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TREASURY CRITICIZES WHILE STATES WORK TO MODERNIZE

Washington, DC, April 3, 2008—Though Treasury Secretary Henry Paulson may not be fiddling while Rome burns, one wonders if in a *Blueprint for a Modernized Financial Regulatory Structure*, released earlier this week, he is not fanning the flames. While ignoring the shortcomings of the current federal system, a system that in no small part led to the current sub-prime debacle, Secretary Paulson in the Blueprint criticizes and minimizes successful state insurance regulatory modernization and proposes the dubious solution of federal control, including that of an optional federal charter (OFC).

“It might serve Congress well to look past the likely ruinous proposals of Secretary Paulson, to the very real problems inherent in federal oversight, rather than to speculate about ‘potential inefficiencies’ in the present state-based system,” noted National Conference of Insurance Legislators (NCOIL) President Representative Brian Patrick Kennedy (RI).

Rep. Kennedy said, “The report draws state insurance regulation—which is constantly developing and responding to its healthy competitive markets to meet business and consumer needs—into the fray along with less regulated and less accountable financial services sectors, such as banks, thrifts, and securities, that are presently managed by the federal government.”

He noted, “The Feds’ most recent subprime fiasco, as well as FEMA’s evidenced shortcomings in Hurricane Katrina, and the 1990s savings and loan crisis do not encourage state legislators to greet federal intervention with open arms.”

The NCOIL President added:

If the goal of the report is to “effectively promote stable and resilient markets and a more competitive financial services industry,” it simply misses its mark by ignoring dynamic state systems that are ever-evolving to serve the insurance market. One such example is an Interstate Insurance Product Regulation Compact (IIPRC) that provides speed-to-market for life insurance products. By using the Compact mechanism, life insurance companies can submit one product filing for approval and offer that product in all member states within a little more than a month.

Rep. Kennedy emphasized that while state legislators and regulators acknowledge the need to respond to an increasingly global market and are working together to do so, it should not be at the detriment to state citizens. He said

The proposed structures to configure a federally regulated insurance system touted by the *Blueprint*, including an OFC with a 1-800 number in Washington—cannot replace over 135 years of experience and expertise developed and implemented at the state level. They cannot provide the consumer protections afforded by state legislators and regulators who are close to constituents both ideologically and geographically. What they will accomplish, however, is to weaken response to consumer complaints and promote regulatory confusion.

On November 20, 2007, NCOIL submitted a letter to Secretary Paulson that outlined benefits of the state-based regulatory system in order to counteract the Treasury’s seeming propensity to promote an OFC. The NCOIL letter stated, “The tried and true state system will continue to evolve as marketplaces change to maintain an insurance environment where consumers receive the highest possible degree of protection, products are accessible and affordable, competition thrives, and companies can bring innovative products to market quickly to meet consumer demands.”

In addition to an OFC, the *Blueprint* calls for an Office of National Insurance (ONI) within Treasury to regulate federally chartered entities, and immediately would establish—through Congress and as an interim step—an Office of Insurance Oversight (OIO) within Treasury to serve as a statutory authority on international issues and to serve as an advisor to the Secretary on insurance policy issues.

The *Blueprint* was announced in June 2007 as a Treasury Department effort to examine and offer recommendations regarding U.S. capital markets in an increasingly global marketplace.

NCOIL is an organization of state legislators whose main area of public policy interest is insurance legislation and regulation. Most legislators active in NCOIL either chair or are members of the committees responsible for insurance legislation in their respective state houses across the country. More information is available at www.ncoil.org.

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