



THE VOICE OF THE PROPERTY-CASUALTY INSURANCE INDUSTRY

advocate

PUTTING THE
**PIECES
TOGETHER**

CREATION OF AN OPTIONAL FEDERAL
CHARTER BRINGS BENEFITS TO BOTH
CONSUMERS AND INSURERS

By Debra Ballen, Executive Vice President—Public Policy Management
American Insurance Association

For an industry long regulated on a state-by-state basis, insurance is at the forefront of the national debate about regulatory reform of the financial services sector. The spotlight is on the creation of an optional federal charter (OFC). An OFC would streamline the insurance regulatory process, benefiting both consumers and insurers through centralized solvency regulation; strong, national consumer protection standards; and a more competitive and efficient marketplace.

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AN ANTIQUATED SYSTEM

From the time the first state insurance commissioner was appointed in 1851 in New Hampshire, the insurance industry has been regulated by individual states. In passing the McCarran-Ferguson Act of 1945, Congress delegated its authority over insurance to the states. Our society and economy have radically changed since McCarran-Ferguson was enacted, but unfortunately, the insurance regulatory template has not.

Under the current system, states have put in place sweeping and stifling regulatory regimes that dictate what products insurers can provide, the prices they can charge, and how they conduct even the most routine aspects of their business. The current system is costly and inefficient—according to an analysis by the American Consumer Institute, excessive state regulation costs consumers more than \$13 billion annually in the form of higher premiums.

TIME FOR CHANGE

The U.S. Treasury Department recently released its much-anticipated Blueprint for a Modernized Financial Regulatory Structure. The plan presents a series of recommendations to improve and reform the U.S. regulatory structure for financial services firms. Prominent among them is the establishment of a federal insurance regulatory structure—the Office of National Insurance—and the creation of an OFC. An OFC would provide insurers the

alternative of federal regulation to enhance safety and soundness, consumer protection, and international competitiveness.

Treasury's inclusion of an OFC is a major milestone that recognizes the important role the insurance industry plays in the world of integrated and interconnected financial markets, and the increasing cost and efficiency burdens of the current disjointed state insurance regulatory system.

The Blueprint's support for insurance OFC builds on Treasury's long-term interest and thoughtful consideration of this subject. Testifying before Congress in 2006, a senior Treasury official expressed concerns about the state insurance regulatory system, calling attention to its inefficiency, international impediments, and systemic "blind spots." Prior to the development of the Blueprint, Treasury specifically asked for comments about the benefits

of the state-based insurance regulatory system and the key federal interests for establishing a presence or greater involvement in insurance regulation. Several dozen legal and regulatory experts responded with cogent arguments for OFC, and the Blueprint sets forth a persuasive rationale that highlights the hidden costs, diminished consumer choices, reduced quality of service, and global competitiveness concerns of the current system.

Unlike several other financial services sectors, the property-casualty insurance industry is not currently undergoing a period of stress, making now an excellent time to enact regulatory reforms that strengthen solvency oversight and competitiveness. As outlined by Treasury Secretary Henry Paulson, the goal is to "have a structure that ... will allow us to more effectively deal with inevitable market disruptions, one that will better protect investors and consumers, and



one that will enable U.S. capital markets to remain the most competitive in the world.”

An overriding theme of the Treasury report is the need for better integration among financial services regulators, and more effective, efficient, and consistent regulation. The fractured nature of state insurance regulation makes that impossible. OFC is necessary to bring insurance onto the same regulatory plain as other financial services sectors.

THE PUSH FOR IMPROVEMENT

In July of 2007, the National Insurance Act (H.R. 3200), which would establish an OFC, was introduced by Representatives Melissa Bean, a Democrat from Illinois, and Ed Royce, a California Republican. A similar bill has been introduced in the Senate.

H.R. 3200 does not regulate prices charged or products offered by market participants, because it recognizes that

governments acting unilaterally cannot be effective surrogates for the free market. Instead, it establishes stronger, re-focused regulation in those areas where regulation is necessary to protect consumers. Above all, it will ensure that insurance company solvency remains strong despite the ever-changing nature of risk.

In mid-April, a congressional panel heard testimony on OFC and other insurance regulatory reform options. Testifying for AIA and the American Council of Life Insurers, Alastair Shore of CUNA Mutual emphasized that OFC represents the best opportunity to advance regulatory modernization in a manner that works for consumers, the industry, and the economy.

Also in April, Representative Paul Kanjorski, a Pennsylvania Democrat who chairs the relevant subcommittee, introduced legislation to establish an Office of Insurance Information (OII) within the Treasury Department. The OII would have the authority to address international insurance policy issues and coordinate state insurance regulators’ response to those issues, and would serve as a voice on insurance policy at the federal level. AIA supports the OII as a means of advocating for the U.S. at the international level and for modernizing insurance regulation.

As momentum for the OFC builds, AIA will continue to advocate for the legislation and to educate consumers and legislators on the benefits of the OFC. Ultimately, the OFC is a positive sum game that will benefit all participants in the insurance system and the broader economy.

 **STAY CONNECTED** For more information, please go to www.aiadc.org and click on Regulatory Reform under the resources tab.



Having lived in California, Massachusetts, and New Jersey, Debra Ballen has had firsthand experience with the cost and efficiency problems caused by excessive insurance regulation.

leader letter



GOOD MOVE

SUPPORTING AN OFC

Given today’s global economic dynamics, it’s time to make a change to our archaic, 135-year-old insurance regulatory system.

It is essential to help U.S. insurers keep pace in the rapidly-expanding global economy to provide consumers with the products and services that such an economy demands. While the world around us has evolved, insurance regulation has remained stuck in an age that was created before we even had automobiles.

An Optional Federal Charter (OFC) is a common-sense idea that modernizes the regulatory process. While opponents express concern about “regulatory arbitrage,” the reality is national standards will equal or

exceed state standards and provide uniformity and oversight of financial health and market behavior.

Allowing market competition to determine the range of insurance offerings will empower

OFC is a common sense idea that **MODERNIZES REGULATION.**

consumers and lead to more choices. Armed with the strength of uniform national standards, we are confident an OFC will provide better regulation for consumers than the current, fragmented 56 jurisdictions we have today. The OFC provides a choice. Not all insurers will choose to be nationally regulated, preferring to stick with the state regulatory system. But, the bottom line is inescapable: An OFC is what’s best for consumers and it’s way past due.

Governor Marc Racicot
President, American Insurance Association

WHAT ARE THE REAL FACTS?

Filing Challenges

- Excessive state regulation costs consumers more than \$13 billion annually in the form of higher premiums, according to analysis by the American Consumer Institute.
- The National Insurance Act (H.R. 3200) assures that insurance company solvency remains strong despite the ever-changing nature of risk.
- The fractured nature of state insurance regulation prevents better integration among financial services regulators, and more effective, efficient, and consistent regulation.

PEOPLE



FAREWELL

AIA SAYS GOODBYE TO TWO LONG-TIME EMPLOYEES

This spring, the AIA said goodbye to two dedicated employees, Taylor Cosby and Joyce Zohn.

Cosby joined the AIA in 1987 in the Mid-Atlantic regional office. A lifelong Virginian and avid outdoorsman, for most of his time with the AIA Cosby served as Vice President for the Mid-Atlantic region. Zohn retired after 38 years as an Executive Secretary with AIA's Midwest Regional office. Zohn was a mainstay in the office, consistently providing exceptional administrative support.

"The long tenure of both Taylor and Joyce demonstrates the commitment the AIA staff has to this organization, the industry and our members," said Governor Marc Racicot, President of the AIA.



The American Insurance Association (AIA) is the leading property-casualty insurance trade organization, representing 350 insurers that write more than \$123 billion in premiums each year.

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IN THE NEWS

HEADLINES

The U.S. Treasury Department's release of the Blueprint for a Modernized Financial Regulatory Structure has resulted in a flurry of media attention on OFC. Governor Racicot and AIA have been front and center in the debate. Here are excerpts from just a few media clippings on the topic.



THE HILL

APRIL 16, 2008

Governor Racicot authored an op-ed supporting OFC. He wrote, "... it is estimated the national charter option could save consumers billions of dollars, thereby reducing costs and making insurers more competitive. Consumers would have greater product choices, facilitated by a system that actually allowed insurers to bring those products to market ..."



USA TODAY

APRIL 1, 2008

Governor Racicot was quoted in the article, "Insurance industry: States could lose power to regulate." He stated that the "current state-by-state approval of some insurance products can take more than two years, compared with less than two months for similar offerings from competing industries."



WALL STREET JOURNAL

MARCH 29, 2008

In the article, "Policy Makers Have Mixed Response To Treasury Plan," Governor Racicot was quoted as saying, "We've had basically the same regulatory framework for 135 years. We need to be on the cutting edge of globalization ... offering new opportunities for everyone."



WASHINGTON POST

APRIL 19, 2008

"It's a very important priority," said Marc Racicot, president of the association. The association says having a single regulator would cut costs industry-wide by billions of dollars a year—savings that could be passed on to customers—without reducing consumer protections."



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