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## STATEMENT BEFORE THE U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS SUBCOMMITTEE ON SECURITIES, INSURANCE, AND INVESTMENT HEARING ON “EXAMINING INSURANCE CAPITAL RULES AND FSOC PROCESS” April 30, 2015

Founded in 1931, the National Association of Professional Insurance Agents (PIA) is a national trade association that represents independent insurance agencies and their employees who sell and service all kinds of insurance, but specialize in coverage of automobiles, homes, and businesses. PIA represents independent insurance agents in all 50 states, Puerto Rico, and the District of Columbia. They operate cutting-edge agencies and treat their customers like neighbors, providing personal support and service. PIA members are *Local Agents Serving Main Street America<sup>SM</sup>*.

### **Introduction**

While perhaps not contemplated at the time, the 2010 passage of the Dodd-Frank Financial Reform Act has had a profound impact on insurance regulation. Under the Dodd-Frank Act, the Financial Stability Oversight Council (FSOC) has the power to designate “systemically important financial institutions” (SIFIs). Designated institutions are subject to regulation and supervision by the Federal Reserve Board. Currently, three insurance companies hold a SIFI designation. Dodd-Frank also transferred regulatory authority over savings and loan holding companies (SLHCs) to the Federal Reserve. This affected a number of insurance companies that are organized as SLHCs. Between SLHCs and SIFIs, the Federal Reserve oversees between one-quarter and one-third of insurance industry assets.

PIA acknowledges the regulatory role that the Federal Reserve Board plays as a consolidated supervisor, but maintains concerns about transparency in the FSOC decision-making process and safeguarding the important part state regulation plays in maintaining competitive markets and protecting consumers.

### **Concerns Regarding Transparency in the FSOC Decision-making Process**

The built-in checks and balances of the state-based regulatory system ensure transparency and accountability. PIA believes the same standards should apply to federal offices and commissions, such as the FSOC; the Federal Insurance Office (FIO); and international organizations, such as the International Association of Insurance Supervisors (IAIS), in which the FIO and Federal Reserve are involved. PIA supports efforts to increase transparency and cooperation, and to ensure that state insurance regulation is afforded appropriate deference in any federal or international decision-making process. PIA supports legislation that would require consultation with Congress, the insurance industry, and consumers with respect to domestic and international insurance standards, negotiations, regulations, or frameworks.

Another area where increased transparency is needed is in the designation and regulation of SIFIs. Currently, three insurance companies are designated as SIFIs. Troublingly, the SIFI designations occurred before the increased regulations that designated companies would face were fully established.

To that end, PIA supported the December 2014 passage of the Insurance Capital Standards Clarification Act (P.L. 113-279). PIA appreciates Congress's bipartisan actions to ensure that insurance companies can be regulated based on their unique risk profiles. With the passage of P.L. 113-279, the Federal Reserve should focus on working with the public to draft proper standards for insurance companies that are now under its supervision.

Furthermore, Congress must work with the FSOC to establish a process by which SIFI designations can be removed. Dodd-Frank did not intend for SIFI designations to be permanent and unless a process is established for removal SIFI designations are effectively permanent. Failing to establish a clear exit path for SIFIs could have an adverse effect on the competitiveness and stability of state insurance markets.

### **Safeguarding State Regulation**

For over 150 years the state-based system of insurance regulation has worked, successfully protecting consumers and creating a competitive and diverse U.S. insurance market. PIA supports a deliberative, cooperative, and consultative approach to insurance regulation between state and federal officials. Overlapping state, federal, or international regulations will generate an additional burden on the industry, raising consumer costs with no coordinating increase in consumer protections.

PIA has endorsed S. 798, the Policyholder Protection Act, which would better empower state insurance regulators to protect policyholders in their state by ensuring that insurance companies structured under larger financial firms are not held financially responsible for an affiliated bank's failure or financial crisis. Furthermore, S. 798 ensures that state regulators, and not the Federal Deposit Insurance Corporation (FDIC), have the power to appropriately manage a troubled insurer for the best interest of policyholders.

### **Conclusion**

PIA supports state insurance regulators as the primary regulators of insurance. State regulation has served the insurance industry and consumers well for over one hundred years. Any attempt to increase federal regulation of insurance is inappropriate and would negatively impact policyholders. PIA urges Congress to ensure that the FSOC and the Federal Reserve operate in a transparent manner in consultation with state regulators. PIA looks forward to continuing our engagement with Congress on these important issues in the months ahead and thanks the committee for holding this hearing today.