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OPENING STATEMENT OF SENATOR RICHARD C. SHELBY

"Regulatory Modernization: Perspectives on Insurance"

July 28, 2009

"Thank you, Mr. Chairman.

"Over the past two years, we have seen how problems in our insurance markets can disrupt our national economy. The crumbling of our largest bond insurers called into question the value of the financial guarantees those firms had issued on billions of dollars of securities.

"In addition, the spectacular failure of AIG sent shockwaves throughout our economy, and led to a \$170 billion bailout by the Federal government. These events reveal that comprehensive insurance regulation must be a part of our reform effort.

"Unfortunately, the Administration has 'taken a pass' on comprehensive insurance reform. Under the President's proposal, the Federal Reserve would regulate only insurance companies that it deemed to be 'systemically significant.'

"The President also proposes the creation of an Office of National Insurance that would collect information and advise the Treasury Secretary on insurance matters. While this concept may have some merit, it certainly is not comprehensive reform and leaves unanswered the difficult question of whether and how insurance regulation should be modernized for the vast majority of insurers.

"The goal of today's hearing is to answer that question, as well as to examine the President's reform proposal as it relates to insurance.

"In particular, I am interested in learning whether our witnesses believe that the Fed is an appropriate regulator for insurers.

"Does it have the expertise necessary to supervise complex insurance companies?

(OVER)

“Would establishing a separate Federal insurance regulator be a better choice?

“If a Federal regulator is established, should all insurers have the option of being regulated at the Federal level?

“If a Federal regulator is not established, what steps need to be taken to ensure that there is proper coordination?

“Lastly, how do we make sure there are no gaps in our regulatory system, like those that appear to have played a role in the collapse of AIG?

“Reforming insurance regulation will be complex and challenging. The level of difficulty, however, should not prevent us from seeking a comprehensive solution to financial regulation that includes insurance.

“Thank you, Mr. Chairman.”

