December 2, 2014

Subject: Insurance Capital Standards Clarification Act of 2014

Dear Representative:

On behalf of the American Academy of Actuaries'[1] Solvency Committee, I am writing to express support for the *Insurance Capital Standards Clarification Act of 2014*.This legislative language was passed under unanimous consent in the Senate in June as S. 2270 and was contained within H.R. 5461, which passed the House in September. It is substantially similar to H.R. 4510, which is sponsored by Representatives Gary Miller and Carolyn McCarthy and has 220 cosponsors in the House of Representatives. The legislation would clarify that the Board of Governors of the Federal Reserve System has the authority and the ability to differentiate between banks and insurers in terms of capital requirements.

The committee strongly urges you to support this legislative language should it be reconsidered by the House before Congress adjourns.

Applying capital standards that are designed for other types of financial institutions to insurers could have a number of implications:

- It assigns risks to insurers that are not necessarily significant to them. This potentially could drive changes to insurers' product offerings, impact policyholders in the long-term by impeding competition and creating affordability and accessibility problems, and lead to actions that increase the economic risks to insurers and their policyholders.

- It understates risks that may be more significant to insurers than to entities such as banks. For example, banks and insurers face different risks related to the duration of their liabilities. The long duration of insurers' liabilities makes them less likely to face a "run-on-the-bank" liquidity concern. However, the longer liabilities of insurers can make them more susceptible than banks to a sustained change in the interest rate environment.

Actuaries have worked for decades with insurance and other financial sector regulators to develop prudent rules addressing insurer solvency, including capital requirements. These requirements ensure an insurer's ability to fulfill its obligations to its policyholders. Capital requirements for insurers must recognize that the business of insurance is distinct from other

[1] The American Academy of Actuaries is an 18,000+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

financial services. The business models for insurance companies and other financial institutions have important differences in terms of the needs of consumers, the nature of risks transferred, and the timing and certainty of generating profits. In addition, banks and insurance companies operate under different accounting regulations and regulatory systems. As such, applying the same capital requirements to banks and insurers would not be appropriate.

Therefore, we consider the clarification set forth in the *Insurance Capital Standards Clarification Act of 2014* to be in the public interest and a necessary measure to preserve the ability of regulators to effectively oversee and regulate insurance to protect policyholders and maintain vibrant insurance markets.

We appreciate the opportunity to offer these comments. If you have any questions or would like to discuss these issues in more detail, please contact Lauren Sarper, the Academy's senior policy analyst for risk management and financial reporting, at 202.223.8196 or sarper@actuary.org.

Sincerely,

Elizabeth K. Brill, MAAA, FSA
Chairperson, Solvency Committee
Risk Management and Financial Reporting Council
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