

Price Tag for Optional federal charter for insurance could reach \$700 million

By [Bob Graham](#)

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Eugene Ludwig

The federal insurance regulatory agency necessary to support an optional federal charter for insurers would require between \$465 million and \$700 million a year, according to a new estimate.

An Office of National Insurance (ONI), if approved by Congress and President Barack Obama, would need between 2,300 and 4,000 full-time equivalent employees, depending on how many insurers choose the option, according to the analysis. Eugene Ludwig, former U.S. Comptroller of the Currency and now CEO of Promontory Financial, a global financial services consulting firm, performed the analysis on behalf of the Financial Services Roundtable, the American Council of Life Insurers and the American Insurance Association; each supports the optional federal charter.

The analysis is “an important report,” said Frank Keating, president and CEO of the American Council of Life Insurers.

“It shows a proposed national insurance oversight agency would offer a streamlined and efficient alternative to the current state regulatory system without imposing material costs on taxpayers or sacrificing consumer protections,” Keating said, adding that the report suggests that federal insurance regulation would not lead consumer protection to a “race to the bottom.”

Keating said “the case for OFC is overwhelming.”

Ludwig’s analysis assumed two models: one where 25% of insurers would choose federal regulation, his so-called base case, and another, his high conversion case, with 50% of insurance companies forgoing current state regulation for one federal regulation on chartering, products and agents.

The analysis, released Feb. 23, was performed in August 2008 and based its information on the proposed optional federal charter proposal before the 110th Congress, whose term ended last year. Ludwig said the analysis remains valid and intended to “provide for discussion” as its release precedes the anticipated legislation on an optional federal charter from Reps. Melissa Bean (D-Ill.) and Ed Royce (R-Calif).

Insurers who choose ONI regulation would be taxed as they are by states. Ludwig estimated that if 25% of insurers choose the ONI, it would cost \$465 million and employ about 2,390 full-time equivalents. If half of insurers chose the ONI, then a \$700 million budget for 4,030 full-time equivalents would be necessary.

If only a quarter of insurers choose the ONI for regulation, the agency would be larger than the New York insurance department, but smaller than federal regulatory agencies. If half of insurers choose the ONI, then the office would resemble other federal regulatory agencies, possibly the Federal Trade Commission or Federal Commerce Commission, Ludwig said during a teleconference.

States obtained \$15.3 billion in premium taxes in 2007. It costs regulators in the 50 states and Washington, D.C., \$1.54 billion for 13,662 full-time equivalents to work, with another \$64.3 million and 424.5 full-time equivalents working at the National Association of Insurance Commissioners, a group representing and coordinating some aspects of state insurance regulation.

“The [ONI] would not impose any material financial burden on the federal government or U.S. taxpayers, nor would it require the creation of an unmanageably large federal bureaucracy,” the analysis suggests.

While Ludwig’s analysis and comments during a teleconference did not advocate an ONI, he did indicate that “economies of scale and prestige opportunities” could result as the best and brightest assume federal positions.

For instance, Ludwig said the current regulatory system would require each state to have an expert on credit swaps, meaning 50 experts. A national insurance regulator could have three to provide expertise across the country.

Ludwig characterized the transitional period from state to federal regulation as “a short transition” that would require “trivial money.”

During the teleconference, Ludwig did suggest reform to an optional federal charter is likely. “An Office of National Insurance is part of the changes [in financial service reform] sooner or later, probably sooner,” he said.