



SOCIETY OF ACTUARIES

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Federal Regulation of Insurance?

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Senator Hollings (D-S.C.) recently introduced the Insurance Consumer Protection Act of 2003. This act would make the Federal Insurance Commission the only regulator for interstate insurers. The Commission would be responsible for:

- Licensing and Standards for the Insurance Industry
- Regulation of Rates and Policies
- Annual Examinations and Solvency Review
- Investigation of Market Conduct
- Establishment of Accounting Standards

The industry is not supportive of Senator Hollings' bill, and the bill is not expected to be enacted in the near future. So why should we care?

The reason is that discussion on this federal charter has been increasing over the last several years.

While this bill may not go anywhere, other efforts may bear more fruit in the future. This discussion is only going on because there is a perceived need for reform in the current state-based regulatory system.

On the positive side, a federal system could eliminate the need to deal with onerous rules that have been adopted by certain states. It would eliminate the need to track state variations in laws; presumably, there would be only one set of rules. On the negative side, the one set of rules might represent poor regulation; if this set is difficult to deal with, the industry might pine for the "good old days" of state regulation. Also, a federal system could lead to dual regulation, if the federal regulations overlay the state regulations —this may be the worst case scenario!

It is also possible that this could be very bad news for small companies. Variable products are federally regulated already due to SEC requirements; the result has been that it is expensive for small companies to do this on their own. In the extreme, small companies could go the way of state char-

tered banks. This could be a problem with Senator Hollings' bill since it doesn't give companies the option to remain state-regulated. Small companies should consider getting involved in this discussion soon.

A critical issue in any federal system is scope. If all regulatory functions are handled on a federal basis, one result is obtained. However, if the federal system is more limited, a very different result could occur. For example, if the federal system was focused on coming up with a uniform (probably GAAP) accounting basis, but left other regulatory functions to the states, the impact on all companies (small and large) might be similar.

We can look forward to watching this develop over the next several years.

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▶ Chapter Four deals with Rapid Assessment and Delivery (RAD), that is, quick turnaround time. Traditional underwriting uses an (APS) Attending Physician Statement. This seems to be the major cause of the underwriting slowdown. This chapter discusses alternative underwriting data sources that can be rapidly accessed. The author points out that quick turnaround leads to less handling, and thus cheaper costs, as well as reduced fallout rates.

Chapter Five, Product Construction-Simply, contains an analysis of not only the life market but also disability income and medical markets. It also provides a demonstration of how reduced acquisition costs (due to modified underwriting and instant issue) can offset a higher mortality cost that may result.

The final two chapters deal with evolving selling patterns, customer relations management and the bank market. The author has examined this market in Great Britain and

seen that it is more sophisticated than that in the United States. This does not bode well for smaller companies because it may mean that the United States bank market will figure out ways to improve. Since the larger banks deal with larger life companies, this might adversely affect the smaller ones. But in the future, perhaps, regional banks will merge with smaller insurers.

Of course, if the smaller companies get on the ball with improving underwriting practices, they may carve out enough market share to survive. Perhaps regional banks will prefer dealing with the smaller companies. They traditionally have greater initiative for making changes. If your company decides to investigate these changes, this book provides a basic background.

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