

Federal regulation of insurance would be harmful

By: [Jim Hodges](#)

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I would like to offer a different perspective regarding federal insurance regulation than that offered by Peter Tedone of the American Council of Life Insurers in his recent opinion article, "Small Insurance Firms Favor Federal Charter."

It's a perspective I have earned from more than 20 years in government — including four years as governor of South Carolina. In that job, I found myself dealing with consumer issues on a daily basis for more than 4 million constituents. And I frequently found myself running interference for average citizens and business people frustrated by the slow and remote response of federal agencies to their problems.

That brings me to a proposal pushed primarily by the ACLI and large insurers to create a new federal bureaucracy to regulate insurance companies and products through an optional federal charter. The truth is that federal regulation of insurance is not only unnecessary, but it also would be harmful to everyone concerned — consumers, insurers and the federal government.

First of all, the "optional" aspect of this proposal is a mirage. Companies that choose state regulation will soon find Congress and federal regulators pre-empting the states on important issues. Sometimes this will be driven by federal authorities seeking to extend their regulatory reach; sometimes it will be driven by federally regulated competitors seeking to "level the playing field." The net result will be strong federal control and limited state sovereignty.

American consumers are very opposed to the idea of creating a new federal bureaucracy to regulate insurance. Surveys consistently show a strong desire to retain control at the state level, as well as outright hostility to this proposal. People look at the Hurricane Katrina debacle, the mortgage crisis and poor airline service, and they have strong doubts about whether a new federal bureaucracy is the answer.

State insurance regulators and local state legislators deal with myriad consumer concerns and complaints on a daily basis. They understand the unique nature of their respective insurance markets and serve as invaluable intermediaries between consumers and companies. The thought that regional federal offices would now step into that role should be frightening for everyone involved. Can anyone honestly say that such a system will be responsive and satisfying to the American public? If so, I would suggest a call to the regional Social Security office for a quick question-and-answer session.

I would also like to debunk any perceived notion that small companies are excited about federal regulation. The truth is that small companies see federal regulation as one giant leap to the graveyard. Federal regulation will certainly increase the cost of doing business, which will cause even greater concentration in the insurance market. Ultimately, that type

of market concentration will result in increased prices and poorer service for consumers.

I understand that many large insurance companies are frustrated with the pace of regulatory reform at the state level. While I have been pleased with efforts to speed market reform like the Interstate Compact, the truth is that we do need quicker action — particularly from the larger states. But this frustration is best addressed at the state level. One bad federal regulator can do far greater damage to insurers and consumers than one misguided state regulator.

A final point. Who do you think will provide the manpower to govern this large new federal insurance agency? Why, the very people now running large state agencies! The federal government has no experience in this business, so it will turn to states like New York, California, Texas and Florida for manpower and expertise. So we won't actually have new regulators or ideas — the current group will simply be changing jerseys. That's hardly insurance reform.

I hope I have provided a clear view of why small companies fear federal regulation and why it's not good for anyone involved. Federal regulation is not insurance Oz. We must roll up our sleeves and work with state regulators if we want the industry to improve insurance regulation. And we must remember that this is about what is best for the customers we serve.

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