

**Statement of Neal S. Wolin
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Before the

**Capital Markets, Insurance & Government Sponsored Enterprises Subcommittee
of the House Financial Services Committee**

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Good afternoon Mr. Chairman, Congressman Kanjorski and members of the subcommittee. My name is Neal Wolin and I am Executive Vice President and General Counsel of The Hartford Financial Services Group. The Hartford is one of the nation's oldest and largest investment and insurance groups. Our property-casualty and life companies offer products to both individuals and businesses.

I am grateful to share my perspective today on how Congress can reform insurance regulation. My testimony will focus on three areas. First, which areas of the present regulatory structure most require reform? Second, can the states meet these needs without federal intervention? Third, what can Congress do to ensure necessary regulation while also permitting insurers to deliver insurance products quickly and at competitive prices?

Need to Modernize Insurance Regulation

Insurance has become a multi-billion dollar industry providing personal and economic security across state borders. Yet, our regulatory system remains a creature of unique historical development and is more suited to the 20th than the 21st century. Our present structure adds unnecessary costs to insurance products and restricts our ability to meet consumer preferences. The patchwork of state guaranty fund structures and post-insolvency assessments on insurance companies complicates the protection of policyholders and claimants from insurer insolvencies.

I would like to highlight three areas as most critically in need of modernization: forms, rates, and solvency.

FORMS. Insurance companies must file forms for most product lines in each jurisdiction in which they seek to operate. For a national carrier, that means filing in each of the 50 states and the District of Columbia. These 51 jurisdictions have different standards for form approval. In industry jargon, the standards range from "use and file", to "file and use", to "prior approval". Even when States have the same standard in name, their regulators may interpret filing requirements differently.

To give you a sense of impact on our operations, our property-casualty companies make an average of 5,500 filings each year with the 51 jurisdictions. These filings are then reviewed in each of the 51 jurisdictions and often result in lengthy dialogue between our lawyers and actuaries and insurance department personnel. If significant changes are made in one jurisdiction, we may need to restart the process with jurisdictions that have already approved the forms. Our life insurance and annuity

products with investment features compete against mutual funds and other products that are subject to one-stop federal regulation – while we are forced to file 2,500 product forms in 51 jurisdictions.

This elaborate process is burdensome on our industry, but more importantly, has negative effects on the customers we seek to serve. First, consumers ultimately pay the cost of our compliance with this regulatory scheme through higher premiums. Second, the complexity of the process interferes with our ability to get new products to consumers rapidly. We live in a time when consumer preferences change rapidly, and when industries generally are judged by their ability to discern and meet these changing preferences. In contrast, it can easily take more than a year in our industry to secure the approvals necessary to market a new product nationally.

RATES. Price controls should be used as a regulatory tool only as a last resort, and only after market-based efforts have failed. The insurance industry is marked by robust competition; it is very unusual for any company to enjoy more than single-digit market share in any market. Competition between companies should and can establish prices at the most consumer-friendly prices. Government price controls distort the connection between risk and price, and ultimately hurt the consumer or lead insurers to withdraw from the market. Nevertheless, after forms are approved, the insurance industry must run the regulatory gauntlet a second time to attach prices to products. As already mentioned, this 51-step process adds time and expense in getting our products to consumers.

CAPITAL ADEQUACY. Addressing rate and forms concerns does not mean ending all regulation. Strict anti-trust adherence is necessary to protect consumers from over-pricing of products. But strict solvency regulation is also needed to protect consumers from under-pricing by companies willing to collect premiums now and avoid claims payments later by declaring bankruptcy. The current regulatory system has unfortunately failed to provide even this most basic level of protection. When States force companies to remain in markets and sell products at artificially low prices, companies flounder. State guaranty funds are forced to pick up the pieces, and pass the costs on to insurance policy holders or taxpayers. To illustrate rapidly changing stress on the system, guaranty funds paid out \$10 billion in their first 30 years and an additional \$3 billion just last year.

Forms, rates and solvency may be the most significant areas of insurance regulation needing modernization, but there are others. Oversight by multiple jurisdictions has led to costly and duplicative examinations of insurance market conduct. Consolidation would produce more useful examinations at a fraction of the cost. Licensing requirements in 51 jurisdictions impose barriers to market entry that mean less competition. And unique regulatory regimes have resulted in complex corporate structures that add cost to the insurance product.

NAIC Role and Regulatory Modernization

Nearly 20 years ago, a predecessor of this Committee investigated the ability of state regulators to perform the twin missions of company solvency protection and consumer protection. The subsequent report and hearings produced headlines on deficiencies in both areas. Since then, the NAIC and many active individual

commissioners have strived to improve consistency, quality, efficiency and speed. They have worked in good faith, but the actual reforms have been too slow in coming. In fact, the NAIC's Action Plan, adopted less than two months ago, echoes many of the initiatives announced and pursued over the past two decades. The plan strives for greater standardization and speed, but leaves the state structure in place. Most importantly, its timeline for completion stretches to the end of this decade.

At this Committee's initiative, the GAO recently studied efforts of the states and NAIC to streamline and modernize market conduct. GAO observed "that the NAIC has been pursuing (these) initiatives since the 1970s but progress has been limited". Further, it suggested that "result has been inconsistent and often spotty coverage from state to state, and (resulting in) potential gaps in consumer protection". GAO concluded that much work needed to be done. The GAO study also cautioned that it was uncertain not only when but even whether the NAIC and the states could accomplish this goal. We share that concern, and believe that any plan which continues to rely on a structure of fifty-one regulators will not produce the modernization necessary for our customers.

Optional Federal Charter

The Hartford believes that the solution that best provides value to consumers and the economy is one that grants national insurers the level of federal oversight offered to other large financial institutions. Our companies and products already receive significant federal oversight or regulation. Congress is increasingly addressing societal issues critical to our industry, such as terrorism, asbestos, litigation abuses. Consumers are influenced by federal taxes when deciding to purchase our products. And our companies' ability to compete is often governed by federal tax legislation affecting U.S. companies and our competitors.

We believe, therefore, that Congress should develop legislation permitting companies the option to be chartered and regulated at the federal level. This legislation need not totally eliminate regulation of products or companies. Policyholders, claimants and taxpayers will all be well-served by regulation that is standardized, efficient, objective and time-sensitive. I am convinced that federal regulation will do a better job meeting consumer demands, provide for more competitive prices and safeguard the solvency of insurers.

The watch-word here is optional. If state, regional or national insurers believe that their customers and the marketplace will be better served by the NAIC's present pace of improved state regulation, they will have that choice. Clearly, the insurance industry should have the same regulatory options as the banking industry.

Thank you again for the opportunity to appear here today and comment on this important issue.