# Commissioner's Monthly Column

## The Encroachment of Federal Involvement in State Insurance Regulation (and Why You Should Care)

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Whether you are talking about education, immigration or environmental standards, discussions over the merits of state versus federal regulation are not uncommon. The area of insurance regulation is no different and there have been more and more frequent discussions among federal officials and global regulators about implementing a federal, bank-like insurance regulation system throughout the United States.

This is already occurring for the largest insurers and non-bank corporations as a result of the passage of Dodd-Frank in July 2010 after the Great Recession. Dodd-Frank brought about changes in the regulation of the largest U.S. corporations. Large insurers and non-bank corporations may now be determined to be a systemically important financial institution (SIFI) by the Financial Stability Oversight Council (FSOC). The SIFI designation subjects companies to stricter bank-like capital, leverage and liquidity requirements as a result of supervision by both the Federal Reserve Board as well as state regulators.

Regulators and the insurance industry consider the SIFI designation of non-banking corporations and insurance companies to be unwarranted since American International Group's (AIG) insurance subsidiaries remained solvent during the Great Recession, as did all major U.S. state-regulated insurance companies. The stringent financial standards of state regulation of insurance protected AIG's insurance subsidiaries during that financial crisis. The hardest hit mortgage company was the non-insurance parent company of AIG which received $143 billion from the federal government - the largest bailout of a single firm in history.

Although the Federal Reserve Board said at a September 9 Senate Banking Committee hearing that it doesn't plan to begin regulating traditional insurance activities, to date the FSOC has designated two insurers, Prudential Financial and AIG, as SIFIs. MetLife was given a preliminary SIFI designation in September which it may appeal. These insurance companies had nothing to do with the Great Recession and should not be regulated by the FSOC as if they are financial institutions that would create instability within the financial markets. Such designations would place an unjust financial burden on insurers and other non-bank companies making it difficult for them to compete.

When considering insurance regulation, fundamentally, the public wants two things from insurance regulators. They want solvent insurers who are financially able to make good on the promises they have made; and they want insurers to treat policyholders and claimants fairly. The current U.S. regulatory system is unique in the world in that it relies on an extensive system of peer review, communication and collaboration to produce checks and balances in regulatory oversight.

Our state-based system of regulation has proven that it effectively protects consumers and ensures that promises made by insurers are kept. One means by which Louisiana policyholders are protected is the Louisiana Insurance Guaranty Association (LIGA). LIGA is funded by assessments on insurance companies for the purpose of paying covered claims due to insolvency of an insurer domiciled in Louisiana. Under LIGA, consumers have the added assurance of knowing that their property and casualty claims are protected up to a limit of $500,000 per accident or occurrence. This higher limit was passed in the 2010 Regulator Legislative Session and was an increase from $150,000 per accident or claim in place prior to Hurricane Katrina. Associations similar to LIGA exist in all other states.

A common argument for standardizing regulations at the federal level is the enhanced efficiency that comes with one regulatory agency versus 56 individual ones. But federal oversight would likely lead to a one-size-fits-all approach to regulation which may encourage rather than discourage risky behavior by insurance companies.

Insurance is a global business to manage local risks. Regulation closest to the consumer works best because it provides a targeted approach to the unique risks that insurers face when doing business in a particular area of the country. For instance, the threats we face here in Louisiana along the coast are vastly different from the issues faced by a homeowner in California threatened by earthquakes or those who live in parts of the Midwest referred to as tornado alley. State-based regulation enables insurers to react and respond quickly, regardless of whether the state is facing a weather disaster such as a hurricane with massive wind damage or there is a new insurance scam that the public should be warned of within a particular region of the state.

Efforts to maintain state-based regulation are not solely about protecting the insurance industry, but are also about protecting the local consumers that the industry serves. In Louisiana Hurricane Katrina resulted in more than $25 billion in insured losses resulting from more than 725,000 claims. Following Hurricane Rita three weeks later, insurers paid out an additional $3.4 billion in losses resulting from more than 200,000 claims in Louisiana. Not one insurance company became insolvent after these hurricanes. This is a strong indicator that Louisiana insurance companies are well prepared to pay claims regardless of the size of disaster in which they are faced.

Along with more competition within Louisiana's property and casualty markets, our aggressive approach to recovery from the largest insured disaster the U.S. has ever seen has brought stability in the homeowners market. This is an accomplishment we can be proud of following the large-scale natural disasters that had us all concerned about what Louisiana would look like in just nine years after Hurricanes Katrina and Rita. It took the hard work of many insurance professionals, state legislators and state regulators to stay focused on the goal of restoring Louisiana's competitive and viable insurance markets to bring stability to not only the homeowners market, but also to our real estate and construction markets.

State insurance regulators promote competitive markets, ensuring a wide choice of secure insurance products and services to help consumers prepare for the unplanned and unexpected. This is more easily accomplished at the state level since various and unique approaches should be taken for different state market conditions. While discussions of SIFIs and the FSOC may seem far-removed from the everyday business of insurance in Baton Rouge, Shreveport and Alexandria, I encourage you to stay tuned to the periodic developments on this issue that will affect the industry at all levels. You can find out more by going to the National Association of Insurance Commissioners recently launched website www.protectingthefuture.naic.org.