



By Robert W. MacDonald

## The Feds Are Coming, the Feds Are Coming...

**H**ave you heard the beating of the drums? At first, it was a distant rumble, but it's now getting louder all the time. As the

Congress dances through an election year session, many in the insurance industry are again trekking up Capitol Hill to beat the drums for federal regulation.

Arguments favoring federal regulation of the insurance industry are quite blunt. Proponents suggest the industry and consumers will be better served by a monolithic set of guidelines and regulations, as opposed to the patchwork of independent state regulation that exists today. The argument suggests that the requirement for companies to comply with the idiosyncrasies of multi-state regulation is inefficient, inconsistent, time consuming and expensive. Critics of state regulation also point to insurance departments so understaffed and underfunded as to be rendered incapable of identifying and policing financial weakness or fraud of companies.

On surface, the arguments decrying the weakness of state regulation may have some merit, but one must consider that, even if current state regulation is not the best, does it follow that federal regulation is the appropriate response?

A single all-powerful regulatory system represses competition, stifles innovation, supports the weak and favors the biggest of the big. Under a single regulatory system, sameness is favored over variety, tradition over innovation, establishment over upstart and security over freedom. The ultimate result of federal regulation will be to benefit and protect the large, established companies who have lost the desire, will and ability to innovate and react.

### **The Banking Industry**

Merely look to banking as the prime example of the impact of federal regulation. How much innovation is present today in banking? Do you see a difference in products offered from bank to bank? Is there a reason why all banks get away with charging the same high fees for credit cards and other services? Why are banks getting bigger while shopping for competitive product options becomes increasingly futile?

The reasons are simple: monolithic regulation, as opposed to the multiple options of state regulation, seeks only one way of doing things. The big are favored over the small; the old over the new. A single set of regulatory rules serves to benefit only the established. In such an

environment, premium is placed on sameness rather than innovation, and mediocrity, not mettle is rewarded.

In the end, the regulator and the regulated become one to protect each other. Over time, federal bank regulators have become more of a proponent for inflated banking powers than a catalyst for enhanced competition and improved service.

Many large insurers — life and casualty — currently under pressure by the challenges of a changing marketplace look upon the banking regulatory system with envy. After all, how much easier would it be for the big companies if all companies had to sell the exact same product? What if expense management, operational efficiency and innovation no longer mattered? Who would win? Equally as important, who would lose? How would insurance consumers fare if shopping for a better product were to become a futile exercise? If every company offered the same product at the same price, how much need would there be for a highly skilled sales force? How many creative salespeople have you met in the banking industry? Bear in mind that in times of stability and sameness, there is no call to be creative or innovative — only big.

### **The Need for Improvement**

Sure, state regulation needs to be improved. Further, there is a sound argument for federal oversight of financial and investment standards. But the approach should be to fix and improve the existing system — not junk it!

Eliminating state regulation and implementing a new federal system would only assure that today's losers could become tomorrow's winners. To suggest that the best way for the insurance industry to compete with banks and investment firms to adopt a system of regulation that inhibits variation and innovation is akin to trying to win a race by shooting the competition.

Our industry can be better than that, and our consumers deserve more. Regulation that ensures a level playing field, yet stimulates real competition among the players is sometimes frustrating and even chaotic; but in the end, more good is served, better benefits derived and enhanced value delivered. Only those who fear to compete in a free market seek the protection offered by all-encompassing regulation. And that would not be the best result for you, your agents or consumers.

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