



## **National Association of Professional Insurance Agents**

### **The Need for Insurance Regulatory Reform October 3, 2007**

#### **Statement to the Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises of the House Financial Services Committee**

Thank you for the opportunity to share the concerns of the members of the National Association of Professional Insurance Agents (PIA) regarding the regulation of insurance. PIA represents more than 10,000 Main Street independent insurance agencies, with members in all 50 states and Puerto Rico.

PIA believes that consumers are best served by an insurance system that is regulated by state Departments of Insurance. In response to the constantly changing needs of a dynamic insurance marketplace, PIA supports state efforts to simplify and modernize insurance regulation through the established state regulatory system. These efforts include the establishment of interstate compacts to streamline state-to-state regulatory activities.

This Committee's actions have historically been rooted in a belief in the state insurance oversight system, and the need for the federal government to make sure the state system is doing its job by providing the support needed by state authorities. Optional federal charter proposals run contrary to numerous Congressional actions over the years to provide this assistance, actions PIA has supported.

Insurance law is a very complex set of multi-layered state laws with some federal overlay. It is far more state-centric, active and dynamic than banking law or securities law ever has been or could be. Insurance law should not be overlooked, ignored or stepped on, as it would be under an Optional Federal Charter. To do so would open new reforms to serious legal threat and challenges, ones not likely to be won by the new reformers.

It is with a considerable amount of distress that our association has observed recent attempts to undermine state regulation of insurance by those who propose the establishment of a bifurcated, dual regulatory structure. Proposals to establish a so-called Optional Federal Charter are truly a misnomer, in that granting some participants in our industry the ability to opt for federal-only regulation would not allow them to "opt out" of all state laws and regulations.

Permitting a subset of competitors in the marketplace to evade state law artificially confers upon large, national entities that are positioned to accommodate dealing with an alternate federal regulatory scheme an unfair competitive advantage over their smaller, regional or local competitors. PIA believes that the federal government should not attempt to pick winners and losers in the insurance marketplace in this manner, by enacting legislation favoring one group of competitors over another.

Perhaps the most compelling reason that the federal government should not consider establishment of a duplicative, parallel regulatory scheme for the insurance industry is the imperative of consumer protection. Currently, many states provide a level of robust, effective

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protection for insurance consumers through state laws administered by the various Departments of Insurance. Overlaying a federal regulatory structure with what would be a much lower level of enforcement of much weaker consumer protections is not in the public interest.

Additionally, it should be noted that permitting a subset of insurance competitors to opt-out of state insurance regulation would not necessarily allow such entities to exempt themselves from state laws in a number of areas, nor should it. Creation of a bifurcated federal-state system, we believe, would lead to legal chaos prompting an upsurge in costly litigation, to the detriment of all insurance consumers.

Whether optional or not, dual or exclusive, PIA strongly opposes a federal regulator for the business of insurance for one overarching reason: one is not needed.

It is for many of these reasons outlined above that lawmakers in Colorado, Alabama, Ohio, Texas, Michigan, Rhode Island, New York and North Dakota, among other jurisdictions, either have passed or are in the process of adopting resolutions urging Congress to keep insurance oversight a state prerogative. Several organizations including the National Governors Association, the National Conference of Insurance Legislators, and the National Conference of State Legislatures and the National Association of Insurance Commissioners all oppose the creation of a federal insurance regulator. In fact, we urge you to discuss this matter with your governor, insurance commissioner and state legislators as you contemplate such a radical change in the way a significant sector of our economy is regulated.

As you consider reforms to our nation's system of insurance regulation, please be aware that, contrary to what some groups may tell you, the system is not broken and it does not need to be "fixed." It is functioning well, as evidenced by the continuing profit performance of insurance carriers and the robust financial health of the industry as a whole. Continuing modernizations to the state-based regulatory system is what is needed, as we have outlined here.

### **Quick Response**

State departments of insurance are more knowledgeable about the specific concerns of their state and region. When urgent needs arise, a state regulator is able to respond in a more efficient manner than a federal regulator who may be subject to federal political pressures. This helps ensure that consumers, both individuals and businesses continue to have access to a robust insurance marketplace to protect them, rather than one that is mired in bureaucratic red tape and leaves them with uninsured exposures.

### **Consumer Protections**

Additionally, nationally chartered insurers would not be subject to the many consumer protections that have developed over the years to ensure there is a balance between insurers' need for profit and solvency and consumers' right to be treated fairly. These protections have developed at the state level and often differ based upon the unique experiences of a states' insurance marketplace and the unique characteristics of America's varying regions.

### **Additional Bureaucracy**

Requiring an additional set of federal rules and oversight for federally chartered insurance entities would add another jurisdiction to the insureds' insurance coverage. This could result in a consumer having one form of coverage from a state-chartered, state-regulated insurer needing to be coordinated with coverage from a federally-chartered, federally regulated insurer in order to have complete coverage and protection against one disaster. Such a requirement is redundant and unnecessary. PIA continues to support state efforts to streamline, simplify, and modernize insurance regulation.

While recognizing the inherent strength of the state system when it comes to protecting consumers, industry participants, state legislators and regulators also agree that there is a need to improve the efficiency of the system. In March 2000, the nation's insurance commissioners committed to modernizing the state system by endorsing an action plan entitled "*Statement of Intent – The Future of Insurance Regulation.*" Working in their individual states and collectively through organizations such as the National Conference of Insurance Legislators and the National Association of Insurance Commissioners, we have made tremendous progress in achieving an efficient, market-oriented regulatory system for the business of insurance.

State legislators and regulators are on time and on target to accomplish changes needed to modernize the system of insurance regulation in the United States. For example, the states have organized themselves to form an Interstate Insurance Product Regulation Compact. As of today, 30 states participate in the compact. Together, these states represent half the premium volume in the United States and more states are considering joining. This compact provides the states with the ability to collectively use their expertise to develop uniform national product standards and affords a high level of protection to consumers of life insurance, annuities, disability income and long-term care insurance products. The Compact established a central point of filing for these insurance products, enhancing the speed and efficiency of regulatory decisions based on strong product standards and allowing companies to compete more effectively in the modern financial marketplace.

This is just one example of how the states are working toward a modern, efficient regulatory system that preserves the number one goal of consumer protection. Other initiatives include efforts to increase efficiency in the licensing of companies and producers, coordinating market conduct exams and addressing the regulation of alien companies.

### **PIA Member Testimonials**

The most telling testimony is that of our PIA members. Here are a few statements from PIA members around the country who have contacted their Members of Congress over the past several months to let them know why they oppose federal regulation of insurance:

“When hurricane Wilma hit the west coast of Florida, my parents' home sustained significant damage. With the help of other family members we were able to travel down, clean up and secure the home to prevent further damage. Being the owner of an insurance agency in Maine, I was struck at how different things were in Florida compared to Maine. We sought advice and support from the local people who were familiar with the area and how things should be done. If we had needed support from an insurance regulatory body, it would again have been local with

the specific expertise needed for the area. I do not think we could get the same support from a federal regulator no matter how well meaning.”

***PIA Member***

***Corinth, ME***

“As the owner of a small insurance agency in south Georgia, we are often faced with helping our customers do battle with some insurance companies whose business practices are unethical in nature. We often have to work with the State Insurance Commissioners office to reconcile these issues in favor of the consumer. The State Insurance Commissioner is very much in touch with the local issues that we face daily in servicing our clients.”

***PIA Member***

***Americus, GA***

“In the past, many of my clients have felt secure knowing that the states of Minnesota and Wisconsin have addressed their problems in a clear, fast and precise nature. We have never had a problem that could not be addressed and solved by any state agency that is why as your constituent and a professional insurance agent, I want you to know that I am firmly opposed to the National Insurance Act. This legislation is bad for consumers-your constituents-and bad for the insurance agencies that serve them. I hope you will oppose this bill.”

***PIA Member***

***La Crosse, WI***

“On several occasions I have helped my clients contact the State Insurance Division, or I have contacted the Division on their behalf. Because of local relationship with the State Officials it makes for easy access to assist clients. I also chair the Oregon Insurance Division Advisory Council (IDAC) meetings and represent the property and casualty insurance agents of Oregon on this council. We have insurance company representatives and consumer advocates on this council. It allows many people to bring ideas to the Insurance Division and have good dialogue with the Division. If the Optional Federal Charter became law we would not have access such as this with the appointed officials at the Federal Level, and it would not be in the citizens of Oregon's best interest.”

***PIA Member***

***Stayton, OR***

Thank you for holding this series of hearings regarding the regulation of insurance. We look forward to working with Members of Congress and staff on this very important issue. Please contact our Federal Affairs staff at any time at 703-518-1364.