

January 26, 2010

The Honorable Timothy J. Geithner
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Geithner:

I am writing on behalf of the National Association of Mutual Insurance Companies (NAMIC). NAMIC appreciates your work addressing the financial crisis on behalf of all Americans as well as our 1,400 member companies that underwrite more than 40 percent of the property/casualty insurance market. NAMIC mutual and reciprocal company members range from the nation's largest insurer to many medium and small insurers, giving us a broad perspective on the condition of the industry.

On January 14, 2010, President Barack Obama proposed the imposition of a "Financial Crisis Responsibility Fee" upon the largest and most highly leveraged Wall Street firms as a means of recovering the government assistance offered to those firms under the TARP and similar programs. NAMIC agrees that ensuring American taxpayers are repaid the funds lent to failing financial institutions should be a top priority of the Administration.

Given the amount spent in the name of stabilizing and stimulating the economy, it is vital that our elected leaders aggressively recoup as much taxpayer money as possible. However, NAMIC believes that a Financial Crisis Responsibility Fee should be equitably applied to only those who bear the responsibility for the financial crisis and directly benefitted from TARP and similar programs.

In this context, we point out that member-owned mutual and reciprocal insurance companies did not ask for or receive any TARP funds, and were not responsible for any risk to the U.S. financial system or to the economy during this crisis. These policyholder-owned companies are unlikely to be the source of great risk because they are generally low-leveraged businesses with lower asset to capital ratios than other financial institutions. They have more conservative investment portfolios and more predictable cash outflows that are tied to insurance claims rather than "on demand" access to assets.

Very few mutual and reciprocal insurers use commercial paper, short-term debt or other leverage instruments in their capital structures, a fact that makes them less vulnerable than highly leveraged institutions when financial markets collapse. Because of their basic business model and strict capital requirements imposed by state regulators, these insurers are much more heavily capitalized, in terms of their asset-to-liabilities ratios, than banks and hedge funds. This, of course, is a completely different model than the banking world where leverage is a central component of the enterprise.

Mutual and reciprocal insurance companies are unique in the financial services industry because they are member owned. Their business practices are not driven by stock prices and quarterly financial reports. Even the largest of NAMIC members follow a conservative business model, including strong reserves and conservative investments reflecting the mutuality at the heart of their companies. Maintaining their stability and soundness in order to protect policyholder-owners is the primary goal of these organizations – preventing these companies from overextending or engaging in risky business practices. The imposition of the Financial Crisis Responsibility Fee upon mutual and reciprocal insurers would be a direct tax on policyholders – the very Main Street American taxpayers whose money President Obama has vowed to recover.

For these reasons, we believe that any federal proposal to levy a fee on financial companies to pay back TARP should start from the premise that mutual and reciprocal companies engaged in insurance activities should not be subject to such a fee.

NAMIC believes the proposed fee should be paid only by those companies who played a role in the financial crisis. Virtually every analysis of the crisis has concluded that mutual and reciprocal insurers had little or no responsibility for the crisis. In fact, the industry has remained stable throughout the crisis and no mutual or reciprocal insurer received money under TARP. NAMIC members from the largest to the smallest remain well capitalized and were never in danger of insolvency during the crisis – and should therefore not have to pay for the recklessness and bad business practices of other financial institutions.

From the very beginning of the financial crisis NAMIC opposed the inclusion of the property/casualty insurance industry in any program providing direct federal government assistance, such as TARP. When the Emergency Economic Stabilization Act was passed and created the TARP fund in 2008, NAMIC immediately conducted a member survey and found that the overwhelming majority did not want or need capital infusion from the government.

Just days after the survey was conducted, NAMIC's board of directors held a special meeting and adopted a policy statement opposing the inclusion of mutual and reciprocal insurers in any program that involved direct federal government assistance under the EESA legislation.

NAMIC believes those companies who create and exacerbate economic problems must later take responsibility for their actions. In this particular case, responsibility must be

borne by those companies so identified, and not on member-owned insurers, merely due to artificial criteria such as size.

Sincerely,

A handwritten signature in black ink, appearing to read "C. M. Chamness". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Charles M. Chamness
President and CEO