Insurance Regulatory Reform

Regulatory Modernization for the Benefit of Consumers, Agents and Insurers

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Change is coming ….

- Sweeping financial services regulatory reform was signed into law on July 21, 2010.
- What will final regulations look like?
- How will reform impact insurance?
- What will Federal Insurance Office do?

Impact of Dodd-Frank Act on Insurance Business

- The Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law by the President July 21, 2010.
- Focus now on implementation; mandated studies in many areas to determine final rules and hundreds of new regulations to be promulgated before many of the provisions are implemented.
- Immediate impacts on insurance business currently appear to be minimal, but there are additional requirements and restrictions, particularly for insurers that own banks.
- Intermediate and long-term impact likely because of new Federal Insurance Office.
- Ultimate impact on insurance business will be seen as studies are completed, regulations promulgated, and anticipated correction/clarification bills are proposed and enacted.
- The law provides for phased-in implementation, with effective dates of provisions ranging from immediate to up to five years.
- The law also includes provisions impacting corporate governance and executive compensation.

Dodd-Frank Act provisions impacting insurance business

Systemic Risk Regulation	➢ The Financial Stability Oversight Council ("FSOC") is created to monitor and address systemic risk and will be chaired by the Treasury Secretary. ➢ Could subject insurers to more stringent financial regulation if it determines that an insurer is a systemically important non-bank financial company. ➢ Although it is possible that some insurers will be designated as a systemically important non-bank financial company, it is not likely. Former AIG likely would have been designated systemically important.
Resolution Authority	➢ Federal government is granted authority to unwind troubled financial services firms. ➢ Costs are to be borne first by shareholders and unsecured creditors and then, if necessary, additional funding via risk-based post-event assessments upon financial institutions, which could include insurers; proposal for pre-event funding removed prior to passage of bill. ➢ Authority to wind down insurance companies remains with the state guaranty fund system.

4

Dodd-Frank Act provisions impacting insurance business

Capital Standards	➢ Requirements for "Tier 1" capital for financial institutions are increased. ➢ Leverage requirements currently applicable to insured depository institutions will be applied to bank and thrift holding companies and companies that pose systemic risk. ➢ Federal banking supervisors are also directed to develop capital requirements for all insured depository institutions, holding companies, and systemically important non-bank financial companies.
Regulation of Insurance	➢ The Federal Insurance Office is created within Treasury to monitor the insurance industry and coordinate international insurance issues. ➢ The Office is also required to study the insurance market and recommend improvements to the system of insurance regulation.

5

Dodd-Frank Act provisions impacting insurance business (cont.)

Consumer Financial Products Protection	➢ The Consumer Financial Protection Bureau (CFPB) is created with authority to write consumer protection rules for firms offering consumer financial services or products. ➢ The business of insurance is excluded from the jurisdiction of the new agency but banking is included.
Regulation of Derivatives	➢ New provisions are added to increase transparency for OTC derivatives and require centralized clearing and exchange trading for most derivatives. ➢ All derivatives transactions, whether or not they are cleared or exchange traded, will need to be reported. ➢ Capital and margin requirements will be increased, and the Commodity Futures Trading Commission (CFTC) and the SEC are to determine which contracts will be required to be cleared.

6

Dodd-Frank Act provisions impacting insurance business (cont.)

Credit Rating Agency Reform	➢ A new quasi-government entity is created to address conflicts of interest inherent in the credit rating business after the SEC studies the matter. ➢ A new oversight office is added within the SEC with the ability to fine ratings agencies or to deregister a firm that gives too many bad ratings over time. ➢ New standards are created for credit rating agency transparency and liability. ▪ Nationally Recognized Statistical Ratings Organizations are required to disclose methodologies, use of third parties for due diligence, and ratings track record. ▪ Allows investors to sue credit-rating firms for "knowing or reckless" failure to conduct a reasonable investigation.

Additional Dodd-Frank Act provisions impacting insurance companies if they own a bank

Banking Regulation and Consolidation	➢ The Office of Thrift Supervision ("OTS") will be merged into the Office of the Comptroller of the Currency ("OCC") on July 21, 2011, unless the Treasury Secretary delays the transfer an additional six months. ➢ The Fed will retain supervision of bank holding companies and state-chartered banks and become the supervisor of savings and loan holding companies which is what many insurance companies own. ➢ Under the new provisions, many insurer-owned banks will be regulated by the OCC, and holding companies will be regulated by the Fed.
Capital	➢ Fed can impose leverage and risk-based capital requirements on insurer-owned banks and holding companies.

Additional Dodd-Frank Act provisions impacting insurance companies if they own a bank (cont.)

The Volcker Rule	➢ New restrictions will be applicable to proprietary trading and participation in hedge funds and private equity funds for all insured depository institutions including those institutions' holding companies, subsidiaries, and affiliates. ➢ The new restrictions will not take effect until after the completion of a six month study and two years after rulemaking. ➢ The study will consider and make recommendations on how to accommodate the investment activity associated with the business of insurance. ➢ Impacted companies will then have two years after conclusion of study and rulemaking process to bring their activities and investments into compliance.

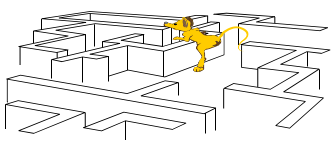
Regulatory Reform Had to Include the Insurance Industry

- **The AIG Bailout:**
  - The most costly corporate collapse to date was not a bank, but an insurance company.
  - The federal government has loaned $180 billion to AIG.
  - Large, multi-line insurance companies are critical to our financial system, and to the fundamental security and stability of the national and global economy.
- **Regulatory Gaps Need to be Closed:**
  - No single regulator has a complete picture of the activities of modern insurance conglomerates.
  - The state system cannot provide the oversight needed to protect consumers.

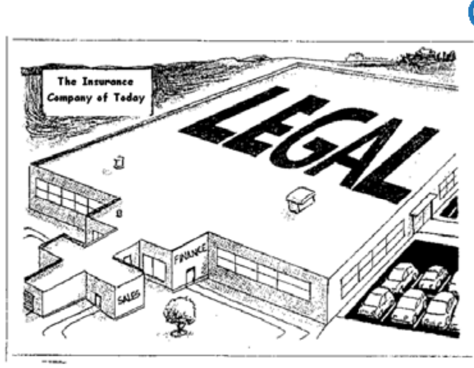
Today's Insurance Regulatory Scheme

51 Jurisdictions/Regulators

- **50,000 Insurance Laws**
  52 Volumes/ 46,124 Pages of Insurance Laws
- **12,000 Regulations**
  53 Volumes/ 61,533 Pages of Regulations



- **8,700 Related Regulations**
  33 Volumes/ 12,441 Pages of Related Regulations
- **2,300 Insurance Bulletins**
  17 Volumes/ 1,802 Pages of Insurance Bulletins
- **State Case Law**
- **2,000 Circular Letters**
  10 Volumes/ 8,500 Pages of Circular Letters
- **Litigation**



Shortcomings of State Regulation for National Carriers & Agents

- **Lack of *Uniformity***
- **Regulatory Redundancies**
- **Limited Authority**
  - Regulatory Gaps
  - Cannot Make Agreements with Foreign Authorities on Behalf of U.S.
- **Agent Licensing**
- **Cost of Compliance**
- **Pricing & Underwriting Controls**
- **Product/Form Controls**
- **Lack of Portability for Consumer**

Why not Focus on State Regulation Reform?

Regulator Position on Uniform Insurance Regulation:

"The Commissioners are now fully prepared to go before their various legislative committees with recommendations for *a system of insurance law which shall be the same in all States*, not reciprocal but identical, not retaliatory but uniform."

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- NY Insurance Commissioner George W. Miller, 1871

How Will a National Charter Help?

- Insurance consumers benefit from a uniform national regulatory system.
- Regulatory reform will modernize the processes for market conduct oversight and upgrade delivery of valuable consumer services, including the publication of important consumer information.
- Establishing a national charter for insurance will empower federal regulators to better understand and evaluate potential risks that various insurance industry participants present to the larger economy.
- Creating a national charter brings the insurance marketplace into the 21st century and gives both regulators and insurers the ability to better protect and serve insurance consumers and to compete with other financial services companies.
- National charter will lead to more innovation and efficiencies.

The Majority of the Market Supports National Charter Concept

- Life Insurance Companies and their trade, the ACLI, support National Charter.
- Despite claims to the contrary, large P&C carriers are generally united in their support for a federal charter – there are only a few dissenters among the top 15 P&C carriers. P&C carriers supporting National Charter represent over 50% of the market share.

Trades & Coalitions Supporting National Charter

- Financial Services Roundtable (FSR)
  - 90 Companies: 39 Banks, 13 Life Insurers, 9 P&C Insurers
  - FSR is working on the broad issue of financial regulation reform implementation, in addition to focusing on establishing a National Charter for insurers.
- Financial Services Forum (FSF)
  - 17 of the largest U.S. financial services institutions (Insurers = Allstate, AIG, MetLife, Prudential)
  - FSF is focusing on the broad issue of financial regulation reform implementation.

Trades & Coalitions Supporting National Charter (cont.)

- U.S. Chamber of Commerce
  - Representing 3 million businesses of all sizes, sectors and regions.
  - Focused on the broad issue of financial regulation reform implementation.
- P&C CEO Roundtable
  - Approximately 17 member companies.
  - Focused on Dodd-Frank implementation, advancing National Charter for insurance and defeating undesirable dual regulation.

Trades & Coalitions Supporting National Charter (cont.)

- American Council of Life Insurers (ACLI)
  - 340 life insurance companies operating in the United States.
  - Focused on advancing National Charter on behalf of its membership.
- American Insurance Association (AIA)
  - Representing 350 insurers that write all types of property - casualty insurance.
  - The only P&C Trade Association advocating for a National Charter.

Trades & Coalitions Supporting National Charter (cont.)

- Agents for Change
  - 6,500+ Agent Members
  - Dedicated to advancing National Charter on behalf of producers.

Consumers Support National Charter

69% of American voters agree that car and home insurance companies should be regulated at the national level.

Allstate's Stand

- **Let's all work together to improve the system for consumers**
- **Need to modernize the system**
- **More uniformity would benefit everyone**
- **National Charter for national companies**
- **Ultimately, let consumers decide**

Let's Work Together

- Learn more at allstate.com/ModernReg