



Property Casualty Insurers
Association of America

Shaping the Future of American Insurance

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PCI Calls For Refinements To Proposed Systemic Risk Bill

WASHINGTON—The Property Casualty Insurers Association of America (PCI) submitted testimony Thursday calling for needed refinements to the discussion draft of the proposed Financial Stability Improvement Act of 2009 released earlier this week and suggesting a three-part test for systemic risk.

“Home, auto and business insurers are predominantly a Main Street industry, with significantly less concentration and more small business competition than other financial sectors,” said David A. Sampson, PCI’s president and CEO. “We have rejected government handouts, and our industry is stable, healthy and continuing to provide critical services to local economies and their communities. Therefore, we should not be placed in the same risk pool as highly leveraged Wall Street industries.”

PCI’s testimony noted that in significant respects, the discussion draft proposed a good starting point for discussing systemic risk, but that it appears not to adequately reflect the fact that the property casualty insurance industry did not cause the existing economic crisis and is not systemically risky. In particular, PCI’s concerns include:

- There is no proposed screen to weed out the vast majority of companies that are unlikely to present significant systemic risk.
- Any insurer, regardless of size, could be subject to costly data calls, with no requirement that the cost of compliance be weighed against its benefit, ultimately hurting consumers.
- There is no exemption from forced conversion of small, non-risky, non-bank financing companies into bank holding companies.
- Representation on the proposed Financial Services Oversight Council includes only one non-voting representative from the insurance industry.

PCI suggested those issues should be resolved and that there should be a systemic risk measurement system to reduce potential litigation and uncertainty. To this end, PCI has proposed a three-part, weighted measurement for systemic risk based on three criteria: failure probability, cyclicity and potential economic impact.

“We are committed to working with the Administration and Congress to develop effective and workable proposals for addressing systemic risk and resolution,” Sampson said. “However, insurance consumers would not benefit from additional, duplicative federal regulation oversight that will ultimately harm the marketplace and increase costs for consumers.”

Additionally, PCI noted it would support the creation of a federal resolution authority to resolve systemically risky financial companies, contingent on seven points:

- The resolution authority is focused on systemically risky entities and not on insurers (which generally do not pose systemic risk).
- It does not duplicate existing, effective state or federal resolution authorities.
- It does not give companies incentives to engage in risky behavior.
- It does not punish those who act responsibly.
- It requires industries to pay their own resolution costs and does not permit cross-subsidization of those costs among industries.
- It does not permit the resolution agency to reach down and raid affiliates that are subject to separate resolution authorities.
- It is a separate, independent agency that is not a primary regulator for one industry.

PCI's testimony notes that traditional property casualty products do not pose the same types of risk as other financial sectors, because they generate little counterparty risk and historically have had low failure rates.

"While some increased federal regulation of systemically risky companies is needed, we must be careful not to subject the insurance industry to new federal regulation that duplicates the existing comprehensive state oversight or preempts effective, experienced state regulators who have served consumers well for many years," Sampson said. "There is no equivalent, in our industry, of a 'run on the banks' due to the fact that we have a stable mandatory marketplace. We believe that all regulatory reform legislation, including any new resolution authority, should focus on truly systemically risky entities that are not currently regulated adequately for systemic risk and not already subject to an effective resolution system."

PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write over \$180 billion in annual premium, 37.4 percent of the nation's property casualty insurance. Member companies write 44 percent of the U.S. automobile insurance market, 30.7 percent of the homeowners market, 35.1 percent of the commercial property and liability market, and 41.7 percent of the private workers compensation market.

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