NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
FINANCIAL SERVICES & INVESTMENT PRODUCTS COMMITTEE
BURLINGTON, VT
JULY 13, 2012
MINUTES

The National Conference of Insurance Legislators (NCOIL) Financial Services & Investment Products Committee met at the Hilton Burlington in Burlington, VT, on Friday, July 13, 2012, at 8:30 a.m.

Rep. Matt Lehman of Indiana, acting chair of the Committee, presided.

Other members of the Committee present were:

Rep. Greg Wren, AL	Rep. Brian Kennedy, RI
Rep. Barry Hyde, AR	Rep. Charles Curtiss, TN
Sen. Travis Holdman, IN	Rep. William Boztow, VT
Rep. George Keiser, ND	Sen. Ann Cummings, VT
Rep. Don Flanders, NH	Rep. Kathleen Keenan, VT
Sen. Carroll Leavell, NM	Sen. Mike Hall, WV
Sen. William J. Larkin, Jr., NY	

Other legislators present were:

Rep. Kurt Olson, AK	Rep. Peter Lund, MI
Rep. Barry Hyde, AR	Rep. Jim Kasper, ND
Rep. Nancy McLain, AZ	Sen. Rich Pahls, NE
Sen. William Haine, IL	Sen. Bill Brown, OK
Rep. Sharon Treat, ME	

Also in attendance were:
Susan Nolan, NCOIL Executive Director
Candace Thorson, NCOIL Deputy Executive Director
Michael Keegan, NCOIL Director of Legislative Affairs - DC
Mike Carroll, NCOIL Director of Legislative Affairs

MINUTES
After a motion made and seconded, the Committee voted unanimously to approve the minutes of its November 17, 2011, meeting in Santa Fe, NM.

DODD-FRANK IMPLEMENTATION ACTIVITY
Julie Gackenbach of Confrere Strategies reported that federal regulatory activity to implement Dodd-Frank provisions remains behind schedule with only 40 percent of the regulations meeting the statutory deadline. Ms. Gackenbach also reported that the Federal Insurance Office was coordinating with other federal agencies in an effort to finalize its report on insurance modernization, but she predicted that the final version, which was due in January, will likely not be released before the November elections.

NAIC SOCIAL MEDIA WHITE PAPER

Chara Bray of the NAIC provided the Committee with a status report on a white paper that was developed by the NAIC Social Media Working Group of the Market Regulation and Consumer Affairs (D) Committee. She said that *The Use of Social Media in Insurance* was approved by the Working Group and the D Committee and would be considered for final adoption by the NAIC Executive Committee at the upcoming summer meeting in August. She reported that the paper focused on three key points: insurance company and producer uses of social media, regulatory and compliance issues associated with the use of social media, and guidance for addressing identified regulatory and compliance issues. Ms. Bray indicated that an increasing number of people were using social media in their buying decisions and said that insurers were using social media to increase their visibility, enhance familiarity, develop customer relations, and build customer trust.

Deirdre Manna of the Property Casualty Insurers Association of America (PCI) informed the Committee that PCI had spoken before the NAIC Social Media Working Group and had asked the group to recognize that emerging social media platforms were valuable to insurers and consumers during natural catastrophes. Ms. Manna reported that new social media vehicles helped policyholders communicate with insurers during and after some of the nation's recent national catastrophes, helping insurers come to the aid of policyholders more quickly and efficiently.

STATE, FEDERAL ACTIVITY ON FORCE-PLACED INSURANCE

Birny Birnbaum of the Center for Economic Justice (CEJ) reported on state regulatory activity regarding force-placed, or lender-placed, insurance practices in California, Florida, and New York. Mr. Birnbaum expressed concern that lender-placed premiums were significantly higher than a homeowner might be able to purchase on his own in the marketplace, and he cited low loss ratios as detrimental to consumers. He said that in addition to individual state investigations, the NAIC had scheduled a public hearing during the Summer Meeting in August. At the federal level, he said, the Consumer Financial Protection Bureau was drafting new rules aimed at giving consumers more rights and that the nation's major mortgage lender, Fannie Mae, was reviewing its relationships with mortgage servicers and insurers.

Kevin McKechnie of the American Bankers Insurance Association explained that homeowners who observe the terms of their loans and maintain their homeowner insurance policies can avoid lender-placed insurance altogether. He pointed out that less than two percent of borrowers were subject to force-placed insurance requirements.

Harry Bassett of Assurant suggested that "force-placed insurance" was really a misnomer because no one was forced to carry lender-placed property insurance. He explained that lender-placed insurance was placed by a lender only after a borrower had failed to provide proof of required coverage. He said that lender-placed coverage protected both the mortgage lender and the borrower and that policies typically covered repairs allowed under the policy at replacement cost. Mr. Basset said that the policies typically cost more because, unlike a typical consumer-purchased policy that was subject to individual risk underwriting, lenders agreed to insure every lapsed property in a lender's mortgage portfolio regardless of condition, occupancy or loss history. Mr. Bassett concluded by saying that Assurant would cooperate with regulators to address concerns.

STATE OF THE BOND INSURANCE MARKETPLACE

Bruce Stern of the Association of Financial Guaranty Insurers (AGFI) briefed the Committee on the state of the bond insurance marketplace in the wake of the financial crisis and several local government defaults. According to Mr. Stern, municipal bond insurers once guaranteed more than half of all new municipal-bond issues, but many insurers collapsed in the financial crisis because they had insured billions of dollars worth of mortgage-backed securities that defaulted, causing heavy losses. He reported that insured bonds accounted for more than 57 percent of municipal issuances in 2005 but for only 5.5 percent in 2011. Bond insurers, he said, charged cities and states upfront premiums in exchange for a promise to support their debt in a crisis. He said that this saved local governments money. Mr. Stern noted that In the first half of 2012, there were 21 municipal defaults totaling $978 million, as opposed to 28 defaults totaling $522 million for the same period in 2011.

Rep. Lehman requested that the Committee explore the standards that states impose on municipalities and explore possible future model legislation.

GASB PUBLIC PENSION REFORM INITIATIVE

Craig Hanna of the American Academy of Actuaries (AAA) reported that a Governmental Accounting Standards Board (GASB) voted on June 25 to approve two new standards designed to improve the accounting and financial reporting of public employee pensions by state and local governments. He explained that Statement No. 67, *Financial Reporting for Pension Plans,* revised existing guidance for the financial reports of most pension plans. He reported that Statement No. 68, *Accounting and Financial Reporting for Pensions,* established new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67, Mr. Hanna said, were effective for financial statements for periods beginning after June 15, 2013. He added that the provisions in Statement 68 were effective for fiscal years beginning after June 15, 2014.

ADJOURNMENT

There being no further business, the meeting adjourned at 9:45 a.m.

K:/NCOIL/2011 Documents/2007776a.doc