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Optional Federal Charter Legislation Will Benefit and Protect Consumers

An Optional Federal Charter (OFC) regulatory system will benefit consumers through a more uniform, rational approach that results in increased efficiency, greater choice and enhanced convenience for consumers. A modernized, more efficient regulatory framework will bring insurance regulation into the 21st Century for consumers nationwide and provide better consumer protections by doing the following:

- **Risk Based Capital.** OFC legislation requires strong risk-based capital requirements to ensure that companies have the necessary assets to pay consumers' claims.
- **Adequate Reserves.** OFC legislation establishes standards to ensure that companies have adequate reserves to pay claims when they come due.
- **National Guaranty.** OFC legislation guarantees that consumers are protected against company insolvencies by extending the current, successful, state-based guaranty association system to national insurers and their policyholders.
- **Financial Reporting.** OFC legislation replicates the state requirement that companies submit quarterly financial statements and annual audited financial reports.
- **Financial Stability.** OFC legislation ensures the financial stability of national insurers by requiring compliance with strict, statutory accounting principles.
- **Investment Protection.** OFC legislation mandates that the current investment standards currently required under state law apply.
- **Frequent Examination.** OFC legislation imposes strict, frequent and consistent market conducts and financial exams of national insurers.

In addition to these general benefits, consumers will be aided by the following features of an optional charter regulatory structure:

- **Uniformity.** Consumers would experience uniform and consistent laws, regulations and protections nationwide.
- **Protection.** Consumers who deal with national insurers can be assured protection, no matter where they reside currently or where they may reside in the future.
- **Product Availability.** The products and services of a national insurer that are available to insurance consumers in one state will be available to consumers in every state.
- **Redress.** Consumer issues and complaints will receive direct attention from federal and/or regional offices.
 - OFC legislation establishes a federal Division of Consumer Affairs within the Office of National Insurance specifically to address consumer issues, questions and concerns.
 - OFC legislation authorizes the Director of the Office of National Insurance to establish an unlimited number of district offices dedicated to consumer affairs.
 - OFC legislation creates a Division of Insurance Fraud to address consumer concerns about fraudulent practices.

Additional consumer benefits include the following:

- **More Product Options.** Insurance companies would be better able to respond quickly and creatively to market needs and demands, something that cannot be achieved under the current state-based regulatory system.
- **True Risk-Based Pricing.** Responsible, low-risk consumers should not have to subsidize the premiums of high-risk customers as is currently the case in many states for a number of insurance products. Importantly, doing away with subsidies also provides an incentive for high-risk individuals and businesses to modify their behavior, which benefits everyone.
- **Increased Availability.** The number of marketplace competitors and types of products would likely increase under a free-market optional federal charter system. Insurers who have left states because of restrictive price and product controls would return. The best example of this is the comparison between Illinois and Massachusetts: Illinois, a free-market state, has well over a hundred more insurers competing in the insurance marketplace than Massachusetts, a highly-regulated state.