NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
FINANCIAL SERVICES & INVESTMENT PRODUCTS COMMITTEE
INTERNATIONAL INSURANCE ISSUES COMMITTEE
BOSTON, MASSACHUSETTS
JULY 8, 2010
MINUTES

The National Conference of Insurance Legislators (NCOIL) Financial Services & Investment Products and International Insurance Issues Committees met jointly at the Park Plaza Hotel and Towers in Boston, Massachusetts, on Thursday, July 8, 2010, at 3:15 p.m.

Rep. Tommy Thompson of Kentucky, vice chair of the Financial Services Committee, and Rep. Susan Westrom of Kentucky, chair of the International Committee, presided.

Other members of the Committees present were:

Rep. Greg Wren, AL	Sen. William J. Larkin, Jr., NY
Sen. Ralph Hudgens, GA	Sen. James Seward, NY
Sen. Travis Holdman, IN	Sen. Keith Faber, OH
Sen. Vi Simpson, IN	Rep. Brian Kennedy, RI
Sen. Ruth Teichman, KS	Rep. Charles Curtiss, TN
Sen. Buzz Thomas, MI	Rep. Hubert Vo, TX
Rep. George Keiser, ND	Sen. Ann Cummings, VT
Assem. William Barclay, NY	

Other legislators present were:

Rep. Steve Fontana, CT	Rep. Don Flanders, NH
Rep. Pat Patterson, FL	Sen. Karen Gillmor, OH
Rep. Jeff Greer, KY	Sen. Mike Hall, WV
Sen. Jerry Klein, ND	

Also in attendance were:

Susan Nolan, NCOIL Executive Director
Candace Thorson, NCOIL Deputy Executive Director
Mike Humphreys, NCOIL Director of State-Federal Relations
Jordan Estey, NCOIL Director of Legislative Affairs & Education

MINUTES

After motions made and seconded, the Financial Services Committee voted unanimously to approve the minutes of its March 5, 2010, meeting in Isle of Palms, South Carolina, and the International Issues Committee voted unanimously to approve the minutes of its November 20, 2009, meeting in New Orleans, Louisiana.

NCOIL CREDIT DEFAULT INSURANCE MODEL LEGISLATION

Rep. Thompson said that NCOIL had spent more than a year on credit default swaps (CDS) and their role in the country's financial meltdown. He said that while state legislators believed CDS were insurance, Congress was on the verge of passing H.R. 4173, the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, which, he noted, declared that CDS were not insurance and could not be regulated by the states. He said that a June 15 NCOIL letter to Congressman Barney Frank (D-MA) had reiterated NCOIL concerns regarding CDS regulation.

Rep. Thompson said that Assem. Joseph Morelle (NY), chair of the Committee, had proposed amendments to 2009 NCOIL *Credit Default Insurance Model Legislation* and that the amended model, if approved, would be ready for states if the regulatory landscape permitted state CDS regulation in the future.

Mr. Humphreys said that the proposed amendments were vetted during two conference calls following the NCOIL Spring Meeting. He said that the first would amend the definition of credit default insurance (CDI) to exclude certain lines of insurance, including surety, credit, and mortgage. The second amendment, he said, would define consumer debt obligations, a term used throughout the model but not defined. He said that the amendments tracked language in New York State Article 69 governing financial guaranty insurance and noted that the NCOIL bill was based on Article 69. Mr. Humphreys added that the Committee had to waive the 30-day rule to consider the second amendment.

Scott Cipinko of the Consumer Credit Insurance Association (CCIA) and Lenore Marema of the Surety and Fidelity Association of America said that their organizations supported the CDI definition amendment proposed above. Mr. Cipinko called it a clarifying amendment and Ms. Marema said that it would maintain the current regulatory structure regarding financial guarantees versus other products, such as surety bonds and credit insurance. She said that financial guarantees were defined broadly in Article 69 and followed by exemptions for more traditional products that did not present excess exposures.

Upon motions made and seconded, the Committee unanimously approved:

- the amended CDI definition
- after waiving the NCOIL 30-day rule, the new consumer debt obligation definition
- two technical amendments that deleted repetitive words
- the amended NCOIL *Credit Default Insurance Model Legislation*

Sen. Hudgens urged legislators to sign a final copy of the readopted model to thank Assem. Morelle for his efforts in developing the bill.

Rep. Thompson then concluded the Committee's business and turned the joint Committee meeting over to Rep. Westrom to address the International Committee's agenda items.

INTERNATIONAL ACCOUNTING STANDARDS

Florida Insurance Commissioner Kevin McCarty, National Association of Insurance Commissioners (NAIC) Vice President, described the work of an NAIC Committee on Statutory Accounting and Financial Reporting subgroup. He reported that the subgroup had held a call on April 21 to discuss questions related to the purpose of statutory accounting and whether it was appropriate in today's global market. He said that the subgroup had directed NAIC staff to produce preliminary options for regulators examining U.S. insurance accounting issues. He said that staff had released the options on June 22.

Commissioner McCarty then described the June 22 NAIC options, which he said included:

- maintaining the existing statutory accounting system
- making statutory adjustments to U.S. Generally Accepted Accounting Principles (GAAP)
- bifurcating reporting systems for public and nonpublic companies

- moving to an international accounting system

Commissioner McCarty said he felt that regulators should consider the importance of statutory accounting on U.S. insurance regulation. He said that these standards allow the states, both individually and collectively, to control their own regulatory systems and to develop rules that fit the U.S. system.

Reps. Kennedy and Westrom asked about legislator participation in the accounting discussions. Commissioner McCarty welcomed comments by legislators on the June 22 NAIC draft and said that ultimately regulators would have to go to their respective state legislators with the continuum of options. He added that there was great pressure on regulators because the U.S. government, including the Securities and Exchange Commission (SEC) and the Federal Reserve Board, among others, were committed to convergence of U.S. and European accounting standards.

U.K. COALITION GOVERNMENT

David Matcham, chief executive of the International Underwriting Association (IUA), reported that 2010 United Kingdom (U.K.) elections had resulted in a "hung parliament" with three main political parties unable to gain a majority of the 650 seats. He said that five (5) days of negotiations yielded the first Conservative-Liberal coalition government in U.K. history. He said that Conservative party leader David Cameron now serves as Prime Minister and that Liberal-Democrat leader Nick Clegg serves as Deputy Prime Minister.

Mr. Matcham reported that U.K. Chancellor George Osborne had outlined a financial services reform proposal during a June 16 speech at the Mansion House in London, England. He said that the proposed reforms would go into effect in 2012 and would, among other things:

- abolish the U.K. single financial regulator, the Financial Services Authority (FSA)
- grant the Bank of England authority over macroprudential regulation and bank oversight
- create a Financial Policy Committee to oversee capital regulation and lending rules
- shift FSA consumer and market responsibilities to a new body that he said might be called the Consumer Protection and Market Authority Agency
- empower a new Economic Crime Agency with FSA enforcement authorities

Mr. Matcham also discussed insurance regulation and noted that a new bank levy would not apply to insurers. He said that it was too early to know how an insurance regulatory agency would be structured and staffed and expressed an industry concern that financial staff may not have insurance expertise. He said that 2012 was also the completion date for Solvency II, which he called the biggest piece of regulatory change that the European Union (EU) has ever known. He reported that Solvency II would consolidate 11 insurance directives into one and would affect all aspects of insurance.

Mr. Matcham said that NCOIL may want to consider arranging visits with U.K. and EU parliamentarians—as in the past—and he offered to facilitate meetings between NCOIL legislators and the U.K. and EU leaders.

Rep. Westrom asked about the frequency of U.K. elections. Mr. Matcham answered that the maximum term of a U.K. government position is approximately five (5) years. He added that elections could be called earlier and said that there was considerable speculation that Prime

Minister Gordon Brown could have won if he had called for elections shortly after he took over for Tony Blair.

Rep. Keiser said that EU members had debated standardization of rules and regulations for quite some time and asked whether all countries supported the Solvency II initiative. Mr. Matcham replied that he sensed unity toward the Solvency II approach with compromises on certain issues, including on capital requirements. He said that equivalence determinations had been a hot issue and that the insurance industry had been invited to recommend countries that should be considered to have equivalent regulatory systems.

Responding to a question from Rep. Keiser regarding energy company British Petroleum (BP), Mr. Matcham said that BP was self-insured. He added that other operators involved in the Deepwater Horizon incident had commercial insurance.

ADJOURNMENT

There being no further business, the meeting adjourned at 4:40 p.m.

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