

International Report



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NAIC Prepares to Host Interns from China

Under the NAIC's International Regulatory Cooperation Program, this fall 5 states will host insurance experts from the China Insurance Regulatory Commission (CIRC) under the NAIC's China Intern Pilot Program. The interns will be placed in the states in positions where they will be actively involved in the day-to-day activities of regulators in their respective areas of expertise. The areas of focus for the interns will be actuarial (life) standards, intermediary regulation, legal affairs, solvency requirements and accounting, and information disclosure for insurers. States that will participate as hosts of the interns include Texas, Hawaii, California, New Mexico, and Arkansas.

Under a program designed by the International Training Task Force of the Regulatory Cooperation (G) Working Group, the interns will start in Kansas City where they will receive orientation to the U.S. insurance market and supervisory practices, as well as an introduction to the NAIC. After the training in Kansas City, the interns will travel to their respective states where they will be placed in positions relevant to their expertise under the guidance of a mentor assigned by the state. The China Intern Program Task Force will conduct regular conference calls throughout the 4-week internship, to closely monitor the progress of the program and to get feedback from and provide guidance to both the interns and the states.

After four weeks in the states, it is expected that the interns will attend the NAIC Winter National Meeting in New Orleans, before completing the internship program with a debriefing session in Washington, D.C. In Washington, the NAIC will also host a recognition ceremony for the interns, inviting representatives of the Washington diplomatic community.

The Regulatory Cooperation Working Group has proposed a continuation of the internship program in 2005, when it is hoped that arrangements can be made to make these opportunities available to interns from other jurisdictions. The Working Group will be looking for states to volunteer to participate in the program – in past experiences hosting interns from abroad, several Commissioners have noted the great value not only to the interns but also to members of the state insurance departments who interact with the interns, providing staff with first-hand access to experiences in insurance supervision from around the world.

Commissioner Bowler Addresses Risk Management Conference in India

July event draws attendees from 16 countries

Commissioner Julie Bowler and NAIC Staff participated in an annual Training for Insurance Regulators/Supervisors program sponsored by India's Institute for Insurance and Risk Management (IIRM) in New Delhi from July 14-16. The seminar attracted supervisors from 16 countries, including India, Vietnam, Taiwan, Japan, Malaysia, Singapore and Thailand. Commissioner Bowler spoke on the topic of market conduct and corporate governance, highlighting the importance of insurers maintaining an independent board of directors, and a strong audit committee. She used the Massachusetts Governance Program guiding principles as a model for her remarks, noting that as a result of changes in corporate governance practices in the U.S., insurance supervisors have seen welcome improvements in internal company information flows from management to the board.

The Commissioner also emphasized the benefits of transparency in the supervision of insurers' market conduct, in terms of the openness of communication both from supervisors to insurers and to supervisors from insurers.

Commissioner Bowler and George Brady from the NAIC also met with C.S. Rao, Chairman of India's Insurance Regulatory and Development Authority (IRDA) to discuss the possibility of IRDA signing an MOU with the NAIC, and areas of future regulatory cooperation. The two also met with US Embassy officials to explore ways to enhance NAIC's involvement in the USAID Financial Institutions Reform and Expansion-Regulatory (FIRE) program to develop India's financial services infrastructure. The NAIC will work with USAID on future projects including suggestions on topics and speakers for a program on health insurance in October 2004, and possibly sending a team of regulators to India to perform a "needs assessment" to identify and prioritize areas for development.

In future work in India, the NAIC will also work closely with the management of the IIRM, whose director expressed an interest in taking advantage of NAIC's educational expertise. IIRM will consider proposing a program for pre-testing candidates to take part in an internship in a state insurance department as part of the NAIC's regulatory cooperation program. The IIRM is sponsored by India's government to improve insurance and risk management practices in India as well as regionally.

Hawaii Commissioner Participates in U.S.-Japan Consultation

In annual talks required under the U.S.- Japan insurance agreements of 1994 and 1996, Commissioner J.P. Schmidt traveled to Japan in August with staff from the Japan desk of the Office of the U.S. Trade Representative. The talks addressed areas required under the agreements, but focused on the evolving nature of the Japanese postal insurance (Kampo) reform. Other issues touched on in the talks included U.S. trustee surplus requirements for reinsurers and surplus lines carriers, the applicability of U.S. policyholder protections to non-U.S. policyholders, and the regulation of small associations or cooperatives – "kyosai" in Japan – similar to U.S. fraternal benefit societies.

The U.S. will continue to work with Japanese regulators on these issues, in particular the efforts to modify the protections that allow "Kampo" its extensive market share, and the need to maintain a level playing field between Japan Post and its private sector competitors, recognizing the significant impact on the Japanese insurance market that would occur if "Kampo" were privatized.

OECD Insurance Committee Meets

The Insurance Committee of the Organization for Economic Cooperation and Development (OECD) met July 7-8 in Paris, following meetings of related working groups on terrorism insurance and solvency. As part of a delegation led by the U.S. Department of Commerce, the NAIC was represented at the meetings by Director Ernst Csiszar, Superintendent Al Iuppa, and Cathy Weatherford.

The Insurance Committee held a roundtable discussion on new trends and developments in insurance supervision. As part of the discussion of developments related to federal insurance regulation in the U.S., Director Csiszar presented the NAIC framework document, which was prepared in response to House Financial Services Committee Chairman Oxley's request for assistance in the Committee's process of evaluating the modernization of state insurance regulation. There was also a panel discussion of medical malpractice insurance in the context of the Committee's contribution to the work on issues related to private health insurance. The committee also discussed its future work plan, which will include work on supervision of private pension systems, insurance aspects of large-scale disasters, enhancing market liberalization, and an analysis of the relationship between liberalization and regulation.

The committee further addressed proposed conclusions and recommendations from the Task Force on Terrorism Insurance, which highlight the need for international cooperation to address terrorism risk, and the importance of achieving the proper balance between the relative roles of governments and the private sector (insurers, reinsurers and capital markets) in addressing losses from terrorism events. The Task Force also presented for discussion by the full committee a report to the OECD Council requesting further guidance on any future work by the Committee on development of an international mechanism for indemnification of mega-terrorism.

EU Issues "Equivalence" Recommendation on U.S. Conglomerate Supervision

Following months of study and analysis, a working group of the European Commission recently issued a recommendation to European financial services supervisors with a finding of "broad equivalence" of U.S. supervision of financial conglomerates. The guidance was prepared in connection with the EU's Financial Conglomerates Directive (FCD) which addresses the need for supplementary supervision of members of a financial conglomerate, defined to include entities with at least a banking and an insurance operation. Groups that solely include insurance entities are handled under a separate Insurance Groups Directive. In connection with the study, the NAIC submitted a response to a survey outlining the supervision of insurance members of financial holding companies in the U.S.

While the ultimate responsibility for supervision of members of a conglomerate in Europe remains with the national supervisors, Europe uses a system of lead supervisors to coordinate oversight of the overall operations of the business group. The recommendation issued was intended to serve as guidance for the European supervisors of entities in US-parented groups. While acknowledging that the NAIC is not itself a supervisor, the guidance document credited the model laws and rules with creating a "sound framework" for achieving the objectives of the EU's framework for consolidated supervision of conglomerates.

When applying supplementary conglomerate supervision involving a US company, the recommendation urges EU supervisors to confirm that a state has implemented the NAIC model rules, but also to examine the extent to which the state goes further in group-wide supervision in the area of "group-wide capital

calculations.” Cooperation and the ease of information exchange among supervisors is another significant component of the evaluation of the effectiveness of the supervision of conglomerates.

NAIC-EU Regulatory Dialogue Postponed; EU Supervisors Meet

As reported in the NAIC International Report (June 2004 ed.), the Regulatory Dialogue between the NAIC and the European Commission planned for June was postponed. The next Dialogue will likely take place in the fall – more likely now with the appointment of a new head of the insurance section of the Internal Market Directorate General. The NAIC has also consulted with representatives of the newly-established Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) to determine whether the EU will address in a single Dialogue issues of relevance to EU regulators (represented on the Insurance Committee) and EU supervisors (Alternatively, the NAIC will pursue separate meetings with CEIOPS and the Commission/Insurance Committee.)

As part of an effort to streamline procedures for establishing Europe-wide directives and regulations, especially with the recent admission of 10 new member countries, Europe established a 4-level “comitology” process. The process includes clearly designated roles for the Commission staff, who prepare framework directives and regulations; the regulators in the Insurance Committee who, in consultation with CEIOPS, develop technical implementation measures; the supervisors in CEIOPS, who create interpretations, recommendations and guidelines to ensure consistent implementation; and, ultimately the member states, which are required to implement the new measures, with compliance oversight by the Commission.

CEIOPS met June 28 to address certain administrative issues in connection with establishing a new central office in Frankfurt. However, they have already established nine working groups: an advisory group, and working groups on cross-sectoral issues, implementation of their Helsinki Protocol on information exchange, occupational pensions schemes, and financial stability and insurance. In addition, four separate groups work on different aspects of the Solvency II project, which is a major initiative to create a new framework for the assessment of the overall solvency of insurance entities in Europe, including introducing elements of a risk-based capital system.

House Financial Services Committee hears from Private Sector on EU Dialogue

In a June 13 hearing, the House Financial Services Committee heard from representatives of the private sector on the US-European Union (EU) Regulatory Dialogue, the subject of a hearing held in May with testimony from US government representatives of the SEC, the Federal Reserve Board, and the Public Company Accounting Oversight Board, and from the Director General of the European Commission’s Internal Market Directorate.

Although the hearing was intended to look only at the Financial Markets Dialogue, where banking and securities issues are discussed, the Bankers’ Association for Finance and Trade submitted testimony that raised concerns with the ability of the insurance dialogue to achieve a needed reduction in perceived trade barriers. The group also expressed support for the Oxley-Baker plan to standardize certain aspects of state insurance regulation as an important step in modernizing insurance regulation.

In separate discussions, Committee staff has reiterated to the NAIC Chairman Oxley’s intention to hold a hearing in the fall to explore insurance issues being addressed in the NAIC-EU Regulatory Dialogue.

International Trade Update

World Trade Organization (WTO)/General Agreement on Trade in Services (GATS) - The WTO's 147 governments approved on July 31, 2004, a package of framework and other agreements to enable the negotiations, including services, to move forward. The next services "cluster" of negotiations is scheduled for September 20-October 1, 2004, in Geneva.

Free Trade Agreement (FTA) negotiations underway:

Andeans FTA (Colombia, Peru, Ecuador with door open to Bolivia): The next round is scheduled for the week of September 13-17, 2004. There is an expectation that the negotiations could be concluded by the end of the year.

Panama FTA: The next round is scheduled for October 18-22, 2004, in Panama City.

Thailand FTA: The first round took place the week of June 28, 2004. The next round is scheduled for the week of October 11, 2004, in Honolulu. No date specified for conclusion.

Free Trade Agreement of the Americas ("FTAA") (34 countries of the Hemisphere, including the United States, Canada, Central and South America and the Caribbean): Negotiations are supposed to be concluded by January 1, 2005. Countries continue consultations on various issues arising from Ministerial and Vice-Ministerial meetings.

South African Customs Union ("SACU") (South Africa, Botswana, Namibia, Lesotho) FTA: Negotiations began in June 2003. Financial Services negotiations began in earnest in April 2004. The U.S. is consulting with SACU regarding the future negotiating calendar.

While trade ministries around the world continued to discuss efforts to re-energize talks on the General Agreement on Trade in Services (GATS), U.S. trade officials also continued progress in the negotiation of bi-lateral and regional pacts, including agreements being worked on with Bahrain, Panama, Southern African nations, and the possibility of new talks with Thailand in 2005. The agreement with Australia is ready for completion, and the agreement with Morocco and the Central American Free Trade Agreement are reaching conclusion.

NAFTA: North American Free Trade Agreement

The TriNational Insurance Working Group has scheduled its next meeting for November 5 in Toronto, and will submit a report at the NAFTA Financial Services Committee meeting December 2. The meeting will be the first since the Working Group met in conjunction with the NAIC Summer National Meeting in June in San Francisco. That meeting was attended by representatives from the governments and insurance sectors of the U.S., Canada and Mexico. Officials from the U.S. Department of Transportation were on hand to provide insights into the June ruling by the U.S. Supreme Court allowing the Bush Administration to lift the moratorium and open the border to cross-border trucks coming into the U.S. from Mexico.

The NAIC continues to work with regulators and industry, as well as transportation officials, to remove impediments to providing seamless insurance coverage for trucking in Canada, Mexico, and the US. The NAIC's NAFTA Subgroup meets independently and jointly with the TriNational Insurance Working Group (Canada, Mexico and US participation) and the NAFTA Financial Services Committee to discuss cross border trucking safety issues, litigation under the NAFTA, surety bonds, and workers compensation issues associated with the NAFTA.

NAIC Regulatory Cooperation Activities

Under the NAIC's International Cooperation (G) Working Group, the NAIC provide expertise and training to developing market countries, both through NAIC initiatives and in programs closely coordinated with the Federal Government - primarily the U.S. Department of Commerce and the Agency for International Development (AID). NAIC involvement in these initiatives ranges from responding to inquiries on U.S. supervisory practices and distributing NAIC publications and manuals, to receiving visiting delegations and providing training, both in the U.S. and abroad.

In addition to the Intern Pilot Program [see article p. 1], and signed Memoranda of Understanding with the China Insurance Regulatory Commission and Vietnam's insurance regulatory authority, the NAIC is currently exploring entering into similar arrangements with insurance supervisors in other jurisdictions, including Brazil, India, and Hong Kong.

State insurance regulators interested in providing technical assistance program through the NAIC should contact George Brady in the NAIC Office of Federal and International Relations in Washington, D.C. Interested regulators should provide contact information, a description of relevant regulatory experience, and an indication of any particular connection with a non-U.S. country or region. Also, if a visit to or from a foreign government is scheduled with your department, please e-mail George Brady.

UPDATE: IAIS Committees and Subcommittees

IAIS Meets June 22-25 in Oslo, Norway

Annual Conference and Committee Meetings – October 2-9, 2004 - Amman, Jordan

From June 22-25, the International Association of Insurance Supervisors (IAIS) held its summer committee and subcommittee meetings in Oslo. The meetings coincided with meetings of the International Accounting Standards Board (IASB), which provided an opportunity for a joint meeting with the IAIS Accounting Subcommittee. This led to a major advance in closer cooperation between the IAIS and the IASB, including representation of the IAIS on a new IASB advisory group on Phase II of IASB's project on accounting for insurance contracts. Director Csiszar, Superintendent Iuppa and

NAIC Staff met subsequently with the chairman of the IASB in London to explore opportunities for closer NAIC cooperation with IASB on these critical issues.

Other highlights of the IAIS meetings included:

- Director Csiszar chaired the meeting of the Reinsurance Subcommittee where members continued to work toward a common understanding of a definition of “mutual recognition” that might form the basis for future discussions on how IAIS members can reduce duplicative regulation of companies doing business internationally.
- He also chaired the Reinsurance Transparency Working Group, which plans to complete its report on global reinsurance exposures by year-end. To facilitate the reporting of national-level data, the Group also reviewed a draft agreement on the exchange of confidential information.
- Commissioner Oxendine reported to the Reinsurance Subcommittee on the Hague Conference work on developing an international convention on the enforceability of foreign judgments;
- Superintendent Iuppa presented the final draft of his subcommittee’s work on creating a methodology for IAIS members to do a self-assessment of their compliance with IAIS standards and principles. Members will have until the end of 2004 to complete the self-assessment, which will then be the subject of an analytical report in 2005 to identify key areas for future work by the IAIS.
- The Insurance Fraud Subcommittee postponed presenting its final draft guidance paper on anti-money laundering pending further discussion on the proper treatment of reinsurance in the paper. The paper was recently transmitted to the Technical Committee for review, in anticipation that the paper may eventually be approved by the Executive Committee for adoption at the Annual Meeting in October.
- The Financial Conglomerates Subcommittee reviewed recent work of the Joint Forum, and heard presentations on two different models for supervising financial conglomerates in France and the UK. As part of this continuing discussion, the NAIC volunteered to present U.S. supervisory practices to the group at the next meeting in October.
- The Technical Committee received a draft “supervisory framework” designed to provide context to IAIS development of standards on insurance supervision. The NAIC has submitted comments, and the Committee is expected to discuss a final version of the paper in October.
- The Technical Committee agreed to distribute for final consultation two papers to be adopted at the Annual Meeting in October: a guidance paper on investment risk management, and principles on the supervision of insurance activities on the internet.

IAIS Annual Conference and Meeting

From October 2-7, 2004, IAIS members will convene for the Annual Conference and committee meetings in Amman, Jordan. Hosted by the head of Jordan’s Insurance Regulatory Authority, Dr. Bassel Hindawi, the conference will further Jordan’s goal of drawing interested regulators from the Middle East into more active participation in the IAIS and in the development of sound insurance regulatory practices.

IAIS committees meeting that week include the Executive, Technical, Budget, Emerging Markets Committees, and subcommittees on Reinsurance (and the Steering Group on Transparency in the Reinsurance Sector and Mutual Recognition Subgroup), Accounting, Financial Conglomerates, Education, Insurance Fraud, Enhanced Disclosure, Insurance Laws and Regulations (database project), and Education (including work on the World Bank-sponsored “core curriculum” program). During the meeting, new chairs of the Executive Committee and the Reinsurance Subcommittee (and working groups) will be selected. The NAIC, which currently sits as vice chair of the Executive Committee, has submitted its candidacy for chairmanship of that group.

The Conference will include panel discussions and presentations on a number of topics related to the overall theme of “Globalized Insurance Markets – Challenges and Opportunities.” Speakers will address corporate governance, motor insurance, a risk-based approach to solvency oversight, anti-money laundering, links between banks and insurers, mutual recognition in reinsurance, disclosure requirements, and insurance regulation in a system of integrated financial services supervision. The program will also bring together company executives and insurance supervisors for an open discussion titled “What Issues Keep Regulators and CEOs Awake at Night? Are there Differences?”

Information on the Conference, including registration materials, can be found at www.IAIS2004.com.

NAIC International Calendar

(**Bold** denotes active NAIC participation)

2004

SEPTEMBER

- 1-2 **IAIS Solvency Subcommittee (Sydney, Australia)**
- 7-8 IAIS Enhanced Disclosure Subcommittee (Bonn, Germany)
- 8-9 Financial Stability Forum (Washington, DC)
- 11-15 **NAIC Fall National Meeting (Anchorage, AK)**
- 20-23 FSI Seminar – Risk Management Practices in the Insurance Industry (Beatenberg, Switzerland)
- 21-22 **IAIS Enhanced Disclosure Subcommittee (Basel, Switzerland)**
- 22-25 **IASB Board (London)**
- 27-28 NSS (London, UK)
- 28-29 **Joint Forum: WG on Regulatory & Market Differences (Amsterdam)**

OCTOBER

- 2-9 **IAIS Annual Conference and Committee Meetings (Amman, Jordan)**
- 14 **NAIC Regulatory Cooperation (G) Working Group (Washington, DC)**
- 20-21 CEIOPS (Slovenia)
- 26-27 **IAIS Enhanced Disclosure Subcommittee (Rome, Italy)**
- 25-29 **IAIS/OECD Asian Regional Seminar (Beijing, China)**

NOVEMBER

- 5 NAFTA TriNational Insurance Working Group meeting (Toronto, Canada)
- 4-5 Geneva Association 20th Progress Seminar on Regulation, Supervision and Global Trade Issues (Geneva, Switzerland)
- 9-12 FSB/South Africa World Bank/IAIS Core Curriculum Pilot Program (South Africa)

- 10-11 **Joint Forum** (Sydney, Australia)
- 15-17 IASB (London, UK)
- 17-19 **IAIS Solvency Subcommittee** (Amsterdam, Netherlands)
- 18-19 SAC (London, UK)
- 22-25 **OECD Insurance Committee** (Paris, France)
- 29- 3 ASSAL Regional Seminar (Santo Domingo, Dom. Rep.)

DECEMBER

- 1 EU Insurance Committee (Brussels, Belgium)
- 2 NAFTA Financial Services Committee (Mexico City)
- 2-3 IFRIC (London, UK)
- 6-8 IAIS Middle East and Northern African Regional Seminar (Egypt)
- 4-8 NAIC Winter National Meeting (New Orleans, LA)**
- 4 IAIS Reinsurance Subcommittee (New Orleans, LA)** [tent.]
- 15-17 IASB (London, UK)

2005

February

- 7-11 **IAIS Working Group Meetings (Basel, Switzerland)**
- 23-25 **IAIS Solvency Subcommittee (Basel, Switzerland)**

March

- 12-15 NAIC Spring National Meeting (Salt Lake City, Utah)**

April

- 7-8 Geneva Association 21st Progress Seminar on Regulation, Supervision and Global Trade Issues (Geneva, Switzerland)
- 11-16 World Bank Contractual Savings and Insurance Conference (Washington, DC)

May

- 25-27 **IAIS Solvency Subcommittee (Tokyo, Japan)**
- TBA **IAIS Working Group Meetings (Beijing, China)**

June

- 11-14 **NAIC Summer National Meeting (Boston, Massachusetts)**
- 13-18 OSFI (Canada) In-House Insurance Supervision Seminar (Ottawa, Canada)

27-7/1 **OECD Insurance Committee Meetings (Paris, France)**
30 CEIOPS meeting (TBA)

August

30-9/1 **IAIS Solvency Subcommittee (Virginia)**

September

10-13 **NAIC Fall National Meetings (New Orleans, LA)**

October

16-21 **IAIS Annual Conference and Committee Meetings (Vienna, Austria)**

November

16-18 **IAIS Solvency Subcommittee (Amsterdam, Netherlands)**

28-12/3 **OECD Insurance Committee Meetings (Paris, France)**

December

3-6 **NAIC Winter National Meeting (Chicago, IL)**

List of Abbreviations

APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ASSAL	Association of Latin American Insurance Supervisors
BIS	Bank for International Settlements
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
EU	European Union
FATF	Financial Action Task Force
FSF	Financial Stability Forum
FSI	Financial Stability Institute
GATS	General Agreement on Trade in Services
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IOSCO	International Organization of Securities Commissions
NAFTA	North American Free Trade Agreement
NCOIL	National Conference of Insurance Legislators
OECD	Organization for Economic Cooperation and Development
UNCTAD	United Nations Commission on Trade and Development
WTO	World Trade Organization

The 'International Report' is produced by the International Relations Staff of the NAIC (for the use of NAIC members). If you would like further information regarding any of the issues addressed in these articles, please contact the NAIC's Office of Federal and International Relations in Washington, DC at the following address:

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