Managing Extremes in 2014 Forum: Hosted by Willis Re
The George W. Bush Presidential Center – Dallas, TX
February 27, 2014
Sen. Ben Nelson, NAIC CEO

Good morning and thank you for that warm welcome. It's good to be with you here in Texas. I've got to be honest, when the folks at Willis Re first approached me about speaking I was a little concerned – you know having been a University of Nebraska graduate and proud Cornhusker – that I wouldn't be allowed to enter the state. Luckily, when it comes to the Big 12 Conference it looks like things are forgiven, but not forgotten and they let this Nebraskan cross the border…at least temporarily that is.

In all serious, I appreciate the invitation to join you and the state insurance regulators who are also here today to talk about the important work that state insurance departments are doing and I'll be giving some insights in to how the NAIC is supporting that work.

<u>About the NAIC</u>

Let me talk first a little bit about what my role is as the Chief Executive Officer at the NAIC. My primary responsibility is to make sure our members – the chief insurance regulators from the 50 states, District of Columbia and the five U.S. Territories – have the resources, tools and support that they need to coordinate between jurisdictions, both here in the U.S. and internationally. If I ever thought retiring from the Senate would leave me with more free time to spend in a duck blind, I would have been mistaken. But when the NAIC approached me about becoming CEO over a year ago now, the biggest reason I accepted their offer was because I believe so strongly in state-based insurance regulation and the work of state insurance departments.

Now to say insurance regulation is complicated is an understatement. That's why the structure the NAIC provides is so critical. As you may already be aware, NAIC members come together through regular calls and regional meetings throughout the country to advance regulatory best practices. At least three times a year, the NAIC gathers all of our members in person, as we will do next month in Orlando.

Collectively, regulators develop model legislation, rules, and best practices to coordinate policy and determine how our system is represented here and abroad. At the same time, we continue to evolve as we respond to emerging issues, new products and changes in the financial landscape.

Overview - State of the Industry

Now as everyone here well knows, the U.S. insurance industry is a growing and vibrant source of financial strength in America, and provides millions of Americans with jobs.

There are also reasons for optimism if you are watching your stock portfolio. U.S. equity markets continue to perform well. Housing is starting to recover as a decline in inventory has put upward pressure on pricing, at least in some markets. The stubborn U.S. unemployment rate has improved; the financial sector is stable and more importantly, better prepared to weather the next crisis.

All these signs are reason to be optimistic, but as I mentioned before the NAIC isn't resting on our laurels and we have several key priorities we are working on in the process of supporting state insurance commissioners and the important work they do to protect consumers. I know some of you follow the activities of the NAIC, and in the time we have I'd like to discuss some of our ongoing efforts.

Key Priorities

State regulators are continually working to improve our system. In 2008, the NAIC began a critical self-assessment of our solvency framework. The financial crisis accelerated efforts to ensure market stability. Of course, there are changes we couldn't anticipate and sweeping reforms that require time and thoughtful attention. You may have heard of some of these projects – like health care reform implementation – while others – like principle-based reserving or group supervision – may be less familiar topics.

Health Reform

Let's start with health reform – I did mention that this job isn't easy, right?

With 56 members and unique markets and economies around the country, we have a variety of approaches to implementing health care reform. With such diverse opinions within our ranks, the NAIC did not taken a position for or against on the Affordable Care Act, but we worked hard to make sure the legislation afforded as much flexibility to the states as possible. Our activities as an organization now are focused on meeting statutory requirements and helping our members maintain stable and accessible insurance markets in our states. The areas where we do have consensus are: stressing state flexibility in federal guidelines; providing information and assistance to the states implementing ACA; providing guidance on alternatives to implementation; and tracking federal legislation.

Some of the issues facing regulators – and by extension the NAIC – include: the oversight of marketing activities by navigators, producers, assisters, and carriers; market conduct and tracking complaints; fighting fraud; and addressing issues of cost and access. We are also assisting in consumer outreach and education, including developing and distributing consumer alerts on specific issues surrounding the ACA.

Federal Issues and Relationships

The ACA is a clear example of federal policy impacting local insurance markets. It is even more critical that we remain engaged with Congress and federal agencies to ensure state insurance departments maintain their authority, and that policy decisions don't adversely impact insurance markets across the country.

Another example is the Dodd-Frank Wall Street Reform and Consumer Protection Act – or Dodd-Frank – which was passed just a few months after health reform. One overarching goal at the core of reforms within the law is to identify and limit systemic risk in the financial sectors. But unlike health reform, which transformed health insurance markets, with Dodd Frank, Congress largely rejected significant changes in insurance regulation and instead focused on scrutinizing other financial sectors. At the NAIC, we believe this is a reflection of the strong framework operating in our states and the fact that the traditional business of insurance does not cause systemic risk.

FSOC

However, there are elements of Dodd-Frank that impact insurers and insurance supervision – particularly in those areas where insurance intersects with banking and capital markets. Dodd-Frank also addresses companies that could threaten the financial system and the economy, including insurers. The Financial Stability Oversight Council's – FSOC – designation of AIG and Prudential as systemically important nonbank financial institutions, or nonbank SIFIs, has caused concern among state insurance departments. The designation of AIG in particular was not unexpected given the company's role in the crisis. But the public justification provided by those that supported systemic designation suggests a fundamental misunderstanding of the insurance business, state authorities and the tools regulators have at their disposal. It was especially disconcerting at least with regard to Prudential's designation that those that know the insurance sector the best, Director Huff from Missouri who is here with us today and the insurance commissioner representative on the council, and Roy Woodall, the voting independent member with insurance expertise, both dissented from the Council's designation of the company. The NAIC continues to believe that traditional insurance activities do not pose a systemic threat to the financial system, and we have encouraged FSOC to focus on highly leveraged, thinly capitalized, or unregulated activities of non-banks as it exercises its authority.

Nevertheless, a systemic designation is now a reality for the insurance sector, and the standards that will be applied to such firms will be influenced by domestic and international developments. As such, insurance regulators have an obligation to weigh in on all fronts to put forward ideas and thinking that best reflect the reality of the U.S. insurance market.

We find ourselves in an environment where some in the U.S., and many around the world, increasingly seek to treat insurers like banks and take a bank regulator's approach to insurance risk. This is a flawed approach, but we have to work together to ensure that the U.S. insurance industry does not fall victim to these efforts.

Banking supervisors make up just a few of our many current federal engagement points. More so now than ever before, we are truly engaging the federal government, and not only on Dodd-Frank or the Affordable Care Act. In any given week, NAIC members and staff are working with dozens of federal agencies and interfacing with members of Congress, providing expertise on conference calls, serving on committees, commenting on proposed rules and legislation, and providing testimony. We are working with agencies ranging from the Securities and Exchange

Commission to the Department of Labor on all sorts of matters that touch the insurance sector. Our increased engagement on these multiple federal fronts is a positive and important development as we continue to promote our national state-based system.

TRIA

For example, the NAIC is actively engaged with Congress on the reauthorization of the Terrorism Risk Insurance Act (TRIA), which expires at the end of 2014.

State insurance regulators have supported TRIA since its inception and its subsequent reauthorizations. The NAIC adopted a resolution in August 2013 reiterating its strong support for continuation of the program. We also submitted comments to the President's Working Group on Financial Markets detailing our support for TRIA reauthorization, copies of which are available on our website.

We believe that a federal partnership with the private insurance markets provides security by minimizing market disruptions and ensuring the widespread availability and affordability of property and casualty insurance for terrorism risks. Further, it does so with minimal financial risk to the U.S. government, as the program provides a mechanism to reimburse the federal government for its expenditures.

A long-term TRIA reauthorization will help to ensure economic stability through the availability of terrorism coverage for commercial policyholders, lenders, builders, and the businesses that operate in urban centers and other areas prone to a terrorist attack.

Having witnessed firsthand during my time in the Senate and if history is any indication of the future, I fear that Congress will wait until the last possible second to extend TRIA. But regardless of how slowly the wheels of Congress turn, State insurance regulators working through the NAIC will continue to engage with Congress on this important issue.

International Activities

Another area of focus for the NAIC in 2014 is our engagements internationally. Over the past year, the international discussion of insurance supervision has intensified and there have been several significant developments as a result. Last summer, the Financial Stability Board determined that nine internationally active insurance groups are systemically important, which means their business activities pose risks to the global financial and economic system – several global reinsurers are also under consideration. Shortly thereafter, the FSOC, as I mentioned earlier, declared that two U.S. based insurance groups pose systemic risks, and we know additional U.S. firms remain under scrutiny as their potential risks to the financial system are being assessed. In addition, the International Association of Insurance Supervisors – the IAIS - is now pursuing the development of global capital measures at the behest of the Financial Stability Board.

As a founding member of the IAIS, the NAIC and state insurance commissioners remain committed to using the association as a forum for coordination and global standard-setting. We continue to enhance supervision of globally active insurance entities through better coordination, both learning from and contributing to best practices globally. Specifically, we have seen improvements in group supervision and are using enhanced tools such as supervisory colleges. We feel strongly that oversight between jurisdictions should be coordinated in a common framework that provides the necessary checks and balances for effective cross-border supervision – much like how coordinated regulation is a cornerstone of the state-based system in the U.S. However, this framework should focus on common outcomes and not impose unnecessary costs, or create redundancies or obstacles for insurers that operate in multiple jurisdictions. As we contemplate new regulatory developments at the state, federal, or international level, we must also be mindful to balance the justification for such developments with the costs that ultimately will be borne by consumers.

Operationally, the IAIS is seeking to restructure itself to become more "efficient," by which it appears to mean controlling the input it receives - like input from the U.S. industry, for example. Be assured that we are monitoring these developments to ensure that the U.S. perspective is adequately incorporated. One positive development at the IAIS was the recent application of Roy Woodall to be an observer. Roy is a long-time, good friend of mine, and I'd also add a former state insurance commissioner and someone who is highly respected in insurance circles. He has proven an invaluable resource as the insurance expert at FSOC, and we welcome his contributions to the international insurance community.

It is critical that we maintain our leadership in the IAIS, and with countries through bilateral dialogues. The U.S. leads the global insurance market in regulatory advancements and insurance premiums. We remain committed to working with its international counterparts to encourage innovation and cooperation without weakening the strong U.S. system.

These are uncharted waters that we are navigating together, but let me assure you that the NAIC and its members remain committed to moving forward and achieving progress without bending to pressure to change our system. Even the belated report from the Federal Insurance Office confirmed our achievements after two extra years of analysis. The FSB and IAIS will certainly influence regulatory developments around the globe, but the rules applied to U.S. insurers and overseas insurers doing business here are ultimately up to U.S. regulators and policymakers, and we have no intention of abandoning legal entity capital requirements or adding new, unjustified burdens to industry and consumers. We hope to avoid being an outlier at the IAIS, but we stand on the foundation of a system that is proven to work, and is battle tested by crises both natural and man-made. It would be a mistake to undermine what works in an effort to mirror what may be popular.

Catastrophe Response

Finally and most importantly, nothing tests our insurance sector, or reflects our commitment to consumers, in quite the same way as when we are faced with disastrous weather events. Each year's disaster season comes with unique challenges for regulators and insurers, and no area of the country is immune.

Current climate conditions have resulted in more frequent natural disasters, and the costs incurred by insurers is ultimately paid by consumers. But beyond the numbers lies a different story – one of resilience, recovery and rebuilding that is made possible by state insurance departments and NAIC staff partnering with industry and local government. On the ground, online and on the phone, the outreach and response efforts must be immediate for the greatest positive impact in rebuilding.

We've got two people here today, Director Huff and Commissioner John Doak from Oklahoma, who unfortunately in recent years have seen firsthand – in Joplin, MO and Moore, OK – the incredible devastation that Mother Nature can bring. They deserve an enormous amount of credit for the yeoman's work that they and their departments have done (and continue to do) to get people back up on their feet.

From a NAIC perspective, we have coordinated with state departments to help impacted communities and support those state efforts. For example, after the aforementioned Oklahoma tornadoes, the NAIC set up a call center to assist with adjuster licensing. Or another example is that in the aftermath of Superstorm Sandy, the NAIC set up a call center to support the effected states as they responded to a high volume of calls to the insurance departments. Staffed by regulators from other states, the call center represented the collaborative strength of our state-based system.

The NAIC has also taken an active role to educate Congress and providing technical feedback on various proposals by the federal government regarding natural catastrophes. We have also developed consumer resources specific to preparing for disaster, as well as working with your insurance company when you need to file a claim. The My Home Scrap Book App helps consumers create a home inventory, which is one of the best ways to insure you have adequate coverage on your home and belongings, as well as make filing an accurate claim easier.

Wrapping Up

We recognize there are many challenges ahead, and the landscape is constantly evolving under our feet. At the same time, we are steadfast in our commitment to our guiding principles of consumer protection and stable markets through the tried and true state-based system of regulation – while accomplishing all of this in an open and transparent process.

Thank you again for the invitation to be here today. I know the state regulators are about to speak, so I'll happily turn the floor over to them in just a minute, or three, actually, but before we move on to the panel, I would like to share a brief video that highlights what our system can do, and has done, in the face of natural disasters.