February 20, 2015

The Honorable Janet Yellen
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Chair Yellen:

We write regarding implementation of S. 2270, the Insurance Capital Standards Clarification Act. As supporters of that legislation and of tailored capital standards for insurers, we appreciate your thoughtful engagement on this issue.

The legislative history of S. 2270 and H.R. 4510, the House companion bill which garnered 227 cosponsors, makes clear Congressional intent that the Federal Reserve Board (Board) develop an insurance-centric model of regulation for designated insurance companies and insurance savings and loan holding companies. We believe that model should be based on existing domestic insurance regulatory measurements and standards. Those standards have functioned well for decades and account for and reflect risks associated with the insurance business model.

In your November 2013 Senate confirmation hearing, you very appropriately stated that “one-size-fits-all should not be the model for regulation and [the Federal Reserve Board needs] to develop appropriate models for regulation and supervision of different kinds of institutions. Insurance certainly has some very unique features that make them very different from banks.” We strongly agree with your assertion and, to that end, urge the Board to avoid utilization of the Basel bank-centric capital framework for insurers. A capital regime should take into account the unique characteristics of the insurance business model, including accounting systems, insurer liabilities, valuation standards, and hold-to-maturity practices.

Additionally, we appreciate your past statements that the Board would engage in a notice and public comment process on this issue. An advance notice of public rulemaking before issuing proposed rules is merited, particularly given that this is the first time in the Board’s history that it will institute a capital regime for insurers.

Finally, we are aware of the ongoing international capital discussions in the International Association of Insurance Supervisors, and how these negotiations have the potential to influence the Board’s approach to domestic implementation of S. 2270. Consequently, we urge the Board to ensure that no policy principles are agreed to internationally that would restrict the ability to implement the legislation in accord with Congressional intent.
Thank you for your consideration of our comments. We look forward to continuing this discussion and learning more from you as you carry out implementation of this important legislation.

Sincerely,

Blaine Luetkemeyer  
Chairman  
Subcommittee on Housing and Insurance  
House Financial Services Committee

Emanuel Cleaver  
Ranking Member  
Subcommittee on Housing and Insurance  
House Financial Services Committee