

by NAMIC

WASHINGTON - Property/casualty insurance consumers would be best served by reforming the current state-based regulatory system rather than a new federal bureaucracy, according to the National Association of Mutual Insurance Companies (NAMIC). In testimony before a congressional subcommittee hearing today, NAMIC Board Chairman John A. Bykowski, president and CEO of Appleton, Wis.-based SECURA Insurance, said it would be a mistake to impose further federal authority over the property/casualty insurance industry.

The House Financial Services Committee's Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises held the hearing, The Need for Insurance Regulatory Reform, to examine criticism of the current regulatory system.

"Unlike banking and life insurance, property/casualty insurance is subject to local risk factors, such as weather conditions, tort law, medical costs, and building codes," Bykowski testified. "State insurance regulation is able to take account of these differences in ways that federal regulation would not."

Bykowski agreed with the need to reform the state-based regulatory system. "Many states have made progress in recent years toward adopting needed reforms," he said. "They have softened company licensing restrictions, for example, and, in some cases, they have moved away from strict rate regulation."

Federal regulation could take any number of forms. One proposal before Congress, H.R. 3200, would impose an optional federal charter to ostensibly allow insurance companies to choose to be regulated by either the state or federal government.

"NAMIC believes the choice offered by H.R. 3200 will prove to be illusory," Bykowski testified. "The cost to a company of adopting a federal charter is likely to be quite high, and switching back to a state charter could be even more expensive," leaving thousands of small- to medium-sized insurers trapped in whatever system they initially choose because changing to the other system would be cost prohibitive.

The negative outcomes of an optional federal charter would far outweigh any potential benefits and would likely hurt consumers and markets, Bykowski told the panel. "It's clear that federal regulation has proven no better than state regulation at addressing market failures or protecting consumer interests," he said.

"Moreover, unlike state regulatory failures, federal regulatory mistakes could have disastrous economy-wide consequences. The savings and loan debacle is an example of what can happen."

"NAMIC believes that while the states have not acted as rapidly or as thoroughly to modernize insurance regulation as necessary, we are encouraged that they have picked up the pace of reform and are headed in the right direction," Bykowski told the subcommittee. "Given this recent progress and the risks associated with creating an entirely new federal regulatory structure, NAMIC is convinced that reform at the state level is the best and safest course for consumers and insurers alike."

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