NAIC/INDUSTRY LIAISON COMMITTEE

NAIC/Industry Liaison Committee Oct. 19, 2010 Minutes

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NAIC/Industry Liaison Committee
Orlando, FL
October 19, 2010

The NAIC/Industry Liaison Committee met in Orlando, FL, Oct. 19, 2010. The following Committee members participated: Jay Bradford, Chair (AR); Michael T. McRaith, Vice Chair (IL); Susan E. Voss (IA); Brett J. Barratt (NV); and Neal T. Gooch (UT). Also participating were: Barbara Spear (CT); Tom Travis (LA); Ken Ross (MI); John M. Huff (MO); Alan Wickman (NE); John Franchini (NM); JoAnne Scott (VA); Mary Jane Pickens (WV); and Eileen Mallow (WI).

The following industry representatives participated: Neil Alldredge (National Association of Mutual Insurance Companies—NAMIC); Wes Bissett (Independent Insurance Agents and Brokers Association—IIABA); Deirdre Manna (Property Casualty Insurers Association of America—PCI); Robert Neill (American Council of Life Insurers—ACLI); and David F. Snyder (American Insurance Association—AIA).

1. Dodd-Frank Implementation

Director Huff said that the inaugural meeting of the Financial Stability Oversight Council (FSOC) was held Oct. 1 in Washington, DC. He reminded the Committee that the FSOC is comprised of 10 voting members and five non-voting members (including a state insurance regulator). Director Huff said that the timing of this meeting, combined with the fact that not all members have been appointed to the FSOC yet, meant that he was the only insurance person present at the Oct. 1 meeting. Director Huff reported that the Oct. 1 meeting was largely one of process and organization, with a discussion of the bylaws and transparency policies that have since been posted on the FSOC website.

Director Huff reported that the FSOC has released two Advanced Notices of Proposed Rulemaking (ANPRM). The first ANPRM focuses on how the FSOC should designate "systemically important financial institutions" (SIFIs) in need of enhanced oversight from the federal government. The second ANPRM focuses on development and implementation of the Volcker Rule on proprietary trading by financial institutions such as insurance companies. Director Huff said he hoped that companies would comment on both ANPRMs, and that he would like to see copies of any comments that are submitted.

Director Huff said that Elise Liebers has joined the NAIC to provide FSOC staff support, as well as to work on international insurance matters. Director Huff said that Ms. Liebers previously worked for the Federal Reserve Bank of New York and the New York State Insurance Department.

Director Huff concluded his presentation by reporting that the FSOC would be required by statute to meet quarterly, and that the next FSOC meeting would be in late November or early December.

Commissioner Voss asked the industry participants what their plans were regarding the ANPRMs.

Ms. Manna said that PCI would file comments on both notices. She reported that PCI has hired an economic consultant to help on the SIFI ANPRM, and that their response will highlight that property/casualty companies do not pose systemic risk. She added that property/casualty impairments are not typically impacted by broader economic cycles. Ms. Manna said that PCI would ask the FSOC to respect the insurance carve-out in its response to the Volcker Rule ANPRM.

Mr. Alldredge reported that NAMIC has been studying the issue of "too big to fail" since the financial crisis started, in consultation with experts from the Wharton School of the University of Pennsylvania. He agreed with Ms. Manna that property/casualty companies do not pose systemic risk. He said that NAMIC's response to the Volcker Rule ANPRM remains under development.

Mr. Snyder said that the real challenge in responding to the SIFI ANPRM lies in the set of metrics required by the FSOC. He said that AIA will be working to distinguish banks from insurers, and noted that the debate on SIFIs has largely been defined by banking regulators. He added that the AIA will submit comment on the Volcker Rule ANPRM, and that his organization is also taking a close look at the FDIC's Notice of Proposed Rulemaking regarding the liquidation of failing companies. Mr. Snyder concluded by saying that the NAIC's work on the liquidation notice of proposed rulemaking would be especially important.

Mr. Neill said the ACLI will comment on both ANPRMs, and share such comments with Director Huff. Director Huff said that the NAIC has yet to determine whether it will submit formal comments in response to the ANPRMs.

2. Hearing from CEOs at Future Meetings

Commissioner Bradford said that, in a continued effort to bring more diversity to NAIC/Industry Liaison Committee discussions, regulators had discussed inviting insurance company CEOs to future hearings. He said that he saw numerous potential benefits to such invitations, including renewed interest from health insurance CEOs.

Mr. Snyder responded that he would be happy to explore this idea. He added that the industry representatives will work to vary appearances at future NAIC/Industry Liaison Committee hearings.

Ms. Manna said that she consulted with some CEOs whose companies are members of PCI. She said that if there is a specific issue, then interest from CEOs would be possible. For example, Ms. Manna cited databases as having a large potential impact on the business of insurance. Ms. Manna concluded by saying that she would reach out to more PCI members to gather additional opinions on this idea.

Mr. Neill said that ACLI would be happy to make a CEO available, but added that the complaints from CEOs would be the same as complaints from the industry representatives currently attending NAIC/Industry Liaison Committee meetings.

Mr. Bissett said that he would consult with other parties on this matter.

Commissioner Voss pointed out that having decision-makers come to future NAIC/Industry Liaison Committee meetings would be helpful because this is a critical time for state-based insurance regulation, and CEOs do not attend technical meetings. Commissioner Voss listed National Association of Registered Agents and Brokers (NARAB), Solvency II and Basel III as three examples of topics that would be ripe for discussion with CEOs at this Committee. Commissioner Voss suggested looking at alternative times for future meetings of the NAIC/Industry Liaison Committee during future national meetings, and reminded the Committee that new regulators would be attending Committee meetings in 2011.

Ms. Manna suggested that NAIC staff pick a future meeting for CEOs and chief financial officers to discuss the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

3. Review of Property/Casualty Market Conditions and Possibilities for Improvements

Mr. Snyder said that he would give a PowerPoint presentation on the property/casualty market. He said that he would first provide an overview of the market, and then suggest possible action to maintain the functionality of the market.

Mr. Snyder began with an overview of the personal automobile insurance market. He said that there are 330 companies writing personal automobile insurance in the United States, resulting in a Herfindahl-Hirschman Index (HHI) number of 698. Mr. Snyder reminded the audience that HHI is a commonly accepted measure of market concentration, with higher numbers reflecting higher concentration. Under HHI, 1,200 is "mildly concentrated," and 1,800 is "very concentrated." Mr. Snyder pointed out that the cost increase of personal automobile insurance was lower than other items between the years of 1995 and 2009. During that period, energy costs increased by 83.6%, medical care increased by 70.5%, professional services increased by 58.9% and motor vehicle insurance increased by 52.4%. Mr. Snyder added that residual markets for personal automobile insurance are at near-historic lows.

Mr. Snyder said that 378 companies are writing homeowners insurance in the United States, resulting in an HHI number of 850. Mr. Snyder provided a comparison of cost increases for tenants and household insurance vs. other costs between 2000 and 2009: energy increased 55%; electricity increased 50%; housing increased by 28.5%, and tenants and household insurance increased by 17.2%. Mr. Snyder said that residual markets for homeowners insurance are at or near historic lows, with a few exceptions related to coastal exposures.

Mr. Snyder said that personal automobile and homeowners insurance markets reflect balanced systems that should not be upset through new and unnecessary regulations related to risk classifications, credit scoring, contract writing standards or departures from risk-based pricing.

Mr. Snyder then continued with a comparison of various commercial lines of insurance. He said that 569 companies are writing general liability insurance, with an HHI of 443. He said that 342 companies are writing commercial automobile insurance, with an HHI of 284. He said that 331 companies are writing commercial multi-peril insurance, with an HHI of 323. He said that 271 companies are writing workers' compensation insurance, with an HHI of 373. Mr. Snyder said that this comparison paints a strong picture that commercial lines of insurance are extremely competitive.

Mr. Snyder pointed out that, during the recent economic crisis (between 2007 and 2009), commercial line premiums dropped. The overall commercial premium dropped by 11%, workers' compensation premiums dropped by 22.3%, commercial automobile premiums dropped by 15.7%, commercial property premiums dropped by 5.1% and general liability dropped by 15%. Mr. Snyder said that this effort from commercial producers has been challenging. Mr. Snyder added that, during the crisis, homeowners insurance was the only property/casualty line to experience growth in premium volume.

Mr. Snyder said that loss ratios among commercial lines of insurance have remained favorable due to declines in losses. He said that all major commercial lines except workers' compensation saw favorable loss ratios in 2009. Mr. Snyder said that much of this could also be attributed to solvency work within the insurance realm—that we are enjoying the benefits of having solvent companies within the commercial lines market. Mr. Snyder said that commercial lines are highly competitive markets, leading to decreases in premiums.

However, Mr. Snyder said that commercial property/casualty insurers are losing billions of dollars each year due to excessive regulations preventing companies from meeting customer needs. He argued that some states have had good experiences with less regulation of commercial lines, but that most states still require prior approval before allowing a company to sell a product. Mr. Snyder suggested opening a dialogue on streamlining regulation of commercial lines and, thereby, regulating for recovery of property/casualty premiums. Mr. Snyder said that alternative risk transfer mechanisms leave commercial property/casualty insurers at a competitive disadvantage, especially within larger commercial markets. Mr. Snyder concluded by saying that the enhanced ability of commercial insurers to promptly provide products would help make them globally competitive and recapture billions of dollars in lost premiums and premium taxes.

Mr. Travis agreed that there is strong competition within commercial lines of property/casualty insurance, but warned that grouping such companies according to the Herfindahl-Hirschman Index could lead to attacks, because there are some who disagree with HHI scoring procedures. He added that the debate on future regulation of commercial insurance should be in the context of improving competition for consumers. Mr. Travis said that this issue is not just a matter for looking for ways to deregulate commercial insurance.

Commissioner Bradford said that the NAIC/Industry Liaison Committee could keep this topic on the agenda for future discussion.

4. Other Matters

Commissioner Bradford reminded the Committee that its mission statement is "to meet at least twice a year to discuss issues of common interest to regulators and insurance industry representatives."

Ms. Manna announced that her time as point person on behalf of industry representatives at the NAIC/Industry Liaison Committee is ending, and that she does not yet have a replacement for her position.

Director McRaith pointed out that everyone is overscheduled at national meetings, and that the Committee must try to make future NAIC/Industry Liaison Committee meetings useful. He said that NAIC/Industry Liaison Committee hearings should not be held just to balance out the NAIC/Consumer Liaison Committee.

Having no further business, the NAIC/Industry Liaison Committee adjourned.

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