NAMIC®

NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

December 19, 2011

The Honorable Timothy Geithner,
Secretary, Department of the Treasury
Chairman, Financial Stability Oversight Council
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

RE: Docket ID: FSOC-2011-0001-0045
Authority to Require Supervision and Regulation of
Certain Nonbank Financial Companies

Dear Secretary Geithner:

The National Association of Mutual Insurance Companies ("NAMIC") is pleased to offer comments on the revised rulemaking regarding the Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies.

NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 regional and local mutual insurance member companies on main streets across America joining many of the country's largest national insurers who also call NAMIC their home. Member companies serve more than 135 million auto, home, and business policyholders, writing in excess of $196 billion in annual premiums that account for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies.

First, NAMIC stands by its two sets of attached comments submitted on November 5 2010 and February 25, 2011, in connection with the Financial Stability Oversight Council's ("Council") advanced notice and notice of the proposed rulemaking on the

designation of nonbank financial companies as Systemically Important Financial Institutions ("SIFSs"). It has been and remains our view that the property/casualty insurance industry poses virtually no threat to the financial stability of the United States for a variety of reasons, including the fact that it is competitive, well-capitalized, and already subject to stringent financial and operational regulation. This is especially true for mutual insurance companies, which are run for the benefit of policyholders and lack the types of financial incentives found in many stock companies that can lead to excessive risk-taking by managers and executives.

In its latest proposed rulemaking, the Council has expressed its intent to provide much-needed transparency and much-requested clarity to the designation process. We believe that it does much to accomplish this goal. The three-stage process will approach each designation on a firm-specific basis and not rely on overly broad criteria, but will include both quantitative standards and qualitative judgments. The first stage applies uniform quantitative thresholds to identify a list of companies for further evaluation which provide companies with the ability to conduct meaningful initial assessments of the likelihood of SIFI designation. Those thresholds include $50 billion in assets and one of the following:

$30 billion in gross notional credit default swaps outstanding
$3.5 billion in derivative liabilities
$20 billion of outstanding loans borrowed and bonds issued
15 to 1 leverage ratio
10% ratio of short-term debt to total consolidated assets

For companies above the initial threshold, the second stage uses a broad range of information from public and regulatory sources, and analyzes those companies based on six framework categories: size, sustainability, interconnectedness, leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny. The final stage involves direct contact by the Council, the opportunity for the selected companies to submit written comments, a Council vote, contestation period, and final Council vote.

We applaud the Council for carefully selecting thresholds and a set of criteria that truly reflect the risk posed by an entity, which we note are not typically associated with the traditional business of property/casualty insurance. The proposed framework clearly takes into account many of the issues and considerations that we raised in our previous comments. Further, NAMIC supports the efforts of the Council to respect the letter and spirit of Executive Order 13563 by allowing for full public participation in the rulemaking process and to ensure that evaluative criteria are clear, specific, transparent, and protect business confidentiality.

The Property/Casualty Insurance Industry and Mutuality

Affirming the Council's focus on those financial institutions that could pose a systemic risk to the U.S. economy, we would reiterate several key points that we have made in

our previous comments: 1) the legislative history of the Dodd-Frank Wall Street Reform Act ("DFA") makes clear that lawmakers did not believe that property/casualty insurers generally pose a systemic risk; 2) evidence shows that the property/casualty insurance industry is highly competitive and well capitalized; 3) the nature of property/casualty insurance products, the industry's low leverage ratios, its relatively liquid assets, and the lack of concentrations in the marketplace make the industry truly unique within the financial services sector; and 4) the very nature of mutual insurance company activities should be distinguished from activities of stock companies relating to business strategies, incentives, and risk-taking.

There are more than 5,000 insurers operating in the United States, the majority of which are relatively small. No single insurer or group of insurers dominates either the personal or commercial property/casualty marketplace and insurers must actively compete for business in all markets. Similarly, property/casualty insurers manage concentrations of investments and have regulatory limitations on both the type and concentrations of the assets. The competitive nature of the industry, the lack of concentration, and the underwriting and investment standards make property/casualty insurers less sensitive to the actions and conditions of other sectors of the financial services industry or other economic shocks.

Also, the importance of mutuality cannot be overstated. Main Street-focused financial firms such as mutual insurance companies, which provide everyday citizens and businesses with automobile, home, or commercial insurance, have an entirely different mission and business model than Wall Street capital intermediaries. Mutual insurance companies, as opposed to other financial stock companies, serve a different customer and are subject to an entirely different and more rigorous regulatory regime. The very nature of the mutual insurance industry and its approach to risk meant that mutual companies, even large ones, did not seek or need any government assistance during the 2008 financial crisis. Indeed, mutual insurance companies placed no additional stress on the U.S. financial system and paid all claims and obligations when due without the least disruption.

There are other significant distinctions between mutual and stock companies. A mutual company is operated for the benefit of its policyholders and issues no stock. Therefore, incentives and decisions are not driven by earnings pressure from shareholders, nor are its executives compensated based on the value of a company's stock. Rather, a long–term, conservative approach designed to build and maintain policyholder surplus to ensure adequate capital to pay claims is inherent in the mutual structure. In other words, mutuality impacts a nonbank financial company's entire approach to risk. As such, and consistent with academic research on risk-taking by mutual insurance companies compared with stockholder-owned insurers, mutual insurance companies are conservative and do not engage in the types of activities that are the hallmarks of systemic risk.

Conclusion

Again, NAMIC is pleased that the thresholds and criteria identified in the latest NPR seem to indicate that property/casualty insurers will not be the focus of the Council's designation efforts. In the event that the Council does consider any property/casualty insurer for designation, it will be imperative to keep in mind the industry's solid track record on solvency, and the financial and structural underpinning of the industry that has historically served as a source of stability for the broader economy.

The risk that property/casualty insurance companies in general, and mutual insurance companies in particular, pose to the overall financial system is negligible. Nor are property/casualty insurers as susceptible to the adverse systemic consequences of activities engaged in by banks and other financial institutions that are the principal generators of systemic risk. We are encouraged that the Council is making critical distinctions in what does and does not constitute a threat to the U.S. economy and we urge them to avoid any anti-competitive consequences and added costs in the market by designating any property/casualty insurer as a SIFI.

National Association of Mutual Insurance Companies
122 C Street, N.W.
Suite 540
Washington, D.C. 20001
202-628-1558