



National Association of Insurance Commissioners

February 13, 2008

Earlier this week, Rep. Paul Kanjorski told *Roll Call* there needs to be "better federal oversight of the insurance industry." The National Association of Insurance Commissioners disagrees. The current problems in the markets were caused by the failure of federal – not state – regulation. And, the facts support us.

Remember, lax federal oversight caused the current disruption in the bond market. The Office of the Comptroller of the Currency allowed banks to offer unaffordable subprime loans to homeowners over the objection of state regulators, who sought to protect consumers from these unsafe products. The Federal Reserve allowed banks to hold risky derivative investments based on these subprime loans, which resulted in billions of dollars in write-downs. The Securities and Exchange Commission not only authorized these derivatives, it failed to supervise how credit agencies rated them. Everyone on the federal level who contributed the kindling, logs and matches that caused this fire should not now take away authority from state regulators who have been keeping the flames in check.

The role of state insurance regulators is to ensure that bond insurers have the financial ability to pay claims, and to date, they have. State insurance regulators allowed bond insurers to insure structured debt instruments in response to the demand for innovative products. Since federal oversight has obviously failed, and this business model hinges on opinions of for-profit rating agencies, we are now considering a business model that is based on financial strength ratings developed by state regulators. Further, we have already added additional capacity to the municipal bond insurance market so that government bond insurers do not suffer because of lax federal oversight.

We welcome the opportunity to discuss these efforts with Congress, but the blame game serves only to distract from the real causes of the problem and delays meaningful solutions.

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