

OPENING STATEMENT
CHAIRMAN PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND
GOVERNMENT SPONSORED ENTERPRISES
HEARING ON “HOW SHOULD THE FEDERAL
GOVERNMENT OVERSEE INSURANCE?”
MAY 14, 2009

We meet today to continue the review by the Capital Markets Subcommittee of insurance regulation. Our panel has taken the lead in Congress during the last few years in debating insurance matters and finding consensus reforms to modernize our national insurance laws.

Unlike other financial sectors that have evolved over time to include some degree of Federal and State regulation, States alone continue to have the primary authority to regulate insurance today. For that reason, Congress has historically only passed insurance legislation to respond to a crisis, address a market failure, or adopt narrowly-focused insurance reforms.

For example, after September 11, Congress ultimately passed the Terrorism Risk Insurance Act so that construction could continue after the terrorist attacks and businesses could obtain coverage to protect their viability. After a series of hearings debating insurance reform last Congress, this Subcommittee considered and approved four narrow insurance bills. One of those bills, the Insurance Information Act, could help the Federal government build a knowledge base on insurance matters so that the Federal government could see the complete picture of the insurance industry rather than intermittently seeing the brush strokes of a particular problem in the industry or at a particular company.

We are very fortunate that this Committee has a long history of working in a bipartisan fashion. I hope we continue in that vein and find common ground on these matters. Thoughtful, broadly supported legislative reforms are usually the most successful. We must, however, also move swiftly, yet deliberatively, in developing a new game plan to involve the Federal government in more direct oversight of the insurance industry. Today, we are both responding to a crisis of sizable proportions and seeing the big picture of an interconnected modern financial services system for the first time.

After the turmoil in the bond insurance marketplace, the decisions to provide substantial taxpayer support to American International Group, and the requests of numerous insurers to get capital investments from the Treasury Department, we can no longer continue to ask the question about whether the Federal government should oversee insurance. The answer here is clearly yes.

The events of the last year have demonstrated that insurance is an important part of our financial markets. The Federal government therefore should have a role in regulating the industry. As such, we now must ask how the Federal government should oversee insurance going forward. This question is the topic of today's hearing.

The answer to this question is difficult. The bond insurance crisis showed that even small segments of the industry can have a large economic impact. AIG taught us that the business of insurance has become complex and no longer always fits nicely into the State regulatory box.

Moreover, some companies operate unlike traditional insurers in today's markets. Instead of insuring assets, these companies insure financial transactions and use substantial leverage.

My assessments should not be taken as criticism of the present State regulatory system. By and large, State regulators have performed well, despite the growing complexity of the financial services system. That said, I am also not suggesting that we expand the mission of State insurance departments beyond insurance.

At the very least, this Congress must address insurance activities as it creates a new legislative regime to monitor systemic risks and unwind failing non-depository institutions. The Administration's proposal to create a resolution authority properly includes insurance holding companies. Oversight of any financial activity – insurance or otherwise – as it relates to the safety and soundness of our economic system must also be mandatory. Insurance is complex, and it is time for the Federal government to appreciate its importance.

Equally important to me is that Congress not limit itself to simply responding to this latest crisis. Many insurance products are either of national importance or uniform in nature. We must therefore consider whether to regulate these elements of the industry nationally.

In sum, we have asked our witnesses to help us to examine these issues. Their fresh perspectives can point us in the right direction as we think about these matters in a new light.
