

Consumer Advocates Wary of Federal Insurance Regulation Plans

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Some of the nation's insurance consumer advocates are wary of current proposals for federal regulation of insurance being passed around in Washington. They prefer taking their chances with an imperfect state regulatory system over what they fear would likely emerge from Congress under any federal regulatory plan.

Birny Birnbaum, executive director for the Center for Economic Justice, said his group is interested in going wherever consumers can get the best regulatory treatment. "Right now, the federal proposals are very anti-consumer," he said.

While state-based regulation has its problems, Birnbaum said "consumers still have better protection [with state-based regulation] than with any hypothetical federal approach that we've seen."

There is a way to design a national regulatory scheme that is better than what consumers get now with the state-based treatment, according to Birnbaum. "But that doesn't seem to be on the table just yet," he said.

He believes the debate will be an ongoing one. Part of the problem, Birnbaum said, is that the states and the industry don't seem to know what they really want.

"On the one hand, the states say we don't want the feds to regulate insurance and yet there's a flood insurance program, there's a terror insurance program, they want a natural catastrophe insurance program, there's a crop insurance program."

Birnbaum criticizes the industry for wanting the government to step in when it comes to risks such as flood or terror insurance.

"There's no reason for private market not to be offering flood insurance or terror insurance or catastrophe insurance," he continued. "It's done in other countries, and the governments in those other countries provide a backup in the event of a mega catastrophe."

Birnbaum is one of the consumer liaisons for the National Association of Insurance Commissioners (NAIC), as is Amy Bach, executive director for the watchdog group United Policyholders.

Bach also sides with the states on the overall insurance regulation question but thinks there is also room for regional approaches.

“At NAIC, we’ll lend our support to commissioners that want to preserve the state regulation system,” she said. “We think the optional federal charter will be a huge mess.”

Bach suggested that disaster programs are examples of where a state or regional perspective has advantages over a national perspective. Her organization works closely with the California Earthquake Authority and she hopes to share some of the best practices learned in California with the NAIC.

“We want to help export our success to other states as best we can, and brainstorm how to resolve failures,” Bach said.