

OPENING STATEMENT OF CHAIRMAN PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND
GOVERNMENT SPONSORED ENTERPRISES
HEARING ON INSURANCE HOLDING COMPANY SUPERVISION
MARCH 18, 2010

Good morning. We meet today to further examine the issue of insurance supervision, especially as it relates to holding companies. The time is ripe for us to delve into this complicated and important subject.

The Federal government's intervention in American International Group has raised many questions about the existing oversight of holding companies with insurance operations. While AIG's insurance companies may not have directly caused the conglomerate's downfall, the actions of the holding company and other subsidiaries within AIG certainly could have led to serious consequences for insurance policyholders if the government had not stepped in.

During our recent debates in the House on the Wall Street reform bill, we also tackled many questions about holding company oversight. While we already know much about the supervision of financial, bank and thrift holding companies, we now need to take the time to learn more about the regulation of insurance holding companies. I believe that today's hearing will help us to identify ways that we can further improve the financial services regulatory reform bill before it becomes law.

The vast majority of insurance holding companies -- some of which are shells and some of which are complex -- are currently regulated at the State level. Additionally, the Federal Reserve System and the Office of Thrift Supervision together oversee no less than 100 entities with insurance operations. Our witnesses will help us to better understand the current lay of the land when it comes to the consolidated supervision of insurance holding companies and bank or thrift holding companies with insurance operations.

The two State commissioners with us today will specifically explain their dual roles as insurance regulators and insurance holding company supervisors. Because the failure of an insurer could affect the health of the insurance holding company and because problems within the holding company or its subsidiaries could affect the insurers within a firm's tangled network, we need to ensure that State supervisors have strong powers to protect policyholders and ensure the solvency of any of the entities that they regulate.

In those instances where a State regulator must oversee an insurer or insurance holding company with operations outside the State, we must also ensure that we have meaningful cooperation and communication between State regulators. Moreover, to protect our economy from systemic risk, we must ensure that there is appropriate consolidated supervision of complex insurance firms.

When depository institutions and insurers operate under the umbrella of the same holding company, both State and Federal regulators have important supervisory roles. In such instances, State commissioners maintain their role as functional regulators of any insurers within these complex entities. Federal regulators have the responsibility for oversight of any depository institutions and the holding company.

The Federal regulatory representatives with us today will help us to better appreciate the formal rules of the road as laid out in statute and regulations about where a Federal regulator's authority begins and a State regulator's power ends in these corporate amalgamations. Their testimony may also help us to discern whether or not we have regulatory overlaps or gaps and what steps regulators have taken to address such situations.

Each of our witnesses will undoubtedly emphasize the differences between insurers and depository institutions. These distinctions are important, but they fail to address the purpose of today's hearing. The recent financial crisis has taught us that any complex financial company must have an effective umbrella supervisor who looks comprehensively at the activities and health of the whole enterprise. This includes any holding company with insurance activities.

We must further explore whether or not the Federal banking regulators are overseeing too few or too many holding companies with insurance operations and whether or not they are appropriately focused on consolidated oversight issues. We should also ask whether or not consolidated supervision is diversified among too many regulators, such that it has become ineffective or an afterthought.

In sum, these are difficult policy issues, and the answers we receive will undoubtedly lead to new questions. We fortunately have already identified a way to examine these matters after we finish this hearing: One important provision of the House-passed Wall Street reform bill, the Administration's plan, and Senator Dodd's proposals is the creation of a Federal office to review insurance matters on a national scope. The Federal Insurance Office, for which I have advocated for a number of years, should look at these very questions to advise Congress on these important policy matters in the future.
