GOVERNMENT RELATIONS
ISSUE BRIEF

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NAIC
National Association of Insurance Commissioners
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Federal Charter Legislation

Avoiding a Regulatory Race to the Bottom

- *Insurance is a unique financial product – fundamentally different from banking and securities. Geographic and demographic requirements, as well as differences in state tort law, mean that insurance is most effectively regulated at the state level.*

- *State officials have been effective stewards of the U.S. insurance marketplace, updating and retooling insurance supervision to meet the needs of the modern economy while preserving and enhancing consumer protections.*

- *Federal chartering of insurance companies would dismantle comprehensive state protections, confuse and disrupt markets, undo reforms and harm consumers.*

Issue Background

For more than a century, state officials have supervised insurance to promote the public interest, ensure competitive markets, facilitate the fair and equitable treatment of consumers and oversee the financial strength of the insurance industry. The state regulatory system has provided key safeguards to insurance consumers that have been missing in sectors of the financial market regulated at the federal level – as borne out in the recent financial crisis, which left insurance policyholders largely unscathed. Despite its success, state insurance regulation has once again come under Congressional scrutiny – pressed by large insurance industry players who would prefer a less stringent regulatory scheme.

Key Points

- Effective consumer protection is the hallmark of state regulation. State insurance protections successfully and effectively safeguard individual and commercial policyholders, and ensure the financial strength of the U.S. insurance market.

- The NAIC has streamlined and modernized insurance supervision to provide operational efficiencies while enhancing the ability of local officials to protect consumers in the communities where they live.

- Federal chartering would create a new federal bureaucracy from scratch and allow insurance companies to escape comprehensive consumer protections and state oversight. Current proposals would gut consumer protection while outsourcing most critical regulatory functions to industry-run self-regulatory organizations.

- A bifurcated regulatory regime where insurers pick their regulator threatens regulatory arbitrage. This sort of "race to the bottom" oversight is especially dangerous in insurance, where families and businesses faced with a storm, fire, illness or injury often rely on a hands-on, accessible regulator who will make insurers keep their promises and help victims rebuild and recover quickly after an unforeseen disaster.

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