July 10, 2018

Dear Representative,

On behalf of Americans for Financial Reform, the Center for Economic Justice, the Consumer Federation of America, and U.S. PIRG, we are writing to urge you to vote in opposition to HR 5059, the "State Insurance Regulation Preservation Act". HR 5059 creates a new category of "Insurance Savings and Loan Holding Companies" (ISLHCs) that qualify for wide-ranging exemptions from Federal Reserve prudential supervision. We fundamentally disagree with this kind of carve-out from consolidated Federal prudential supervision of banking institutions, including those that are subsidiaries of insurance companies.

A major contributor to the 2008 financial crisis was the proliferation of institutions that did not have a clear consolidated regulator, or whose overall regulator was not competent to oversee the prudential risks of the institution. The most glaring example was the American International Group (AIG), a global insurance company that engaged in numerous complex financial transactions involving derivatives and securities lending. These activities were beyond the scope of any single state insurance regulator. The Office of Thrift Supervision (OTS), AIG's primary Federal regulator, also did not have the capacity to properly monitor them. In the end, the losses at AIG were so great that it received the largest taxpayer bailout for a single institution in U.S. history.

The Dodd-Frank Act responded to this regulatory failure by eliminating the OTS and centralizing consolidated supervision of bank and thrift holding companies in the Federal Reserve. HR 5059 moves away from this framework by creating a special class of banking institutions for which Federal Reserve prudential oversight would be significantly limited by statute. The legislation is thus a step backwards toward re-creating the patchwork system of pre-crisis regulation that failed so badly to manage prudential and systemic risk.

A premise beyond HR 5059 is that the state insurance regulatory system should take the lead role in oversight of prudential risks for bank holding companies that do insurance business. We disagree with this premise. The state insurance regulatory system is designed to regulate the business of insurance at the entity (state-level insurance subsidiary) level. While state insurance regulators are working to improve group level supervision, a variety of factors, including fundamental legal restrictions in state law, competition between states for insurance business, and established practices in state insurance regulation make it challenging to conduct effective consolidated supervision through the state level system. The state level system does have unique strengths in oversight of market conduct and consumer protection. But fundamentally we agree with Federal Reserve Chair Jay Powell's testimony last week on this issue, when he stated:

> "the insurance supervisors, they do a fine job of supervising insurance, but they're not prudential regulators of banks. And…we think if you're going to own a bank, you should be subject to regulation by a prudential regulator of banks, which would be us."

There are several potential substitute amendments to HR 5059. One of these amendments, from Mr. Rothfus, would retain the fundamental structure of the base bill but would remove many of the statutory restrictions on Federal Reserve supervision of ISLHCs. This substitute does represent a significant improvement on the base bill. However, we continue to oppose it. We feel the statutory requirements in the substitute amendment for the Board to align recordkeeping, examination, and other prudential supervisory practices with the very different system of state insurance regulation would create unnecessary hurdles to needed prudential supervision. They would also increase litigation and delay risk at times when the Board might need to act forcefully as a consolidated prudential supervisor. Particularly in the absence of any showing that current Federal Reserve supervisory activities are duplicative or unnecessary, we feel that these statutory changes are uncalled for.

A better approach would be to simply mandate a study of the issue that examines whether the oversight of insurance companies could be improved while still ensuring proper protection against systemic and prudential risks.

Thank you for your attention.

Sincerely,

Americans for Financial Reform

Center for Economic Justice

Consumer Federation of America

U.S. PIRG