

U.S. Insurance Regulation and Supervision – Practical Training for ASSAL Members



Overview of U.S. Insurance Regulation and Supervision

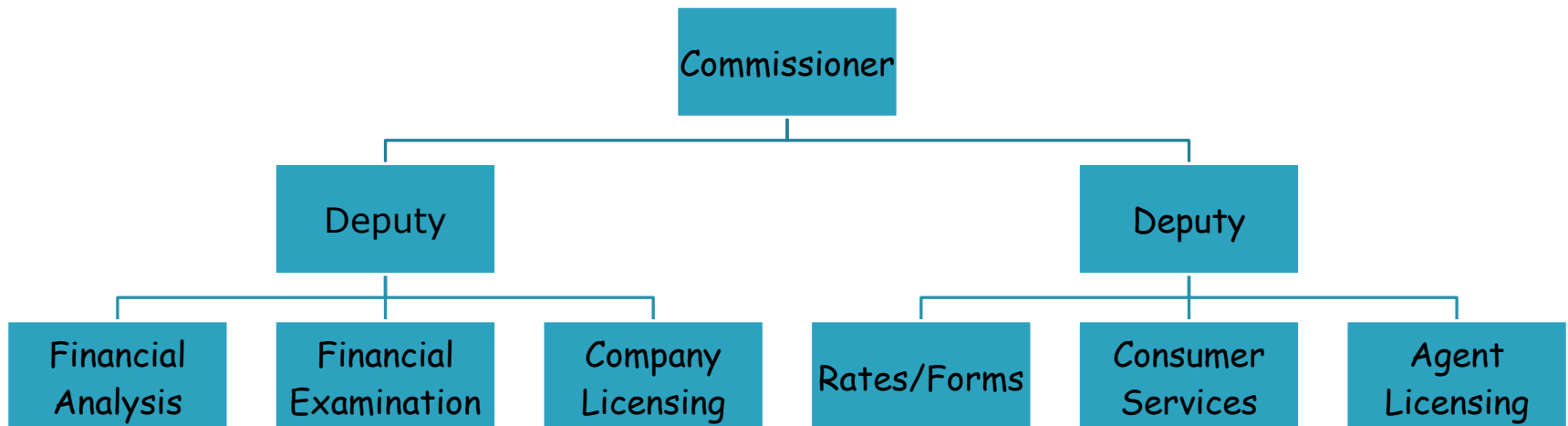
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NAIC

- Insurance Department Overview
- Basic Functions Of Insurance Regulation
- Role Of The NAIC
- Summary Information On U.S. Industry
- Interaction Between Regulators And Legislators

- State Regulation of Insurance
 - McCarran-Ferguson Act (1945) – “business of insurance” regulated by the states
 - Department of Insurance
 - Commissioner / Superintendent / Director
 - Mostly Appointed by Governor
 - Elected – 12 states
 - Appointed by Legislature - 1

- Department of Insurance
 - Commissioner, Deputy Commissioners
 - Licensing - Agent/Broker
 - Products Regulation
 - Forms
 - Rates
- Insurer Financial Regulation:
 - Licensing & Admissions
 - Financial Analysis & Examination
- Market Conduct/Consumer Affairs
- Legal
- Consumer Education
- Others

Prototype Organization



- Insurance Department Data
 - Total budgets 2010: \$1.79 B
 - Total budgets 2009: \$1.60 B
 - 11,590 full time employees
- Funding Sources
 - Applications, Filing Fees & Assessments
 - Fines & Penalties
 - General Funds
 - Premium Taxes

Insurance Regulators Protect Policyholders through:

- Solvency Surveillance (financial regulation)
- Ensure Appropriate & Equitable Rates (Products)
- Complex & Technical Nature Of Insurance Contracts (Consumer Services, products, transaction approval)
- Protect Consumers Against Fraud & Unethical Market Behavior (Market Conduct, Agents, Criminal Investigation)
- Foster Efficient Insurance Markets (Market Development)
- Restrict Ability Of Insurers To Withdraw From Certain Markets (Market Development)

To Enforce Insurance Laws

- Ensure Laws Are Followed & Implemented Correctly

To Keep the Public Informed

- Consumer Protection
- Insure U Campaign

To Preserve Open, Competitive Markets

- Prevent Under-priced Products To Gain Market Share
- Ensure That Premium Levels Are Adequate

To Maintain Insurer Solvency

- Continuously Monitor Insurers' Financial Condition
- Ensure That Insurers Are Financially Able To Pay Claims

Regulation of Direct Insurers & Reinsurers

• Direct Insurance

- Subject to Regulation by State(s) in Which the Insurer Is Admitted (Authorized/licensed) Carrier.
- Regulation Applies to All Lines of Business (e.g., Life, Health, Property & Casualty, Auto, Professional Liability, Workers Compensation).
- Regulatory Oversight of Rates, Financial Conditions, Accounting Standards, Market Conduct.

• Reinsurance

- Regulation for Reinsurers More Focused on Solvency and Credit Issues

- National Association of Insurance Commissioners (NAIC)

- 56 jurisdictions

- 50 states
- Washington, DC
- 5 U.S. “territories”

- Executive Office – Washington, DC

- Central Office – Kansas City, Missouri

- Capital Markets & Investment Analysis Office – New York, NY

- Triannual Meetings of Members
- Annual Commissioner's Retreat
- Interim Meetings
- Committees, Working Groups, Task Forces

NAIC Committee Structure

Plenary

Executive

- (EX1) Subcommittee – Internal Administration
 - Information Systems Task Force
- (A) Committee – Life Insurance & Annuities
- (B) Committee – Health Insurance and Managed Care
- (C) Committee – Property & Casualty Insurance
- (D) Committee – Market Regulation and Consumer Affairs
- (E) Committee – Financial Condition
- (F) Committee – Financial Regulation Standards and Accreditation
- (G) Committee – International Insurance Relations

- SVO Initiatives Working Group
- AIG Managing Task Force
- Information Systems Task Force
- Climate Change and Global Warming Task Force
- Government Relations Leadership Council
- International Insurance Relations Leadership Group
- Long-Term Care Task Force
- Producer Licensing Task Force
- Solvency Modernization Initiative Task Force
- Speed to Market Task Force
- Market Regulation Accreditation Task Force*
- Multi-state Enforcement Task Force*
- Regulatory Modernization Task Force*

- NAIC/Industry Liaison Committee
- NAIC/Consumer Liaison Committee
- NAIC/State Government Liaison Committee

Specifically...

- Array of Informational Tools, Resources and Products
- Insurance Company Financial Data, Market Conduct Data, Securities Valuation Data, Model Laws and Industry Publications
- Legal Support
- Research Support
- Education
- Opportunities for Regulators to Come Together

Illustration of NAIC 2010 Activities

- 3 National Meetings with 5,099 Total Attendees
- 61 NAIC Interim Meetings
- 2,387 Conference Calls (Member Toll-Free Access)
- 18 Funded Consumer Representatives
- 732 Million Total Media Impressions (TV, Radio PSAs, Consumer Alerts)
- 1,100+ Fulfilled Media Requests
- 6.5 Million Visits to NAIC Website (www.naic.org)
- 354,932 Visits to Insure U Website (www.insureUonline.org)
- 6.4 Million Visits to NAIC's Regulator-Only I-SITE Website
- 565,475 Insurance Product Submissions to The System for Electronic Rate and Form Filing (SERFF)
- 37,013 Online Fraud Referrals to Members
- 4,721 Annual and Quarterly Financial Statements
- 193 NAIC Publications and Data Products
- 400 Million Data Elements in Financial Data Repository
- 4,868 Uniform Certificate of Authority Applications Transmitted to Members
- 209 Classroom or Online Education Courses
- 136,170 Fulfilled NAIC Help Desk Inquiries (Phone/E-mail)
- 13,650 Fulfilled Statutory Accounting & Financial Reporting Inquiries
- 2,178 Fulfilled Research Library Inquiries
- 9 Full Accreditation Reviews
- 8 Pre-Accreditation Reviews
- 42 Interim Accreditation Reviews

Model Laws

- Developed to Establish Standards
- Can Be Adopted ‘As Is’ or Modified Slightly to Meet State Specific Needs
- Helps Consumers
- Keeps Company Costs Down
- New Plan for Consistent Review and Update
- Many Model Laws Become Nationwide Standards:
 - Accreditation Standards

Solvency and Accreditation

- NAIC's Financial Regulation & Accounting Division Provides Financial Regulation and Solvency Surveillance Support to States - Monitoring Approx. 1,300 Largest Insurers
- 1989 Policy Statement - Financial Regulation Standards
- 1990 – Formal Certification Program – Accreditation
 - Annual Evaluation and Re-certification at 5 Year Intervals
- Standards Are Flexible in Order to Adapt to Changing Market Needs
- As of June 2009 – all 50 States Certified/Accredited

NAIC Publications

- Currently, the NAIC Publishes Over 150 Insurance Related Products for use by Regulators, Insurers and Consumers
- Top Sellers
 - Medicare Supplement Guides and Long-term Care Guides
 - Annual Statement Instructions and Annual Statement Blanks
 - Accounting Practices and Procedures
 - Valuation of Securities CD
 - Model Laws
 - Listing of Companies
 - Retaliation Guide

NAIC Education

- 81 Education Programs – Regulators and Public



NAIC Research and Statistics

- Actuarial Expertise (Life, Health and P&C)
- Rate and Form Expertise
- Economic Studies
- Regulatory Policy Analysis
- Statistical Reports
- Market Analysis
- Assist in monitoring states' progress toward NAIC goals

- Total insurers in the U.S. – 7,869
 - Property/casualty – 2,737
 - Life/health/accident – 1,106
 - Others: HMO, Blue Cross/Shield, Fraternal
- Gross insurance premium (USD) - \$1.787 Tr.
 - Property/casualty - \$456B
 - Life/health/accident - \$1.2 Tr

- Source: 2009 Insurance Dept. Resources Report

- Largest states – annual premium volume

○ State	2009	2008
○ California:	\$221B	\$220B
○ New York:	\$152B	\$151B
○ Florida:	\$106B	\$105B
○ Texas:	\$98B	\$99B
○ Pennsylvania:	\$81B	\$81B
○ Vermont:	\$77B	\$2B

- Source: 2009 Insurance Dept. Resources Report

Global Insurance Market

	Jurisdiction	Premium Volume*	Market Share
	United States	\$1,548,934	34.61%
1	Japan	\$505,956	11.31%
2	United Kingdom	\$309,241	6.91%
3	France	\$283,070	6.33%
4	Germany	\$238,366	5.33%
5	<u>CALIFORNIA</u>	\$209,304	4.68%
6	Italy	\$169,360	3.78%
7	PR China	\$163,047	3.64%
8	<u>NEW YORK</u>	\$124,802	2.79%
9	Netherlands	\$108,144	2.42%
10	<u>FLORIDA</u>	\$101,895	2.28%
11	<u>TEXAS</u>	\$ 99,396	2.22%
12	Canada	\$ 98,840	2.21%
13	South Korea	\$ 91,963	2.05%
14	Spain	\$ 82,775	1.85%
15	<u>PENNSYLVANIA</u>	\$ 80,683	1.80%
16	India	\$ 65,085	1.45%
17	Taiwan	\$ 63,647	1.42%
18	Australia	\$ 60,317	1.35%
19	<u>ILLINOIS</u>	\$ 59,369	1.33%
20	<u>OHIO</u>	\$ 56,045	1.25%

* US \$ million
2009 DPW



National Association of
Insurance Commissioners

& The CENTER
for INSURANCE
POLICY
and RESEARCH

- “Producers” = agents, brokers
- Total licensed agents, brokers
 - 6,032,018 Licensed Individuals
 - 2,124,924 Resident
 - 3,907,094 Non-resident
 - 483,763 Licensed Business Entities

- Source: 2009 Insurance Dept. Resources Report

- State Legislature
 - House
 - Senate
 - NCSL (National Conference of State Legislators)
 - NCOIL (National Conference of Insurance Legislators)
- State Department of Insurance
 - Legislative Proposals, Consultation - Model Laws
 - Authority to “Regulate” / Implement Laws

Hot Topics in the U.S.

- On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA).
- The Bill is over 2300 pages long and consists of 17 Titles.
- Much of it relates to issues that are unrelated to insurance; however, the new law does establish a new federal role regarding insurance in a number of critical respects.

1. Develop the standards for designating “**systemically important financial institutions**”
2. Monitor the market & promote market discipline – eliminate expectations of bailouts
3. Respond to emerging threats

- **Title I: Financial Stability Oversight Council (FSOC)**
- Financial Stability Oversight Council to identify risks to U.S. financial stability from the ongoing activities, material distress or failure of large interconnected financial companies, including insurance companies.
- 10 voting members (Treasury, Fed, Comptroller of the Currency, CFPB, SEC, FDIC, CFTC, FHFA, NCUA, **member with “insurance expertise” (TBD)**)
- 5 non-voting members
 - Director of the Office of Financial Research (TBD)
 - **Director of the Federal Insurance Office (Former IL Director Mike McRaith since June)**
 - **State insurance commissioner (MO Director John Huff)**
 - State banking supervisor
 - State securities commissioner

- The Council has met 5 times on October 1, November 23, January 18, March 17 and May 24.
- It has focused on three main areas that could have an impact on insurers:
 - Designations of Non-Bank Financial Companies for supervision by the Fed
 - Conducting a study and making recommendations on implementing the Volcker Rule
 - Conducting a study and making Recommendation of implementing concentration limits on large financial firms

- Insurance is a unique product
- Traditional insurance activities did not cause the financial crisis
- Insurance regulators already have well-developed systems for rehabilitating and/or unwinding troubled insurance companies

Liquidation of Unstable Companies

SIFIs are referred to the Federal Reserve, which shall impose “heightened prudential standards”

If a SIFI becomes unstable:

Affirmative vote from 2/3 Fed Board of Governors & from 2/3 of Federal Deposit Insurance Corporation

Liquidation under FDIC authority

If an INSURANCE SIFI becomes unstable:

Affirmative vote from 2/3 Fed Board of Governors & from the FIO Director

Liquidation under state authority UNLESS state fails to act within 60 days – then FDIC steps in

Difficult to imagine a scenario where the FDIC might become involved – **ONE SIZE DOES NOT FIT ALL!**

- The Volcker Rule

- New restrictions on SIFIs engaging in proprietary trading
- Vague exception for insurance companies
- Rule coming in October 2011

- Derivatives

- SEC & CFTC working on rules
- Insurance use of derivatives: primarily to hedge against risk
- We are monitoring the development of new systems to track derivative transactions

- Establishes a Federal Insurance Office (FIO), housed in the Treasury Department
- Help the federal government gain a better understanding of the insurance market and negotiate international agreements
 - Does not give Treasury general supervisory or regulatory authority over the business of insurance.
 - No jurisdiction over solvency or capital

- The Treasury department and the USTR have authority to enter into “covered agreements” - international agreements that preempt state law if they are:
 - 1) entered into between the U.S. and a foreign government, authority, or regulatory entity, and
 - 2) relate to the recognition of prudential measures to the business of insurance or reinsurance that achieves a level of protection of insurance or reinsurance consumers that is substantially equivalent to the protection achieved under state law.

- Preemption shall not include:
 - any State insurance measure that governs any insurer's rates, premiums, underwriting, or sales practices;
 - any State coverage requirements for insurance;
 - application of the antitrust laws of any State to the business of insurance;
 - or any State insurance measure governing the capital or solvency of an insurer, except to the extent that such State insurance measure results in less favorable treatment of a non-United State insurer than a United States insurer;

Questions?

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