

MEMORANDUM

June 8, 2005

Dear Regulator:

I am writing to advise you of the latest phase in our evaluation of the National Association of Insurance Commissioners (NAIC) proposal to apply elements of the Sarbanes-Oxley Act to non-public insurance companies. The National Association of Mutual Insurance Companies (NAMIC) has completed a detailed cost-benefit analysis of the proposed transfer of Section 404 to mutual insurance companies. This analysis will be presented at the Boston NAIC meeting during the NAIC/AICPA Working Group session scheduled for June 13.

I strongly encourage you to either attend the meeting in person or send a representative from your department. I believe you will find the analysis illuminating. Among its key points:

- Implementation would cost almost eight times the maximum potential benefit - elimination of all mutual insolvencies. This assumes a highly improbable "best-case" scenario since nearly all failures result from insufficient financial reserves or inadequate rates, not misreported financial statements.
- For mutual property/casualty insurers, year-one compliance costs would exceed \$300 million, equal to the cost of all mutual insolvencies since 1992.

I have included an Executive Summary of the analysis for your review, as well as a link to the complete study <http://www.namic.org/pdf/05NAMICCostBenefitStudy.pdf>. The cost-benefit analysis complements and reinforces a NAMIC *Issue Analysis* entitled "It's Time to Admit that SOX Doesn't Fit: The Case Against Applying Sarbanes-Oxley Act Governance Standards to Non-Public Insurance Companies," which was e-mailed to you last week. The *Issue Analysis* contains a number of findings, most importantly:

- Congress designed the federal Act to protect the interests of investors and to restore public confidence in the capital markets. Non-public insurance companies, by contrast, have no investors and are not participants in the capital markets. The investor-oriented safeguards that are the essence of the Sarbanes-Oxley Act have absolutely no relevance to the situation of non-public insurers and insurance policyholders.

- Existing solvency regulation, disclosure, reporting and examination are designed to protect insurance policyholders, an objective that would not be served by a state-based version of a federal investor protection law. Since 1991, mutuals' share of total insolvency costs has been only five (5) percent of the industry total, despite mutuals representing more than 33 percent of total property-casualty premium.
- Estimated costs of compliance with Sarbanes-Oxley greatly exceed earlier estimates. Grafting elements of the Act onto existing state insurance solvency law will produce few benefits at great cost. These findings are confirmed by the cost-benefit analysis.

All parties share an interest in promoting insurance company solvency. However, the proposal currently pending before the NAIC is unnecessary, ill-advised and horrendously expensive.

Your attention to these important deliberations is critical. In addition to the summary of the cost-benefit analysis I have included, the NAMIC *Issue Analysis* is available on our website at <http://www.namic.org/pdf/050602SOXPolicyPaper.pdf>. Please contact me or Roger Schmelzer, NAMIC's Senior Vice President of State and Regulatory Affairs, if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles M. Chamness". The signature is fluid and cursive, with the first name being the most prominent.

Charles M. Chamness
President & CEO
National Association of Mutual Insurance Companies