

May 27, 2009

Letters

Regulating Insurers

To the Editor:

Your May 21 editorial makes a compelling case against allowing insurance companies, currently regulated by the states, to opt for federal regulation. There is another reason to be cautious about weakening the states' role in insurance regulation: it could undermine the state-based insurance guaranty fund system, which provides a well-financed and effective safety net for policyholders whose companies face insolvency.

The state guaranty funds protect policyholders from insurer default. Although coverage limits vary by state and type of insurance, these funds pay claims and provide continuing coverage to policyholders in the wake of an insurer's bankruptcy. The money to maintain the funds at adequate levels comes from assessments on insurance companies required under their state charters.

This national network of guaranty funds represents an essential "insurance on insurance" that affords an extra layer of security for consumers. Although greater federal regulation of insurance may make sense in certain areas (for large financial companies whose failure would pose a systemic risk), in "fixing" the current regulatory system, Congress should "first do no harm."

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New York, May 21, 2009