

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
INTERNATIONAL INSURANCE ISSUES COMMITTEE
LAS VEGAS, NEVADA
NOVEMBER 16, 2007
DRAFT MINUTES

The National Conference of Insurance Legislators (NCOIL) International Insurance Issues Committee met at the Rio All-Suite Hotel & Casino in Las Vegas, Nevada, on Friday, November 16, 2007, at 11:00 a.m.

Rep. Frank Wald of North Dakota, chair of the Committee, presided.

Other members of the Committee present were:

Rep. Dennis Keene, KY
Sen. Carroll Leavell, NM
Assem. Ivan Lafayette, NY
Sen. William J. Larkin, Jr., NY
Sen. James Seward, NY
Del. Harry Keith White, WV

Other legislators present were:

Rep. Greg Wren, AL	Sen. Chuck Wiger, MN
Sen. Joseph Crisco, CT	Rep. Don Flanders, NH
Rep. Joseph Fischer, KY	Rep. Brian Kennedy, RI
Rep. Jeffrey G. Greer, KY	Rep. Craig Eiland, TX
Rep. Dennis Horlander, KY	Rep. James Dunnigan, UT
Sen. Dick Roeding, KY	Rep. Gini Milkey, VT

Others present were:

Susan Nolan, Nolan Associates, NCOIL Executive Director

MINUTES

Upon a motion made and seconded, the Committee voted unanimously to adopt, as submitted, the draft minutes of its July 20, 2007, meeting in Seattle, Washington.

EU/US ISSUES OF COMMON CONCERN

David Matcham, chief executive of the International Underwriting Association (IUA), discussed contract certainty. He said it means that both parties to a contract fully agree on its terms at the contract's inception, and he said that such certainty can pertain to both insurance and reinsurance. Mr. Matcham said the London regulator, the Financial Services Authority (FSA), had effectively signed off on this solution to what was an inefficient system just a few years ago.

Concerning a reinsurance directive, Mr. Matcham said that each of the 27 EU member countries must adopt it prior to December 10, 2007, in order for the EU to attain its goal of uniform EU regulation of reinsurers. He summarized the events leading to creation of the directive, describing the patchwork of EU reinsurance regulation that had ranged from considerable to almost non-existent. Mr. Matcham

said that, under the new directive, every reinsurer must be licensed by the EU member state in which its head office is located. He said reinsurers attaining licensure in one EU member state will henceforth be recognized in all other EU member states. He described this as a single passport system.

According to Mr. Matcham, Ireland and Germany had already adopted the reinsurance directive and several other EU member countries were actively considering it. Mr. Matcham told the Committee that there was discussion within the National Association of Insurance Commissioners (NAIC) and among other parties over whether the directive would introduce barriers for non-EU members, such as the U.S. and Bermuda, by establishing new financial requirements for reinsurers domiciled in these countries. However, Mr. Matcham assured the Committee that such would not be the case, citing the fact that 24 of 27 EU countries do not have collateral requirements and that the remaining three (France, Spain, and Portugal) do not discriminate against non-EU companies.

In response to a question from Rep. Wald, Mr. Matcham discussed how a directive becomes the law that EU member states follow.

Regarding Solvency II, Mr. Matcham said a draft directive had been published on July 10, 2007, with a goal of full implementation by 2012. He said that Solvency II was currently in a critical phase, with numerous interested parties offering comments. Mr. Matcham characterized Solvency II as a principles-based risk analysis measurement regime designed to take account of how insurers internally allocate capital.

Brett Palmer of the NAIC reported that the NAIC was following the Solvency II initiative but also was working closely on other solvency efforts. He cited an ongoing NAIC-EU dialogue designed to find as much common ground as possible between the differing regulatory structures. He further reported that several states had signed memorandums of understanding (MOU) with EU member countries, including Germany, that cover the sharing of confidential information.

With respect to reinsurance, Mr. Palmer said the NAIC had proposed a new framework that he described as outcome-oriented but not principles-based. He said the goal of the plan was to create a single-state regulator for domestic reinsurers and a passport system for non-U.S. reinsurers. He recognized that many issues still need to be addressed, including uniformity, collateral, and extra-territoriality. Mr. Palmer said that implementing the reinsurance system was a 2008 NAIC goal. Lastly, he noted that several commissioners serve in leadership roles at the International Association of Insurance Supervisors (IAIS).

In response to questions from Rep. Eiland, Mr. Palmer identified tentative timelines for NAIC actions on reinsurance and accounting standards. Mr. Matcham discussed EU concerns regarding the possible need for federal action on reinsurance regulation within U.S. borders—regardless of action the NAIC might take. Mr. Matcham noted that the New York Insurance Department had recently introduced draft regulations on reinsurance collateral that differed somewhat from the approach being considered by the NAIC.

INTERNATIONAL ACCOUNTING STANDARDS

Ed Stephenson of Barnert Associates, representing the Group of North American Insurance Enterprises (GNAIE), discussed developments underway at the International Accounting Standards

Board (IASB). He said that an IASB comment period regarding an IASB discussion paper on preliminary views of insurance contracts would close that day, November 16.

Mr. Stephenson said there was a simultaneous Financial Accounting Standards Board (FASB) comment period on the need to converge U.S. accounting standards with FASB and whether this effort should be undertaken jointly with the IASB. He said this process was expected to take up to 18 months. Mr. Stephenson explained that EU regulators were moving toward a single accounting standard and that, ultimately, policymakers would have to decide whether it was cost-effective to reconcile the international accounting with the separate standard that the U.S. uses. He explained that the U.S. relies on generally accepted accounting practices, or GAAP.

Mr. Stephenson suggested that these and other developments, collectively, will create a greater push for uniformity between U.S. and international approaches. He urged NCOIL to monitor activities at the Securities and Exchange Commission (SEC), the U.S. Treasury, and a New York Commission on Financial Services Regulatory Reform.

2008 COMMITTEE CHARGES

Ms. Nolan said the proposed 2008 Committee charges were as follows:

- Develop and enhance communications with foreign legislators and regulators, e.g., initiate and establish a more formalized forum for communications between international insurance legislators
- Explore areas of mutual recognition in insurance regulation between U.S. and foreign insurers
- Monitor international accounting standards development in order to form an NCOIL position
- Initiate as part of NCOIL meetings a forum for U.S. and foreign legislators to speak regarding mutual insurance concerns

Upon a motion made and seconded, the Committee adopted the proposed charges via unanimous voice vote.

ADJOURNMENT

There being no further business, the Committee adjourned at 12:00 p.m.