



Property Casualty Insurers
Association of America
Shaping the Future of American Insurance

James M. Olsen
VP, Accounting and Investment Policy

VIA ELECTRONIC TRANSMISSION

October 22, 2012

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
comments@FDIC.gov;
RE: Basel III FDIC RIN 3064-AD95, RIN 3064-AD96, and RIN 3064-D97

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
regs.comments@federalreserve.gov;
RE: Basel III Docket No. 1442

Office of the Comptroller of the Currency
250 E Street SW
Mail Stop 2-3
Washington, DC 20219
regs.comments@occ.treas.gov
RE: Basel III OCC Docket ID OCC-2012-0008, 0009, and 0010

The Property Casualty Insurers Association of America (PCI) welcomes the opportunity to respond to the request for comments regarding the above referenced topics. PCI's more than 1,000 member insurance companies write more than \$190 billion direct written premium, which represents more than 39 percent of the property casualty insurance coverage written in the United States.

PCI believes capital standards need to be consistent with the business models of the industry to which they are applicable, as not all companies have the same business model and risk profile. Because of this, it is not appropriate to have one capital standards regulation apply to the whole spectrum of financial services companies. We are concerned that the proposed rules do not adequately consider the specific characteristics of the property casualty insurance business model, nor do they take into account the existing state regulatory standards for insurance companies emphasizing long term solvency.

The proposed capital standards do not properly measure the financial strength of insurance companies and do not reflect insurance risk-based capital standards that emphasize solvency and asset/liability relationships. Property casualty insurers' capital is strictly regulated under state law to ensure the necessary balance between liquidity and long-tail exposures. Also, property-casualty insurers are not exposed to "run" on their assets as property casualty contracts have no on-demand payment feature and their revenue is relatively inelastic. Property-casualty insurers basically have a completely different business model and capital vulnerability than banks, which are subject to runs and require shorter duration assets.

Also, all insurers are required by law to annually report on their financial health using Statutory Accounting Principles (SAP) which are specifically designed for insurance capital models and solvency. The proposed rule's sole reliance on Generally Accepted Accounting Principles (GAAP) for an insurance company can

result in a different set of measurements and incentives that are not always consistent with insurer solvency standards and would require a completely different set of costly financial reports and audits on a different schedule for insurers that do not use GAAP for their entire holding company. It is especially important that any proposed rules issued by the Federal Reserve not impose on insurance companies a new requirement to prepare GAAP financial statements except to the extent of any insurance company financial obligations connected to an affiliated depository institution.

Capital regulations for insurance companies must promote sound financial management while not weakening business models or financial prudence. We encourage you to work with the insurance regulators to develop a separate rulemaking for savings and loan holding companies engaged in the business of insurance reflecting appropriate capital exemptions and requirements for insurance companies that compliments existing state regulatory requirements.

If you have any question about our letter, please contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Olsen", written over a light gray rectangular background.

James M. Olsen
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james.olsen@pciaa.net