

House Panel Lacks Consensus On OFC

BY MATT BRADY

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WASHINGTON —Members of a House subcommittee at a hearing on insurance regulatory reform appeared split yesterday on the issue of optional federal chartering of insurers.

Rep. Paul Kanjorski, D-Penn., who chairs the House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, which held the session on insurance regulatory reform, said he has an open mind on the federal charter issue.

“I have no battle plan, no axe to grind, and am open to considering all points of view,” he said. “I may have inclinations toward pursuing certain reforms, but I have made no final decisions about how to implement such reforms and how to build a broad consensus that garners the support of many, not just a slim majority.”

He noted that “approximately one-third” of the panel’s members joined it this year and need an opportunity to learn about the issue.

One thing that is fairly certain, he said, is that some reform needs to take place.

“The vast majority of interested parties in the debate on insurance regulatory modernization—myself included—agree that there is no longer a question of whether or not to pursue reform,” he said. “The question we must answer is how best to achieve this reform.”

Rep. Richard Baker, R-La., was more certain about his position on the issue, offering stern criticism of the National Association of Insurance Commissioners to its president, Walter Bell, who is Alabama’s insurance commissioner.

“As an organization, the one most likely to drag reform down is the NAIC,” said Mr. Baker, adding that the group has “an inability to create the political will” necessary to push reform through nationwide.

Rep. Baker listed several appearances by NAIC representatives before the committee during the past decade, noting that each time reform was promised to be not more than a few years away. “We’re two to three years away; we’re two to three years away,” he mimicked. “You ought to put it to music; it’s a great song.”

Mr. Bell defended the NAIC’s efforts, noting that many of its members “typically dwarf” the markets of many European countries.

As an example, he noted that Rep. Kanjorski’s home state of Pennsylvania is the twelfth largest insurance market in the world, larger even than the entire country of China.

He also touted the NAIC’s System for Electronic Rate and Form Filing as helping to ease issues over the speed with which companies can bring products to market and eliminating the idiosyncratic state filing requirements often listed as reasons for a federal charter option.

“The next time someone tells you an undocumented sob story about the pink paper and paper clips of the past,” he said, “tell them to leave the Pony Express behind and get into the 21st Century.”

In prior years there have been complaints about individual regulators rejecting submissions when forms failed to meet physical requirements.

Like the subcommittee members, witnesses representing insurers and agents were also split on

the optional federal charter concept.

William McCartney, senior vice president of government and industry relations for United Services Automobile Association, who appeared on behalf of the American Insurance Association, noted that the last time Congress undertook meaningful reform was over 60 years ago through the McCarran-Ferguson Act.

“No other segment of our economy has gone that long without being modernized,” he said.

The state regulatory system as it stands, he said, inhibits innovation and limits competition.

That sentiment was echoed by Albert Counselman, chairman of Baltimore-based Riggs, Counselman, Michaels and Downes, who appeared on behalf of the Council of Insurance Agents and Brokers.

“Our clients are doing business nationwide and internationally,” he said. “Therefore, that’s how we’re doing business.” Unfortunately, he added, the current regulatory system has not kept pace with the growth of the insurance industry. “We just can’t move fast enough anymore,” he said.

Alex Soto, president of Miami-based InSource and past president of the Independent Insurance Agents and Brokers of America, noted that independent agents would still be caught between multiple systems if an OFC were established, noting that such a system would place an additional strain on independent agents who will have to “navigate” both the state and federal level.

“I could have a single client with several policies with one company regulated at the federal level, while at the same time having several other policies which are regulated at the state level,” he said.

“As an agent representing clients with policies regulated at the federal and state level, though, I would be forced to understand both regulatory systems and deal with the federal government, even if I wanted to remain licensed only in my home state,” Mr. Soto added.

Rather than approving OFC, he called on federal lawmakers to use their powers to help state authorities put more effort behind their reform efforts.

John Bykowski, president and CEO of Appleton, Wis.-based SECURA Insurance and chairman of the National Association of Mutual Insurance Companies, sought to counter the idea that an OFC proposal could be based on the banking system.

“Unlike banking and life insurance, property-casualty insurance is subject to local risk factors, such as weather conditions, tort law, medical costs and building codes,” Mr. Bykowski said. “State insurance regulation is able to take account of these differences in ways that federal regulation would not.”

“It’s clear that federal regulation has proven no better than state regulation at addressing market failures or protecting consumer interests,” he said. “Moreover, unlike state regulatory failures, federal regulatory mistakes could have disastrous economywide consequences. The savings and loan debacle is an example of what can happen,” said Mr. Bykowski.