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Many Cooks in the Kitchen

NAIC CEO Terri Vaughan explains the value of multiple regulators and the role states can play in a new financial services regulatory regime

Dr. Terri Vaughan is the CEO of the National Association of Insurance Commissioners (NAIC). As CEO, she oversees the operations of the NAIC and serves as the association's primary representative and chief spokesperson in Washington, D.C.

Before joining the NAIC in February 2009, Dr. Vaughan was the Robb B. Kelley Distinguished Professor of Insurance and Actuarial Science at Drake University, a position she held since January 2005, following 10 years as Iowa Insurance Commissioner. The longest-serving commissioner in Iowa history, Dr. Vaughan was also an active member of the NAIC, serving as President in 2002. Prior to and following the passage of the Gramm-Leach-Bliley Act (GLBA), she was the NAIC's chief liaison with federal banking regulators and played a key role in developing the NAIC's response to the GLBA. She is widely credited with being the architect of the NAIC's Interstate Insurance Product Regulation Compact.

The **NOLHGA Journal** *conducted this interview with Dr. Vaughan in late April 2009.*

Winds of Change

Dr. Vaughan is part of the impressive speaker lineup at NOLHGA's 2009 Legal Seminar, which will be held at the Ritz-Carlton Chicago on July 9 and 10. For more information about the seminar, please visit www.nolhga.com/2009LegalSeminar.cfm or contact Sean McKenna at smckenna@nolhga.com.

The push to reform financial services regulation is now in overdrive. How is the NAIC working with the Obama Administration and Congress on this issue?

The main thing we're doing is making sure that people understand how the state system works. There's a lot of confusion, and the system is often inaccurately presented by people who would like to see a different system of regulation. So you hear terms that don't properly describe the high level of coordination that exists within the state system or some of the successes that we've had—the way the insurance companies, at least to date, have withstood the financial turmoil we're going through.

I think that's part of the message and the education that we're trying to give Congress—how the structure of state regulation has helped to keep the industry strong. How it's a prudent system of financial regulation, one focused on making sure consumers are protected.

How has that structure helped the industry "weather the storm," at least to this point?

One of the things that has become increasingly clear to me over the last year is how important it is to have different perspectives and multiple eyes on a problem. One thing we've learned from this crisis is that regulators make mistakes. These can be mistakes in setting policy or mistakes in enforcing policy. And the state system, because we have so many cooks in the kitchen—a lot of people who come at a problem from different perspectives—we are structurally incapable of moving toward heavy deregulation or heavy over-regulation. Our nature is to come out somewhere in the middle—the structure drives us that way, because we have so many states with different perspectives on an issue. And once we have what I would call "balanced policy," then as regulatory issues come up, it's implemented and enforced in a balanced way. When you have multiple eyes on a problem, you're not going to miss things.

I have frequently told the story of Martin Frankel, who was behind a regulatory

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The Guaranty System: A Constant Value in a Shifting Debate

Early in the decade, when I began writing about the growing interest in federal insurance regulation, the backdrop for the debate was quite different than it is today.

Private sector advocates for a greater federal role sought (among other things) "one-stop regulatory shopping" and relief from a multiplicity of regulatory requirements in fifty-plus U.S. jurisdictions, as well as relief from state premium rate controls on many lines of business. Provisions to achieve those objectives were key components of, for example, optional federal chartering (OFC) legislation supported by leading insurance companies and trade associations. It would be simplistic and unfair to describe the goals of OFC supporters as "deregulation," but many came so to perceive or characterize those goals.

When OFC initiatives were first advanced, the political environment was somewhat favorable. Supporters of financial institutions and proponents of deregulation abounded in Congress, the executive branch, and the governments of many states. A conservative Senator from New Hampshire was the original sponsor of OFC legislation, and his first bill was the OFC discussion focus for the early years in which the concept was debated on Capitol Hill.

In addition, the debate originally unfolded in a generally flourishing economy, and many people argued that the rise of the economy resulted in part from various federal and state deregulatory measures.

At the risk of understatement, one might say that the world looks different today. The economy remains mired in a deep and long recession. Control of most levers of political power, both in the federal government and in many states, has moved from those who support industry and deregulation to those who advocate consumerism and more regulation, especially in the financial sphere. The Senator who originally developed the OFC legislation is out of government, and those in government who now debate a federal insurance regulatory role have a much different set of objectives and priorities.

Today, the governmental focus is much less on how to improve the business environment for companies and decrease their regulatory burdens, and much more on how to protect consumers and taxpayers by controlling and penalizing excessive risk-taking within the financial sector.

The Guaranty System's Role

Given those dramatic shifts in the political and economic environments, I am often asked, how differently should the insurance guaranty system be viewed, both as it now exists and as it has been proposed to operate under any OFC or other regulatory restructuring regime that might be able to win political support today?

My answer, perhaps surprisingly, is "Not at all." Though the changes in the political and economic environment may affect how some proposals are viewed, there is no reason to assess the guaranty system any differently than before. I believe that answer follows from an objective review of how and why the guaranty system has evolved.

In the first place, it must be noted that the guaranty system has always been, in its essence, a consumer protection measure, and not the outcome of anyone's quest for deregulation. Indeed, many in the industry opposed the original proposals for insurance guaranty protection in the late 1960s as unwarranted interference in the free markets that would foster moral hazard. Nonetheless, in response to consumer advocates in Congress and state insurance regulators and legislators who demanded consumer protection against insurer insolvencies, the objectors yielded. Four decades ago the modern insurance safety net concept was born when the NAIC promulgated the first "Model Acts" for property/casualty and life and health insurance guaranty associations.

Like any societal benefit, the insurance safety net has costs associated with it. Those costs are generally divided among the consumers who pay insurance premiums to healthy insurers and state taxpayers (through premium tax offsets for guaranty association assessments). Some ingenious elements of the Model Acts succeed in reducing the costs of the safety net that would otherwise be passed on to consumers and taxpayers by favoring "least cost resolution" approaches to insurer insolvencies. This is done by provisions bringing to bear assets of the insolvent company in support of a resolution plan[1], provisions allowing the guaranty associations a flexible "menu of options" that permit the design of an effective and efficient resolution plan[2], and provisions in the NAIC's "Insurer Receivership Model Act" (IRMA) requiring coordination between the guaranty system and the receiver in the design of a resolution plan.[3]

The guaranty system has always been, in its essence, a consumer protection measure.

Since the promulgation of the NAIC Model Acts almost four decades ago, insurance regulators and legislators have improved the original Acts in various ways. Product coverages have been expanded and clarified, and coverage "caps" have been raised as deemed appropriate. But with all the improvements and updating done to the Model Acts over the years, legislators and regulators have steadfastly focused on continuing to deliver robust protection to consumers while also avoiding the imposition of unnecessary costs for that protection on consumers or taxpayers.

The important point is that whatever may be said (fairly or unfairly) about OFC or other legislative concepts, there is nothing *deregulatory* about the consumer safety net established through the NAIC Model Acts. Quite to the contrary, the Model Acts embody the best and most idealistic spirit of consumer protection regulatory legislation. They do this by establishing a significant level of financial protection for consumers in the event an insurer becomes insolvent. But they also accomplish this objective while seeking to do so at the lowest possible costs to the consumers and taxpayers who ultimately must pay for the safety net's benefits.

Spreading Risk

While some in the industry originally opposed the safety net concept, over time—and especially under current economic conditions—most in the industry now agree not only that the safety net is good for consumers and taxpayers, but also that it aids the industry by supporting consumer confidence in insurance purchases.

The safety net article of the OFC legislation, as introduced in substantially similar form in the prior two sessions of Congress (referred to here for convenience, by reference to the original version introduced in the Senate, as the "Johnson/Sununu Bill")[4], is the *one* provision of that legislation that manifestly has everything to do with the direct protection of consumers and nothing to do with regulatory relief or "deregulation." Title VI, the safety net article of the Johnson/Sununu Bill, contains all of the consumer protection provisions developed by the NAIC in the Model Acts (over the initial objections of many in the industry), as those Models have been tested, refined, and developed over the years by generations of regulators and state legislators.

Moreover, in at least two important respects the safety net provisions of the Johnson/Sununu Bill actually go further than the Model Acts in protecting insurance consumers.

First, while the Model Acts are simply models that state legislatures may follow or not, they do not and cannot establish uniform national minimum safety net standards. The NAIC simply does not have authority to mandate adoption by the states of the Model Acts. By contrast, Article VI of the Johnson/Sununu Bill, for practical purposes, *does* set mandatory minimum standards for the protection of consumers resident in all states.[5]

Second, Article VI of the Johnson/Sununu Bill respects the basic insurance concepts of "risk spreading" and "risk pooling" by ensuring the largest and deepest possible pool of financial assessment capacity, thus maximizing the funding available for protecting consumers, while at the same time minimizing the systemic costs and risks borne by any one healthy, assessment-paying carrier. By thus spreading the

["The Guaranty System" continues on page 12]

Capital Com

mitments

NOLHGA's Annual Meeting heads to Washington, with politics, regulatory reform, and even a little espionage on the agenda.

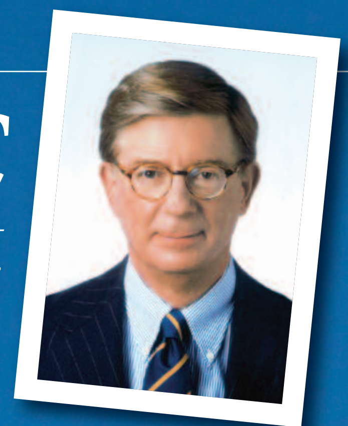
The discussion of federal regulation of insurance has moved from the "if" stage to "when and how," which makes Washington, D.C., the perfect site for NOLHGA's 26th Annual Meeting. The theme of the meeting is "Capital Commitments," and the program will explore the commitments of the current guaranty system safety net, how the system can better address them, and possible changes to those commitments that might be caused by federal legislation and the economic crisis. As companies search for capital and state regulators and the industry test their political capital on Capitol Hill, NOLHGA's Annual Meeting has it all covered.

Major Themes

Regulatory change is the driving issue in the industry, and NOLHGA will take advantage of the meeting's setting to enlist "inside the Beltway" experts on the ongoing debate over federal regulation of insurance. In addition, Roger Sevigny, NAIC President and New Hampshire Insurance Commissioner, will give attendees the NAIC's perspective on systemic risk regulation and what role Congress should play in regulating the insurance industry. Speakers on both sides of the federal regulation debate will also give their insights into the future of the state guaranty association system, with options ranging from retaining the current state system to federal standards for the state system to a federal guaranty mechanism.

Regulation clearly isn't the only issue confronting the industry or the guaranty system. Meeting attendees will hear from industry leaders, economic experts, and a ratings agency representative on the economy and what the industry can

Baseball in DC



While the Washington Nationals are unlikely to be playing baseball in mid-October, NOLHGA's Annual Meeting will feature noted baseball lover George Will, who will speak at the October 13 Welcome Luncheon. Will, a Pulitzer Prize–winning commentator whose column is syndicated in almost 400 newspapers nationwide, will offer attendees his insights into the political scene (and, most likely, baseball). Don't miss what promises to be an entertaining and enlightening afternoon—especially if the Chicago Cubs make the playoffs.

expect in 2010 and beyond. The solvency outlook for the life and health industry will also be addressed.

The Work at Hand

This focus on the future won't obscure an analysis of the guaranty system's current commitments. The meeting will feature a briefing on major insolvencies and rehabilitations, bringing guaranty association members up to speed on the major cases affecting the system, such as the Lincoln Memorial/Memorial Service Life Insurance Companies in Texas, Executive Life Insurance Company of California, Executive Life Insurance Company of New York, Standard Life Insurance Company of Indiana, and more.

Guaranty association board members and administrators are also invited to a members-only meeting to discuss ways to strengthen the guaranty system safety net and anticipate and address possible criticisms from outside the system. The meeting will feature a wide-ranging discussion of any and all issues that attendees wish to address (time permitting), and all guaranty association members are strongly encouraged to attend. More information about this meeting will be available in the near future.

Audience Participation

Given the current economic and political climate, NOLHGA's 2009 Annual Meeting may be the most important meeting the organization has had in years. The program will touch on all the major issues facing the guaranty system, and we urge all members not only to attend the meeting but also to offer your opinions on ways to enhance the experience for all attendees. Please send any suggestions for speakers, topics, or any meeting-related issues to Sean McKenna at smckenna@nolhga.com. ✯

NOLHGA Royale

One of Washington's most popular attractions is the International Spy Museum (www.spymuseum.org/), and Annual Meeting attendees will have a chance to tap into their inner James Bond or Emma Peel at NOLHGA's Annual Meeting Reception, which will be held at the museum on the evening of October 13. NOLHGA has arranged for transportation to and from the reception, so guests can leave their Aston Martins or Sunbeam Tigers at home.

Meeting at a Glance

NOLHGA's 26th Annual Meeting

www.nolhga.com/2009AnnualMeeting.cfm

Dates

October 13 & 14, 2009 (an MPC meeting will be held October 12)

Host Hotel

The Fairmont Washington, D.C.
202.429.2400
www.fairmont.com/washington
Room Rate: $249/night plus tax
Reservation Deadline: September 15, 2009

President's Club

Guests are encouraged to enroll in the Fairmont's President's Club (www.fairmont.com/fpc), which offers complimentary high-speed Internet access, free local calls, complimentary health club access, and more. **Guests must register before arriving at the hotel to take advantage of this offer.**

Meeting Registration

Members: $575
Non-members: $725
Guests: $125

Reception

Tuesday, October 13, 6:00 p.m.
International Spy Museum
www.spymuseum.org/

["Many Cooks in the Kitchen" continues from page 1]

failure that we had in the late 1990s, and I've compared it to the Bernie Madoff situation. They were similar circumstances, in that they were both fraud—people got control of companies and took the money. In the case of Bernie Madoff, there was only one regulator and that regulator made a mistake. I am absolutely not pointing fingers at the SEC. They've said they made a mistake. I was a regulator for 10 years, and I made mistakes. That's just human nature. But the fact is, if there's no one else to catch that mistake, it can get to be a big one. In the case of Bernie Madoff, it got to be $50 billion.

Martin Frankel was our guy. He got hold of seven insurance companies in five states. And the first few states missed it, but when he got into Mississippi, Commissioner George Dale said "Something looks funny here." He started digging and brought the whole thing down. That, to me, illustrates the importance of multiple eyes on a problem. We had regulators who made mistakes there, but with multiple eyes on a problem, you can catch those mistakes before they blow up into big ones.

The other example I could point to is that, because we all have something to say about how a company is regulated, that puts constraints on how a commissioner can behave with respect to the domestic industry. If a commissioner in State A is going to be lenient on companies, the other states are going to weigh in and say, "We're not going to let that happen."

In the last few months, we had a number of states that were giving permitted practices to their companies for their financial statements at the end of 2008. And there's a process in which the state that's going to give a permitted practice notifies the other states. And I can tell you that there was a lot of discussion behind the scenes about what the other states were going to do about it. And that oversight, or peer review, by other states acts as a constraint on the discretion of the domestic regulator. And that's a healthy restraint—it allows for a system where the states are regulating their companies and using their discretion to respond to individual circumstances, but they're still constrained in a way that ensures they're protecting policyholders. That's a real healthy system.

You mentioned the number of cooks in the kitchen. That's led to the NAIC being known for taking a deliberate pace when it comes to making changes. How does the organization plan to keep up with the movement toward a systemic risk regulator, which seems to be anything but deliberate?

One of the things I've found about the state system is that, when it's necessary, the states can step up, and the NAIC can respond quickly. It's not always necessary, but I know that after 9/11, the NAIC responded very quickly in terms of making sure we understood what the implications were for the companies and making sure that we got the necessary endorsements approved in a timely manner. So it can be done.

But it is true that the state sometimes need some motivation to do it. That's one of the reasons why the oversight of Congress and the incentives that Congress has given us periodically—like the incentive in Gramm-Leach-Bliley to address producer licensing—work pretty well for us, because they give us motivation to move quickly. And when we need to, we can.

The NAIC did move quickly on the issue of permitted practices in companies' financial reporting, and that created a bit of a furor in the media. What was the need for that haste, and what did the organization learn from the process?

The capital and surplus discussions that started sometime late in 2008 centered on the current financial reporting requirements, which we recognize are conservative. Was that kind of hidden conservatism in the statements sending improper signals to the markets, and did regulators want to make the surplus that was embedded in the reserves more transparent? And there was a very vigorous discussion at the NAIC, and the NAIC decided, "We don't have the answer—we're going to throw it back to the states and let them do what they think is best."

The process was criticized in part for lack of transparency. I wasn't around at the time, but I think one of the lessons the officers took from it is that you need to be very transparent about these things in the environment we're in right now. They did have a

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public hearing, and after the states began granting permitted practices, the NAIC posted that on its Web site, with detailed information about which companies were getting it, what kinds of permitted practices, what was the impact on surplus, and so forth. So there was an effort to be very transparent about what was being done.

There has been some pushback about whether granting these permitted practices indicates some kind of failure of state regulation. I would say it's exactly the opposite. The argument I would make is that all regulators are dealing with the current environment through a learning process. You try something, then you try something else. You can see this with what the Treasury and Federal Reserve are doing in the financial markets.

With the state regulatory system, we don't have a very top-down regulatory approach, saying "We're all going to do this. It didn't work? Let's all go do this." Instead, what we say to the states is, "You all go do what you think is right, and then we're going to learn from the experiences in the states." We're looking at what was done, what kinds of permitted practices were granted, and the impact on surplus. So this, to me, is a learning experience.

You will hear some criticism about the different treatment of different companies and whether that's affecting the competitive landscape. I think there's a lot that's going on right now that creates some upheaval in the markets, such as Treasury giving TARP money to some banks and not others. There are lots of things going on right now with policymakers trying to respond to the current marketplace. So my response is that this is a short period of time, and we're just going to have to work through it. It won't always be this way, but it's kind of messy right now because we're dealing with messy times and regulators are trying to figure out how to respond appropriately.

Are there concerns among your membership about proposals for a systemic risk regulator and how such a regulator might work with state insurance departments?

The main point the state regulators have is that we have a system of insurance regulation that works—that protects consumers—and we don't want to lose sight of that. We don't want to lose our ability to protect consumers in this process. So for us, the kind of system of systemic risk regulation that makes sense is collaborative, one that uses the strengths of the functional regulators, has a good deal of information sharing and cooperation, and doesn't preempt our ability to protect consumers except in very unusual situations that pose systemic risk.

We're here to protect policyholders—we regulate insurance companies to protect policyholders. If there's a systemically risky institution and there are issues beyond policyholders—the impact on the broader financial markets—that may call for some higher level of oversight, higher capital requirements, or higher level of solvency regulation for that institution. But it shouldn't be used as an opportunity to take money away from the policyholders to help shore up other entities. What we really don't want is a situation where the systemic risk regulator can reach down into the insurance companies and take money out to shore up the banks or other parts of the financial sector.

Does Treasury Secretary Geithner's proposal that the government should be able to take over non-banking institutions, including insurance companies, raise any "red flags" with the NAIC?

Yes. The main red flag it raises is that while we can understand the need to have some mechanism for resolving systemically risky institutions, that process shouldn't come at the expense of policyholders. We set financial solvency requirements to protect poli-

> That oversight, or peer review, by other states acts as a constraint on the discretion of the domestic regulator. And that's a healthy restraint.

cyholders, and we want to maintain our ability to safeguard the assets of insurance companies.

You mentioned earlier that duplicative regulation might be a good thing—that one set of regulators might serve as a backstop against potential missteps by another. Is that an argument that will work on Capitol Hill?

I think it will. It's funny, because I used to be on panels back when I was president of the NAIC in 2002, and I'd have the stuffing beaten out of me about the inefficiency of the state regulatory system. And we were working hard to make the system more efficient, recognizing that duplication has its downsides.

But the upside really wasn't appreciated at the time. We're in an environment now where the upside is appreciated, where we've seen massive regulatory failures, and part of that stemmed from centralized decisions that were wrong. These mistakes impacted the whole system, and we're working on ways to solve the problems that were created.

I sense a kind of recognition in Congress that there is a role for the states to play—that the states do focus on consumer protection, and they should have their eyes on this problem. There is much less of a tendency to think that we should preempt the states for the sake of efficiency. There's more of a recognition that we should go ahead and leave the states in there, even if it might cost a little more, because it's going to protect us from huge problems down the road because we'll have multiple eyes on a problem. So I think it's an argument that will work.

A few years ago, the buzzword for the NAIC was "efficiency" in regulation. What's the organization's focus now?

The focus is still on efficiency. Our system has always had the strength of multiple eyes on a problem, multiple perspectives, and diversity of opinion. You get better regulatory policy and better enforcement that way. But the more people you have involved in the process, the more coordination, work, and cooperation you need to have. And you need to really ask yourself all the time, "Is this the best way to do this?" Without losing the benefits of the checks and balances we have, are there ways to streamline the process, and are there circumstances where the value of the checks and balances really isn't worth the costs that are imposed?

I think producer licensing is a good example. It's not clear to me that there's that much value in the checks and balances in the process of getting a license in multiple states. There should be more efficient ways of getting that done, and we've been working on that and making progress. So that's always been a struggle for state insurance regulation. How do we maintain the checks and balances, but do it in the most efficient way possible?

During that period where those checks and balances weren't as appreciated as they are now, was there too much faith in the self-regulating abilities of the industry?

In retrospect, you'd have to say there was. A lot of people assumed that companies were going to exercise their own self-regulation and make decisions that would protect the solvency of the company and take the appropriate level of risk for the appropriate level of return. And I think we've learned some hard lessons about that. Today, there are questions being asked about whether governments failed, whether the compensation system created incentives to take risk. But the bottom line is that there is a new appreciation for the role of regulation in protecting depositors, policyholders, and the financial system in general. You can't just rely on the companies to govern themselves.

What lessons should regulators, state or federal, learn from the current economic crisis?

The lesson I take is that regulators can make mistakes. Policies can be wrong, and enforcement can be lax or in error. And as we look at redesigning our regulatory system, that must be recognized. We will not prevent another thing like this from happening if we go into this assuming that we're going to get one regulator who is not going to make mistakes.

So for me, if I were to carry this idea over to the discussion of a systemic risk regulator, the idea that you would get one regulator to regulate all systemically risky institutions, that to me is actually the worst solution. A single regulator concentrates the decision making and increases the chance of errors that go undetected in the context of systemically risky institutions, which is the worst place to concentrate it.

What I would say is, for systemically risky institutions, efficiency is the least important concern. You need to worry about catching something before it gets too big.

AIG is widely seen as "an insurance company that failed," but state insurance regulators point to it as a sign that state regulation works. Why is there a dichotomy in views on the AIG situation?

AIG, although it's often called an insurance company, is a large, complex financial institution. And I think that's where the confusion comes from. It's not really an insurance company, it's a large financial institution that was involved in lots of things outside of insurance—airplane leasing, credit default swaps, and a host of other things. The problem that got the holding company into difficulty happened outside the insurance companies. The insurance companies were regulated in a way that prevented those problems from originating in those companies.

I think the dichotomy is really just confusion about what AIG is. But I have been surprised by how many people do understand what happened with AIG and do understand that the insurance companies are still solvent, and that it's not an insurance problem.

There's been a renewed focus on insurance company solvency and the outcomes for policyholders if an insurer becomes insolvent. How confident is the NAIC that the state guaranty associations will be able to handle any failures, should they occur?

I am pretty confident, and I've been looking into this lately. We have had spikes in insolvencies in the past. We had a number of insolvencies in the early 1990s, and because of the way that insurance company insolvencies happen, where financial obligations are resolved over a period of time as opposed to all in one year, it's not relevant to look at the capacity in a single year.

In fact, if you look at the spike in insolvencies in the 1990s and how much the guaranty associations paid out relative to their capacity, they never came anywhere close to reaching their capacity. So I'm feeling reasonably comfortable.

Have you seen any misconceptions or flat-out errors about the guaranty system in the media that you feel need to be corrected?

It seems like I see the statistic that there's only $8.8 billion in capacity, and the articles often compare that to the size of some insurance company. And the implicit message is, if this company goes down, this company will cost $60 billion or whatever. But that's missing two things. One, when an insurance company fails, it has a lot of assets, which reduce the hole that you're filling. And second, you're filling that hole over time.

So the message that is delivered on a very superficial level is wrong. It understates the capacity of the guaranty system. I am troubled by that, and we need to ensure that people better understand the security that's out there. ✯

The structure of state regulation has helped to keep the industry strong.

["The Guaranty System" continues from page 3]

insolvency response costs across the broadest possible pool of healthy assessable carriers, Johnson/Sununu also reduces the cost and risk exposure to the consumers and taxpayers who ultimately would pay the costs of insolvency resolutions. The critical method by which Johnson/Sununu achieves optimal risk spreading and risk pooling is by requiring that all insurers participate in the same guaranty system, rather than dividing assessment capacity into separate pools for state and nationally chartered insurers.

By contrast, a version of OFC legislation (H.R. 1800) introduced in the House in the current Congress[6] would violate optimal risk spreading and risk pooling concepts by establishing one assessment pool exclusively responsible for nationally chartered companies, while paradoxically requiring *both* nationally chartered and state-chartered insurers to pay assessments to the current guaranty system when a state-chartered insurer becomes insolvent.[7] The practical consequence of that provision is that the financial base protecting consumers with policies from nationally chartered companies would be *less* than under the current system or Johnson/Sununu, while the safety net assessment burden for nationally chartered companies (and for consumers and taxpayers) would be as large or larger than it is now (or would be under Johnson/Sununu).

As I finish this column, we are days away from the release of the Obama administration's proposals for financial services regulatory reform. Most people expect the administration to put a stamp on the proposal that is quite different in emphasis from the priorities of his predecessors.

Most people also believe that some significant changes from the current regulatory regime are warranted in order to fix what is broken and decrease the likelihood of repeating some problems that arose under the current financial regulatory regime. At the same time, there is value in concentrating precious political capital on reforming what needs to be reformed, while retaining that which works well in its present form.

Our current insurance guaranty system has been tested by several severe financial downturns and has fully protected millions of consumers through hundreds of insurer insolvencies during many challenging periods. The system has substantial accumulated expertise, seasoned and experienced practitioners on the ground today protecting insurance consumers in every state, and a very significant base of financing for protecting consumers.

Continued reliance on such a proven and capable consumer protection system should be a clear priority for those truly interested in protecting consumers. ✯

Peter G. Gallanis is President of NOLHGA.

End Notes

1. See Model Act Section 14(C) (assets attributable to covered policies) and (D) (early access distributions).
2. See Model Act Section 8 (Powers and Duties of the Association).
3. See IRMA Sections 303 and 405 (Coordination with Guaranty Associations and Orderly Transition to Rehabilitation or Liquidation).
4. The original OFC bill was introduced in the Senate in 2006 as the "National Insurance Act of 2006," S. 2509, 109th Cong., 2nd Sess. (2006); it was reintroduced with technical improvements, but otherwise in substantially similar form, as the "National Insurance Act of 2007," S. 40, 110th Cong., 1st Sess. (2007). A House bill following the Johnson/Sununu Senate bill was introduced in 2006 as the "National Insurance Act of 2006," H.R. 6225, 109th Cong., 2nd Sess. (2006); it was reintroduced in the next session as the "National Insurance Act of 2007," H.R. 3200, 110th Cong., 1st Sess. (2007). In each of the four bills, the guaranty association provisions are set forth in Title VI.
5. See Section 1604 of the "National Insurance Act of 2007," S. 40, 110th Cong., 1st Sess. (2007).
6. The "National Insurance Consumer Protection Act," H.R. 1800, 111th Cong., 1st Sess. (2009).
7. H.R. 1800 Section 605.

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The views expressed herein are those of the authors and do not necessarily reflect those of NOLHGA or its members.

NOLHGA Calendar of Events

2009

July 7–10	**MPC Meeting & Legal Seminar Chicago, Illinois**
Sept. 21–24	IAIR Fall Meetings Washington, DC
Sept. 21–24	NAIC Fall National Meeting Washington, DC
Oct. 12–14	**MPC Meeting & Annual Meeting Washington, DC**
October 18–20	ACLI Annual Conference Chicago, Illinois
December 5–8	IAIR Winter Meetings San Francisco, California
December 5–8	NAIC Winter National Meeting San Francisco, California