

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
INTERNATIONAL INSURANCE ISSUES COMMITTEE
NEW YORK, NEW YORK
JULY 11, 2008
MINUTES

The National Conference of Insurance Legislators (NCOIL) International Insurance Issues Committee met at the Marriott Marquis in New York City on Friday, July 11, 2008, at 12:15 p.m.

Rep. Craig Eiland of Texas, co-chair of the Committee, presided.

Other members of the Committee present were:

- Sen. Joseph Crisco, CT
- Sen. Vi Simpson, IN
- Rep. Dennis Keene, KY
- Rep. George Keiser, ND
- Rep. Frank Wald, ND
- Sen. Carroll Leavell, NM
- Sen. William J. Larkin, Jr., NY

Other legislators present were:

- Rep. Dennis Horlander, KY
- Sen. Stewart Greenleaf, PA
- Sen. David Thomas, SC
- Rep. Wallace Scarborough, SC
- Rep. Charles Curtiss, TN
- Del. Harvey Morgan, VA
- Rep. Gini Milkey, VT

Also in attendance were:

- Susan Nolan, NCOIL Executive Director
- Candace Thorson, NCOIL Deputy Executive Director

MINUTES

After a motion made and seconded, the Committee voted unanimously to approve the minutes of its meeting on February 29, 2008, in Washington, DC.

UK AND EU REGULATORY DEVELOPMENTS

David Matcham of the International Underwriting Association (IUA) reported that the European Council and Parliament would approve the main framework for a Solvency II proposal in 2008, and noted that the goal was to complete detailed legislation by the end of 2009 for member states to implement by 2012. He said the goals of Solvency II were to deepen the European Union (EU) insurance market, enhance policyholder protection, improve the international competitiveness of Europe, and strengthen the EU regulatory system. He said Solvency II was a principles-based form of regulation that would facilitate a “lead supervisor approach” to reduce inconsistencies and duplication in the regulation among member states.

Mr. Matcham discussed an EU reinsurance directive that he said provided uniformity for reinsurance companies. He said the directive had been adopted by nearly all EU member states and that it would grant a company licensed in one member state a passport to offer coverage in

other states. He then discussed EU insurance guaranty schemes that he said lacked standardization and noted that one-half of the EU members had some sort of guaranty scheme. He also reported on an international move toward mutual recognition in insurance regulation and a U.S. Internal Revenue Service (IRS) excise tax proposal that, he said, was opposed by Japan, the United Kingdom, and the EU, among others, because it relied on trying to determine how much of an international risk is based in the U.S.—a figure that he said was difficult to establish.

GLOBAL CREDIT CRUNCH FROM U.S. SUBPRIME LENDING CRISIS

Mr. Matcham cited an International Monetary Fund (IMF) report that estimated the total cost of the subprime lending turmoil at around \$945 billion worldwide. He said that 12 percent of the \$945 billion related to the insurance industry. He then cited a Standard & Poor's (S & P) report that estimated the cost for European insurers at around \$5 billion. He commented that \$5 billion was deemed a "manageable impact" for the European insurance industry, but noted that some lines of insurance were more heavily impacted than others.

IAIS/NAIC INTERNATIONAL ACTIVITY

Doug Stolte of the Virginia Office of Insurance, representing the National Association of Insurance Commissioners (NAIC), reported that the NAIC had started a dialogue with the European Commission and with EU member-country regulators including, he noted, with representatives of the Committee of European Insurance and Occupational Pension Supervisors. He said that the dialogue provided U.S. and EU regulators a forum to better understand each other's system of regulation and commented that both sides were hopeful that the talks would lead to a reduction of regulatory impediments to cross-border insurance business.

Mr. Stolte said that the NAIC and the EU completed a model memorandum of understanding (MOU) on the exchange of confidential information to address an EU directive on supplementary supervision of insurance groups. He said that the California, Nebraska, and New York Insurance Departments had each signed an MOU with the head of the German financial services authority, the BaFin.

Mr. Stolte reported that at the 2008 NAIC Summer Meeting, the NAIC International Insurance Relations (G) Committee adopted a work plan to analyze the EU Solvency II initiative as well as the Basel II banking accord, and insurance insolvency initiatives in Australia and Canada. He said that on the basis of the (G) Committee analysis, the NAIC will consider whether any elements of the initiatives should be incorporated into the work of any of the Financial Condition (E) Committee's technical groups. He said that the project would focus on capital requirements, international accounting, group supervision, and valuation issues in insurance and reinsurance.

INTERNATIONAL ACCOUNTING STANDARDS PROGRESS

Doug Barnert of Barnert Associates, representing the Group of North American Insurance Enterprises (GNAIE), said that International Financial Reporting Standards (IFRS) were likely to replace U.S. generally accepted accounting principles (GAAP) in the next five (5) years and stated that an International Accounting Standards Board (IASB) Insurance Contracts standard was likely to become the global general purpose and insurance regulatory accounting standard during that same time. He said the insurance industry was very concerned about the Insurance Contracts standard and commented that it was critical to get IFRS right for insurance contracts.

Mr. Barnert said that GNAIE provided six (6) Discussion Papers on critical accounting issues to advance the thinking on a high quality IFRS for insurance contracts. He emphasized the importance of the concepts “contract fulfillment value” and “day one gains”—referring to “day one gains” as “Enron accounting” and saying that profits should be recognized when an insurer is released from risk, not on day one. He reported that the insurance industry opposed day one gains. He commented that the entire insurance industry has pushed hard to get the Financial Accounting Standards Board (FASB) to get involved in the discussions to produce a better IFRS.

After discussing the role of the U.S. Securities and Exchange Commission (SEC) in the international accounting discussion, Mr. Barnert urged NCOIL to consider how a new accounting structure would impact state regulation for solvency and accounting.

Responding to a question from Rep. Keiser seeking clarification for “contract fulfillment value,” Mr. Barnert said that the proposal for “contract fulfillment value” was based on how much a company could theoretically determine that somebody would pay for the company’s insurance contracts. He said that GNAIE was opposed to that interpretation and instead believed that the value of contracts should be determined by how much it would cost to settle the contracts with the policyowners.

Mr. Stolte said that it was alarming to note that it appeared that the U.S. would no longer be the standard setter for global accounting. He said that regulators never thought that GAAP would go away when the NAIC developed the foundation for an accounting framework 10 years ago.

Rep. Eiland asked if colleges and universities were preparing accounting students for the move away from GAAP. Mr. Stolte said that while he has been a licensed certified public accountant (CPA) for 23 years, he has had no formal training on IFRS.

ADJOURNMENT

There being no further business, the meeting adjourned at 12:45 p.m.