

AIG failure doesn't justify federal charter for insurers

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Some industry proponents of an optional federal charter (OFC) for insurance have used the failure of AIG as an argument for their misguided proposal. This proposal is inherently dangerous to American consumers.

Are we to believe that a company such as AIG being able to choose how it is regulated through an "optional" federal charter would have prevented this situation? Are we to believe that pitting one regulator against another in a contest to be chosen by the regulated company would do anything but lead to a race to the bottom and lessen consumer protections?

While the failure of AIG is indeed a huge shock to the financial services industry, state insurance regulation and AIG's insurance subsidiaries bear no responsibility for its collapse. Instead, AIG's problems are related to its involvement in and pervasive use of credit default swaps. AIG's core insurance business isn't to blame for its problems, and the failure of the company shouldn't be used as an excuse for wholesale revamping of insurance regulation. In fact, AIG's state-regulated insurance entities are stable, profitable and paying all claims.

State insurance regulators actively monitor the U.S. insurance entities for potential financial trouble and have many different tools to help insurers navigate adverse market developments. In addition, the state system utilizes a very effective safety net, the state guaranty fund mechanism, to protect consumers in the rare case of insurer insolvency. The health of AIG's state-regulated insurance businesses proves the effectiveness of state regulation, particularly in this area of solvency.

While state regulation isn't without its problems and needs targeted reform, these problems do not include the areas of financial oversight, solvency or consumer protection. If anything, the failure of AIG highlights the strengths of state insurance regulation and should mute, not amplify, the call for deregulation via OFC.

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