Insurance Regulation

Following are some key events that helped create the regulatory status of the insurance industry.

Paul vs. Virginia

In the 1860s, a New York insurance agent extended his dealings to Virginia. Legal action was filed against the agent for failing to comply with Virginia law. The case made it to the U.S. Supreme Court, which addressed whether individual states maintained the right to regulate insurance. The court preserved the assumption that insurance was not interstate commerce and should remain under each state's jurisdiction.

South-Eastern Underwriters

In 1943, the Department of Justice sued a group of insurers known as the South-Eastern Underwriters Association (SEUA) for violating the Sherman Anti-trust Act. The SEUA members' agreement to use uniform insurance rates amounted to price fixing, a violation of federal law. The association argued that insurance was not commerce, so it was not subject to federal law. The case was appealed to the U.S. Supreme Court and in June of 1944, the Court reversed itself, ruling that insurance was commerce and, therefore, subject to federal regulation.

McCarran-Ferguson Act

This act was passed in 1945. Through this law, Congress reaffirmed the power of individual states by permitting the states to continue to regulate insurance. However, in order to maintain regulatory control after July 1, 1948, each state had to enact the same type of anti-trust laws used by the federal government. Every state eventually passed its own anti-trust laws, keeping insurance regulation at the state level.

Gramm-Leach-Bliley

In late 1999, the Gramm-Leach-Bliley Financial Services Modernization Act was introduced. This law removed long-standing distinctions that existed between insurance companies, banks, and investment services. The law was in response to marketplace and technological developments that blurred the traditional roles of different financial service providers. The law's primary goal is to allow players in the financial services market to offer more complete services to consumers more efficiently and at less cost. The act also has created serious obligations on the use of information gathered on financial service consumers. The impact of this important act will likely be more insurance regulation at the federal level.

Current Trends

The insurance industry is affected by a variety of newer laws as well as by a blurring of its role in the marketplace. Current legislation has a big impact, including Sarbanes-Oxley, and the myriad laws related to the nation's heightened concern with terrorism, data security and privacy. Insurers, like their peers in the financial services sector, have a much broader obligation to comply with regulations involving gathering and use of financial data, reporting financial transactions, adhering to customer rights to privacy and responding to pressures to conform with national as opposed to state-level requirements. Marketplace pressures also change how insurers operate since banks, brokers and non-insurance financial entities are playing a larger role in providing protection against certain types of loss. The influence of these entities includes forcing insurers to operate in a similar manner in order to retain their market share.