



**SHADOW
FINANCIAL
REGULATORY
COMMITTEE**

COMMITTEE MEMBERS

LAWRENCE CONNELL
Co-Chair
Prather, Seeger,
Doolittle & Farmer

GEORGE G. KAUFMAN
Co-Chair
Loyola University
of Chicago

RICHARD C. ASPINWALL
Chase Manhattan Bank

GEORGE J. BENSTON
Emory University

FRANKLIN R. EDWARDS
Columbia University

ROBERT A. EISENBEIS
University of North
Carolina at Chapel Hill

JOHN D. HAWKE, JR.
Arnold & Porter

PAUL M. HORVITZ
University of Houston

EDWARD J. KANE
Ohio State University

ROGER W. MEHLE
Royer, Mehle & Babyak

RICHARD J. HERRING
Univ. of Penna.

KENNETH E. SCOTT
Stanford Law School

Administrative Office
c/o Professor George Kaufman
Loyola University of Chicago
820 North Michigan Avenue
Chicago, Illinois 60611
(312) 915-7075
FAX (312) 915-7003

Statement No. 71

For information contact:

Edward J. Kane
614-292-8708

Richard C. Aspinwall
212-552-7296

Statement of the Shadow Financial Regulatory Committee

on the

**Need to Develop a Satisfactory Data Base With
Which to Analyze the Economic Condition
of Insurance Companies**

May 20, 1991

Recent insolvencies of several large insurance companies have highlighted inadequacies in the financial information available to the public concerning such companies. The Shadow Financial Regulatory Committee suspects that the onset of these insolvencies predated their official recognition. To help insurance markets to work better to reduce exposure to insolvencies, the Committee sees an urgent need for improvements in the information content, frequency, and timeliness of the income and financial-condition reports that insurance companies file.

In the absence of a federal regulator for insurance companies, the National Association of Insurance Commissioners (NAIC) has assumed the role of coordinating and standardizing the reporting format employed by insurance companies. The current annual reports collected by the NAIC ought to be converted into a data base for insurance companies that outside analysts can use at replication cost. There is great need for up-to-date and accurate industrywide assessments of the economic solvency and profitability of the industry's roughly 4,400 members. Major

SUPPORTERS INCLUDE

MID AMERICA
INSTITUTE FOR
PUBLIC POLICY
RESEARCH

SARAH SCAIFE
FOUNDATION
UNIVERSITY OF
NORTH CAROLINA

problems with NAIC reports include paucity of intrayear measurements, delays in data availability, and high access charges imposed on analysts who seek to study industry data.

Federally insured deposit institutions file quarterly call reports that federal regulators now assemble into an electronic data base that analysts may acquire readily within three to four months of each filing date. In contrast, NAIC reports are only collected annually and the data reported to the NAIC are not released until almost six months after the date for which they are filed. While some limited data are being collected on a quarterly basis, they have yet to be integrated into a comprehensive data base.

Customers look to insurance companies for help in managing risk. A risk that purchasers and beneficiaries need to evaluate is potential weakness in the insurance source itself. The absence of timely, reliable, and reasonably priced financial data on insurance companies interferes with market discipline. It makes it hard for customers and regulators to recognize and respond to developing problems. This helps weak insurance firms to prosper at the expense of strong ones.

Delays in dealing with developing insolvencies also may threaten taxpayers. Defaults on insurance obligations by large insurance companies are bound to generate political pressure to use taxpayer funds to bail out customers of failed insurance companies. To protect taxpayers and healthy insurance companies, it is desirable for markets or regulators to force the prompt recapitalization of troubled firms.

During the 1970s and early 1980s, the lack of reliable and timely data on the true economic condition of thrift institutions masked burgeoning losses. Somewhat later in the 1980s, problems with data adequacy similarly masked commercial bank problems. While much remains to be done, in recent years federal regulators of banks and thrifts have markedly improved the availability of comparable data on individual institutions. Market-adjusted valuations derived from these data by independent financial analysts are helping regulators and depositors better to judge and to balance the risks and returns offered by competing institutions.

The expense and limited usefulness of multicompany accounting data for insurance firms have discouraged academic and financial analysts from using these data. This lack of use has, in turn, dissuaded outside researchers from participating aggressively in the evolutionary process of improving the information content and transparency of the data being collected.

Neither regulatory nor market discipline can work effectively without an adequate information base. We urge the press and the industry's stronger members, and if necessary Congress and the Administration, to insist that the NAIC develop a quarterly reporting system and transform the resulting reports into a data base that can facilitate the information flow that analysts and markets need. Should NAIC be unable to do so, responsibility for development and management of information should be placed with a federal agency.