

PRESS RELEASE

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Arizona Insurance Director Blasts Federal Legislation That Would Obstruct State Regulation of Insurance

State insurance regulators would be prevented from enforcing consumer protection laws against bank-affiliated insurance enterprises under the terms of proposed federal legislation, jeopardizing protections for consumers, according to Arizona Insurance Director Charles R. Cohen.

Cohen warned that the Financial Services Act of 1999, HR10 in the House of Representatives and S.900 in the Senate, could prove damaging to insurance consumers. The legislation provides for the affiliation of banks, securities firms and insurance companies. Sponsors say the bill would optimize the benefits of consolidating the operations of businesses engaged in financial services.

In a letter to all members of Arizona's congressional delegation, Cohen said, "HR10 and S.900 contain sweeping preemption language that will create a regulatory void and leave consumers unprotected. The current legislation severely impairs the states' ability to regulate the solvency and market conduct of insurance activities conducted by banks and their operating subsidiaries, as well as insurers that affiliate with banks. No federal agency regulates the business of insurance."

Cohen urged the Arizona delegation to support amendments to HR10 that retain the state's authority to safeguard consumer interests.

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Cohen has stated repeatedly that he wholeheartedly supports the modernization of financial services to the extent that consumers would benefit through greater competition, choice, service and convenience. "What I am concerned about," Cohen said, "is that this consolidation not be accomplished in a way that compromises state regulatory authority over the insurance industry and impairs our ability to protect consumers of complicated financial products."

"If HR10 becomes law in its present form, many of the protections Arizona consumers enjoy will not apply when they do business with some insurance enterprises -- those that are affiliated with banks," Cohen said. "As passed by the House Banking Committee, HR10 preempts essential state laws and damages the ability of insurance regulators to protect insurance consumers."

"State insurance regulators throughout the country strongly oppose both the House and Senate bills as they currently exist. There is simply no reason for Congress to preempt a state regulatory system that is working well to protect America's consumers. We cannot in good conscience remain silent, allowing the push for financial modernization legislation to become a means for deregulating the insurance activities of banks and traditional insurers that affiliate with them."

Arizona insurance laws currently empower the Arizona Department of Insurance to assure fair sales practices and consumer treatment, monitor the financial stability of insurers, and safeguard premiums paid by consumers to insurance companies, Cohen said.

"An average family can easily spend \$3,000 each year on various types of insurance, including health, life, auto, home and mortgage," Cohen said.

Laws and regulations that protect insurance consumers from various unfair practices authorize the Insurance Department to:

- License agents, brokers and insurance companies.
- Regulate Medicare supplement, long-term care, life, health, auto and consumer credit insurance.
- Take action against companies or agents that unfairly discriminate in life, health, disability, property and casualty insurance.
- Penalize insurance companies for committing unfair trade practices and claims settlements and disseminating misleading advertising.
- Enforce guarantees of privacy regarding medical records maintained by insurance companies.

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Laws and regulations that target the financial stability of insurance companies:

- Require annual audited financial reports to be filed with the Insurance Department.

- Enable the Insurance Department to conduct examinations of companies deemed to be in financial trouble.
- Limit an insurance company's ability to make high-risk investments.

Laws and regulations designed to protect premiums paid by consumers authorize the Insurance Department to:

- Investigate fraud perpetrated against insurance companies.
- Regulate insurance holding companies.
- Administer guaranty funds that pay claims filed with an insolvent insurer.

Cohen said he opposes the current version of HR10 because it:

- Flatly prohibits the state from regulating insurance activities of banks, except for some sales practices.
- Prohibits the state from doing anything that might "prevent or restrict" banks from engaging in insurance activities other than sales, including affiliating with traditional insurers that have always been subject to state regulation.
- Incorrectly classifies certain state laws and regulations as discriminating against banks, when they are actually neutral.
- Does not guarantee that state insurance regulators will always have equal standing in federal court when disputes arise with federal regulators.

Congress is debating proposed changes to the Depression-era banking legislation, the Glass-Steagall Act. The intent of the Financial Services Act of 1999 is to reform the laws governing financial services industries. The House and Senate bills would repeal the Glass-Steagall Act, allowing banks, security firms and insurers to merge.

The House Commerce Subcommittee on Finance and Hazardous Materials will consider HR10 on May 27. The full Senate approved S.900 earlier this month.