



Property Casualty Insurers
Association of America

Shaping the Future of American Insurance

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Opening Remarks

Thank you for the warm welcome, Robert. I appreciate your invitation to join the International Insurance Foundation's distinguished line up of speakers.

We meet today during a tumultuous time. There has been a tectonic rupture in the world's economy. The financial world as we knew it one year ago, or even two months ago, no longer exists.

The top securities firms have either bankrupted or become banks. Banks have suffered record losses with over 2.8 trillion dollars in losses for financial institutions globally. Stock markets in the U.S. and around the world have endured record drops in the last month and the U.S. and most developed economies are plunging into a recession of unknown depth and duration. Consumer confidence in

the U.S. is at an all-time low, with worsening unemployment and foreclosures likely as the economy retrenches.

Given this economic crisis, it is not surprising that Congressional and world leaders are calling for a fundamental restructuring of our financial services regulatory system. The pace of change in the marketplace is rapidly increasing and the corresponding challenges have evolved beyond the core missions and competencies of the financial regulators. The changing notions of systemic risk management and oversight, in particular, have underscored that the old ways of thinking about policy are no longer adequate for success.

PCI has been a strong and effective voice in providing leadership for our industry. PCI represents more than 1,000 diverse insurance members and is the largest full-service property-casualty trade association. We have been working hard to educate policymakers, thought leaders, and the public about our industry. In particular, as investors and consumers have panicked about the state of the financial industry in general, we have consistently communicated that the industry started the year with record surplus levels and continues to be highly solvent, stable, and strong.

Most recently we responded to Treasury inquiries about their Capital Purchase Program indicating that the property-casualty industry as a whole did not need a bail-out and was especially not interested in the attached conditions. In our view, when it comes to the federal government, be careful what you ask for – you just might get it. And,

in this case it will come not just with strings, but ropes attached that will involve intrusion into corporate governance, compensation, pricing and operational decisions.

PCI is also trying to help frame the discussion for members of Congress, as they are well into the “blame phase” of their oversight in preparation for financial restructuring. The new Administration and Republican and Democratic financial services committee leaders in both the House and Senate have signaled that fundamental comprehensive reform is likely to be enacted next year.

House Financial Services Chairman Barney Frank said that Congress “will pass legislation [next term] that could be the most sweeping changes to the government’s financial regulatory system since the 1930’s.” Senate Banking Committee Chairman Dodd’s staff told PCI staff that Congress will pass comprehensive financial restructuring, insurance will be included, it won’t be optional anything, and that, “PCI better be at the table with constructive ideas about how to approach this.” PCI has responded by creating a special Board Committee that reflects the breadth of our membership to provide immediate response and feedback to Congress as well as advance policy options to address some of the most critical issues under discussion.

We are also deeply engaged in the international discussions over Solvency II and accounting standards. Last month French President and EU head Nicolas Sarkozy and EU Commission President Jose

Barroso both called for a global financial regulatory system, echoing earlier sentiments by British Prime Minister Gordon Brown. Capital is international, not national, and will inevitably be subject to some degree of international oversight. The debate over financial services regulation continues to shift from state vs. federal to national vs. international and we will all have to be increasingly engaged in that discussion.

The financial industry also faces renewed challenges from the dramatically increased Democratic majority and the new Administration. The industry is likely to experience a more difficult business environment, an increased regulatory and tax burden, and a period of slow or negative economic growth.

Risk-Focused Regulation

The full fallout from the financial crisis and the election impact is not yet clear, but the one thing I can say with certainty is that our industry must be strategically engaged in the upcoming debate on federal restructuring of the financial services regulatory system.

President-elect Obama will take office amid a severe financial crisis—much like Franklin Roosevelt and Ronald Reagan faced after their victories in 1932 and 1980. Additional massive federal intervention in the weakened economy will happen—and it will happen quickly. We can look at how the events unfolded recently surrounding the Wachovia sale as an example of the swift, decisive action taken by the U.S. government. In the course of a just a few days between

September 27th and October 3rd, the Federal Deposit Insurance Corporation played a central role in the bank's sale, first threatening to seize Wachovia, then rejecting a FDIC-assisted transaction, and finally "encouraging" the bank to consider a second Wells Fargo proposal. Bank regulators similarly "encouraged" and funded the acquisition of National City Bank by PNC Financial Services Group.

Our industry needs to take note of the rapid action displayed in this and other examples over the past few months. Now that the election is behind us, Congress and the Treasury Department are already working to enact comprehensive reform. The reforms being considered are sweeping, and will likely be mandatory and inclusive of insurance. Top Congressional priorities will include systemic risk regulation; holding company regulation; risk-based capital standards; risk management corporate governance; SEC/FASB mark-to-market rules; and international accounting and solvency standards to name a few. PCI will be strategically engaged in the reform debates as we were during the Treasury rescue plan discussions, when PCI was in daily contact with the White House, Treasury and Congressional leaders and spoke up for fair and equitable treatment for insurers.

The new interest in Congress in a cross-industry systemic regulator parallels the recent Treasury Reform Blueprint that recommended shifting from functional regulation to combining all financial industry regulation into one federal agency for systemic risk oversight, one for guarantee insurance, and one for business conduct. It is unclear where these big-picture reform discussions will lead, but the ramifications to our

marketplace are significant, underscoring the need for us to work together on Congressional outreach this coming term.

Congress will also be looking at other industries and countries as models for regulation. It will benefit all of us to think outside of the property casualty insurance silo and be prepared with examples of good and bad regulatory principles that have been applied in other industries, such as banking and telecommunications.

PCI will be working to educate Congress and the new Administration on numerous insurance-specific proposals to help guide their reform approach and to ensure consideration of impacts to property casualty insurance companies of all sizes and all lines of business.

PCI will work to stop duplicative and hostile federal regulation and we will urge lawmakers to focus their restructuring efforts on good principles of regulation, which, consistently applied, would: enhance solvency protection for policyholders; promote competition, innovation and product availability; support consumer choice; protect consumers against fraud and deception; avoid unnecessary government intervention; and minimize economic costs.

PCI has historically supported the current state-based regulatory system. We have also recognized that it has long needed improvement and modernization in a manner consistent with these principles of good regulation. The states have not made sufficient progress toward these goals. Furthermore, Congressional and

Administration leaders have told us in no uncertain terms that maintaining the status quo is not an option as regulatory restructuring moves forward.

Last month PCI joined other international trade associations in Budapest at the International Association of Insurance Supervisors' annual meeting to discuss the financial developments affecting the international insurance industry and to urge international insurance regulators to focus on risk-based regulation but to avoid over-regulation in reaction to the global financial sector crisis.

PCI and other organizations attending the meeting and representing the global insurance industry outlined several key principles on which to base insurance regulation, such as:

- International insurance companies should be regulated with enhanced cooperation among supervisors and group-wide supervision;
- Supervisory authorities should strengthen their ability to cooperate in identifying emerging problems and in using their existing powers to safeguard policyholders;
- The insurance industry encourages the continuing trend toward risk-sensitive regulation. Requirements should reflect the level of risk and diversification; and
- Regulation should encourage competition.

PCI will continue to be engaged in the international dialogue, and we will work with U.S. and international regulators to advance

appropriate solutions that foster a healthy and competitive insurance marketplace.

Collaboration is Key

There will be intense debates about our industry involving the socialization of risk and regulatory oversight. Anticipating this fundamentally changed environment where the “default setting” will be for more intrusive regulation, all segments of our industry need to immediately work together in ways we have not done before to educate policymakers and staff on the vital role of our industry, the strength of our products and policies, the strict solvency regulations that are already in place, and the contributions we make to the success of the global economy. We will also need to develop strong allies, some of whom may be from outside the property casualty industry.

Looking to the Horizon

The coming year will be extremely challenging for the international insurance industry. While insurance has fared better relative to other segments of the financial services sector, the fallout from the financial crisis will not bypass the property casualty insurance industry. There are interest groups that have long opposed private markets and advocated for greater government interference in the private economy who see in the current crisis a once-in-a-lifetime opportunity. We need to work together to stop duplicative and hostile federal regulation.

PCI will work to halt the socialization of risk and advance private-sector led, market-based solutions, because we know that's what has driven economic growth in the past, offers the best hope for a strong economy in the future, and best protects our policyholders.

Thank you for the opportunity to speak to you today. I would be happy to answer some questions.