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STATEMENT BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON
FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND INSURANCE HEARING ON
THE FEDERAL GOVERNMENT'S ROLE IN THE INSURANCE INDUSTRY

October 24, 2017

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 AmericaSM*.

Introduction

PIA appreciates the subcommittee holding this hearing and thanks Chairman Sean Duffy for his leadership on insurance issues. PIA also appreciates the subcommittee providing this opportunity to address some of the threats to state insurance regulation.

PIA does not believe the federal regulatory system should have a role in the insurance industry, given the success of our state system of insurance regulation that has protected consumers and created a competitive and diverse U.S. insurance market for over 150 years. The creation of certain offices in the past has threatened state regulation, and we have seen recent attempts by these offices to increase their power.

Insurance is fortunate to have in place a local supervisory system that allows the states, rather than a federal bureaucracy, to ensure fairness for policyholders. This system has prevented major financial disasters; 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 the 2008 financial crisis might otherwise have had on the insurance industry. A federal office dealing with insurance regulation is an unnecessary potential threat to state insurance regulation.

PIA opposes any federal or international effort that would undermine the state-based system of insurance regulation, like creating federal offices that intrude on the work of state insurance regulators or adopting a one-size-fits-all approach to global insurance regulation. Instead of broad national and global requirements, PIA supports coordination and cooperation among state regulators, federal officials, and international bodies. Such cooperation can help improve the existing insurance regulatory system.

Federal Insurance Office

In 2010, advocates of federal insurance regulation succeeded in getting the Federal Insurance Office (FIO) established as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). PIA National opposed the creation of the FIO from the outset. Leaving aside ideology, there has never been a need to create an office like the FIO. PIA's opposition to FIO's creation was somewhat tempered by the fact that the FIO's enabling legislation did not provide it with broad authority to regulate or supervise insurance, and its director was not a political appointee, a condition that would have unnecessarily elevated its profile.

Many of the duties of the FIO are examples of federal overreach in the context of our current system of state insurance regulation. Like most Federal offices, once created, it sought to consolidate its power. This happened even though the FIO should not have been formed in the first place. Over the last seven-plus years of its existence, the FIO has called for federal regulation of mortgage insurance; for its inclusion in supervisory colleges with state regulators; and for uniform national standards for state guaranty associations. It also issued a report on consumer protections that was far beyond the scope of its authority. Every one of these acts was an overreach, all well outside its mandate.

The FIO also rejected the expertise of the insurance industry by concurring with Systemically Important Financial Institutions (SIFI) designations (which have since been questioned) for nonbank insurance institutions under Dodd-Frank. Additionally, the FIO took part in creating a harmful deal with the European Union on an international covered agreement that could open the door for Europe to impose its standards on U.S. insurance companies.

The role of the FIO in the creation and implementation of the National Association of Registered Agents and Brokers (NARAB) is grossly misunderstood; that misunderstanding is instructive as to how the FIO's existence threatens the state insurance regulatory system. Created in January 2015, 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. Somehow, over the years, the FIO has gradually assumed responsibility for the identification of NARAB board members and administration of the program once it is up and running. This is an explicit abuse of FIO's mandate; NARAB's enabling legislation does not mention FIO in any way. FIO has no right to administer NARAB, but FIO's claim of authority is a classic example of a federal office in continuous search for greater power, even if that search demands that they exceed the confines of their mandate.

In November 2016, PIA became the first association to publicly call for the repeal of the FIO. Over the last year, we have been joined by other stakeholders seeking to dismantle this office.

This spring, PIA expressed strong concerns about a FIO-related provision included in the Financial Creating Hope and Opportunity for Investors, Consumers and Entrepreneurs (CHOICE) Act. The CHOICE Act would have folded the FIO into a newly-created, even more powerful insurance office called the Office of the Independent Insurance Advocate, which would have been granted vast new authority with virtually no accountability. PIA submitted testimony this spring warning of the

unintended consequences of creating the Independent Insurance Advocate's office, and we encourage Congress to reject any effort to include it in future legislation.

PIA has since worked with members of Congress to develop legislation that would reign in and scale back the power of the FIO. As such, PIA supports H.R. 3861, the Federal Insurance Office Reform Act of 2017 (FIO Reform). While PIA National has advocated for and continues to seek the full repeal of this office, we support this legislation, as it will begin to scale back the FIO's authority, particularly on some domestic matters.

Importantly, the bill moves the FIO from an independent realm of the Treasury Department into the Department's Office of International Affairs; this will properly subordinate the office to the Treasury. The office will also be limited to five staff members. Since its creation, FIO has unilaterally sought to gradually expand its authority beyond the mandate of Congress, so these changes are important steps.

The FIO Reform Act also removes FIO's improper assumption of certain duties, like its advisory role to the Financial Stability Oversight Council. Under this bill, FIO will no longer have subpoena power, and its power to issue reports will be somewhat curtailed. FIO will continue to have a role in negotiating international covered agreements, but the bill requires state insurance commissioners to be consulted and involved throughout such negotiations. Consistent state regulatory involvement will provide an important check on FIO's power.

PIA views this legislation as an important stepping stone toward the FIO's disentanglement in the process of designating systemically important financial institutions. In keeping with its move to the International Affairs Office, FIO should not retain authority to monitor either gaps in U.S. insurance regulation or the accessibility and affordability of insurance. Such duties give the FIO the opportunity to expand the scope of its power in the future.

PIA supports efforts to reign in the FIO, but, in the long run, we will continue to seek the office's repeal. PIA agrees with the notion that a unified U.S. voice in international negotiations is good for U.S. policyholders and the domestic insurance market. The U.S. Trade Representative office can negotiate international agreements, and it, combined with the existing robust state insurance regulatory framework, render the FIO as it exists right now unnecessary.

International Agreements

International negotiations can have serious consequences for the domestic insurance industry. While states are the primary regulators of insurance in the United States, developments at the international level can heavily influence laws and regulations at the state level. If global standards are promulgated without appropriate consideration of the unique state-based system of U.S. insurance regulation, they may increase systemic risks and consumer costs by pushing small and midsize companies out of business and reducing competition.

PIA National firmly believes that negotiations and agreements into which the U.S. government enters establishing international insurance standards should be consistent with our state-based system of

insurance regulation, be handled in a transparent manner, and include the opportunity for Congress to intervene to stop their implementation.

A recent example of the impact international negotiations can have on the U.S. insurance industry was when the FIO made a bad deal in reaching the recent covered agreement with the European Union. PIA believes this agreement constituted a solution in search of a problem: whether the U.S. system is equivalent to Europe. It opens the door to allowing Europe to impose its regulatory standards on U.S.-regulated insurance markets. PIA believes that this agreement highlights what we have been saying for some time: state insurance regulators must have a role in negotiating international covered agreements that affect the American insurance industry, and Congress must be able to prevent an agreement from going into effect. Further, U.S. representatives engaged in negotiations should understand that their role is not to undermine the successful U.S. insurance industry during that process.

To this end, PIA supports H.R. 3762, the International Insurance Standards Act of 2017, which would require consultation with Congress, involve state insurance commissioners in the negotiation process, and include a mechanism for Congress to prevent an agreement from being enforced. H.R. 3762 would also prevent negotiators from agreeing to any provisions that are inconsistent with or do not recognize any federal or state regulations, laws, or policies that govern the regulation of insurance in the United States. This legislation will finally offer protection for the U.S. insurance industry as these negotiations take place.

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 affect policyholders.

The power of the FIO should be significantly curtailed, and eventually, the office should be repealed. In addition, as federal entities negotiate on behalf of the United States at the international level, it is essential that insurance regulators be part of the negotiation process and that Congress have the ability to prevent a harmful agreement from being put into effect. 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.