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Insurers Want One Regulator Instead of 50

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After more than 150 years of state-by-state regulation, many of the biggest insurance companies are leading a revolution to establish a federal regulator in Washington and shift state regulators to a secondary role.

Some insurers agree with consumer advocates that the inefficiencies of a patchwork state system often work to the advantage of the industry and the detriment of insurance customers. But the insurers say they are striving for change because they desperately need faster decisions and uniform requirements to meet tough new competition for investment customers from banks and mutual fund companies.

They also say they need a voice in policy debates in Washington, as banks and mutual fund companies have in the Comptroller of the Currency and the Securities and Exchange Commission.

Once a subject often shunted to subordinates, regulation has become a chief concern among top executives of life insurance companies.

"We're suffering competitively," said Frank Keating, the executive director of the American Council of Life Insurers, the industry's biggest and most influential trade group. "There is no way we can be nimble and responsive in the marketplace with an ossified regulatory process."

Gary E. Hughes, the trade group's general counsel and its field commander for regulation, said change was needed urgently. "The status quo is killing us," he said.

Insurers, among the heaviest campaign contributors, have been lobbying Congress and say that they expect to announce the formation of an insurance caucus early next year. They also are planning to step up their campaign in January by flying in chief executives from across the country to meet face to face with senators and representatives.

"This is such an important issue to C.E.O.'s that they are stepping out from behind their trade association and taking this argument directly to Congress themselves," Mr. Hughes said.

The insurers also want to deregulate prices, and in exchange are offering to give up an exemption to antitrust laws that permits them to share information on claims. But consumer advocates and some lawmakers are adamantly opposed to giving insurers unrestricted freedom on setting rates.

"There is just simply going to have to be some rate increase regulation in this process," said Senator Bill Nelson, a Florida Democrat and a former insurance regulator in his state.

To achieve their goal of federal regulation, the insurers have come up with an approach that would give companies a choice between switching to regulation by Washington or staying with the states. The plan, which they refer to as an "optional federal charter," offers something for everyone in hopes of creating powerful support and undermining opposition.

The plan preserves a role, albeit a smaller one, for state regulators. It promises companies that operate in a single state an advocate in Washington, where the industry has been losing ground on tax issues, without requiring that they switch to federal regulation. Bigger, multistate companies would probably rush to a single regulator, but they would be allowed to change their minds and return to state regulation should they find federal regulation too restrictive.

The insurers are gaining ground in Congress, though not everything on their wish list is winning support. Senator Ernest F. Hollings, Democrat of South Carolina, has introduced legislation that would place all insurers doing business in more than one state under federal jurisdiction and leave the single-state companies, which are generally smaller, to state regulators.

The loss of regulatory power would be a blow to the states, which fear they could lose billions in premium taxes and other fees from the insurers. Moreover, given their diminished influence over the insurance business, state officials would lose a rich source of campaign contributions.

The states are fighting back, raising objections to the idea of a federal operation and trying to streamline their own. Mike Pickens, the insurance commissioner in Arkansas and the outgoing president of the National Association of Insurance Commissioners, the trade group for state regulators, told Congress in November that what he described as "federal intervention" would "simply add additional layers of harmful uncertainty, confusion and cost for policyholders and claimants."

State regulators insist they are making progress in reducing inefficiency; the life insurers disagree. "There is an enormous gulf between what the states apparently think they are doing and what the industry thinks is a very substantial lack of progress," said Mr. Hughes of the life insurance trade group.

For companies that operate nationwide, federal regulation has great appeal. "It's very difficult to get anything done when you've got to do it in 50 different states," said Donald J. Shepard, the chairman of Aegon, a Dutch company with increasing strength in the United States. William B. Fisher, a lawyer for the Massachusetts Mutual Life Insurance Company, estimates his company lost $60 million in sales last year "due to the inability to bring products to market on a timely basis."

The life insurers suffered setbacks on taxes in Washington this year and are fearful of further losses as federal proposals on savings and retirement plans are debated in the coming year. The property casualty insurers contend that, after working hard for government backing on terrorism coverage, they ended up with a federal program that leaves them vulnerable to heavy losses in a major attack.

The insurers say their main problem in Washington is that no government official is responsible for their industry and available to explain its functions and needs to the rest of government. "We have no one sitting at the table," said J. Barry Griswell, the chief executive of the Principal Financial Group, a big insurer based in Des Moines.

Jon A. Boscia, the chief executive of Lincoln National, a life insurance company that operates in 50 states, said it was unimaginable that Congress would consider new banking tax laws without consulting and giving weight to the views of the Office of the Comptroller of the Currency. But, he said, "Congress will regularly look at the insurance industry and make changes, without anyone from the industry being involved."

J. Robert Hunter, the director of insurance for the Consumer Federation of America and a former insurance regulator in Texas, says state regulation has historically coddled insurance companies. "The governor doesn't want trouble from the industry," Mr. Hunter said. "The industry is a very important employer and campaign contributor. Second, lots of state legislators are insurance executives or agents. They put pressure on the insurance commissioner. Third, the pressure on the department is usually unilateral. Only the insurance executives show up to argue with you. The consumers aren't really organized."

In a study of state insurance regulation in September, the General Accounting Office, the investigative arm of Congress, found that states concentrated on the financial stability of insurance companies rather than on whether customers were being treated fairly. Moreover, the report said, some companies were examined for financial strength frequently "and others not at all."

At a hearing in the fall, Representative Richard H. Baker, a Louisiana Democrat who is chairman of the House Financial Service subcommittee on capital markets, suggested that the states had not done enough to improve regulation and that action by Congress was inevitable. "Perhaps, we need to have a clock that says when time is up Congress will have no choice but to step in and do something," he said. "Some say a solution like an optional federal charter is unacceptable. I say no reform is likewise unacceptable."