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January 4, 2016

Svein Andresen
Secretary General
Financial Stability Board
Centralbahnplatz 2
CH-4002
Basel, Switzerland

VIA Email: fsb@bis.org

RE: National Association of Mutual Insurance Companies Submission on Consultative Draft Guidance Paper addressing "Developing Effective Resolution Strategies and Plans for Systemically Important Insurers"

Dear Mr. Andresen:

The National Association of Mutual Insurance Companies (NAMIC) welcomes the opportunity to comment on the Consultative Draft Guidance Paper addressing "Developing Effective Resolution Strategies and Plans for Systemically Important Insurers" (hereinafter "Consultative Document")

NAMIC is the largest property/casualty insurance trade association in the United States, serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers. A few of these insurers may be designated Internationally Active Insurance Groups. Several additional companies are engaged in international insurance or reinsurance as well. NAMIC consists of more than 1,300 property/casualty insurance companies serving more than 135 million auto, home, and business policyholders, with more than $208 billion in premiums accounting for nearly 50 percent of the U.S. automobile/homeowners insurance market and over 30 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies. Our members have a significant interest in the FSB efforts on the Consultative Document.

To begin, we support the comments submitted jointly on this Consultative Document by the National Conference of Insurance Guaranty Funds (NCIGF) and the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA). The focus of their submission is on the importance of policyholder protection as the primary goal of any resolution scheme and, in fact, all solvency regulation. They also remind the FSB of the critical role played by

Guaranty Associations in the U.S. and other policyholder protection schemes used around the world, and their importance as part of the partnership between regulators and the insurance institutions in developing a successful resolution process. In the U.S. policyholder protection is the primary goal of the regulation of insurers. NAMIC has consistently echoed this messaging of the priority of policyholder protection. For these reasons, NAMIC fully supports the comments of NOLHGA and NCIGF and refers the FSB to those submissions as part of our submitted comments.

We also support the comments submitted by the NAIC as they also focus on these same policyholder protection and partnership themes. The NAIC submission makes an additional comment regarding the lack of flexibility in the Key Attributes that are the basis for the Consultative Document, and proposes the need for the KAs and this Consultative Document to incorporate enough flexibility surrounding insurance insolvencies to address the differences in legal authority in different countries. NAMIC members also fully support this recommendation for improvement of the Consultative Document.

The NCIGF, NOLHGA and the NAIC all offer significant suggestions to improve the Consultative Document. We acknowledge that the FSB has provided this Consultative Document draft as a starting point in the discussion and appreciate the request for further guidance in the adjustment of the document to reflect the realities in jurisdictions around the world. In the interest of improvement of the guidance paper NAMIC submits the following comments:

Question 1: NAMIC disagrees with the first representation that authorities should identify "institution-specific resolution objectives." Instead we assert that, "institution-specific resolution objectives" should be identified and developed by the institutions themselves in accordance with the laws and regulations of the jurisdictions that regulate their activities. No authority will fully understand the risks of all institutions they regulate and only the institution itself can be in a position to reflect on the various risks and best understand the needs in the event of insolvency. The insurance institution should be in a position to discuss the objectives and clarify concerns with their jurisdictional regulators.

The role of authorities should be to help define the high level industry-specific resolution objectives through laws and regulations, and those objectives should, first and foremost, recognize the need to protect the policyholders' interests in the financial stability of the institution. Policyholders rely on insurance institutions for financial security in times of risk or other events (*e.g.* death, illness, and accidents) in their lives, and in financial planning for their future. NAMIC's membership believes strongly that policyholder protection should be paramount in importance as that is the basic function of insurance. Our regulators and guaranty funds agree with this most basic of priorities and have so stated in their responses to Question 1.

In section I, paragraph 2 of the Consultative Document the FSB puts financial stability ahead of policyholder protection and seems to add such protection as a secondary value to a resolution strategy. If in fact financial stability remains the top priority in the final version of this paper then it should be clarified that the recommendations and guidance in the paper are specifically limited to insurance institutions that actually pose systemic risk, designated GSII insurance groups, and not for other institutions. The comprehensive and complex nature of the resolution planning process anticipated by this document if applied to all insurance institutions would result unnecessary regulatory efforts and excessive cost and analysis by insurance institutions that are at no risk of causing systemic risk.

Question 2: The points of entry suggested in the Consultative Document section II.1 are high level. At this stage that may be appropriate, but an element missing in this section is the concept of all authorities coordinating <u>with</u> the insurance institution to reach the appropriate conclusions. Without cooperation the authorities will be unlikely to reach valid conclusions and the level of unnecessary effort will increase. Adding this concept to this section will help improve the point of entry discussion.

In addition, the tendency to use banking capital standard language, like "source of strength" will not build the confidence of insurance institutions in this Consultative Document.

Questions 3 and 4: The preferred resolution strategy set forth in section II.2 seems to build an excessively complex set of options and potential resolution strategies. It seems planning for every possible type of potential failure is a challenging, complex process for the insurance institution to complete and for the regulator to decipher. NAMIC argues that the exercise may have marginal value. The real causes of failures are rarely well known or well understood by either the insurance institution or the authorities until after the fact. A resolution plan document that attempts to cover all possibilities may become simply an exercise that creates additional risks for the institution from competitors and litigators instead of developing a strong protection against failure. A regular dialogue between insurance institutions and regulators would provide a much stronger likelihood that weaknesses will be identified and that they will be addressed before they reach levels of creating systemic risk.

This is another opportunity to emphasize that the FSB guidance and in fact the resolution planning process should only be intended to apply to designated GSII insurance groups – not to all insurance groups or those that "potentially," "might," or "may" have an impact on systemic risk as is alluded to in the Consultative Draft. Clarification of this issue will improve understanding of the guidance. Individual jurisdictions can always take action they believe is necessary, but the role of the FSB regarding resolution authority is to provide guidance for the GSII resolution strategy and planning.

Question 5: Flexibility is critical to any global guidance. In the event that an insolvency does occur the guidance must reflect the priority of the policyholder claims, the unique characteristics of the insurance institution that is at risk, the laws of the jurisdiction in which the institution operates and the policyholder protection schemes available and the options such organizations can identify.

Question 6: It is recognized that there are few lines in the Property/Casualty insurance industry that will create critical risk. The market is large and the options plentiful.

Policyholders with unpaid claims and unearned premiums will require policyholder protection schemes like guaranty associations, but the overall risk of insolvency is not a critical risk.

In Section III.3 box 2 the Consultative Document attempts to roll all regulatory solvency functions into the resolution planning process. Several of the questions raised are already part of U.S. companies' required annual financial reporting, regulatory financial analysis, ORSA submissions, corporate governance disclosures and regular financial examinations. Bundling the entire function of solvency regulation into resolution strategies will require flexible application as many jurisdictions have different methods of monitoring, supervising, examining, requiring reporting and disclosures, and prioritizing claims during the insolvency of an insurer and may not refer to the entire solvency regulation process as "resolution strategy and development."

If there are any questions about the recommendations or suggestions made in NAMIC's comments please contact Michelle Rogers at mrogers@namic.org. Thank you for the opportunity to comment.

Respectfully Submitted,

Michelle Rogers

Michelle Rogers
Director of Financial and Regulatory Policy
National Association of Mutual Insurance Companies