

Stephen W. Broadie  
Vice President, Financial Policy

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Secretariat of the Joint Forum  
Bank for International Settlements  
CH-4002 Basel  
Switzerland

**Re: Consultative paper on *Principles for the Supervision of Financial Conglomerates***

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on the Joint Forum's consultative paper on *Principles for the Supervision of Financial Conglomerates* ("Principles"). PCI's more than 1,000 member insurers write \$180 billion US annually in direct written premium, over 38 percent of the United States' non-life insurance market. A number of PCI members also write significant amounts of business outside the United States. Because of the potential significance of the Principles to insurance groups operating either internationally or within the United States, PCI submits these comments and has joined as well in comments submitted by the International Network of Insurance Associations.

PCI agrees with the Joint Forum that supervision of financial conglomerates should address gaps in regulation such as those illustrated by the global financial crisis, and should make supervision of risks from unregulated financial activities and entities more effective. We note that the insurance regulatory community, both internationally and in the U.S., has taken significant steps to address these issues in the last few years. We also agree with the Principles' general approach that conglomerate supervision should supplement insurance, banking and securities supervision and should apply only to the extent needed to deal with risks arising from cross-sectoral or unregulated financial activities that are not addressed by the existing regulatory framework(s) that apply to members of the group. We have noticed a number of areas, however, where the Principles or their accompanying guidance appear to interfere unnecessarily with insurance regulation:

- Conglomerate structure (implementation criteria 1(c) and 11(b)) – These paragraphs seem to imply that the group-wide supervisor and (perhaps) other group supervisors should have the authority to require conglomerates to restructure themselves if the group structure is considered to be insufficiently transparent. It is unclear under the Principles which regulator would have this authority. If supervisors consider the group's structure to be opaque they certainly should raise the issue with management, but mandating divestiture or restructuring constitutes inappropriate regulatory interference in the management of the company absent an express finding under applicable law that the group is in financial difficulty.
- On-site supervision (implementation criterion 8(e)) – PCI believes that on-site procedures at the conglomerate level should consist only of limited-scope examinations with respect to specific issues that pose material risk to the group and are not dealt with at the sectoral supervisory level. It may well be appropriate, and likely productive, for supervisors to conduct conversations with the board and senior management. Several sectoral regulators already perform exhaustive on-site examinations at the legal entity level, however. The performance of similar procedures at the conglomerate level would incur unnecessary expense and be burdensome for both the groups and the supervisors.
- Corporate governance (paragraph 10.5) – This paragraph appears to apply the corporate governance standards that apply at the conglomerate level to all material entities in the group. This provision appears to directly conflict with the Principles' general approach of being supplementary to the sectoral supervisory requirements that already apply to the financial entities that belong to the group.

If appropriate corporate governance principles are applied at the conglomerate level, we do not see why it would be necessary to preempt applicable law at the legal entity level.

- Independent review process for capital management (criterion 15(d)) – This paragraph would require “an independent review process to ensure the integrity of the overall capital management process of the financial conglomerate”. It is very unclear what “independent” means in this setting. Would this require use of an outside consultant to verify the process? If so, that seems to us to be inordinately expensive and potentially dangerous, since no third party knows the circumstances and business plan of the conglomerate like its own management does. If “independent” refers to internal audit or other departments of the group, it is unlikely they will have the needed expertise. We recommend deletion of this paragraph.

The goal of applying the Principles only to risks that arise because of the cross-sectoral nature of the group or those posed by unregulated entities that are not taken into account by the sectoral regulators is appropriate. In general, PCI recommends that the drafters review the Principles and guidance again to root out provisions that attempt to manage either the sectoral supervisors or the group with respect to risks that are inherent to the sectoral businesses.

Please feel free to contact PCI if you have any questions about our concerns or would like to further discuss any of the comments we have made.

Sincerely,

A handwritten signature in black ink, appearing to read "Step W Brodie". The signature is fluid and cursive, with a period at the end.

Stephen W. Brodie