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GOVERNMENT RELATIONS
ISSUE BRIEF

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NAIC
National Association of Insurance Commissioners
& The Center for Insurance Policy and Research

Federal Reserve Supervision and Capital Standards: Insurer Impact

- *"One size fits all" bank-centric capital rules are inappropriate for insurance companies, which have very different business models, risk profiles, and capital needs than banks.*

- *Federal Reserve supervision and capital requirements for bank and thrift holding companies that include insurers should not undermine or preempt the strong state capital requirements that protected consumers during the worst financial crisis since the Great Depression.*

- *The NAIC is developing a group capital calculation as an analytical tool to assist state insurance regulators in their assessment of group risks.*

Background

On July 9, 2013, the Federal Reserve, OCC, and the FDIC issued three final rules regarding capital standards to be applied to thrift and bank holding companies. For now, the rules exclude savings and loan holding companies substantially engaged in insurance underwriting activities or with substantial insurance underwriting subsidiaries. However, the Board is considering further the development of appropriate capital requirements for such companies.

The NAIC's comment letter to the original proposed rules and subsequent testimony before Congress focused on helping federal officials better understand the insurer business model and state based regulation. We expressed our ongoing concern with applying "one size fits all" bank-centric rules that fail to properly capture the risks and business model of an insurance enterprise. We also emphasized that new rules need to be consistent with insurance regulatory requirements that have protected policyholders for decades. In this regard, we commented on the rule's definition of separate accounts, the treatment of surplus notes and policy loans for risk weighting, and distinctions between Statutory Accounting Principles (SAP) and Generally Accepted Accounting Practices (GAAP). Where insurance underwriting is concerned, we clarified that state regulators monitor each legal entity insurer's financial position and results on an ongoing basis using many tools, not just the minimum capital requirements of Risk Based Capital (RBC), and require companies to address issues well before they become a capital concern in RBC. The NAIC has created a new Working Group to construct a group capital calculation using an RBC methodology for regulators to use in their analysis work. In doing so, the Working Group will consider both international developments and ongoing efforts by the Federal Reserve. It is our hope that the federal banking agencies continue to engage with the NAIC in a productive dialogue as they develop rules that more appropriately fit insurance companies and work with our regulatory regime.

Key Points

- ✓ The NAIC looks forward to working with federal regulators to help develop a regulatory approach that captures the complete risk profile of an insurance enterprise.
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- ✓ The NAIC is encouraging the Federal Reserve to develop its standards in a manner that complements, and does not duplicate or conflict with state financial regulatory or supervisory requirements.

- ✓ It is critical that the regulatory walls around legal entity insurers that have protected policyholders for decades not be displaced or disrupted.

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