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National Insurance Regulation On The Horizon

The Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises of the House Committee on Financial Services recently held a mark-up session on HR 5840 – the Insurance Information Act of 2008.



"Our bill recognizes the clear direction the marketplace is taking. Since last year, the question has become not whether an optional federal charter should be implemented, but when. Consumers will be the ultimate beneficiaries of this approach, enjoying more choices from companies that compete for their business by introducing new products, innovating in the marketplace, and acting in a way that responds quickly to their needs."

Introduced in the House on April 17, 2008, by the subcommittee chairman, Rep. Paul Kanjorski (D, PA-11) and four co-sponsors, HR 5840 appears to be a very important first step toward bringing national consistency to the state-regulated insurance industry. Although a relatively simple bill, it creates the Office of Insurance Information within the United States Treasury Department. It appears that national insurance regulation is on the horizon.

For example, last year, two of the co-sponsors of HR 5840, Melissa Bean (D, IL-8) and Edward Royce (R, CA-40), also sponsored HR 3200 – the National Insurance Act of 2007 – a bill which would create an Optional Federal Charter for insurers and insurance producers. Much like the dual banking system currently in place, HR 3200 would allow insurers and insurance producers the option of choosing between a state or a federal charter.

A companion version of the bill (S. 40) was introduced in the Senate by Senators John Sununu (R-NH) and Tim Johnson (D-SD). In a May 24, 2007 press release, Sen. Sununu said:

Opponents of the bill, such as the National Association of Professional Insurance Agents (PIA), the National Association of Insurance Commissioners (NAIC), and the National Conference of State Legislatures (NCSL) are committed to state-based insurance regulation arguing that the National Insurance Act would "undermine" important consumer protection measures. (Source: Article, *NAIC Commends NCSL Support of State Regulation*, DailyInsurer.blogspot.com, April 29, 2008; PIA Press Release, *Professional Insurance Agents Say National Insurance Act Would Make Consumer Protection Optional*, July 27, 2007)

WNC Insurance Services supports the creation of an Optional Federal Charter (OFC) under the authority of a National Insurance Office as proposed in HR 3200. An OFC responds to the inefficiencies in the current state regulatory system and would expedite the process by which insurance products can be brought to market. An OFC would also foster the benefits of market driven economics by allowing insurance markets, not state regulators, to establish rate and product design.

For example, in most states property and

casualty insurance products are subject to government price controls that harm consumers and stifle the industry.



The effect is easily seen when comparing Massachusetts, an extremely price controlled state, with Illinois, a free market state. Massachusetts has high auto insurance premium rates and very few auto insurers. By contrast, Illinois enjoys a large number of auto insurers and stable auto insurance premium rates. An OFC would bring free market economics to Massachusetts by providing greater access to its consumers to insurance products available in other states.

Similarly, the lack of uniformity of state regulation will be resolved by an OFC. There are 51 separate jurisdictions in the United States, each with its own set of laws, regulations and insurance departments.

By allowing the option of being regulated by one unified federal agency, insurers, producers, and consumers will be able to realize market efficiencies and cost savings that come from avoiding expensive and duplicative market conduct regulations. Local and regional insurance entities need only comply with one or a few sets of state regulations under a state charter, while national and international entities will enjoy the benefits of a single federal charter and one set of regulations. These are the same benefits enjoyed in our dual banking system today.