

NAIC 2014 Spring National Meeting
Orlando, FL

OPENING SESSION
Prepared Remarks of Commissioner Hamm

At the start of this year, NAIC leadership convened to outline our priorities for 2014. I would like to take this opportunity to highlight some of these key issues, which we will be addressing at this meeting: 1) Principle-Based Reserving, 2) the implementation of the Affordable Care Act, 3) Federal Issues and Relationships, 4) International Activities and Relationships and 5) Group Supervision.

But before getting into these priorities, I want to say a brief word about the recent Federal Insurance Office report on the Modernization of Insurance Regulation. I believe the report articulates what those around this table have known for some time – that state regulators have developed a system of oversight that satisfies our most fundamental regulatory objectives: insurance industry solvency and policyholder protection. The areas that the report recommends action on – and remember, that was the purpose of the report, to identify gaps and areas for improvement – are being taken seriously. In fact, many of the areas identified were already under consideration by various NAIC committees before the report was issued. State regulation is not and has never been static. As we continue to make significant enhancements to our system, it is always with a keen eye to our core mission – the stability of the insurance marketplace and protecting consumers.

1. Principle-Based Reserving

Now on to the priorities. The first topic I'd like to cover is the innovation we are seeing in our shift to principle-based reserve requirements, or PBR. We like to say the PBR system “right sizes” the reserve based on the underlying risks. That is good for insurers – neither holding

excess nor insufficient reserves are in the best interest of the company. Consumers would ultimately pay higher premiums to cover excessive reserves, or risk losing coverage if a company's inadequate resources resulted in insolvency.

States have begun the legislative adoption process for the Standard Valuation Law and Standard Non-forfeiture Law, which are needed for a state to move forward. To assist state legislatures in the adoption process and the understanding of PBR, a task force developed a legislative information package, which contains a brief summary of PBR, as well as a more detailed education brief. To date, eight states have adopted both laws.

The PBR Working Group, which serves as the coordinating body for all NAIC technical groups with projects related to PBR, will report on their activities since the last meeting. Some of these activities include a statistical agent framework and a review of proposed changes to the life and health annual statement blank and framework for risk-focused examination of PBR reserves.

In addition to the task forces and working groups created specifically to implement PBR, we have a number of existing task forces, working groups and technical groups working on implementation. To facilitate so many changes we hosted a webinar on PBR last October, and are continuing to work with state insurance departments.

Captives

A related issue to the PBR transition is the treatment of captives. For some time now, the NAIC has studied the various captive reinsurance transactions used by life insurers for term life insurance and universal life insurance with secondary guarantees, and we are in the process of establishing consistent regulatory treatment of the transactions. Part of this process is what I mentioned before, "right-sizing" reserve requirements, but it also includes other solvency issues

such as public statutory financial statements for captives. At this meeting, a committee and two task forces will continue working through the issues surrounding the use of captives.

2. Affordable Care Act (ACA)

PBR and Captives are certainly not the only areas where we are implementing change – the Affordable Care Act continues to take up much of our time and energy. The rollout has not been smooth across the country. The NAIC continues to support all of our members – regardless of whether they have a state-based exchange or a partnership or federally-run marketplace. In the areas where we do have consensus – especially in supporting consumers and the stability of the health insurance marketplace – we are working together. Some of the issues facing regulators – and by extension impacting the work of the NAIC – include: assisting consumers and carriers with enrollment issues; overseeing marketing activities by navigators, producers, assisters, and carriers; performing audits and market conduct exams 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 FAQs and consumer alerts on specific issues surrounding the ACA.

3. Federal Issues and Relationships

The ACA is a clear example of federal policy impacting local insurance markets. It is more critical than ever that we remain engaged with Congress and federal agencies to ensure that federal policy decisions don't adversely affect insurance markets across the country. More and more, I can see that our engagement is making an impact.

A systemic risk designation is now a reality for the insurance sector, with the classification of AIG and Prudential as systemically significant by the Financial Stability Oversight Council. What that means in practice has yet to be seen – and we are committed to

keeping our financial regulator counterparts engaged when it comes to actions that impact our markets. The standards that will be applied to designated firms will be influenced by domestic and international developments, and we must ensure there is a level playing field for non-designated companies, to avoid competitive disadvantages. As such, insurance regulators have an obligation to put forward ideas and thinking that best reflect the reality of the U.S. insurance market. Consumers in our states depend on us to do just that.

Federal Reserve

One of the consequences of a systemic designation is that a company will be subject to regulation by the Federal Reserve at the holding company level. We continue to serve as a resource regarding insurance regulation and provide input as to how they should exercise their new authorities. We have commented publicly on several proposed rules and have emphasized that they and other federal regulators need to take into account fundamental differences between insurance and banking.

The Treasury Department and Federal Reserve make up just a few of our many current federal engagement points. In any given week, NAIC members and staff are working with dozens of federal agencies and 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 and Federal Housing Finance Agency on a variety of matters that touch the insurance sector.

One example in this area is our active engagement with Congress on the reauthorization of the Terrorism Risk Insurance Act (TRIA), which expires at the end of 2014. TRIA is needed 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. If history is any indication, Congress will wait to extend TRIA, causing uncertainty in the marketplace. But we will keep engaging with Congress on this important issue until we have resolution, hopefully in the form of a long-term reauthorization.

Another important discussion we are having is the impact of the Bipartisan Budget Act of 2013 and the use of the Death Master File. This database is critical for insurers to verify policyholder benefits, so we are working closely with the Department of Commerce as it develops its certification process for users.

4. International Activities and Relationships

Another area of focus for the NAIC in 2014 is our commitment to engage internationally. Last summer, the Financial Stability Board designated nine internationally active insurance groups as systemically important. Several global reinsurers are also under consideration. Allowing insurers to engage in activities that make them systemic is not in the best interest of policyholders. To the extent they do engage in such activities, we need to be collaborative and thorough in addressing the source of risk. We have concerns that the creation of two tiers of companies—where some insurers are deemed “safer” than others—could lead to market disruptions, unfair competition or reduce market discipline. That is why the bar for designation should be high.

When it comes to global collaboration we are participating in a number of bilateral dialogues, like the one we launched with Japan earlier this month. For broader engagement, the forum we rely on is the International Association of Insurance Supervisors. As a founding member of the IAIS, the NAIC and state insurance commissioners remain committed to it as a forum for coordination and global standard-setting. At this meeting we will be discussing some

of our work at the IAIS, including: the Common Framework for the Supervision of Internationally Active Insurance Groups, the development of global capital standards, and capital requirements for internationally active insurance companies designated as systemically significant. We will also be discussing our work with the Organisation for Economic Co-operation and Development, the Joint Forum, and the Financial Stability Board.

The FSB and IAIS will certainly influence regulatory developments around the globe, and it is our job to make sure that rules applied to U.S. insurers and overseas insurers doing business here ultimately meet the standards set by U.S. regulators and policymakers, without adding new, unjustified burdens to industry and consumers. 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 for policyholders in an effort to mirror what may be popular to some.

5. Group Supervision

That brings me to our fifth priority for 2014 – group supervision. At the core of our group supervision of large multinational insurers is the use of supervisory colleges. U.S. regulators have used informal, and then formalized, supervisory colleges for decades. In 2012, insurance regulators began organizing and participating in international supervisory colleges. To promote engagement, the NAIC developed a web-based request form through which international regulators can request the participation of their U.S. counterparts.

The NAIC is also advancing work on the Own Risk and Solvency Assessment. We have conducted two ORSA pilot programs, and anticipate a third this year. These pilots have allowed regulators and the industry to collaborate and set expectations for the first round of reports due in 2015. Early results have been encouraging, as the process seems to be improving the

understanding between regulators and companies. And that understanding can only improve and strengthen our regulatory framework.

CIPR

On a related note to our 2014 priorities, one initiative that continues to develop at the NAIC is the work of the Center for Insurance Policy and Research. The CIPR offers a forum for international, federal and state lawmakers, regulatory agencies, and consumers. This work overlays nearly every initiative at the NAIC. For those of you who arrived in Orlando yesterday, I hope you attended the CIPR forum on Cyber Security. Forums like this are critical to our mission to stay on top of emerging issues in insurance regulation, and bring together authorities and experts to inform our thinking as we take on new challenges. In addition to hosting forums, the CIPR has created a number of Issue Briefs - available on the NAIC website - that explain complex issues and link to relevant NAIC activity. This kind of thought-leadership supports our mission by gathering insurance regulatory expertise in one place for regulators, industry and consumers.

Consumer Education

Also, I cannot talk about our mission to protect consumers without briefly mentioning the work we do to educate them about insurance needs.

Starting next month, we will be launching part of a new Insure U campaign that aims to inform policyholders about the insurance implications of major life events. We have developed “Get Ready Resources,” to help consumers prepare for life events. These tools focus on common situations when its especially important to ask the right questions, such as getting married or buying a new car or home. The campaign will include eye-opening insurance-related statistics

and facts about important life changes, and provides a checklist of simple things consumers can do to avoid costly mistakes.

I am also pleased to tell you that Amy Grant's radio and TV PSAs for baby boomers have now aired more than 75,000 times on nearly ten thousand stations. The advertising equivalent of that free airtime is valued more than \$9.6 million, and I think shows the tremendous value in our partnership with Amy.

Conclusion

While this list is far from exhaustive, these are the projects that are at the forefront of the NAIC, and many of them we will be giving a considerable amount of time and energy to over the next few days. Thank you all for making the trip to Florida this weekend to support and advance these issues, as well as the countless other initiatives we are facing. As always, we welcome input from all parties as we contemplate next steps on any front.

I look forward to a productive meeting. Thank you for joining us here in beautiful and sunny Orlando.