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

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# PCI Calls On Congress To Address Systemic Risk Now

WASHINGTON—The Property Casualty Insurers Association of America (PCI) today called upon Congress to enact legislation addressing the issue of systemic risk before attempting wholesale financial services regulatory reform.

Chairman Barney Frank (D-Mass.) of the House Financial Services Committee recently stated in a news conference that reforming systemic risk regulation will be the committee's near-term priority, a position PCI endorses.

"We applaud Chairman Frank for his focus on the issue of systemic risk," said David A. Sampson, PCI's president and CEO. "Strengthening regulatory oversight of systemic risk is the critical need Congress should address to protect our economy against a repeat of the current crisis. Before overhauling the financial services regulatory system, it is important to first determine what sectors of the marketplace actually create systemic risk. It would be inefficient to impose an additional regulatory onus on companies that do not create this type of hazard for the overall economy."

Property-casualty companies are generally not so interconnected that they pose a systemic risk. They do not create any counter-party risk and their exposures are not correlated with other systemic waves or economic cycles. Even in the current economic downturn the vast majority of property-casualty companies are well capitalized and solvent, continuing to provide ample coverage in open markets.

"A large auto insurance writer, for example, may create no systemic risk despite its size," Sampson noted. "The frequency of its auto claims is not subject to market cycles—stock market fluctuations do not create a significant correlating rise or fall in the amount of auto accidents. Auto insurance contracts are not securitized or further leveraged or shorted, and there are many competing auto insurance suppliers, so the failure of even a very large international auto insurer would have minimal sequential systemic risk impact. Conversely, a very small company offering financial obligation coverage, such as credit default swaps, could have a profound impact on the overall market because it is so interconnected that its failure would create a systemic ripple effect.

"In short, it makes more sense to regulate based on interconnectedness rather than on company size or market share. Systemic risk regulation of a company that poses no systemic risk would serve no purpose. That is why we agree with Chairman Frank that Congress needs to first address systemic risk, before assessing other separate deficiencies highlighted by the current crisis and returning to Congress' long-term consideration of regulatory reform."

PCI recently addressed the crucial issue of systemic risk in a two-page informational paper it provided to members of Congress and Congressional staff. This paper can be found online at www.pciaa.net/reg-reform.

PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write over $198 billion in annual premium, 40.5 percent of the nation's property casualty insurance. Member companies write 51.6 percent of the U.S. automobile insurance market, 39.7 percent of the homeowners market, 33.2 percent of the commercial property and liability market, and 38.7 percent of the private workers compensation market.

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