

August 18, 2008

The Hon. Christopher J. Dodd
Chairman, Senate Banking,
Housing & Urban Affairs Committee
448 Russell Senate Office Building
Washington, D.C. 20510

The Hon. Richard C. Shelby
Ranking Member, Senate Banking,
Housing & Urban Affairs Committee
110 Hart Senate Office Building
Washington, D.C. 20510

Dear Chairman Dodd and Ranking Member Shelby:

Insurance is a complex, unique, and specialized product that plays an essential role in our nation's economy. NAMIC believes it is important for Congress to understand the structure, role and regulation of insurance, as well as its fundamental differences from financial products and its interconnectedness to varying state laws and regional differences. The recent hearing in the Banking Committee was an important step toward this goal.

As the committee considers insurance-related issues, it is imperative that the views and concerns of all stakeholders in the process be represented. Testimony at the recent hearing could convey the impression that the industry is unified in support of a comprehensive federal role, including establishment of an optional federal charter. In fact, the vast majority of property/casualty insurance companies and agents oppose the creation of an optional federal charter: instead, they support a reformed system of insurance regulation at the state level.

NAMIC is the nation's largest property/casualty insurance company trade association, with more than 1,400 members underwriting all lines of property/casualty insurance. NAMIC members range from large international writers to single-state niche writers, all of which serve vital functions in our complex and diversified insurance market.

Nearly all NAMIC members are mutual insurers that are owned by and operated for the benefit of their policyholders. The first successful mutual insurance company in America was formed in 1752 by Benjamin Franklin and some of his fellow Philadelphians to help insure their properties against fire loss. The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire – now known as The Contributionship Companies – is still in business today and is a NAMIC member.

In those early days, most insurance companies followed the Contributionship model of neighbors forming entities to help each other avoid certain financial ruin if their properties were destroyed by fire. The other predominate type of insurance company is the stock company, which is owned by its shareholders.

Property/casualty insurance is inherently local in nature with corresponding regulatory differences. It is fundamentally different from financial services, such as banking and

securities. The state-based regulatory structure serves the dynamic and diverse needs of the national property/casualty marketplace as it reflects local risks and is tailored to state tort systems, which govern many types of contingencies at the heart of insurance claims. The state regulatory system allows regulators to develop expertise on issues particularly relevant in their states and to fairly and expeditiously address the needs of consumers.

NAMIC believes the decentralized system of state-based insurance regulation has inherent virtues that would be lacking in a national insurance regulatory system. While there are inefficiencies in the insurance marketplace, NAMIC believes they have less to do with the current regulatory framework than with the philosophy and execution of misguided policies that have led to price controls and excessive form regulation, restrictions on the ability of insurers to exit and enter insurance markets, and costly coverage mandates. NAMIC, other stakeholders and Congress have rightly criticized these inefficiencies. The states have not been blind to the criticisms, and some have taken significant steps to modernize their regulatory regimes and to enhance uniformity across jurisdictional lines. Nevertheless, consumers in every state would benefit from further reforms designed to promote more efficient and competitive insurance markets, while maintaining regulators' authority to take prompt corrective action to ensure the soundness of insurance products and the stability of insurance markets. NAMIC is working with the states to achieve these necessary reforms.

The insurance industry lacks consensus regarding an ideal regulatory structure, but there is broad agreement regarding the principles of sound financial regulation. While we are opposed to an optional federal charter, NAMIC believes that by adopting a "national targeted uniformity" approach, Congress could play an important, albeit limited, role in achieving certain targeted reforms that the states have not yet undertaken. As the committee looks toward legislative initiatives, NAMIC supports several measures that reflect this approach.

For example, the Nonadmitted and Reinsurance Reform Act of 2007 (H.R. 1065), approved by the House last year, would streamline regulation for nonadmitted insurance and reinsurance carriers and surplus lines companies. The legislation gives the home state regulator of the insurer primary oversight of multistate surplus lines coverage and responsibility for allocating any taxes collected on the sale of such policies to the states where the sales take place. It also makes it easier for sophisticated purchasers to access the surplus lines market. The concept of domiciliary deference embodied in H.R. 1065 would streamline the regulatory process. NAMIC urges the Senate to approve the legislation.

In a similar vein, NAMIC supports H.R. 5611, the National Association of Registered Agents and Brokers Reform Act. The legislation - approved by the House Financial Services Committee - would provide a mechanism through which licensing, continuing education, and other insurance producer qualification requirements and conditions can be adopted and applied on a multistate basis, while preserving the rights of the states. The uniform approach to licensing would remove redundancies and inefficiencies, lower costs, and increase competition. NAMIC believes that the legislation should be considered expeditiously by the full House and Senate.

Additional legislation for consideration would create an Office of Insurance Information within the Department of the Treasury. H.R. 5840, the Insurance Information Act,

