Testimony of Kurt Bock

Chief Executive Officer of COUNTRY Financial

On Behalf of PCI

Before the United States House of Representatives Financial Services Committee

Subcommittee on Housing and Insurance

Hearing on H.R. 5059, the "State Insurance Regulation Preservation Act"

Mr. Chairman, Ranking Member, and members of the Subcommittee, my name is Kurt Bock, Chief Executive Officer of COUNTRY Financial. I appreciate the opportunity to testify today on behalf of the Property Casualty Insurers Association of America (PCI), which represents 1,000 insurers and reinsurers with combined annual premiums of $220 billion. PCI member insurers and reinsurers represent a vast diversity of size and business models and provide insurance coverage critical to families, communities and businesses throughout the U.S. and the world.

COUNTRY is a mid-sized financial company from America's heartland that has had an A+ rating for over 75 years. We were formed by a group of farmers in 1925 and now provide home, auto, business and life insurance, as well as retirement investments and education funding, to individuals, families, and Main Street businesses. COUNTRY Financial has always had an A.M. Best rating of A+ or superior. We are one of only ten life companies and sixty property casualty companies in the U.S. that has been rated A or better for over 75 years. COUNTRY Financial' s top priority is always our customers, and we assess any regulatory changes or proposals through the lens of our policyholders.

State-based insurance regulation of COUNTRY effectively oversees all aspects of our insurance operations. COUNTRY previously maintained a very small savings and loan association that accounted for only 0.2% of COUNTRY's total assets. Last year, COUNTRY deregistered our COUNTRY Trust Bank because regulation of our Savings and Loan Holding Company by the Federal Reserve Board expanded to include regulation of the entire COUNTRY insurance enterprise, consuming 25% of our holding company's total compliance staff resources. The Federal Reserve staff are exceptionally bright and professional. But neither they, nor COUNTRY, nor our economy have been well served by wasting extensive government and company staff attention to financial activities that are systemically insignificant and largely irrelevant to their core missions. This kind of inefficiency benefits no one--not our company, not our regulators and most importantly, not our customers. Even though COUNTRY is no longer subject to Federal Reserve Board oversight, we hope that sharing our experience will help Congress right-size federal involvement in insurance and make Federal Reserve Board oversight more proportional, tailored, and refocused on their core mission.

The Current U.S. State-Based Insurance Regulatory System

The U.S. has the largest and most diverse insurance market in the world, with a 150-year track record of comprehensive state solvency regulation protecting consumers. I am particularly proud of the role that our industry and COUNTRY Financial have played in helping to bring about safer homes, workplaces, and highways -- efforts that have saved countless lives and prevented the waste of huge amounts of resources. And I am equally proud that our financial investment in America's future through the municipal bonds that we buy helps build critical infrastructure that leads to a higher quality of life.

Last year, United States consumers suffered record losses from historic natural disasters – hurricanes, wildfires, earthquakes, and tornadoes. The insurance industry rose to the challenge, communicating closely with our policyholders, working with federal and state disaster crews and regulators, and speeding claims payments to families and businesses suffering losses. Despite these tremendous challenges, industry solvency and financial strength have remained at record highs. At the same time, overall customer satisfaction among homeowners with property insurance claims has reached a new all-time high as reported in a recent J.D. Power survey (Appendix 1). The U.S. insurance industry cares about serving its policyholders and giving people a helping hand up. It is already very extensively regulated by nearly 11,000 regulatory staff in state insurance departments, without need for additional layers of federal supervision (Appendices 2 and 3).

Private sector insurance availability and competition are better than ever for consumers (Appendix 4) and government residual markets have been steadily declining as the private sector has dramatically improved insurance availability to address consumer needs. Compared to federally regulated banks, state regulated property-casualty insurers fared relatively well during the last financial crisis (Appendix 5), with significantly fewer insurance insolvencies as compared to banks. The decline during the crisis in the stock valuations of publicly-held property-casualty insurers was not only far less than for banks but also less than the decline of the New York Stock Exchange composite index (Appendix 6). Property-casualty insurers also continue to be far less leveraged than banks, nor are property-casualty failures correlated with broader economic cycles. The local focus of our state-based insurance regulatory system supports responsive property-casualty insurance markets that address regional needs as well as the specific needs of local insurance customers. Simply put, insurance is different than banking, and bank regulation is not a good fit for insurance holding companies.

Dodd-Frank and the Federal Reserve Board

In Dodd-Frank, Congress repeatedly recognized the primacy of state regulation but also abolished the Office of Thrift Supervision (OTS) and, in the process, gave the Federal Reserve new authority over insurance holding companies with thrift subsidiaries.

Although Congress preserved the Home Owners Loan Act and a distinct holding company structure to govern savings and loan holding companies differentiating them from bank holding companies, the Federal Reserve has continuously strived to fit insurance groups with depository institutions into its bank holding company regulatory system. In this effort they have had to consider how to balance the conflicting pressures of banking regulation – focused on macro-economic stability, holding company source of strength for depositors and federal deposit insurance fund protection – with a completely different insurance business model that does not contribute to systemic risk and is focused on legal entity regulation for consumer protection.

Recent statements from the leadership of the Federal Reserve Board clearly indicate that they understand the necessity, and share the goal, of “tailoring” their regulatory activities to the subject of those activities. However, without changes in the statute, Federal Reserve officials are limited as to the amount of deference they can provide to state-based insurance regulation of insurance companies with savings and loan subsidiaries.

Federal Reserve Supervision of Insurance SLHCs

Until 2011, savings and loan holding companies (SLHCs) were regulated by the OTS. In 2011, pursuant to the Dodd-Frank Act, the supervisory responsibilities of the OTS were transferred to the Federal Reserve, and savings and loan holding companies were subjected to the Board's holding company supervision. That supervision was applied not just to the thrifts or banks within the group, but also across the entire group including its insurance operations with a focus on the SLHCs internal controls and corporate governance, as well as risk identification, measurement, and management. The Federal Reserve also has supervisory authority over entities designed by the FSOC as systemically important.

In congressional hearings and public forums leading to the enactment of the Insurance Capital Standards Clarification Act of 2014, an oft-repeated theme was that regulators should avoid using a one-size-fits-all approach to setting capital rules for financial companies under its jurisdiction. This was most typically reflected in the view that insurance companies should not be regulated like banks and subject to rules designed for banking. We agree with this approach; but recommend that supervision should not only be tailored to reflect the unique risk-based attributes of each sector, banking versus insurance, but also the unique attributes of the diverse range of business models and product lines within the insurance sector.

While the Federal Reserve has authority with respect to SLHCs and designated systemically important companies, it is important to note that there are distinct differences in these two categories of companies. SLHCs are subject to Federal Reserve jurisdiction because of the presence of a depository institution and because Congress abolished the OTS, not because the companies have been designated by the Financial Stability Oversight Council as potentially posing systemic risk to the U.S. financial system.

Congress passed with overwhelming support the Insurance Capital Standards Clarification Act of 2014, which allowed the Federal Reserve to avoid imposing on insurers capital standards designed for bank holding companies. The Federal Reserve is now trying to ramp up its understanding of insurance to evaluate various domestic and international proposals regarding how it should supervise insurance holding companies under its jurisdiction. Federal staff have spent considerable time and effort examining insurers, asking questions not only about their depository institutions and potential risks to the federal deposit insurance fund, but about many unrelated insurance and commercial activities as well. They are just doing their job, but the question for Congress is whether it is worthwhile for the Federal Reserve to be focused on examining well-capitalized and well-regulated insurance SLHCs. COUNTRY's experience suggests it is not.

We do not believe that Congress truly intended to create an additional layer of intensive Federal Reserve supervision of insurance for Main Street insurance operations. We fully respect the integrity of the Federal Reserve in carrying out its new responsibilities but would suggest that additional clarity from Congress regarding its intent under the Dodd-Frank Act could be helpful.

To the extent that the Federal Reserve imposes supervisory requirements on insurance holding companies under its jurisdiction, the Federal Reserve should focus on the holding company banking activities and risks and rely to the extent possible on state regulatory standards and oversite with respect to the insurance operations of the group. By doing so, the Federal Reserve would not need to try to replicate decades of sector-specific regulatory experience. Changing the Federal Reserve's focus, however, will require specific congressional direction and amendments to existing law.

<u>State Insurance Regulation Preservation Act - H.R. 5059</u>

COUNTRY applauds Representatives Keith Rothfus and Joyce Beatty for introducing H.R. 5059, the State Insurance Regulation Preservation Act. The bill would provide clear legal authority and guidance to assure that regulation of insurance savings and loan holding companies is appropriately tailored and gives due recognition to proven effective state-based insurance regulation. At the same time, it would provide emergency supervisory authority to the Federal Reserve if all else fails.

Scope

The bill would not impact the way the Federal Reserve regulates banks and thrifts that are not affiliated with insurers. Its purpose is only to curtail duplicative federal regulation of holding companies that are primarily insurance underwriters. The bill's definitions, in combination, would assure that only insurance savings and loan holding companies that are intensively regulated by the states are covered -- not all or even most savings and loan holding companies.

Tailored Regulation

The bill would provide important provisions to prevent duplicative reporting. For example, if a holding company is within the scope of the bill (i.e., it is an insurance SLHC), the Federal Reserve could require companies to report on core regulatory information such as the group's corporate structure, transactions between the company and its affiliates, financial reports, and capital holdings. That is sufficient to establish whether a company meets required capital levels. The Federal Reserve Board must have developed the examination framework in consultation with state regulators and must tailor examinations to the risk and activities of the business of insurance. If the insurance SLHC meets both applicable state and Federal Reserve capital standards, the Board would rely on state insurance regulators and would neither examine nor apply supervisory guidance to the SLHC. Federal Reserve supervision and exam authority would appropriately be limited to insurance SLHCs not meeting minimum capital requirements and material unregulated non-insurance subsidiaries, whose activities could possibly put the depository institution at risk.

Corrective Actions

Under the bill, if an insurance SLHC fails to maintain its minimum required capital, the Board would be required to provide a notice of noncompliance and require the company to submit, within 45 days, a plan to restore that capital. If the company fails to do so, the Board could then impose its supervisory and regulatory authority to the insurance SLHC.

Emergency Supervisory Authority

The bill would provide an additional Federal Reserve regulatory safety net in emergencies. The Board, after consultation with the state insurance regulators, would retain the ability to apply more intensive regulation, where the operations and activities of the insurance SLHC pose a serious and imminent risk to the financial safety and soundness of the subsidiary saving association.

Conclusion

H.R. 5059 embodies the Congressional intent of Dodd-Frank and the growing consensus that Federal Reserve Board regulation of insurance SLHCs should be better coordinated with, and governed by, proven effective state-based insurance regulation. At the same time, however, the bill would assure that the Federal Reserve Board has emergency powers to intervene to protect saving associations if all else fails.

We hope that COUNTRY's experience with Federal Reserve Board oversight is informative to policymakers. The Fed has an enormously important role to play in restraining inflation, promoting job growth, and monitoring broader macroeconomic financial stability. Having the Fed divert its resources to duplicating the oversight of state insurance regulation is truly suboptimal and inefficient. Let the states do their job, leave the Fed with emergency powers to fill in if there is a real threat to the federal bank deposit insurance fund, and let property-casualty insurers focus on serving our customers and maintaining our record levels of consumer satisfaction.

Accordingly, we look forward to working with Congress to enact this important, balanced and effective legislation.

J.D. POWER

Press Release

P&C Insurance Customer Satisfaction Driven by Good Communication, Not Speed, J.D. Power Finds

Record Catastrophic Losses Place P&C Insurer Focus Squarely on Management of Customer Expectations

COSTA MESA, Calif.: 22 Feb. 2018 — Overall customer satisfaction among homeowners filing property insurance claims has reached a new all-time high, despite record-high property losses following a spate of hurricanes, earthquakes and fires in North America. That's according to the J.D. Power 2018 U.S. Property Claims Satisfaction Study,SM released today, which finds that insurers that have achieved the highest levels of customer satisfaction have also been the most effective at managing customer expectations for the time it will take to settle claims.

"The last two years of record catastrophic losses have put P&C insurers to the test, and many have risen to the occasion, driving overall customer satisfaction levels to new highs," said **David Pieffer, Property & Casualty Insurance Practice Lead at J.D. Power**. "While that overall performance is a positive for the industry, there is wide variability in the ranges of performance among insurers in different regions of the country and between different service attributes. Particularly noteworthy, customer satisfaction in Texas and Florida—two of the areas hardest hit by hurricanes—show below-average results, spotlighting areas where there is still room for improvement among insurers."

Following are some of the key findings of the 2018 study:

- **Overall customer satisfaction reaches record high:** Overall satisfaction for property claims has reached an all-time high of 860 (on a 1,000-point scale) at the same time the personal lines segment has experienced record claims. This is the second consecutive year that property claims satisfaction levels are in line with auto claims satisfaction scores, which had historically trended higher. The bulk of this year's improvement is driven by non-weather-related claims, primarily related to water damage.

- **Managing time expectations becomes key driver of satisfaction:** The time it took to settle a claim is the single lowest-rated attribute in the study, with 1 in 7 respondents indicating that the claim took longer than expected. However, when time frames are properly managed, even groups that experience the longest time-to-settlement still rate their experience above the industry average of 8.45 (on a 10-point scale). Time-to-settle satisfaction ratings are 1.9 points lower when insurers miss customer timing expectations, even when the time frame is relatively short.

- **Areas hit hardest by weather events show declining satisfaction:** Texas and Florida show declining customer satisfaction scores in the immediate aftermath of major weather events. In both cases, the time required to estimate the damages is particularly affected. Claims related to hail storms in Texas, and high winds or storms in Florida, see this time nearly double to 10 days compared with five days for claims in these states not related to weather.

- **Outsourcing takes a toll:** The use of independent appraisers, which typically spikes when large catastrophic events occur, is associated with significantly lower customer satisfaction scores. However, interactions with the appraisers are not driving the lower scores; rather, insurance companies are not effectively incorporating appraisers into the claim process workflow as customers are most critical of key claim experience attributes such as time-to-settle; kept informed on claim; and thorough explanation of settlement.

Study Rankings

Amica Mutual ranks highest in property insurance claims experience for a seventh consecutive year, achieving a score of 895. **Chubb** ranks second with a score of 887, followed by **Erie Insurance** with a score of 884.

The U.S. Property Claims Satisfaction Study measures satisfaction with the property claims experience among insurance customers who have filed a claim for damages by examining five factors (listed in order of importance): settlement; claim servicing; first notice of loss; estimation process; and repair process. It is based on 6,572 responses from homeowners' insurance customers and was fielded between January and November 2017.

For more information about the U.S. Property Claims Satisfaction Study, visit http://www.jdpower.com/resource/us-property-claims-satisfaction-study.

See the online press release at http://www.jdpower.com/pr-id/2018020.

J.D. Power is a global leader in consumer insights, advisory services and data and analytics. These capabilities enable J.D. Power to help its clients drive customer satisfaction, growth and profitability. Established in 1968, J.D. Power is headquartered in Costa Mesa, Calif., and has offices serving North/South America, Asia Pacific and Europe. J.D. Power is a portfolio company of XIO Group, a global alternative investments and private equity firm headquartered in London, and is led by its four founders: Athene Li, Joseph Pacini, Murphy Qiao and Carsten Geyer.

Media Relations Contacts
Geno Effler; Costa Mesa, Calif.; 714-621-6224; media.relations@jdpa.com
John Roderick; St. James, N.Y.; 631-584-2200; john@jroderick.com

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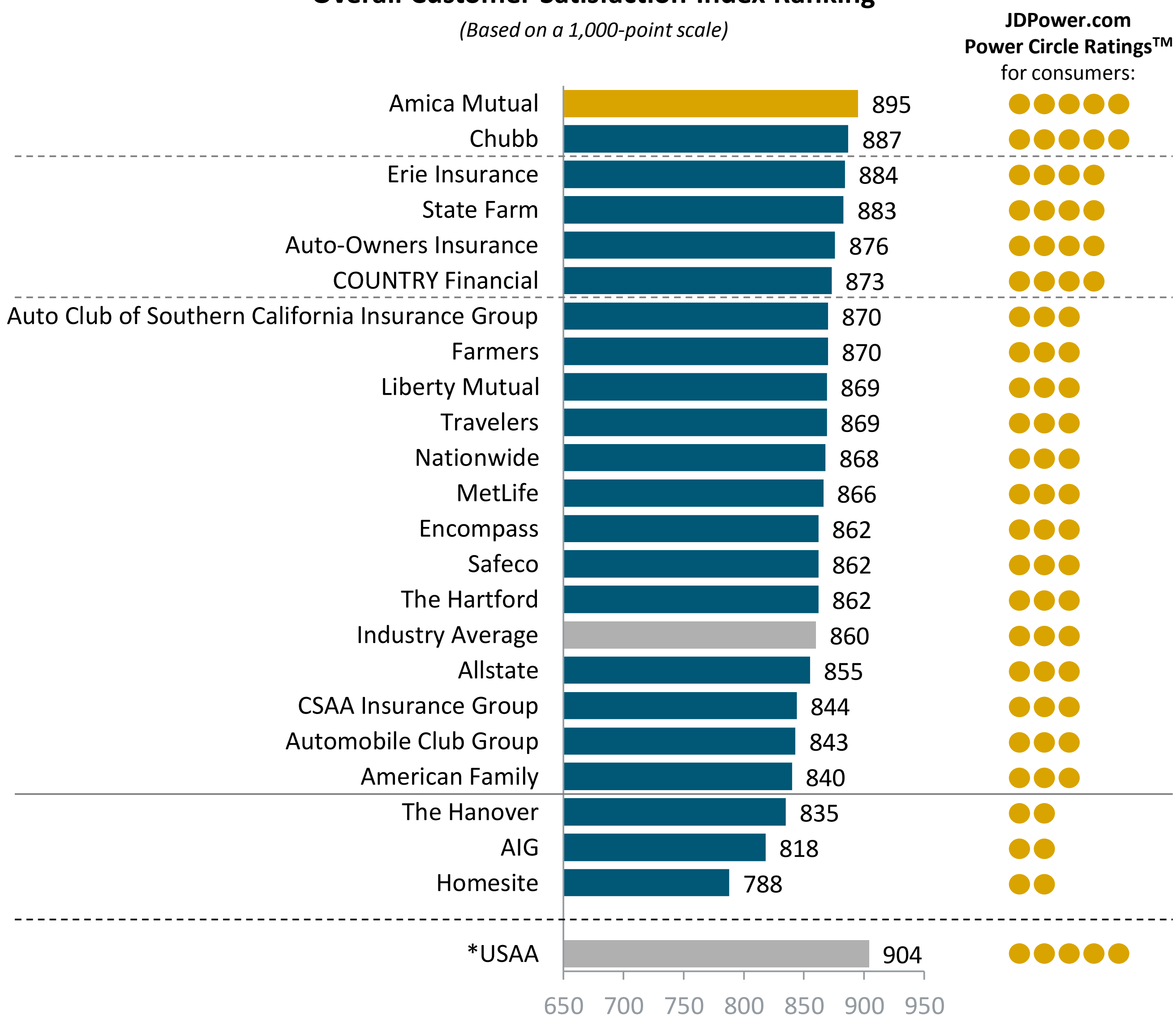
NOTE: Two charts follow.

J.D. Power
2018 U.S. Property Claims Satisfaction Study℠

Overall Customer Satisfaction Index Ranking

(Based on a 1,000-point scale)



Power Circle Ratings Legend

●●●●● *Among the best*
●●●● *Better than most*
●●● *About average*
●● *The rest*

**USAA is an insurance provider open only to U.S. military personnel and their families, and therefore is not included in the rankings. Included in the study but not award-eligible due to not meeting minimum sample requirements are Cincinnati Insurance and MAPFRE Insurance.*

Source: J.D. Power 2018 U.S. Property Claims Satisfaction Study℠

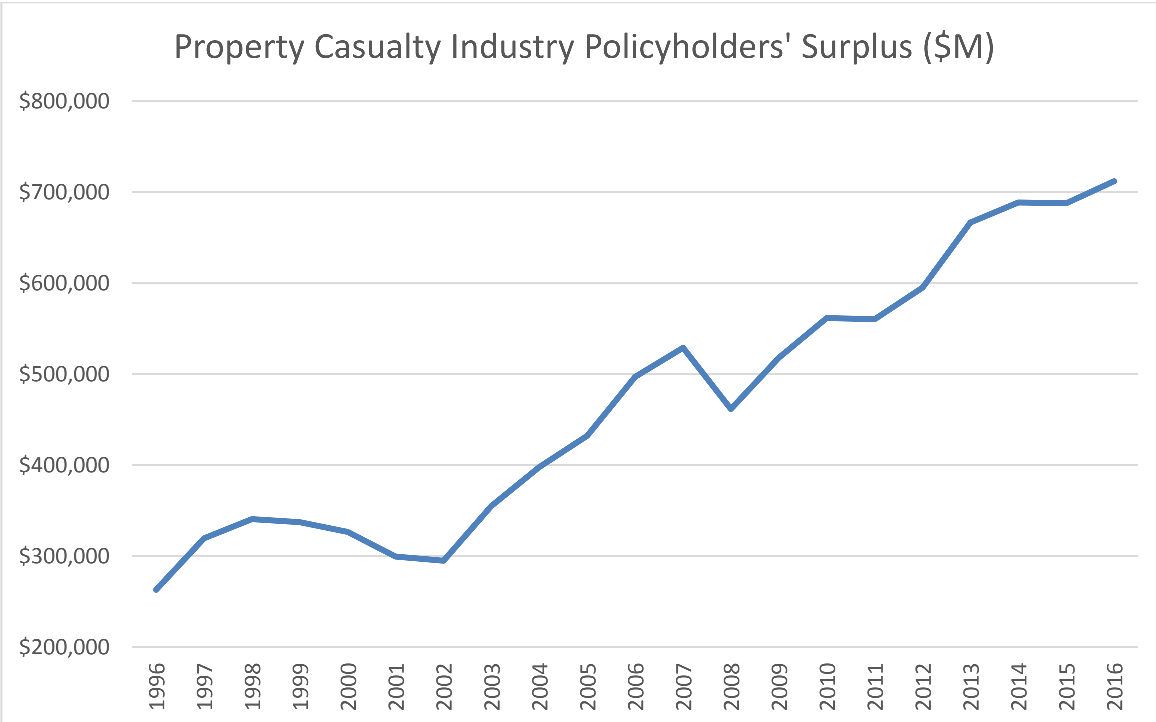
Charts and graphs extracted from this press release for use by the media must be accompanied by a statement identifying J.D. Power as the publisher and the study from which it originated as the source. Rankings are based on numerical scores, and not necessarily on statistical significance. No advertising or other promotional use can be made of the information in this release or J.D. Power survey results without the express prior written consent of J.D. Power.

J.D. Power
2018 U.S. Property Claims Satisfaction Study℠

Award-Eligible Insurance Companies Included in the Study

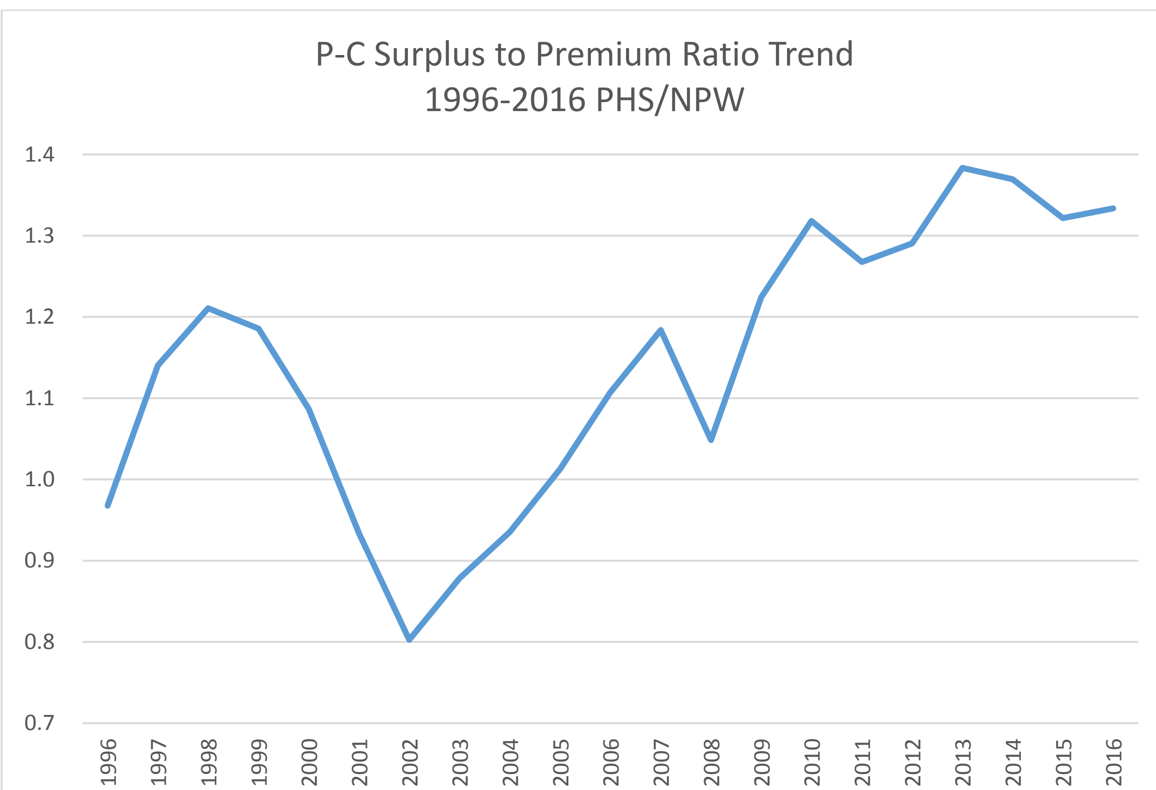
Company	CEO	Company Location
AIG	Brian Duperreault	New York, N.Y.
Allstate	Thomas Wilson II	Northbrook, Ill.
American Family	Jack Salzwedel	Madison, Wis.
Amica Mutual	Robert DiMuccio	Lincoln, R.I.
Auto Club of Southern California Insurance Group	John Boyle	Los Angeles, Calif.
Automobile Club Group	Joe Richardson, Jr.	Dearborn, Mich.
Auto-Owners Insurance	Jeffrey S. Tagsold	Lansing, Mich.
Chubb	Evan G. Greenberg	New York, N.Y.
COUNTRY Financial	Kurt Bock	Bloomington, Ill.
CSAA Insurance Group	Paula Downey	Walnut Creek, Calif.
Encompass	Thomas Wilson II	Northbrook, Ill.
Erie Insurance	Timothy NeCastro	Erie, Pa.
Farmers	Jeffrey Dailey	Woodland Hills, Calif.
Homesite	Fabian Fondriest	Boston, Mass.
Liberty Mutual	David H. Long	Boston, Mass.
MetLife	Steven Kandarian	New York, N.Y.
Nationwide	Stephen Rasmussen	Columbus, Ohio
Safeco	David H. Long	Boston, Mass.
State Farm	Michael Tipsord	Bloomington, Ill.
The Hanover	John C. Roche	Worcester, Mass.
The Hartford	Christopher Swift	Hartford, Conn.
Travelers	Alan D. Schnitzer	New York, N.Y.

Appendix 2



PHS Chart Source: S&P Global Market Intelligence

Appendix 3



PHS/NPW Chart Source: S&P Global Market Intelligence

Appendix 4

PROPERTY CASUALTY Market Concentration Analysis

DOJ Considers Score of 1500 - 2500 to Be Moderately Concentrated, But Almost All Insurers Fall Well Below

Herfindahl-Hirschman Index (HHI) based on 2016 U.S. Total (all states and DC)

	HHI Indiv. Cos.	**Number of Indiv. Cos.**
Line		
Homeowners	291.3	879
Personal Auto	360.4	838
Commercial Multi-Peril	92.6	796
Workers Compensation	89.9	694
Medical Prof. Liability	200.5	326

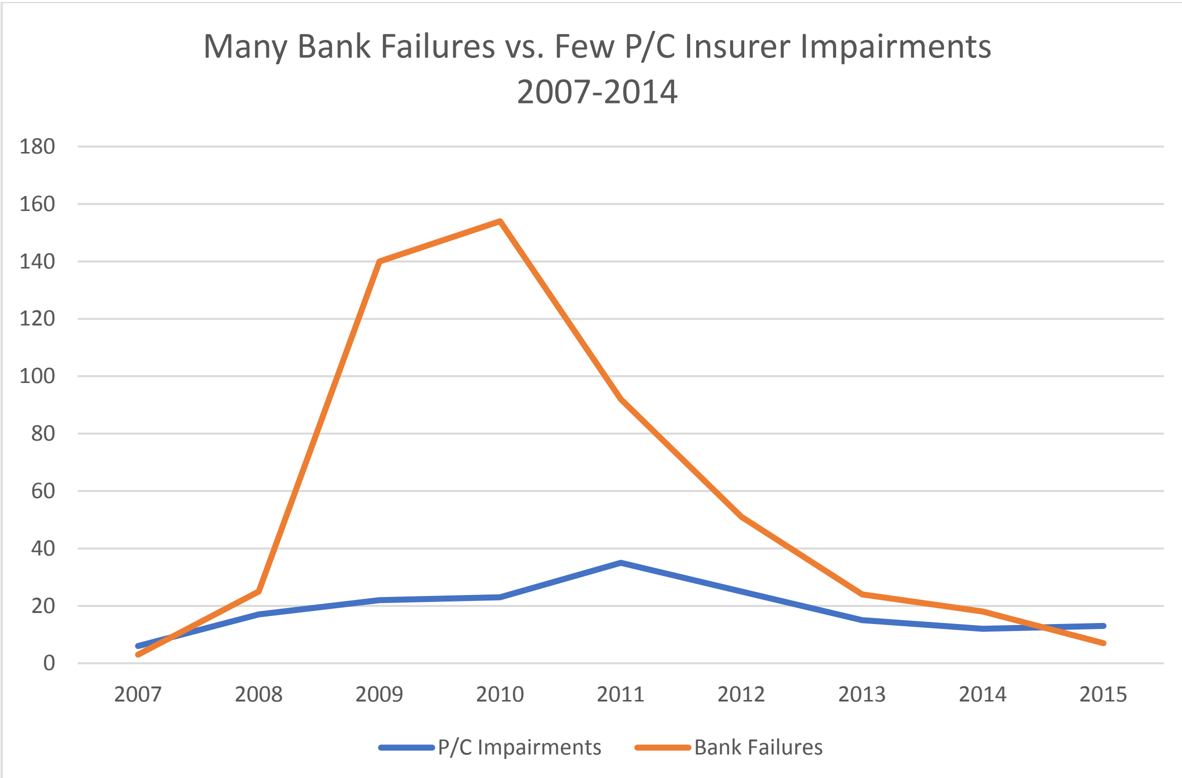
Notes:

The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases.

Markets in which the HHI is between 1500 and 2500 points are considered to be moderately concentrated, and those in which the HHI is in excess of 2500 points are considered to be concentrated.

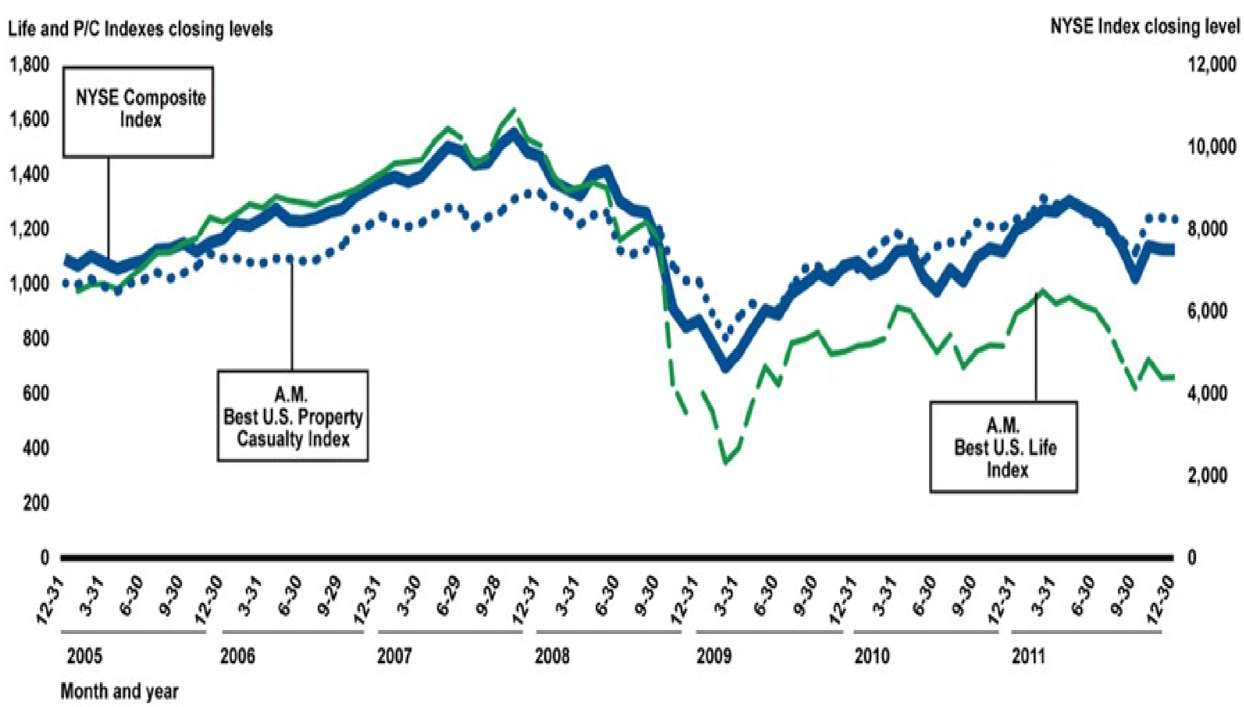
Source: NAIC Annual Statement Database via S&P Global Market Intelligence

Appendix 5



Source: A.M. Best data & research

Appendix 6



Source: GAO analysis of A.M. Best data on the A.M. Best U. S. Life and Property Casualty Indexes and the New York Stock Exchange Composite Index.