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## **Insurance Agents' Group Faces Backlash for Federal Regulation Stance**

WASHINGTON 02/27/2004 (BestWire)-As policy announcements go, it was a short one, only a couple of paragraphs. But a decision by a leading insurance agents' group to publicly embrace the mere possibility of federal regulation has led to a schism within the organization, as well as a request from the National Association of Insurance Commissioners for the group to essentially recant its position.

The National Association of Insurance and Financial Advisors, which as recently as 2002 had declared that federal regulation of the insurance industry would lead to "havoc," made an announcement Jan. 16 that NAIFA's chief executive officer, David F. Woods, called a "clarification": The board decided to amend its long-standing support of regulatory reform by saying it would also embrace an optional federal charter, among other things.

Other, like-minded trade groups lauded that decision. But a subset of NAIFA members are angry about it, and a group of NAIC members has drafted a resolution calling for NAIFA to amend its newly adopted policy "to clarify ... their strong opposition to the creation of a federal insurance regulator or a so-called 'optional or dual federal charter'..."

For the NAIC to take that step is unheard of, said Woods.

"Frankly, we're very disappointed in that resolution," Woods said in an interview the week of Feb. 23. "In my experience, this doesn't happen very often; that a group of the NAIC would try to influence the people they are regulating in a manner like this...They should influence matters in their statehouses, through their legislatures, not lobby our members to change their positions...It seems to us that it's just inappropriate. It's not proper."

Meanwhile, at least one state NAIFA group has protested the board of directors' decision, writing to NAIFA headquarters in Virginia to register its displeasure. In an e-mail the week of Feb. 23, the Maine NAIFA branch wrote: "We respectfully request that major policy changes of this nature be clearly communicated to the membership for review and consultation in advance of such decisions. The policy change may be the right thing to do, we however remain unconvinced."

NAIFA-ME said it now is facing "unintended consequences" of the national board's policy decision, including "alienation" from Maine insurance regulators, the state insurance agents' association "and other interest groups."

"We have spent years building positive relationships that are now jeopardized," the Maine board wrote.

Woods said that other states in the Southeast and jurisdictions in the Caribbean also are upset.

The NAIC resolution calling for NAIFA to essentially retract its policy decision was ratified by the NAIC's Southeastern zone, which encompasses 14 of the NAIC's 54 member jurisdictions: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia, as well as Puerto Rico and the U.S. Virgin Islands. The

resolution approved by the Southeastern zone regulators is to be brought before the full NAIC and voted on at the group's Spring National Meeting next month in New York, according to NAIC spokesman Roger Hoadley.

The language approved by NAIFA's board in January didn't add much to its long-held support of improving the current state-based regulatory system; its opening statement reaffirms its backing of the NAIC's "Action Plan for Regulatory Modernization," the keystone of state regulators' efforts at reform (BestWire, Jan. 26, 2004). It did, however, add a key phrase: NAIFA would embrace "certain federal initiatives that could work to improve the regulation of insurance," and then it spelled them out. "Those initiatives include the creation of a federal insurance advocate; optional federal charters for insurance companies and agencies; an optional national producer's license for insurance professionals; and other federal efforts to improve the insurance regulatory system."

Woods said he was surprised at the protests raised by the membership and was disappointed that local NAIFA members didn't take their concerns to the national board before airing their dissent publicly.

"We have heard from a grand total of maybe 50 people. I would say half of those were just calling to see what it was about," Woods said. "We have to believe it is a very small minority that has a problem with it. I can't tell you how many. Obviously, they're a very vocal minority."

The reason for the policy change in January, Woods said, was that the board became "concerned that the pace of (state) regulatory reform was so slow."

"The current state of affairs is absolutely ridiculous...Take me: I was a licensed agent practicing for more than 30 years ... I did business all throughout New England, and it was frustrating to me and frustrating to all of my clients when, for example, Connecticut would approve a very attractive policy form and my clients in Massachusetts or Maine couldn't get the same policies," Woods said. "That kind of confusion and inactivity is very anti-consumer, I'd say."

As for the Maine group's complaint that its members wanted prior knowledge of the policymaking process, Woods was blunt: "We're a federation, and we don't do things by referendum. We have a committee, and those committee volunteers spent two days reviewing policies and alternatives to get to that language...The committee approved it, then the board approved it. It was certainly not a closed-door process."

Woods reiterated several times that the group still supports state-based regulatory reform.

"We just want it to move fast," he said. For every state to approve an interstate compact and to have a single source of rate and form filing "would be a wonderful thing. But we can't simply sit with that. We need to have the ability to have other options, including an optional federal charter.

"We didn't change anything," Woods said. "We just clarified our position, naming the sorts of things the improvements might be, including a federal charter, a federal insurance regulator, and a national producer's license ... In fact, our very first sentence says that we still support state regulation."

"If the regulators want to do their job, that's fine with us," Wood said.

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