



Federal Financial Analytics, Inc.

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Petrou Calls on State Insurance Regulators to Build Systemic-Resolution Framework

So much attention has been paid to too-big-to-fail banks that the inability of U.S. regulators to resolve a large insurance company has gone largely unnoticed. TBTF is just as much a risk in this sector and immediate action to prevent it is thus an urgent priority.

WASHINGTON, DC, October 28, 2015 – The managing partner of Federal Financial Analytics, Inc. (FedFin), Karen Shaw Petrou, today addressed the unmet challenge of resolving the largest U.S. insurance companies. [Speaking to state regulators charged with resolution for U.S. life- and health-insurance companies](#), Ms. Petrou argued that ensuring orderly resolution is even more critical for these companies than for giant banks because the insurance regulatory framework fails to address the most dangerous sources of systemic risk in this critical sector.

“The risks insurance companies pose to financial stability result from growing longevity risk, non-traditional activities, governmental edicts, and what happens to big financial companies when big financial markets go bad,” Ms. Petrou said. “State rules now protect insurance companies from themselves and make them more resilient to external shock. But what we need for market discipline and financial stability are firms that, if they take undue risk, immolate without causing conflagrations for policy-holders and the broader financial system – an end to too-big-to-fail is just as critical for insurance companies as it is for the very biggest banks.”

The speech not only details the systemic risks Ms. Petrou cites, but also the challenges now facing orderly resolution for large, complex, and cross-border U.S. insurance companies. Some of these are akin to those still confronting large-bank resolution – e.g., early-termination rights. Others, however, are unique to U.S. insurance companies because of the complexities of both the state regulatory and resolution framework. Recognizing these, Ms. Petrou urges state authorities to quickly implement stress testing and living wills at any insurance company they believe could not be well handled through bankruptcy and/or by a state guaranty association.

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