OPENING STATEMENT OF CHAIRMAN PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

HEARING ON SYSTEMIC RISK AND INSURANCE

JUNE 16, 2009

We meet to continue our discussion of insurance regulation, which the Capital Markets Subcommittee has debated in great depth for several years. On the eve of the Administration's unveiling of its plan to strengthen the oversight of our financial markets, it also appears likely that we will soon consider reforms aimed at mitigating systemic risk. As such, it makes sense for us to dive a bit deeper today into the issue of systemic risk and the insurance industry.

While we have yet to learn much about the specifics of the Administration's plan for insurance reform, we have spent enough time debating these issues to come to some conclusions. For example, I believe that only ostriches can now deny the need for establishing a federal insurance resource center and a basic federal insurance regulatory structure.

Insurance is a complex and important part of the U.S. financial industry with more than $6.3 trillion in assets under management and $1.23 trillion in annual premiums. We need to recognize this reality by modernizing the overall regulatory treatment of insurance. We also need to protect against the risks certain sectors of the industry may pose and address the greater sensitivity that some industry segments have to external events.

During this crisis, we saw a company that started out as an insurer spread far and wide in its activities and its international presence. American International Group, however, lacked a federal regulator with real expertise about its vast insurance operations. Rather, the holding company purchased a small thrift and chose the Office of Thrift Supervision as its supervisor.

Currently, several other insurance holding companies have a federal banking regulator as their primary supervisor, and more than six dozen similar entities avoid any form of federal oversight, with selected states instead monitoring them on a consolidated basis. Because a number of these businesses could pose systemic risk, I believe that the federal government should directly examine all complex financial holding companies, including those whose primary activities involve underwriting insurance and those who play with credit default swaps.

In addition, our financial services markets are global and complex. Insurance is no exception. In order for effective communication and dialogue to take place on the international stage, we must have a single point of contact for the United States on these matters. Moreover, insurers must have a federal regulatory voice on par with the banking and securities sectors in our financial markets so that the industry can communicate with its peer regulators at home.

In short, we can no longer sweep insurance regulation under the rug and cross our fingers that nothing will go wrong. We tried it before and learned that such an action may hide the mess for the short term, but pose greater problems in the long term. As such, when the Administration reveals its white paper tomorrow, I very strongly hope that it will recognize today's market realities and call for the establishment of better oversight for insurance holding companies and certain insurance activities, especially those most likely to pose systemic risk.

Moreover, I am confident that this Administration will recognize the wisdom of creating of a federal insurance office to advise a systemic risk overseer on the risks in the insurance sector, provide expertise to the Administration and Congress on insurance policy matters, and communicate with foreign governments. I have long advocated for such an office by introducing and advancing the Insurance Information Act. As part of the congressional restructuring of financial services regulation, I ask my colleagues to join me in the effort to enact this legislation.

With any luck, the Administration with its white paper will also hopefully advance the debate about federal insurance regulation in other ways. Personally, I now believe that the federal government should actively regulate some specific insurance lines, especially those that pose systemic risk or which have a national significance. Using these tests, federally regulated lines would include bond insurers, mortgage insurers, and reinsurers. I also believe that we should examine how we can promote greater uniformity in the industry, with or without the establishment of a federal charter. The Administration might reach similar conclusions.

In sum, before the Administration proposes its white paper tomorrow, we have many important issues to discuss related to regulatory restructuring as it affects the insurance sector today. I therefore look forward to the testimony of our witnesses and to a vibrant debate in the weeks and months ahead.