

Rep. Frank Says Agents Will Block OFC Passage

BY SAM FRIEDMAN

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BOSTON—An optional federal charter for property-casualty insurers will never be approved by Congress as long as independent insurance agents so vehemently oppose the concept, an influential congressman told an industry conference here.

“No major change will come in the insurance laws of this country over the objections of insurance agents,” declared Rep. Barney Frank, D-Mass., who chairs the House Financial Services Committee, during a speech here before the annual meeting of the Property Casualty Insurers Association of America.

“Insurance agents are the most influential group within the property-casualty industry,” he said. “You will never win in a head-to-head battle with them over any issue. They are not only numerous, but they are an outgoing culture. They are in all the Rotary Clubs and other local groups, and are extremely active and influential from a political grass-roots standpoint in their communities.”

The Independent Insurance Agents and Brokers of America, for one, has opposed the creation of an optional federal charter for insurance companies and agencies, arguing instead for Congress to perhaps establish federal regulatory benchmarks on agency licensing, surplus lines and other areas for state insurance regulators to follow, rather than for Washington to regulate insurance directly.

He cited as “another major obstacle” the disgruntlement of some state regulators with their federal counterparts over the dual regulatory system for the banking industry. He noted that some banks are “taking advantage of regulatory arbitrage” by getting a federal charter because they believe such oversight is less onerous than the consumer protections demanded by state laws.

“Many of the state banking commissioners are whispering in the ears of the state insurance commissioners to be wary of [federal chartering] because the feds are intruding on our turf,” according to Rep. Frank.

“The fear is that an optional federal charter will not really be an option, but that insurers will not have any choice but to go federal if they want to compete.”

The bottom line, he told PCI, is that “nothing is going to happen on optional federal chartering in this Congress because we are facing a divided industry.”

Passage of an OFC bill is far more likely for life insurance, he observed, citing the united support on that side of the business. “That is not the case with the property-casualty sector.”

Switching gears, he said that even though the entire insurance industry is united on another critical front—extension of federal reinsurance coverage under the Terrorism Risk Insurance Act, due to expire on Dec. 31—disunity in Washington on the issue is threatening to undermine a long-term solution.

Rep. Frank cited calls by the White House and by opponents in the Senate to allow the private market to take on terrorism exposures without a federal backstop. “Even if you could get a private market on terrorism risks—which the evidence is overwhelming that you cannot—I would be opposed to it on philosophical grounds,” he said.

“With a private insurance market, the policyholder has to pay for their risk, but that is not operable on terrorism,” he added. “What are you supposed to do if you have a large office building in Washington, New York or right here in Boston? Obviously, some areas of the country are more vulnerable to these attacks than others, meaning it will cost more to do business in these areas.”

Given that reality, Rep. Frank said, “I do not want to give terrorists that kind of leverage over our economy. I want a national response to a national threat to level out that exposure, and I do not believe the private market can do that alone.”

He also argued that ending TRIA would “kill construction of major structures in high-risk areas. Again, we cannot allow the terrorists to dictate to us like that.”

Getting a bill passed to extend TRIA long-term, however, is going to be problematic given the procedural hurdles in the U.S. Senate, where 60 votes are required to halt debate and get legislation passed.

“The U.S. Constitution has been amended de facto by the rules in the Senate,” he said. “My concern is that the Senate will pass a bill that is better than nothing right at the end of the year, and then say the House must take it or leave it, even if we believe it is

inadequate.”

Vowing that “I will not be subjected to this kind of tactic,” he said he would propose a “bridge bill” to extend TRIA as is through April 30, 2008, “to allow for further debate and give us plenty of time to do what is best for this country.”

He added that he very much wants coverage for group life insurance added to the TRIA program in any final bill. “Terrorism coverage without group life is like the neutron bomb—it protects the property but not the people in it. I am not comfortable with that.”