STATEMENT BEFORE THE U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS HEARING ON THE STATE OF THE INSURANCE INDUSTRY AND INSURANCE REGULATION. April 28, 2015

Founded in 1931, the National Association of Professional Insurance Agents (PIA) is a national trade association that represents independent insurance agencies and their employees who sell and service all kinds of insurance, but specialize in coverage of automobiles, homes and businesses. PIA represents independent insurance agents in all 50 states, Puerto Rico, and the District of Columbia. They operate cutting-edge agencies and treat their customers like neighbors, providing personal support and service. PIA members are *Local Agents Serving Main Street America*^{SM}.

Background

By any objective measure, the U.S. insurance industry is an overwhelming success. Insurance is a broad-based risk management tool that provides for protection against loss throughout the economy. The insurance industry provides the economic stability and certainty that our entire economy needs in order to function well.

The U.S. insurance industry contributes heavily to the economy. For example, the U.S. insurance industry's net premiums written totaled $1 trillion in 2013, with premiums recorded by life/health (L/H) insurers accounting for 54 percent and premiums by property/casualty (P/C) insurers accounting for 46 percent, according to SNL Financial.[1] Insurance carriers and related activities accounted for $413.1 billion or 2.5 percent of U.S. gross domestic product (GDP) in 2012, according to the U.S. Bureau of Economic Analysis.[2] Cash and invested assets of insurance companies totaled $5 trillion in 2013, according to SNL Financial.[3]

The insurance industry is a major employer, with 2.4 million people employed in 2013, according to the U.S. Department of Labor.[4] Of those, 1.4 million worked for insurance companies and the remaining 943,200 people worked for insurance agencies, brokers and other insurance-related enterprises.[5] The U.S. insurance industry is also a major taxpayer, paying $17.4 billion in premium taxes in 2013, or $55 for every person living in the United States, according to the U.S. Department of Commerce.[6]

[1] 2015 Insurance Fact Book, Insurance Information Institute, page v;
ISBN 978-0-932387-72-1

[2] Ibid.
[3] Ibid.
[4] Ibid.
[5] Ibid.
[6] Ibid.

While the state of the insurance industry is strong, there are also challenges and issues that need to be addressed. While perhaps not contemplated at the time, the 2010 passage of the Dodd-Frank Financial Reform Act has had a profound impact on insurance regulation. Under the Dodd-Frank Act, the Financial Stability Oversight Council (FSOC) has the power to designate "systemically important financial institutions" (SIFIs). PIA has ongoing concerns regarding the level of transparency in the FSOC decision-making process and supports the important role that state-based insurance regulation plays in maintaining competitive markets and protecting consumers.

The Dodd-Frank Act also created the Federal Insurance Office (FIO), which stipulates that the FIO is not an insurance regulator. PIA agrees with this prudent restriction and believes that the FIO should have no role concerning insurance regulation.

Developments in the international insurance arena mean that U.S. negotiators must ensure the interests of the U.S. insurance industry and policyholders are of utmost importance during negotiations. Transparency and engagement with insurance stakeholders during negotiations is a vital aspect of ensuring the successful U.S. insurance industry is not adversely impacted by international agreements. It is also of great urgency that two key pieces of legislation recently signed into law—the Insurance Capital Standards Clarification Act and the National Association of Registered Agents and Brokers (NARAB)—are implemented both correctly and in a timely manner.

State-based Regulatory System

For over 150 years, the state-based system of insurance regulation has worked, successfully protecting consumers and creating a competitive and diverse U.S. insurance market. In fact, a report issued by the Government Accountability Office (GAO) in June 2013 found the state-based system of insurance regulation helped to mitigate the negative effects of the 2007-2009 financial crisis on the insurance industry.

PIA opposes any federal or international effort that would undermine the state-based system of insurance regulation, such as adopting a one-size-fits-all approach to global insurance regulation. Instead of wide-ranging national and global dictates, PIA supports coordination and cooperation between state and federal officials, along with international bodies. Cooperation can help improve the existing insurance regulatory system.

Overlapping state, federal, and international regulations would generate an additional burden on the industry, raising consumer costs with no coordinating increase in consumer protections. Recent research by Sonecon and the American Enterprise Institute found that international efforts to increase capital standards on property and casualty insurance companies are not only unnecessary, but could raise homeowners' insurance premiums by as much as 8%.

PIA supports the use of state-based tools, such as interstate compacts and model laws, which can be tailored to account for variations in the local environments in which insurance groups operate. State-based tools are a better option to protect consumers, support a dynamic local and national marketplace, and avoid market disruption than general and overarching federal or international standards.

Protecting State Insurance Regulation

PIA supports a modernized state-based insurance system and opposes any federal regulation or international standards that would destabilize or supplant state-based regulations.

While states set insurance policy and regulate insurance in the U.S., developments at the international level heavily influence state laws and regulations. Actions by certain federal and international bodies have raised alarm that the state-based insurance regulatory system may be needlessly eroded in the face of new global challenges. It is essential that federal regulation does not intrude upon the current state system. To this end, PIA has endorsed S. 798, the Policyholder Protection Act, which would better empower state insurance regulators to protect policyholders in their state by ensuring that insurance companies structured under larger financial firms are not held financially responsible for an affiliated bank's failure or financial crisis. Furthermore, S. 798 ensures that state regulators, and not the FDIC, have the power to appropriately manage a troubled insurer for the best interest of policyholders.

Transparency

The built in checks and balances of the state-based regulatory system ensure transparency and accountability. PIA believes the same standards should apply to federal offices and commissions, such as the FIO; FSOC; and international organizations, such as the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS). PIA opposes any federal or international actions that give rise to the appearance of impropriety or seek to limit input in the deliberative process. PIA supports efforts to increase transparency and cooperation, and to ensure that state insurance regulation is afforded appropriate deference in any federal or international decision-making process.

On Capitol Hill, PIA supported Congressional resolutions calling on the IAIS to conduct its business in an open and transparent manner. In addition, PIA supports legislation that would require consultation with Congress, the insurance industry, and consumers with respect to domestic and international insurance standards, negotiations, regulations, or frameworks. International negotiations can have serious consequences for the domestic insurance industry, as well as its consumers, and should be handled in a transparent manner, which should include the opportunity for public comments to be made on proposed agreements.

Capital Standards

The business of insurance is unique and insurance companies must tailor their investments to meet the risk profile of the business they write. Insurance companies must be regulated using insurance standards, not bank-centric standards. While banks and other financial institutions profit by actively seeking out risk, insurance companies profit by insuring <u>against</u> risk. Therefore, it is not prudent to attempt to apply bank-centric standards to insurance entities, as they are completely different.

State insurance regulators have been enforcing capital requirements for some time, and consumers have benefited from this. Unfortunately, actions by the federal government have not acknowledged this and there has been movement to supervise insurance companies using bank-centric standards. To that end, PIA supported the passage in December 2014 of the Insurance Capital Standards Clarification Act (P.L. 113-279). PIA appreciates Congress' bipartisan action to ensure that insurance companies can be regulated based on their unique risk profiles. The Act clarifies that the Federal Reserve Board can apply insurance-based capital standards—rather than bank-centric rules—to the insurance portion of any insurance holding company it oversees. With the passage of P.L. 113-279, the Federal Reserve should focus on proposing proper standards for insurance companies that are now under its supervision.

National Association of Registered Agents and Brokers

In early January, Congress passed legislation creating NARAB. The purpose of NARAB is to provide a mechanism through which non-resident producer licensing requirements may be adopted and applied on a multi-state basis. An insurance agent who chooses to become a member of NARAB would be authorized to sell, solicit, or negotiate insurance in any state for which he or she pays the licensing fee set by the state for any line or lines of insurance specified in the home state license of the agent. PIA supports NARAB and is working to ensure the association is formed in a timely and appropriate manner. Currently, PIA is working with the administration on appointments for the NARAB board of directors, which will consist of eight state insurance commissioners and five insurance industry representatives. The Senate will have to confirm any board nominations. PIA thanks Congress for their efforts to pass legislation to create NARAB and their continued efforts to ensure that NARAB is a success.

Conclusion

PIA believes that the proper place for the regulation of insurance is at the state level, which has served the insurance industry and consumers well for over one hundred years. Any attempt to move toward the federal regulation of insurance is inappropriate and would negatively impact policyholders. In addition, as federal entities negotiate on behalf of the United States at the international level it is essential that the industry, including agents, have the opportunity to comment on agreements before they are finalized. It is also imperative that NARAB be formed in a timely and appropriate manner, and the Insurance Capital Standards Clarification Act be implemented as soon as possible. PIA looks forward to continuing our engagement with Congress on these important issues in the months ahead and thanks the committee for holding this hearing today.