NAMIC: Optional Federal Charter Would Hurt Consumers and Insurers

WASHINGTON (May 24, 2007) — The National Association of Mutual Insurance Companies (NAMIC) today announced its strong opposition to *The National Insurance Act of 2007*, which would bring the federal government into the insurance regulatory system. NAMIC contends the bill would hurt consumers and insurers, especially small- and medium-sized carriers that comprise the bulk of the insurance industry.

"In addition to being completely unnecessary, this bill would likely lead to additional bureaucracy for insurers and, ultimately, higher prices for consumers," said Justin Roth, NAMIC's senior federal affairs director.

The bill, introduced by Sens. Tim Johnson, D-S.D., and John E. Sununu, R-N.H., would establish an optional federal charter, allowing insurance companies to choose to be regulated by a newly created federal insurance regulatory authority instead of by state insurance departments pursuant to state law.

Property/casualty insurers have always been regulated by the states in which they do business. Congress recognized the importance of maintaining state regulation over the business of insurance by adopting the McCarran-Ferguson Act in 1945, which cemented states' authority. NAMIC maintains that creating federal regulation would only produce another level of bureaucracy for insurers and their policyholders.

The measure does not have strong support within the insurance industry. "It makes little sense to introduce legislation that would create a system that the vast majority of companies and agents in the property/casualty world strongly oppose," Roth said.

Specifically, NAMIC opposes an OFC for the following reasons:

- Different states are prone to different natural perils — such as hurricanes, tornadoes and earthquakes — and people in states without them should not have to pay for people in states with them. Moreover, the relevant states understand the risks of these perils far better than the federal government.

- Despite proponents' intentions that it would simply create an alternative regulatory scheme, an OFC would most likely result in dual regulation by the federal and state governments, as evidenced by the banking industry. While banks can choose either a federal or state charter, all banks are subject to some regulation by the FDIC. Congress could well decide, in the context of an OFC, to replace the state guaranty funds with a federal insurer similar to FDIC.

- It would likely cause increased costs and bureaucracy, since the federal government would regulate most aspects of the insurance business while the states would regulate guaranty funds. Insurers would, therefore, have to comply with the rules of multiple regulators — even if they opt to remain under state authority.

- Small insurers would be at a distinct disadvantage. Large, federally regulated insurers would be allowed to bypass all state regulations such as price controls, consumer protections and market conduct examinations.

"While we acknowledge that the current regulatory system must be reformed, we think that those reforms can take place at the state level rather then creating an additional layer of federal bureaucracy that the insurance industry and their consumers would have to deal with," Roth said. "In fact, 17 states have adopted regulatory reforms in the last four years. Congress can play a meaningful role in helping to modernize insurance regulation while not adding additional regulation at either the state or federal level."

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