NATIONAL COUNCIL OF INSURANCE LEGISLATORS
FINANCIAL SERVICES & MULTI-LINES ISSUES COMMITTEE
NEW ORLEANS, LOUISIANA
NOVEMBER 18, 2022
DRAFT MINUTES

The National Council of Insurance Legislators (NCOIL) Financial Services & Multi-Lines Issues Committee met at The Sheraton New Orleans Hotel on Friday, November 18, 2022 at 9:00 a.m.

Representative Edmond Jordan of Louisiana, Chair of the Committee, presided.

Other members of the Committee present were:

Rep. Rod Furniss (ID)
Rep. Matt Lehman (IN)
Rep. Craig Snow (IN)
Rep. Joe Fischer (KY)
Rep. Bart Rowland (KY)
Rep. Brenda Carter (MI)
Sen. Jerry Klein (ND)
Sen. Shawn Vedaa (ND)
Asw. Pam Hunter (NY)
Sen. Bob Hackett (OH)
Rep. Brian Lampton (OH)
Rep. Forrest Bennett (OK)
Rep. Tom Oliverson, M.D. (TX)
Rep. Jim Dunnigan (UT)
Sen. Eric Nelson (WV)
Del. Steve Westfall (WV)

Other legislators present were:

Rep. James Kaufman (AK)
Rep. Tammy Nuccio (CT)
Rep. Kerry Wood (CT)
Rep. Carolyn Hugley (GA)
Rep. Cherlynn Stevenson (KY)
Rep. Rachel Roberts (KY)
Rep. Michael Sarge Pollock (KY)
Rep. Brian Lohse (IA)
Rep. Jonathan Carroll (IL)
Sen. Robert Mills (LA)
Sen. Lana Theis (MI)
Sen. Paul Utke (MN)
Sen. Walter Michel (MS)
Sen. Michael McLendon (MS)
Sen. George Lang (OH)
Sen. Jay Hottinger (OH)
Asm. Kevin Cahill (NY)
Asm. Jarett Gandolfo (NY)
Sen. Bill Gannon (NH)
Sen. Mary Felzkowski (WI)
Sen. Mike Azinger (WV)

Also in attendance were:

Commissioner Tom Considine, NCOIL CEO
Will Melofchik, NCOIL General Counsel
Pat Gilbert, Manager, Administration & Member Services, NCOIL Support Services, LLC

QUORUM

Upon a Motion made by Rep. Brian Lampton (OH) and seconded by Rep. Jim Dunnigan (UT), the Committee voted without objection by way of a voice vote to waive the quorum requirement.

MINUTES

Upon a Motion made by Rep. Brenda Carter (MI) and seconded by Sen. Jerry Klein (ND), the Committee voted without objection by way of a voice vote to adopt the minutes of the Committee's July 14, 2022 meeting in Jersey City, NJ.

DISCUSSION AND CONSIDERATION OF NCOIL INSURANCE REGULATORY SANDBOX MODEL ACT

Rep. Jordan stated that we've been discussing this issue since our summer meeting of last year and now we are ready for a vote. Before that I'll turn things over to the sponsor of the Model, Rep. Bart Rowland (KY) for some brief remarks. Rep. Rowland stated that he is proud to sponsor this Model and he appreciates everyone's work on it throughout the process. You can view the model on the website and on the app and it also appears in your binders on page 134. This really was a collaborative and deliberative process as we started with a draft that looked a lot like the Kentucky sandbox law that was passed a couple of years ago but we made some changes based upon feedback from both legislators and interested parties. To reiterate for those who may be new to the discussion, this Model and the similar sandbox laws across the country permit the Department of Insurance to waive certain regulatory and statutory requirements with the main goal of reducing hurdles for companies that want to introduce new concepts and products at the same speed as insurance technology develops. Several states have adopted these types of laws and I believe that with the NCOIL Model passing it will serve as a spark for more states to do the same thing.

J.P. Wieske with the American InsurTech Council (AIC) stated that the AIC supports the Model and the work that's been done and we look forward to hopefully a favorable vote on it in the states. Rees Empey, Director of Government Affairs at The Libertas Institute thanked the Committee for its work and stated that this is two years in the making and he is thankful to be part of this process and looks forward to a favorable vote and hopefully some states adopting similar models. Wes Bissett, Senior Counsel with the Independent Insurance Agents & Brokers of America (IIABA) stated that I just want to echo the comments made by the two gentleman a moment ago and thank Rep. Rowland for his leadership on this both in Kentucky and now at NCOIL. We really appreciate the works that has gone into this and would also urge a favorable vote this morning.

Del. Steve Westfall (WV) stated that West Virginia passed a version of the Model a couple of years ago following Kentucky's lead and I'm glad to see that other states possibly can do this. I think it's a great thing for insurance.

Hearing no further questions or comments, upon a Motion made by Rep. Joe Fischer (KY) and seconded by Sen. Bob Hackett (OH), the Committee voted without objection by way of a voice vote to adopt the Model.

DISCUSSION ON THE DEVELOPMENT AND USE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE SCORES

Rep. Jordan stated that we'll now move on to the discussion on the development and use of ESG scores. This is a topic that I'm very interested in and I hope NCOIL will continue to discuss this going forward. Today's speakers will be able to provide us with a high-level overview on how their respective organizations use ESG scores.

Peter Giacone, Sr. Managing Director at Kroll Bon Rating Agency (KBRA) thanked the Committee for the opportunity to speak and share the views of my firm. For those who are not aware, KBRA is one of the newer rating agencies that serves the capital markets. We were founded 11 years ago by Jules Kroll. Some people confuse us with Kroll the investigation firm. We are not affiliated with them in any way shape or form. We are a Nationally Recognized Statistical Rating Organization (NRSRO) which makes this effectively the equivalent of providing the sort of service to the capital markets such as S&P, AM Best, Moody's, and Fitch. So we are peers of those companies and have over the last few years we've expanded our practice quite dramatically. When I joined the company about seven years ago we had 170 employees and we are now up to over 500. We are a global firm covering every major asset class in the credit market and everything in the structured finance side that you can think of as well as on the corporate and financial institutions and government side as well. We have a huge public finance practice. We rate many of the state's sitting in this room today as well as many of the municipalities within those states. And finally the area that's near and dear to my heart - the insurance practice. And that's the part that I'm responsible for. I'm the global head of insurance ratings for KBRA, which means that we provide financial strength ratings currently for over 150 companies. Most are published with some that are unpublished and you can go to our website and take a look at those anytime. And the coverage of our firm across the capital markets is quite extensive and in fact the U.S. Securities and Exchange Commission (SEC) because we are an NRSRO and regulated by the SEC, this most recent every year the SEC put out a report and in that report they talk about the state of the rating agency market and they list all of the companies and this most recent year they made a change in the way they described the market.

One is they used to have sort of the big three rating agencies, S&P, Moody's and Fitch, and everybody else. This year they sort of fine-tuned their categorization to say well we have the big three and that we have medium-sized firms and those are AM Best, KBRA and DBRS and then you have everyone else after that. So we rate probably over $2 trillion dollars of paper in the capital markets so we are a major player there. Some folks still have not heard of us but we are a rapidly growing firm and the opportunity to come in here and speak to you today about the approach that we've taken on ESG is one of the reasons we have grown so fast because our growth in ESG and the approach to it is very similar to the way we approach credit ratings more generally which is on a more holistic basis and providing a different perspective. Looking at our insurance practices I mentioned we have 150 ratings that covers everything from small fraternals out in the Midwest all the way up to Lloyd's of London and I mention Lloyd's of London because they added us as a fourth rating agency to provide a different perspective on credit. So moving to ESG, it is a big topic. It is in the news pretty much everyday and we set out to look at how KBRA as a firm was going to address this issue because our constituents are our policyholders in the case of insurance financial strength ratings and more broadly investors in the case of the credit ratings that we provide. We went out and asked them specifically, investors, and said this ESG thing seems to be pretty big - what would you like us to do? What would be helpful to you? And the first thing they said to us is no scores. You're credit analysts. You are not in the business of coming up with value-based judgements around ESG. We don't need another set of scores out there. What we need is maybe for you to incorporate something into your credit ratings but please don't provide another score.

So we took that to heart and our approach to ESG is to look at it through the lens of ESG management and by the way I should mention that this is for the record that all of our methodologies and a lot of the comments I'm making today regarding ESG and our credit ratings more broadly are all available free of charge on our website KBRA.com and I encourage everyone in this room who covers the insurance industry at least to go to register with the website. You can get notifications for free of everything that we're doing and you can check off when you register what areas you are interested in and not just insurance but other areas and certainly ESG. So if you're interested in what we're publishing on these topics please go to website and the vast majority that stuff can be obtained free of charge including our approach to ESG. And we've been publishing a lot on this topic. So, stepping back, how do we look at ESG? Again, we look at it from an insurance company perspective and broader across our whole firm is based on ESG management. So whether it's environmental, social, or governance all of these things we believe are management issues for organizations whether they be municipalities, whether they be insurance companies, to manage as they do any other risk. So when we think about our approach to this we go through a very diligent, a very detailed due diligence process and we asked our companies, what does climate change impact have with respect to your business? When it comes to social, we tend to focus on stakeholders. What are your stakeholders demanding of you? What are they asking of you? Who are your stakeholders first of all and what are they maybe asking on these issues? And when it comes to governance we've tended to focus mostly on cybersecurity because all three of these frankly are very broad topics and we've tried to focus on just the three as I've described. So when we talked about environmental we tend to focus mostly on climate change. When we go to social issues we tend to think more in terms of stakeholder and transition risks. And when we go to governance we tend to focus primarily on cyber.

But again, we do not do scores. We don't think it's our job as a rating agency to make value-based judgments on these topics. These are very important topics. I'm not disputing that. I think most of the market would agree. But our job is to talk about credit. So when I put a single A rating on an insurance company, that is a very specific meaning. It means the probability of default over a specified time period. And you might ask well where'd you come up with those numbers? Eighty years of corporate default data is where I came up with that. I didn't just make it up. I went to the statistics and I came up with that and so the whole market understands when I say single A what that means and what that implies with respect to the probability of default. Now if you step back to an ESG score and there are lots of them floating around up there in my competitors none of whom are here today but I can talk about them. A lot of them have come up with these scoring rubrics and have assessed those scores and perhaps most damaging to the market they have actually then taken those scores and then linked them to the credit rating process. And that we feel is improper and inappropriate for the simple reason that there is no data to support most of those scores. There's certainly no 80 years of corporate default data and we think it's very misleading and if you ask me quite honestly I think a lot of those scores are just frankly made up and so we're not in the business of making up scores. We're in the business of assessing credit risk and providing those signals to the market based on real data and real research and real analysis.

So we've tended to step back. We don't say these issues are not important, they are, but when it comes to insurance companies specifically and even more broadly we incorporate them in the context of ESG management and with insurance companies specifically ESG risk management. And if you go to our website and you pull any of the published reports that we have on any entity that is rated by KBRA there will be a section in that report at the back or maybe in the front depending on how relevant it is that talks about ESG but qualitatively. And specifically what aspects of those three topics might have a linkage in some degree, shape or form to credit risk and what our assessment of the credit of that company or entity is. So, I'm going to turn it over to my colleague here who has some things about what they do at Marsh to kind of help get some ideas and get some concrete assessments of these things together which I think is certainly helpful to the market but from a rating agency perspective, we don't feel it's our place to make value-based judgments. It's not for us to decide and tell you well here's how many folks of color or how many women you should have on your board in order to achieve a certain credit rating. That's not our business. Maybe having diverse boards is a very good thing but I certainly don't have enough data or analysis to make an analytical judgment on what impact that has on credit except potentially in specific cases and if in the course of those conversations when we're doing our diligence if we feel there's something that is relevant to credit, we'll disclose it on our rating report for the whole world to see and then folks can make their own judgment. Investors and policyholders can make their own judgment based on the information we provided on ESG and how that entity is handling and addressing and looking at that and we share that with the market in the spirit of transparency and then let the investors and policyholders make their own judgments as to whether that's efficient or not.

Dave Carlson, Managing Director of U.S. Manufacturing and Automotive Industry Practice at Marsh McLennan thanked the Committee for the opportunity to speak and stated that in addition to his manufacturing and automotive work he also leads ESG in the U.S. and Canada and he's very pleased to be here today. You might hear me today and think that I'm contrary to what Mr. Giacone is saying, but I'm not. And I'm going to get to that point. Marsh McLennan is the world's largest insurance broker and risk management advisor. As such, we have found that ESG climate sustainability is a boardroom level discuss that crosses every level of risk. As such, we found and find it paramount for us to be able to help our clients on that journey. Some are in a different place. Others are in another place. And we just have to find that common ground to ensure that we're providing risk management services that align with what our aspirations for our clients are. So today I'm going to talk about our ESG risk rating tool, what it means, why we built it and really try and give an idea of how that works and what it could be utilized for. So very quickly we're going to talk about the insights on ESG - score outputs, controls, reporting resilience framework, benchmarking. Then some differentiation - why is this tool different than other rating tools? And then the insurance applications. So what I want to highlight is what the output of the tool looks like. Many people want to see something that they can tangibly hold and really what the ESG rating tool does is it takes an aggregation of 160 questions under 18 components and gives a relative score of an E an S and a G. It also gives an aggregated score. Under that we put in a risk management framework that we've highlighted with controls of reporting of resilience. Resiliency is something that's become incredibly important to organizations after COVID as COVID exacerbated many things: supply chain issues, insurance issues, liquidity. And as an organization around risk we felt that resiliency was critical for our clients and so we added these components to help our clients understand how they could actually manage these risks that are identified.

This is an example of the output. Again our clients see this when they take the rating assessment survey. There's 160 questions and I'll get to what built the survey but then they get a dashboard that highlights red, green, yellow. Everybody loves red, green, yellow as it's very easy and it's very visual and they can understand kind of where they are as far as world-class or something else. Perhaps there's places where they need to build a little bit more resiliency and other places meaning red where they really have no controls whatsoever and that's ok. This is a new topic. I got a degree in environmental engineering and science in 1994 and I'm still getting the opportunity to use this. So we're starting a push in the world around this topic that has many aspects and an impact in the insurance world. And these are not new things and let me give an example here. When you see for instance natural catastrophes such as floods, fires and other things - that risk has been around a very long time. There is insurance for property - asset protection, contingent business interruption, business interruption. These aren't new topics, but when put in the context of ESG we're seeing that many rating agencies are scoring them. Banks, creditors, capital providers, insurance companies. Hence why this standard is becoming more prevalent. Hence why organizations are saying we need to know where we stand. I will tell you right now the score is irrelevant in my opinion. It's the actions that companies take when they find gaps that's what's most important. A score could be anything. Numbers can tell you whatever you'd want them to tell you. You can tweak them any way you want but the reality is it's the actions that an organization takes to improve their resiliency from a risk management perspective.

Basically this is a benchmarking analysis that we look at and we do it across industry, we do the cross global region and really right now the Continental Europe in the European Union (EU) is much further ahead than the U.S. and other parts of the world. They've been much more vigilant in this and standards like SASB and others have been created over in Europe. And you might have heard of the task force on climate financial disclosures or TCFD. One of our sister companies actually helped craft a lot of the frameworks of that standard. But the reality is there are many global registration standards out there and not one common theme and that's I think to what Mr. Giacone was saying is which one makes the most sense for you as an organization? I don't have an answer for that but I know in the U.S. many of you heard about the SEC rule that's proposed that would require large publicly traded companies to disclose on greenhouse gasses and other emissions and their scope one through scope three emissions. Again what that really means to an organization - in time we'll find out. But we just like to highlight that when you benchmark you collect data and it's only as good as what you put into it and how you analyze the data. So this is an example of how we analyze the data. Here's where I think some of what Mr. Giacone was talking about is important. Our tool was created around the different standards around the globe. There are sums like MSCI, Sustainalytics, Refinitiv, S&P Global, Arabesques-ray, and then there's our rating tool. What we try to do is take all of those and put them into one context. So for instance MSCI scores AAA and CCC. Okay, so they have a numeric or an alphanumeric. Then we have others that have a numeric scoring from 100 to zero. Then ours is ten to zero. So you can see there's already some ambiguity there. We get it. We understand. But from a risk management perspective when you look at risk analysis tools you know failure modes analysis, frequency, severity, likelihood of occurrence - companies are used to that. They're used to risk assessment tools in the insurance marketplace. Hence why we built ours the way we did. So I'm not going to go through everything as that's a lot of information but there are many standards and we tried to create ours in a way that was a comprehensive look.

So when we look at the insurance applications. ESG underwriting information is promoting standardization of information requirements to the risk tool as a tool to communicate should the client wish to. The framework allows clients to narrow their ESG conversations in areas relevant to them and their industry. When the insurance company starts to ask questions around it they're going to need to have an answer. Ignorance will not be bliss. And so we're trying to help our clients have some type of answer. One example is on directors and officers liability, we have a unique product that we've created for ESG that has direct relations to directors and officers and potential litigation around greenwashing as another form ESG could have. There's over 1,800 claims globally that have been sent out or had been filed and it's things as easy as books and records and others that can be very expensive to organizations that have no endorsements and there's no coverage. We've created a specific coverage for that to help our clients and there are two law firms and I think eight different insurance companies now that will accept it. If you submit your score from taking the rating tool the insurance companies will actually provide loss control services free of charge to help you correct those corrective actions. So we're starting to see this push very similar to other forms of insurance. With differentiated outcomes carriers can leverage the rating tool to provide enhanced outcomes as I was just saying. They can discount a premium finance. They can open greater assets and allow higher retentions and other forms of higher towers and greater reforms and additional capacity as well because you're a good risk in their view. And then finally, there is improved understanding of a ESG risk profile. It's a correlation between ESG performance and underwriting performance and it improves the industry's risk understanding of what ESG is and what it is not.

With completing the tool, it's a survey. It's 160 questions and there's 18 themes. We've tried to make it as robust as possible and again this is just an example of the 18 themes and where we're trying to highlight for clients where they have places that they can improve and whether it's an E an S or a G. And then documents that clients use many times are their annual reports and their corporate social responsibility ESG sustainability reports. This is just an example of how people would take it. You actually review the full question set, you complete the key document. This document then gets sent to Marsh McLennan to get assessed. We then contact the client and we do a risk assessment review with the client and then we start to create a strategy around how they address their ESG. It's very simple and very common to any other risk assessment tool. These are many of the what we call the ten different recognized international standards such as the International Organization for Standardization (IOS), European Union Taxonomy for Sustainable Activities, World Economic Forum, and the Global Reporting Initiative. Just to highlight the different agencies that are out there and again to Mr. Giacone's point, we do have all this on our website and people can go and look at our climate sustainability hub and they can review all this content at their leisure. Now I'm done with my general comments and I do appreciate everybody's time but many people ask - the question sets themselves are broken into many different themes and we try and color code and try and highlight everything in an insurance context. Everything we're trying to rate is through an insurance perspective so I just wanted to highlight that there's a method to the madness behind that. I truly appreciate the time today and hopefully that gives everybody an understanding of the risk assessment tool that is out there that we've created to serve our clients in the insurance and risk management world.

Rep. Matt Lehman (IN), NCOIL Immediate Past President stated that you finished your presentation by saying a risk assessment tool and yet I saw where Liberty Mutual gives me a discount so is it becoming a pricing tool as well? And then you said companies are asking where they stand but compared to what? What other industries outside of insurance are going down the path of tying this to a rating or some sort of financial incentive? Mr. Carlson stated that those are good questions. First, it's not a discount, it's performance-based so they'll use the rating and they could potentially give premium reductions or create capacity so you can get more insurance if they think you're a good risk. Again it's very similar to think of the world of workers compensation if you have safety management systems and you have a low employee experience modification rate and robust casualty programs, most markets would be willing to provide higher capacity and maybe take low retentions. That's what the tool does. The tool just creates an awareness of where that organization is. And to your second question, probably one of the most accepted standards is the TCFD. Most companies want to know where they stand with that but there are many others that I mentioned and that's the whole point - there is no consistent standard yet. Now the U.S. is trying to pass the SEC rule which will create a reporting requirement that will be a framework around the TCFD so if there was one standard that's probably leading out there TCFD is probably one of them

Sen. Bill Gannon (NH) stated that a small district so when my people here these ESG numbers we're thinking you're saying to people you're going to have to divest in your oil and your natural gas and all these terrible dirty things but our natural gas prices have doubled in the last year in New Hampshire. Our transportation costs are going up. Right now we have 300 years of natural gas in Pennsylvania in the ground. I'm thinking if I could get a big pipeline I could take care of a lot of my problems in New Hampshire. But what you're doing with these ESG scores and you can help me if I'm wrong is you're telling my constituents, middle American families, that we're going to have to get away from natural gas and as I understand it's much cleaner than most fossil fuels. And that's what is heating and turning our turbines in New Hampshire. To me and to my constituents you're saying you're going to have to just suck it up and double electric and heating prices. And you're sending all these businesses into that field. Tell me where I'm wrong so I can tell my voters that. Mr. Carlson stated that I love your passion first of all for your people. The reality is that's not what we're saying. There is an opportunity in every risk. What we're saying is there's a responsible way to transition and it has to take time and it needs to be methodical and it needs to take care of the people. There's an S in there, right? That's societal. That's people. So it's not just let's go out and change the world - we know you can't flip a switch. An example would be electric vehicles - every major automotive company in the world is trying to go towards electrification. Why? To meet certain standards and reduce what they believe are climate-changing greenhouse gasses. The reality is we still need fossil fuels, we still need internal combustion engines. We can't do all the charging that works in the world without electricity. We don't have enough capacity in the U.S. to do it right now. If we flip the switch and add five million electric cars in the market, we wouldn't have enough charging stations or electricity to do it. So the reality is we need a transition plan and it's got to be methodical and it's got to work for everybody. That's the reality. This rating system is nothing more than showing people where they stand against 160 questions. What they choose to do with it, how they choose to do it, and how often and what they try and correct is up to them as an organization.

Sen. Gannon stated would you say that we're going too fast though as my energy costs have doubled for my people to heat their home. And we see all this natural gas in Pennsylvania and we want it so do you think you're going too fast in this direction? In your electric cars and electric vehicles I have a little place Naples and they all lit on fire after the floods receded from the saltwater. I'm worried that we're going a little too fast in all these directions where all these cars are catching on fire that got the salt in them. I'm worried that the salt's going to corrode and get into my electric cars in New Hampshire and long-term we're going to have a lot of problems and we're going a little fast. Mr. Carlson stated that I won't say we're going too fast. I think there's aspirations in every industry and every market has a different aspiration in a different way that they're approaching it. Some can move quicker than others.

Rep. Forrest Bennett (OK) stated you said something about if you take this assessment you can submit your scores to insurance companies and some of them will give you sort of a roadmap to fill those gaps. Can you give us some more specific examples of maybe companies that have done that and what the benefit has been? Mr. Carlson stated that it's really not anything new it's a new risk and they're putting in a new context. So for instance if you were submitting a score and one of the insurance companies said, okay we see you have a gap let's say in fire protection standards and you might be in a place that has high wind storm and high fire rates and it's been going on. They could say we can help you create a more robust resiliency plan around your property program with better fire suppression equipment. Maybe they can help you with something like an engineering assessment in a different part of the country in a different part of that state to find a place that isn't as prevalent as far as those risks. So those are the kind of things that they're doing. It's not a completely new look at a property risk. It's taking property risk and looking at it through the lens of that environmental impact a little bit better. So that's what they're doing, they're just trying to offer loss control services to fill gaps and help them.

Mr. Giacone stated that on that point from a credit rating agency perspective it isn't that new, these are issues where if you talk to any Florida insurance company we rate a lot of them and we have questionnaires and our approach on the rating side is not very different. It's very similar in that we go through and we have a diligence discussion with the management team and we ask them a series of questions. And again, it's not all value based judgment not to say that that's good or bad it just is and we ask how does that relate to your overall risk management framework? And how does it fit into the way you run your business? So, if I'm having my manager meeting with a Florida company and ask if they thought about climate risk they say yes we've been thinking about it for 40 years because we have hurricanes that blow through here every now then you might have noticed. So it's not necessarily that it's new but it is getting a lot of attention and like any other emerging risk that an insurance company needs to manage we get risk registers. We get heat masks and we get own risk and solvency assessments (ORSA). I think the people here probably are familiar with that. Risk assessment a great tool. These things around ESG are now embedded within particularly for larger companies and to the extent they are relevant to individual companies are embedded within the risk management frameworks. And so we asked questions about that and get that information and get it out to market so then people came make their own judgment. So it's not about directing traffic it's not making policy decisions. That's for the people in this room and for folks sitting in the legislative houses and in executive offices of various governments to make regarding the determination as to what the public policy will be. Our job as a rating agency is kind of like an umpire on the field at the game. We're just going to call what's there, what we see that's relevant from a credit perspective but steer clear from making any sort of public policy pronouncements or judgments and driving companies to do one thing or another because companies, and you all know this, are very idiosyncratic and they're very different. A variable annuity writer in the Midwest is very different from a natural catastrophe property-casualty writer in Florida. And so painting with one brush and saying here are the standards you need to do in order to get a single A rating is not right and we don't want to drive that sort of behavior. It's not our job. Our job is to call credit as we see it and to the extent we think ESG might be relevant to credit we''ll talk about it. It'll be in our report. We'll disclose it. But it's early and as my colleague here was saying there's a lot out there. There's a lot of disclosure that's just barely evolving. We don't even have a common language about many of these issues because there's so many different tools. The tools you guys are describing sound great. That's certainly one. And sooner or later a standard or two will emerge kind of like we have with risk based capital (RBC) as the standard for everybody in this room that is familiar with. That's a single common benchmark at least within the U.S. in terms of how life and P&C companies get viewed from a regulatory perspective. We don't have anything like that today so the notion that it would come from rating agency just doesn't make any sense. This is great and important stuff and we love being part of the discussion. We think it's a very important risk management aspect but again it's not going to be a one-size-fits-all approach and we're going to evaluate these risk factors in the same way we do any other credit relevant risk factors within the context of the companies and how they operate.

Rep. Bennett stated that I appreciate that and it kind of speaks to my follow-up in that you talk about common language. As policymakers it seems that we're speaking two different languages on this issue oftentimes. And one of the things that I hear, such as from Sen. Gannon who's passion I appreciate, is that you are forcing this and from what I'm hearing from you is that at this point it's very much a voluntary thing and an opt-in kind of thing and I wonder if you see that changing at all or if at this point it really seems to be an opportunity for companies who think that perhaps it will give them an edge in the future to take advantage of that now. Mr. Carlson stated that's exactly my point and you said it very well. This is a voluntary standard. Creating a corporate social responsibility report or an annual sustainability report is a voluntary standard that organizations take upon themselves. There may be industry standards and best practices that they feel they need to follow but many feel kind of like what happened with Sarbanes-Oxley after Enron. This was something that was developed; it was a tool. There was management liability insurance but Sarbanes-Oxley came along and became the sledgehammer. Many are equating that to what ESG is. They're looking at that and saying down the road it could become a business advantage. It could become a business enablement tool for us to become more resilient as an organization. Again, from a risk management perspective I'm not telling anybody how to manage their utilities or they're coal usage. What we're doing is we're helping with the risk assessment tool to identify risk and how you mitigate it. You either transfer it with an insurance product or you retain it. That's what you do with risk. And that's all we're saying and some people may benefit from that and have an advantage over their peers and others may have a wait-and-see attitude.

Mr. Giacone stated that I would add the level of conversation around these topics has grown dramatically. I recall even as recently as three years ago having management meetings and saying there's a thing out there called ESG, what are you guys thinking about? And they asked what does ESG stand for? They didn't even know what we were talking about. Now that is not the case. So, it's an emerging risk and like any other risk that an insurance company needs to face, they either need to retain or pass it on, but it is also an opportunity. That's the nature of the insurance business is looking at not just the past history but looking ahead and saying what are the risks and the opportunities that my organization may be facing and how are we going to react to them? What frameworks are we going to put in place to address them? And those things are all constantly evolving and with our descriptions of risk management more generally, ESG flows right into that because it's part of the same conversation. You can't talk in terms of risk management for many companies without at least referencing what's going on with respect to ESG and how you're addressing it. And again, the conversation will continue evolving and we'll see where it goes from there. I think transition is a big part of the conversation. It's probably the single most common area and topic of discussion - how are you dealing with the transition? What are your stakeholders demanding? What do your investment guidelines say to these things? Do you want to buy oil and gas stocks? Do you not want to buy oil and gas stocks? And you can make that judgment either way and maybe buying oil and gas stocks might be a good thing to do and I'm not going to sit here and tell you one way or the other but you should be thinking about it the way you manage your investment portfolio. I care about that as a credit analyst, I care whether you are managing your investment portfolio to take advantage of emerging risks. That's very important because that speaks directly to your ability to pay policyholder claims. So, if you're blind or not keeping your eye on the ball in terms of your investment portfolio or any of the things we're talking about today, over time that could become an issue but we're not anywhere near the stage of drawing any bright lines here. It's up to companies and policymakers to figure out what to do next.

Sen. Lana Theis (MI) thanked Mr. Carlson and Mr. Giacone for their presentations and stated that I spoke yesterday on some issues related to ESG. I am incredibly uncomfortable with us identifying risks with something that is so extraordinarily subjective and when you do things like saying coal is bad and electric is good and we're going to grade you on that and then we're going to tell everybody that's a good thing to have this analysis done just in case at some point in time somebody wants to take a look at it moving forward, we're not actually directing traffic but we're going to figure out exactly how traffic is going so just in case at some point in the future we really want to direct it. That's what this sounds like to me and to the point that it is optional, it's not. You have so many of the major investment firms driving this and requiring it for our organizations. I have a huge concerns about it. Insurance historically has been famous for looking at actual risk. You look at a statistically significant history and make your identification of risk based on what is statistically significant and historical. But nope we're going to make assumptions about what's good and bad and we're going to prognosticate on what's going to happen in the future and some of it has some evidentiary basis, yes that's true, but we don't know for sure what that actual impact is and we're going to go ahead and use that as a part of our insurance rating or our bond rating and I have extraordinary concerns. In a state where our fuel costs have gone up so dramatically they're trying to shut down a pipeline that's essential to our peninsula. I have major concerns and where we are considering perhaps wrapping our arms around this we need a lot more information and we need it not to be subjective.

Mr. Carlson stated that I agree that subjectivity is a challenge and we've talked about the lack of a universal standard. But quantifiable risk data is important and I know that we shouldn't opine on things that are so subjective and it is hard to say what does 1.5 degrees C really mean in Argentina versus Texas? I understand what you're saying. Our position in risk management is to try and quantify those things that are already quantifiable, meaning property risk, casualty risk, places that you can look and say we understand that. Now how the insurance world wants to underwrite against that we don't control that. I understand what you're saying completely and many clients aren't interested and that's great that they are on their path. Those that are, I think what they're trying to do is just get an understanding of where do they sit and it is a position of their organization that they do want to address it however they choose to address it. But I do welcome and appreciate your comments. Mr. Giacone stated that I agree as well. That's exactly the point - it's not our job to do that to link it to credit risk when there's no data there. To your point, you're absolutely right and we agree and that's why we're taking the approach that we do. We're not saying good, bad, or indifferent. We're just looking at it and saying what does this mean, if anything, and can we draw the line here? And if you read any of our reports you'll see quite honestly there's nothing there and there's nothing to say for exactly the reasons you describe. We do not have the data yet. But I think highlighting the issue is important because it is so much in the market. Our constituents are asking us and investors are asking us whether we can have a different public policy debate about whether that's appropriate or not but we don't want to be in the middle of that. We're just going to get the information, put it out there and then let the constituents decide on their own.

Mr. Carlson stated that I'll give you an example from risk management that it's not about telling clients whether to forego greenhouse gas usage like coal and oil. What we do is we just released a report and we found a correlation between the experience modification rate of workers compensation and a good S score. So we're taking quantifiable data that is not ambiguous, and we're saying we see where companies have really good safety management systems typically have a really good S score and have low experience modification rates. When you take that to an insurance underwriter they like that. They understand that. That's quantifiable. That's what we're trying to do with the data. We are certainly not trying to tell a company how to invest and how to use gas and how to transition - that's not our role. Our role is to use risk management in the context that our clients can understand it. Sen. Theis stated that I understand what you're saying but you're green or yellow puts an opinion on what's good or bad with all of the questions that you're asking, many of which are highly subjective and have no foreseeable relevance in actual risk assessment. So why are you asking the questions in the first place? Mr. Carlson stated that the survey is taken by the client, so those are their responses to the questions. Sen. Theis stated but you're asking the questions. Mr. Carlson replied absolutely, based on 18 different global standards that they're willing to take - they don't have to take it. I understand what you're saying, but if you look at something like greenhouse gas, if they can quantify it and they want to respond to that they can. If they can't quantify, we tell them don't answer. If you don't have an answer for it, don't answer. And then it just becomes something that they may or may not want to address. Again, it's a risk management perspective and when an organization is trying to transition their business they just need to understand that. I understand your trepidation. I'm an environmental guy but I work in the manufacturing automotive industry and I see this every day. I completely understand where you're coming from. There's a place for common ground but there is a lot of data that hasn't been developed. There's a lot of information that needs to be developed and there's a consistency that does have to occur. I completely agree on that level.

Sen. Mike Azinger (WV) I'm just going to say what this is - this is just "crypto Marxism" and I assume this is all based on climate change - is that accurate? Mr. Carlson stated not all of it is based on climate change. Sen. Azinger stated the terms you're using such as greenhouse gas and others, is that not climate change language? Mr. Carlson stated that some of it is. Sen. Azinger asked if that is the foundation where you're coming from with this - the climate change philosophy? Because that's what ESG is societally as I understand it where you invest your money for example the state of West Virginia pulled out of BlackRock because you there's a punishment system for investing into oil and gas and fossil fuels. Is that something that you're talking about here? I'm just trying to understand where you're coming from because I know what ESG is peripherally. I've studied enough to know the terms you're using and it's climate change, right? That's what you're talking about? So, a lot of us believe maybe not here but many American citizens believe climate change is a hoax. It's impossible for mankind to raise the temperature of the Earth so much that it creates everything out of kilter. And this to me I think is moving toward the punishment system for those that don't fall in line with the climate change philosophy. That's where this ESG is going and this is critical theory infused into the business world, infused into the culture. And it's a controlling system that's where this is headed. It's already in the banking system and that's where it's heading in the banking system. If you don't invest so much of your money into certain companies you get a bad score and that's where this is moving towards. So I just want to clarify that's what this is. I'm not calling you a "Marxist" I'm just saying that climate change is the home of "new Marxism" that's what it is.

Mr. Carlson stated that I'm a realist and I'm also an optimist and I understand your points but I just want to say that for our organization it's about risk management whether our clients agree and whether they believe it or not. If they're asking for us to provide risk management advisory services we have built this tool to address not only just that but there are many risks within ESG that have lived under corporate social responsibility. Corporate social responsibility was built when there was slave labor going on and there were a lot of other things going on in the global responsible organization level. I'm not saying slavery and climate change are comparable, I'm just saying that there were risks that were out there that organizations wanted to address and ESG has many risks that already exist like the E. There are a lot of natural catastrophes and hurricanes. What we are trying to do is help clients get a grasp on what the insurance underwriting world is starting to tell us as a broker that we're going to start baking this into our underwriting because we're going to underwrite our portfolios. So in order to help clients assess the risk this is what they've asked us to do. So it's really just from that perspective. I'm not here to say one way or the other what climate change is or is not. That is something that I pride myself on - not trying to say who I believe in or what I believe in. It doesn't matter what I believe. It's what my clients ask that matters. Sen. Azinger stated that it does matter what you believe in.

Rep. Jordan stated that I appreciate the passion on this but we need to move on as there are other topics on the agenda today. If anybody has any questions on this moving forward you can reach out to NCOIL staff.

PRESENTATION ON RETENTION AND RECRUITMENT OF INSURANCE TALENT

Rep. Jordan stated that our next topic is the recruitment and retention of insurance talent. I think that everybody here knows how difficult it is at this time to retain and recruit talent within the industry so I'm glad that NCOIL is discussing this and I look forward to discussing it further. I also want to thank former New York Superintendent of Insurance Greg Serio, now with Finseca, for putting this topic on our radar last year in Scottsdale.

Noelle Codispoti, CPCU, ARM, Director of Emerging Talent Programs for the National Alliance for Insurance Education and Research, thanked the Committee for the opportunity to speak and stated that the Alliance provides educational programs to insurance industry professionals across a wide spectrum of job roles including underwriting, brokerage, life and health, and consultancy. I came to the insurance industry through college. I majored in actuarial science and risk management. I was very fortunate as a first generation college graduate to have someone in high school share with me the opportunities that existed in the risk management field specifically as an actuarial student and if you have not been aware insurance doesn't necessarily always get the sexy type of job description that most other industries do to young folks and certainly not an appealing exposure in movies or press. So, after spending a few years in the insurance industry I dedicated the past 15 years of my career to helping young people and folks in different industries find what I believe and what many others in this room also believe is quite a rewarding and stable career. What we have found is that the industry as a whole is facing, like other industries, many key challenges and on the screen you'll see here six of what I believe are the most important. Back in 2009 and 2010, Deloitte and McKinsey respectively produced reports regarding the aging talent within our industry and the significant talent gap that was going to emerge 15 years down the road and longer because of those entering retirement. I'm fortunate to be involved in organizations like the Griffith Insurance Education Foundation which I know many of you are familiar with that brought the industry together to figure out some ways to help solve this talent gap which projected around 400,000 available job opportunities in the years 2022 to 2025 which we very quickly are in.

We also found some key challenges regarding generational gaps and what younger workers wanted to experience in their careers versus what some of their more experienced generational counterparts were creating as work environments. Certainly over the past few years COVID has created challenges with going to the office or as I like to look at it as an opportunity to create a balance for younger generations that are looking to maybe not go to an office every day. The great resignation has also created some challenges although I read an article today that we may be entering the period of great remorse where folks are not actually finding the jobs that they thought they could. So that is one that I'll have to study a little bit more when I get back. I mentioned the visibility and certainly not many knowing that a career in insurance and risk management actuarial science exists when they are young. And that's probably one of the biggest challenges - the perception that our industry faces. And another challenge being the diversity of our industry and really lacking an opportunity for young people to see themselves in careers in the industry whether that's from a gender or race perspective or other versions or other characteristics of diversity that we may consider. We've also found that the insurance industry and many of the companies have been lagging behind in terms of creating work environments that are considered equity or inclusive. So many firms have spent many years creating workplaces that promote the opportunity for folks to feel like they belong and are listened to and they created environments that people want to be part of. From my perspective the most important issue for a company to tackle before we start considering recruiting new talent into the industry is that of retention and creating work environments that people don't want to leave. We have suffered as an industry from the idea that people come and people go. They just job hop and it's okay to pay a recruiter to bring somebody else new in which I think is a waste of money for any company to have to do that when in fact we could look internally to ensure that we are creating environments where people want to stay.

So some of the things that we look at or talk to companies about is making sure that the environment is equitable and making sure that all employees have the opportunity to be successful and that really looks at a number of different variables whether that's opportunities for learning and development, networking through engagement and professional associations and ensuring that we have the right technology in place so that our jobs don't seem cumbersome, and providing access to information and communicating that the information that is needed to do one's job is readily available at employees fingertips. We also think that the best way to create an environment where people want to stay and ultimately a better environment where we can recruit people into the industry is making sure that people feel safe and respected – that's really an inclusive environment. The opportunity to share feedback and know that that feedback is going to be received and listened to is important and people need to know that it's okay to understand someone's point of view but not necessarily agree with it. And we also need to look at what we tolerate within our organizations and how people are treated - whether we are allowing that behavior to continue or whether that's on a recognition perspective, promotion perspective, and ensuring all employees are being paid favorably and fairly. We also think it's very important to make sure that employees have a voice much like your constituents. You all listen to what they have to say and bring those ideas and opinions to the jobs that you all do. Likewise we think companies should treat their employees in much the same way ensuring that everybody has a voice and when someone does use their voice to express new opportunities and new products or opportunities for growth within an organization that employers are doing that. And many studies have been done to show that diverse teams, whether that is ensuring different socio-economic, race, religion, or gender backgrounds, perform more profitably and have higher cash flow so we do want teams or companies that we work with to ensure that their teams are representative of the people that they serve and the people that they want to bring into their organizations.

So what we're doing and what many organizations within the insurance industry have done is create programs to allow for engagement of younger generations and individuals who work with other industries to consider a career in risk management and insurance. Particularly at the Alliance, we took one of our industry designations, certified insurance service representative, which is an intermediate level education program and it covers everything from personal lines, commercial lines insurance, life and health, workers compensation, and the risk management process, and we reconfigured it so that a technical education teacher within a high school can teach these courses to high school students and expose them to the wonderful and sexy careers that exist. When students are in this designation they are employable out of high school and we have many independent insurance agents and midsize brokers and insurance companies ready to hire these high school students upon high school graduation. We also see it as an opportunity to showcase the students their post-secondary opportunities. Nearly 100 colleges and universities within the U.S. have a risk management or actuarial science major or minor certificate and we want to make sure that students are aware of that as an option. We do expose them to the career paths as I've mentioned but it's a very core of this regardless of whether a student pursues a career in risk management or insurance. Our program does give some consumer education to the students specifically on those personal lines, auto and homeowners, and we've been very pleased to hear feedback from our students that they can also go back to their parents who actually are the purchasers of those products right now and help their parents understand the policies that they've been purchasing. We enhance all of that exposure with an opportunity to engage with the industry so we are fortunate to partner with organizations like the Independent Insurance Agents and Brokers of America (IIABA) and their state associations to get folks in the classroom and then also we offer work-based learning opportunities whether that's a summer or after school internship, a shadow day or just the opportunity to have a speaker come in and share what they do.

These are the components of our program. We offer eight learning modules through a learning management system. We have video lectures where we bring in what I will call mid-level talented actors and actresses who have yet to make the big screen to deliver the scripts that we have written and incorporate it with graphics and live footage. We also really help the teachers who are teaching this as they do not have to have an insurance background although several of our teachers have worked as agents before or in agencies before so there is some knowledge.

But we do all the lesson plans, learning guides, and test assessments and answer questions and then we provide also professional development for those teachers in the event that they also want to earn their designations through us. Right now our program is located in these seven states. We are an Austin, TX based company and our program did start in Texas. We're currently in eight school districts there. Michigan was the other state we started in initially back in 2020. This year we expand it to seven of the Birmingham city schools in Alabama. We're in Georgia, Oklahoma, Illinois, South Carolina and hopefully Wisconsin. And so our hope is that not only are we bringing students into the industry but making better consumers of them. I'd also like to point out that we're not the first organization to think about how do we expose young people to careers in insurance. In college and for ten years of my life I was part of an organization called Gamma Sigma, which is a collegiate business fraternity that promotes the idea of risk management to college students and this year they chartered their 100th chapter at a university which is pretty amazing. The Griffith Insurance Education Foundation has also been doing this for many years through their ambassador program which they administer through the college students and my colleagues at IIABA through their invest program for nearly I think three or four decades have also been using industry professionals to go into high school classrooms to expose students to careers in insurance and many other organizations exist such as HBCU Impact which typically goes into historically black colleges and universities and was started and co-founded by an individual in this room. So there are still many important initiatives going on in this space and I have to stay that in my 20 years in the industry as a student and as an underwriter and in working to get students in, it has been one of the most rewarding things that I have done and I have been proud to wake up every day to know that we have an opportunity to really change the course for some of these young people and I appreciate the opportunity to share that with you today.

Sen. Mary Felzkowski (WI) stated that I am a past board member of the Alliance and we have been working through the National Association of Professional Insurance Agents (PIA) and others to get young people in this industry. I really love this program and I really would like to talk to you about how soon it's going to come into Wisconsin. Ms. Codispoti stated that is great and we were on the phone with PIA when we first started talking about it. We're also working with the PIA in Indiana and they'll be starting in the Fall but I like to make sure that we're in there before I put the actual block on the screen to say we're in that state. Sen. Felzkowski noted that all of her employees have professional insurance designations such as certified insurance services representatives (CISR).

Rep. Brian Lampton (OH) stated that I appreciate these efforts.   I know in our area in Ohio all employers everywhere are desperately looking for good workers. Could you describe some of those entry level jobs that are available in the insurance industry, not just in sales? Ms. Codispoti stated that I think from my perspective there are really a few - you have the entry-level accounting executive or account administrator at agents and brokers who are helping the producer or the account executive manage the clients. So whether that's through issuing certificates or managing the policies, that's one. And we have seen many of those individuals start those jobs and then advance through the agent system. Another one specifically at an insurance company would be kind of like an underwriting assistant. We've seen many opportunities within call centers whether you're working in a personal lines insurance carrier to be able to help those individuals who are calling in with their claims after a natural disaster or an auto accident. And then on the claims adjusting side I think that oftentimes even for those of us that are considering a career as an insurance it's one of most overlooked paths and some of the technology that the insurance companies are coming out with to evaluate claims and serve their policyholders is pretty cool and I think we have an opportunity to engage young people from a technology perspective and their interest in some of those roles as well. The only one I would say from my perspective that still needs that four year college degree is that path to being an actuary as a very high-level mathematics degree is needed. But otherwise on the Bureau of Labor Statistics you would see most of these jobs that I've mentioned a minimum requirement would be a high school diploma.

Rep. Brenda Carter (MI) stated that I'm very excited about what I'm hearing from you and I just learned from a very reliable source that there will be a lot of retirements in the next ten years. I'm from Michigan so I would like to know where are the programs and then how do we engage our universities to get them to look at this? Ms. Codispoti stated that Wilson Talent Center was the first school in Michigan we worked with and they had high school students graduate with the CISR designee and they are among the best and brightest students I've seen. What we do is put in place a software that allows us to manage for each school the engagement with the industry. So it would be a lot for us to manage those schools in each of those states with the individuals that want to get involved. So we're putting in place and paying for software so that each school and the industry can engage together and know what's available. Many of those students in Michigan specifically though are pursuing additional education at Ferris State which has very strong risk management programs. In fact both Olivet and Ferris State are also part of our university program and they use our curriculum which is completely free to them and actually at Ferris State I think we will have quite a number of students graduating with our more advanced degree or advanced certification. Rep. Carter stated that she looks forward to connecting further with Ms. Codispoti.

Rep. Jordan thanked Ms. Codispoti for speaking and for the great work you do and the work of your agency so you guys are really doing some positive things and hopefully we can bring some of that to Louisiana. If anybody has any other questions on this moving forward please reach out to NCOIL staff.

PRESENTATION ON INSURANCE DEVELOPMENTS IN THE FEDERAL HOME LOAN BANK SYSTEM

Rep. Jordan stated that our next topic is a presentation on insurance developments in the federal home loan banking system. This is an issue that could be on NCOIL agendas next year in the form of model legislation but for now we'll be provided with an overview of the issues so that we can be aware of them.

Eric Haar, Director of Gov't and Industry Relations at the Federal Home Loan Bank (FHLB) of Dallas thanked the Committee for the opportunity to speak and stated that some of you may be familiar with the FHLB system and others may not. We do lend money to insurance companies and we're going to talk about a possible legislative remedy to a situation we have found ourselves in. So a quick review of the FHLB system - we were created by Congress back in the 1930s and originally there were 12 regionally placed FHLBs spread around the country and there was a voluntary merger a few years ago so there are now 11 of us. It is a government sponsored enterprise (GSE) and is very well-regulated at the federal level by the Federal Housing Finance Agency (FHFA). And what the FHLBs do is we lend money to insurance companies, banks and credit unions. Typically an insurance company will borrow money from their regional FHLB and then they will use those proceeds to purchase mortgage-backed securities or treasury instruments for the benefit of the insurance company. We fund our loan demand not through taxpayer dollars even though we're a GSE, we borrow money in the global capital markets so we sell debt just like treasury sells debt or a corporation might sell debt to investors and then we take those hundreds of billions of dollars that we borrow in the global capital markets and we lend it out to insurance companies, banks and credit unions. No taxpayer money is involved in the FHLB system. We have operated for 90 years safely and soundly. A couple other components - each FHL bank as we're known is a cooperative. That means insurers and other financial firms will choose to join their regional FHLB. No one forces them to do that. They will join the cooperative and then they have access to FHLB lending if they are a member. Members purchase a nominal value of par value stock it doesn't go up or down in value but that's part of how we capitalize the FHLB system. Each of the FHLBs is profitable through its course of business and what we do with most of our earnings is we turn around and we pay a dividend, a cash payment to each of our members every quarter. So no individual or group of investors is getting enriched by the success of the FHLB - the money flows back into those local communities. We also fund a grant program with 10% of our earnings that has done a lot of good in support of affordable housing and community development initiatives since 1990.

A big takeaway for this group is that the FHLBs are under federal statute. We are a secured creditor. So we lend money and we are fully collateralized every time we lend a dollar. We cannot abide a credit loss or a dollar loss on any of our loans. That is mandated by a regulator. It's important because we're a GSE and it allows us to lend money to insurance companies at very favorable rates. So we lend a dollar, we take collateral that backs up that loan and then that is the kind of relationship that ensues. This is FHLB system-wide lending to insurance companies, banks, credit unions, nationwide since 2006. Nearly $1 trillion dollars in loans outstanding during the Great Recession. But the numbers ebb and flow just based on the needs of our members and we maintain a system that serves the borrowing needs of our members. This is insurance company membership by year beginning in 2006. You can see that the steady increase in membership is both life insurers and property & casualty companies. Many of them have seen the value in joining their FHLB. They're not all borrowing from us on any given day of the week. About 50% of our members are active borrowers on any typical day. The others maintain their membership in the system because next week, next month, next year they might have a need for our liquidity and so they retain their membership in the system. This is insurance company lending from the FHLBs by year in billions of dollars you can see the steady increase and it’s $146 billion as of the second quarter of this year. Each FHLB has a different membership profile. So we lend to banks and thrifts, credit unions, and insurance companies. About 19% of the FHLB of Dallas’ membership base is comprised of insurance companies but the system-wide nationwide average is 8.5%. We’re kind of an outlier on the high side but I want to give you an accurate picture it's around 8.5% of each FHLB membership comprised of insurance companies.

So here is where we come into the need for legislation. A FHLB lends money to a bank or a credit union and if that institution fails we have protections under federal law. We are able to step in and access the collateral that they pledged to us without delay or a hindrance. That allows us to quickly resolve the transaction and the receiver, the Federal Deposit Insurance Corporation (FDIC) National Credit Union Administration, they do what they do to wind down the entity. But because insurance of course is regulated at the state level we don't have the same federal protections that we have if we lend to a bank or a credit union. So in receivership there is a chance that we might be stayed or delayed or prohibited from accessing the collateral that an insurance company has pledged to us. Now we believe that in time we would access our collateral but because there could be a one, three, six month or longer delay in us accessing the collateral that's been pledged to us we have to make an accommodation with regard to that and so what we do is we have lending terms less favorable for our insurance company members in states where we do not have legislation passed at the state level protecting the FHLB in the event of a receivership or a rehabilitation. So the FHLB system has proposed legislation at the state level. I remember eight and nine years ago when I worked for the FHLB of Topeka going to many National Association of Insurance Commissioners (NAIC) meetings where this was a new issue at the time and talking through this issue and I worked on legislation then. Now that I'm at the Dallas bank we're working on it in our five-state region and other FHLBs have addressed this in all of the states where they're operating. Some of the FHLBs are still working on it. I believe it's relevant to everyone in this room. What we would like to do is clarify that a receiver will not delay or deny or stay a FHLB from accessing collateral that's been pledged to us and then we promise to create a framework for the receiver to resolve the transactions as quickly and as equitably as possible.

And then that allows us to lend money on more favorable terms. Not to give you a bunch of numbers but if we lend money to a bank and they pledge treasuries to us, any of these types of treasuries for this duration, we will lend for example 98 cents on the dollar of collateral pledged to us. So they pledged a dollar in collateral to us and we give them 98 cents. But if it's an insurance company in the state where we don't have protections they pledged a dollar in collateral to us we will give them 95 cents on that dollar. So the collateral terms are less favorable and that is just not good for any of the parties involved. So we have proposed a framework and I won't go through all of the numbers that you see here and my attorney colleague at the bank drafted this and I'll be happy to provide this to anyone who might like it. But within ten days the FHLB will provide a timeline for resolution. We will provide options to the receiver with regard to possibly renewing a loan or restructuring loans if the insurance company is not failing but they're going into rehabilitation. And then we have some promises, some assurances that we will have access to the collateral pledged to us not a nickel more that's owed to us but only what we have loaned out and we will not be delayed in a receivership for that purpose. And then a few other legal components to the proposal. A couple definitions here and then I share this final slide with you if you see a dark color blue state that is a state where legislation has been passed that takes care of this issue for the benefit of insurance company borrowers and the FHLBs that are domiciled in those regions. If you see light blue that means there is legislation that is active or to be proposed in 2023. In addition to what our regulator has said, let's get conformity and uniformity on this issue across the 50 states and territories. We believe it's just good business for insurance companies across the country and to the benefits of the FHLB system which is not necessarily the priority of this group it's the insurance companies and their policyholders. But we believe it's a mutually beneficial and very important relationship. I'll be happy to return in March as you indicated if that's the wish of the group. Rep. Jordan thanked Mr. Haar and stated that NCOIL staff will reach out in advance of the Spring meeting.

DISCUSSION AND CONSIDERATION OF RE-ADOPTION OF MODEL LAWS

Rep. Jordan stated that per NCOIL bylaws all Model laws must be readopted every five years or else they will sunset. The models scheduled for re-adoption today are on the app, the website and they start off in the binders on page 140. The models are: Model Act to Support State Regulation of Insurance by Requiring Competition Among Rating Agencies; Model Act Prohibiting Consumer Reporting Agencies from Charging Fees Related to Security Freezes; Credit Report Protection for Minors Model Act; and the Credit Default Insurance Model Act. I note the amendments to the Rating Agency Model are being proposed by Sen. Bob Hackett (OH). Accordingly, we'll handle that model separately before moving to the others.

Sen. Hackett stated that I'll be brief as these amendments are straightforward and non-controversial and appear in your binders on page 140 and 141. This model was originally adopted five years ago to promote competition among rating agencies as there was a problem identified that some statutes require insurers be rated by one specific rating agency rather than simply required a rating from a rating agency that meets certain requirements. That is why the model sets out to define a "competent" rating agency at that time. The model recognizes that decisions about which rating agency to choose should be based on management's evaluation of the perceived strengths of each rating organization as a relates to their markets and business models. There shouldn't be a requirement in statute that requires insurers be rated by a specific rating agency. However an issue recently arose that we think requires some simple amendments in the model. Essentially what happened was that all the major rating agencies and those that are listed in the model have been approved and registered as a Nationally Recognized Statistical Rating Organization (NRSROs) by the SEC. And this wasn't the case when the model was originally adopted. And remember as NCOIL we're a fierce protector of the state system of insurance regulation. So we didn't think it was proper and still don't to essentially defer to the federal government what is deemed "competent." So according to the amendment to the model now it makes clear that a "competent" rating agency is one that is either an NRSRO or one that is a nationally recognized rating organization that maintains business practices that includes requirements set forth in the model. This way the model recognizes the business reality that all rating agencies that insurers use are NRSROs but it leaves open the avenue for any other nationally recognized rating organization to operate in a certain manner and be deemed "competent." Sen. Hackett thanked NCOIL staff for help in developing the amendment and stated that he looks forward to the committee's support.

Paul Brown, Director of Government Affairs for AM Best, thanked Sen. Hackett for sponsoring the amendments to the model. And we also want to thank NCOIL staff for getting us to language which we think improves the model very much and we would just urge the committee to adopt the model as amended.

Burke Coleman, Chief Regulatory & Compliance Counsel at Demotech, a Columbus, OH based rating agency and now an NRSRO. I just want to thank the committee and Sen. Hackett for originally sponsoring this model in 2017 and now sponsoring it again for readoption with the amendment. Demotech believes this is an important model to promote competition among rating agencies which in turn promotes competition in the broader insurance marketplace and enables consumers choice. So thank you to the committee and thank you Sen. Hackett for your work on this and we appreciate it.

Hearing no further questions or comments, upon a Motion made by Rep. Joe Fischer (KY) and seconded by Rep. Lampton, the Committee voted without objection to re-adopt the Model as amended. Hearing no questions or comments on the remaining Models, upon a Motion made by Rep. Carter and seconded by Del. Steve Westfall (WV), the Committee voted without objection by way of a voice vote to re-adopt the remaining Models.

ADJOURNMENT

Hearing no further business, upon a motion made by Sen. Holdman and seconded by Rep. Oliverson, the Committee adjourned at 4:45 p.m.