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May 11, 2009

The Honorable Christopher J. Dodd
Chairman
Senate Committee on Banking,
Housing, & Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Richard Shelby
Ranking Member
Senate Committee on Banking,
Housing, & Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Barney Frank
Chairman
House Financial Services Committee
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Spencer Bachus
Ranking Member
House Financial Services Committee
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairmen Dodd and Frank, and Ranking Members Shelby and Bachus:

The National Conference of Insurance Legislators (NCOIL) is an organization of state legislators devoted to sound insurance public policy. We understand that your Committees are exploring ways to address the issue of systemic risk in our financial markets. As you consider solutions to this complex problem, we would like to share our views on the essential components of any plan designed to monitor and control systemic risk. NCOIL believes that any solution should build on the strengths of our existing regulatory structure, should include a central role for state regulators, and should call for enhanced communication and collaboration among all regulators, both state and federal.

Any changes to the current regulatory structure and reforms aimed at controlling systemic risk should be built on our existing regulatory framework. The key to addressing systemic risk is enhanced communication and coordination among the existing state and federal regulators that oversee our financial markets. Any proposal should involve state regulatory authorities and other functional regulators, and should formalize coordination between these entities. Insurance regulators are familiar with this collaborative approach, as they already meet formally to share information and discuss regulatory issues and concerns. This concept should be expanded to encompass state and federal regulators in other financial sectors.

There need not be a super or “uber” regulator, but an entity to capture and coordinate data, which is vital to understanding and managing systemic risk. This entity should itself have no regulatory authority but should serve the principal purpose of coordinating the collection of information from the group of collaborating regulators in order to determine the accumulation of risk and identify problems that may cause future systemic risk. The entity’s powers should be limited to collecting, analyzing, and disseminating data, and issuing recommendations to regulators who would then take appropriate action. This approach avoids the dangers associated with consolidating power in any one agency or entity, such as regulatory capture, bias in favor of one particular financial sector or perspective, and inadvertent ‘loopholes’ or unintended consequences.

Any such structure should preserve state regulatory authority, place all regulators on an even footing, and hold them accountable. State insurance regulators obviously must play a central role in this framework, as they oversee the solvency of the insurance industry and gather enormous

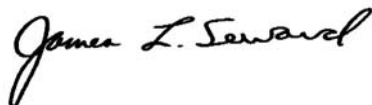
amounts of data that are critical to assessing the accumulation of systemic risk. More generally, the value of state regulation must be recognized in the reform process. It is frankly difficult to trace our current financial crisis to lapses in state regulation. Indeed, some of the problems our markets now face might have been mitigated had the states' consumer protection authority not been curtailed or preempted in certain areas. In short, the new horizontal structure should equally respect the expertise and contributions of the various financial services regulators, both state and federal.

Any change in structure cannot come at the expense of ongoing state modernization efforts, such as the Interstate Insurance Product Regulation Compact (IIPRC). The IIPRC provides speed-to-market for life insurance products and now comprises 35 jurisdictions, and growing. States also continue to make strides in targeted modernization reforms and are achieving efficiencies in agent and company licensing, and market conduct and suitability oversight.

Transparency is paramount to the success of such a system, as regulators, as well as the regulated, must be willing to shed their protectionist natures and share data across jurisdictions. It has become clear that in order to see the big picture in financial services, regulators need to access and disseminate a broad spectrum of financial information.

NCOIL is committed to working with Congress to address the problem of systemic risk in our financial markets by enhancing communication and coordination between regulatory entities. NCOIL is opposed to any proposed overhaul that fails to recognize and take full advantage of the enormous contribution that state regulators make in the area of insurance regulation and financial services generally—especially at a time when state consumer protections are more important than ever. NCOIL recognizes that reform of financial services is in order, but we firmly believe that reform based on state successes is the avenue to choose.

Sincerely,



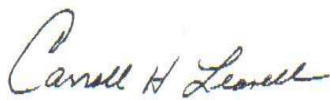
Sen. James Seward (NY)
NCOIL President



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: U.S. Senate Committee on Banking, Housing, & Urban Affairs
U.S. House Committee on Financial Services
NCOIL Legislators