The Federal Insurance Office is on the Way

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While not yet approved by the United States Senate, the Federal Insurance Office (FIO) – the first time an entity in the federal government has been created to specifically address the insurance industry – moved that much closer to reality when the House of Representatives on June 30 passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, H.R. 4173. The bill passed the House by a vote of 237-192.

The Senate is expected to vote on the bill when it returns from its July 4 recess on July 12.

The FIO will be housed under the U.S. Treasury Department, though it will not have any regulatory authority. Among other things, the FIO will gather information regarding the insurance industry, will monitor the industry for systemic risks, and will serve as a negotiator for international insurance treaties. The bill contains a provision that will modernize and streamline the surplus lines and non-admitted markets. As explained by the National Underwriter, the "surplus lines provisions in the bill dictate that in any multi-state placement of surplus lines, the only state whose rules govern access to the products is the state in which the insurance is placed—the 'principal place of business' for the insured."

Just prior to passage in the House, the bill dropped a tax on financial institutions to raise $19 billion to pay for implementation of the bill over five years, a provision strongly opposed by the insurance industry.

Speaking for the National Association of Insurance Commissioners (NAIC), its President and West Virginia Insurance Commissioner Jane L. Cline thanked the congressional negotiators for essentially preserving the role of state insurance regulators in protecting consumers and ensuring the viability of the insurance industry, stating, "We were pleased to see that the Federal Insurance Office (FIO) set up under the bill is narrowly designed to carry out its mission while not unnecessarily undermining strong state regulation." NAIC President Cline also stated:

"The package provides senior investment protection grants for annuity suitability, an area where the NAIC and the states have a solid track record," and "The bill also provides important clarification in regulatory authority for indexed annuities, ensuring that these guaranteed products are under the clear authority of state insurance regulators."

While the bill will allow federal regulators to wind down troubled large institutions, the NAIC further stated that the bill made "clear that state insurance regulators will continue to have the ability to 'wall off' insurance companies from troubled holding companies, protecting insurance policyholders from other risks in the financial system" and that state regulators "will also retain their role to monitor consumer protections in the insurance sector."

When the Obama administration first proposed a national insurance office last year, California Insurance Commissioner Steve Poizner stated at the time that such plan "appropriately acknowledges the primary role the states play in regulating the insurance business to benefit consumers. State oversight of insurance companies, coordinated among all state regulators, is the reason that, among all the financial players in this country, it is the insurers who are and remain the most stable and the least in need of federal assistance."