News From
SCOTT GARRETT
U.S. Congress

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EMBARGOED UNTIL DELIVERY Contact: Erica Elliott
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Garrett Opening Statement for Financial Services Insurance Hearing

(Washington, DC)– **Rep. Scott Garrett (R-NJ) released the following opening statement for today's House Financial Services Subcommittee on Capital Markets hearing entitled "How Should the Federal Government Oversee Insurance?":**

"Thank you Chairman Kanjorski. I look forward to an interesting discussion today on the appropriate role for the federal government to regulate insurance going forward, particularly in the context of proposals for a systemic risk regulator and a resolution authority for large non-bank financial institutions.

"As I have outlined in previous hearings, I have concerns about these proposals and the likely unintended consequences if they are implemented. As for a systemic risk regulator, we have been told throughout history that more regulation will solve all our problems.

"The Federal Reserve, itself, was created to "ensure" that asset bubbles and panics never happened again. Back in 1914, the then- Comptroller of the Currency had high expectations when speaking about the law that created the Fed. He said: "Under the operation of this law, such financial and commercial crises or 'panics' as the country experienced in 1873, 1893, and 1907...seem to be mathematically impossible." Clearly he was mistaken, but he's had a lot of company over the years.

"A certain level of regulation is appropriate, but many of the reforms being talked about now will reduce market discipline and increase moral hazard.

"With the resolution authority being proposed by Secretary Geithner and others, for instance, I have real doubts that this can be implemented without institutionalizing an entire segment of too big to fail companies.

"So I have these concerns in general about systemic risk regulation and the resolution authority, but they seem particularly inappropriate for the insurance industry.

"Insurance companies, especially those dealing primarily with retail customers, are different in nature from banks, for example. They are not nearly as interconnected with the rest of the financial services sector and the economy as a whole.

"Additionally, we already have the state guaranty funds to deal with insolvent insurance companies, and these funds have historically worked well.

"Bond insurance, of course, is a bit of an outlier, and the committee will address some of the unique challenges facing this sector on a different track.

"I have concerns in this current environment, and with the makeup of the present administration and congressional leadership, with proposals calling for significant regulatory changes. To supporters of these proposals I would say, "be careful what you wish for". And when you think about it, it's not too far-fetched to see a tri-layered or even quadruple-layered regulatory structure for insurance when all the dust settles – state regulation, federal regulation, systemic risk regulation, and resolution authority regulation.

"While the topic of federal vs. state regulation of insurance fosters intense debate, I believe we can all agree that a multi-layered regulatory structure for the insurance industry would not provide the best model for a competitive and robust marketplace.

"One piece of the regulatory reform puzzle that Congressman Dennis Moore and I have been directly involved in is the Nonadmitted and Reinsurance Reform Act. This legislation, which has passed the House of Representatives unanimously the last two congresses would update and streamline state regulation in the nonadmitted (or surplus) lines and reinsurance marketplaces.

"The surplus lines bill is an area of insurance regulatory reform where there is broad consensus, and I look forward to working with interested parties in the insurance industry so that this legislation can finally become law during this Congress."

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