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Opening Statement on Insurance Capital Advance Notice of Proposed Rulemaking and
Enhanced Prudential Standards Proposed Rule for Systemically Important Insurance Companies
by Governor Daniel K. Tarullo

Thank you, Madam Chair. Before the staff presentation of the two proposals before us, I would like to make a few observations on the advance notice of proposed rulemaking, or ANPR.

First, as we have done with bank holding companies, the framework envisioned in the ANPR would put in place a tiered approach to capital regulation of insurance firms within our jurisdiction that applies different requirements to groups of firms, which reflects the different risks they pose to the safety and soundness of depository institutions and to the financial system more generally. Incorporating the tiering principle into financial regulation both promotes achievement of our regulatory mission by applying more stringent regulation to firms that pose greater risks to the financial system and helps avoid the imposition of unnecessary compliance costs on those that pose lesser risks.

Second, the staff has used the flexibility given us by the December 2014 changes to the Collins Amendment to fashion an approach that reflects the ways in which traditional insurance activities differ from those of commercial banks, broker-dealers, and other forms of financial intermediaries. Among the more important of these distinctions is the more stable funding model of traditional insurance businesses.

For the current group of a dozen insurance holding companies that we supervise solely because they own a depository institution, the capital requirement would literally build on the requirements placed on the insurance affiliates of the holding company by their insurance regulators. However, even for the firms designated as systemically important--where a more

conventional consolidated approach to capital is needed and where we would thus create risk categories for assets and liabilities across the holding company--the ANPR contemplates that those risk weights and factors would be designed with insurance activities in mind.

Third, and finally, I want to note my agreement with the use of an ANPR as the vehicle for inviting public comment on this dual approach to capital regulation. This is an entirely new approach and, before staff begins the task of fully developing proposed regulatory text, it is important to receive public comment on the overall merits of this approach, as well as suggestions as to how it might best be elaborated. Use of an ANPR obviously modestly slows the process of getting a final rule in place, but that delay is worth the benefit of getting our ultimate regulatory regime right.