

How Insurance Is Regulated

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Insurance Regulation: Means and Ends

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Overview

- What Consumers Do...
- What Insurers Do...
- What Regulators Do...
 - Why...
 - How...
 - Variations...
- Trade-offs...



What Consumers Do...

- Trade a large, unknown cost for a small, known cost
- Reduce personal risk
- Gain freedom of action



What Insurers Do...

- Pool/aggregate risk
- Spread/transfer risk
- Analyze/underwrite risk
- Take risk
- Make a profit



What Regulators Do...

- Keep the process reasonably
 - Honest
 - Fair
 - Solvent



Why they do it...

- To assure reasonable promises are made and kept



What they regulate...

- Market conduct
- Prices
- Products
- Solvency
- Claim processes



Variations...

- Constant = Solvency/sustainability
 - Direct: Zone examinations
 - Indirect: Whistle-blower statutes
- Variable = All else
 - By line of business
 - By jurisdiction
 - By consumer
 - By product...



Trade-offs (the usual ones)...

- Responsiveness vs. precision
- Manage vs. monitor
- Cost vs. cost
- Change vs. progress
- Stability vs. inertia
- Cop vs. counselor



Trade-offs (the unusual ones)...

- State vs. federal
- Commerce vs. civil and criminal law
- Safety vs. efficiency
- Simplicity vs. complexity
- Yesterday vs. tomorrow



State Regulation of Life and Health Insurance

Julia Philips, FSA, MAAA



Overview

- Federal law (actual and proposed):
 - Association Health Plans: HR 2563
 - GLB
 - HIPAA
- Health insurance problems
- How states regulate insurance



Association Health Plans

- Proposed in HR 2563 (House passed)
- May increase availability
- May reduce cost
- But may “cherry-pick” market
- Risk of insolvency
- Loss of mandated benefits, protections



Gramm-Leach-Bliley 1999

- Financial Holding Company
- Federal Reserve authority
- Bank Holding Company
- Joint federal/state oversight



Health Insurance Portability and Accountability Act

- Portability (missing rate caps)
- Long-term care insurance (small tax benefit)
- Mental health parity (limited)
- 48-hour maternity stay



Health Insurance Problems

- Cost
 - as portion of income
 - increase from year to year
 - shifted from others
 - relative to value
- Availability/ loss of coverage
- Fairness of claim adjudication



State Regulation of Insurance

- Main goal is consumer protection
- Tools include:
 - Can revoke license
 - Can publicize problems
 - Can disapprove unfair policy language
 - Can investigate complaints
 - Can take over insolvent company



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