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Addressing Systemic Risk

A National Insurer's Perspective

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Is there any doubt? Change is coming



- **Financial services regulatory reform is a top priority for the 111th Congress and the Obama Administration.**
- **What will it look like?**
- **How will it impact insurance?**

Regulatory Reform Will Include the Insurance Industry



The Insurance Industry is a Key Player in the Capital Markets:

- The industry held nearly \$5 trillion in government and corporate securities in 2007
- U.S. total premium for P&C and Life Insurance equaled \$1 trillion in 2008
- There were 2,723 P&C companies and 1,190 L&H companies in the U.S. in 2007
- The industry is a major U.S. employer, providing some 2.3 million jobs

The AIG Bailout Illustrates the Need for Insurance Regulatory Reform:

- The most costly corporate collapse to date was not a bank, but an insurance company
- The federal government has loaned \$180 billion to AIG
- Large, multi-line insurance companies are critical to our financial system, and to the fundamental security and stability of the national and global economy

Regulatory Gaps Need to be Closed:

- No single regulator has a complete picture of the activities of modern insurance conglomerates
- The state system cannot provide the oversight needed to protect consumers
-



Today's Regulatory Scheme --

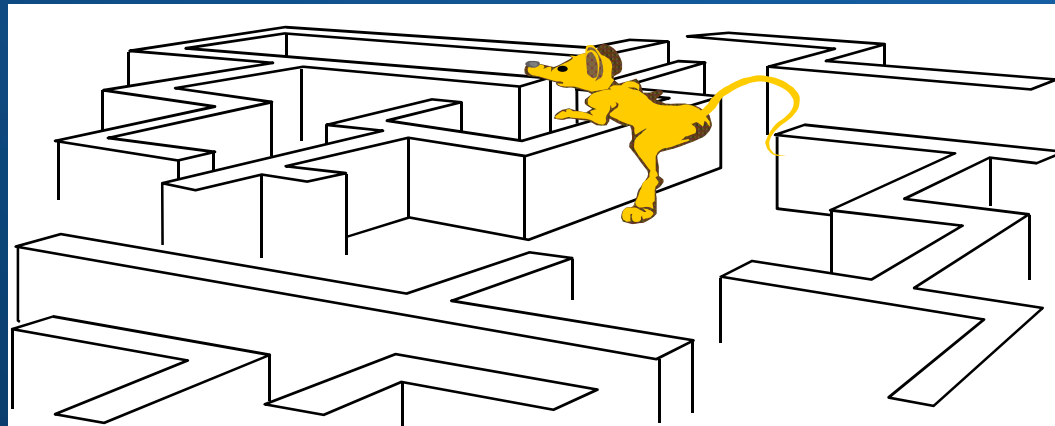
51 Jurisdictions/Regulators

• 50,000 Insurance Laws

52 Volumes/ 46,124 Pages of Insurance Laws

• 12,000 Regulations

53 Volumes/ 61,533 Pages of Regulations



• 8,700 Related Regulations

33 Volumes/ 12,441 Pages of Related Regulations

• 2,300 Insurance Bulletins

17 Volumes/ 1,802 Pages of Insurance Bulletins

• State Case Law

• 2,000 Circular Letters

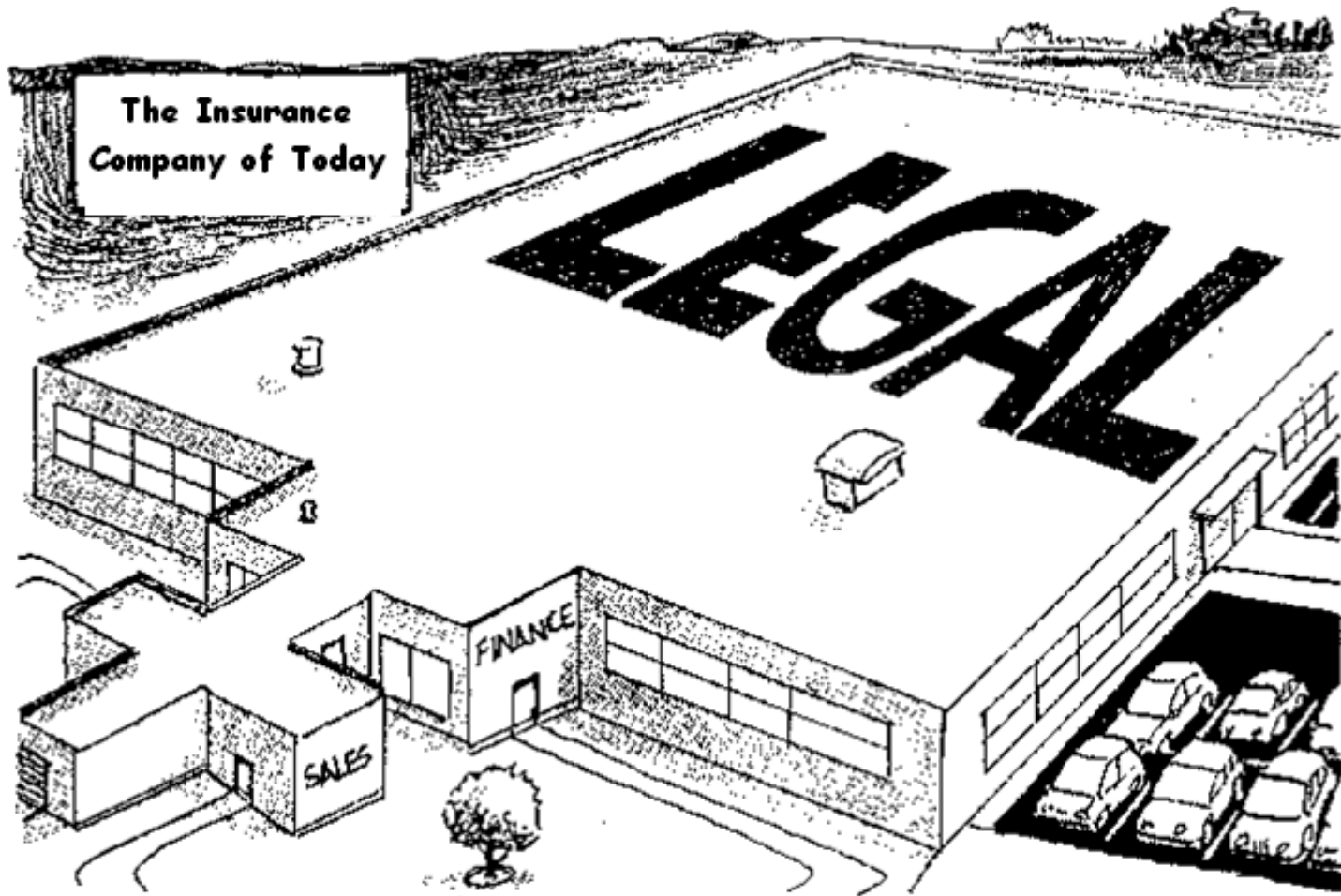
10 Volumes/ 8,500 Pages of Circular Letters

• Litigation



The Insurance
Company of Today

LEGAL



Why not Focus on State Regulation Reform?



Regulator Position on Uniform Insurance Regulation:

“The Commissioners are now fully prepared to go before their various legislative committees with recommendations for a system of insurance law which shall be the same in all States, not reciprocal but identical, not retaliatory but uniform.”

- *NY Insurance Commissioner
George W. Miller, 1871*



Allstate's Stand

- Allstate supports an overhaul of financial services regulation
- Everyone should be in the pool
- Systemic risk regulation makes sense and needs to be preventive (before the crisis)
- Federal charter should be included in reform
- State regulatory system should also be modernized and improved for consumers



Systemic Risk Regulator

- Definition of systemic risk -- threat posed to the orderly functioning of the financial system
- Who is the regulator
- Insurance industry could pose risk of systemic stress if not breakdown
- Key – must be preventative – need a circuit breaker
- Test – make sure collapse never happens again
- Would recent failures have been prevented under proposal?
- Unintended consequences?



Systemic Risk – Insurance Scenario

- Major catastrophe or series of cats
- Insolvencies or impairments
- Inability to pay claims
- Inability to renew policies
- Guaranty Funds can't assess impaired companies
- Liquidations to access capital
- Insurance sector collapses
- Mortgagees, lien holders
- Ripple effect....

Everybody in the pool.

THE FEDERAL REGULATORY OVERHAUL SHOULD INCLUDE THE ENTIRE FINANCIAL INDUSTRY.



The time to save America's economic future from drowning is now. To do it thoroughly and effectively, we need bold federal regulatory reform for the entire financial industry. As an active member of that industry, A has a few ideas to keep our country afloat.

role of insurance to help mitigate that risk—will we regain confidence in the economy. And only when we

1. COOPERATE

The entire financial system—banks, hedge funds, rating agencies, regulators, investment banks, insurance companies and more—is intertwined and interlinked. We must work together to understand the risks and solve the issues. No one can be left out of the solution, or it won't be a solution.

2. BE TRANSPARENT

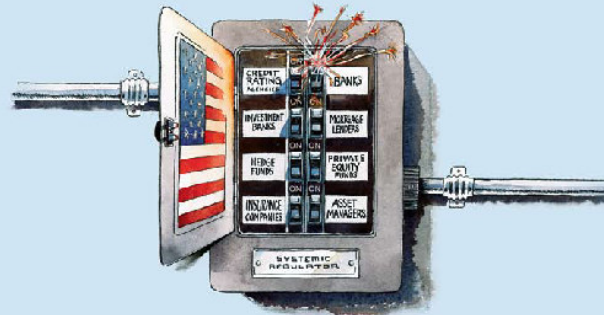
Clarity is key. Only when there is transparency in valuing the risk in the financial system—include

America's economic future needs

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One blowout shouldn't be able to take down America's financial system.

LET'S BUILD IN SAFEGUARDS TO MAKE SURE IT NEVER DOES.



America's financial industry has always been systematically valued. But one major blowout could take down the entire system. It's time to build in safeguards to make sure it never does.

regulatory reform. That must include systemic risk, or it won't be a solution.

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A man-made disaster just cost America trillions.

HERE'S HOW TO KEEP IT FROM EVER HAPPENING AGAIN.



The worst thing about the current financial crisis is that we did it to ourselves. The forces that led to the disaster were within human control—but so is the solution. We need to reform federal regulation for the entire financial system. That must include insurance, the one industry truly experienced in dealing with disasters, catastrophes and risk.

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Clarity is key. Only when there is transparency around

America's economic future needs to be better protected. That's Allstate's Stand.

valuing the risk in the financial system—including the role of insurance to help mitigate that risk—will we regain confidence in the economy. And only when we streamline and simplify financial information will consumers be able to make truly informed choices.

3. REINVENT

Congress must design federal regulation for the 21st century. It's time to replace the patchwork of regulation coming from countless state and federal agencies with comprehensive rules to oversee all financial businesses—those that pose systemic risk and those that don't.

Let's draft strong, clear federal regulation to protect our country from this ever happening again. If we all work together, we can stir up a storm of positive change. Go to allstate.com/fedreg.



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We're not fixing it at all if we're not fixing it all.

THE FEDERAL REGULATORY OVERHAUL SHOULD INCLUDE THE ENTIRE FINANCIAL INDUSTRY.



And that means everything, including insurance. Now, we're not saying the insurance industry is in trouble. To the contrary, it's in better financial shape than much of the system. Our point is simply that every sector of our financial system is linked to every other. We can't have a strong economy unless we have coordinated federal regulation over all of it.

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With strong, clear federal regulation, we won't just stop today's holes in the financial system. We'll prevent them from ever happening again. Learn more at allstate.com/fedreg.



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