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SEVIGNY: ROYCE-BEAN BILL STRIPS STATES OF CONSUMER-PROTECTION AUTHORITY

Proposed Legislation Would Let 'Fox Guard Henhouse'

WASHINGTON, D.C. (April 2, 2009) — National Association of Insurance Commissioners (NAIC) President and New Hampshire Insurance Commissioner Roger Sevigny today issued the following statement regarding proposed legislation that provides for an optional federal charter for insurers and insurance producers.

“It is unfortunate that this idea keeps getting recycled. Congress has rejected this kind of thinking time and again. This is not a reform bill, it is a deregulation bill — aimed at stripping the states of insurance oversight authority and denying consumers of the time-tested protections that regulatory power provides.

“If passed, this bill would allow nearly any function of the so-called national insurance regulator to be carried out by self-regulatory industry groups, effectively handing the keys of supervision over to those being supervised. Akin to letting the fox guard the henhouse, this bill would essentially dismantle existing state-based consumer protections.

“In light of the current financial turmoil, the American people have called for strengthened regulatory systems — not abdication of control to those who are regulated. Indeed, Secretary Geithner and key Congressional leaders have stated that charter shopping — where the regulated picks its regulator — should be eliminated in financial reform efforts.

“In addition, the bill authorizes the formation of a separate guaranty fund for federally regulated insurers, along with a requirement that federal insurance offices be set up in all 50 states. This concept is redundant to a more comprehensive national system already in place: the existing state-based insurance regulatory regime.

“As a whole, the business of insurance has not posed systemic risk to our nation’s economy — instead providing a source of relative calm in an otherwise turbulent time. State insurance solvency oversight has kept insurance companies stable and protected policyholders from the worst of the financial meltdown, and state regulators continue to provide a local response to



Contacts

Communications Division
(816) 783-8909
news@naic.org

Scott Holeman
Communications
Director

Jeremy Wilkinson
Electronic Communications
Manager

Heidi Cline
Communications
Specialist

Vanessa Sink
Communications
Specialist

Carly Halvorson
Communications
Intern

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consumer issues at no cost to federal taxpayers.

“There are a number of areas of the financial sector that suffer from little or no regulation; insurance is not one of them. Energy and resources should be focused on solving the real problems exposed by our financial crisis, and not focus on the call for deregulation that has already costs Americans billions of dollars.

“While we agree that reforms are needed, we believe that federal and state regulators should work together in a way that continues to protect consumers and promote financial stability. There are areas in which we might need federal assistance, but that assistance should streamline the strong state-based regulatory framework — not supplant it with a new federal bureaucracy.

“To that end, state insurance regulators have outlined for Congress and the Administration a series of principles for systemic risk regulation, as it relates to insurance, that we believe must be incorporated into any system of comprehensive systemic risk supervision.”

NAIC Principles for Systemic Risk Regulation

State insurance regulators recognize that federal action can manage systemic risk within the nation’s financial marketplace. We believe such proposals should incorporate the following principles:

- Consumer access to state-based regulatory officials.
- Formalized state and federal collaboration to regulate financial conglomerates.
- Limited and extraordinary federal financial-stability regulatory authority, exercised in conjunction with functional regulators.

NAIC Principles for Insurance Regulatory Modernization

For 150 years, state insurance regulators have continually improved and strengthened the state-based insurance regulatory system. Fresh reforms must incorporate these principles:

- Uniform standards where appropriate; local or regional where necessary.
- Continued state responsibility for standard-setting and enforcement, as well as managing taxes and fees.
- Equal standing for state insurance regulators with other regulators; formalized collaboration with federal financial-services regulators and full participation in information sharing. Collaboration with international insurance and financial-services regulators on matters

related to the U.S. insurance marketplace.

About the NAIC

Formed in 1871, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC has three offices: Executive Office, Washington, D.C.; Central Office, Kansas City, Mo.; and Securities Valuation Office, New York City. The NAIC serves the needs of consumers and the industry, with an overriding objective of supporting state insurance regulators as they protect consumers and maintain the financial stability of the insurance marketplace. For more information, visit www.naic.org.

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