

**STATEMENT OF
THE NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
(NAMIC)
ON THE ESTABLISHMENT OF A FINANCIAL SERVICES ANTI-FRAUD NETWORK
BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS AND
THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
OF THE COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 6, 2001**

The **National Association of Mutual Insurance Companies (NAMIC)** is a full-service trade association with more than 1,200 member companies that underwrite 40 percent (\$123 billion) of the property/casualty insurance premium in the United States. NAMIC's membership includes five of the ten largest p/c carriers, every size regional and national p/c insurer and hundreds of farm mutual insurance companies. NAMIC benefits member companies through government relations, public affairs, education and arbitration services, and insurance and employee benefit programs.

NAMIC supports the objective of establishing a mechanism through which criminal background checks can be conducted on prospective employees and believes that the committee is moving in the right direction by addressing this issue. There are important reasons to grant this access. Individuals in the insurance business are exposed to and have access to tremendous amounts of money. Those in charge of insurance operations have an obligation to their policyholders, customers and stockholders to ensure that company assets are handled legally and responsibly. Congress recognized this in 1994 with the passage of the Insurance Fraud Prevention Act, which makes it a crime to employ persons who have been convicted of fraud or financial crimes. To date, there has not been a mechanism for insurers to conduct background checks. Others in the financial industry, including banks and securities firms, have had systems for conducting background checks for many years.

Under the outline being considered by the committee, an insurer would submit a request for a criminal background check on an individual to their state insurance department. The state regulator would then send the request through a clearinghouse administered by the National Association of Insurance Commissioners (NAIC). The necessary information would be filtered and sent back to the state regulator. The NAIC clearinghouse would keep the information on file and serve as a repository for future background checks by other states.

NAMIC believes it is important to make sure that the NAIC simply serves as a clearinghouse and is not granted any new authority under the legislation. NAMIC recognizes the importance of having a centralized system for processing background checks. Having a central clearinghouse for the information is the most efficient approach if it is administered appropriately. A central system will reduce the number of requests that insurance regulators must submit. It will also make it easier to coordinate efforts between all of the different segments of the financial industry and enhance fraud prevention. The staff-provided outline for the legislation suggests administration of the network would be coordinated through the Federal

Financial Institutions Examination Council (FFIEC). It is strongly recommended that the FFIEC be expanded to include representation by one or more state insurance regulators.

It is important that the criminal background check mechanism for insurers have equal standing with that used by the banking and securities industries. In addition, it is important that individuals have the right to verify and correct the information provided about them through the appropriate venue. Finally, liability protections should be included for the users of the information.

While NAMIC supports the concept for a legislative proposal to accomplish the goal of permitting a streamlined, cost efficient data sharing system for insurance personnel background investigations, it reserves its endorsement of specific legislation until such time as a bill is available for review in its entirety.

The members of the Committee on Financial Services are to be commended for seeking a solution for the problem currently experienced by insurance operations in complying with the law.