OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES

HEARING ON THE EFFECTIVENESS OF STATE REGULATION:
WHY SOME CONSUMERS CANNOT OBTAIN INSURANCE

THURSDAY, APRIL 10, 2003

Mr. Chairman, we meet today to examine how different forms of state regulation in the personal property and casualty marketplace affect the availability of insurance, the affordability of policies, and the profitability of the industry. This hearing also represents the first time in the 108th Congress that our Subcommittee has met to consider insurance issues.

Before we hear from our experts, I believe that it is important to make some observations about the insurance industry. Insurance, as my colleagues already know, is a product that transfers risk from an individual or business to an insurance company. Every single American family also has a need for some form of property and casualty insurance, especially products like auto and homeowners insurance. Additionally, according to the National Association of Insurance Commissioners, more than 3,200 property and casualty companies helped to meet the insurance needs of American families and businesses in 2000.

A.M. Best also reports that insurers underwrote $163 billion in personal line premiums in 2001, slightly more than half of the total property and casualty industry. In addition, the largest lines of personal property and casualty marketplace are auto and homeowners insurance. The insurance industry underwrote nearly $128 billion in net premiums in 2001 for private passenger auto insurance, up from $113.6 billion in 1997. The net premiums for homeowners insurance also grew in the same time frame from $26.9 billion to more than $35 billion.

Furthermore, insurance differs from most other products in that insurers must price and sell their policies before knowing the full cost of the coverage. As a result, insurers often pay out more in claims than they collect in premiums. For example, in 2001 insurers paid out $1.16 for every dollar in earned premium according to A.M. Best. One of our witnesses today will also make the point that property and casualty insurers paid $22 billion more in claims and expenses than they collected in premiums in 2002.

To compensate for these balance-sheet shortfalls, insurance companies have increasingly relied on income from their investments. Fortunately, the net investment income of property and casualty insurance companies has trended upward since 1980, and this income stream has helped insurers to offset their annual underwriting losses. In particularly good years on Wall Street, some have suggested that this investment income may have also helped to keep premiums artificially low. I would like our experts today to address this point.

As you know, Mr. Chairman, the McCarran-Ferguson Act also authorized the states to regulate the insurance business, and the Congress recently reaffirmed this system in approving the Gramm-Leach-Bliley Act. As a result, each state currently has its own set of statutes and rules governing the insurance marketplace. Traditionally, the states have highly regulated the personal property and casualty insurance industry with rate controls and pre-approval of new products. In recent years, however, many states have begun to experiment with their regulatory models. In an effort to promote greater competition in the insurance marketplace, some states have even decided to exempt the industry from long-standing anti-trust protections.

From my perspective, promoting competition through fair and effective regulation should ultimately result in better and more affordable insurance products for consumers. The states, in my view, must also continue to work proactively to modernize their systems for regulating the insurance marketplace. Absent continued advances in these state insurance regulatory efforts, the Congress may need to consider altering these statutory arrangements through the creation of an optional federal chartering system or the promotion of greater uniformity in insurance regulation across state lines.

In closing, Mr. Chairman, I want to commend you for bringing these matters to our attention. I believe it important that we learn more about the views of the parties testifying before us today and, if necessary, work to further refine and improve the legal structures governing our nation's insurance system. I yield back the balance of my time.