



GE Financial

An Optional Federal Charter: A Regulatory Perspective

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***Dennis C. La Ganza
Vice President, Legislative Affairs
GE Financial***

AGENDA

- **Structural/Competitive Changes Are Rapidly Reshaping the Insurance Market Place**
- **Status of Optional Federal Charter (“OFC”)**
- **Overview & Assessment**
 - **Form & Function of Federal Regulator**
 - **Financial Regulation**
 - **Product Regulation**
 - **Producer Licensing**
 - **Solvency & Receivership**
 - **Other Significant Provisions**
- **Implications**

***Powerful Forces Are Altering
The Competitive Landscape***

- **1999 - Financial Services Modernization (“GLB”) Enacted Into Law**
- **E-Commerce**
- **Globalization**
- **Inefficiencies of the Existing State-Based System**
 - **Lack of Uniformity**
 - **Speed to Market**
 - **Market Conduct Inconsistencies**

The Old Regulatory Model May Be Obsolete

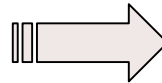
Current Proposals

- **Congress Is Currently Conducting Hearings on The Necessity for an OFC**
- **There Are Several Industry Bills Providing for an OFC**
 - ACLI
 - ABIA
 - AIA
- **Two Bills Have Been Introduced in Congress**
 - Senator Chuck Schumer (D-NY)
 - Congressman John LaFalce (D-NY)
- **Agents - IIAA/PIA Have Conceptual Discussion Points**
- **NAIC Developing an Interstate Compact**

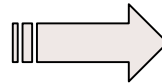
No Uniform Stakeholder Consensus

Controversial Proposal:

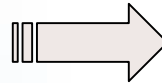
- NAIC - Very Hostile
- State Legislatures – Will Oppose
- Alliance NAI, NAMIC – Preserve State System With Improvements
- HIAA – Neutral
- Congressional Republicans – Philosophically Market Orientated But Opposed to Federal Bureaucracy
- Congressional Democrats – More Comfortable With Federal Regulation But Likely to Attach Conditions



Political Capital Required to Enact OFC Will Be Substantial



Long Term Process



No Grassroots Support
- Consumers Hostile
- Congress Will Be Very Slow to Engage

September 11

- Short Term – Slowed Down the Federal Charter Initiative, As All Attention Turned to Possible Terrorism Backstop Legislation
- Longer Term – Continued Congressional Focus on Terrorism & National Security. Members of Congress Recognized the Drawbacks of Not Having a Federal Insurance Regulatory Presence in Washington and the Difficulty of Garnering Information Quickly From the NAIC and the States

Enron

- Again, Has Slowed the Initiative
- However, May Have Marginal Benefit (E.G., Demonstrating the Benefits of SAP Over GAAP)

OFC Will Have A Seismic Impact

- **Creates A Federal Alternative To A State Regulatory Structure That Has Been In Place for Over 150 Years**
- **Concept Is Similar To Bank Regulation - There Are Differences**
 - Bank Regulation Has Evolved Over a 200 Year Period
 - This Is Massive Legislation That Contemplates a Transition Period
- **The Competitive Landscape Will Be Reshaped**
 - New Winners and Losers
 - Large Multi-national and National Insurers Are Expected to Benefit Under the Federal System
 - State System May Advantage Niche Players
- **It Will Accelerate Consolidation In the Financial Services Industry and Simplify Demutualization**
- **Potential for Enormous Operational Efficiencies and Marketing Opportunities**

The Existing Regulatory Structure Will Be Rapidly and Dramatically Altered

Form & Function of Federal Regulator

- **An Optional Federal Chartering System and a Federal Insurance Regulator Housed in the Treasury Department**
- **Czar Rather Than Multi-member Commission**
- **Co-equal With OCC, OTS**
- **Independent of Main Treasury**
- **New Agency Funded Via Assessments on National Insurers**
- **Treatment of Health Insurance**
 - **ACLI – Regs Within 3 Years**
 - **Schumer – Silent**
 - **LaFalce – Report to Congress in 3 Years**
- **Combined ACLI, AIA, ABIA, Proposal Will Included P&C**

Form & Function of Federal Regulator

- **Division of Consumer Affairs**
 - ACLI & LaFalce Require
 - Schumer Silent
- **McCarran-Ferguson**
 - ACLI – McCarran Not Amended, but Would Not Apply to National Insurers
 - Schumer – Explicitly Made Inapplicable to National Insurers
 - LaFalce – Made Inapplicable to All Insurers
- **Broad Rulemaking Authority**
 - What's in Statute
 - What's Implemented Through Regulation
- **SROs – Both ACLI & Schumer Provide for SROs, LaFalce Does Not**

Financial Regulation

- **Both Schumer & LaFalce Adopt ACLI's 5-year Transition Period for Financial Regulation Rules Like Accounting, RBC, Etc.**
- **However, Schumer Does Not Include Some Key Life Insurance Financial Regulation Provisions, E.G., Non-Forfeiture**
- **And Schumer Would Require Federal RBC to Be Based on GAAP Standards, Not SAP, Even Through the Accounting Standard Is SAP for at Least Five Years**
- **Frequency of Examinations**
 - **ACLI – At Least Once Every 3 Years (Both Financial and Market Conduct)**
 - **Schumer & LaFalce – Annually, But Could Be Waived by Regulator**

Product Regulation

- **Product Form Filing**

- **ACLI – Regulator Establishes Policy Standards, National Insurers Must File Product Forms, Certify That Standards Have Been Met**
- **Schumer – Policy Standards, but No Policy Form Filing Requirement**
- **LaFalce – Prior Approval Required**

- **Market Conduct**

- **ACLI – Regulator Must Provide Appropriate Market Conduct Regulations**
- **Schumer & LaFalce – Codify Much of the Unfair Trade Practices & Unfair Claims Settlement Practices Acts**
- **Note: LaFalce Would Extend All These Provisions to State Insurers, Making Them Minimum Federal Standards for All Companies**

Producer Licensing

- **ACLI – Producer Must Have a Federal License to Sell for a National Insurer, and a State License to Sell for a State Insurer**

- **Schumer**
 - **A Federally Licensed Producer May Sell for Any Company**
 - **A State Licensed Producer May Sell for a National Insurer If the Federal Regulator Determines That the Applicable State Law Is Equivalent to the Federal Law**
 - **Also Provides for the Licensing of Federal Insurance Agencies**

- **LaFalce - Silent**

Solvency & Receivership

- **ACLI – Incorporates Existing Receivership & Guaranty Systems, and Facilitates National Insurers Participating in Those Systems**
 - **If a State’s Standards Are Not Adequate, or If a State Does Not Permit National Insurers to Participate, That State Preempted and a National Guaranty Mechanism Would Operate**
- **Schumer & LaFalce – Both Mirror the ACLI Language**

Other Significant Provisions

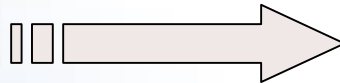
- **State Premium Taxes – Under ACLI, Schumer and LaFalce, National Insurers Would Continue to Be Subject to State Premium Taxes**
- **Corporate Powers of National Insurers – ACLI and Schumer Provide for All Insurance Activities Plus Incidental Powers; LaFalce Provides a Limited Definition of “Insurance”**
- **CRA**
 - **ACLI, Schumer – Silent**
 - **LaFalce – Requires the Amount of Investments Made in Communities Where a National Life Insurer Sells Policies or Has Offices Must Be Part of the Insurer’s Written Investment Policy, Which Must Be Reviewed and Approved Annually by the Board of Directors**

Competitive Issues

OFC Could Streamline Entire Insurance Regulatory Framework



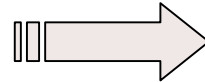
State Regulation While Messy and Expensive May Serve As Barrier to To Entry for Banks



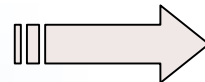
Insurers Capability to Play in 50 States Today Is a Competitive Advantage Versus Non-Insurer Competitors

Regulatory Gaps & Drafting Issues

OFC Vests Regulator With Broad Powers to Promulgate Regulations



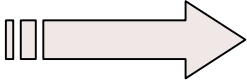
This Will Require a Massive Regulatory Initiative, Potential for Errors



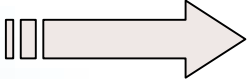
Many Statutory/Regulatory Provisions of OFC Pulled From State Statutes and Regulations Which Will Make Ultimate Uncoupling a Long Term Project

Cost

OFC Provides Broad Authority For The Regulator To Assess Companies For Cost of Regulation



There Is No Way To Forecast Ultimate Cost Under Federal Model



Lobbying And GR Cost In Time And Dollars To Monitor And Support This Effort Will Be High



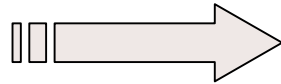
Transition To NI Status Will Be Expensive



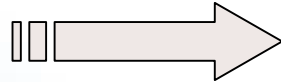
Operating Efficiencies And Cost Savings That May Be Achieved Under Federal Regulation Need Careful Analysis

Consumer Issues

Possible Creation of A “Division of Consumer Affairs” (DCA)



Scope of DCA Largely Undefined



Some Trades Believe Unions Will Have a More Potent Influence on Regulation at The Federal Level



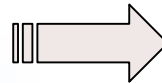
Debate Over Mandated Benefits Now Argued in State Legislatures Will Move to the Halls of Congress

Tax & Accounting

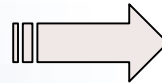
OFC Locks NI Into NAIC Accounting Rules For 5 Years, After Which Regulator May Establish New Regulations



Creates Uncertainty Regarding Tax Treatment of Insurance Contracts With Respect to Consumers



Creates Uncertainty Regarding Tax Treatment of Reserves



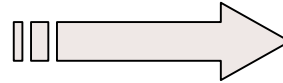
After 5 Year Moratorium, Potential Exists for State Regulated and Federally Regulated Companies to Have Different Accounting Rules



Transition Rules Will Be Critical

Guarantee Funds

OFC Perpetuates Reliance on State Guarantee Funds but Authorizes Creation of a National Insurance Guarantee Corporation



Very Complex Issue Which May Create Many Territorial Disputes and Prove Very Costly to Industry