

Federal Charter Debated In Washington Forum

BY MATT BRADY

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Momentum for an optional federal charter for insurers is building on Capitol Hill and in the White House, according to one of the bill's House sponsors.

Rep. Ed Royce, R-Calif., said the OFC concept is "gaining a lot of momentum."

Speaking at the Networks Financial Institute Reform Summit here Wednesday, Royce said Treasury Secretary Henry Paulson has expressed "very positive sentiments" on a potential OFC in comments to the Senate Banking committee.

Royce also expects the OFC to be included in the report the Treasury is expected to make on its recommendations for reforming the financial regulatory systems. "From what I've heard, this is going to be a part of that report," he said.

Royce noted that insurance is alone among financial markets in that many of its primary regulators earned their position through the ballot rather than through expertise and experience.

"I don't think there's anyone who thinks it's a good idea" if the same concept were applied to other regulatory agencies such as the Securities and Exchange Commission or the Federal Reserve, he said.

In addition, he contrasted the positions of the SEC and the Federal Reserve with that of the insurance industry in international policy. When the U.S. is involved in trade discussions, representatives for the Fed, the SEC and the Office of the Comptroller of the Currency all play a role, while the National Association of Insurance Commissioners does not.

"They are not a part of that process, and it's a problem," he said.

Also speaking at the event was Illinois Insurance Director Michael McRaith.

He acknowledged that work remains to be done by the states but disputed the notion that consumers would be better served under a federal regulatory scheme.

"We need to look at the consequences" of federal regulation, he said. "And I don't think you need to look very far."

McRaith noted that federal regulators failed to stop ongoing problems such as the credit crunch.

McRaith also noted that the creation of a federal insurance regulator would be the broadest expansion of the federal government since the New Deal in the 1930s.

Even simply staffing the agency would require enormous resources, unless the government is willing to accept less stringent regulation, he said. "Are you going to assume consumers need less protection?" he asked. "Do you assume that the solvency standards aren't going to be as strictly upheld?"

Representatives of the insurance industry remained split on the OFC issue, although how much of a split exists depended on the speaker.

Kevin McKechnie, executive director of the American Bankers Insurance Association, said with the support of his group, the American Insurance Association, the American Council of Life Insurers and others, "an overwhelming majority of institutions and businesses" are in favor of an OFC.

Although he praised the efforts made by the NAIC, McKechnie said they would never provide the uniformity needed because of the simple reason that the NAIC "doesn't pass laws." It is ironic that the OFC proposal being opposed by the NAIC is largely based on NAIC models, he said. If it were to pass, "it would be the first time an NAIC model law was passed for the whole country," he observed.

McKechnie also sought to defuse the notion that state premium tax receipts were in danger, noting the similarities between the proposed OFC and the banking system and adding that "if the banks had figured out how to get out of paying taxes, we would have done so years ago."

Gregory Wren, executive director of the Coalition Opposed To A Federal Insurance Regulator, argued that while states are concerned about premium taxes, it is not the main reason why the nation's governors and groups such as the National Conference of Insurance Legislators oppose the OFC proposal. Their real concern is to maintain local autonomy, he said.

Wren criticized the notion that a federal regulator would be any faster than the current system and asked "where was the speed of the federal government" in the wake of Hurricane Katrina.

The OFC proposal is "unnecessary" and "attempts to throw a 'Hail Mary' when we're nowhere near the goal line," he said.