

**Testimony of
Edward J. Muhl
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**United States House of Representatives Committee on
Financial Services, Subcommittee on Capital Markets,
Insurance and Government Sponsored Enterprises**

`Mr. Chairman and members of the Committee

**My name is Edward Muhl and I appreciate the opportunity to
participate in today's hearing concerning the need for
insurance regulatory reform.**

**My background spans nearly 40 years in the insurance
industry serving in both the public and private sectors.**

**I was first appointed Insurance Commissioner of Maryland by
the Democratic Administration of Governor Hughs and was
reappointed by a second Democratic Administration of then
Governor Shaffer. During my tenure as Maryland
Commissioner I was elected by my peers to become Vice
President then President of the National Association of
Insurance Commissioners.**

**I have also had the opportunity to be appointed
Superintendent of Insurance for the State of New York by the
Republican Administration of Governor Pataki and have
served in the private sector with insurance companies and
accounting and consulting firms.**

**Over these forty years I have experienced regulation from the
perspective of a company official, a regulator, a consultant and
as a consumer of these industry services. Mr. Chairman, there**

is an enormous redundancy of costs and procedures in the present system of regulation which serves only to add to the premiums paid by the consumer and to raise the level of frustration in trying to deal with the complexity of the process. I am very pleased that this Committee is taking the initiative to look at the basic processes that affect all of us and hopefully you will conclude that the present system is in need of some change.

Having said that, I believe that state regulation of the business of insurance remains better positioned to respond to unique issues of both consumers and companies in certain geographic areas. Unfortunately the difficulty remains in the inability of the present system to attain the uniformity necessary to eliminate the redundancy of these costs. There are simply too many independent and diverse focal points of authority in the states and US territories to be able to gain consensus. The result is a costly and redundant system.

I started in regulation in 1982 and since that time I have seen efforts of individual regulators and the NAIC to try to simplify the process, gain uniformity and eliminate the unnecessary costs in the system. Unfortunately there has been but only some evidence where these efforts have proven successful over 20 plus years.

When I became the New York Superintendent in the mid 90's, my experience was that the New York Department was one of the strongest departments in the US and certainly one of the slowest in responding to time line issues. We conducted a review of all the 160 plus regulations to determine if any were in need to be updated or were obsolete and no longer useful to effective regulation to protect consumer interests and to advance the interests of the industry. Some of these regulations

were in effect and unchanged for 100 years but were still strictly enforced by the department staff despite the costs and inefficiencies. The review of these regulations resulted in the elimination of 50 outdated ones and the remainder were updated which benefited consumers, insurers and served to increase the effectiveness of the department.

The career staff in the Insurance Departments prove every day to be extraordinary and dedicated individuals who take their task of regulating the insurance industry quite seriously and are, for the most part, up to the task. Much of the oversight processes are handed down generation to generation with little or no time or effort available to look beyond the daily work because of the volume. The entire system needs to be looked at, stirred and find a better way to deal with all the important issues.

I would just add one point on rating.

I served as a regulator at a time when the rating law of the State was Prior Approval, then changed by the legislature to Competitive Rating and finally in New York with Flex Rating. Going from a Prior Approval to an Open Competition forum proved to me that Competition is an effective regulator of rates which allowed me to make better use of my limited staff resources and putting them to use in the area of Market Conduct Examinations and other sensitive areas. It was not an easy transition but once the competitive forces came in to play and the interests of the consumers and the industry were in balance, the system worked very well. I would urge a close review of the benefits of such a rating mechanism.

I have been privileged to have been asked by the Committee Chairman and staff to review the many titles of the SMART draft and to offer comment and my views as a former regulator. I applaud the Committee's efforts in looking into the

current system and taking the initiative in determining needed changes. I look forward to offering additional support in your review process and wish to thank the Chairman and staff in giving me the opportunity to voice opinions.

Edward J. Muhl