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July 10, 2006

Honorable Richard Shelby
110 Hart Senate Office Building
Washington, D.C. 20510

Honorable Paul Sarbanes
309 Hart Senate Office Building
Washington, D.C. 20515

Dear Senators Shelby and Sarbanes:

As president of the National Conference of Insurance Legislators (NCOIL), I am writing to convey NCOIL's concern regarding Congressional interest in federal insurance oversight, including a July 11 Banking, Housing, and Urban Affairs Committee hearing entitled *Insurance Regulation Reform*.

NCOIL strongly opposes current federal initiatives that would cripple the states' ability to successfully regulate insurance and protect the interests of their citizens. State regulation has successfully promoted insurer solvency and protected consumers for more than 130 years, and is making great strides to modernize insurance oversight in an increasingly competitive, global environment.

The pending initiatives include S. 2509, the *National Insurance Act of 2006*; the State Modernization and Regulatory Transparency (SMART) Act discussion draft, introduced by Reps. Michael Oxley (R-OH) and Richard Baker (R-LA); and Rep. Ginny Brown-Waite's (R-FL) proposed *Nonadmitted and Reinsurance Reform Act of 2006*.

The optional federal charter created under S. 2509 would destroy the tried and true state system of insurance regulation and would create a bifurcated, unwieldy, inaccessible, and costly federal bureaucracy. The SMART Act would set up another layer of government—a quasi-governmental entity to oversee mandatory federal insurance standards at an eventual cost to state's coffers and citizens. The nonadmitted and reinsurance reform initiative would create a federal "solution" when state-regulated modernization is appropriate, feasible, and in process.

State legislators and regulators continue to modernize insurance regulation and provide uniformity where necessary. This is evidenced in the progress of the interstate insurance regulatory compact for life insurance products and increased uniformity in agent and

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company licensing, as well as rate deregulation facilitated by flex rating, and more recent market conduct reform efforts.

State regulation has a good track record in comparison to the poor performance of federal programs such as ERISA and, most recently, FEMA. The savings and loan debacle in the 80s, which occurred under an optional federal charter for banking, offers proof of this.

The consumers of our states and yours rely on critical premium tax revenue—income that is deeply threatened by federal preemption and that funds crucial programs such as education, infrastructure, and health services. How would the enormous costs associated with federal oversight be sustained without eventual encroachment on state premium tax income? These funds currently represent the second or third largest revenue item in most state budgets.

As fellow legislators, you know the effort that goes into a well-drafted and workable law. You also know the balancing that takes place in responding to consumer concerns and business community needs. State legislators, and especially members of NCOIL, have spent countless hours developing and implementing evenhanded and efficient insurance laws tailored to each state's unique and changing marketplace.

NCOIL is committed to joining with other advocates of sound public policy regarding the regulation of insurance—including state regulators and other officials, consumers, and key members of the insurance and agent communities—in order to oppose what we believe are flawed proposals—ones that would cause more harm than good to the industry and the clients it serves.

NCOIL is an organization of state legislators whose main public policy interest is insurance legislation and regulation. Many legislators active in NCOIL either chair or are members of the committee responsible for insurance regulation in their respective state houses across the country.

Our Immediate Past President, Rep. Craig Eiland of Texas, will be in attendance at the July 11 hearing. We ask that this letter be included in the official hearing record and that we be invited to participate in any future hearing regarding insurance regulatory reform.

We welcome discussing these issues with you in further depth. Please feel free to contact the NCOIL National Office at 518-687-0178.

Sincerely,



Rep. Frank Wald (ND)
NCOIL President

cc: Andrew Olmem

Senate Banking, Housing, and Urban Affairs Committee