

Opening Statement
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Committee on Financial Services

**Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises**

“Insurance Regulation and Competition for the 21st Century”
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Insurance is one of the oldest and most important global infrastructure industries, originating over 5,000 years ago with the ancient Babylonians, Phoenicians, and Greeks. Global premiums now exceed over \$2.5 trillion, with almost a third of that amount originating from the United States. The U.S. insurance industry is also a major source of jobs for U.S. citizens, employing 2.3 million people in 2000. In fact, over the last 10 years, employment in the insurance industry has averaged about 2% of the total U.S. population.

Yet railing against the insurance industry has always been a favorite pastime of politicians, with many believing that insurers are largely unregulated with enormous profits. Nothing could be further from the truth. In fact, insurers are heavily regulated by 56 different States and territories with overlapping jurisdictions each trying to impose their laws extraterritorially in an often conflicting manner.

This regulatory inefficiency has caused great weakness in the financial stability of insurers. In the property casualty industry, insurance underwriters have suffered both a statutory and net underwriting loss every year since 1979. Almost every year, property casualty insurers have been paying more in claims and expenses than they have taken in from premiums. In the last year available, property casualty insurers had an annual rate of return on equity of approximately 6%, compared to 10% for life insurers, 15% for Fortune 500 companies, and 21% return for diversified financial firms.

These negative financial results are ultimately borne by consumers through higher prices and less coverage availability. As insurers are unable to derive a sufficient rate of return, they are forced out of markets and put at greater solvency risk, placing consumers at risk of losing their coverage and forcing an industry consolidation and loss of competition. No industry can be artificially impaired for so long and continue to function effectively to protect consumers. The health of our insurance infrastructure is critical for our economic growth and safety.

One of our previous witnesses testified, “insurers destroy shareholder value.” But it is not insurers who are the problem – in fact, our American insurers have been leading the way in the global insurance markets. It is the weaknesses in the current regulatory structure for some states that destroy shareholder value. Some states have done an excellent job governing insurance markets and promoting

uniformity. However, the price fixing and heavy anti-consumer regulations in other states have led to a balkanized system that can be inefficient, denies consumers choice, and is destroying the industries' competitive ability to raise capital. The need for reform is no longer a question but an imperative.

Last year the Committee began a very close examination of the current structure of insurance regulation to better understand the system and to determine the need for reforms. In May we held a hearing on NARAB to further nationwide uniformity for agent licensing. We also reviewed the approval process for new insurance products with a hearing on speed to market issues in June 2001. In August, we continued the Committee's review of insurance regulation and held a hearing on the over-regulation of automobile insurance denying consumers choice and competition. We had planned additional hearings for later in the year, but it was necessary to put the Committee's agenda on hold following the events of September 11, to focus on passage of the PATRIOT Act and the Terrorism Risk Protection Act.

Today's hearing begins a transition in the Committee's examination of insurance regulation as we turn from assessing the current inefficiencies to a review of the various proposals for reform. Consensus will be difficult, but America deserves our every effort to keep our insurance infrastructure the strongest and most competitive in the world.

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