# PRESIDENT OBAMA PROPOSES CREATION OF OFFICE OF NATIONAL INSURANCE

Monday, June 22, 2009 at 11:16AM

No doubt some of you have heard about Obama's proposal to reform the financial system. If you have not seen a copy of it, it can be found here.

One of the summarized recommendations in the attachment is as follows:

"H. Enhance Oversight of the Insurance Sector

Our legislation will propose the establishment of the Office of National within Treasury to gather information, develop expertise, negotiate international agreements, and coordinate policy in the insurance sector. Treasury will proposals to modernize and improve our system of insurance regulation accordance with six principles outlined in the body of the report."

In terms of providing guidance on what the Treasury will consider in improving insurance regulation, the plan sets forth the following six principles:

"1. Effective systemic risk regulation with respect to insurance. The steps proposed in this report, if enacted, will address systemic risks posed to the financial system by the insurance industry. However, if additional insurance regulation would to further reduce systemic risk or would increase integration into the new regulatory regime, we will consider those changes.

2. Strong capital standards and an appropriate match between capital allocation and liabilities for all insurance companies. Although the current crisis did not stem from widespread problems in the insurance industry, the crisis did make clear the importance of adequate capital standards and a strong capital position all financial firms. Any insurance regulatory regime should include strong capital standards and appropriate risk management, including the management of liquidity and duration risk.

3. Meaningful and consistent consumer protection for insurance products and practices. While many states have enacted strong consumer protections in the insurance marketplace, protections vary widely among states. Any new insurance regulatory regime should enhance consumer protections and address any gaps problems that exist under the current system, including the regulation of producers of insurance. Further, any changes to the insurance regulatory system that would weaken or undermine important consumer protections are unacceptable.

4. Increased national uniformity through either a federal charter or effective action by the states. Our current insurance regulatory system is highly fragmented, inconsistent, and inefficient. While some steps have been taken to increase uniformity, they have been insufficient. As a result there remain tremendous differences in regulatory adequacy and consumer protection among the states. Increased consistency in the regulatory treatment of insurance – including strong capital standards and consumer protections – should enhance financial stability, increase economic efficiency and result in real improvements for consumers.

5. Improve and broaden the regulation of insurance companies and affiliates on a consolidated basis, including those affiliates outside of the traditional insurance business. As we saw with respect to AIG, the problems of associated affiliates outside of a consolidated insurance company's traditional insurance business can grow to threaten the solvency of the underlying insurance company and the economy. Any new regulatory regime must address the current gaps in insurance holding company regulation.

6. International coordination. Improvements to our system of insurance regulation should satisfy existing international frameworks, enhance the international competitiveness of the American insurance industry, and expand opportunities for the insurance industry to export its services."