



**Statement re:** PIANY testimony in favor of Interstate Insurance Compact legislation  
**Assembly Bill A.8068** (Same as S.5053, Seward)

*An Act to amend the Insurance Law, in relation to establishing the Interstate Insurance Product Regulation Compact to regulate certain insurance products.*

**To:** New York State Assembly Standing Committee on Insurance,  
Public Hearing

**By:** Professional Insurance Agents of New York State Inc.  
David Dickson, PIANY immediate past president

**On:** May 8, 2008, 10 a.m.  
Roosevelt Hearing Room C, 2<sup>nd</sup> Floor  
Legislative Office Building  
Albany, N.Y.

**PROFESSIONAL  
INSURANCE  
AGENTS**

25 CHAMBERLAIN ST.  
P. O. BOX 997  
GLENMONT, NY 12077-0997  
(800) 424-4244  
FAX: (888) 225-6935  
WEB: [www.pia.org](http://www.pia.org)  
E-MAIL: [pia@pia.org](mailto:pia@pia.org)

Chairman Morelle. Honorable Assembly members. Good afternoon. My name is David Dickson, and I am a Fairport, N.Y., insurance agent with Bailey Haskell and LaLonde. I am speaking today on behalf of the Professional Insurance Agents of New York State, for which I currently serve as immediate past president.

PIANY appreciates the chance to testify in support of this legislation (Assembly bill A.8068 sponsored by Assembly member Titus), which would enable New York to join the Interstate Insurance Compact. PIANY is a voluntary, membership-based trade association representing professional, independent property/casualty insurance agents. A statewide organization, PIANY serves member insurance agencies doing business in every New York community. In every city, every town and every village, we are your neighbors providing valuable property/casualty insurance coverage for the homes, businesses and automobiles of the citizens of New York state. PIANY members employ over 20,000 insurance professionals, providing insurance for more than 2,000,000 households and 750,000 businesses, governmental units and other organizations.

PIANY strongly believes that the Interstate Insurance Compact is an initiative that would benefit state insurance regulators, consumers and the insurance industry as a whole, by streamlining the manner in which asset-based insurance products such as life insurance, annuities, disability income and long-term care insurance are filed, reviewed and approved. The Compact also would promote uniformity among states through the application of nationalized standards. So far, 31 states have joined the Compact, including Massachusetts and Texas. In order to join the Compact, New York would have to enact legislation embodying the Compact Model Statute. PIANY believes that New York state should adopt this important legislation immediately.

As Insurance Commissioner Tom Sullivan testified in our neighboring state of Connecticut, the Compact no longer is just an experiment, rather a crowning achievement of state legislative and regulatory communities coming together. Passage of the Compact, therefore, is nothing less than crucial to our state.

The Interstate Insurance Compact Commission began operation in May 2006. It represents half the insurance premium volume nationwide. The inaugural meeting was held in June 2006, and the first filings were received in June 2007.

The Compact truly represents a key state-based modernization initiative by making insurance filings and regulation more efficient and effective in our ever-changing marketplace.

All Compact meetings are open to the public, and since its inception, the Compact has required the support of legislators from the states and the commonwealths that have adopted it. The National Conference of State Legislatures and the National Conference of Insurance Legislators each have four legislative member appointments to the Compact Commission, which was created by state legislators and regulators to leverage the best of the states' system into a single, national approach. In addition to the insurance commissioners and supervisors on the commission, representatives from the insurance industry, as well as consumer organizations, such as AARP, are participating representatives.

The successful launch of the Compact throughout the United States advances the vital objective of insurance regulatory modernization, while effectively responding to ongoing calls in the current U.S. Congress for the creation of a federal insurance regulator.

Several bills are currently pending in the U.S. Congress to initiate federal regulation of insurance and, thereby, to pre-empt state insurance regulatory powers. And, they may very well eliminate key premium tax revenue from our state budget.

I'm sure you understand how important premium tax dollars are to the State of New York. In 2006, nationally, the states collected more than \$16.7 billion in revenues from insurance sources. Of this amount, \$1.2 billion—roughly 7.2 percent—went to regulate the business of insurance.<sup>1</sup>

Consumers and insurers deserve a regulatory system that focuses on what is most important. They have that in the current state-based framework. Presently more than 11,000 individuals are working in state insurance departments across this country who help to protect insurance consumers. It takes quite an imagination to assume the Treasury Department could assume even a partial role in regulating insurance without creating a huge bureaucracy. The plain and simple truth is optional federal chartering would create a new federal bureaucracy and allow insurance companies to “opt out” of comprehensive consumer protections and state oversight.<sup>2</sup> Current proposals in Congress would gut consumer protection, while outsourcing most critical regulatory functions to an industry-run, self-regulatory organization.

Make no mistake about it, proposals to impose federal regulation of insurance are attempts to reclassify insurance products as banking products and represent competition for market share by major players at the expense of consumers and smaller regional carriers.

Look no further than the advocates of these proposals. Federal regulation in general and the OFC in particular, are being pushed by a handful of large banks, securities firms and a few carriers that want to expand their market share by using a federal regulatory system to gain an unfair advantage over their competitors, particularly the regional and mutual insurance carriers that play such an important role in our industry, our agencies and in providing consumers with a wide variety of insurance products in an efficient marketplace.

Advocates may argue that federal involvement may make insurance regulation more efficient, but one must remember that the sub-prime mortgage meltdown occurred under federal regulation.<sup>3</sup> All at the same time the insurance industry—which is under state regulation—remained on a firm financial footing, achieving lower prices for consumers.

At the end of the day, the conclusion is clear: The state system of insurance regulation works well. Yes, it needs improvements. Yes, it needs more modernization. But we shouldn't toss out a system that works well for our industry and consumers. The Compact serves two purposes: to preserve this effective system of state-based regulation and implements the reforms needed to allow the industry to respond to changing markets.

The Compact gives insurers the speed-to-market results they advocate at a federal level, and continues to protect consumers under the time-tested regulatory expertise of the states. Insurance companies are able to make their product filings at a central point, thus avoiding duplicative filing procedures and allowing them to get competitive products into the marketplace without unnecessary delay.

The Compact provides a central point of electronic filing for asset-based insurance products, including life insurance, annuities, disability income and long-term care. No other products will be approved through the Compact. The Compact affords insurers the ability to make one filing, under one set of national standards, for one approval that is valid with all member states.

This initiative increases speed-in-market regulatory decisions and meets the demands of the insurance marketplace. Yet, it upholds the regulator's most important responsibility—to protect our consumers. The Compact is currently working to provide a maximum 60-day turnaround time for filings made by insurers through the Interstate Insurance Product Regulation Commission.

Under the Compact, member insurance departments will continue to oversee market regulation activities in their own states, and will continue to record and mediate consumer complaints, including those with respect to Compact-approved products. Moreover, the enforcement of the many protections afforded New York's citizens will remain under New York's Legislature and New York's Department of Insurance. You see, the Compact legislation specifically preserves existing rights. It contains no restrictions on the access of any person to our state courts; impacts no remedies currently available under state-related breach of contract and tort laws; nor does it diminish the authority of the state Attorney General in any way.

Consumers, the industry and the department would benefit from Compact membership at this time. States have already demonstrated that they, as opposed to the federal government, can best ensure a robust insurance sector.

Most importantly, the Compact allows consumers to get access to more competitive insurance products much quicker, without restricting their remedies against insurers. Therefore, PIA of New York urges this committee to support New York's entry into the Compact, as we join with our other state colleagues in modernizing insurance regulation for the benefit of all constituents.

Thank you for the opportunity to testify. I will be happy to answer any questions.

**<sup>1</sup>TALKING POINT: PREMIUM TAX HISTORY**—While the current draft of the National Insurance Act preserves premium tax revenues for the states, we do not have to look very far back in history to find a national solution that funded premium taxes for a while and then reversed course. Historically, the Federal Crop Insurance Program (FCIC) reimbursed crop insurers for the premium taxes that they were required to pay to the states. Then, in the early 1990s, in a case involving Kansas, the FCIC sued then-Commissioner Ron Todd for charging insurers a tax that they maintained was pre-empted by federal law. This led to a multi-state agreement where the FCIC agreed not to pursue the reimbursement of past premium tax revenues in exchange for an agreement that all states would not collect them in the future. This also led to a clarifying law enacted by Congress to make it completely clear that the **states were pre-empted from collecting premium taxes for federal reinsurance crop insurance products**. We believe that the ink would barely be dry on the National Insurance Act before national insurers would be calling for an amendment to the provision allowing the states to collect premium taxes.

**<sup>2</sup>TALKING POINT: NEW FEDERAL BUREAUCRACY**—The National Insurance Act does, indeed, create a new federal bureaucracy. The Treasury does not currently have staff devoted to insurance regulation; it does not have the infrastructure needed to collect the financial and market regulatory information that is needed to monitor insurer financial position and market conduct activities; and it does not have the necessary in-house expertise readily available without making substantial expenditures to secure that talent. To create and fund the necessary positions and infrastructure would be a major and unnecessary expense, in spite of the fact that the national insurers would be assessed to cover the costs.

**<sup>3</sup>TALKING POINT: SUBPRIME MORTGAGE CRISIS**—Lax federal oversight caused the current disruption in the bond market. The Office of the Comptroller of the Currency allowed banks to offer unaffordable subprime loans to homeowners over the objection of state regulators, who sought to protect consumers from these unsafe products. The Federal Reserve allowed banks to hold risky derivative investments based on these subprime loans, which resulted in billions of dollars in write-downs. The Securities and Exchange Commission not only authorized these derivatives, it failed to supervise how credit agencies rated them. Everyone on the federal level who contributed the kindling, logs and matches that caused this fire should not now take away authority from state regulators who have been keeping the flames in check.