Property Casualty Insurers
Association of America

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Vice President, Financial Policy

July 22, 2016

Robert deV. Frierson
Secretary
Board of Governors
Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. 1536 and RIN No. 7100 AE-50, Incentive-Based Compensation Arrangements

Dear Secretary deV. Frierson:

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on the Proposed Rule implementing the incentive compensation requirements of section 956 of the Dodd-Frank Act. PCI consists of nearly 1,000 member property/casualty insurance companies that write $195 billion in annual premium, 35 percent of the nation's property/casualty insurance. Our members write 42 percent of the U.S. automobile insurance market, 28 percent of the homeowners market, and 35 percent of the private workers compensation market. Seven of our members are currently under the Board's group-wide supervision as savings and loan holding companies (S&LHCs). Since the insurance companies in these groups are under the comprehensive legal-entity supervision of state insurance regulators, in order to avoid unnecessary and duplicative dual regulation PCI urges the Board to exclude insurance company members of S&LHCs from the requirements of the Proposed Rule.

We would like to note that, because of the Proposed Rule's length and complexity, we requested an extension of the short comment period provided. We have had no response to our request, however, and so we are submitting these brief comments today.

The Proposed Rule would include savings and loan holding companies (S&LHCs) with average consolidated assets of $1 billion or more as "covered financial institutions" subject to the rule's requirements. Subsidiaries of covered financial institutions that are not depository institutions, broker-dealers or investment advisers would also be subject to the rule. The Board asks in Question 2.12 whether "the determination of average total consolidated assets (should) be further tailored for certain types of investment advisers, such as charitable advisers, non-U.S.-domiciled advisers, or insurance companies, and, if so, in what manner?"

PCI urges the Board to:

- Exclude the assets of insurance companies from the determination of average total consolidated assets, and
- If the group still meets the definition of a "covered institution", exclude insurance subsidiaries from the Proposed Rule.

Insurers are subject to comprehensive legal-entity supervision – The insurance companies included in S&LHCs are licensed and operated under the regulation of state insurance departments, which subject those companies to a robust national system of solvency regulation coordinated by the National Association of Insurance Commissioners (NAIC). State financial analysts maintain constant watch on insurers' financial condition, and on-site financial examiners oversee the corporate governance and compensation practices of those companies. For example, examiners are to look at how boards of directors oversee the compensation practices of their companies, including "whether the board or compensation committee considers how to eliminate, reduce, or manage material adverse risks to the company that may arise from compensation

practices" and "does the compensation policy induce excessive or inappropriate risk-taking". (Exhibit M, 2016 NAIC Financial Condition Examiners Handbook, p, 481) The new Corporate Governance Annual Disclosure Model Act and Model Regulation, currently in the process of being adopted in the states and becoming part of the NAIC's Financial Regulation Standards and Accreditation Program, provides regulators with an annual report that discusses significant compensation programs for senior management in "sufficient detail to allow the Commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk taking." (Sec. 5(D)(3), Corporate Governance Annual Disclosure Model Regulation) The imposition of the Proposed Rule on insurer members of an S&LHC would interfere with the state regulation of insurance in an area where the states exercise substantial oversight and are making significant improvements. This duplication of effort by the Board, regulators and insurers would increase costs for consumers without improving regulatory efficiency or providing greater protection to the overall financial system or economy.

No link to systemic risk – There is no proof that executive compensation practices in the insurance industry produced excessive risk taking that helped cause the financial crisis that began in 2007, or have created systemic risk in general. Multiple studies have concluded that traditional insurance business, in particular the property/casualty business which our members conduct, mitigates rather than creates or transmits systemic risk. Application of the Proposed Rule to insurers within S&LHC structures is unnecessary to address systemic risk.

Unlevel playing field – Application of the Proposed Rule to insurance companies within S&LHCs could also create a competitive disadvantage for those companies, as their competitors could find it easier to recruit executive talent. While the states apply robust regulation to insurer corporate governance and risk management, Board review of executive compensation simply applies another unnecessary level of interference that may make it more difficult for insurers within S&LHC structures to recruit and maintain executive talent.

For these reasons PCI asks the Board to exclude insurance companies that are included in savings & loan holding companies from the application of the Proposed Rule. If you have any questions or comments, please contact me at your convenience.

Sincerely,