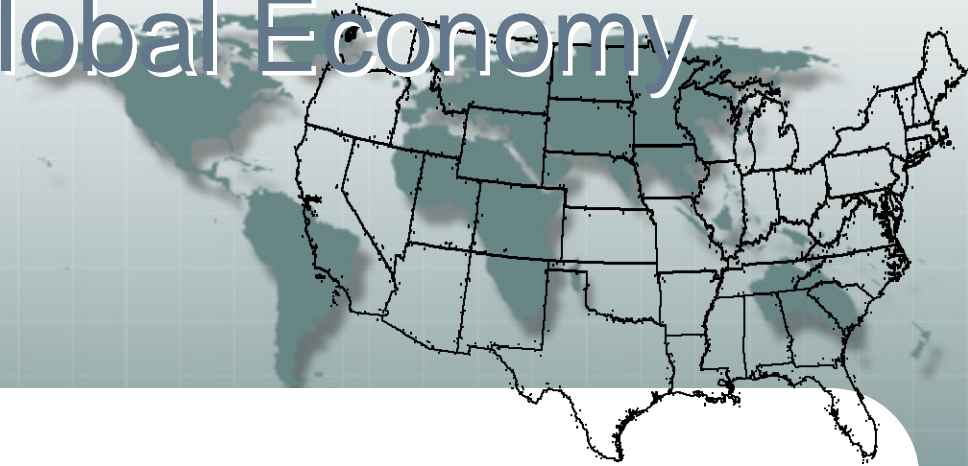
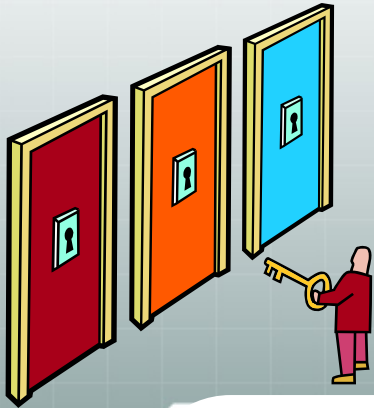


Karen Adams ACAS MAAA ADOJ

# **A Case for State Regulation in the Global Economy**

# A Case for State Regulation In the Global Economy



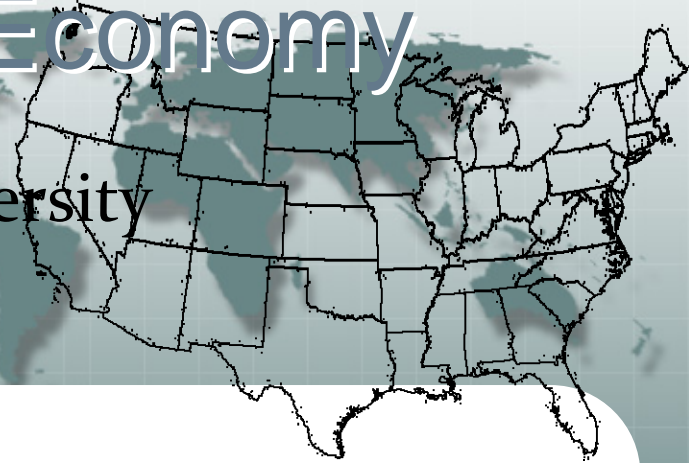
## Key Points:

- 1)
- 2) Flaws in Federal Regulation
- 3) State Regulatory Track Record

# A Case for State Regulation In the Global Economy



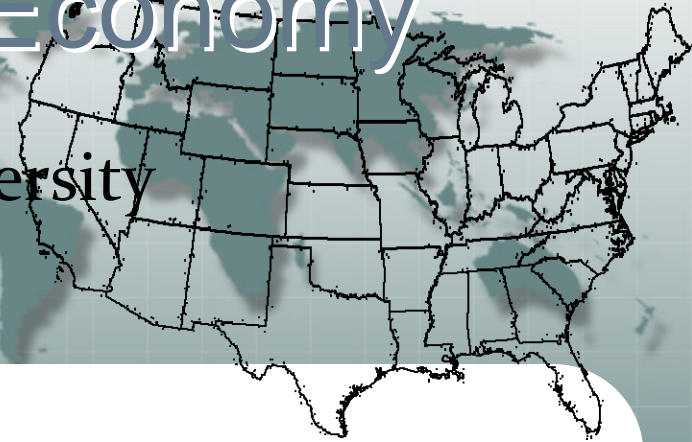
Competition – Diversity



- **State Regulation - Healthy Competitive Pressure**
- 50 regulatory environments
- Florida Market is larger than the Netherlands
- New York market is larger than South Korea
- Does competing in the US prepare an insurer to compete globally?

# A Case for State Regulation In the Global Economy

Competition – Diversity



## **State Regulation - Competitive Pressure**

- **50 State Regulators provide 50 visible alternatives.**
- **Consumers and businessmen observe other states.**
- **Voters lobby for change.**

# A Case for State Regulation In the Global Economy

Competition – Diversity

## Examples of States Making Choices

- **States Returning to Private Workers Comp.**
  - Nevada, West Virginia
- **States Returning to Competitive Auto & Property Insurance.**
- **Tort Reform.**
- **Michigan Repealed some Price Restrictions on personal auto .**



# A Case for State Regulation In the Global Economy



Competition - Diversity

## Question

- Q:** What if the Federal Government had nationalized Worker's Compensation, or Auto Liability Insurance?
- Q:** Would there be public pressure to return to a competitive market?

# A Case for State Regulation In the Global Economy

Competition - Diversity

Parallel

**Competition between states & their  
regulations  
Is similar to competition in the free  
market.**

**Voters & Businessmen Choose.**

# A Case for State Regulation In the Global Economy



What About Efficiency, and Price  
Deregulation?

Parallel

Q: Why so many different cell phone companies?

Q: Wouldn't it be more efficient to have just ONE?

A: We benefit from COMPETITION.

A: Mandating just one provider would be more

Sprint

Verizon

cricket

US  
Cellular

AT&T

Boost  
Mobile

T-Mobile

TracFone

Power  
Net  
Mobile

Virgin  
Mobile





# A Case for State Regulation In the Global Economy

What About Efficiency, and Price  
Deregulation?

Parallel



Connecticut  
Alabama  
Mississippi  
Alaska  
Washington  
Kansas  
Arizona  
Texas  
Nevada  
New Jersey  
Michigan  
South Carolina  
Indiana  
Illinois  
Massachusetts  
New York  
Florida  
Louisiana  
West Virginia  
California

- Federal Regulation would be more efficient in the short run.

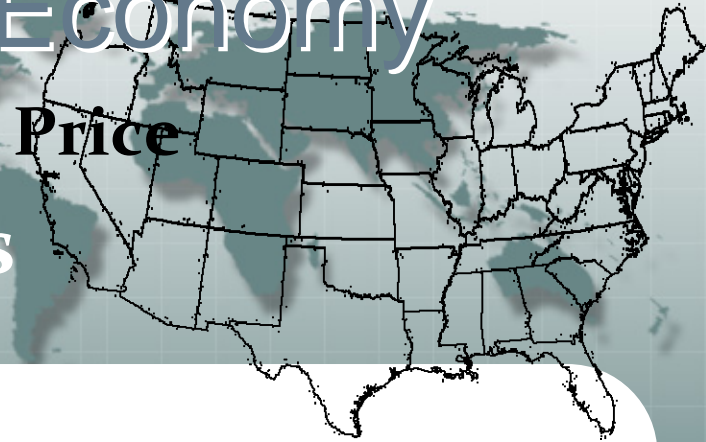
• In the long run, we would lose the benefits of competition and innovation.



# A Case for State Regulation In the Global Economy

**What About Efficiency, and Price  
Deregulation?**

**Parallels**



- Suppose that the US were to create a new “optional” cell phone company?
  - Taxpayer backed management
  - Universal chargers
  - Universal calling plans.
- The federal cell phone is the only one that would remain in business. Competition would cease.

# A Case for State Regulation In the Global Economy



## **Key Points:**

1) Competition – Diversity



3) State Regulatory Track Record

# A Case for State Regulation In the Global Economy



Flaws in Federal Regulation

## Why Might Federal Regulation Go Bad?

- Are there political pressures in your state?
  - Pricing
  - Credit Scoring
  - Tort Reform
  - Medical Malpractice
  - Mold
- Would a Federal regulator be subject to pressure?

# A Case for State Regulation In the Global Economy



Flaws in Federal Regulation

## Why Might Federal Regulation Go Bad?



- Pick the State with your least favorite regulatory environment.
- Is it possible that Federal regulation would take that path?

# A Case for State Regulation In the Global Economy

Flaws in Federal Regulation

## Why Might Federal Regulation Go Bad?

- Political Pressure to Regulate Insurance.
- Public Perception that Insurance Companies
  - Are Greedy.
  - Are Rich and have deep pockets.
  - Must be Regulated or they will “rip consumers off”
- Have you ever tried to explain insurance to your friends, acquaintances?

# A Case for State Regulation In the Global Economy

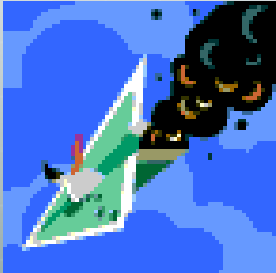


Flaws in Federal Regulation

## Why Might Federal Regulation Go Bad?

- If the Fed were to implement a poor idea, what would happen? Who would be blamed for the poor results?
- If Workers Compensation were nationalized, what are the chances that it would go back to a competitive market?
- Why is it that tort reform has been enacted in some states but not on a national level?

# A Case for State Regulation In the Global Economy



Flaws in Federal Regulation

Federal Regulation , The Savior?

- Federal Flood Insurance Program - \$18 million
- Social Security
  - Funds Depleted in 2042
  - \$4.3 trillion 75 yr deficit.
- Medicare – over \$8 trillion 75 yr deficit.
- Savings and Loan Debacle of 80's and 90's
  - \$160 billion
- Katrina – over \$10 billion paid.

**An Optional Federal Charter Office in Every State?**

**Homeland Security - \$44 billion**





# A Case for State Regulation In the Global Economy



## **Key Points:**

- 1) Competition – Diversity
  - 2) Flaws in Federal Regulation
- 

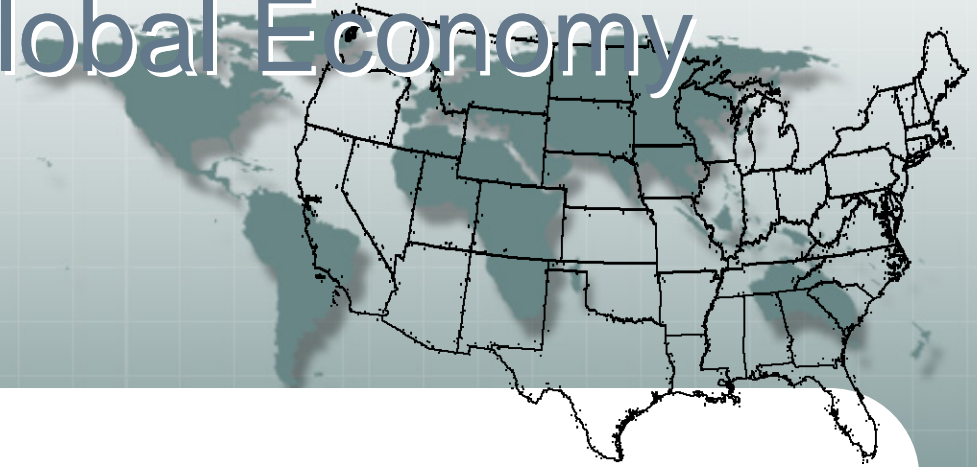
# A Case for State Regulation In the Global Economy

**The US Insurance Industry has become the biggest in the world under state regulation.**

**Worldwide Insurance Premiums in  
\$Millions**

1	United States	\$1,546,860	35.33%
2	United Kingdom	\$463,686	10.59%
3	Japan	\$424,832	9.70%
4	France	\$268,900	6.14%
5	Germany	\$222,825	5.09%
6	Italy	\$142,328	3.25%
	The Rest	\$1,308,498	29.89%
<b>Total</b>		<b>\$4,377,929</b>	<b>100.00%</b>

# A Case for State Regulation In the Global Economy



## Key Points:

1)

2)

3)

# A Case for State Regulation In the Global Economy



## Questions

- State DOIs are funded by premium taxes. Who would fund the Federal Charter? Will insurance companies be billed for the expense?
- How will alien insurers be handled by an OFC? Could the OFC license alien insurers?
- Have you seen more bank failures ( federal ) or insurance failures ( state regulation)

# A Case for State Regulation In the Global Economy



## Related Topics

- **The main problem with our current crisis isn't regulation, it is the laws themselves. If the law is set up so that**
  - **There is significant conflict of interest**
  - **The person making the money is not taking part in the risk**
- **Then there will be abuse.**
- ***Answer: Write laws so that people are responsible for their own actions.***

# A Case for State Regulation In the Global Economy



## Related Topics

- What can we do through the NAIC to make US accounting more compatible with
  - International Accounting Standards (IAS)?
  - International Solvency Standards

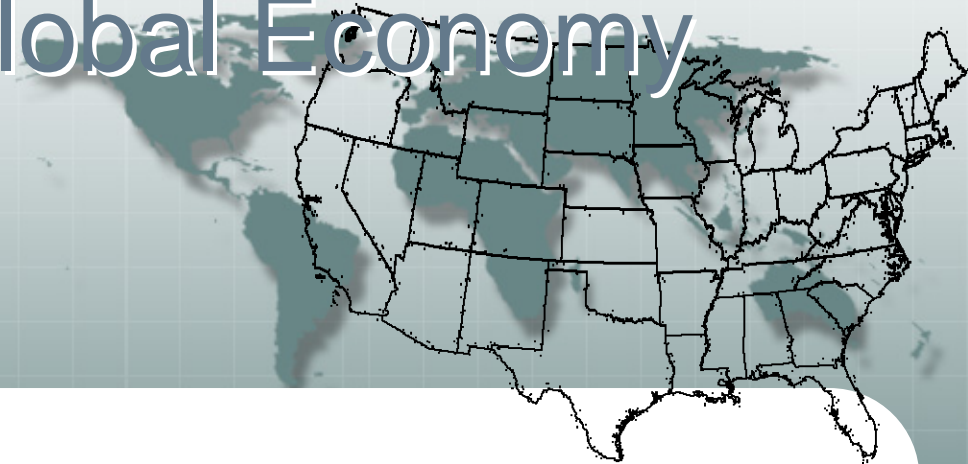
# A Case for State Regulation In the Global Economy



## Related Topics

- Federal Oversight at the systemic risk level
- Income Tax avoidance
  - Moving Insurance Offshore
- Credit Default Swaps
- Federal Government guarantees for municipal bonds
- Conflicting laws between states

# A Case for State Regulation In the Global Economy



**- Questions?**