

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS
INTERNATIONAL INSURANCE ISSUES COMMITTEE
SAN ANTONIO, TEXAS
FEBRUARY 26, 2004
DRAFT MINUTES

The National Conference of Insurance Legislators' (NCOIL) International Insurance Issues Committee met at the Hyatt Regency on the Riverwalk in San Antonio, Texas, on Thursday, February 26, 2004, at 10:15 a.m.

Rep. Mark Young of Vermont, Chair of the Committee, presided.

Other members of the Committee present were:

Rep. Greg Davids, MN
Assem. Nancy Calhoun, NY
Sen. James Seward, NY
Rep. Francis Wald, ND
Rep. Dan Foley, NM
Rep. Dan Tripp, SC
Rep. Craig Eiland, TX

Other legislators present were:

Rep. George Keiser, ND
Rep. Jerry Klein, ND
Rep. Robert Dostis, VT
Rep. Gini Milkey, VT

Also in attendance were:

Bob Mackin, Mackin & Company, NCOIL Executive Director
Susan Nolan, Mackin & Company, NCOIL Deputy Executive Director

MINUTES

Upon a motion duly made and seconded, the Committee voted unanimously to approve, as submitted, draft minutes of its last meeting, held on November 20, 2003, in Santa Fe, New Mexico.

EU/U.S. DIALOGUE

PRESENTATION ON INTERNATIONAL INSURANCE ISSUES

Mr. Christian Pierotti, Manager of International Affairs for Comite European Des Assurances (CEA), provided legislators with an overview of issues affecting the European insurance industry in 2004. He said that European insurance comprised 31.7 percent of the

world insurance market. Mr. Pierotti said that the CEA was a European trade association of insurers, **(consisting of, soon to consist of?)** 25 full members, including 15 EU markets, ten other markets, and six associate members.

Mr. Pierotti reported that 2004 was a year of major changes for the European insurance industry. He said that the EU was growing in response to the global environment, resulting in a new EU Parliament, an expanded EU Commission, the creation of the Committee of Insurance and Occupational Pension Supervisors (CEIOPS), and the **(expanded? more visible?)** role of the International Association of Insurance Supervisors (IAIS).

Mr. Pierotti said that the insurance industry in Europe was facing an acceleration of insurance-related EU legislation. He said that in 2003, CEA members had to comply with over 100 insurance initiatives, compared with single digits in the early 1990s. He said that major EU insurance directives included reinsurance, revised solvency regulation, international accounting standards, and catastrophe funds.

Mr. Pierotti said that in 2004, the biggest enlargement in the history of the European Union would take place. He said that ten new countries, Cyprus, the Czech Republic, Hungary, Iceland, Liechtenstein, Malta, Norway, Poland, Switzerland, and Turkey, would expand the EU from 15 member countries to 25. He said that in 2007, Romania and Bulgaria were expected to join also.

Mr. Pierotti said that a new European Commission (EC) would include ten new commissioners, one for each new EU member country. He said the Commission would have a new Directorate Generals structure and up to 3,500 new officials from the accession countries. He said that the Commission would be operational in late October 2004.

Mr. Pierotti said that elections for the European Parliament (EP) would take place in June 2004 and that the Parliament would expand from 626 to 732 members. He said that there would be a new distribution of votes and a new committee structure. He said that the new Parliament would be operational in early November 2004.

Mr. Pierotti said that a new body, The Committee of European Insurance and Occupational Pension Supervisors (CEIOPS), much like the National Association of Insurance Commissioners (NAIC), would draft rules for application of EU directives. He said that the EU Parliament would review and adopt the rules prior to their going into effect.

Mr. Pierotti outlined the “Lamfalussy” procedure, the process by which directives/regulations are to be created and implemented. He said that first the EC proposes directives/regulations; the EP and Council reach agreement on framework principles and definition of implementing powers in the directives/regulations. Then, he said, the EU adopts technical implementing measures upon advice from CEIOPS (supervisors) and consultation with EIOPC (regulators). He said after that, CEIOPS issues guidelines and standards for implementation and the EC monitors and enforces implementation of the directives/regulations.

Mr. Pierotti stressed the importance of the International Association of Insurance Supervisors (IAIS) as an international standard-setting body. He said the IAIS was a platform to exchange views between supervisors and the private sector. He said that US and EU input in the work of the IAIS is of major importance because both markets together represent more than 70 percent of the world insurance market and cooperation between them is essential. He said that major issues that the EU and the US should be working on included accounting standards, environmental liability, general liability, pensions, gender treatment, terrorism, and catastrophe funds.

IAIS DEVELOPMENTS

Commissioner Ernst Csiszir (SC), NAIC President, reported that the IAIS, which is growing in scope and importance, is revising its core principles.

Commissioner Csiszir said that the IAIS Solvency Committee's objective is the convergence of capital solvency standards. He said the Committee aims to develop a roadmap for capital adequacy.

Commissioner Csiszir also reported that IAIS Reinsurance Committee is working to arrive at a more transparent, friendly environment for reinsurance. He said its long-term goal is mutual recognition and that there would be many steps in-between, including a bi-lateral and tri-lateral process.

Commissioner Csiszir said that the IAIS Money Laundering Task Force is coordinating regulation under the Patriot Act and is also identifying best practices to get at money laundering schemes.

Commissioner Csiszir reported that the Financial Stability Forum has requested an IAIS working group to look at potential systemic risk via derivatives and how derivatives impact the global environment. He said that system risk has not yet been identified.

In closing, Commissioner Csiszir said that the IAIS plans to enter into a dialogue with CEIOPS.

INTERNATIONAL ACCOUNTING STANDARDS

Mr. Doug Barnert of Barnert Global updated the Committee on the development of international accounting standards. He reported that the International Accounting Standards Board (IASB) would adopt an interim standard for insurance contracts by late March 2004, which would be effective on January 1, 2005. He said that generally, the interim standard would allow insurers to continue to use their national methodologies while the IASB develops a permanent standard.

Mr. Barnert reported that neither the US Financial Accounting Standards Board (FASB) nor the Japanese accounting authorities are expected to adopt a "Phase I" standard developed by the IASB. He said that the EU, Australia, South Africa and other countries that have required

certified statements in accordance with international accounting standards by 2005 will adopt Phase I standards.

Mr. Barnert said that the IASB will also adopt revisions to its standards for financial instruments by aligning them with US standards. He said that the resulting requirement to fair value derivatives is very controversial in Europe. He said other concerns include problems in distinguishing financial instruments from insurance contracts. He said that EU standard setters may not approve such IASB standards because of this.

Mr. Barnert said the IASB has created an asset/liability mismatch by allowing continuation of cost accounting for liabilities (contracts) and at the same time allowing for fair valuing of assets. He said US GAAP accounting has this mismatch and the industry opposed it for that reason, among others. He reported that the American Council of Life Insurers (ACLI) and the International Actuarial Association (IAA) in a joint paper propose that such methodology will result in misleading financial statements and make it impossible to present a correct income statement or balance sheet. He said that additional studies will be forthcoming.

Mr. Barnert said that IASB, as one of its next priorities, would, with FASB, spend three to five-years in convergence efforts. He said that current convergence efforts have been limited to "low-hanging fruit." He said this included issues that would not require extensive changes and where IASB or FASB could conform easily to one another's requirements. He said the next efforts would be more challenging, with a goal of identical agendas for each group. He said some possible agenda items include revenue recognition, pension reform, disclosure of financial risk, and comprehensive statement of income.

Mr. Barnert reported that several US insurance trade associations in conjunction with other national groups have prepared comment letters to the IASB. He said that a group of insurance chief financial officers (CFOs) have formed the Group of North American Insurance Enterprises in order to communicate with the IASB the problems involved in applying fair valuing of assets. He said that the insurance trades and the CFOs plan to provide input to a task force of companies that the IASB has promised to form in order to help use knowledge of current national accounting in the development of acceptable standards.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:00 a.m.