

National Fraternal Congress of America

Statement of Position

Optional Federal Charter

Background

Fraternal Benefit Societies have been in existence for more than 100 years and have been regulated by various entities; in the 1930's most of the societies began to be regulated as insurance entities because they issue insurance benefits to their members. Historically, insurance has been considered the purview of state regulations and this has led to a patchwork of state laws and rules being applied to Fraternal Benefit Societies.

In May of 2008, the Senate followed by the House in July of 2008, introduced legislation creating a national regulator with an Optional Federal Charter (OFC). The new law establishes a parallel federal system of regulation and supervision for insurers and insurance producers (agents and brokers) similar to the current dual banking system. Under the proposed law, insurers and producers are free to elect federal or state regulation.

There are advantages and disadvantages. The cost of having different laws and regulations ultimately increase the cost of insurance and these costs have ultimately been borne by consumers. An Optional Federal Charter may be one way of reducing the cost of insurance products and provide a uniform protection and regulatory environment, particularly in the area of product development.

The proposed law has good support in the financial services industry.

Our comments are limited to the extent that the bill has not been finalized and there are some changes regarding fraternal societies that are still being discussed. We may never have the perfect legislation but the concept of a parallel system is attractive for many societies.

NFCA Position

NFCA supports the concept of an Optional Federal Charter (OFC), provided it recognizes the unique characteristics of Fraternal Benefit Societies, and accommodates such characteristics in legislation that is put forward in Congress. Further, NFCA supports the OFC as long as it is optional and preserves the opportunity of fraternal to choose whether they want to be regulated at the state or federal level.

The NFCA will continue to work with insurance industry representatives, Congress, and others to make suggestions that will improve and enhance the OFC. The NFCA further reserves the right to revise its position once a final bill has been introduced.

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