



The Future of Insurance Regulation

Insurance Regulation on the World Stage



Cecelia Kempler, Director, Florida Atlantic University
School of Finance, Insurance and Economics

Protagonists Today – Part of the Cast Tomorrow ?

- The E.U. and the U.S.

- The E.U. is:

- striving to solidify its regulatory leadership for financial institutions regulation by speaking with one voice on behalf of its Members.

- Cultural diversity and different legal systems, as well as history, may constrain the authority of the E.U. to speak with one voice.



Protagonists Today – Part of the Cast Tomorrow ?

- The E.U. and the U.S.
- The United States is:
 - striving to maintain leadership in financial institutions regulation.
 - The state insurance regulatory structure is likely to impede longer term opportunities for the U.S. to maximize its global influence on insurance and reinsurance regulation.



Protagonists Today – Part of the Cast Tomorrow ?

History and the Future

Our speakers have done an outstanding job identifying the issues confronting the insurance industry and its historic role in meeting consumer needs, and how U.S. regulation and the industry must stake a claim to the future.



Protagonists Today – Part of the Cast Tomorrow ?

History and the Future

Historically, U.S. insurance enterprises and distributors satisfied local demand. This gave them political power, which they exercised to support state (“local”) regulation. A number of what were once local companies grew to national businesses and are now global enterprises.



Protagonists Today – Part of the Cast Tomorrow ?

History and the Future

These global insurers have broad financial reach and have developed expertise unmatched elsewhere, except for their European counterparts. They require positioning to grow in expanding and emerging markets. Not only will this growth add value to their shareholders, but it will enhance their respective abilities to serve current and future consumers.



Protagonists Today – Part of the Cast Tomorrow ?

History and the Future

The real issue before us today is whether state insurance regulation can meet future challenges. Deciding that the state regulatory framework is no longer appropriate will not diminish the contributions that state regulation has made in the past.



Protagonists Today – Part of the Cast Tomorrow ?

History and the Future

The contributions of state regulation will be used to build a sound federal system, if adopted.



Protagonists Today – Part of the Cast Tomorrow ?

History and the Future

As U.S. domiciled global insurers and reinsurers expand their reach, they need the influence of a U.S. federal regulator to assure that they will have the opportunities to play leading roles in global regulatory harmonization.

A state system can no longer function optimally for U.S. national or global growth.



Future Protagonists



CHINA and INDIA

It is clear that the enormous populations and economic advancements of China and India will position these countries to hold great sway in future regulatory initiatives. A U.S. federal regulatory structure which incorporates the best qualities of the U.S. regulatory system, but which is open to those of the E.U. and emerging economies, will benefit the industry and consumers.

Federal Regulation Debate



- The debate is not new, but accelerating global economic convergence is more recent. This fact alone cries out for the power of a federal agency and federal representative to speak for the industry before their global insurance regulatory counterparts and world organizations, e.g., the WTO.



Federal Regulation Debate



- Q. Will federal regulation:
 - facilitate competition and broaden product selection to the benefit of industry and consumers;
 - enhance solvency protections and improve administrations of insolvencies;
 - enhance market conduct oversight;
 - reduce compliance costs?



Federal Regulation Debate



- A. Those attending this forum, will respond differently. The fact is that no matter how objective our arguments, our respective conclusions are speculative. We will only know with the experience of change.



Globalization and Systemic Economic Risk

- Several papers expressed support for risk based regulation (as anticipated for Solvency II and as adopted by the U.K.), as well as for principles based regulation in the U.S. However, we should have a national and global discussion as to whether recent bank and other financial institution failures should prompt modification of current thinking on these issues.



Globalization and Systemic Economic Risk

- Should global insurance regulators consider whether a better blend of rules based and risk or principles based supervision is appropriate?



Globalization and Systemic Economic Risk

- Effective regulation must anticipate market failures. Premium paid for a product in advance of services delivered mandates this approach. Today, the importance of global reinsurance and alternative market structured sharing of insurance risk mean that market failures can only be anticipated and mitigated through globally coordinated functional regulation, given institutional and global economic interdependencies.

Globalization and Systemic Economic Risk

- Is it realistic to believe that even the most talented regulators will have the resources to review and evaluate risk models developed by the industry?
- The “good guys” are likely to get it right and the “bad guys” will not be identified before the public and industry have suffered.



Globalization and Systemic Economic Risk

- Functional risk based regulation is rational given financial institutions convergence, but it will be effective only when governments are committed to giving regulators the resources to independently check and verify or correct company risk models



Other Thoughts on Issues Raised by Speakers

- Stating the obvious: Insurance in the United States is private enterprise. Where government deems that there is a broad social need for coverage that cannot be provided at rational rates, TRIA type mechanisms are appropriate. Otherwise, the industry should be left to compete for business without rate, barriers to exit or other competitive restrictions.

Other Thoughts on Issues Raised by Speakers

- Competition studies and the scrutiny of company risk management practices adopted by ratings agencies suggest that rate regulation, barriers to exit and most other restrictive mechanisms do not produce the best outcomes for the consumer or the industry.
- A single regulatory regime could eliminate these practices.

Other Thoughts on Issues Raised by Speakers

- Repeal McCarran and create safe harbors for sharing information and other appropriate exemptions. McCarran is anachronistic and it does not benefit competition or consumers.

Final Thoughts on Issues Raised by Speakers

- How will the industry protect tax advantaged life and annuity products as product convergence continues to evolve?
- Is the answer that banks and securities firms will not lobby for change, if financial institutions convergence occurs? If convergence is to be encouraged, do we need an alternative to GLB?