

Federal Charter Move Spreads, But Opposition Remains Fierce

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Just having legislation introduced in both houses of Congress was an important landmark for backers of an optional federal insurance charter, but strong opposition to the concept among some insurer and agent groups continues to split the industry.

“More progress has been made on the issue this year than expected,” said Joel Wood, senior vice president of government affairs for the Council of Insurance Agents and Brokers, following introduction of the National Insurance Act of 2006 as the House left for a six-week campaign recess.

At the same time, a new group of insurers, trade associations and intermediaries known as the Coalition Opposed to a Federal Insurance Regulator criticized the bill, introduced late last month by Rep. Ed Royce, R-Calif., saying it is “aimed at creating a new bureaucracy under a federal insurance commissioner.”

Also weighing in was the Association for Advanced Life Underwriting, which last week joined the CIAB, the American Insurance Association, the Financial Services Roundtable and the American Bankers Insurance Association in backing the OFC bill.

Opponents include the Independent Insurance Agents and Brokers of America and the National Association of Mutual Insurance Companies.

The new coalition’s executive director—Greg Wren, a Republican member of the Alabama House of Representatives, representing Montgomery—said H.R. 6225 and its Senate counterpart, S. 2509, would unnecessarily dismantle a 135-year-old system. “While we acknowledge that insurance regulation should be streamlined, we believe establishing another federal office to do so is not the answer,” he said.

The new coalition includes the IIABA, which independently put out a statement voicing opposition to the Royce bill.

“Taking power away from the states and centralizing it in Washington will only complicate issues for insurance companies, agents and brokers, and most important, consumers of insurance services,” said Rep. Wren. He added that while COFIR favors reform of existing state insurance regulation, “empowering a federal regulator to oversee that reform is not a viable solution.”

The House Financial Services Committee will have new leadership next year with Rep. Michael Oxley, R-Ohio, leaving Congress. But CIAB’s Mr. Wood observed that “no matter who the chairman is, it promises to be a very interesting and active year on this front. Clearly, the drumbeat for meaningful regulatory reform grows louder by each year and each session of Congress.”

“I believe the time has come for both houses of Congress to address the inefficiencies in the insurance marketplace,” said Rep. Royce. “The National Insurance Act would create a federal regulatory agency within the Treasury Department. However, it would leave the current state regulatory system in place.”

Seeking to assuage concerns voiced by critics after the Senate bill was introduced, Rep. Royce said that under his bill, “an insurance provider could choose to be regulated by the 50 states or by the Office of National Insurance.” He said the concept is “not new,” noting that the “banking system has lived under such a framework for much of our nation's history.”

Several industry officials said the bill makes only technical changes to the earlier Senate version sponsored by Sens. John Sununu, R-N.H., and Tim Johnson, D-S.D.

AIA President Marc Racicot said that the “streamlined, rational regulatory system called for in this legislation will result in increased efficiency and product innovation that would lead to more choices and enhanced convenience for consumers. Such a system would be a great improvement over the present, patchwork state-by-state regulatory system, which has not kept pace with 21st century marketplace needs.”

Meanwhile, “the existing state regulatory system will be preserved, and insurers wishing to remain state-regulated could do so,” he said.

A group known as the Optional Federal Charter Coalition said that it “looked forward to working with Rep. Royce and other members of the House to improve upon the current state-based regulatory system, and this legislation is a good step toward this goal.”

The group added that the introduction of OFC legislation “fuels the debate on modernization of America’s insurance laws to meet the needs of our customers. It is clear that a growing number in Congress are coming to the conclusion that the current patchwork regulatory system is unacceptable for both consumers and the economy.”

The OFC Coalition was recently formed by the American Council of Life Insurers, the AIA, the ABIA, the Financial Services Roundtable and a new group called Agents for Change