

**OPENING STATEMENT OF  
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI  
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,  
AND GOVERNMENT SPONSORED ENTERPRISES  
HEARING ON COMMERCIAL INSURANCE MODERNIZATION  
WEDNESDAY, JUNE 21, 2006**

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Mr. Chairman, we return this afternoon to a topic that we have often discussed in recent years: the need for insurance regulatory reform. This time we will focus on the issue of commercial insurance modernization.

As I have previously said, no matter what side one takes in this long-standing debate on regulatory efficiency, it has become increasingly clear to me that this is no longer a question of whether or not we should reform insurance regulation in the United States. Instead, it has become a question of how we should reform insurance regulation.

As you know, Mr. Chairman, we have begun to develop a growing consensus in Congress about the need to improve insurance regulation. During our previous hearings on insurance reform, we have also received extensive testimony from many witnesses advocating the creation of an optional federal charter, a proposal that I believe merits our attention.

Furthermore, since our last hearing on insurance regulation some of our colleagues in the Senate have introduced S. 2509, the National Insurance Act, to create an optional federal charter. Rather than overlaying federal mandates on top of state regulation, an optional federal charter would, in my view, create a sensible, separate, and streamlined regulatory system. In the future, Mr. Chairman, I hope that we will take the time to convene hearings on and study the implications of their proposal.

Nevertheless, the focus of today's proceedings is H.R. 5637, the Nonadmitted and Reinsurance Reform Act. Many sophisticated participants in our insurance markets have complained about problems in the regulation of surplus lines and reinsurance. H.R. 5637 seeks to address these concerns.

Large commercial entities, major insurers, and reinsurance companies all operate across state lines. They both want and need greater regulatory efficiencies. As I have learned more about these concerns about licensing, invoicing, and documenting, I too have become increasingly sympathetic about the need to address them.

Before moving forward with the consideration of this bill, however, we need to hear from the National Association of Insurance Commissioners. Last year in testimony before our panel, the NAIC's president noted that federal legislation "may be needed at some point to resolve conflicting state laws regulating multi-state transactions" involving surplus lines. She also observed that federal legislation was "not needed" in the area of reinsurance.

The development of good public policy requires the input of all interested parties and constituencies. In this case, the NAIC is one very interested party. Even if we ultimately decide to disagree, we need to engage with them in a constructive dialogue.

(more)

While H.R. 5637 is well intentioned, I am also somewhat concerned that proceeding with piecemeal reform legislation like this bill could hamper future efforts to adopt more comprehensive proposals like an optional federal charter. In the area of health insurance, the many federal mandates that we have imposed have made it more difficult to develop a national consensus on far-reaching reforms. We should not repeat that mistake here. Nonetheless, I also recognize that we should not allow the proverbial perfect to be the enemy of the good.

In addition, I am concerned that this legislation does little to establish a federal expertise in the area of insurance. At times, this lack of expertise has caused difficulties for us. For example, although many Members of Congress had concerns about the insurance industry's ability to respond to the 2001 terrorist attacks, they had difficulty in immediately identifying federal experts to advise them in these matters.

The deficiency of federal knowledge about the insurance industry might have also impeded our efforts to adopt expeditiously the terrorism reinsurance backstop law. As a result, we might want to consider how we could improve H.R. 5637 to enhance the federal government's understanding of the business of insurance.

In closing, Mr. Chairman, I commend you for continuing to focus our committee on the issue of insurance regulation. These are important discussions for us to have and important matters for us to resolve.

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