

**NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
INSURANCE LEGISLATORS FOUNDATION
SCOTTSDALE, ARIZONA
FRIDAY, NOVEMBER 16, 2001
MINUTES**

            The National Conference of Insurance Legislators (NCOIL) Insurance Legislators Foundation (ILF) Board met at the Marriott Mountain Shadows Resort in Scottsdale, Arizona, on Friday, November 16, 2001, at 8:30 a.m.

            Rep. Terry Parke of Illinois, NCOIL President, presided.

            Members of the ILF Board present were:

Sen. Edward Oliver, MN
Assem. Clare Farragher, NJ
Sen. William J. Larkin, Jr., NY
Sen. Harvey Tallackson, ND
Rep. David Counts, TX
Rep. Kathleen Keenan, VT

            Others present were:

Rep. Timothy Osmond, IL
Mr. Robert Mackin, Mackin & Company, NCOIL Executive Director
Ms. Susan Nolan, Mackin & Company, NCOIL Deputy Executive Director
Ms. Kelly Simeone, Mackin & Company
Ms. Candace Frick, NCOIL Director of Legislative Affairs and Education
Ms. Jenn O’Connor, NCOIL Director of Legislative Affairs and Education
Mr. Chad Underwood, NCOIL Director of Legislative Affairs and Education

APPROVAL OF THE MINUTES

            Upon a motion made and seconded, the Board voted unanimously to approve the minutes of its last meeting held in Chicago, Illinois, on Friday, July 13, 2001.

ADMINISTRATION

            Mr. Mackin reported that the ILF Board had raised $10,000 in general funds.  He added that pledges in the amount of $7,500 were made to the Foundation.  He said the ILF general fund needed to be more secure.  He also said $29,000 remained in the Market Conduct Study account.  He reported that the Flood Study account was in good shape financially.  He added that everything was going well and running smoothly.

            In response to a question from Rep. Parke, Mr. Mackin said that more funding would be needed only if the ILF were to take on additional projects.

REPORT ON FINANCIAL STUDIES

FLOOD INSURANCE STUDY

            Rep. Parke requested that the ILF obtain written documentation from FEMA that approved the study.

MARKET CONDUCT STUDY

            At the request of the chair, Mr. James Schacht, of PricewaterhouseCoopers (PWC), reported to the Board his Executive Summary with regard to the Insurance Market Conduct Examination Public Policy Review.

            Mr. Schacht said that the report had represented an important first step in facilitating a constructive public discussion of a critical insurance regulatory function.  He said that it provided a road map for insurance regulators and legislators as they sought to improve the market conduct examination process.  He said that PWC’s assessment suggested that further research, further dialogue, and further action among various stakeholders would be essential in promoting the evolution of an effective market system that would maintain public confidence.  He also said that what was needed was a transformation of market conduct exams.  He said that the transformation would not be based on “ad hoc” incremental changes, but a rethinking of the purpose of market conduct surveillance in today’s environment.  He said that the transformation was not only necessary, but was long overdue.  He then said that the ILF’s interest in market conduct and PWC’s report had stimulated the ideas and discussions that were currently within the NAIC and the insurance industry.

            Mr. Schacht also said that while those who proposed changes to the system were commended, they could not continue to cast about for remedies - only to seize on prescribed solutions that failed to establish a clear and meaningful purpose or objective for market surveillance efforts.  He said that these proposals were not likely to yield good results for real and speedy market conduct regulatory reform.  He said that for reform to succeed, there must be a consensus and clear vision of what needed to be done and why.  He said that their report found that disparate views, policies, and practices remained, particularly among the regulators who performed market conduct functions.

            Mr. Schacht then said that the states did not have consensus among the regulators and unanimity on the purpose and objective of market conduct surveillance.  He said that the process of market conduct surveillance would be well served by the development of a coherent and well thought out statement of concepts and principles.  He said that he firmly believed that a second stage analysis would be needed to assist legislators and regulators to develop a coherent and efficient market conduct regulatory system.  Mr. Schacht recommended that the study PWC began for the ILF be continued, as was suggested in their July 6, 2000 report.  He said that it would allow PWC to develop a conceptual framework for market conduct surveillance for which specific procedures could be developed.  He said that as insurance and financial service markets continued to evolve, the states needed to prioritize the use of regulatory resources where they were truly needed.  He said that the states could not afford to micro-manage the process of market conduct surveillance and that they had failed to establish clear and meaningful objectives and an approach that was standardized and streamlined.

            Mr. Schacht then outlined steps that the study would take.  He said that PWC would further analyze the data collected by the first study, survey additional insurers, review and analyze examinations reports, develop measurements to determine the effectiveness of market conduct examinations, and identify and review other financial institutions’ regulatory procedures.  He said that PWC would also develop a conceptual statement and framework for market conduct surveillance and rationale for this statement.  Mr. Schacht said PWC would develop recommendations and a plan of action for improvements for market conduct surveillance.  He said that the ILF’s first study had helped to identify many problems within the current system and the purpose of the follow-up study would be to fix them.

ADJOURNMENT

            There being no further business, the meeting was adjourned.