



CHARLIE CRIST
GOVERNOR

May 6, 2009

The Honorable Barney Frank
Chairman
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Christopher Dodd
Chairman
Senate Banking Committee
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Spencer Bachus
Ranking Member
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Richard Shelby
Ranking Member
Senate Banking Committee
534 Dirksen Senate Office Building
Washington, DC 20510

RE: Optional Federal Insurance Charter

Dear Chairmen and Ranking Members:

During this period of economic uncertainty, I applaud the Congressional committees' efforts to re-evaluate the current structural framework of financial regulation in the United States. The desire to modernize regulation, and provide consumers with sufficient protection is shared by state governors and state insurance regulators. This modernization effort has motivated the National Association of Insurance Commissioners (NAIC) in recent years to streamline electronic form and rate filings, coordinate disaster recovery information, and develop an interstate compact to standardize insurance products. Events this year underscore the importance of active regulation of financial markets.

Despite the multi-state cooperation, and successful coordination of state regulatory efforts, the insurance industry is currently promoting the need for an "optional federal charter" to change insurance regulation as a part of financial regulatory reform. I am concerned about this development, especially as it pertains to consumer protection provisions enacted by Florida.

The plan to allow an optional federal charter for insurance companies would dramatically weaken overall insurance regulation. Currently, state regulators across the country have a combined 13,600 state employees that manage \$1.4 trillion in assets, and handle 3 million consumer calls annually. An optional federal charter would allow insurance companies to shop for its "best" regulator, which most likely would be the federal government. To provide the same level of consumer protection, the federal government would need to create a massive and potentially expensive bureaucracy to duplicate the current state oversight.

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Proponents for federal insurance regulation and an optional federal charter use the current economic downturn and crisis in the financial industry as evidence of the need to overhaul the regulatory system. Modernizing federal banking regulation may be in order. Ironically, the systemic crisis that created the failures of Freddie Mac, Fannie Mae, Lehman Brothers, Washington Mutual and AIG was caused by the activities of the non-insurance members of the insurer groups that sold products like credit default swaps or held mortgage-backed securities.

While media reports have inappropriately referred to AIG as "an insurance company", in actuality this multinational conglomerate is predominately a financial services company. In fact, AIG's failures contributing to \$61.7 billion in losses, and the current outrage caused due to the excessive executive bonuses totaling \$165 million have been directly related to credit default swaps by the AIG Financial Products Unit – not its insurance subsidiaries.

One reason Congress may have historically delegated much of insurance regulation to the states is due to the complexity of the insurance industry, as well as geographic uniqueness in insurance markets. In Florida, this equates to catastrophic risk, specifically, hurricane risk. Whether it is building codes, windstorm mitigation credits, mandatory consumer notification of credits, or participation in residual market mechanisms, the State of Florida relies on state specific laws that far exceed national standards. If a federal charter allowed insurers to "opt out" of this system, it would be extremely detrimental to the current framework safeguarding our property insurance market.

Due to our geography and our demography, the State of Florida has very unique risks not prevalent in other jurisdictions. Consequently, our lawmakers have adopted stringent consumer protection standards that exceed the standards of others states. These standards pertain to protecting the elderly, monitoring sales of products to military personnel, ensuring against unfair discrimination in the rating of products, encouraging wind mitigation credits, and increasing solvency standards given our risk of catastrophic loss.

I strongly urge you to reconsider any efforts on behalf of the insurance industry to promulgate an optional federal charter to pre-empt state insurance regulation, and pre-empt the consumer protection provisions enacted in Florida.

Sincerely,



Charlie Crist