

FIO Grilled by Congress on Modernization Report

Last week the House Financial Services Committee's subcommittee on Housing & Insurance quizzed Federal Insurance Office (FIO) Director Michael McRaith about his one-year late report ***How to Modernize and Improve the System of Insurance Regulation in the United States***.



Michael McRaith

Members of the committee asked McRaith about his vision for the FIO and its future impact on insurance. In the second part of the hearing, three insurance groups — including the Property Casualty Insurers Association of America (PCI) and the American Insurance Association (AIA) — testified.

McRaith appeared with Connecticut Insurance Commissioner Tom Leonardi who has been critical of the FIO's leaving state insurance regulators out of discussions with Europe over insurance regulation.

During the testimony Leonardi criticized McRaith and the FIO report as being more broad than it should have been under the congressional mandate. He — like others in the industry including the PIA — called the report “overreach.”

Some members of the committee were critical of McRaith being a year late with the report. “If we’re asking for reports from FIO, we expect to get them and get them on time,” is one comment.

McRaith said he regretted being late.

Bob Restrepo is president and CEO of the State Auto Insurance Companies. He's also the chairman of the board of the PCI. He took on the FIO report and said its conclusions were not correct.

“We would fundamentally disagree with FIO's conclusion that the need for uniformity and the realities of globally active, diversified financial firms compel the conclusion that federal involvement of some kind in insurance regulation is necessary or that a hybrid federal-state approach would be preferable,” Restrepo said.

He suggested the committee get a better understanding of good regulation and good regulators, and then move on to how to improve the current system. These were his suggestions and are areas of agreement with the FIO:

- PCI agrees with the FIO's analysis on rate regulation and suggest promoting the model laws, for example, those of the National Conference of Insurance Legislators, to eliminate prior approval rate requirements.

- Better market conduct examination and coordination. Although the states have made some improvements in market conduct, PCI agrees with FIO that more progress is needed.
- Commercial lines regulation, especially product approval, should be modernized.



Bob Restrepo

J. Stephen Zielezienski of the AIA told the committee that the insurance regulatory system ought to be focused on core functions like financial solvency and market conduct regulation. Pricing and policy decisions should filter down to the private marketplace.

“AIA has consistently held that the regulatory system — domestically and internationally — should support the growth of competitive, private markets. Advancing private market competition empowers consumers and provides them with purchasing options, which in turn enhances affordability and availability,” Zielezienski said.

The AIA does — however — support regulatory uniformity. “Efforts to identify rate-related regulatory practices that promote more competitive markets for personal lines insurance will also be beneficial. However, any movement toward proposing binding risk classification standards would be counterproductive. In addition, AIA concurs that commercial lines insurance regulation should continue to be modernized so that insurers may best meet the needs of their sophisticated commercial customers with new and innovative products.”

The PIA’s insurance regulation perspective. PIA:

- Supports a modernized national system of state-based insurance regulation.
- Supports a Federal Insurance Office that strictly adheres to its congressional mandate that it is not regulator of the business of insurance.
- Opposes preemption by a federal insurance regulator, or federal preemption of state insurance oversight, whether optional or mandatory.

The existing system of insurance regulation is state-based, which provides vital checks and balances to ensure financial stability, safety and soundness, and should therefore be preserved.

The state insurance oversight system has demonstrated far better than others its ability to effectively protect consumers and support a solvent market over many decades.

Congress does not need to make radical reforms to insurance oversight as it considers reforms to other parts of the financial services industry. PIA supports insurance regulatory modernization efforts through the use of state-based tools. An example is expanded use of an all-jurisdiction compact structure, an approach that would be more

successful than either an Optional Federal Charter or full federal oversight in encouraging soundness and stability, and avoiding marketplace disruptions.

PIA opposes proposals calling for a federal insurance regulator (whether optional or not), or any system that displaces or interferes with the state insurance law and its state based regulatory system for insurance. Such large-scale federal changes would adversely affect the soundness of insurance markets, restrict the availability of insurance products and undermine successful consumer protections — requirements that are currently either greatly impaired or absent under the federal oversight of the other financial services sectors.

While concerned by its creation, PIA can be supportive of the Federal Insurance Office (FIO) as long as it adheres to the mandate set for it by Congress that specifies it is not a regulator of the business of insurance. This is a role that the FIO correctly notes has been reserved for the states. PIA believes, however, that the FIO can play an immediate, constructive role in helping the states significantly improve the existing insurance regulatory system by working cooperatively with state regulators and legislators in a complementary fashion.

Additionally, PIA believes the FIO can play a positive role in helping states meet their uniformity and reciprocity goals. The FIO can promote adherence to model laws and regulations and help states make positive changes in their current practices.

Any federal regulatory creep would generate an additional burden on the industry, creating a duplicative regulatory environment and would be opposed by PIA.