

ACLI pushes for federal insurance charter option

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Hits Inefficiencies in Current State-Based Regulatory System

WASHINGTON, D.C. — For life insurers to stay competitive in the drastically changing financial services marketplace, they need Congress to provide them with a federal chartering option, the American Council of Life Insurers (ACLI) urged the Senate Committee on Commerce, Science & Transportation.

Stephen Rahn, vice president, associate general counsel and director, state relations of Lincoln National Life Insurance Co., testified on behalf of the ACLI before the committee, which is reviewing the adequacy of insurance regulation.

"The life insurance business is a vital component of the U.S. economy, providing a wide array of essential financial and retirement security products and services to all segments of the American public. However, for the insurance business to remain viable and serve the needs of its customers effectively, our system of life insurance regulation must become far more efficient and be brought in line with the needs and circumstances of today's marketplace," Rahn testified.

Life insurers, as providers of investment and retirement security products, find themselves in direct competition with brokerages, mutual funds, and commercial banks. These non-insurance firms have far more efficient systems of regulation, often with a single, principal federal regulator, which translates into real marketplace advantages. In the context of this new competitive environment, insurers' inability to bring new products to market in a timely manner is the most serious shortcoming of the current state-based system of insurance regulation and perhaps the single largest barrier to insurers ability to compete effectively, Rahn said.

"This is not a call for less regulation. It is a call for strong regulation administered efficiently, preserving the paramount importance of effective solvency regulation and appropriate consumer protections," Rahn said.

In September of 1998, the ACLI Board of Directors called for a study of life insurance regulation in order to identify aspects of regulation that are working well and those aspects that are hindering life insurers' ability to compete effectively and in need of improvement.

This study was completed in November of 1999 and revealed widespread dissatisfaction with the current regulatory system.

As a result, the position adopted by ACLI and its membership is to address regulatory reform on two tracks. Under the first track, ACLI says it remains committed to working with the National Association of Insurance Commissioners (NAIC) to improve the state system of regulation. These efforts are focused on three key areas - speed-to-market, producer licensing, and market conduct.

Under the second, the ACLI has developed draft legislation providing for an optional federal charter for life insurers.

"For many life insurers, making regulation more efficient is now an urgent priority," Rahn testified.

"Companies no longer believe they have the luxury of being able to wait for years and years while incremental improvements are debated and slowly implemented on a state-by-state basis."

Rahn concluded by maintaining that Congress should focus its attention on a global, comprehensive alternative to state insurance regulation that meets the needs of today's national and multinational insurers.

He said the best course of action for a regulatory solution for the insurance industry and catalyst for states to improve their regulatory structure is an immediate and concerted effort to put in place an optional federal charter. □