

NAMIC Opposes Optional Federal Charter

WASHINGTON (Sept. 28, 2006)—The National Association of Mutual Insurance Companies (NAMIC) announced its strong opposition to H.R. 6225, The National Insurance Act of 2006, introduced this afternoon by Rep. Ed Royce, R-Calif. The Royce bill would establish an optional federal charter for insurance companies, including the property-casualty industry.

Currently, property-casualty insurers are regulated by the states in which they do business. This bill would create an alternative whereby insurers could choose to be regulated by a newly-created federal insurance regulatory authority instead of by state insurance departments pursuant to state law.

NAMIC maintains that creating federal regulation would only produce another level of bureaucracy for insurers and their policyholders.

“A significant concern for NAMIC member companies is that while proponents of federal regulation may design a ‘perfect system,’ they can neither anticipate nor prevent the imposition of disastrous social regulation in exchange for the new regulatory structure,” said NAMIC Government Affairs Senior Vice President Carl Parks.

Proponents of an optional federal charter contend that the legislation would simply create an alternative regulatory scheme for those who seek it. But Parks warned that, “the promise of “choice” while seemingly reasonable, could well result in dual regulation for insurers, just as it has for banks.

For example, current banking law gives banks the choice of being regulated under either a federal or state charter, but all banks are subject to some regulation by the Federal Deposit Insurance Corporation (FDIC), regardless of their charter.”

“It is not inconceivable, and indeed likely, that for an optional federal charter to work, Congress would eventually be forced to replace the state guaranty funds with a federal insurance fund similar to the FDIC,” said Parks. “Once that occurred, insurers choosing to remain under state regulatory jurisdiction could nevertheless find themselves subject to a vast array of federal rules.”

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Parks continued, “While NAMIC recognizes that there are problems with the current regulatory structure, we believe that reform is best accomplished at the state level.”

One of the greatest problems facing many insurers today is the problem with rate suppression. Yet through state reform, to date only 16 states require statutory prior approval rates. Other recent progress includes:

- 24 states have established no filing requirements, mostly for large commercial risks.
- 14 states have adopted the more flexible use and file system
- 9 states have adopted flex-band rating systems for property/casualty products to replace the rigid system of price controls.

On other issues such as company licensing and mutli-state over regulation, NAMIC points out that Congress can and has passed legislation that could help streamline the current regulatory system, while leaving the day to day oversight at the state level.

Just yesterday, the House unanimously approved H.R. 5637, the Non-Admitted and Reinsurance Reform Act. H.R. 5637 would create a uniform system for taxing and regulating certain types of insurance products. Specifically, the bill would establish national standards for how states may regulate, collect, and allocate taxes for a type of insurance that covers unique or atypical risks—known as “surplus lines” or “nonadmitted insurance.” The bill also would establish national standards for how states regulate reinsurance—often referred to as insurance for insurance companies.

“H.R. 5637 was a strongly bi-partisan bill that had the support of all stakeholders,” said Parks. “The Non-Admitted and Reinsurance Reform Act, shows us that Congress can play a meaningful role in helping to modernize insurance regulation while not adding additional regulation at either the state or federal level,” said NAMIC Federal Affairs Senior Director Justin Roth.

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Founded in 1895, the National Association of Mutual Insurance Companies (NAMIC) is a full-service national trade association serving the property/casualty insurance industry with more than 1,400 member companies that underwrite more than 40 percent of the property/casualty insurance premium in the United States. NAMIC members are small farm mutual companies, state and regional insurance companies, risk retention groups, national writers, reinsurance companies, and international insurance giants. Together, we are NAMIC.

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