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## Some Insurers Push for Optional Federal Charter

By **JESSICA HOLZER**

WASHINGTON -- Seizing on the collapse of troubled insurance giant **American International Group Inc.**, some industry representatives argued before the U.S. Senate Banking Committee a federal insurance regulator is needed to contain risks to the financial system.

The insurance industry has long been split on the matter of regulation, which is currently done by the individual states.

Life insurers and large property and casualty insurers have pushed for the creation of an optional federal charter for insurers. While their smaller competitors are apprehensive about the idea. Insurance agents are firmly opposed to it.

Any attempt to overhaul federal regulation of the financial industry as a whole would be "problematic at best" without a federal insurance regulator, Frank Keating, the president and chief executive of the American Council of Life Insurers told the committee.

"Reforming U.S. financial regulation and stabilizing the financial markets must take into account all segments of financial services, including life insurance," Mr. Keating said.

The hearing occurred against the backdrop of bipartisan outrage over the revelation that AIG has gave \$165 million in retention bonuses to employees after receiving over \$173 billion in taxpayer funds.

"If this is the way Wall Street and AIG continue to do business, we cannot help them with any amount of money," said Sen. John Tester (D., Mont.), at the hearing. He noted the recipients of the bonuses would have been out of their jobs had the U.S. government not stepped in to pump money into the company.

AIG's downfall was played large in the hearing, with lawmakers and industry representatives varying on whether it served as an example for the industry.

"We need to fix the regulatory system that built the AIG monster," Sen. Sherrod Brown (D., Ohio), in

prepared remarks before the committee.

Proponents cited AIG as evidence the current system of state oversight has failed to catch risks that have threatened the financial system.

"The state-based insurance regulatory structure is inevitably fragmented and frequently not well-equipped to close the regulatory gaps that the current crisis has exposed," William R. Berkley testified on behalf of the American Insurance Association.

Mr. Keating asserted the life insurance business was "systemically significant" because of its role in providing financial products to million of retirees as well as its huge investments in corporate debt.

Opponents refuted that the AIG fiasco should serve as an impetus for creating a federal insurance regulator.

Testifying on behalf of the Independent Insurance Agents & Brokers of America, Spencer M. Houldin noted that AIG was already overseen by a federal regulator, Office of Thrift Supervision, at the time of its collapse. He also noted that the unit that sparked AIG's downfall sold credit default swaps, which aren't typical insurance products.

Proponents of an optional federal charter argue that the state system of regulation adds costs, hampering companies' ability to compete in what has become an international market.

Opponents argued that a two-track system will water down consumer protections.

"The establishment of an optional federal charter system is misguided and will result in regulatory arbitrage," said Mr. Houldin of the independent agents group.

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