
Rep. Frank Says Agents Will Never Allow OFC Passage

Industry representatives air views on OFC, other regulatory approaches

Boston
BY SAM FRIEDMAN
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An optional federal charter will never be approved by Congress as long as independent insurance agents so vehemently oppose the concept, according to Rep. Barney Frank, D-Mass., who chairs the House Financial Services Committee.

"No major change will come in the insurance laws of this country over the objections of insurance agents," Rep. Frank declared during a speech here before the annual meeting of the Property Casualty Insurers Association of America last Monday.

A day later, a subcommittee of the House Financial Services Committee heard testimony from insurance company representatives and others about industry regulation—some favoring an optional federal charter, and others staunchly in support of continued state regulation.

Rep. Frank, speaking at the PCI meeting, said: "Insurance agents are the most influential group within the property-casualty industry. You will never win in a head-to-head battle with them over any issue.

"They are not only numerous, but they are an outgoing culture. They are in all the Rotary Clubs and other local groups, and are extremely active and influential from a political grass-roots standpoint in their communities."

The Independent Insurance Agents and Brokers of America, for one, has opposed the creation of an optional federal charter for insurance companies and agencies, arguing instead for Congress to perhaps establish federal regulatory benchmarks on agency licensing, surplus lines and other areas for state insurance regulators to follow, rather than for Washington to regulate insurance directly.

Rep. Frank cited as "another major obstacle" the disgruntlement of some state regulators with their federal counterparts in the dual regulatory system for the banking industry. He noted that some banks are "taking advantage of regulatory arbitrage" by getting a federal charter because they believe such oversight is less onerous than the consumer protections demanded by state laws.

"Many of the state banking commissioners are whispering in the ears of the state insurance commissioners to be wary of [federal chartering] because the feds are intruding on our turf," according to Rep. Frank. "The fear is that an optional federal charter will not really be an option, but that insurers will not have any choice but to go federal if they want to compete."

The bottom line, he told PCI, is that "nothing is going to happen on optional federal chartering in this Congress because we are facing a divided industry."

Passage of an OFC bill is far more likely for life insurance, he observed, citing the united support of that side of the business. "That is not the case with the property-casualty sector," he added.

The industry divide was evident during the hearing before the Capital Markets Subcommittee of the House Financial Services Committee last Tuesday, when carrier representatives expressed opposing views on insurance regulatory reform.

Scott Gilliam, assistant vice president and government relations officer of the Cincinnati Insurance Companies, said the Cincinnati Companies “are...unmoved by the proposal for an OFC given the uniquely local nature of the business of insurance and our concern that an OFC would unlevel the playing field by giving a distinct competitive advantage to larger-sized insurers over small and medium-sized insurers like ourselves.”

Instead, he suggested that consideration be given to a modernized state system of insurance regulation that would reserve certain areas of insurance regulation to a single-state regulator, “most likely an insurer’s domiciliary state, to the exclusion of all other states and allow all states to regulate in those areas not reserved to a single-state regulator.”

At the opposite extreme, Alessandro Iuppa, senior vice president of government and industry affairs for Zurich North America, who testified on behalf of Zurich and the Financial Services Roundtable, was the only speaker to advocate pure federal regulation.

Before taking his current job, Mr. Iuppa was Maine’s state insurance commissioner and president of the National Association of Insurance Commissioners, a group that strongly supports continued state regulation.

Mr. Iuppa in his testimony said the state regulatory system “is not best suited to oversee the complex, sophisticated international marketplace that insurance has developed into over the past half century.”

He said Zurich and the Financial Services Roundtable have problems with state regulation hindering the U.S. globally,” that it is unable to address national problems, and that the “lack of a sustainable market for terrorism coverage and coverage shortfalls in some regions illustrates a deficiency in the U.S. marketplace.”

(Additional reporting by Arthur D. Postal.)