	-
The Auto Club Group	0.6	0.9	6.7
First American Financial Corporation	6.8	-	3.8
Ohio Farmers Insurance Company	2.0	-	6.1
Teachers Insurance and Annuity Association of America	38.4	349.6	-
United Services Automobile Association	115.6	29.0	59.7

(\$ billions as of 6/30/21 based on publicly available regulatory filings)

### **Proportionality**

Under the proposed supervisory framework, the application of supervisory guidance and the assignment of supervisory resources would be based explicitly on a supervised insurance organization's complexity and individual risk profile. The Federal Reserve would classify

supervised insurance organizations as either complex or noncomplex based on their risk profile, which would drive the application of supervisory guidance and the assignment of supervisory resources. Complex firms have a higher level of risk and therefore require more frequent and intense supervisory attention. Noncomplex firms, due to their lower risk profile, require less intense supervisory oversight.

Complex firms would have a dedicated team of examiners responsible for consolidated supervision of the organization and would be subject to continuous monitoring and targeted examinations as necessary. Noncomplex firms would be subject to annual examinations. Any firm with a depository institution with assets greater than \$100 billion would be classified as complex. A supervised insurance organization with over \$100 billion in total consolidated assets could be classified as noncomplex if, for example, most of those assets were a result of traditional insurance activities, it had a small depository institution, it had a history of maintaining relatively large capital and liquidity buffers, and it was viewed overall as well run with little risk to the depository institution. Supervisory activities and the communication of applicable supervisory guidance also would reflect the actual risk profile of the firm.

## **Ratings**

Since 2011, supervised insurance organizations have been assigned indicative ratings under the Board's RFIC/(D) framework (RFI framework). The proposal would replace the indicative RFI ratings and formalize the ratings applicable to this portfolio. These firms would be rated annually in each of three components: Capital Management, Liquidity Management, and Governance and Controls. Firms would be assigned one of four ratings for each component. The ratings are Broadly Meets Expectations, Conditionally Meets Expectations, Deficient-1, and

Deficient-2. The ratings would reflect how consistent a firm's practices are with the Board's expectations for safe and sound operations. Although the ratings and components would be uniform for all firms, Federal Reserve examiners would evaluate each firm's practices in light of its risk profile. The proposed rating definitions have been tailored for supervised insurance organizations with particular emphasis on the obligation that firms operate in a safe and sound manner and serve as a source of financial and managerial strength for their depository institution(s).

### **Incorporating the work of other supervisors**

Examiners work with state insurance regulators and other relevant regulators to share information and coordinate activities so that each supervisor's responsibilities can be carried out effectively while limiting the potential for duplication or undue burden. In developing its overall assessment of a supervised insurance organization, Federal Reserve examiners would, consistent with statutory requirements, rely to the fullest extent possible on the information gathered and assessments developed by other relevant supervisors and regulators. Because supervised insurance organizations have material insurance business lines, the proposed framework describes how the Federal Reserve would leverage the work done by the state insurance supervisors, including examples of specific insurance supervisory reports that will be used as input into the Federal Reserve's assessment and ratings.

### **RECOMMENDATIONS:**

For the reasons discussed above, staff recommends that the Board approve the attached notice for publication in the Federal Register. Staff also recommends that the Board delegate to staff

authority to make technical, non-substantive changes to the attached materials to prepare them for publication in the Federal Register.