

Optional Federal Charter for Insurance

A Luncheon Briefing Sponsored By

The American Academy of Actuaries



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The Future of Insurance Regulation: Perspectives on an Optional Federal Charter

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Overview

- Risks to Financial Security
- Role of Insurance in managing these risks
- Regulation of the Insurance Business
- The Future of Insurance Regulation
- The Role of the Actuarial Profession



Risks to the Financial Security of Individuals and Businesses

- Property damage from accidents, fire, and storms
- Loss of income from poor health, disability, or premature death
- Insufficient assets to fund retirement or long-term care needs
- Unanticipated hospital or medical expenses
- Liability arising from operating a business or personal actions



Role of Insurance

- A sound financial security program is designed to manage risk and mitigate adverse financial effects to individuals and businesses
- Insurance transfers the potentially large and unknown financial consequences of a risk, to the insurance company for a significantly smaller known cost or “premium”
- Insurance is an integral component of a sound financial security program



Regulation of the Insurance Business

- The primary purpose of government regulation is to protect consumers by ensuring that insurance companies fulfill their promises to policyholders



Regulation of the Insurance Business

- Responsibilities include:
 - Licensing of companies that meet specified financial requirements
 - Monitoring company solvency and financial condition
 - Managing the liquidation or rehabilitation of troubled companies
 - Monitoring company practices to ensure policyholders are treated fairly regarding underwriting, claim payments, content of insurance policies, and rates charged
 - Licensing agents that sell insurance contracts
 - Monitoring company advertising and marketing practices to ensure they are not deceptive or illegal



The Future of Insurance Regulation

- The current state-based structure of insurance regulation has been in place since 1869
- A number of proposals have been submitted to implement a national or optional federal charter (OFC) form of regulation
 - Passage of the 1999 Financial Services Modernization Act which removed barriers for banks, insurance companies, and securities firms to engage in each other's businesses.
 - Other changes affecting the financial services industry (e.g. technology, consolidation, globalization, etc.)



The Role of Actuaries in the OFC Debate

- The American Academy of Actuaries (“Academy”)
 - A non-partisan organization representing over 14,000 members of the actuarial profession on public policy issues
- Our role in insurance regulation and the OFC debate
 - Actuaries are actively involved in the design, enforcement, and operation of insurance regulations
 - The Academy’s role is not one of advocacy or opposition
 - As experts in assessing and managing financial security risks, our primary role is to provide actuarial assistance in the design of any insurance regulatory system
- For more information: Public Policy Monograph



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