STATEMENT OF CLAY JACKSON
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA AND
THE COUNCIL OF INSURANCE AGENTS & BROKERS

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY

UNITED STATES HOUSE OF REPRESENTATIVES

July 28, 2011

Good morning Chairwoman Biggert, Ranking Member Gutierrez, and Members of the subcommittee. My name is Clay Jackson, and I am Senior Vice President and Regional Agency Manager of the Nashville-based BB&T Cooper, Love, Jackson, Thornton & Harwell. My insurance brokerage firm is an active member of both the Independent Insurance Agents & Brokers of America (IIABA) and The Council of Insurance Agents and Brokers (CIAB).

IIABA and CIAB and the broader insurance agent and broker community share a common outlook on the important regulatory issues that have been the focus of the subcommittee's recent efforts. This morning, I'd like to share our thoughts and concerns regarding the implementation of the surplus lines reforms enacted by Congress last year and address our strong support for licensing reform and the NARAB II proposal.

Surplus lines insurance is universally recognized as an important component of the commercial property and casualty insurance marketplace in all states, and commercial property and casualty business is done increasingly through the surplus lines marketplace. The Nonadmitted and Reinsurance Reform Act (NRRA) – enacted into law in July 2010 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) – sought to simplify the regulatory structure governing such coverage on a multistate basis by limiting the regulatory authority over a surplus lines transaction to the home state of the insured and by setting federal standards for the collection of surplus lines premium taxes, insurer eligibility, and commercial purchaser exemptions. Most of the provisions of the NRRA went into effect last week – on July 21st.

The goal behind the NRRA was not to federalize regulation of surplus lines insurance, nor was it to deregulate. Rather, the intent was to bring about common sense reforms of surplus lines rules at the state level – maintaining state regulation but creating a structure that does away with the conflicting, overlapping rules that made compliance difficult and, in fact, impossible in some instances.

Surplus lines reform was heavily championed by both the insurance agent/broker community and the commercial insureds who are the primary utilizers of surplus lines insurance products. The fundamental thrust of the reform provisions was to require that only a single set of regulations govern a surplus lines transaction – those of the insured's "home state." This was accompanied by Congressional support for the creation of a single, State-based surplus lines regulatory system that would include a harmonious tax payment and allocation mechanism. As of July 21st – the effective date of the NRRA provisions – the States, however, have done everything but create any such harmonious and

rationale regulatory system. Indeed, nine States have agreed to enter into a compact, the "Surplus Lines Insurance Multistate Compliance Compact" or "SLIMPACT" that would be designed to create a single comprehensive surplus lines regulatory regime, including a tax allocation mechanism, but another eleven States (and Puerto Rico) have opted to enter into a separate, stand-alone tax sharing agreement (the "Nonadmitted Insurance Multi-State Agreement" or "NIMA").

Because of the inability of the States to reach a consensus, nine of the largest States – California, Idaho, Illinois, Minnesota, Missouri, New York, Pennsylvania, Virginia and Washington – opted out of any tax allocation system and will retain 100 percent of the surplus lines premium taxes that will be paid by their "home state" insureds. The core NRRA surplus lines directive essentially orders this result and it is a result that will be the most administratively and economically efficient. The remaining twenty-one States (and the District of Columbia) are still evaluating – in one form or another – how best to proceed. We have sent letters to all of those States, asking them to follow California, Illinois, New York, Pennsylvania and the other States who have opted out of the dysfunctional sharing mechanisms and to each create a simple, single-state regulation and taxation mechanism. We ask you to urge them to do the same.

While IIABA and CIAB remain concerned with and focused on the proper implementation of the NRRA surplus lines provisions, we also believe insurance regulation must continue to advance in other ways. Perhaps the most conspicuous and ripe area in need of reform is the producer licensing system. Despite the well-intentioned efforts of some in the regulatory community, the difficult truth is that

sufficient progress has not been achieved and the need for effective licensing reform is greater than ever.

Congress first addressed licensing issues nearly a dozen years ago, but the scope of reform anticipated has not been delivered. True reciprocity and interstate consistency remain elusive. Compliance remains costly, burdensome and time consuming, and many firms and agencies retain expensive vendors or hire dedicated staff people to achieve compliance with state licensing laws. For smaller businesses, which lack the staff and resources of larger competitors, the cost and complexity of ongoing licensing compliance is especially burdensome.

IIABA and CIAB believe the most efficient and effective way to address these problems is with the NARAB II legislation that previously passed the House in 2008 and 2010. This legislation has once again been introduced by Representatives Randy Neugebauer and David Scott and currently has nearly sixty cosponsors.

The NARAB II proposal would provide agents and brokers with a long-awaited vehicle for obtaining and maintaining licenses on a multistate basis. It would eliminate barriers faced by agents who operate in multiple states, establish licensing reciprocity, and create a one-stop facility for those who require nonresident licenses.

The bill discretely utilizes targeted congressional action to produce marketplace efficiencies and is deferential to states' rights. H.R. 1112 merely addresses marketplace entry and leaves regulatory authority in the hands of state officials. The proposal does nothing to limit or hinder the ability of state regulators

to enforce state marketplace, trade practice, and consumer protection laws. State officials will continue to oversee the conduct of producers, investigate complaints, and take enforcement and disciplinary action against any agent or broker who violates the law.

In short, the NARAB II proposal would strengthen insurance regulation, reduce unnecessary redundancies and regulatory costs, and enable the industry to more effectively serve the needs of insurance buyers – and it would achieve these results without displacing state regulatory oversight.

Let me also say a quick word about the work of the Financial Stability Oversight Council and its deliberations regarding which non-bank firms should be designated as systemically important. Insurance companies (especially property and casualty insurers) present **very** little, if any, systemic risk to the economy, especially when compared to other financial services providers. Insurers have lower leverage ratios and generally hold greater amounts of capital in relation to their liabilities, thereby reducing their vulnerability to market shocks. Additionally, the very nature of insurance products makes them inherently less vulnerable to systemic risk. Insurance companies are financed by premiums paid in advance and payments are subject to the occurrence of insured events, substantially reducing the likelihood a "run-on-the-bank" scenario. As an additional safeguard, state regulators have broad authority to take insurers into receivership, effectively "walling off" their assets from the holding company and providing priority to policyholders. We urge FSOC to take these factors into account as it makes its determinations of which entities are considered "systemically risky."

IIABA and CIAB thank the subcommittee for its efforts – past and present – to implement tangible and effective marketplace improvements. We appreciate your focus on ensuring that the surplus lines reforms of the Dodd-Frank Act are implemented as intended, and we look forward to working with you on the much-needed NARAB II proposal.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Clay Tillman Jackson	BB&T Insurance Services

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☐ Yes ☑ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

7. Signature: Clay T. Jackson

Please attach a copy of this form to your written testimony.