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Senate Tweaks Dodd-Frank for Insurers

By James Kollar

Last week, the U.S. senate approved a bill which adjusts the 2010 Dodd-Frank law's handling of the insurance industry. The unanimous passage of bill S.2270 is a rare change to the Wall Street reform law and gives Federal Reserve regulators more flexibility in their application of capital rules to U.S. life insurers.

After two years of coordinated lobbying to push Fed officials to tailor their capital rules, the insurance industry was finally successful in amending the Dodd-Frank law. Dodd-Frank tightened capital standards on banks and insurers after taxpayer money had to be tapped to keep Wall Street banks from failing.

The reasoning behind the adjustment is that insurance agencies argued that their liabilities are different than banks, and that they are unlikely to have a similar run on their assets as a bank would have on its deposits.

According to Aaron Klein, the director of the Financial Regulatory Reform Initiative (FRRI) at the Bipartisan Policy center, "This common sense bill clarified that the Federal Reserve has the legal flexibility to properly tailor regulatory capital standards for insurance companies that are appropriate to the specific risks and needs of insurance companies and not based on bank capital rules. As a result of Dodd-Frank, the Federal Reserve is the regulator of many insurance companies throughout the nation and this common sense technical clarification should improve the quality of regulation."

In response to the passage of the bill, insurance companies such as Prudential Financial Inc. (PRU) and MetLife Inc. (MET) climbed 2.4 percent and 3 percent respectively. According to Bloomberg, the increases mark "the biggest gain in the 83-company Standard and Poor's 500 Financials Index."

In order to become law, the bill, S. 2770, still must be approved by the House of Representatives and President Barrack Obama. Both are expected to sign the bill.

Democratic Senator Sherrod Brown of Ohio, one of the bill's sponsors, said "there is broad bipartisan agreement that providing traditional life, property, and casualty insurance is different from banking. I want strong capital standards, but they have to make sense."