

Draft Opening Remarks - 5/1/01

On behalf of the Boston Federal Reserve Bank, I'd like to welcome all of you - attendees and speakers - to the Insurance Risk Conference, organized by our Insurance Knowledge Center.

The insurance industry is an important component of the US financial services marketplace, with insurers comprising over 30% of the market capitalization of both the top 10 financial services companies and the top 100 companies. Commercial bank holding companies comprise 50% of both these groups. What has been the record to date of mergers and acquisitions between the two sectors since the passage of Gramm Leach Bliley, and are there factors on the horizon that have the potential to significantly change current trends? Will the trend for such mergers escalate, or will the pattern slowly evolve from today's trends of bank's acquiring insurance agencies by banks and the cross-selling of products? These are some of the questions that our panel this morning will address, but I will offer a couple of observations: differences in returns on equity (ROEs) tend to have a dampening effect on such mergers, as do differences in the risk profiles and corporate cultures of the two industries. On the other hand, European insurers/

financial conglomerates may view these factors as of lesser concern, as foreign ownership of U.S. insurers has increased dramatically over the past 5 years.

Our responsibility as the umbrella supervisor under GLBA is focused on the financial holding company. The functional regulator has primary supervisory authority over entities under its jurisdiction, wherever it is located in the FHC. We are responsible for supervisory oversight for the consolidated holding company, its consolidated risk management practices and overall capital adequacy. For functional subsidiaries, such as insurance, the Fed cannot establish separate capital standards nor can we conduct routine exams or impose additional on-going reporting requirements. Given those constraints, it is important that we, as the umbrella supervisor, gain a better understanding of the insurance business, the similarities as well as differences from the banking world, to improve our own understanding of the consolidated risk profile of the financial holding companies who elect to get into the insurance business. Here at the Boston Fed's Insurance Knowledge Center, we've begun that work. We have developed relationships with you, our colleagues in supervision across the various districts, to further distribute this knowledge base.

We've also begun some research activities - comparing industry balance sheets, asset profiles, as well as cross-holdings between the two industries. Particularly in times of economic duress, such an understanding becomes even more valuable. Finally, along with System staff from the Board and the NY Fed, we have established dialogues with the NAIC and various state insurance regulators. I know many of you have also reached out to the regulators in your own districts, and I applaud your proactive approach.

One of the advantages of the lack of bank and insurance affiliations is the head-start that we as supervisors are afforded. Together with the other functional regulators, we have a window of opportunity to develop working relationships with one another, and to gain insights into how we conduct our respective supervision of various financial activities, and to develop a better understanding of the different businesses we regulate.

Again, I'm very pleased to be here this morning to welcome you. I hope the panel discussion today and technical program ahead of you this week stimulate your understanding of the industry. And I'd like to leave you with one additional thought

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- about change. We've all seen dramatic change occur in the financial services marketplace over the past 5-10 years - from p/e ratios to technological advances to consolidation among banking institutions. Certainly we, as banking regulators, have changed our approach to supervision as the industry has grown more complex. As change and complexity are trends likely to continue, I want to encourage each of you to think creatively about how we as a System can work together in this post-Gramm Leach Bliley era.