NATIONAL ASSOCIATION OF
INSURANCE AND FINANCIAL ADVISORS

Statement in connection with a hearing of

The House of Representatives

Financial Services Subcommittee on Insurance, Housing and Community Opportunity

"Insurance Oversight: Policy Implications for U.S. Consumers, Businesses and Jobs."

July 28, 2011

The National Association of Insurance and Financial Advisors (NAIFA) appreciates the opportunity to share with the members of the House of Representatives Financial Services Subcommittee our views regarding insurance oversight and the importance of a modern, efficient and effective insurance regulatory system. We welcome the Subcommittee's interest in this issue, which is so important to insurance agents and advisors, and to the insurance consumers whom we serve.

NAIFA comprises more than 600 state and local associations representing the interests of our members nationwide. NAIFA members represent and serve Main Street. They are community-based small business owners, many working as sole practitioners, who provide affordable insurance and financial services to the middle-market. Our members focus their practices on one or more of the following: life insurance and annuities, health insurance and employee benefits, multiline, and financial advising and investments. Founded in 1890 as The National Association of Life Underwriters, the vision of NAIFA is to protect and promote the critical role of insurance in a sound financial plan and the essential role provided by professional agents and advisors. NAIFA's website can be accessed at www.naifa.org.

Modernizing Insurance Oversight is Essential for a Strong and Healthy Insurance Marketplace

NAIFA members are long-time supporters of state regulation and remain steadfastly committed to this tradition. Having said that, we recognize that there are deficiencies in the state insurance regulatory system and that reform is needed to protect consumers and to ensure a strong and healthy insurance marketplace. We believe, as others do, that fixing the problems with the insurance regulatory system ultimately will enable the insurance industry to provide better and greater choices for consumers, without sacrificing consumer protection.

In addition to the existing regulatory challenges, the changing dynamics of the financial services industry in the 21st century compel NAIFA to be open to all promising options to improve the regulation of the industry. Insurance producers have been working with state insurance regulators for years to encourage sensible reforms to make the quilt of state insurance laws and regulations more uniform, thus enabling producers to better compete in an increasingly crowded financial services marketplace. Improvements in regulation benefit consumers, as well, who share the heavy burden of paying for the costs of complying with the current system.

Insurance regulation has been slow to adapt to changes in the industry and the markets it serves, resulting in the regulatory problems that exist today. Unnecessary distinctions among the states and inconsistencies within the states on issues such as licensing, product approval, and consumer protection, thwart competition, reduce predictability and add unnecessary expenses to the cost of doing business. Similarly, these outdated rules and practices do not serve the goals of regulation in today's converging financial services marketplace.

We recognize the challenges facing state regulators in their efforts to achieve reform. It has proved to be very difficult for state regulators and their legislatures to unilaterally correct the identified deficiencies in state insurance regulation. Both practical and political realities dictate that, if identical bills are proposed in 50 state legislatures, 50 different bills will emerge from those 50 separate legislative processes. There are numerous reasons for this lack of success – lack of will, disagreements over substantive details, structural impediments, and the fact that it is simply very difficult to get 50 different jurisdictions to act in a coordinated fashion, and act quickly in a constantly changing global marketplace.

State insurance regulators have made great efforts in the past several years to reform and modernize the system, working through the NAIC to devise regulatory reforms on the national level and institute them state-by-state. Unfortunately, their efforts have met with limited success. The financial accreditation program and the interstate compact for life insurance products are examples of state regulation and cooperation at its best. But the wheels of state regulation move slowly, and, beyond the accreditation program, it has proved nearly impossible to achieve consensus on, and uniform implementation of, model laws and rules. Even the life insurance compact, which is an undisputed success for the states, has taken years to reach its current contingent of 40 states.

Producer Licensing Reform Illustrates the Difficulty the States Have Achieving Nationwide Results

An area of insurance oversight that is critically important to NAIFA members is producer licensing and regulation. NAIFA has worked for years to get the NAIC and state insurance regulators to fix the cumbersome, duplicative state-based system of producer licensing. Despite progress in the last decade – thanks to the enactment of the NARAB provisions included in the Gramm-Leach-Bliley Act (GLBA) – the producer licensing system remains duplicative and unnecessarily burdensome, imposing wasteful costs on our members (and their clients – insurance policyholders) in terms of both time and money, with no additional consumer benefits. That is why NAIFA supports the producer licensing reform legislation introduced by Representatives Randy Neugebauer and David Scott. The "NARAB II" bill, as it is commonly called, would create an interstate producer licensing clearinghouse. NARAB II has strong bipartisan support has twice been approved by the Financial Services Committee, and subsequently adopted by the full House of Representatives.

NARAB II builds on a foundation initiated in GLBA over a decade ago. GLBA's NARAB provisions successfully pushed the states to enact producer licensing reforms. In 2000, the NAIC adopted the Producer Licensing Model Act (PLMA), which provides for a system of reciprocal licensing in the states pursuant to the NARAB requirements. The PLMA has been enacted in some form in over 40 states and the District of Columbia.

NAIFA has supported the NAIC's producer licensing reform efforts at every step of the way and we are, in large part, responsible for enactment of the PLMA in the states. NAIFA is a board member of the National Insurance Producer Registry (NIPR), which operates the electronic database of producer information that has made licensing significantly faster and easier, and is an active participant at the national level, working with an NAIC coalition in the development of specific recommendations for achieving true reciprocity and uniformity in producer licensing nationwide.

Although the passage of NARAB gave the states the needed incentive to streamline the insurance producer licensing system, it did not go far enough. Today, there are approximately 40 states that the NAIC has deemed "reciprocal" for NARAB purposes. Although other states have adopted portions of the PLMA, there remain a significant number of states – including major markets such as California and Florida – that are not reciprocal and therefore not in compliance. In addition, reciprocal states sometimes have similar legal requirements but differing standards for licensure – thus creating a patchwork of approaches across the country.

It is clear that without Congressional action, the NAIC will be unable to attain its stated goal of reaching full licensing reciprocity among the states. Indeed, the NAIC has said that their ultimate goal is uniform state licensing requirements. But the states have their own parochial interests and roadblocks to achieving reform, so federal action is necessary.

NAIFA supports the enactment of NARAB II because it would allow insurance producers who are licensed to operate in multiple states to comply with a single set of non-resident licensing and continuing education rules. The need to streamline the non-resident licensing process is important for NAIFA members who relinquish clients when they move to another state because of the burdens imposed by multistate licensing. NAIFA members are in the business of assisting individuals and families address their basic financial security needs and prepare for retirement by helping them secure risk transfer based products such as life insurance, annuities, long-term care insurance, disability income coverage, and medical and hospital insurance. The relationships our members have with their clients are based on a trust developed through years of providing important guidance and assistance in preparing for life's inevitable risks of dying too soon, living too long, becoming sick or disabled or needing long-term care. For many NAIFA members, however, the varying licensing compliance requirements from state-to-state make it unnecessarily burdensome to follow a client to another state when he or she moves. As a result, NAIFA members have to refer their clients to another agent. Enactment of NARAB II is necessary because, in today's increasingly mobile world, it is a disservice to insurance consumers to have a regulatory system in place that makes it difficult for a consumer to retain their trusted agent when they move to another state.

Thank you for your consideration of our views. We appreciate your strong interest in insurance regulatory reform, and look forward to working with you as your efforts advance.

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