



National Association *of* Insurance Commissioners

Insurance Regulation

State or Federal

Which Works Best?

Agenda



- Why Consider Change?
- Discuss Various Regulatory Framework Proposals
- State Regulatory Perspective
- The Economic Downturn
- The Solution

Why Consider Change?



- Complexity
- Property and Casualty Insurers Seeking Freedom from Rate Regulation
- Unduly Burdensome
- Cost of Compliance
- Globalization
- Speed to Market

Various Proposals



- Systemic Risk Regulator
- Federal Regulation
- Federal Regulation of Multi-State Insurers
- Optional Federal Charter
- Federal Solvency Regulator
- Federal Tools Proposal
- Modernized State Regulation
- Status Quo

State Regulatory Perspective



- Simplicity v. Regulatory Arbitrage
- Accreditation
- Uniformity Where Crucial
 - Financial Statements & Accounting Standards
 - Peer Review thru FAWG
 - SERFF
 - NIPR
 - Operational Efficiencies
- Consumer Protection
- State Civil Justice Systems
- Statutory Differences

Worldwide Insurance Premiums

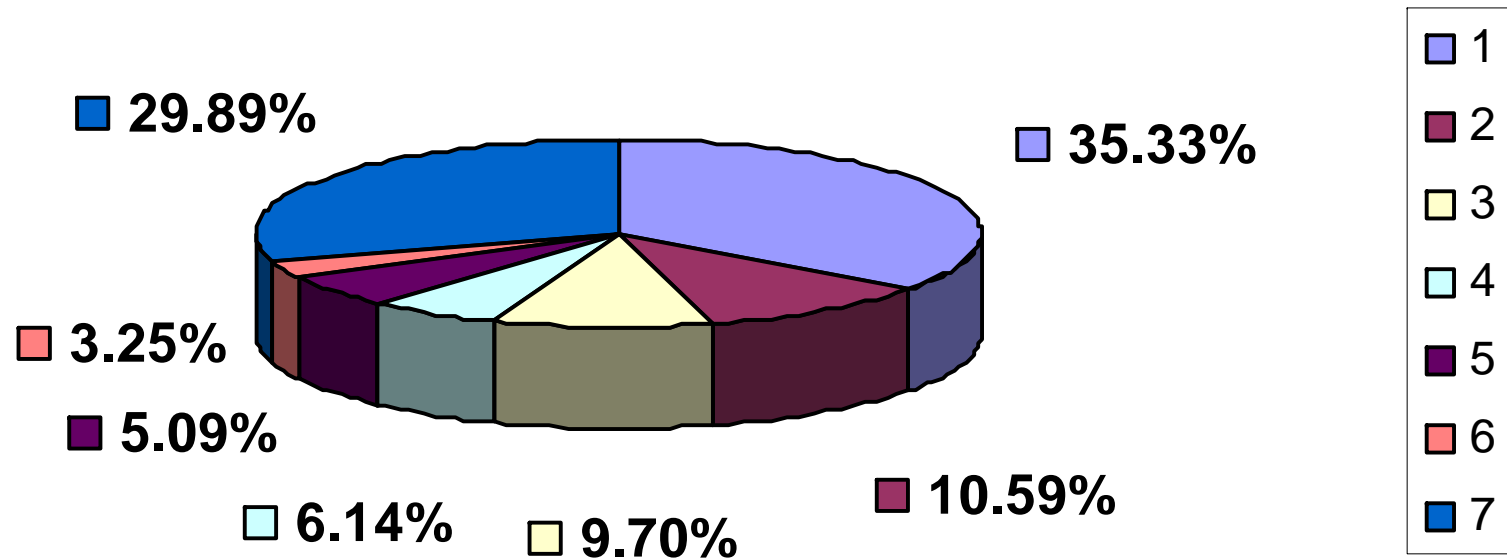


(Millions of U.S. Dollars)

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%
Total		\$4,377,929	100.00%



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3	France	\$268,900	6.14%
4	Germany	\$222,825	5.09%
5	Italy	\$142,328	3.25%
6	New York	\$138,935	3.17%
7	California	\$130,491	2.98%
8	South Korea	\$116,990	2.67%
9	Florida	\$110,142	2.52%
10	The Netherlands	\$102,831	2.35%
	The Rest	\$2,255,969	51.53%
Total		\$4377,929	100.00%

How States Compare



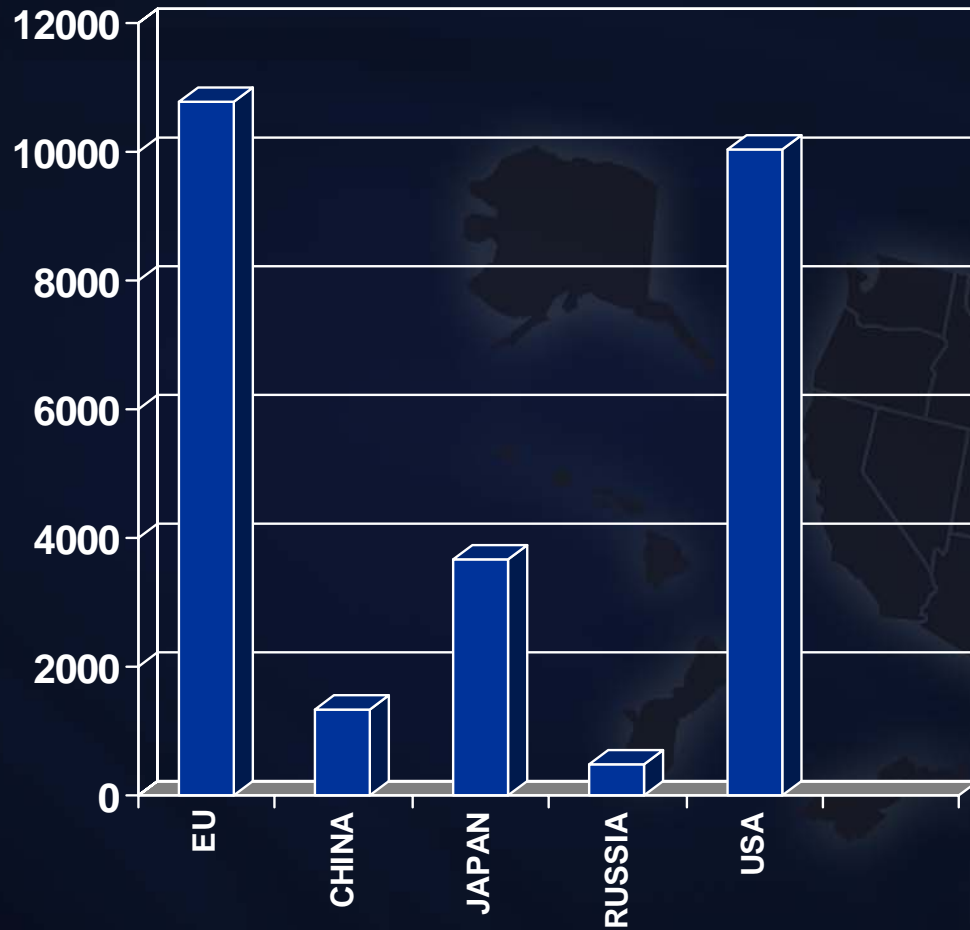
- 3 of the Top 10 Jurisdictions
- 7 of the Top 20 Jurisdictions
- 10 of the Top 25 Jurisdictions
- 13 of the Top 30 Jurisdictions
- 21 of the Top 40 Jurisdictions
- 28 of the Top 50 Jurisdictions

Global Competition (US v. EU)



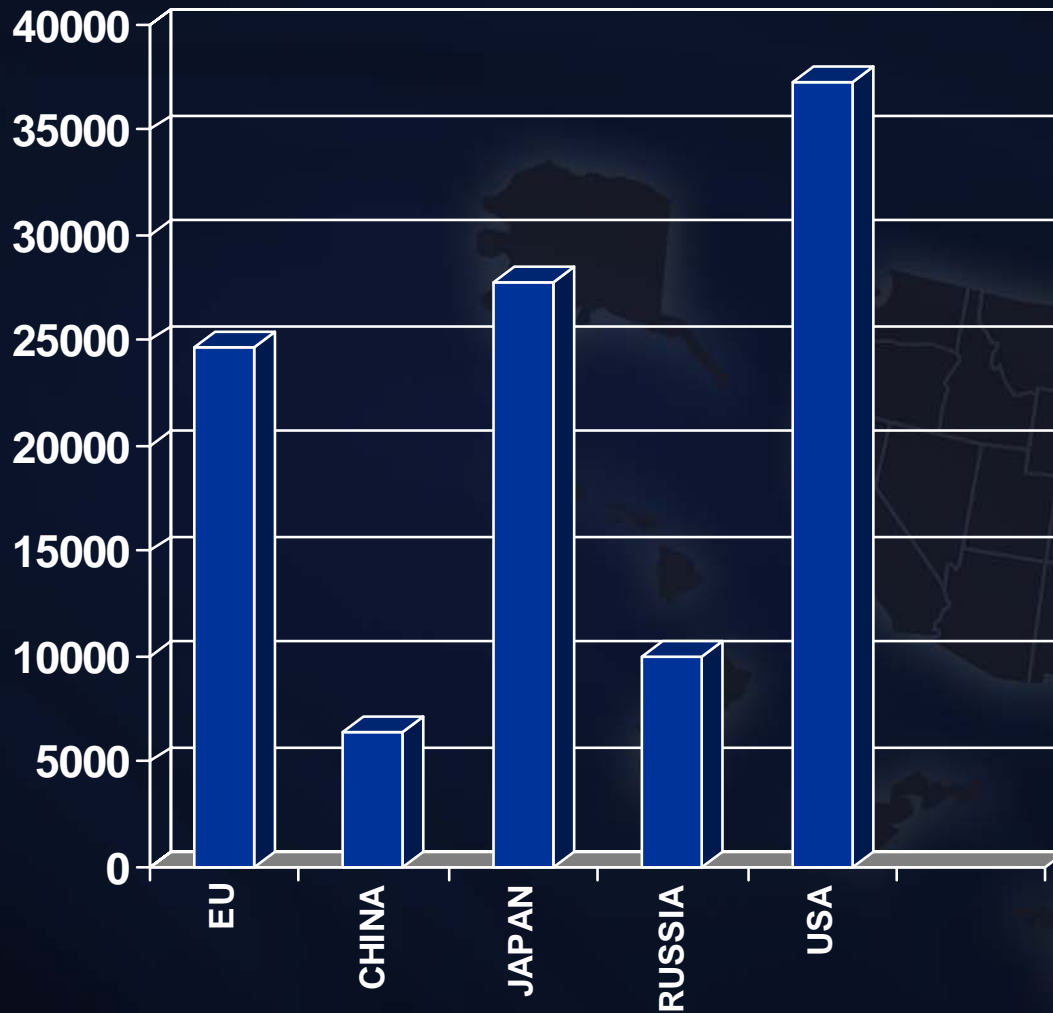
- US
 - One language
 - 50 States, DC & Terr.
 - 304 Million People
 - One Currency
- EU
 - 23 Languages
 - 27 Countries (Not All)
 - 493 Million People
 - Euros & > 10 Others

World Market Comparison



Size of Economy:
2006 Gross
Domestic
Product in
billions (euros)

World Market Comparison



2007 Gross Domestic Product per person (Purchasing Power Standard)

The Economic Downturn



- Insurers have weathered the storm relatively better than other financial services providers – WHY??
 - Picky state laws regulating insurers' investment activities
 - Wealth of financial information regularly provided to regulators
 - Active cross-border information sharing
 - Sound financial monitoring tools (IRIS & RBC)

The Economic Downturn



- What about AIG?
 - AIG is a financial services conglomerate
 - American International Group, Inc., is a financial holding company that owns 71 U.S.-based insurance entities and 176 other financial services companies throughout the world
 - The problem lies with the AIG financial holding company that is subject to federal regulatory oversight by the U.S. Office of Thrift Supervision (OTS).

The Economic Downturn



- What about AIG?
 - The AIG financial holding company took on more risk than they could handle when investing in collateralized debt instruments, such as credit derivative swaps on mortgage-backed securities
 - It is important to note that these types of investments are financial products, not state-regulated insurance products
 - When the U.S. housing markets experienced a downturn, these risky investments lost lots of money for the AIG financial holding company

The Economic Downturn



- What about AIG?
 - Even throughout the AIG financial holding company's liquidity crisis, consumers remained protected by insurance regulatory rules that prevented the parent company from simply raiding capital from its profitable and well-capitalized insurance subsidiaries
 - A coordinated effort by the nation's insurance regulators ensured that no policyholder assets were used for any part of this transaction

The Solution



- Two Buzz Words – Transparency & Regulation
 - Make the markets for risky securities more *transparent* so that the buyers know about the underlying elements of each bundled security that they are purchasing
 - State insurance regulators also suggest that federal financial services regulators look to state insurance *regulation* regarding, among other things, restrictions on derivative activities; limits on high concentrations in investment types; and appropriate minimum capital and surplus requirements

The Solution



- One way is to create a transaction platform where market participants - as well as regulators - have access to view the disclosures and the transaction details so that the markets become transparent, rather than opaque
- Transparent information about the transaction details will keep everyone honest, while allowing all parties to make a reasonable profit from the transactions placed through the platform
- Illuminating the markets is the best way to keep all market participants - and all market regulators - informed with the best available information to make the best financial decisions



Thank You



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