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Remarks to the NFI 4th Annual Insurance Reform Summit

Walter Bell

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About the Authors: Walter A. Bell was named Alabama's chief insurance regulator in January 2003. He is also the President of the National Association of Insurance Commissioners.

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Remarks to the NFI 4th Annual Insurance Reform Summit

Walter Bell

Good morning. It is a pleasure to be here today. I want to commend NFI for another terrific insurance summit and thank you for the opportunity to address you.

I appreciate the opportunity to hear from Senator Sununu and Congressmen Frank and Royce.

Today's summit is part of an ongoing discussion here in Washington on insurance modernization. This is a conversation that the NAIC and state insurance commissioners welcome and, in which, we are pleased to play an integral part.

But it is important to understand that, while my fellow state insurance commissioners and I engage at the national level on how to better serve and protect insurance consumers, for us, it's not merely a hundred-thousand feet policy discussion. It's our jobs. It's our responsibility.

It's what we in Alabama and the fine men and women of state insurance departments already do, every day—protecting insurance consumers, on the ground, in the communities where they live.

Sometimes protecting consumers can mean answering a question about what is a complex and often misunderstood product. It can mean intervening in an isolated case where an insurer fails to keep its promise or treats someone unfairly.

And protecting consumers often can mean more decisive action—revoking an agent's license for deceptive sales practices, placing a failing insurer into receivership, or investigating, punishing and correcting pervasive—sometimes systemic—abuse through investigation, remedial action and fines.

It is difficult to discuss “on the ground” consumer protection without reflecting on the recent experiences on the Gulf Coast.

The Katrina experience has been discussed extensively – and should be.

And while the effect of Katrina continues, my attention is focused on a more recent event.

Here's why: last Thursday, the weather forecasters labeled the potential for severe weather in Alabama as an “extreme risk.”

That was an unusual prediction, but, sadly, it was true.

My Blackberry started buzzing frequently during the morning as the weather started pushing into the state.

Then there was the horrible news that a tornado had struck Enterprise, Alabama. We heard reports of injuries.

The news would take a turn for the worse.

Eight high school students and a senior citizen lost their lives in Enterprise, Alabama, and a married father of two lost his life due to a separate storm in Miller's Ferry, Alabama, some 85 miles away.

A few thousands claims will be filed on this storm – maybe more – but I know this, the Alabama Department of Insurance is on the ground in Enterprise and in Miller's Ferry to help the people there.

We were on the ground that night – assessing damage, making preparations. We returned the next day to meet with local officials to assure them that we would be there to help their citizens in the recovery process.

And we've been on the ground since with consumer specialists on site to help Enterprise citizens with any questions they have regarding their coverage and claims.

I believe in my heart of hearts that the state of Alabama has been, is and will be more responsive than a federal regulator.

That's because we have been responsive in times past.

The state insurance departments are the ones that can get to the affected sites quickly. The states are best equipped to handle the logistics of handling insurance-related disasters in Enterprise, Alabama, or Terre Haute, Indiana.

When you have a Katrina, assuredly and appropriately, it is a part of the national consciousness for months.

When you have a tornado in Enterprise, Alabama, it is on the national news for a day or two, but then the networks move on to stories like the latest chapter in the Anna Nicole Smith saga.

The bottom line is that seemingly smaller events remain important at the state level. Enterprise is the No. 1 priority for the Alabama Department of Insurance. For a federal regulator, I have my doubts.

I take you back now to Katrina. Some point to that as a need for a federal regulator. I submit that you are not looking closely enough.

From the moment we learned that Katrina was bound for the coast, insurance departments across the Gulf States went into action.

In Alabama, we set up call centers to handle the rush of consumer calls. We sent teams of consumer representatives to emergency management sites.

We monitored the damage and reallocated resources to focus on the areas of greatest damage. We implemented a system to communicate with companies to address consumer complaints.

In Alabama, our damage was significant, but paled in comparison to our friends and neighbors in Mississippi and Alabama.

Because of the extensive damage in those states, our Department took on the responsibility of reaching out to evacuees of those states.

We took inquiries on behalf of the Louisiana and Mississippi departments. We passed an emergency rule that required out-of-network medical care be covered as if it were in network.

We responded quickly and fairly. The federal government, however, struggled to react. It still has.

What becomes clear in these situations is that every loss is personal. Every loss is unique. And every loss must be evaluated on its own to ensure that the insurance claim is paid and that the policyholder is treated fairly.

In Alabama—just as in Florida, Mississippi and Louisiana—we implemented mediation programs to require insurers to sit down with policyholders, discuss the situation and try to reach common ground.

Either party had the right to walk out of mediation and into court, but our success rate for non-binding mediation exceeded 90 percent. Fellow Gulf States had similar success.

In fact, where consumers encountered the greatest frustration was in the disconnect between state-regulated private insurance and the federal flood insurance administered by FEMA, which refused to participate in state-sponsored, non-binding mediation.

The simple unwillingness of federal officials to sit down with policyholders and talk significantly prolonged and deepened the suffering—and left many victims little recourse other than court.

As we discuss the future of insurance supervision, it provides an important backdrop to compare and contrast the approach and priorities of local officials and a vast federal bureaucracy.

As I said, for insurance commissioners, protecting consumers is not an abstract policy discussion; it's what we do, every day.

The same thing is true of modernizing insurance regulation. Insurance commissioners do not merely discuss ways to make insurance regulation more efficient and effective. It's

what we do.

The NAIC and insurance commissioners are engaged in an ongoing, dynamic process to retool and enhance insurance supervision to protect consumers while better meeting the needs of the evolving financial marketplace.

We continuously leverage our collective expertise and new technology to establish multi-state platforms, uniform applications and best practices that make the state system more effective and efficient.

- Working together, insurance commissioners have significantly streamlined the process for rate and form filing that has provide dramatic speed to market benefits for the companies that use it.
- We have created an interstate compact for life insurance annuity products that provide uniform national standards and a single point of filing and approval.
- With Michigan Governor Jennifer Granholm signing the bill into law earlier this year, the compact now has 29 member states representing nearly half of the nation's premiums for these products. It will be fully operational in June.
- We have a harmonized system of financial regulation, which has been a model for the world for over 15 years and ensures an industry that is ever-more financially strong.
- We have a streamlined system of licensing new insurance companies that has helped promote the formation of more new companies that at any other time in history.
- We also have developed a national system to license insurance producers that already provides widespread reciprocity across state lines and continues to move towards greater commonality and uniformity.

Underlying all of our progress is the common commitment among all state officials that we must modernize without sacrificing the strong consumer protections that have made state supervision of insurance successful and effective for more than 135 years.

We understand that some have turned to Washington in the name of modernization to seek a brand of deregulation that has been rejected by states.

New entrants into the insurance arena, such as banks and securities firms, would like a system of regulation modeled not for insurance but for banking and securities.

Large, national companies are seeking to pre-empt state protections and oversight and to give them new advantages over the small insurers that help shape the strong competitive insurance markets that we have in most states.

An interesting story that occurred during the most recent NAIC meeting in San Antonio

underscores the way that some companies can distort what real modernization means.

The question was whether the NAIC should endorse a new approach to the 100 percent collateral rule for reinsurers that are based in countries other than the U.S.

A major solvency issue, this rule has been in place at least since the 1930s when Lloyds first established its multi-beneficiary trust in the U.S.

Proposed revisions to the collateral requirement have been discussed for decades. The December meeting culminated the work of several years of interested party discussion, world-wide input and submissions, and months of public hearings and discussion.

When the proposed reform to modernize the system to evaluate the financial strength of international reinsurers came up for a vote, the most strident opposition came from the most steadfast proponents of federal regulation.

They essentially argued that we—the states, the NAIC—were moving too fast and that more time was needed for further review, analysis and discussion.

The irony is hard to miss.

The episode underscores the untenable position that some in the industry have taken as they seek to federalize the nation's insurance markets.

They really do not seek the one-size-that-fits-all; instead they want the one-size-that-fits-them.

However, this self-interested vision of insurance reform is one that Congress should and, we believe, Congress will reject.

Insurance regulatory modernization, instead, must build on the success of the state system continuously to improve what we already do well.

Operational efficiencies must enhance—rather than supplant—consumer protection. And companies need to be willing to work with policymakers and consumers to find new ground rather than merely defend old turf.

The NAIC will continue to make strides to modernize the state system. We also stand committed to work with Congress and the Administration as they engage a full-slate of insurance issues in the months and years ahead.

In fact, while federal chartering legislation often serves as a backdrop on many discussions, the reality is that there is a host of critical insurance issues that affect Americans in a real and direct way that deserve a much higher priority.

- The clock is ticking on the federal terrorism risk insurance program, and a long-

term solution is critical to the American economy. I think all parties agree that NCBR cannot be evaluated actuarially.

- Coastal insurance markets continue to suffer the effects and aftermath of Hurricane Katrina, and the NAIC believes that a national commission is needed to explore a more effective federal role.
- The National Flood Insurance Program is in vital need of reform, and the NAIC is working with Congress to ensure FEMA participation in state mediation.
- Congress is taking a close look at the industry's antitrust exemption, and state commissioners are committed to ensuring that McCarran-Ferguson is not used to shield bad actors from federal prosecution.
- Data security breaches continue to make front page news on a regular basis, and state officials are committed to ensure that any federal standards complement and work with—rather than displace—stronger state privacy protections.
- The surplus lines marketplace has been targeted for reforms, and the NAIC is on record saying that federal legislation may be appropriate in this area.

This is just a flavor of where the federal government and the states can work together to protect consumers in the market place.

But make no mistake: cooperation should not give room for pre-emption.

That's why we will continue to push for state-based regulation.

But we will seek to modernize our system. We realize that the market place needs us to modernize ... to improve.

My term as President of the NAIC will focus on the modernization process and developing a strategic plan that will guide our efforts for years to come.

We spent our recent commissioners' conference dedicated to strategic planning, and we will discuss it further in New York later this week.

I am excited at the response I've received thus far from my fellow commissioners and the NAIC staff. That's why I am eager to head to New York.

Again, my deepest thanks to NFI for the invitation to be with you today, and for the opportunity to share some thoughts of common concern. For you as members of industry, and for me as a regulator, we will always have times of disagreement, but we must continue the conversations that will help shape the marketplace of the future.

For our time together today, I am grateful. Thank you and God bless.