Resolution Urging the Senate Banking, Housing and Urban Affairs Committee
To Exclude Insurers from Systemic Risk Regulation and Assessments for the Resolution of
Systemically Risky Companies

Adopted by the NCOIL Financial Services & Investment Products Committee on March 5, 2010, and
Executive Committee on March 7, 2010.


WHEREAS, the U.S. Senate Committee on Banking, Housing and Urban Affairs on November 19, 2009
began markup of the Restoring American Financial Stability Act of 2009, and such committee is planning
to resume its markup very shortly; and

WHEREAS, such legislation would subject certain insurance companies to an additional layer of
regulation for systemic risk that could interfere with state solvency regulation, a federal resolution
authority that could interfere with the state resolution of insurers on behalf of policyholders, and
assessments that would unilaterally take money out of the insurance marketplace to pay for the federal
expenses of resolving failing systemically significant financial firms; and

WHEREAS, insurance companies under the state solvency regulatory system remained solvent during
the recent financial crisis and well able to meet their obligations to policyholders and other beneficiaries;
and

WHEREAS, it is recognized that insurance activities in general do not create systemic risk to the rest of
the financial system or the U.S. economy at large, because of the industry’s low concentration, low
barriers to entry and policyholder and beneficiary protection through the state rehabilitation, insolvency
and guaranty fund system; and

WHEREAS, subjecting insurance companies to additional and duplicative federal regulation for systemic
risk would jeopardize the ability of state insurance regulators to provide the high level of solvency
protection they currently provide to policyholders, beneficiaries, and the U.S. economy, while subjecting
insurers to substantial unnecessary costs that must be passed on to consumers; and

WHEREAS, superimposing a federal resolution system on the state rehabilitation, liquidation and
guaranty fund system would jeopardize the payment of claims to policyholders and beneficiaries and
would give priority to the protection of the interests of creditors and investors over insurance consumer
protection; and

WHEREAS, subjecting insurance companies to liability for assessments to pay for the resolution of
failing systemically risky non-insurers would inappropriately shift the costs of financial industry
segments that pose significant systemic risk to an industry that does not pose systemic risk, creating
additional moral hazard that would increase financial system risk and distort economic incentives; and
WHEREAS, insurance companies already pay the resolution costs for failed insurance companies through the state guaranty fund system, and to force them to pay a second time for the failures of systemically risky non-insurers would be a unilateral subsidy of creditors and investors of highly leveraged and systemically risky firms by insurance consumers, further increasing moral hazard and jeopardizing the safety and soundness of the financial system;

NOW THEREFORE, BE IT RESOLVED that NCOIL urges the Senate Committee on Banking, Housing and Urban Affairs to exclude the insurance industry from systemic risk regulation, federal resolution authority and assessments to fund the resolution of systemically risky financial firms in any financial services regulatory reform legislation that it considers; and

BE IT FINALLY RESOLVED that a copy of this resolution shall be sent to state legislative leaders and other state officials, Members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Members of the U.S. House Committee on Financial Services and the U.S. Treasury Department.