Property Casualty Insurers Association of America

Shaping the Future of American Insurance

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# PCI Testimony Calls On Senate To Address Systemic Risk

WASHINGTON—David A. Sampson, president and CEO of the Property Casualty Insurers Association of America (PCI), calls upon the Senate Banking Committee in prepared testimony to focus on the issue of systemic risk. Sampson's testimony, which is attached, is being submitted for Tuesday's Senate Banking Committee hearing, "Perspectives on Modernizing Insurance Regulation."

In his testimony, Sampson says that the Gramm-Leach-Bliley Act of 1999 left gaps in systemic risk oversight, including the fact that it did not cover investment bank holding companies such as Lehman Brothers or Bear Stearns or other entities, such as derivatives firms.

"Not only did systemic risk oversight apply to a too-limited universe of entities, but the focus was on the risk of other affiliates to the bank and the systemic risk of the banks to the larger economy. We now understand that systemic risk is not solely bank-centric," Sampson said. "(Former Federal Reserve Chair Alan) Greenspan now admits that the risk models created were inadequate, particularly to guard against irrational systemic behaviors. And the need for institutionalized and systematic information sharing envisioned at the time was never adequately realized. These are the precise gaps that need to be addressed, and that can be fixed with minimal unintended consequences using the existing regulatory structure, freeing Congress to then move onto the next phase of carefully and thoughtfully reviewing larger regulatory restructuring issues."

PCI continues to advocate that Congress must address these crucial gaps rather than focusing on the decades-old debate over state-vs.-federal insurance regulation, which is too complex and divisive at this time to be solved quickly. Sampson also argues that Congress should not confuse systemic risk with solvency issues, which are separate and distinct and should be bifurcated. The role of a solvency regulator is to prevent company failure, while the role of a systemic risk overseer is to allow company failure.

"Solvency regulation is conducted by the primary functional regulator for each subsidiary to avoid its failure," Sampson said. "Systemic risk regulation is conducted by the consolidated umbrella supervisor to control the contagion affect of subsidiary failures when they occur."

To this end, PCI advocates the creation of a systemic risk overseer rather than the creation of a large bureaucracy or restructuring scheme.

"Solving the systemic risk crisis does not require a vast new bureaucracy or radical restructuring of our regulatory system," Sampson said. "It does require plugging the loopholes and refocusing the existing system of holding company systemic risk regulation that in hindsight was clearly too limited. Congress can ensure that a strengthened systemic risk overseer and information sharing system is neither duplicative nor optional, and works in tandem with the existing primary functional regulators."

PCI has addressed the crucial issue of systemic risk in a two-page informational paper it provided to members of Congress and Congressional staff. This paper, along with numerous other resources on this important topic, can

be found online at www.pciaa.net/reg-reform.

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 $176 billion in annual premium, 39.5 percent of the nation's property casualty insurance. Member companies write 43.8 percent of the U.S. automobile insurance market, 29.6 percent of the homeowners market, 32.8 percent of the commercial property and liability market, and 38.4 percent of the private workers compensation market.

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