

# GAO Highlights

Highlights of [GAO-13-583](#), a report to congressional requesters

## Why GAO Did This Study

Insurance plays an important role in ensuring the smooth functioning of the economy. Concerns about the oversight of the \$1 trillion life and property/casualty insurance industry arose during the 2007-2009 financial crisis, when one of the largest holding companies, AIG, suffered severe losses that threatened to affect its insurance subsidiaries. GAO was asked to examine any effects of the financial crisis on the insurance industry.

This report addresses (1) what is known about how the financial crisis of 2007-2009 affected the insurance industry and policyholders, (2) the factors that affected the impact of the crisis on insurers and policyholders, and (3) the types of actions that have been taken since the crisis to help prevent or mitigate potential negative effects of future economic downturns on insurance companies and their policyholders.

To do this work, GAO analyzed insurance industry financial data from 2002 through 2011 and interviewed a range of industry observers, participants, and regulators.

View [GAO-13-583](#). For more information, contact Alicia Puente Cackley (202) 512-8678 or [cackleya@gao.gov](mailto:cackleya@gao.gov).

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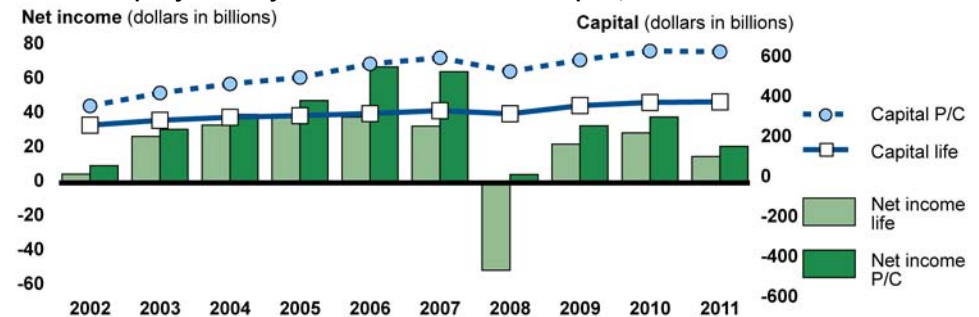
## INSURANCE MARKETS

### Impacts of and Regulatory Response to the 2007-2009 Financial Crisis

## What GAO Found

The effects of the financial crisis on insurers and policyholders were generally limited, with a few exceptions. While some insurers experienced capital and liquidity pressures in 2008, their capital levels had recovered by the end of 2009 (see figure). Net income also dropped but recovered somewhat in 2009. Effects on insurers' investments, underwriting performance, and premium revenues were also limited. However, some life insurers that offered variable annuities with guaranteed living benefits, as well as financial and mortgage guaranty insurers, were more affected by their exposures to the distressed equity and mortgage markets. The crisis had a generally minor effect on policyholders, but some mortgage and financial guaranty policyholders—banks and other commercial entities—received partial claims or faced decreased availability of coverage.

**Life and Property Casualty Insurers' Net Income and Capital, 2002-2011**



Source: GAO analysis of statutory financial statement data in SNL Financial.

Note: Data are shown in nominal dollars (i.e., unadjusted for inflation).

Actions by state and federal regulators and the National Association of Insurance Commissioners (NAIC), among other factors, helped limit the effects of the crisis. First, state insurance regulators shared more information with each other to focus their oversight activities. In response to transparency issues highlighted by American International Group, Inc.'s securities lending program, NAIC required more detailed reports from insurers. Also, a change in methodology by NAIC to help better reflect the value of certain securities also reduced the risk-based capital some insurers had to hold. To further support insurers' capital levels, some states and NAIC also changed reporting requirements for certain assets. These changes affected insurers' capital levels for regulatory purposes, but rating agency officials said they did not have a significant effect on insurers' financial condition. Several federal programs also provided support to qualified insurers. Finally, insurance business practices, regulatory restrictions, and a low interest rate environment helped reduce the effects of the crisis.

NAIC and state regulators' efforts since the crisis have included an increased focus on insurers' risks and capital adequacy, and oversight of noninsurance entities in group holding company structures. The Own Risk and Solvency Assessment, an internal assessment of insurers' business plan risks, will apply to most insurers and is expected to take effect in 2015. NAIC also amended its Insurance Holding Company System Regulatory Act to address the issues of transparency and oversight of holding company entities. However, most states have yet to adopt the revisions, and implementation could take several years.