



# THE COUNCIL

of Insurance Agents + Brokers

## **Statement of The Council of Insurance Agents + Brokers**

**Submitted to the House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises**

**on**

**Insurance Product Approval: The Need for Modernization**

**Thursday, June 21, 2001**

The Council of Insurance Agents and Brokers applauds Subcommittee Chairman Richard Baker for holding this hearing on the state-based system of insurance product approval. Chairman Baker and Chairman Oxley played integral roles in the 1999 enactment of financial services reform legislation, and we are heartened by their interest in seeing further modernization occur in the insurance regulatory system.

The Council's members represent firms that collectively sell more than 80 percent of all commercial property and casualty insurance in the country. While it is true that the biggest regulatory issue affecting agents and brokers is the licensing process, the NARAB provisions of the Gramm-Leach-Bliley Act will ultimately relieve that burden of duplicative, protectionist, state-by-state requirements. The subject of today's hearing – speed-to-market for insurance products – is the second biggest regulatory issue affecting Council members. We believe that the debate is now rightfully moving on to the larger questions surrounding the efficiency of state-based regulation for insurance companies. These issues were not addressed by Gramm-Leach-Bliley, and they threaten to severely damage the competitiveness of the U.S. insurance industry on a national basis and in the progressively global economy.

The enactment of financial services reform legislation in 1999 did much to bring the banking and securities industries into the modern economy, but it did not do the same for the insurance industry. Since the enactment of the McCarran-Ferguson Act in 1945, the U.S. economy has become more dependent on business transacted not only a national level, but also, increasingly, on an international level. Additionally, the phenomenal growth of the Internet and electronic commerce over the past several years have radically changed the way that all businesses compete. Consumers have come to expect an immediate response to their needs, and a business will lose customers if it cannot respond to their requests quickly enough.

Businesses that were once found only in a single state now have locations in several states and internationally. Consumers who once purchased goods and services only from local businesses now purchase these same goods and services from business located across the country and around the world. Insurers who once only insured individuals and businesses in a single state now write policies on a multi-state and multinational basis.

Unfortunately, insurance laws have changed little over the past fifty years to accommodate the sweeping changes that have occurred in the U.S. economy and the U.S. insurance industry. By and large, commercial property and casualty insurers must still gain approval on a state-by-state basis for the products they sell and the rates they charge for those products. The state-by-state approval process causes delays in bringing new products to market, and adds administrative costs to each and every insurance product sold. Additionally, this regulatory stagnation threatens the ability of commercial agents and brokers and their partner insurers to be responsive to newly-developing risks and quickly-changing consumer needs, and decreases the economic efficiency of commercial insurers, agents and brokers.

The commercial insurance marketplace has changed dramatically over the past several decades to meet the constantly changing needs of businesses that operate on a multi-state and multinational basis. Council members sell primarily commercial property and casualty coverages that are oftentimes focused on meeting specific sets of business risks. Additionally, Council members play a large part in setting up specialty programs that appeal to specific niche markets. Many of the ideas for product innovations begin at the broker level, when brokers attempt to build insurance programs that meet specialized these customer needs and then bring those ideas to insurance companies.

The involvement of Council members in developing programs brings great value to the commercial insurance consumer. In most cases, commercial consumers would not be able to find these niche coverages at an affordable price. In some cases, commercial agents and brokers work with insurers to develop new coverages that address emerging risks encountered by commercial clients. For example, Council members have been at the forefront of developing new types of insurance policies to address several kinds of risks based on Internet transactions and new liabilities that have arisen from these transactions.

In today's fast-paced world, both commercial insurers and the agents and brokers who sell their products must have the ability to bring new and innovative insurance products to market quickly and in the most-cost efficient manner. Council members believe that market forces, and not regulatory fiat, should guide the development of products to fit our customers' specialized needs. However, the current system of insurance product rate and form approval significantly impedes our members' ability to offer their clients the new and innovative products that their clients want and need. This is not only bad for our members' businesses – it is bad for their clients' businesses as well.

Currently, an agent or broker who develops a specialty program or coverage must wait to market that program until that product has gained the approval of all the insurance regulatory jurisdictions in which the agent or broker wishes to sell the product. If an agent or broker wants to sell the product on a national basis, that means it must wait for the approval of 51 jurisdictions. Sometimes, the wait for this approval can be interminable – and fatal to the product's success.

For example, a number of large commercial agents and brokers, including some Council members, have formed a captive insurer to provide professional liability insurance for themselves. Recently, this captive incurred a large loss, and needed to make changes to its policy form. Because of the nature of the policy, the captive needed to get the approval of all fifty-one jurisdictions before the changes could take effect in each jurisdiction. It has taken more than two years for the captive to secure the necessary regulatory approvals to the policy form. This type of regulatory delay is not acceptable if commercial insurers, agents and brokers are to remain competitive on a national and international basis.

The Council has consistently supported legislative efforts in individual states to streamline the commercial lines policy and form approval process. The Council also worked with the NAIC working group headed by Ohio Insurance Director Lee Covington that developed a set of proposals that promote operational efficiencies in the commercial property and casualty rate and form filing process, and that significantly streamline the rate and form approval process for most commercial insurance policies. The Council believes that the changes to the rate and form filing system proposed by Director Covington's working group will be the key to bringing new, innovative insurance products to market in a more timely fashion. For Council members who develop specialized insurance programs, these changes will be invaluable.

The Council believes that the reforms developed by Director Covington's working group, if fully implemented by all fifty states and the District of Columbia, will do much to begin to modernize the state-based insurance regulatory system. However, it is not clear that all states will do so. The adoption of these reforms by only a handful of states will do little to lessen the regulatory burden borne by commercial insurers, agents and brokers. While The Council remains hopeful that the states will continue to move down the path laid out by Director Covington's group, we also welcome further examination of speed-to-market issues by this Subcommittee.

The Council thanks Chairman Baker for the opportunity to offer these comments on the need for modernization in the insurance product approval process.