



Allstate[®]
You're in good hands.

Insurance Regulatory Reform

*Regulatory Modernization
for the Benefit of
Consumers, Agents and Insurers*

Edward T. Collins
Assistant Vice President
Assistant General Counsel

**Casualty Actuarial Society
November 18, 2009**

Is there any doubt? Change is coming



- **Financial services regulatory reform is a top priority for the 111th Congress and the Obama Administration.**
- **What will it look like?**
- **How will it impact insurance?**

Regulatory Reform Will Include the Insurance Industry



The Insurance Industry is a Key Player in the Capital Markets:

- The industry held nearly \$5 trillion in government and corporate securities in 2007
- U.S. total premium for P&C and Life Insurance equaled \$1 trillion in 2008
- There were 2,723 P&C companies and 1,190 L&H companies in the U.S. in 2007
- The industry is a major U.S. employer, providing some 2.3 million jobs

The AIG Bailout Illustrates the Need for Insurance Regulatory Reform:

- The most costly corporate collapse to date was not a bank, but an insurance company
- The federal government has “loaned” \$180 billion to AIG
- Large, multi-line insurance companies are critical to our financial system, and to the fundamental security and stability of the national and global economy

Regulatory Gaps Need to be Closed:

- No single regulator has a complete picture of the activities of modern insurance conglomerates
- The state system cannot provide the oversight needed to protect consumers

Systemic Risk Regulator

- Definition of systemic risk not clear yet
- Insurance industry could pose risk of systemic stress if not breakdown
- New oversight authority is likely



Today's Regulatory Scheme --

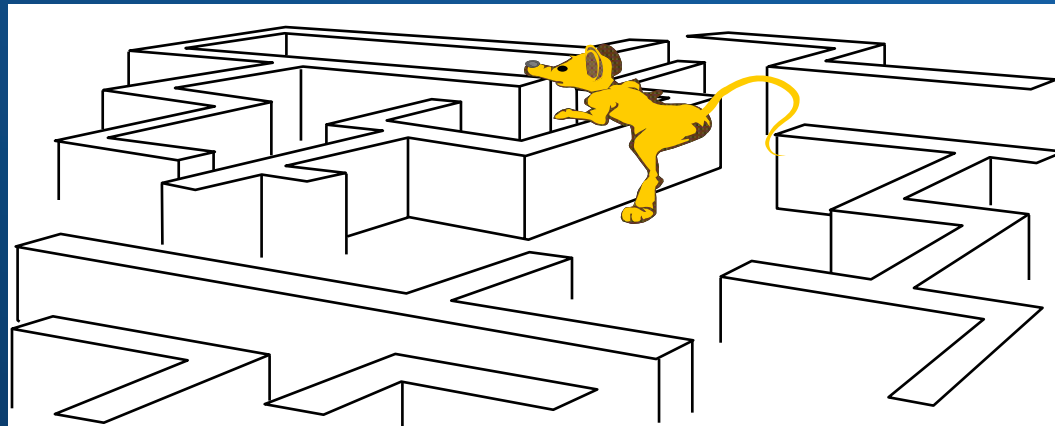
51 Jurisdictions/Regulators

- **50,000 Insurance Laws**

52 Volumes/ 46,124 Pages of Insurance Laws

- **12,000 Regulations**

53 Volumes/ 61,533 Pages of Regulations



- **8,700 Related Regulations**

33 Volumes/ 12,441 Pages of Related Regulations

- **2,300 Insurance Bulletins**

17 Volumes/ 1,802 Pages of Insurance Bulletins

- **State Case Law**

- **2,000 Circular Letters**

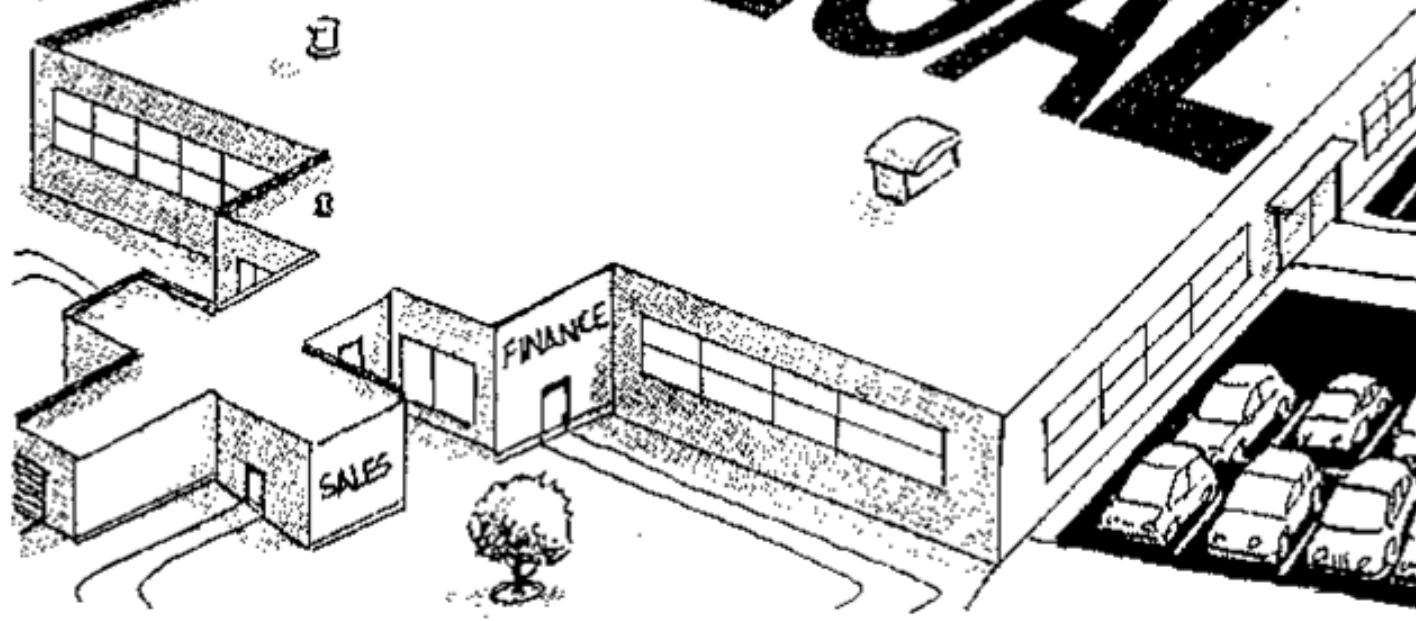
10 Volumes/ 8,500 Pages of Circular Letters

- **Litigation**



The Insurance
Company of Today

LEGAL



Shortcomings of State Regulation for National Carriers & Agents



Lack of Uniformity

Regulatory Redundancies

Limited Authority

- **Cannot Address Systemic Risk**
- **Regulatory Gaps**
- **Cannot Make Agreements with Foreign Authorities on Behalf of U.S.**

Agent Licensing

Cost of Compliance

Pricing & Underwriting Controls

Product/Form Controls

Lack of Portability for Consumer

What some others have said recently...



- **The Government Accountability Office report released in April of 2009 highlighted these issues, stating that the "[l]ack of uniformity and reciprocity may lead to inefficiencies, higher insurance costs and uneven consumer protection across states."**
- **In addition, the Obama Administration declared a need for increased national uniformity through either a federal charter or effective action by the states. In its white paper entitled, Financial Regulatory Reform: A New Foundation, the U.S. Treasury Department stated:**

"Our current insurance regulatory system is highly fragmented, inconsistent, and inefficient. While some steps have been taken to increase uniformity, they have been insufficient."

The Majority of the Market Supports National Charter



Life Insurance Companies and its trade, the ACLI, support National Charter.

Despite claims to the contrary, large P&C carriers are generally united in their support for a national charter – there are only a few dissenters among the top 15 P&C carriers. P&C carriers supporting National Charter represent over 50% of the market share.

<u>Top 15 U.S. P&C Companies</u>	<u>Market Share %</u>
State Farm	10.09
AIG	6.46
Zurich	5.69
Allstate	5.43
Liberty Mutual	5.32
Travelers	4.41
Berkshire Hathaway (GEICO) *	3.28
Nationwide	3.20
Progressive *	2.78
Hartford	2.23
Chubb	1.99
USAA	1.93
ACE	1.75
CNA *	1.72
<u>Allianz</u>	<u>1.23</u>
Total	57.51%

* Do not support National Charter

Consumers Support National Regulation



- **American insurance consumers believe that the best way to regulate national insurance companies is through national regulation.**
- **Sixty-nine percent (69%) of registered voters agree that insurance companies doing business nationally and internationally should be regulated at the national level.**
- **In the wake of the current financial crisis, this makes sense because seventy-four percent (74%) of registered voters also recognize that the financial health of the insurance industry is connected to the overall health of the economy.**



Everybody in the pool.

THE FEDERAL REGULATORY OVERHAUL SHOULD INCLUDE THE ENTIRE FINANCIAL INDUSTRY.



The time to save America's economic future from drowning is now. To do it thoroughly and effectively, we need bold federal regulatory reform for the entire financial industry. As an active member of that industry, Allstate has a few ideas to keep our country afloat:

1. COOPERATE

The entire financial system—banks, hedge funds, credit rating agencies, regulators, investment banks, insurance companies and more—is intertwined and interlinked. We must work together to understand the risks and solve the issues. No one can be left out of the solution, or it won't be a solution.

2. BE TRANSPARENT

Clarity is key. Only when there is transparency around valuing the risk in the financial system—including the

role of insurance to help mitigate that risk—will we regain confidence in the economy. And only when we streamline and simplify financial information will consumers be able to make truly informed choices.

3. REINVENT

Congress must design federal regulation for the 21st century. It's time to replace the patchwork of regulation coming from countless state and federal agencies with comprehensive rules to oversee all financial businesses—those that pose systemic risk and those that don't.

Let's draft our country everyone's agents of cl

America's economic future needs to be better protected

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A man-made disaster just cost America trillions.

HERE'S HOW TO KEEP IT FROM EVER HAPPENING AGAIN.



The worst thing about the current financial crisis is that we did it to ourselves. The forces that led to the disaster were within human control—but so is the solution. We need to reform federal regulation for the entire financial system. That must include insurance, the one industry truly experienced in dealing with disasters, catastrophes and risk.

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Let's draft strong, clear federal regulation to protect our country from this ever happening again. If we all work together, we can stir up a storm of positive change. Go to allstate.com/fedreg.

America's economic future needs to be better protected. That's Allstate's Stand.

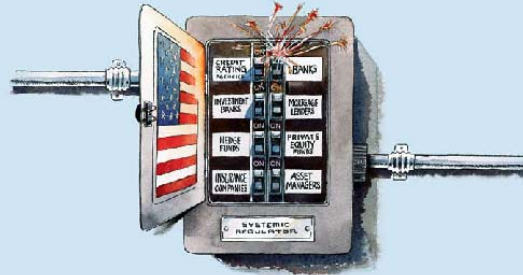


Auto
Home
Life
Travel

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One blowout shouldn't be able to take down America's financial system.

LET'S BUILD IN SAFEGUARDS TO MAKE SURE IT NEVER DOES.



America's financial industry has always been systemically connected. But we never knew how badly it needed a circuit breaker, until one sector almost took down the whole system. We need bold federal regulatory reform for the entire financial industry. That must include insurance, an industry that deals with disasters, catastrophes and risk every day.

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transparency around

America's economic future needs to be better protected. That's

"That's Allstate's Stand" is a service mark of Allstate Insurance Company.

We're not fixing it at all if we're not fixing it all.

THE FEDERAL REGULATORY OVERHAUL SHOULD INCLUDE THE ENTIRE FINANCIAL INDUSTRY.



And that means everything, including insurance. Now, we're not saving the insurance industry by itself. To the contrary, it's in better financial shape than much of the system. Our point is simply that every sector of our financial system is linked to every other. We can't have a strong economy unless we have consistent federal regulation over all of it.

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Congress must design federal regulation for the 21st century. It's time to replace the patchwork of regulation coming from countless state and federal agencies with comprehensive rules to oversee all financial businesses—those that pose systemic risk and those that don't.

With strong, clear federal regulation, we won't just stop today's leaks in the financial system. We'll prevent them from ever happening again. Learn more at allstate.com/fedreg.

America's economic future needs to be better protected. That's Allstate's Stand.



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Something's wrong when toothbrush innovation surpasses car insurance innovation.

IT'S TIME FOR A NEW DESIGN.



Here's something we should all bristle at: the regulatory system that shapes our car insurance policies hasn't changed much in the last century. Yet everything about cars has changed drastically. Seatbelts have been supplemented with antilock brakes and airbags. Chrome and steel have given way to thermoplastic and fiberglass. Even license plates have evolved.

What could a more modern design for both car and home insurance look like? Allstate has a few ideas.

1. BETTER CHOICES

Today there are 50 different sets of insurance regulations in 50 states. This makes it difficult, and expensive, to introduce innovative new products. But with a modern system of national regulation,

Modern regulation is the kind of protection Americans deserve.

The Cupped Hands logo is a registered service mark and "That's Allstate's Stand" is a service mark of Allstate Insurance Company. Source: Allstate Regulation Research National Survey, August 2009.

If the telecommunications industry were regulated like car insurance,

YOU'D STILL BE USING A ROTARY PHONE.



The telecommunications industry is a great example of how modern regulation has improved the lives of American consumers. It wasn't too long ago we all rented our phones—big, plastic models tethered to our front halls. In just a few decades, our phones have become sleek and wireless. They fit in our pockets. Allow us to check our stocks. Even give directions.

So what if we also modernized car and home insurance regulation? Allstate believes it would benefit American consumers in two important ways:

But with national regulation, consumers would get to choose from the best products available nationwide.

2. MORE FAIRNESS

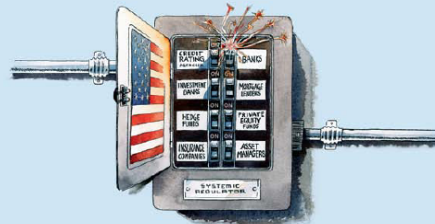
Today, your car insurance rates are determined by a number of factors, one of which is the state you live in. National regulation would help spread risk more fairly across similar geographic areas.

Allstate does not stand alone in supporting change. 69% of American voters agree that national car and home insurance companies should be regulated at the national level. Join Allstate in supporting H.R. 1880—the National Insurance Consumer Protection Act. Learn more at allstate.com/ModernReg.

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Last year, a blowout almost took down America's financial system.

ARE WE DOING ALL WE CAN TO MAKE SURE CONSUMERS ARE PROTECTED?



Property and casualty insurance is a \$1.3 trillion business. And every day, it helps American families take simple everyday risks, like driving to work, buying a home and starting a business. So in today's effort to regulate America's financial system, why isn't the insurance industry being included?

Allstate believes that a modern regulatory system for property and casualty insurance would greatly benefit American consumers. Here's how:

1. PROTECTION FOR TODAY

One of the reasons America got into this mess is because there was no national oversight of the entire system. Modern regulation for national property and casualty insurance companies would help better protect American consumers from future systemic risk. And when natural catastrophes occur, it would

help ensure that insurance companies can fulfill the promises they make.

2. CHOICES FOR THE FUTURE

The property and casualty insurance marketplace is stifled by 50 different regulatory bureaucracies with 50 different sets of rules in 50 states. A national set of rules would drive unnecessary costs out of the system and unleash innovation and competition in the marketplace. Consumers would have better products to choose from. More discounts. And more options.

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If car insurance were ice cream, your state would tell you what toppings you could get.

WE THINK THAT'S NUTS.



No chocolate syrup in North Carolina. No sprinkles in New York. No candy corn in Nevada. Sound crazy? To property and casualty insurance companies, it's the perfect analogy.

Today there are 50 different sets of insurance regulations in the 50 states. This lack of uniformity prevents Allstate customers in some states from getting our Good Student Discount. Or our New Car Discount. Or savings for having anti-lock brakes. It's why Allstate supports national regulation for national insurance companies. Here's how it would improve the lives of American consumers:

1. BETTER CHOICES

Different insurance regulations in different states make it difficult, and expensive, to introduce innovative products. But with a modern system of national regulation, consumers would get to choose from the best products available nationwide.

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Why be Skeptical of State Regulation Reform?



Regulator Position on Uniform Insurance Regulation:

“The Commissioners are now fully prepared to go before their various legislative committees with recommendations for a system of insurance law which shall be the same in all States, not reciprocal but identical, not retaliatory but uniform.”

***NY Insurance Commissioner
George W. Miller, 1871***



Let's Work Together

- Need to modernize and improve the system
- Learn more at allstate.com/ModernReg



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Questions