

Statement of Thomas J. Rodell, CPCU, Chairman, Council of Insurance Agents & Brokers
Before the joint hearing of the Financial Institutions and Consumer Credit and
Oversight and Investigations Subcommittees of the House Financial Services Committee
March 6, 2001

This statement is submitted on behalf of the members of The Council of Insurance Agents + Brokers ("The Council"). The Council is a national trade association founded in 1913 as the National Association of Casualty and Surety Agents. For 88 years, The Council of Insurance Agents + Brokers has provided industry leadership while representing the largest, most productive and most profitable commercial insurance agencies and brokerage firms in the U.S., and around the globe.

The Council's member firms operate in over 3,000 locations and place nearly 80% - well over \$100 billion - of the U.S. commercial property/casualty premiums. In addition, The Council's members specialize in a wide range of insurance products and risk management services for business, industry, government and the public. The Council's members operate nationally and internationally and administer billions of dollars in employee benefits.

I am Thomas J. Rodell, Managing Director of Aon Risk Consultants, Inc., of Chicago, IL. I serve as Chairman of The Council, as well as a member of the association's Board of Directors. Aon Corporation is a holding company comprised of a family of insurance brokerage, consulting and insurance underwriting subsidiaries. With locations throughout the United States and in several countries, Aon is one of the largest brokerage firms in the world. Our firm provides risk management services, commercial property/casualty insurance products and employee benefit programs — utilizing both traditional insurance channels and alternative risk-financing options such as captives and self-insurance pools.

Madame Chair, on behalf of my firm and the members of our association, I want to express our sincere gratitude to you for the essential role you played in the enactment of the National Association of Registered Agents and Brokers (NARAB) provisions of the Gramm-Leach-Bliley Act of 1999. Our association began working with the National Association of Insurance Commissioners on the producer licensing uniformity issue in 1939. After decades of effort to improve the producer licensing burden, the enactment of NARAB is the assurance that, at long last, these reforms will occur. Tens of thousands of agents and brokers around the country will benefit from this legislation, and they have the members of this committee – and especially you – to thank.

NARAB's enactment was an essential reform. The purpose of the Gramm-Leach-Bliley Act was to modernize the nation's laws to make our domestic industries more efficient, better able to compete globally and to better serve the needs of consumers. With marketplace convergence occurring throughout the insurance distribution system, it is unacceptable for state licensing laws to serve as barriers to interstate competition. NARAB is a solution to the problem that relies on the existing framework of state insurance regulation. NARAB also represents an important incentive for state insurance regulators to move forward with the modernization of insurance regulation in general. However, we believe that the NARAB provisions are just a starting point for regulatory modernization.

The Gramm-Leach-Bliley Act tore down the firewalls separating the banking, securities and insurance industries, and it created a brave new world in which banking, securities and insurance transactions could occur in one place and in a seamless manner. Instead of just selling and servicing insurance policies, I am now a member of the financial services industry – an industry that can provide both its members and its customers with innovative new products and services. We believe the expanded ability to provide consumers with financial service product choices will lead not only to more innovations but also to a more competitive market. That will only benefit consumers.

There is one area, however, not addressed by the Gramm-Leach-Bliley Act but which we believe is extremely important. Our concerns are expressed both as members of the industry providing financial services products to consumers and, ultimately, as consumers ourselves. It has been said many times that freedom comes with a price. In our situation, the price of the increased freedom to offer financial services to consumers is the increased potential for bad actors to move among the banking, securities and insurance sectors without detection.

The Council is extremely concerned about this issue. As intermediaries between insurance companies and consumers, our members must be concerned not only about bad actors entering the market as intermediaries, but we must also be concerned about bad actors getting involved with the companies with which we do business. One need not look far to find examples of bad actors who were prohibited from doing business in either the banking or securities sectors and then found their way to the insurance sector, only to wreak more financial havoc.

While it is true that Gramm-Leach-Bliley broke down many barriers in the financial services industry, there is one area that The Council feels must not suffer as a result – a sound financial services regulatory system. We firmly believe the different financial services regulators must work together to provide efficient regulation for the financial services industry. As we move toward a more integrated financial services industry, our paramount concern is for good regulation that will not only provide the necessary consumer protections, but also foster growth and prosperity for our industry. In our view, the means of regulation in this case is subsidiary to the end goal of sound but fair regulation.

We also believe it is crucial that financial services regulators work together to present a united front to those who, through fraud and deceptive schemes, would attempt to take advantage of the market freedoms engendered in Gramm-Leach-Bliley. Regulators must always be vigilant to coordinate their fraud-fighting efforts in order to keep bad actors out of the financial services industry.

I understand this committee is considering a proposal to create a means for federal and state financial services regulators and law enforcement agencies to stop bad actors by coordinating and sharing anti-fraud and required criminal background check information. In essence, this proposal envisions the creation of an Anti-Fraud Subcommittee within the Federal Financial Institutions Examination Council (FFIEC), which would administer a computerized network connecting existing anti-fraud databases maintained by federal and state financial regulators and law enforcement agencies. The Council wholeheartedly supports such a proposal for several reasons.

The approach under consideration would not establish a new federal bureaucracy, and would not require any new regulations. It also would not require a new collection of information about individuals in the banking, securities or insurance sectors – rather, it will take advantage of existing databases and Internet technologies to bring fraud-fighting activities into the Information Age. This approach is similar to the approach taken in the NARAB provisions of the Gramm-Leach Bliley Act – the use of existing regulatory frameworks to solve a regulatory problem.

This approach would also have several consumer protection benefits. It will make it easier for financial services regulators to detect patterns of fraud and to protect the public from ongoing fraud. It will make it much easier for regulators to coordinate their anti-fraud efforts, and reduce duplicative requests for information among the regulators. In short, it will give federal and state financial services regulators the tools they need to help protect consumers and to help preserve the market freedom the financial services industry is just beginning to explore.

There is an additional benefit to this proposal for both consumers and the financial services industry as a whole, but one not readily apparent on the face of the legislation. The multiple add-ons to nonresident licensing applications and the state laws that limit the activities of nonresident producers have little to do with enforcing standards of professionalism and much to do with increasing the hassles involved in obtaining a nonresident license. We believe that NARAB enactment – even if NARAB ultimately does not come into existence – will serve not only to lift this licensing burden, but also to raise the standards of professionalism involved in the producer licensing process. The proposal under the committee's consideration will contribute much to this goal, and this only strengthens our support.

There is one area of this proposal I want to discuss in more detail. We understand the approach under consideration would permit coordination of criminal conviction reviews currently required for insurance and securities licensing. In addition to the obvious consumer benefits to flow from such coordination, we believe this approach would also provide greater efficiencies both for regulators and for those who must be licensed. I'd like to offer a brief overview of the current insurance producer licensing process to illustrate some immediate benefits.

As I noted at the start of my testimony, The Council's members offer their clients both property and casualty and employee benefits coverage. All Council members hold insurance licenses in multiple states, and many are licensed in all 50 states. Many Council members are also licensed as either insurance agents or brokers (or both) and as securities dealers. They must undergo separate criminal conviction reviews not only for securities licenses and for insurance licenses, but, in many cases, they must also undergo separate reviews for the different insurance licenses that they hold. There are currently 15 states which as yet require some form of criminal conviction review, and several states that still require the submission of one or two sets of fingerprints.

At this time, the state insurance regulators do not have the ability to directly access federal criminal history records maintained by the Federal Bureau of Investigation (FBI). Some states run criminal conviction reviews through their state police, and some state insurance regulators who have specialized anti-fraud units holding law enforcement authority also have some access to some criminal history records. However, the criminal record information gained through these checks is not complete information.

Currently, there is no comprehensive system among state regulators to share information found during criminal conviction reviews performed by individual states, nor is there a system that permits the sharing of information between the state insurance regulators and the National Association of Securities Dealers. When you consider the large number of insurance agents and brokers who are also licensed as securities dealers, it is surprising there is no a formal information sharing process between the two functional regulators. This lack of coordination also leads to the imposition of duplicative requirements on those agents and brokers who hold securities licenses.

Additionally, states that currently perform background checks have varying requirements. As you may recall from our testimony during the hearing held on the NARAB provisions of the Gramm-Leach-Bliley Act, these types of varying requirements create undue expense, administrative headaches and licensing delays for agents and brokers who are licensed in multiple states. Allowing regulators to coordinate the review of criminal convictions will greatly help to alleviate the difficulties caused by wide requirements variances in several ways.

First, coordination of such reviews should decrease the number of separate reviews performed on individuals. Our ideal would be to have an agent or broker go through one criminal conviction review, which would be valid for a specified period of time, and which would be valid for all financial services licenses for which the individual applies. Centralizing the storage of the information from the review and allowing all state and federal financial regulators access to that information would certainly help to decrease the necessity for multiple reviews. Additionally, setting a uniform validation period for a criminal conviction reviews will decrease the necessity for performing additional checks each time an individual wishes to be licensed in a new jurisdiction.

Second, coordination of such reviews will hopefully decrease multiple burdens on licensed individuals to provide to different regulators certain types of information needed in the license decision-making process. Rather, regulators will be able to go to a centralized location to collect necessary information.

Finally, coordination of these reviews will permit regulators to catch bad actors who are attempting to move from sector to sector within the financial services industry before they are licensed and before they can do further harm.

The Council commends the subcommittees for holding this hearing today. As the financial services sectors continue to integrate in the aftermath of Gramm-Leach-Bliley, we believe it is imperative to give federal and state financial service regulators the tools they need to provide necessary consumer protections in an efficient and cost-effective manner. We look forward to working with the committee to reach this goal as formal legislation is drafted.

On behalf of The Council, I'd like to thank you for allowing me to provide this testimony today.