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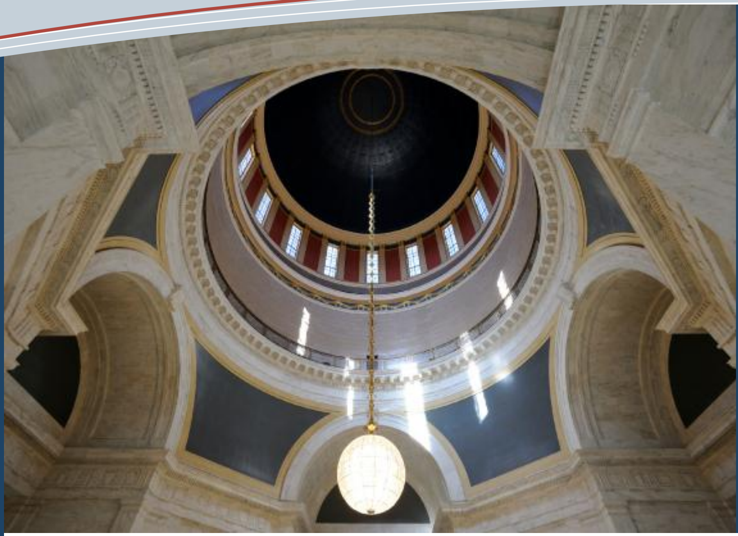
NCOILetter



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NCOIL SPRING MEETING
Feb. 27 to March 1, 2015
Charleston, S. Carolina

NCOIL to Examine Cyber Risk and Insurance Coverage

NCOIL legislators at their Spring Meeting in Charleston will examine insurer and other impacts of cyber risk—faced by any organization that utilizes technology for its business operations—and will consider how federal officials, state regulators, and industry are preparing. The Friday, February 27, session entitled *Cyber Loss and Insurance: What Happens when the "Big One" Hits?* will kick off NCOIL discussions likely continue throughout the year.

The event will examine what leads to cyber risk and will explore various issues related to cyber liability—such as what types of events insurers should be most worried about and what would happen if insurer reserves were cut significantly because of miscalculations regarding *(cont. p. 3 sidebar)*

Terrorism Insurance Backstop Lives Again

Making good on a promise to reauthorize the Terrorism Risk Insurance Act (TRIA) early in the 114th Congress after the Senate allowed it to expire on December 31, federal lawmakers passed HR 26 on January 8, later signed by President Obama on January 12. In line with NCOIL's strong belief that a backstop for terrorism risk is essential and with NCOIL efforts to encourage reauthorization of the program in 2014, HR 26 reauthorizes TRIA for six years. The legislation also makes various other changes to the program to, among other things, increase how much risk the private market will bear.

HR 26 raises the bar on when the program will kick in—from $100 million to $200 million in insured losses, a rate that will increase $20 million per year beginning in 2016. The federal government's mandatory recoupment will go from $27.5 billion to $37.5 billion, the result of $2 billion annual increases starting in 2016. The private industry recoupment total rises as well, from 133 percent of covered losses to 140 percent.

HR 26 requires the Secretary of the Treasury to conduct an annual study regarding the program's impact on small *(cont. on page 4)*

NCOIL to Explore Rising Costs of Specialty Drug Costs, Impacts

As drug prices continue to climb, at a February 28 special session in conjunction with its Spring Meeting, NCOIL will hear expert insight into why drug prices are so high – and into what the cost of specialty drugs means for patient care, state budgets, and future innovations.

The session, entitled "Drug Prices: How Much Is Too Much? And Where Will States Draw the Line?" will feature Jonah Houts, Vice President of Consumer Affairs for Express Scripts, who will provide an overview of a 2013 Drug Trend Report that examines costs for prescription drugs concerning a host of health care problems – including, among others, diabetes, heart disease, depression, cancer, and pain management.

Daniel Durham, Executive Vice President for Strategic Initiatives at America's Health Insurance Plans, will provide an insurer perspective; Lori Reilly, Executive Vice President, Policy & Research at the Pharmaceutical Research and Manufacturers of America (PhRMA) will weigh in on behalf of drug makers; *(cont. on p. 2 sidebar)*

NCOIL to Explore Rising Costs of Specialty Drugs…

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and, among others, John Rother, Executive Director of the National Coalition on Health Care, will represent entities including consumers, providers, medical societies, pension and health funds, and others.

While specialty drugs gener-

ally have cost more than regular prescription drugs, the rate at which specialty drug prices continue to climb has been a matter of concern. The drug Sovaldi, for instance, which is used to treat Hepatitis C, costs approximately $84,000 for a 12-week treatment.

The 10:00 to 11:30 a.m. NCOIL session will expand on previous NCOIL discussions regarding drug costs and is envisioned as a potential starting point for further action in 2015. ■

Federal Insurance Office (FIO) Releases Report on Reinsurance

In the waning hours of 2014, the Federal Insurance Office (FIO) released without fanfare its Dodd-Frank Act–required report on the reinsurance industry, entitled *Breadth and Scope of the Global Reinsurance Market and the Critical Role Such Market Plays in Supporting Insurance in the United States.*

The December 31 report speaks at length of the significant role that the global reinsurance market plays in supporting the U.S. insurance industry. It gives an overview of the history of reinsurance as a product and an industry—and describes the various functions and types of reinsurance as well as explains how reinsurers are regulated here in the United States.

While a December 2013 FIO report on how to modernize insurance oversight in this country—entitled *How to Modernize and Improve the System of Insurance Regulation in the United States*—offered a number of controversial recommendations, this latest FIO study by comparison is far more low-key. It does provide, however, interesting information, such as that noted below.

» Hurricanes Katrina, Rita, and Wilma in 2005 resulted in about $90 billion of U.S. insured property losses, of which non-U.S. reinsurers paid approximately $59 billion.

» Global reinsurance premiums are only a small fraction of direct insurance premiums (less than 5 percent), and reinsurer assets are a small fraction of overall insurance industry assets.

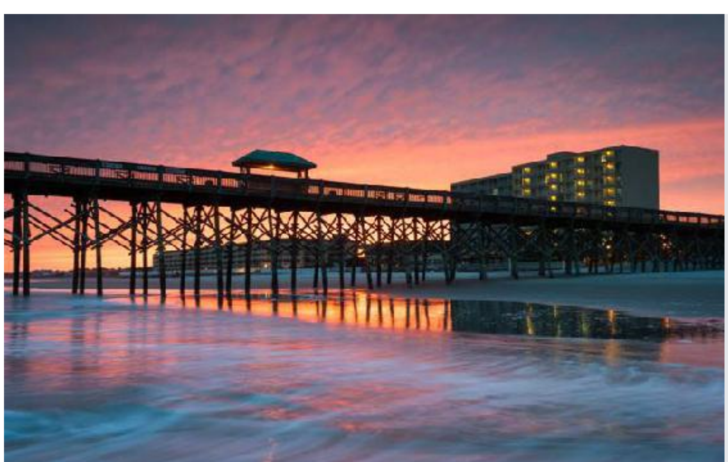
» The bulk of reinsurance purchased by U.S. insurers is from non-U.S. reinsurers.

» By market capitalization, the entirety of the reinsurance industry approximates that of just the top two primary insurers.

» Other than U.S. subsidiaries of offshore companies, no new U.S.-domiciled reinsurer has been formed in more than two decades,

» Over 27 percent of worldwide reinsurance premiums are written by German companies. The London market is nearly 9 percent, the rest of Europe approximately 10, Bermuda and the Asian Pacific regions roughly 11 each, and Switzerland and the Americas (the U.S., Canada, Latin America) roughly 15.5 each.

» The reinsurance industry primarily consists of approximately 50 large, professional reinsurers and reinsurance groups, as well as many smaller reinsurers.



NCOIL to Put in Motion a Proposed Model Law to Regulate Commercial Ridesharing

On March 1, legislators at the NCOIL Spring Meeting in Charleston, South Carolina, will move forward with a proposed model law that would set rules for how transportation network companies (TNCs) such as Uber and Lyft can operate throughout the country. Review of the proposal, which will be a featured item on the NCOIL Property-Casualty Insurance Committee agenda, comes as local governments, states, and global officials struggle to determine the best way to regulate the controversial and increasingly popular commercial ridesharing industry.

The proposed model act is being sponsored by Rep. Michael Stinziano (OH) and would require insurance protection for TNC passengers and for the public from death, injuries, and damages caused by TNC drivers. The draft would say when and under what circumstances a TNC company's commercial auto insurance provides primary coverage.

Requiring that TNC drivers pass appropriate background checks, the proposed model law also would set requirements for insurers that provide commercial auto coverage for TNC drivers. In particular, under the model such an insurer would need to be authorized by the state regulator to operate in that state and be rated for solvency by A.M. Best or Demotech.

Debate over the draft model during the P-C Committee's 7:30 to 9:00 a.m. meeting will build on an NCOIL Annual Meeting session in which representatives of the CA Dept. of Ins.; Uber; James River Insurance Co.; the Taxi, Limousine & Paratransit Assoc.; and PCI debated insurance coverage, safety, licensing, and other issues. ■

NCOIL Spring Meeting Tentative Schedule

FRIDAY, FEBRUARY 27

7:00 a.m.	-	8:00 a.m.	Officers & Chairs
8:00 a.m.	-	9:00 a.m.	Legislator Newcomer Welcome
9:00 a.m.	-	10:00 a.m.	Workers' Compensation Insurance Committee
10:00 a.m.	-	11:30 a.m.	Health, Long-Term Care & Health Retirement Issues Committee
11:30 a.m.	-	12:45 p.m.	Keynote Luncheon
12:45 p.m.	-	1:45 p.m.	State-Federal Relations Committee
1:45 p.m.	-	2:30 p.m.	NCOIL-NAIC Dialogue
2:30 p.m.	-	3:45 p.m.	*International Issues Task Force/International Ins. Issues Comm.*
4:00 p.m.	-	5:30 p.m.	*General Session on Cyber-Loss and Insurance*
5:45 p.m.	-	6:30 p.m.	IEC Board Meeting
6:30 p.m.	-	7:30 p.m.	Sponsored reception in conjunction with NCOIL meeting

SATURDAY, FEBRUARY 28

7:00 a.m.	-	8:00 a.m.	Business Planning/Bylaws Revision/Membership Committees
8:00 a.m.	-	9:00 a.m.	Life Insurance & Financial Planning Committee
9:00 a.m.	-	9:45 a.m.	Legislators' Roundtable
10:00 a.m.	-	11:30 a.m.	*General Session on Specialty Drug Prices, Impacts*
11:30 a.m.	-	12:45 p.m.	NCOIL Institute for Ins. Policy: Legislator Luncheon Workshop
12:45 p.m.	-	1:45 p.m.	Financial Services & Investment Products Committee

SUNDAY, MARCH 1

7:30 a.m.	-	9:00 a.m.	Property-Casualty Insurance Committee
9:00 a.m.	-	10:00 a.m.	Executive Committee
		10:00 a.m.	Adjournment

NCOIL to Examine...

(cont. from page 1)

potential loss. Speakers will look at what the federal government and state insurance regulators are doing to ensure that companies, and ultimately consumers, are prepared.

Panelists are to represent the Dept. of Homeland Security (DHS), a Dept. of Defense contractor, state insurance regulators, an insurer writing cyber liability coverage, and the American Bankers Insurance Association (ABIA), among others.

The 4:15 to 5:45 p.m. discussion could be a starting point for further NCOIL conversation, including possible development of NCOIL model legislation, and will take place following federal cyber-security efforts early in the 114^{th} session.

On January 13, the White House sent to the U.S. House and Senate its proposal, revised from a 2011 version, that would protect private-sector companies from liability when they share data regarding cyber threats. The Administration proposal also would apply the *Racketeering Influenced and Corrupt Organization Act* (RICO) to cyber crimes and would require companies to notify consumers when their personal info was exposed during a data breach.

Efforts also were underway in the U.S. House and Senate. ■

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Terrorism Insurance Backstop…

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insurance-market competitiveness, as well as a study regarding streamlining the process for certifying that insured losses from a terrorist attack are significant enough to activate TRIA.

Under HR 26, the GAO must conduct a study, no later than two years after the law takes effect, regarding the “viability and effects” of having the federal government institute certain terrorism insurance practices used in other nations, such as collection of up-front premiums. Insurers participating in TRIP must report data regarding terrorism insurance coverage yearly, beginning in 2016.

Although the insurance, real estate, and other industries breathed a collective sigh of relief when HR 26 became law, certain experts raised concerns regarding the potential impacts of the new requirements on small insurers. Standard & Poor’s, for instance, has suggested that by doubling the threshold for activating TRIA—from $100 million to $200 million—and by raising deductibles and other amounts, HR 26 could mean that small insurers see little, if any, reimbursement from the program should a TRIA-qualifying event occur.

In addition, it also has been pointed out that HR 26, in technical terms, extends a law (TRIA) that was allowed to expire on December 31, rather than simply continues the Terrorism Risk Insurance Program (TRIP) itself. ■