

NATIONAL CONFERENCE OF INSURANCE LEGISLATORS  
INTERNATIONAL INSURANCE ISSUES COMMITTEE  
WASHINGTON, DC  
FEBRUARY 29, 2008  
MINUTES

The National Conference of Insurance Legislators (NCOIL) International Insurance Issues Committee met at the Hyatt Regency on Capitol Hill in Washington, DC, on Friday, February 29, 2008, at 11:45 a.m.

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

Other members of the Committee present were:

- Sen. Vi Simpson, IN
- Rep. George Keiser, ND
- Assem. Ivan Lafayette, NY
- Sen. William J. Larkin, Jr., NY

Other legislators present were:

- Rep. Kurt Olson, AK
- Rep. Michael Ripley, IN
- Sen. Jerry Klein, ND
- Assem. Joseph Hardy, NV
- Rep. Anthony Melio, PA
- Rep. Brian Kennedy, RI

Also in attendance were:

- Susan Nolan, Nolan Associates, NCOIL Executive Director
- Candace Thorson, NCOIL Deputy Executive Director
- Mike Humphreys, NCOIL Director of State-Federal Relations
- Jordan Estey, NCOIL Director of Legislative Affairs & Education

#### MINUTES

The Committee voted unanimously to approve the minutes of its meeting on November 16, 2007, in Las Vegas, Nevada.

#### UK AND EU REGULATORY DEVELOPMENTS

Brett Palmer of the National Association of Insurance Commissioners (NAIC) said the NAIC disagreed with arguments that the state-based insurance regulatory system left the insurance community lacking internationally. He said the states have played a constructive role internationally and reported that the NAIC has held an ongoing dialogue with European insurance regulators. He said this dialogue has led to memorandums of understanding (MOUs) with several countries to promote information sharing.

Mr. Palmer reported that European regulators were hoping to complete a framework to modernize their solvency regime before 2009. He said the International Association of Insurance Supervisors (IAIS) was working on a parallel structure to Solvency II that shared many of the same characteristics but was not identical.

Mr. Palmer commented on a move towards converging U.S. and international accounting standards. He said the U.S. Securities and Exchange Commission (SEC) had created a rule to eliminate a U.S. generally accepted accounting principles (GAAP) reconciliation requirement for non-U.S. companies that use international standards and that file with the SEC. He said the SEC was also considering allowing U.S. companies to file in accordance with international standards as opposed to using U.S. GAAP.

Responding to a question from Rep. Wald regarding a convergence timetable, Mr. Palmer said the chief accountant of the SEC, the chairman of the Financial Accounting Standards Board (FASB), and the chairman of the International Accounting Standards Board (IASB) had recommended that the U.S. move toward adopting an approved version of the International Financial Reporting Standards and doing away with U.S. GAAP in the next five (5) years.

#### UK FLOOD INSURANCE INITIATIVES

Dr. Claire Souch of Risk Management Solutions (RMS) said that flood insurance coverage was standard in United Kingdom (UK) homeowners' insurance policies and noted that its inclusion did not require additional premiums, policy limits, or higher deductibles. She said that due to heavy rains, the UK was prone to flooding and that flash flooding was a major issue.

Rep. Wald asked the percentage of a homeowners' premium that is related to flood exposure. Dr. Souch replied that, according to various rating systems, 30 to 40 percent of a premium is due to flood risk. She said the history of flood losses in the UK was nearly as high as wind losses.

Dr. Souch reported that following major flooding in 2000, the Association of British Insurers (ABI) and the Government agreed to terms through which the industry would continue to offer flood insurance for high-risk properties if the government continued—but also increased—investment in flood defenses. She said the agreement was extended in 2007 for five (5) years.

Dr. Souch commented that the UK Environment Agency (EA) would be the federal equivalent of the U.S. Environmental Protection Agency (EPA) if the EPA administered the Federal Emergency Management Agency (FEMA). She said the EA produced flood risk maps for all of England and Wales. She said the maps provided key publicly available information for insurers to use in risk-based pricing but noted that the maps had several problems, including that they did not cover sources of flooding unrelated to major river systems and that they did not account for future impacts of climate change.

Dr. Souch said an ABI commitment that insurers would give premium reductions to homeowners if they invest in flood resilient building has encouraged people to safeguard their homes. She further noted that mortgage lenders have agreed to extend loans to cover such costs, and that insurance companies would pay homeowners for rebuilding with resilient features following a flood event.

A Pitt Review followed major flooding in 2007 that, Dr. Souch claimed, caused approximately £3 billion in damages on 165,000 claims. She said the Pitt Review was launched to review and make recommendations regarding how the government and industry could work together in the future to make UK flood disaster more manageable and to improve disaster response. She outlined many highlights of the Review, including that flood insurance should take into account future climate change needs and that EA flood maps should address all sources of flooding. She described a new law that would require the EA to review planning applications to assess any flood insurance risk.

Responding to a question from Rep. Wald, Dr. Souch said business continuity insurance is not standard for commercial policies and noted that alternate living expenses are covered under a standard homeowners' policy. Rep. Wald then questioned the percentage of losses that are subsidized by the federal government. Dr. Souch replied that the federal government did not subsidize insurance companies for flood exposure. She said reinsurance is available through capital markets.

Rep. Wald followed with a question regarding how the UK addresses terrorism insurance. Dr. Souch answered that the UK does not have a federal program for terrorism insurance but that there is a separate, private reinsurance pool that has government backing when losses exceed what the pool can pay.

#### INTERNATIONAL ACCOUNTING STANDARDS

Ed Stephenson of the Group of North American Insurance Enterprises (GNAIE) reported that the IASB has been involved in a long-term project for the development of accounting standards for insurance contracts, specifically for liabilities that insurance companies hold on their books of business. He said the IASB had released an *Insurance Contracts Discussion Paper* in March 2007 and closed the comment period in November 2007. He said the IASB received 161 comment letters and noted that a great majority had raised serious issues with the accounting proposed by the IASB draft.

Mr. Stephenson commented that GNAIE identified concerns regarding permitting a gain at the inception of a policy; requiring insurers to determine what they could trade an insurance contract for on a market that does not exist; prescribing one model of accounting for all lines of insurance; and testing of IASB proposals. He said that as a general business rule the IASB rejects calls to test its proposals.

Mr. Stephenson urged U.S. state and federal policymakers, insurance commissioners, accounting standard setters, the SEC, and NAIC to engage in the international dialogue to provide U.S. insurers with representation in the standard setting process. He said the global insurance industry had been raising concerns for more than two (2) years and noted that the IASB discussion paper had not addressed critical issues.

Responding to an earlier question from Assem. Lafayette regarding European rating agencies, Mr. Stephenson said that rating agencies that look at European companies are generally based in the European Union (EU).

#### ADJOURNMENT

There being no further business, the meeting adjourned at 12:30 p.m.