EXCHANGE

Subcommittee on Capital Markets

Richard H. Baker, Chairman

Securities, Insurance, Government-Sponsored Enterprises

The News from U.S. Rep. Richard H. Baker
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Opening Statement
The Honorable Richard H. Baker, Chairman
House Financial Services Committee Subcommittee on
Capital Markets, Insurance and Government Sponsored Enterprises
Hearing, June 21, 2001
"Insurance Product Approval: The Need for Modernization"

Today marks the second in a series of hearings this Subcommittee will undertake on insurance reform. Our current hearing will focus on the need to modernize insurance product approval.

Unlike the rest of the financial services industry, insurers are subject to a patchwork quilt of State regulation. In many States, insurance products are not only subject to prior approval of the policy language, or form approval, but also to strict regulation of prices, or rate approval, for property/casualty products.

These time delays for form and rate approvals vary widely from State to State. A national rollout of a new product can take years, with consumer costs increasing at each step in the 50 State approval process.

Why should consumers have to wait for the lowest-common-denominator State to finish its review before they can have access to a nationwide product? Consumers in all States are being harmed by excessive regulatory bureaucracy in the worst States that either can't or won't get their act together.

In the life insurance industry there are twelve States, which I will call the "Dirty Dozen," that routinely drop new products into bureaucratic black holes for approval. These States are New York, New Jersey, California, Massachusetts, Maryland, Connecticut, Florida, Oregon, Pennsylvania, South Carolina, Texas, and Vermont.

For example, companies have reported approval time delays of 391 days in Massachusetts, 399 days in Texas, and 442 days in Pennsylvania for a universal life insurance product. I may be a slow reader, but it certainly doesn't take me 442 days to read an insurance policy.

Approval of property/casualty products is no better. There are eight States which I will call the "Not so Great Eight": New Jersey, Massachusetts, my own state of Louisiana, Hawaii, Rhode Island, Delaware, California, and Pennsylvania.

For example, Louisiana has reportedly lost 16 insurance companies in the first half of this year due to slow product approval. One company doing business in the State has reported <u>average</u> approval delays of 305 days for new liability insurance products. This is untenable. A bill reforming product regulation is currently moving through the legislative process in Louisiana. I am hopeful that it will pass, but this does nothing for consumers in other States.

In New Jersey last week, their biggest automobile insurer, State Farm, decided to pull out of their market because the rate reviews had become so onerous and politicized. It is reported that since September, 1999, State Farm has lost almost a quarter of a billion dollars, cutting the company's net worth almost in half.

Just this week, one of the largest insurers in the world, AIG, also decided to exit the New Jersey market due to their excessive regulation and price controls. As a result of these decisions, in excess of **1 million** New Jersey drivers will need to find new coverage at likely higher rates. That is more than **one out of every five** drivers in New Jersey who will lose their coverage.

Today, the fourth largest writer of automobile insurance in New Jersey, Liberty Mutual, is also talking about abandoning the automobile market. That could mean another **half a million** drivers without coverage. New Jersey already has the highest automobile rates in the country. It is only going to get worse.

In fact, according to figures provided by the American Insurance Association, the twenty-seven States with very stringent price controls were the most expensive States for auto insurance consumers, with annual expenditures averaging $695. Additionally, consumers in those States are not allowed to get coverage from those companies driven out of the market. It is a lose-lose for consumers.

The States are not without some success stories, however. Colorado and Michigan are known for their efficient review of both life and property/casualty policy forms giving consumers access to new products quickly without sacrificing consumer protections.

Illinois has been successfully following a market-oriented approach in the regulation of its auto insurance market for 30 years. In Illinois there are more insurers competing for business giving consumers ample choices, rates are relatively low, and there are few uninsured drivers. Wisconsin has also experienced success with a more market-oriented approach.

Of course, this begs the question, why are these States not being used as models for reform? I am anxious to hear what the NAIC and the National Conference of Insurance Legislators have to say in that regard. The bottom line is that reform is needed and the clock is ticking.

I would like to thank all of the witnesses appearing before the Subcommittee today.

-30-

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