The National Conference of Insurance Legislators (NCOIL) International Insurance Issues Committee met at the Hilton Burlington in Burlington, Vermont, on Friday, July 13, 2012, at 9:45 a.m.

Sen. Travis Holdman of Indiana, chair of the Committee, presided.

Other members of the Committee present were:
- Rep. Greg Wren, AL
- Rep. Barry Hyde, AR
- Rep. Susan Westrom, KY
- Sen. Carroll Leavell, NM
- Rep. George Keiser, ND
- Sen. David O'Connell, ND
- Rep. Charles Curtiss, TN
- Rep. Bill Botzow, VT
- Rep. Kathie Keenan, VT

Other legislators present were:
- Rep. Isaac Choy, HI
- Rep. Dawn Pettengill, IA
- Rep. Ron Crimm, KY
- Rep. Robert Damron, KY
- Rep. Steve Riggs, KY
- Rep. Sharon Treat, ME
- Sen. Jim Marleau, MI
- Rep. Don Gosen, MO
- Rep. Don Flanders, NH
- Sen. Neil Breslin, NY
- Sen. Kevin Bacon, OH
- Rep. Jay Hottinger, OH
- Rep. Michael Stinziano, OH
- Rep. Brian Kennedy, RI
- Rep. Craig Eiland, TX
- Sen. Ann Cummings, VT
- Rep. Michele Kupersmith, VT
- Sen. Mike Hall, WV

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

MINUTES

After a motion made and seconded, the Committee voted unanimously to approve the minutes of its February 24, 2012, meeting in Biloxi, Mississippi.

GLOBAL EFFORTS INFLUENCING U.S. INSURANCE REGULATION

Commissioner Roger Sevigny (NH), on behalf of the National Association of Insurance Supervisors (NAIC), said that U.S. insurance regulation was very effective, as witnessed during the global financial crisis. He said that in 2010, the International Monetary Fund (IMF), as part of its Financial Sector Assessment Program (FSAP), had evaluated U.S. regulation against the International Association of Insurance Supervisors’ (IAIS) 28 Insurance Core Principles (ICPs). The IMF, Commissioner Sevigny reported, had determined that U.S. regulation met 25 of the principles—an outcome that he said was extremely favorable. He said that according to the IMF, the U.S. data collection system was the best in the world, and he commented that none of the IMF recommendations to U.S. regulators were of an “earth-shattering” nature.
Commissioner Sevigny explained that the IAIS, which the NAIC helped to establish in 1994, was an international standard-setting organization for insurance matters. He said the U.S. had three, out of 18, members on the IAIS Executive Committee—two NAIC representatives and the Federal Insurance Office (FIO)—as well as membership on the other 20 IAIS committees. He commented that state insurance regulators were helping to “shape and influence” international thought.

In response to questions from Rep. Keiser, Commissioner Sevigny said that the IAIS was not a regulatory body and that states maintained control over U.S. insurance oversight. He said that Congress could not coerce a state to follow an international insurance standard. Mark Sagat of the NAIC added that the FIO had authority over international “covered agreements” that might preempt state regulation, but he said those were narrowly defined under the Dodd-Frank Act.

Sen. Holdman expressed concern over the impact that emerging international accounting standards would have on U.S. accounting rules, saying that the two systems were significantly different. Commissioner Sevigny said the NAIC supported an outcomes-based approach to solvency regulation, rather than strict adherence to one set of requirements.

In response to a question posed by Rep. Botzow, Commissioner Sevigny said that the IAIS Executive Committee, which the NAIC had once chaired, decided on what projects the IAIS would pursue.

Commissioner Sevigny then reported that the NAIC was currently vice chair of an IAIS Supervisory Forum that worked to strengthen insurance supervision and “foster convergence of supervisory practices through real-world experience.” He said the NAIC was actively involved in an IAIS Common Framework (ComFrame) project that aimed to make effective group-wide supervision of internationally active insurance groups. He also said that an NAIC Solvency Modernization Initiative (SMI) was evaluating state oversight in light of these and other global insurance developments.

INTERNATIONAL ACCOUNTING STANDARDS
Doug Barnert of Barnert Associates said that global accounting bodies were working to create a single international standard for insurance contracts. He said the initiative aimed to converge rules promulgated by the non-U.S. International Accounting Standards Board (IASB) with rules promulgated by the U.S.-based Financial Accounting Standards Board (FASB). He said there was broad support for developing what he described as “quality” rules—rather than simply “converging for the sake of convergence”—but he cautioned that officials who pushed for quality might be seen as impediments to the convergence process.

Mr. Barnert reported that the efforts to meld U.S. Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) had grown in intensity in 2005 and 2006. Countries around the world have signed memorandums of understanding, he said, and the IASB, FASB, and Securities & Exchange Commission (SEC) have identified five or six key standards—e.g., revenue recognition, financial instruments, financial statement presentation, and others—that nations would have to adopt.

Mr. Barnert said that in the next five years, the IASB would turn its focus from the Americas to Pacific-region countries that were almost ready to abide by a single international accounting approach. He stressed, however, that in doing so the IASB would begin working with Pacific-area countries before completing its work with the U.S.
Mr. Barnert said that the IASB hoped to release a review document by year-end 2012—a decision that he predicted would lead to additional comments, rather than to adoption of a standard—but that FASB was taking a different tact. He also said, among other things, that:

- The NAIC is influencing international accounting standards through its IAIS work.
- Accountability in the international accounting standards world is important.
- A key EU official at the IMF has supported holding more IMF discussions with regulators, as opposed to standard-setting groups.
- Global discussions would ultimately become more collective in nature, thereby moving away from a current regional approach.

RESOLUTION ON U.S. TRADE AGREEMENT ACTIVITY/STATE AUTHORITY

Sen. Holdman said that only two state legislators were among the more than 700 members—referred to as “cleared advisors”—on 28 different United States Trade Representative (USTR) advisory committees. He expressed concern that state lawmakers were not involved, namely through membership on an Intergovernmental Policy Advisory Committee (IGPAC), in trade discussions that could impact state law, and he suggested that more transparency could be appropriate.


Isaac Faz, Deputy Assistant for Intergovernmental Affairs & Public Engagement with the Office of the U.S. Trade Representative (USTR), who attended the meeting via phone, said that the USTR is working to streamline its “tedious” process for expanding IGPAC membership in order to facilitate state legislative and other participation. He said the USTR welcomes recommendations of state lawmakers who might be interested.

Rep. Keiser said that most state legislators were “citizen lawmakers,” and so the USTR would get “two-for-one” when adding them to its advisory committees—a comment with which Mr. Faz agreed.

Rep. Keenan said that the USTR had not responded to a written Vermont request, made 17 months prior, to add a Vermont state official to IGPAC. Mr. Faz commented that the USTR should already have responded and offered to look into the status of the request.

Rep. Keenan then expressed concern that an emerging Trans-Pacific Partnership (TPP) agreement could have critical impact on U.S. consumers and businesses, and she opined that industry representatives should not be the only non-federal officials taking part in decision-making. In response, Mr. Faz said, among other things, that:

- the USTR is aware of such concerns and is working to address them
- the USTR coordinates calls and in-person meetings to help disseminate information
- state officials are always welcome to contact the USTR to speak with negotiators
- the next round of TPP negotiations, to be held in Virginia in September, would include special presentations and opportunities to engage with negotiators

Sen. Holdman stressed two key concerns: increasing the number of state legislators who were cleared advisors and protecting state public policy in light of global trade negotiations.
Rep. Treat, an IGPAC member and one of the two state legislators serving as cleared advisors, advocated strongly for more legislator input, noting that many of the issues under consideration were items that NCOIL addressed. She encouraged the Committee to vote on the resolution at the meeting. She also said, regarding the process for becoming an IGPAC member, that it took her five years to be approved and six months to be cleared by the FBI.

Rep. Keiser, acting on a suggestion of Rep. Hyde, made a motion to have Sen. Leavell submit to Mr. Faz any names, with contact information, of NCOIL legislators who would be interested in serving as cleared advisors. Sen. Leavell seconded the motion, and the Committee approved it via unanimous voice vote.

The Committee also via unanimous voice vote:

- added the words “when appropriate” to the seventh WHEREAS and the first RESOLVED clauses, in order to recognize that some trade-negotiation information should remain private
- adopted the resolution as amended

EU DEBT CRISIS AND REINSURER IMPACTS
Dennis Burke of the Reinsurance Association of America (RAA) reported that the reinsurance industry was strong and solvent. He said that reinsurers’ exposure to the riskiest EU sovereign debt—that of Italy, Greece, Portugal, and Spain—was not material in relation to reinsurers’ assets. He said that rating agencies were stress-testing reinsurance companies in light of the euro crisis and that they were performing well.

ADJOURNMENT
There being no further business, the meeting adjourned at 10:45 a.m.