

AIG Backlash Puts Industry 'Back to Square One,' Advocates Say

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WASHINGTON—The still-simmering furor over \$165 million in bonuses paid to some American International Group Inc. employees has so gripped Capitol Hill it has left the industry's top lobbyists and trade associations unable to find attention for anything else, advocates say.

Already, the AIG situation has prompted the House to pass overwhelmingly a bill that would seek to use a 90% tax to claw back bonuses at the company and other firms receiving federal assistance. More recently, the company's example has served as Exhibit A in the plan unveiled this past week by Secretary of the Treasury Tim Geithner to grant the Federal Deposit Insurance Corp. authority to take control and resolve financial services holding companies that include broker-dealers, insurers, futures commission merchants and any other financial firms posing a potential systemic risk to the economy.

It also could open the door to full-blown federal regulation of insurance, though given prevailing concerns about granting firms the ability to choose their regulator, conventional wisdom on Capitol Hill now suggests any such system is unlikely to look at all like the "optional federal charter" proposal favored by some quarters of the industry.

senior vice president of federal government relations with the Property Casualty Insurers Association of America. "It may be less likely, given that many people see regulatory arbitrage as one of the causes of the current crisis. However, some form of inter-industry systemic risk oversight appears likely."

But AIG's long shadow can be seen even far away from core questions about its rescue

plan and regulatory oversight. The backlash has had the effect of delaying indefinitely debate, much less action, even on insurance issues that previously enjoyed broad consensus, such as agent licensing reforms and changes to the National Flood Insurance Program.

"We've had to go back to square one. This has created a blind rage on the part of, not just the public, but the lawmakers, and the biggest thing we notice is that it threatens to incorrectly define the entire

"Are there going to be more federal laws? Absolutely. Are they going to regulate insurance? That's yet to be seen," said Ben McKay,

industry," said Jimi Grande, vice president of federal and political affairs with the National Association of Mutual Insurance Companies. "Perhaps the most frustrating part about this is that I'm not sure there's another company on the planet that looks like AIG. Certainly, it should not be a poster child for the property/casualty insurance industry, and we find ourselves and our efforts incredibly distracted, because the first five questions are about AIG."

The backlash also has emboldened some of the industry's fiercest critics, like Rep. Gene Taylor, D-Miss. Teaming with Rep. Peter DeFazio, D-Ore., Taylor reintroduced his proposal -- first made in the aftermath of Hurricane Katrina, while Taylor was engaged in a lawsuit against State Farm -- to repeal the industry's limited antitrust exemption created 60 years ago by the McCarran-Ferguson Act.

"Why is anyone surprised?" Taylor said of bonuses paid at AIG's Financial Products unit. "Insurance companies believe that they are above the law. When it comes to the federal laws, they are."

Repealing McCarran, an idea which had support in the 110th Congress from House Speaker Nancy Pelosi, D-Calif., Senate Majority Leader Harry Reid, D-Nev., and then-Sen. Barack Obama, could have even greater implications should Congress take up a proposal from Sen. Chuck Schumer, D-N.Y. to create

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Rep. Gene Taylor, D-Miss, who is championing legislation that cracks down on insurers.

a Financial Product Safety Commission modeled on the CPSC. A House version of Schumer's bill just introduced by Reps. Bill Delahunt, D-Mass., and Brad Miller, D-N.C., focuses primarily on banking services such as mortgages and credit cards, but could be expanded to include agency reviews of such insurance products as annuities and long-term care.

Still, some express optimism that more modest and targeted legislation favored by the industry could see the light of day. Among those proposals is the Nonadmitted and Reinsurance Reform Act, which recently earned a key Democratic co-sponsor. Sen. Evan Bayh, D-Ind., has confirmed he would join Sen. Mel Martinez, R-Fla., in reintroducing the measure, which has twice passed the House unanimously, but has yet to move in Congress' upper chamber.

"The bill enjoys broad support within the industry, and we believe it will solve a number of regulatory problems by establishing federal standards for state regulation, yet will retain state regulation which avoided many of the problems seen in the recent crisis," Richard Bouhan, executive director of the National Association of Professional Surplus Lines Offices Ltd.