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INSURANCE COMMISSIONERS FAVOR FEDERAL CAPCITY, NOT FEDERAL REGULATION

Charleston, SC, October 25 — A quartet of insurance regulators recently agreed there is a role for federal backstop funding of catastrophic exposures, but it should not be at the price of turning insurance regulation over to the federal government.

The regulators, who participated as a panel in a question-and-answer forum during the Annual Conference of the Society of Insurance Research, were Commissioner Jane Cline of West Virginia, Commissioner Steven Goldman of New Jersey, Deputy Commissioner Gwen McGriff of South Carolina, and Connecticut's Chief Actuary, John Purple. About 150 of the insurance industry's leading researchers in various disciplines attended the Society's 36th Annual Conference, held this year in Charleston.

The panelists unanimously supported extension of the **Terrorist Reinsurance Act** (TRIA). They expressed confidence that the insurance industry would eventually develop mechanisms to spread the risk through the private market, but felt that the unpredictable frequency and severity of terrorism losses require a federal stopgap meanwhile.

Similarly, the regulators see at least temporary merit in **a federal catastrophe fund**. Individual states may not, at least in the short run, be able to address the availability and affordability issues associated with catastrophe coverage and rating agencies are threatening to lower carriers' ratings due to catastrophe exposures, so there is a need for the capacity relief that can be provided by the federal government.

However, the panelists noted that their states face different levels of danger from specific catastrophe exposures; for example: South Carolina must focus on hurricanes and tornado spin-offs, earthquakes, and floods; West Virginia's main cat exposure is flood; while hurricanes and terrorism are the leading threats for New Jersey and Connecticut. Further, since the federal government does not have control over building ordinances and other local variables, accurate pricing would be a challenge from a federal perspective. There was some sentiment that there is a current need for excess federal support but over the long term the federal role should go away.

A question about the revised **interstate compact for life insurance** provoked lively discussion and some disagreement. Among the states represented on the panel, only West Virginia has adopted the compact, and all agreed that widespread adoption would be more likely if the industry did a better job in educating legislators on its merits. The panelists further agreed that having uniform life insurance products across the country would be desirable for our increasingly mobile society.

But the panelists expressed a variety of concerns, including states rights issues and especially the potential for state governments to lose their legislative prerogatives, if adoption of the compact led to federal regulation of all lines of insurance. All panelists stressed that, although it is supported by some in the insurance industry, federal control would have costs and other adverse consequences that would far outweigh the benefit of easier filing of life insurance forms and rates.

The panel was unanimously opposed to creation of an office of **federal commissioner of insurance**. Most panelists felt this idea was being driven by the life insurance industry, and while there would likely be gains in speed to market for that sector, the change would cause problems in the property and casualty lines. They noted that dual regulation would make it difficult to handle individual questions and cases. Commissioner Goldman observed that New Jersey, for example, responds to over 100,000 consumer calls per year but this activity is not addressed in the current federal bill and would create the need for an enormous federal bureaucracy.

Similarly, it was noted that more than 40% of complaints directed to state insurance departments are about ERISA plans, over which the states have no control. If we went to federal regulation of property and casualty insurance, the panel opined, states would still get the calls but they would not be able to respond. On the contrary, the panelists agreed ERISA should be revised to allow states to be laboratories for alternative methods of funding and providing healthcare.

Another concern with federal regulation is the prospect of federally mandated, nationally applicable coverages based upon one state's needs. For example, one panelist observed, Trent Lott was unhappy with the flood settlement on his house in Mississippi after Katrina and is now sponsoring a bill that would require all insurers nationwide to cover the flood peril in their homeowners policies.

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About the S. I. R.:
The Society of Insurance Research is a not-for-profit organization founded in 1970 to provide a forum for the free exchange of ideas in all areas of insurance research. For information about membership; future conferences; and exhibiting or speaking opportunities; contact Ed Budd at sir.mail@comcast.net or call 317-398-3684.