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February 12, 2009

The Honorable Timothy Geithner
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Geithner:

As leaders of the National Conference of Insurance Legislators (NCOIL) who enact state insurance public policy, we write—in response to your comments before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on February 10—to advise against pursuing an optional federal charter (OFC) for insurance. An OFC would irreparably damage insurance oversight by promoting regulatory arbitrage and substantially weakening consumer protections. Consumer investments and retirement funds have already been devastated, as you know, by lax federal regulation of certain overly aggressive market actors. State legislators cannot sit idly by as the federal government seeks to implement a similar regulatory structure for insurance.

We were surprised to learn that you stated to the Senate Committee that “I think these proposals to have a federal charter have a lot of merit and we’ll look at them very carefully, and my personal view is that’s likely to be an important part of the plan.” We are optimistic that as you review OFC proposals, you will recognize that allowing insurers to hand-pick their regulator is not in the best interest of all.

State officials, Members of Congress, much of the insurance-buying public, and large segments of the insurance industry strongly oppose the OFC concept because it would weaken consumer protections while providing more distant regulation. And while OFC legislation via a *National Insurance Act* was introduced during the past few Congressional sessions, only four Members—three of which remain in office—agreed to co-sponsor the legislation and neither Chamber has ever approved it.

We feel that the adverse effects of an OFC would outweigh any purported benefits. An OFC would bifurcate insurance regulation and result in confusing and overlapping federal and state directives. By its very nature, a federal insurance office also could not respond—as state regulation does—to states’ individual and unique markets and constituent concerns. Consumers would rather contact their local representative or state insurance department than wait in line on a 1-800 number out of Washington, DC. We believe that an OFC may also compromise state guaranty fund coverage, leaving employers to absorb losses that would otherwise be covered by these safety nets.

OFC proposals would jeopardize state budgets and jobs. State insurance fees, assessments, and premium tax revenue—which total around \$16 billion nationwide—are used to fund state insurance departments and state general funds. General funds, as you know, are used to support key priorities, including healthcare, education, and infrastructure initiatives. Vibrant insurance markets—which states have facilitated across the country—provide millions of jobs that, particularly during this time of economic crisis, must be protected.

The strength of state insurance regulation should be recognized as federal policymakers consider reforming financial services oversight. The States—during our more than 135 years of experience—have

adapted the insurance regulatory system to respond to market and consumer needs and we will continue to improve and modernize. In fact, 26 of the top 50 insurance markets in the world are U.S. States. And do not let deregulation advocates fool you: Failures at AIG had little to do with state regulation and more to do with inadequacies among and between federal regulators.

We are all in this together. Catastrophic failure requires comprehensive reform, and input from all parties should be welcome in this discussion. We would also like to reiterate our willingness—first articulated in a January 6 letter to then-President-Elect Obama—to dialogue with the Administration regarding regulatory reform. NCOIL looks forward to working with you, the Administration, and Congress this year as we modernize financial services regulation.

NCOIL is an organization of state legislators whose main area of public policy concern is insurance legislation and regulation. Many legislators active in NCOIL either chair or are members of the committees responsible for insurance legislation in their respective state houses across the country.

Sincerely,



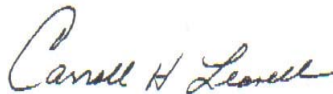
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NCOIL President



Rep. Robert Damron (KY)
NCOIL President-Elect



Rep. George Keiser (ND)
NCOIL Vice President



Sen. Carroll Leavell (NM)
NCOIL Secretary



Sen. Vi Simpson (IN)
NCOIL Treasurer

cc: Sen. Christopher Dodd, Chair, Senate Committee on Banking, Housing, and Urban Affairs
Senate Committee on Banking, Housing, and Urban Affairs
Rep. Barney Frank, Chair, House Committee on Financial Services
House Committee on Financial Services
NCOIL Legislators