

**OPENING STATEMENT OF  
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SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE  
AND GOVERNMENT SPONSORED ENTERPRISES  
HEARING ON WORKING WITH STATE REGULATORS  
TO INCREASE INSURANCE CHOICES FOR CONSUMERS  
WEDNESDAY, MARCH 31, 2004**

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Mr. Chairman, thank you for the opportunity to offer my thoughts about regulatory reform in the insurance industry before we hear from our distinguished witnesses.

First and foremost, I commend you for continuing to focus our committee on the issue of insurance regulation. During the last three years, our panel has met on multiple occasions to discuss a wide variety of issues related to the insurance industry. As a result of these proceedings, we have developed a better understanding of the insurance marketplace.

We have additionally begun to form a growing consensus in the Congress about the need to improve insurance regulation in the United States. In an attempt to advance these efforts, Mr. Chairman, you also recently developed an initial outline for achieving incremental regulatory reform in the insurance industry. This evolving proposal has already sparked considerable debate in the insurance community.

Although it merits receiving our collective attention, I suspect that we will eventually conclude that this reform plan to impose a new federal bureaucratic network over an existing state regulatory structure will produce unintended consequences. Later today, for example, one of our witnesses will detail the shortcomings of this outline with respect to the protection of consumers and the needs of small businesses. By inserting the federal government into insurance regulation, this plan will also almost certainly create new, unfunded liabilities for our country.

Additionally, I suspect that many will conclude that this initial proposal falls considerably short of achieving permanent and genuine reform in insurance regulation. The outline under consideration today, for instance, envisions a weak federal coordinator with little enforcement authority. Calling for greater uniformity in insurance regulation but then giving the new federal overseer limited powers is much like watching an old man trying to eat an apple after removing his false teeth. Some have also suggested that the federal regulatory presence envisioned by this proposal could do more to confuse, rather than clarify, regulatory responsibilities.

During our previous hearings on insurance reform, we have received extensive testimony from many witnesses advocating the creation of an optional federal charter. Although the plan before us today does not address this important issue, the consensus for creating an optional federal charter continues to grow. Earlier this year, the National Association of Insurance and Financial Advisors decided to embrace certain federal initiatives that would work to improve the regulation of insurance, including the development of an optional federal charter. A study released earlier this week by Sheila Bair, a former Bush Administration official, and her team of researchers also advances the idea of creating an optional federal charter.

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The reform package under consideration today would create a system of joint regulation between the federal and state governments. Rather than overlaying a federal bureaucracy on top of state regulation, an optional federal charter would create a separate, streamlined regulatory system. Such dual oversight has worked generally well for the banking industry for many decades, and we should now consider applying it to the insurance industry as well. Moreover, because of its standardized products and nationwide marketplace, the life insurance industry, in my view, is particularly ready for the adoption of an optional federal charter.

Mr. Chairman, the devil, as they often say, is in the details. Because much of the proposed regulatory reform outline is currently conceptual, it is difficult at this time to anticipate how the legislative language would actually work. Despite my initial doubts, I want you to know that I am approaching today's hearing with an open mind because I share your goals of making insurance regulation more efficient, uniform and effective for consumers.

In closing, Mr. Chairman, we have reached a fork in the road and must decide which path to take. Ultimately, we might decide to modify and adopt this conceptual plan before the 108<sup>th</sup> Congress completes its work. We might alternatively decide to create a commission to study these matters. We might also decide to begin the considerable work needed to create an optional federal chartering system in a future session. These are important discussions for us to have and important matters for us to resolve.

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