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Congressman Ed Royce (CA-40)

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## **BEAN/ROYCE: BI-PARTISAN DEMAND FOR INSURANCE REGULATORY REFORM**

***First bipartisan House version of National Insurance Act would offer insurance consumers and providers with much-needed regulatory alternative***

WASHINGTON, DC - United States Representatives Melissa Bean (D-IL) and Ed Royce (R-CA) have introduced the first bipartisan House version of *the National Insurance Act*. The bill is companion legislation to S.40, which was authored by Senators John Sununu (R-NH) and Tim Johnson (D-SD). *The National Insurance Act of 2007* would create an optional federal charter (OFC) for life and property/casualty insurance providers. The OFC would serve to reduce regulatory obstacles to improving the cost and delivery of insurance products to American consumers and businesses.

*“Regulatory obstacles currently discourage insurance innovation and nimble product development to capitalize on emerging growth markets. Eliminating the need to coordinate with 51 state regulators and accelerating the time to market potential will foster greater industry innovation and agility,”* said Rep. Bean.

*“It’s time to allow the insurance industry to move into the 21st century so that consumers can benefit from reduced costs and innovative products,”* Bean said. *“The National Insurance Act will promote a more robust and competitive insurance industry domestically and internationally, so their consumers will realize those benefits.”*

*“There is little argument that the current state-based regulatory system which oversees the insurance industry is outdated, burdensome, complicated, duplicative and costly,”* said Rep. Royce

*“Designed to mirror the regulatory structure found in the dual banking system, the NIA would provide the industry with a more effective regulatory alternative. Insurance providers could choose to be regulated at the state level or by the new federal regulator. Those insurers opting for federal regulation would be better able to serve insurance consumers across the United States – eliminating the need to engage in the tangled web of bureaucracy and duplicative regulation in each and every state,”* Royce said

*“As the Schumer/Bloomberg Report suggested earlier this year, the creation of an optional federal charter for insurers must be a top priority if the United States is to remain a global leader in the financial services industry.*

*“Consumers will benefit most from an optional federal charter. The increased competition among insurance providers will result in the availability of more products – better products – with lower premiums. This is the ultimate win for consumers.*

The following groups have expressed support for the National Insurance Act: the Agents for Change, the American Bankers Association, the American Bankers Insurance Association, the American Council of Life Insurers, the American Insurance Association, the Council of Insurance Agents and Brokers, the Financial Services Forum, the Financial Services Roundtable, the Life Insurers Council, the National Association of Independent Life Brokerage Agencies, and the Reinsurance Association of America.

## **OUTLINE OF NATIONAL INSURANCE ACT (NIA) OF 2007**

### Optional Federal Charter and Regulation

Establishes a parallel, federal system of regulation and supervision for insurers and insurance producers (agents and brokers), similar to the dual banking system. Insurers and producers are free to elect federal or state regulation, charters and licenses. States would maintain responsibility of regulating state licensed insurers and producers.

### The Office of National Insurance

An independent Office of National Insurance is created within the Department of the Treasury, similar to the OCC and OTS, and its Commissioner would be appointed by the President for a five-year term, subject to the advice and consent of the Senate.

### National Life Insurers and National Property and Casualty Insurers

The NIA authorizes the chartering of two different types of insurance companies: National Life Companies and National Property and Casualty Companies. The underwriting of life insurance and P/C insurance is separated, but a holding company is permitted to own both a National Life Insurer and a National P/C Insurer.

### National Agencies and Federally-Licensed Producers

The NIA authorizes the chartering and licensing of National Insurance Agencies and the licensing of federal insurance producers. A National Agency would be authorized to sell insurance for any federally chartered or State licensed insurer. A federally licensed insurance producer could sell insurance, including surplus lines of insurance, in any State on behalf of any National Insurer or a State Insurer. Additionally, a State licensed insurance producer could sell insurance on behalf of any insurer, including National Insurers, operating within the State in which the producer holds a license.

### Conversions Between State and Federal Status

State licensed insurers would be free to convert to a national charter. Likewise, National Insurers would be free to convert to a State charter.

### Applicable State Law

The activities and operations of federally chartered and licensed entities would be primarily subject to federal law. However, National Insurers and federally licensed insurance producers would be subject to certain categories of State law. These categories include: (1) State tax laws; (2) State unclaimed property and escheat laws; (3) State laws related to participation in assigned risk plans and other mandatory residual market mechanisms that are designed to make insurance available to those unable to obtain insurance in the voluntary market; and (4) State laws that provide for compulsory coverage of workers' compensation or motor vehicle insurance.

### Regulatory and Supervisory Powers

The Commissioner has a comprehensive set of supervisory and regulatory powers. National Insurers are subject to examinations every three years, and National Agencies and federally licensed producers are subject to examination in response to a complaint or evidence of a violation of the law or regulations. National Insurers are subject to risk-based capital standards, investment standards, and asset and liability valuation requirements that are based upon model laws and regulations developed by the National Association of Insurance Commissioners (NAIC). National Insurers are subject to an independent audit committee requirement, limitations on dividends, and limitations on transactions with affiliates.

### Enforcement Powers

The Commissioner is given enforcement powers patterned after those available to the federal banking agencies, permitting him/her to: (1) revoke or suspend a charter or license; (2) issue a cease and desist order, including an order that mandates affirmative actions, such as the sale of assets or the hiring of new management; (3) remove or suspend individual officers, directors, controlling shareholders, agents and consultants; and (4) impose civil fines of up to \$1 million a day for violations of law or regulations or improper conduct.

### Consumer Protection

There is established a Division of Consumer Protection within the Office of National Insurance. The Commissioner is directed to issue market conduct regulations to prevent unfair methods of competition and unfair and deceptive acts and practices by National Insurers, National Agencies and federally licensed insurance producers. At a minimum, these regulations must address the advertising, sale, issuance, distribution and administration of the insurance policies and products of National Insurers, as well as claims under such policies and products. The Commissioner is directed to establish a Fraud Division within the Office, and makes the commission of a "fraudulent insurance act" a federal crime. The NIA subjects National Insurers to federal antitrust laws.

### Self Regulatory Organizations

The Commissioner is authorized to register and oversee self-regulatory organizations for federally chartered and licensed insurers, agencies and producers. Key powers of the Commissioner, such as chartering and merger and conversion determinations, may not be delegated to a self-regulatory organization.

### Receiverships for Rehabilitation or Liquidation

The Commissioner may place a National Insurer into receivership for rehabilitation or liquidation for a number of circumstances, including the insolvency of a National Insurer. The Office of National Insurance must be appointed as the receiver, and as a receiver, the Office is given all of the powers of the Insurer. The Commissioner is directed to issue regulations governing receiverships that are based upon the Uniform Receivership Law adopted by the Interstate Insurance Receivership Compact Commission in September 1998.

### Guaranty Fund

Additionally, National Insurers, as a general rule, must belong to the State guaranty associations in each State in which they offer insurance. These associations assume obligations to policyholders, up to certain limits, when an insurer is placed into receivership. If a State guaranty association does not provide policyholders with a level of protection equivalent to NAIC model standards, a National Insurer must join the National Insurance Guaranty Corporation (established under the NIA) which would provide such protections to policyholders. The Corporation would have separate accounts for life insurance and property and casualty insurance, and similar to State guaranty associations, would be post-funded with assessments of its member companies

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