Senate Committee on Banking, Housing and Urban Affairs
"The State of the Insurance Industry: Examining the Current Regulatory and Oversight Structure"
July 29, 2008

Senator Tim Johnson
Statement for the Record

Chairman Dodd, Ranking Member Shelby, thank you very much for holding today's hearing on " The State of the Insurance Industry: Examining the Current Regulatory and Oversight Structure ."

For most of the 110th Congress, the Senate Banking Committee has been busy addressing the Housing crisis; a crisis that has harmed the American consumer, rattled the fundamentals our financial markets, and has affected all sectors of the economy. Out of this housing crisis has come the obvious need to examine the overall regulatory structure overseeing financial services; an examination, I believe, will take front row in the coming months and years. I do not believe insurance should be left out of this discussion—as a financial service, as an important player in our capital markets, and as an important piece of the international economy.

In 2006, Senator John Sununu (R-NH) and I began a bipartisan discussion about the need to modernize the insurance regulatory structure with the introduction of our National Insurance Act to create an optional federal charter structure. In 2006, the Banking Committee held two hearings on insurance regulation reform and modernization, and I greatly appreciate the continuation of that conversation with today's hearing.

I continue to believe that the current state of insurance regulation and oversight is not well; that the current system negatively affects competition and efficiency in the U.S. insurance marketplace, and more important, that the current system is not benefiting nor fully protecting the consumer.

I am also troubled that little has changed in way of our nation's insurance regulatory structure over the past few years, despite mounting criticisms, and now, perhaps somewhat unexpectedly, new criticism from international insurance market players and regulators who do not want to, and cannot, deal with the United States' regulatory structure.

There are a variety of good reasons, including choice, stability, consumer protection, and efficiency, that I support the creation of an optional federal charter for insurance. But this isn't just about making the industry more efficient or benefiting the insurance companies; the lack of a central insurance regulator affects matters of importance to our economy. There is no federal department for insurance to monitor economic and risk trends in financial markets. There is no national regulator to coordinate federal financial regulatory policy; and no one to represent national insurance interests in international forums and at international trade negotiations. There is also no federal insurance regulator to serve as a source of federal competency to understand and respond to international regulatory and market developments.

Can anyone even imagine what the reaction to the Housing crisis would have looked like if there were no federal regulators and actions were taken to stem the crisis on a state-by-state basis? Can you imagine if there was no Federal Reserve to help coordinate the purchase of Bear Stearns by JPMorgan Chase? No flexibility for the Federal Reserve to open the discount window to primary dealers across the nation? No

Treasury to coordinate efforts for loan modifications by the regulated institutions? We should not wait until an insurance sector crisis to realize the need for federal risk management.

In addition, an Optional Federal Charter and a federal insurance regulator would make it possible to address a number of other national insurance issues on a uniform, national basis including: reinsurance; surplus lines; consumer protection; travel underwriting, and many other issues. Having life insurance regulated by the federal government would also allow a national strategy to deal with the retirement security crisis we face as baby boomers retire. It is imperative that the U.S. have a federal insurance regulator with the expertise to help inform Congress when issues like these arise, and after the last year's financial sector's struggles, I feel even more strongly that the absence of a federal regulator for insurance is increasingly risky.

While I believe the best solution is the creation of an optional federal charter and, therefore, a federal insurance regulator, the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises recently passed a bill to establish an Office of Insurance Information in the Department of Treasury. While this legislation would not create an optional federal insurance regulatory system, it would establish federal policy on international insurance matters and ensure that state insurance laws are consistent with agreements between the United States and a foreign government or regulatory entity; and advise the Secretary on major domestic and international insurance policy issues. I applaud this effort as something that is vitally needed. That said, the issue of insurance regulation is really an issue of a fundamentally out-of- date system of state regulation that no longer serves the needs of all consumers, companies and agents. Any efforts to reform this system should be done in a comprehensive manner.

I look forward to continuing to work with my colleagues on the Banking Committee to reform and modernize our insurance regulatory system.