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Mark Carney, Chairman
Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel, Switzerland

Sent via email to: fsb@bis.org

Re: Consultative Document: *Recovery and Resolution Planning for Systematically Important Insurers: Guidance on Identification of Critical Functions and Critical Shared Services*

Dear Chairman Carney:

The Travelers Companies, Inc. (Travelers) appreciates the opportunity to comment on the Financial Stability Board's (FSB) Consultative Document *Recovery and Resolution Planning for Systematically Important Insurers: Guidance on Identification of Critical Functions and Critical Shared Services.*

Travelers is a leading provider of property and casualty insurance products and services to a wide variety of businesses and organizations as well as to individuals. Our products are distributed primarily through independent insurance agents and brokers throughout the United States and in selected international markets. Our comments are framed from the perspective of a property and casualty insurer and not a life insurer.

We appreciate the qualifiers that were included in the document in regards to whether a function is critical within a resolution context; however, we believe the conclusions are not consistent with the potential for systemic risk in the insurance industry and how insurer insolvencies are resolved, including the timeframes involved with an insurer insolvency. We also note that the assertion that post-solvency guaranty funds can be a cause of contagion is not accurate due to the timeframes involved and the substantial protections in place within the guaranty fund system in the United States. Additionally, we believe that the paper is missing the most important consideration in improving the risks in the insurance system, which is finding ways to address insurance markets where the competition is limited or restricted and the failure of a significant provider could cause harm to the economy. We believe that, rather than focusing on the concept of systemically risky insurers, the focus should instead be to identify systemically vulnerable markets and to take corrective actions such that no individual insurer would or could create system risk for that market.[1]

Systemic Risk in the Insurance Industry

The paper indicates that insurers share some of the contagion risks that banks face such as the potential for mass surrenders by policyholders of several insurers due to a failure of one insurer. This assertion fails to consider the differences in the products between banks and insurers. Bank products are callable (some have limited withdrawal penalties) while property and casualty insurance liabilities are not callable and need an event to occur prior to a payout, and although there are life insurance products that can be called, the disintermediation risk faced by life insurers can be significantly different than banks.

Additionally, the timeframe for a bank failure is significantly different than that for an insurer. If a bank fails or begins to fail, the consequences are immediate and generally the failure will be due to a lack of liquidity. Insurance insolvencies generally occur slowly and begin with a technical insolvency rather than a cash insolvency.

Resolution of Insurers

While our comments generally focus on the process of a failure in the United States, many of the comments are applicable on a global basis. First, unlike a bank, the timeframe for an insurance failure and subsequent resolution is not immediate. The resolution of an insurer can take decades as evidenced by Equitable Life in the United Kingdom and Lumbermans Mutual/Kemper in the United States. While it may be true that in some instances a regulator can force a troubled institution to cease writing new business, it does not mean that all other operations cease as well. The administration of policies, claims handling and investment management all continue after the announcement of a regulatory solvency-related takeover so as to support the liabilities that have been incurred by the institution.

In the United States, which has a post-insolvency guaranty fund system for property and casualty insurers, when an insurer is in trouble, the state insurance regulatory officials work with the insurer to remediate deficiencies. The goal is to work with the company in an attempt to have the company continue as a going concern. If the regulators are unable to remediate the insurer and the insurer is considered insolvent, the regulators can petition a court to either place the insurer into receivership or liquidation. In receivership, the regulator attempts to correct the problems with the company without affecting claims and coverages. If necessary, the insurer is liquidated which involves selling the assets as necessary to pay claims. The claim payout process continues to follow an extended

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1 We believe that the current US insurance market is one example of a market constructed so as to preclude the existence of systemically risk insurers, at least relative to large parts of the property and casualty insurance market.

process that typically takes years (if not decades). When an insurer is liquidated, the guaranty funds will pay a portion of covered claims in a process that can also take many years if not decades, with the remaining solvent carriers assessed to cover these claims when the cash is needed (i.e., over a period of many years with no major immediate cash calls).

For example, Lumbermans Mutual was put under solvency-related regulatory supervision in 2003 and placed into runoff. It was not put into liquidation until 2013, after a year-long preparatory process for the liquidation. During that 10-year time period, the insurer was still actively paying claims.

The timeframe for resolving an insurance failure is substantially longer than resolving a bank failure and generally does not require immediate liquidity to do so. As a result, it is significantly more difficult to envision a scenario in which insurers would have critical functions that would cease due to a failure, at least for the insurance markets in the established industrial countries (with their established market mechanism protections).

Guaranty Funds

As discussed above, when an insurer fails, the guaranty funds are not immediately responsible for the full amount of all claims, as the liquidation occurs over time and asset performance can mitigate some of the potential exposure. Additionally, cash is not raised from the remaining insurers until needed to meet the demands from the normal claim settlement process (which is not accelerated by the insurer’s failure). To mitigate the risk to the remaining insurers, typically there are caps on the amount the insurers can be assessed each year to fund the failure and in many states the remaining insurers receive premium tax offsets or other tax benefits that help mitigate the impact. Additionally, insurers can request a hardship waiver if the payment would cause financial hardship to the company. As a result, the guaranty funds do not create contagion risk, but instead help to ensure the critical function of payments to policyholders, beneficiaries and third party claimants continues.

Focus on Markets

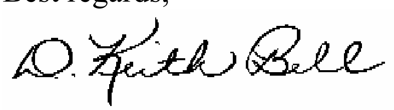
We acknowledge that there may be some markets around the world where the failure of a single insurer could cause disruption to that market by causing a significant reduction in an available type of coverage. We believe however, that this should not be a consideration for Recovery and Resolution planning, but should be an issue addressed by regulators prior to the failure of an important insurer. We believe that it would useful for the FSB to examine where these markets exist and assist the local jurisdictions in developing strategies to mitigate the risk and create a robust and resilient market.

Summary

We appreciate the FSB’s efforts to address systemic risk issues and the acknowledgement that this will be an iterative process. We believe that it is extremely important for the FSB to have a complete understanding of the mechanisms that are currently in place to address troubled insurers. It is also very important to distinguish the differences in the timeframe between bank and insurer failures. We believe that by comparing and contrasting these differences, an effective approach to mitigate the potential risk from the insurance sector can be developed, which could include addressing markets that could be significantly impacted by the failure of a large insurance provider in that market.

We thank you for the opportunity to comment on the Consultative Document. If you have any questions or would like to discuss our comments, please feel free to call me at (860) 277-0537.

Best regards,



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