



February 9, 2011

The Honorable Timothy Geithner
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Re: Financial Stability Oversight Council

Dear Secretary Geithner:

State insurance regulators understand, respect and support the need for financial stability oversight to minimize the potential impact of widespread financial institution failures in the United States economy. We write because of our concern about the manner in which the Department of Treasury (“Department”) has chosen to implement the Dodd-Frank Financial Stability Oversight Council (“FSOC”). To date, the Department, either independently or in concert with other FSOC member agencies, has limited our ability to meaningfully participate in FSOC’s work and provide the regulatory perspective of the insurance sector to these critical discussions.

Insurance is among the nation’s largest financial sectors and performs a critical function in the United States and international economies. Understanding the impact of systemic risk on the insurance sector and how the business of insurance interacts with other activities and products within a potentially systemic institution is – and will continue to be – best understood from the perspective of the industry’s functional regulator. As FSOC members survey the financial landscape looking for systemic risk and developing regulatory solutions that appropriately reflect and consider the wide diversity of financial institutions, insurance will undoubtedly be a part of that review and discussion. Without properly integrating state insurance regulators, as supported and coordinated through the NAIC¹, the FSOC will

As an industry, insurance is fundamentally different from the banking and securities business models with distinguishing features and risks. Congress recognized the importance of the insurance sector to the United States' financial system and its unique nature by requiring that FSOC have three separate insurance experts as members: 1) an independent member with insurance expertise appointed by the President and confirmed by the Senate, 2) a state insurance commissioner member chosen by the state insurance regulators, and 3) the Director of the Federal Insurance Office ("FIO"). We agree with this emphasis on the insurance sector, but Dodd-Frank clarifies that the state insurance regulator, currently Director Huff, is – and will remain – the only acting insurance regulator on the FSOC. Indeed, even when the FSOC insurance expert is appointed and the FIO is fully operating, only the NAIC and the state regulators have the functional insurance regulatory expertise and the millions of insurance sector data elements that FSOC requires and deserves. FSOC participation is heavily weighted to the banking and securities sectors, and with FSOC moving forward on a rapid timeline of implementation, the credibility of FSOC decisions that impact insurance will be jeopardized without appropriate insurance regulatory participation in these efforts. Simply hiring more staff at the FIO and appointing an independent member will not change this fact.

We disagree with the argument put forward by the Department that the role of the state insurance regulator on FSOC is simply to represent his state agency. Congress delegated the choice of the appropriate regulator to a decision of all the state insurance regulators clearly indicates that this FSOC member was intended to represent the state insurance regulatory system, and not merely one state's insurance department. As is the case with the Department and all other FSOC member agencies, no one individual (or team, division, etc.)

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deliberations. Any additional NAIC staff members or state regulators enlisted to support Director Huff would sign appropriate confidentiality agreements that impose the same

The Honorable Edward DeMarco, Acting Director, Federal Housing Finance Agency
The Honorable Gary Gensler, Chairman, Commodity Futures Trading Commission
The Honorable Debbie Matz, Chairman, National Credit Union Administration
The Honorable Mary Schapiro, Chairman, Securities and Exchange Commission
The Honorable John Walsh, Acting Comptroller of the Currency
The Honorable William Haraf, Commissioner, California Department of Financial Institutions
The Honorable David Massey, Deputy Securities Administrator, North Carolina Department of the
Secretary of State, Securities Division