Thank you, Mr. Chairman:

The banking industry is keenly interested in the regulation of insurance because it is actively engaged in that business. In 2001, 1900 banking organizations were in the insurance business and ABIA’s member banks sold more than $50 billion in premium volume. Our experience with the state regulatory labyrinth has led us to conclude that it is not suitable for all insurers and producers, especially those operating in multiple states or using the Internet to reach consumers. An alternative is urgently needed.
These hearings show that many others share our frustrations with:

- the lack of uniformity among state laws;
- the failure of the existing system to allow products into the market on a timely basis;
- the continued existence of multiple agent licensing and continuing education requirements; and,
- the competitive disadvantage insurers face relative to banks, securities firms and mutual funds in the delivery of like financial products.

And, these shortcomings remain despite federal pressure on the state system to modernize.

We believe that the solution to this problem is to give insurers and producers a choice between Federal and state regulation. Federal regulation would be an option, not a replacement for state regulation. This system has worked well in banking for 140 years. We believe it would work well for insurance.
Dual chartering has actually strengthened the state banking system. Over 70% of banks are state chartered and it is the charter of choice for new banks. Why? Choice has kept banking vibrant, innovative and diverse. The alternative regulatory environments serve as laboratories for change that have led to the development of products that are now commonplace - all to the benefit of consumers.

Choice has also promoted better, more efficient, supervision.

Any solution must also rely on market-based competition, rather than price controls, for establishing rates for insurance products. It is ironic that we avoid price controls on food, clothing and shelter – commodities more necessary to human survival than insurance. Yet, rate regulation persists-all to the detriment of consumers.
Last year, Illinois State Representative Terry Parke, then President of NCOIL, testified before this Committee that, because his state eliminated rate regulation for auto insurance, such insurance is readily available to consumers, and at a lower cost than in other states. He also noted that Illinois has more than double the number of competing insurers than either Massachusetts or New Jersey, two states whose rigid rate controls have led to the highest average auto rates in the nation.

For these reasons, our optional federal charter proposal does not permit regulation of rates or forms. Instead, we would protect consumers through strong solvency and market conduct standards and the application of anti-trust laws. Our proposal includes risk-based capital standards, investment standards, and dividend restrictions. Federally chartered insurers and producers would also have to adhere to vigorous market conduct standards preventing unfair competition and deceptive acts and practices.
Regular reporting, examination of federal insurers and producers and strong enforcement authority would be part of the federal regime. The combination of strong solvency and market conduct standards, backed by examinations and potential enforcement actions, would ensure that federal insurers and producers operate for the benefit of policyholders and that consumers are protected.

Now, let me broaden the perspective and speak for the insurance, banking and securities interests that together make up the FSCC.

In my thirty years in the insurance business, I’ve never encountered an issue this significant where there is such agreement. Here, these industries are approaching Congress shoulder-to-shoulder with a single message:

- We agree on the nature of the problems confronting the current system;
- We agree on principles for addressing those problems; and
- We agree on the details of a legislative solution.
This consensus reaches beyond the FSCC. The Financial Services Roundtable, the Council of Insurance Agents and Brokers, the Financial Services Forum – all are in support of an optional federal charter.

In large measure we credit this consensus to your efforts Mr. Chairman, and to the efforts of Chairman Oxley, for moving in a deliberate fashion to investigate the workings of the state regulatory system. We are grateful for your interest and believe these investigations have favored support for a comprehensive, rather than an incremental, approach to regulatory reform.

The scope of the problem is simply too great, and the need to act too strong, for incremental measures to succeed.

Mr. Chairman, there is a rare convergence of interest here, and a broad consensus for a very specific course of action. On behalf of the ABIA and the FSCC, I urge you to move forward with an optional federal charter for the insurance industry. The members and staff of the ABIA and the FSCC stand ready to assist in that endeavor.