

TESTIMONY OF
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STARMOUNT LIFE INSURANCE COMPANY

BEFORE THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE
AND GOVERNMENT SPONSORED ENTERPRISES

RICHARD BAKER, CHAIRMAN

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Mr. Chairman, ranking member Kanjorski, and Members of the Subcommittee, my name is Hans Sternberg. I am chairman of Starmount Life Insurance Company. We employ 63 people, and are admitted in 18 states. I am here to offer my perspective as the owner of a small, family business. In fact, four years ago, when our premiums were under \$4,000,000, I boasted we were America's "smallest" life company. This year, premiums will exceed \$18,000,000. Obviously, we are still small, but growing.

I spoke to Chairman Baker about the optional federal charter to be sure small independents are not excluded by high capital or revenue minimums. Companies like mine need this legislation because the present system imposes high regulatory costs and restricts market access.

Regardless of size, all companies pay the same dollars to comply with regulation. Thus, smaller companies bear a HIGHER PERCENTAGE cost than larger ones. To GEICO (which testified here just last week), \$100,000.00 is pocket change; not to companies like Starmount.

One of our divisions sells life insurance by mail. The economics of direct mail selling assume we reach all names on productive mail lists. Unfortunately, barriers to entry in many larger states make this impossible.

Conversely, we generally avoid the 12 smaller states like Delaware, North Dakota, Idaho, Montana, Wyoming, and Rhode Island, with 2,000,000 or less people, because the costs of regulation make it difficult to be profitable there.

Not only is Starmount barred from many larger markets, but citizens of both state groups lose the competitive benefits new companies bring, for example, greater product choice, lower prices, better service.

Here are other examples of what we face:

- 1) For several years, we bought insertion privileges in the Visa monthly bills of our local bank, which allowed us to send marketing material to the bank's Visa card holders. It was our most profitable venue. Then, the bank won a 50-state military contract. Obviously, we lost all opportunity to continue selling through the bank, because we only can sell in states that admit us. There was no way to replace that business.
- 2) We once developed a policy at a cost of \$20,000-\$25,000, which is a lot for a company our size. It was approved in all our states except two. After three years, we abandoned the program. It is not economical to promote to only part of our customer base, plus there is the constant fear of mailing to the wrong jurisdiction.
- 3) For years we ran a newspaper ad in several states, but one fined us \$10,000.00. That state has a unique rule: if you show even one rate in an ad, you must show all rates. That would have meant 188 of them. We obviously no longer run ads in that state, but such foolishness is solely political protection for entrenched marketers, who oppose competition.
- 4) At one time we used brochures to sell in supermarkets. The distributor inadvertently sent the wrong state's material to some Wal-Mart stores. The insurance was approved by both states, but the minor differences caused a \$7,000.00 fine. We stopped using brochures in grocery stores, so the consumer lost that option.
- 5) We have insurance product filed for 2.5 years, but not yet approved in every state. The excessive delay is expensive and frustrating. In the end, the consumer has less choice.
- 6) Our largest division uses agents to sell supplemental health benefits to companies. To take advantage of a 50-state opportunity offered to us by a national retailer, we recently partnered with a national carrier, giving half the potential sales to the partner. For us, it is better to have half the business rather than none, but the sales relinquished by us will involve millions. Over the next two years, licensing for this program will cost over \$100,000.00.

The present system will always handicap Starmount's efficiency. We are forced to charge the consumer more, as well as to fall short of our sales potential, because of unnecessary and inconsistent regulations.

I urge this Committee to remember the small companies which regularly encounter these bureaucracies.

Thank you for this opportunity.