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United States Senate committee on banking, housing, and urban affairs WASHINGTON, DC 20510-6075

August 5, 2022

Steven Seitz Director Federal Insurance Office Department of the Treasury, MT 1001 1500 Pennsylvania Avenue, NW Washington, D.C. 20220

LAURA SWANSON, STAFF DIRECTOR BRAD GRANTZ, REPUBLICAN STAFF DIRECTOR

Dear Director Seitz:

Thank you for the response sent by the Federal Insurance Office (FIO) to my letter dated March 16, 2022.<sup>1</sup> I appreciate FIO's evaluation of the growing presence of private equity-owned insurers in the business of insurance.<sup>2</sup> FIO's work, in consultation with the National Association of Insurance Commissioners (NAIC), is critical to ensure policyholders are protected from the consequences of excessive risk-taking in the insurance industry.

In your response, you detailed the increasing prevalence of "alternative and other non-traditional asset classes" across the insurance industry, among traditional and private equity-owned insurers. At the April 8, 2022, meeting of the Financial Stability Oversight Council (FSOC), a representative from the Federal Reserve's Division of Financial Stability stated that "leverage among life insurance companies was near the highest levels in recent decades."<sup>3</sup> This is consistent with your observation that the "increased use of complex investment strategies has led to the greater prominence of illiquid and volatile assets on insurers' books." I am concerned that this trend in insurance investment may mirror the risk-taking behavior financial institutions undertook that led to the financial crisis and had spillover effects across the economy.

Your response prioritized four areas for further research and action by FIO: (1) heightening the monitoring of the life insurance sector's investment strategies, particularly in relation to liquidity; (2) reviewing the current and supervisory and capital frameworks, in terms of credit risk and capital adequacy; (3) the growth of offshore reinsurance; and (4) potential conflicts of interest that arise out of the structure of private equity companies. The Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes FIO first and foremost to "monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that

<sup>&</sup>lt;sup>1</sup> <u>https://www.banking.senate.gov/imo/media/doc/brown\_letter\_on\_insurance\_031622.pdf</u>.

<sup>&</sup>lt;sup>2</sup> <u>https://www.banking.senate.gov/imo/media/doc/fio\_85.pdf.</u>

<sup>&</sup>lt;sup>3</sup> FSOC\_20220408\_Minutes.pdf (treasury.gov)

could contribute to a systemic crisis in the insurance industry or the U.S. financial system."<sup>4</sup> Accordingly, as noted in the response, FIO should work to examine the growth of offshore reinsurance markets and increased risk-taking behavior across the life insurance industry, which could contribute to increased systemic risk across the financial system. As FIO's work in this area evolves, please include any relevant updates in FIO's upcoming and future annual reports

I look forward to discussing these issues and broader insurance industry matters at an upcoming hearing before the Committee on Banking, Housing, and Urban Affairs.

Sincerely,

Showlood Brown

Sherrod Brown

<sup>&</sup>lt;sup>4</sup> 31 U.S.C. 313(c).