State of Connecticut

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Hartford

Chairman Neugebauer, Ranking Member Capuano, and members of the Committee, my name is Thomas Leonardi. I would first like to thank the committee for providing me with the opportunity to appear before you this morning. I know that you had a pool of 56 commissioners to choose from...the fact that you selected me is both an honor and a privilege which I greatly appreciate.

I would also be remiss if I did not take a brief moment to thank my boss, Dan Malloy, the Governor of the state of Connecticut:

- for his unfailing support for me and my department;
- for appointing me as his insurance commissioner, a job that has been the most demanding and rewarding in my 35 year career; and lastly
- for his vocal commitment to our national state-based system of insurance regulation.

Hartford CT has fondly been known as The Insurance Capital of the world for over two centuries. We regulate the largest life insurance industry in the country and the second largest when counting all insurance lines of business. In fact, CT would rank as one of the ten largest insurance regulatory authorities in the world if it were a separate country. The industry represents nearly 10% of the state's total Gross Domestic Product and is part of a huge financial services industry that employs more than one out of every five of our citizens. Clearly, Governor Malloy and the citizens of the state of Connecticut have a great interest in the issues before this committee today.

I also want to thank Senator Ben Nelson, the NAIC's CEO, for joining me – while I am here today to offer my views and those of the State of Connecticut, the FIO report impacts all of my fellow state regulators.

At the outset, I want to note that the Dodd-Frank Act did not task FIO to provide a broad and balanced evaluation of insurance regulation. Rather, it was specifically tasked with identifying areas where it believed improvement was needed. Nevertheless, the FIO report, much like last summer's GAO report and the Financial Stability Board's peer review, acknowledges that state regulators have developed an effective system of oversight that satisfies the most fundamental regulatory objective: ensuring insurance industry solvency and policyholder protection. We at the Connecticut Insurance Department pride ourselves on meeting this objective every day. But to retain this pride we must be constantly willing to improve and evolve to meet the next crisis or innovation.

The FIO report contains several recommendations for near-term reform by the states as well as a few suggestions for direct Federal involvement in regulation. As you might imagine, every year state regulators, legislators, and even Governors receive suggestions on various insurance regulatory issues from federal agencies, international bodies, the consumers we protect, and the industry we regulate. All suggestions on any given issue deserve serious and thoughtful consideration. In this case, state regulators are still in the process of evaluating the FIO report recommendations and will be meeting to discuss them later this month and in the months ahead. But I will offer a few initial observations.

It is worth noting that we are already addressing many of the items identified in the report. In particular, transitions to Principle Based Reserving and the Own Risk Solvency Assessment, strengthening of capital adequacy regimes, implementation of the Solvency Modernization Initiative, and discussions about improving our efforts on Corporate Governance and Marketplace Regulation are all ongoing. State regulation is not and has never been static. We have made significant enhancements to our system in the last few years, and the FIO report highlights several areas where that work continues.

There are other recommendations, however, that give me serious pause. For example, I oppose, and I believe most other state regulators are also opposed, to the idea that FIO should be allowed to participate in supervisory colleges. These are designed to be meetings of prudential regulators to share confidential, company-specific information. The presence of a non-regulator, even as well intentioned as Treasury, would threaten the objective independence of not just state regulators, but regulators at the federal and international levels who participate in the colleges, as well. Moreover, state regulators strongly disagree with FIO's call for the federal oversight of mortgage insurers. State regulators have the most experience and expertise to effectively regulate these insurers while also ensuring the availability of coverage in the market. A strong regulatory framework is already in place to monitor the activity of mortgage insurers, and efforts are underway to strengthen it. The financial crisis dramatically illustrated that simply federalizing regulation is no guaranty of better results. But if there are specific changes to our system that FIO would recommend, we are happy to consider those.

I appreciate FIO's efforts and all the work that went into the report. I look forward to working alongside my state regulator colleagues, as well as state legislators and Governors, as we consider these suggestions.

I would close by offering that the ultimate assessment of state regulation occurs not on paper but in the outcomes we provide to policyholders and the industry. State insurance regulators oversee the broadest, deepest, and most stable insurance market in the world, and those markets weathered the worst financial crisis in generations extremely well. And they remain stable, competitive, and a solid cornerstone of the US economy. Thank you again for the opportunity to be here today.

Thomas B. Leonardi
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