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Reform May Not Be Optional

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A draft of Obama administration financial services regulatory reform principles suggests that some large insurers may come under the jurisdiction of a general federal insurance regulator.

The federal insurance regulation system would be part of federal systemic risk regulation, and it might not be voluntary, according to a draft obtained by National Underwriter.

The draft has been circulating on Capitol Hill today, according to several sources, but a Treasury Department official who was told about the draft said he was "very skeptical" about whether the draft is accurate.

The draft that National Underwriter reviewed:

- Suggests that the federal system might preempt some state insurance laws and regulations, but that the federal preemption would not "deregulate" the large insurers.

- Says national insurers would likely be subject to new financial product safety commission regulations.

- Proposes making the Federal Reserve Board the systemic risk regulator and giving the board the authority to set capital, liquidity and other safety and soundness requirements. But the draft says the Obama administration "would be open to a strong council as long as the chair would have sufficient authority to be effective.

- Assigns the authority to resolve systemically risky financial services firms to the Federal Deposit Insurance Corp.

- Says that the Office of Thrift Supervision may be merged with the Office of the Comptroller of the Currency.

Treasury Department officials are supposed to be releasing their financial services reform principles Monday, and some say Republican members of the House Financial Services Committee could unveil a reform proposal of their own Thursday.

Treasury Secretary Timothy Geithner talked about the administration's plans today in testimony before the Senate Appropriations Committee financial services subcommittee.

"As we have made repairs to the financial system, we have understood that repair alone is not enough," Geithner testified. "We must also reform the system so that it is less prone to crises of the dimensions that we now face. In the next few weeks, we will outline a comprehensive plan of reform that will include systemic risk regulations to ensure that no large and interconnected firm or market can take on so much risk that its failure could destabilize the entire financial system."

Geithner said the plan calls for bolstering consumer and investor protections.

“It will streamline our out-of-date regulatory structure, so that our regulatory system matches the size, shape and speed of our modern financial system,” Geithner said.