

TESTIMONY OF ILLINOIS STATE REPRESENTATIVE TERRY PARKE, PRESIDENT OF  
THE NATIONAL CONFERENCE OF INSURANCE LEGISLATORS (NCOIL)  
BEFORE THE U.S. HOUSE OF REPRESENTATIVES  
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE AND GOVERNMENT  
SPONSORED ENTERPRISES OF THE FINANCIAL SERVICES COMMITTEE,  
RAYBURN HOUSE OFFICE BUILDING, WASHINGTON, DC  
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Chairman Baker, Members of the Subcommittee, my name is Terry Parke. Let me first express my thanks for the opportunity to speak to you today.

It is my privilege to represent the 100,000 residents of Schaumburg and Elk Grove in the Northwest suburbs of Chicago in the Illinois House of Representatives.

It is also my privilege to serve as President of the National Conference of Insurance Legislators (NCOIL). It is in that capacity that I appear before you today. NCOIL is an organization of state legislators whose primary area of public policy concern is insurance and insurance regulation. NCOIL legislators chair or are members of the committees responsible for insurance in their legislative houses across the country.

Since its inception more than 30 years ago, NCOIL has supported state regulation of the business of insurance as authorized by Congress in McCarran-Ferguson.

The states have established a strong record under that authorization. Insurance markets have grown and become increasingly competitive in terms of price and products. There are more than 3,300 property and casualty insurance companies and over 1,800 life and health insurance companies now in competition for customers in U.S. insurance markets. There are more than 760,000 insurance agents and brokers actively and directly engaged in the business. No other regulated private sector industry, in the U.S. or anywhere, offers such a competitive environment.

NCOIL legislators are ready to do what it takes to build on that record.

NCOIL recognizes that there is no escape from the fact that powerful technological and competitive forces challenge the state-by-state system of insurance regulation. NCOIL supports the efforts of the National Association of Insurance Commissioners (NAIC) to bring about needed efficiencies in the state-based system. NCOIL supports the NAIC Statement of Intent of March 2000, which outlined a plan for the future of insurance regulation under the Gramm-Leach-Bliley Act of 1999.

That statement and NAIC efforts since then have addressed, among other things, the need to speed and synergize the state-by-state process of policy form and rate approvals -- the need for "speed-to-market." That is the worthy focus of this hearing.

The NAIC has conceived and put into motion a voluntary plan to facilitate one-stop shopping for price and product approvals. The NAIC has initiated a trial run or "limited launch" of the plan, known as the Coordinated Advertising Rate & Form Review Authority, or CARFRA, in ten states.

That plan has promise. Its success is possible. It deserves every reasonable chance.

But, if necessary, NCOIL could support efforts to take this laudable NAIC effort one important step further. That step would overcome the fact that CARFRA is voluntary; that its opinions are advisory; and that it allows individual states to retain their own authority.

NCOIL could support efforts aimed at a totally independent national, state-based regulatory facility. Its purpose could be to decide on policy form and rate approvals.

Such an entity would

- have absolute authority,
- take its authority directly and totally from state governments,
- have its own exclusive appeal process,
- be totally free-standing, and
- be totally state-based and state-funded.

Its strength would lie in its power to make fast, effective and final decisions.

Its strength would lie in its keeping the regulation of insurance under direct state control.

Its success would lie in its capacity to speed products to world as well as Main Street markets.

Its success may require amendment of state rating laws.

Its success, we recognize, may require some ceding of state authority, possibly through an interstate compact or other means.

NCOIL has long advocated interstate compacts. But your Subcommittee, Congress, and all interested parties should view a compact not as an end in itself, but rather as a tool to achieve a greater goal.

That, of course, would not be the only option.

Among other options would be to let the market prove itself as a regulator. Any such move would, of course, require the presence of adequate solvency safeguards to protect against any self-destructive or overly competitive behavior. It would also require aggressive policing of the insurance marketplace with adequate punishment of any abusive sales and claims-paying practices.

A market approach can work. I am proud to say that Illinois has put its faith in the market since 1971. Illinois consumers have benefited from overall premium rate levels that are below most other states with high population and heavy traffic. Auto insurance is readily

available in the private market in Chicago. The residual market is small. Nationwide surveys indicate that the percentage of uninsured motorists is below the average of other populous states. Other studies show that more auto and homeowners insurers are competing for business in Illinois. Illinois has more than double the number of competing insurers than states like Massachusetts and New Jersey, states that have price controls.

States have begun moving toward a market solution. NCOIL adopted a commercial lines deregulation model act in 1999. Since 1995, 22 states have instituted some form of commercial lines rate and form filing deregulation.

Less than one month from now NCOIL will consider a comprehensive deregulation bill that would establish a competitive use and file system in states that adopt the measure. It would cover personal as well as commercial lines. Consideration of the proposed model follows an NCOIL hearing held on March 1 of this year. At the hearing, insurance industry witnesses argued that personal lines rate and form regulation is costly and inefficient. They argued for a substantial overhaul.

Solvency safeguards are already up and running and they have been for some time. State adoption of NAIC model uniform laws aimed at monitoring the financial strength and claims-paying ability of insurers through an NAIC accreditation program greatly reinforced and improved upon those safeguards. The fact of it is that for more than a century, the record of state insurance regulation compares most favorably with that of the regulation of other financial service institutions.

Significant steps toward improved regulation in the insurance marketplace have begun. NCOIL commissioned a study which identified areas where states need to improve the market conduct examination process. Based on the findings of that study, NCOIL is monitoring the progress of the NAIC today in the coordination of multi-state market conduct examinations, the training of market conduct examiners, and the validity of self-policing. NCOIL will mark progress in that regard when the Insurance Legislators Foundation, a research and educational arm of NCOIL, holds a public hearing in Chicago on July 12.

We will be happy to provide this Subcommittee with the transcript of that hearing.

It is not insignificant to note that Illinois introduced market conduct examinations in 1970 in tandem with its move to competitive regulation. In Illinois, market conduct examinations evaluate underwriting, advertising, agency operations, marketing, and claims practices. Those examinations measure the actual performance of insurers and their personnel against the provisions contained in the insurance policy contracts they have with their customers.

NCOIL believes that state regulation has served the needs of the families and businesses that buy insurance and has fostered a strong market of financially sound competitive insurers. Now NCOIL recognizes the need to respond to new challenges and modernize state-based insurance regulation. NCOIL is more than willing to work with all interested parties to make that happen.

Thank you. I would be happy to answer your questions.

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