NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

April 8, 2011

Ms. Jennifer Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Notice of Intent to Require Reporting Forms for
Savings and Loan Holding Companies

Dear Ms. Johnson:

The National Association of Mutual Insurance Companies (NAMIC) appreciates the opportunity the Board of Governors of the Federal Reserve System (the "Board") has provided, in connection with its pending supervisory oversight of saving and loan holding companies (SLHCs), to comment on its intention to require SLHCs to file the same reports bank holding companies (BHCs) must file with the Board, beginning on March 31, 2012. NAMIC recognizes the challenges the Board faces in meeting its new supervisory responsibilities for SLHCs under the Dodd-Frank Wall Street Reform and Consumer Protection Act (hereinafter, the "Dodd-Frank Act") and understands the Board's desire to maintain as much consistency as possible with current regulatory practices governing BHCs.

NAMIC is the largest and most diverse national property/casualty insurance trade and political advocacy association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include small, single-state, regional, and national carriers accounting for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market. Since its inception in 1895, NAMIC has been advocating for a strong and vibrant insurance industry.

Seeking regulatory efficiency is a laudable goal and NAMIC supports the Board's efforts to gather the most useful information possible on SLHCs in order to meet its supervisory objectives. Consistency, however, should not be the primary objective in setting reporting requirements. Rather, NAMIC believes the most effective and efficient way for the Board to approach this matter is to first recognize the striking differences between the activities of many of the BHCs traditionally regulated by the Federal Reserve and a number of SLHCs that will be supervised in the future. These distinctions are especially evident in connection with the financial reporting of insurance companies, where the measures and reporting of financial activities of insurers are markedly distinct from banks and BHCs.[1] The information that is critical to supervising an SLHC which is overwhelmingly engaged in insurance activities is fundamentally different than the information critical to regulating traditional BHCs. The risk and exposure of insurance companies and the nature and utilization of their assets and liabilities can be significantly different from banks. One size does not fit all, and consequently, the system of reporting should be tailored to this economic reality.

NAMIC has some important suggestions in response to the Board's invitation for public comment, particularly on the utility of the information reported in helping the board perform its functions, the burdens associated with collecting such information, and ways to minimize such burdens. Specifically, there are three major concerns: 1) the burdens of the reporting requirements appear to heavily outweigh any utility because they are weighted towards banking activities and inadequately capture information that is important for evaluating the financial soundness of insurance companies; 2) insurance companies currently preparing their financial statements exclusively or predominantly in accordance with Statutory Accounting Principles (SAP) should not be compelled to adopt Generally Accepted Accounting Principles (GAAP) for purposes of reporting because the costs and burdens far exceed any potential benefit of consistency; and 3) the March 31, 2012 deadline may not allow adequate time to make a transition to any new reporting requirements.

Limited Benefits and Significant Burdens of Reporting for Insurance Companies

Not unexpectedly, the proposed transition to BHC-type reporting would entail several new requirements and changes in procedures for many SLHCs. For example, for most SLHCs, filing quarterly bank holding company forms instead of the Form H(b)-11 and Schedule HC of the Thrift Financial Report will require, among other things: 1) analyzing the impact of new requirements on existing systems as well as changing systems to comply with different reporting requirements; 2) modifying internal controls as related to new reporting requirements; 3) training regulatory reporting analysts; and 4) conducting research on additional data needs.

The costs, burdens, and timing identified above are not insignificant, but they are compounded given that the types of information that would be required to be reported do not yield the kind of data that would be helpful to the Federal Reserve in effectively evaluating the financial condition and risks relating to an SLHC engaged primarily in insurance activity.

As stated in the Notice of Intent, the planned BHC-like reporting requirements are intended to "provide the Board with data necessary to analyze the overall financial condition of SLHCs to ensure safe and sound operations" and that "[c]onsolidated information assists in the identification and evaluation of significant risk that may exist in a holding company." The Notice of Intent further provides that the FR Y-9 family of reports is "the primary source of financial information on BHCs between on-site inspections . . . used to detect emerging financial

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[1] Most notably, the Board has acknowledged these sharp distinctions in relation to capital requirements governing banks and insurers, *See e.g.,* Joint Notice of Proposed Rulemaking on Risk-Based Capital Standards: Advanced Capital Adequacy Framework - Basel II; Establishment of a Risk-Based Capital Floor, 75 FR 82317, (December 30, 2010)(amending 12 C.F.R. Chapter II, Parts 208 and 225); Report of the NAIC and the Federal Reserve System Joint Subgroup on Risk-Based Capital and Regulatory Arbitrage, (May 24, 2002).

problems, to review performance and conduct pre-inspection analysis, to monitor and evaluate capital adequacy, to evaluate BHC mergers and acquisitions."

Again, the primary objective should be effective, efficient gathering of information that is balanced against the costs associated with the reporting, and will equip the Board to perform its functions. Along these lines, the types of information collected in the FR Y-9 family of forms are not very helpful in assessing the financial condition of most insurance holding companies. This is because most line-items on the FR Y-9 reports concentrate on gathering information reflecting areas that are typical to the business of banking and bank holding companies and not insurance companies. For instance, on schedule HC of Form FR Y-9C, which captures balance sheet items for the holding company, individual line items request information on assets and liabilities such as loans and deposits. Furthermore, schedule HI is a very bank-oriented income statement as the information sought relating to banking activity is far more specific, including items such as interest and fee income on loans, interest expense on deposits, provision for loan and lease losses, etc.

The treatment of insurance on the forms differs quite significantly and is far less comprehensive. Thus, while the FR Y-9 forms attempt to account for insurance, they do so only in the most general manner, seeking information on, for example, "Underwriting income from insurance and reinsurance activities" and "Income from other insurance activities." While this may be useful in assessing the overall operations of a bank holding company with some insurance operations, it is not particularly insightful for companies whose balances sheets are predominantly comprised of insurance-related activities. For instance, it should be recognized that insurance liabilities may extend 30, 40 , 50 years or longer for life insurance policy reserves and up to 10 years or more for typical property and casualty loss reserves (some with significant volatility). However, such items that would be key and significant items on an insurance company's balance sheet are merely summarized on the FR-Y-9 reports under a line item such as "Other," providing little meaningful context as to what the information means without further explanation.

In sum, the supervisory benefits sought in requiring insurance-oriented SLHCs to file BHC-like reports do not seem to justify the costs associated with the procedural and internal changes companies must make to fulfill the reporting obligations.

Unique Accounting Systems for Insurers

Another critical distinction between many insurers and typical bank holding companies is the basis of accounting used by each. Indeed, the type of accounting systems required by the Board is an area of utmost concern and we specifically request that the Board allow insurers relying primarily or exclusively on preparing their financial statements in accordance with Statutory Accounting Principles (SAP) to continue the Office of Thrift Supervision's current practice of accepting SAP financial statements as opposed to requiring such statements be prepared using Generally Accepted Accounting Principles (GAAP) for holding company reporting purposes.

NAMIC believes that SAP offers the Board better information so that it can fulfill its regulatory responsibilities governing holding companies engaged primarily in insurance activities. Moreover, any benefits the Board might hope to achieve in uniformity by compelling GAAP reporting on bank-oriented reporting forms is simply not justified by the resulting costs and burdens imposed by mandating a switch.

All insurance companies in the United States are required for state regulatory purposes to report based on SAP (publicly held insurers are also required to report on a GAAP basis). The important difference between GAAP and SAP is the purpose of each system. One of the primary objectives of GAAP accounting is to provide important financial information to the investing community to make informed decisions on a going concern basis regarding whether to invest in publicly traded companies. In contrast, SAP reporting was designed from the outset with a solvency focus and regulatory purposes in mind (monitoring for solvency and financial soundness) and has a long history of highly effective use in the insurance sector. It provides appropriately conservative measures of insurance assets and liabilities. The use of SAP is codified in all states because its more conservative approach than GAAP in assessing an insurance company's solvency and ability to pay claims, and meet its obligations is the very foundation of financial entity regulation. SAP is also well recognized within the accounting profession as an Other Comprehensive Basis of Accounting (OCBOA) and like GAAP, also allows for audited financial statements

Most important from our perspective is that numerous non-publicly traded insurers, such as mutual insurance companies, use SAP exclusively or use GAAP only on a limited basis. Consequently, if the Board requires the application of consolidated GAAP based accounting solely for purposes of reporting on the FR Y-9, the transitional costs will be extraordinary, requiring changes in accounting systems, internal control systems, and training of personnel, thereby creating significant burdens without providing any appreciable benefit in meeting the regulatory goals of safety, soundness, and identifying risks in the holding company. Furthermore, although the burdens are significant for both small and large insurers, they would be particularly acute in instances where the thrift is a relatively small component of the larger insurance holding company and further amplified in large insurance companies with relatively small thrifts. Finally, the significant costs associated with implementing GAAP solely for SLHC reporting purposes, would not obviate the need to continue preparing reports on a SAP basis, which would have to be continued for state regulatory purposes.

Given these considerations, NAMIC does not believe any perceived benefits to the Federal Reserve or to companies in mandating the use of GAAP are justified by the costs. Furthermore, a SAP based reporting requirement would better align with the needs and stated purpose of the Federal Reserve to determine the safety and soundness of the thrift holding company.[2]

Board Acceptance of SAP Financial Statements is Consistent with Current Practice, Congressional Intent, and Executive Order 13563[3]

The Board should fully recognize the distinct regulatory approaches required to properly supervise banks and insurance companies which entail different measures for capital, financial strength, and stability. In other words, it is not appropriate to mandate an accounting practice

[2] The same principles apply in connection with any financial statements that the Office of the Comptroller Currency may require in connection with its pending assumption of direct supervisory authority over thrift itself.
[3] Exec. Order No. 13,563, 76 Fed. Reg. 3821 (Jan. 21, 2011).

that is akin to fitting a square peg of information into a round regulatory hole. Rather, NAMIC believes it is far more productive for the Board to rely on existing accounting practices and statements likely to provide all the financial information necessary for the Board to fulfill its statutory responsibilities concerning the financial health and related reporting requirements governing an insurance-based SLHC. That is, the Board should work to develop a process that facilitates the submission of information that is more informative about insurance assets and liabilities and allow for the use of SAP. There is great opportunity to leverage the existing regulatory reporting and solvency monitoring process to the benefit of the Board.

Permitting the continued use of current non-GAAP accounting practices would not deviate substantially from current practices of the Federal Reserve where a company's requisite accounting standards are established by another primary regulator. For example, the Board currently allows foreign banking organizations to file annual report financial statements using the local accounting practices of the country in which the foreign banking organization's head office is located, as stated within the Federal Reserve's G*eneral Instructions for Preparation of the Annual Report of Foreign Banking Organizations* - Form FR Y-7. In addition, the Federal Reserve conducts strength-of-support assessments of foreign banking organizations with U.S. operations. As part of this assessment, the Federal Reserve reviews a foreign banking organization's home country accounting practices in order for the Federal Reserve to highlight significant differences with U.S. GAAP and the supervisory implications of these differences. *See* Supervisory Letter SR 00-14 (Oct. 23, 2000). The Board only requires a review of the FBO's home country accounting practices in relation to GAAP, and does not require the FBO to conform its accounting to GAAP for reporting purposes. Thus, the Federal Reserve is accustomed to reviewing financial statements under various accounting principles, and should therefore support a similar policy for insurance companies that use SAP reporting in the preparation of their financial statements.

The Board's reliance on SAP would also be fully consistent with Congress's understanding of this issue. For example, the Senate Banking Committee report on the Dodd-Frank Act relating to new countercyclical capital and source of strength requirements imposed on savings and loan holding companies under Section 616, states that "[The] Federal Reserve should take into account the regulatory accounting practices and procedures applicable to, and capital structure of, holding companies that are insurance companies (including mutuals and fraternals)," and that Section 616 is not intended "to mandate that insurance companies otherwise subject to alternative regulatory accounting practices and procedures use GAAP reporting."[4]

Finally, allowing the use of SAP accounting would be in accord with President Obama's January 18, 2011 Executive Order on Improving Regulation and Regulatory Review. Among other things, the Executive Order instructs agencies "to weigh the costs and benefits" of proposed rules and "to seek to find the least burdensome tools for achieving regulatory ends." Proper regulatory policy must take into account the benefits and costs of the application of a rule or proposed reporting, especially if it is going to create overlapping and inconsistent burdens. Again, the burdens associated with requiring GAAP basis reporting on SLHC's not otherwise required to produce consolidated GAAP statements would be significant and could have adverse

[4] S. Rep. No. 176, 111th Cong., 2nd Sess. (2010).

consequences, particularly in instances in which very large insurance operating companies own relatively small thrifts.

Timing

The final major concern is the timing for meeting new reporting requirements. In the best of circumstances, implementing internal systems, operational, and personnel changes needed to meet the March 31, 2012 deadline is a challenge in itself. However, given this opportunity for comment and the Board's apparent openness to consider more efficient and effective modifications to its SLHC reporting requirements, it is difficult to commence a coherent implementation process without knowing the final and definitive requirements. Therefore, regardless of any final determinations the Board makes on substance regarding the types of reports an SLHC must complete, the time provided to submit such reports should take into account the date when such determinations are made.

In closing, NAMIC urges the Board to carefully consider the utility, timing, and the full costs associated with the proposed reporting requirements and requests that the Board expressly permit insurers using SAP as their primary or exclusive means of accounting to continue submitting financial statements under this system and forego requiring such insurers to prepare financial statements using GAAP.

NAMIC stands ready to work with the Board on this important issue.

Sincerely,

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