

# INTERNATIONAL REPORT

**NAIC** & The CENTER  
for INSURANCE  
POLICY  
and RESEARCH  
National Association of  
Insurance Commissioners

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*Mark Your Calendar:  
NAIC International Insurance Forum  
May 10-11, 2012 - Washington, DC*

**NAIC PRESIDENT AND SMI TASK FORCE CHAIR  
MEET WITH EUROPEAN PARLIMENTARIANS**

NAIC President Susan Voss and Director Christina Urias (AZ) along with NAIC staff Eric Thompson and Ekrem Sarper traveled to Brussels, Belgium in early October for a series of meetings with the European Parliament and the European Commission. Over two days the NAIC delegation met with a number of key European officials including: Burkhard Balz, the rapporteur<sup>1</sup> for Omnibus II; Sharon Bowles, the chair of the Economic & Monetary Affairs Committee; Peter Skinner, the rapporteur for Solvency II; Nadia Calvino, Deputy Director of Directorate General for Internal Market & Services for the European Commission; and Karel Van Hulle, head of unit Insurance & Pensions at European Commission.

The NAIC delegation's objectives were to meet face-to-face with the Parliament & senior members of the Commission following a successful dialogue with EIOPA held in September in Frankfurt. The NAIC emphasized that we support Europe's efforts to modernize its regional solvency regime through Solvency II, and that we are closely monitoring the development of it and other regulatory modernization efforts around the world. Director Urias outlined for the officials the ongoing work of the NAIC's Solvency Modernization Initiative (SMI), and emphasized that there may be elements of Solvency II that we can learn from and consider incorporating into our system as appropriate, such as the ORSA, but that SMI was not a response to Solvency II because part of the ongoing review the U.S. has always done to enhance its system. The delegation underscored that the U.S. has a strong system of insurance solvency supervision that helped the world's largest insurance market weather the worst financial crisis in decades.

Commissioner Voss stressed that equivalence should be on an outcomes-focused process – where equivalence is based on a comparison of our systems through broad principles of policyholder protection and not prescriptive, “one size fits all” requirements – and that recognition of U.S. equivalence is very important to avoid putting insurers based in either the U.S. or Europe at a competitive disadvantage.

The visit advanced relations between the NAIC, State Regulators and the European Parliament & Commission. Both sides agreed that the Trans-Atlantic insurance market is too important for there to be any disruption in trade. The objective for the

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<sup>1</sup> Authors of reports prepared by committees of the European Parliament are also known as "rapporteurs".

U.S. & the EU is a win-win outcome where the State insurance regulators and the NAIC continues to work closely with EIOPA and the regulators in the EU Member States on cross border supervision of groups. Regulators on both sides of the Atlantic want to avoid another financial crisis and the key to this is improved cooperation and coordination at all levels.

A work plan has been established between the NAIC and EIOPA which focusses on creating a better understanding of high priority issues related to the supervision of trans-Atlantic groups. This will lay the ground work for the next regulator to regulator meeting between the U.S. and the EU in April next year in the U.S. Over the last few years there has been a significant increase in the amount of cooperation between our two sides and engagement at all levels will continue into the future.

### **TRANSATLANTIC DIALOGUE WITH EIOPA AND THE EUROPEAN COMMISSION AND CIPR CO-SPONSORED CONFERENCE**

On September 6 and 7 more than 13 insurance regulator representatives from the NAIC, Federal Insurance Office (FIO) the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission (Commission) met in Frankfurt, Germany as part of the ongoing US-EU insurance regulatory dialogue designed to better understand our respective systems and the challenges we collectively face with regard to international insurance regulation. EIOPA hosted the regulator-only session, and topics discussed included solvency modernization, group supervision (including the professional secrecy and the exchange and maintenance of confidential information and the use of supervisory colleges) and the EU equivalence process. This meeting was a follow up to the meeting held in Washington DC earlier this year. Regulators also discussed systemic risk and financial stability including representation of the insurance sector at the FSB through the domestic angle as well as through the IAIS Financial Stability Committee in addition to the regulators respective roles at the Financial Stability Oversight Council (FSOC) and the European Systemic Risk Board (ESRB).

The regulators were joined on September 7 and 8 by industry representatives and academics from both sides of the Atlantic at an event co-sponsored by the NAIC's Center for Insurance Policy & Research (CIPR) in conjunction with the International Center for Insurance Regulation (ICIR) and EIOPA. The objective of this international Conference on Transatlantic Insurance Group Supervision (TIGS) held at Goethe University, Frankfurt, Germany was to foster the transatlantic dialogue between supervisors and leading professionals of the insurance industry on the subject of transatlantic insurance group supervision.

During the conference, insurance supervisors presented current and emerging practices, as well as their views regarding group supervision and the challenges that transatlantic insurance groups pose to insurance supervisors. The insurance company executives also had the opportunity to present their views on the supervisory frameworks of the US and Europe, the similarities and differences in group supervision as a result of operating in both jurisdictions, and where/how convergence in the supervisory approach would be beneficial to both supervisors and the insurance industry. Presenting on behalf of the NAIC at the TIGS were Commissioner Susan Voss (IA); Senior Associate Commissioner Danny Saenz (TX); and Dr. Therese Vaughan, NAIC Chief Executive Officer.

### **U.S. & CHINESE REGULATORS CONTINUE TO DEEPEN RELATIONS**

The Third Round of the China-US Strategic and Economic Dialogue (S&ED) was held on May 9-10, 2011, in Washington DC, with the two sides discussing major bilateral, regional and global issues. NAIC President Susan Voss represented the State Insurance regulators at these high level talks.

The S&ED was established in 2009 by Presidents Obama and Hu, and it is led by the senior representatives for the Strategic and Economic Dialogue – Secretary Clinton and Secretary Geithner on the U.S. side; Vice Premier Wang Qishan and State Councilor Dai Bingguo on the Chinese side. The objective of the Strategic and Economic Dialogue is to bring together across both governments the right people at the right level to talk about, engage, and make progress on issues of concern to both countries. The growing importance of our bilateral/economic relationship is reflected by the senior-level representation.

In addition to NAIC President Susan Voss, 16 U.S. Government agency heads representing the U.S. delegation, including Fed Chairman Bernanke, Commerce Secretary Locke, Labor Secretary Solis, and SEC Chairman Schapiro participated. About 20 Chinese agencies on the economic side were represented, eight at the agency head level, including Finance Minister Xie, Central Bank Governor Zhou, Commerce Minister Chen and Chairman WU of China Insurance Regulatory Commission (CIRC). Specifically on insurance China made a commitment to move toward allowing US firms to sell mandatory third-party auto insurance and both sides agreed to continue the dialogue to deepen the relationship between the regulators.

Further to that commitment the NAIC has met with the CIRC on a number of occasions. Commissioner Voss met with Chairman WU on the sidelines of the S&ED in May to discuss bilateral issues of concern which was followed by a high level

visit by one of CIRC's Vice Chairman in August. NAIC Vice President Jim Donelon (LA) and Commissioner Tom Leonardi (CT) participated in that high level meeting with a focus including the continuing training of regulators and senior executives within the insurers.

The highlight of the year was the joint lunch between the NAIC-CIRC and the Federal Insurance Office (FIO). With NAIC's senior leadership present in Seoul, Korea for the IAIS Annual Meeting the NAIC organized a high level lunch with the Chairman of CIRC. With China's prominent role at the IAIS on the Executive Committee and their chairmanship of an important committee, many of the topics focused on the ongoing IAIS work, especially with regards the ComFrame project.

### **NAIC MEETS WITH LATIN AMERICAN REGULATORS**

2011 saw an increase in activity with Latin American regulators through various initiatives including participation in the association for Latin American insurance regulators "ASSAL" Annual Meeting held in Puerto Rico and a solvency seminar in Chile. At the ASSAL Annual Meeting held April 24 – 28 in San Juan, Puerto Rico, NAIC was represented by NAIC President Commissioner Susan Voss (IA), NAIC Secretary-Treasurer Commissioner Adam Hamm (ND), Director Christina Urias (AZ) and Commissioner Merle Scheiber (SD). On the sidelines of this meeting the NAIC also held a regulatory dialogue with ASSAL Members present at the Annual Meeting.

Following this meeting, the ASSAL invited NAIC to send technical staff to Santiago, Chile in early July to provide further details on the U.S. solvency model. As Latin American regulators are enhancing their solvency models this was an excellent opportunity for NAIC to present a detailed look of the U.S. solvency system. The seminar was extremely well received with over 50 participants from the ASSAL members.

NAIC also held a follow up to the seminar at the recently held IAIS Annual Meeting in Seoul, Korea and discussed various topics of mutual interest to both sides. It was agreed that NAIC would continue to build a closer relationship with the ASSAL in the coming year and send experts to provide training where possible in seminars and conferences.

### **NAIC PARTICIPATES IN MEETINGS AT THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)**

The Insurance and Surety National Commission (CNSF) and National Commission for the Pension System (CONSAR) of Mexico hosted a special session of the Organization for Economic Cooperation and Development (OECD) Insurance and Private Pensions Committee (IPPC) and its Working Party on Private Pensions (WPPP) in celebration of the OECD's 50<sup>th</sup> anniversary. Commissioner Voss (IA) and Ekrem Sarper (NAIC) participated in the IPPC and a special Seminar on Annuities and Pensions from June 8 – 10 in Mexico City, Mexico. The event included participants from Latin America and other regions, including members of the Asociación Internacional de Organismos de Supervisión de Fondos de Pensiones (AIOS), International Organisation of Pensions Supervisors (IOPS), and Asociación de Supervisores de Seguros de América Latina (ASSAL). Commissioner Voss was a panelist during the special seminar and presented on Annuity Suitability and Disclosure.

Participants from the 30 Member countries and private sector representatives engaged in discussions on a number of issues, including a draft revised report on policyholder protection schemes, draft G20 principles for consumer financial protection and financial education, a strategic look ahead at 2012-2013 and the development of a work plan.

The IPPC also held two special roundtables as part of this meeting related to the "Contribution of insurance to Economic Growth" where Commissioner Voss participated and also "Insurance Markets in Latin America". The next OECD IPPC meeting is scheduled for December 1 & 2 in Paris, France.

### **NAIC PARTNERS WITH FINANCIAL STABILITY INSTITUTE TO PROVIDE TRAINING TO LATIN AMERICA REGION**

September 6<sup>th</sup> through 8<sup>th</sup> 2011, the Financial Stability Institute (FSI) held a regional seminar for Supervisors in Latin America on Risk-Based Supervisory Practices and Regulatory Capital. 24 people attended the event held in San Jose Costa Rica. Opening remarks were given by Mr. Javier Cascante, Superintendent, SUGESE Costa Rica. Seven presentations were given over a two-day period by 3 presenters which were followed, on the third day, by two case studies and a concluding presentation. Larry Bruning, International Actuary for the NAIC gave two presentations. One was on Capital Adequacy and Supervisory Assessment in the United States and the other was on Investment Policy and Asset Liability Management in the United States.

A list of the presentations included:

- Insurance Core Principles and Global Financial Stability – Dave Finnis, IAIS
- Capital Adequacy and Supervisory Assessment of Solvency Positions – Larry Bruning, NAIC
- Risk-based Supervision, Including Off-site and On-site Inspection – Dave Finnis, IAIS
- Enterprise Risk Management and Internal Models – Stuart Wason, OSFI Canada
- Best Estimate of the Technical Provisions – Stuart Wason, OSFI Canada
- Investment Policy and Asset Liability Management – Larry Bruning, NAIC
- Case Study 1 Risk-based Solvency and Supervision – Dave Finnis, IAIS
- Case Study 2 Intervening Before It's Too Late – Gunilla Lofvendahl, FSI
- Early Warning Systems and Progressive Intervention Levels – Gunilla Lofvendahl, FSI

The seminar was well received based on a review of a survey completed by the participants.

#### **OFFICE OF THE INSURANCE COMMISSION (OIC) REQUESTS TRAINING FROM NAIC ON AUTOMATED SOLVENCY TOOLS**

Earlier this year the NAIC received a request from the Thailand's Office of the Insurance Commission (OIC) to provide training to their regulators on the use of automated solvency tools. The OIC are in the process of updating their financial databases and their tools and in light of NAIC's experience with automated solvency tools within the iSite system, NAIC staff including Todd Sells, David Vacca and Ekrem Sarper traveled to Bangkok, Thailand in June. Over three days the NAIC staff provided insights into the creation of the system and the power behind the tools. Over 100 staff from the OIC participated in this training session held at the OIC's offices and the seminar was extremely well received.

The OIC explained that they developed their version of iSite as a direct result of their participation in the NAIC International Fellows program. The NAIC invited the OIC to send a delegation to the NAIC's Kansas City offices to continue the training that began in Bangkok. A large OIC delegation visited the Kansas City office in mid-October for 3 days of in depth training from some of the IT & IS staff.

The relationship between the NAIC and the OIC continues to strengthen over time, with these types of dialogues and technical exchanges. The outgoing OIC Chairman and the NAIC delegation attending the IAIS Annual Meeting also held a dialogue to continue sharing information and experiences on the best practices of supervising insurers.

#### **INTERNATIONAL TRADE UPDATE: SOUTH KOREA, COLOMBIA AND PANAMA SIGNED INTO LAW**

Congress passed three long-awaited free trade agreements on October 12, 2011, ending a political standoff that has stretched across two presidencies. The approval of the deals with South Korea, Colombia and Panama are the first trade agreements to pass Congress since the approval of an agreement with Peru in 2007. The Bush administration had won approval for trade agreements with 14 countries before the Democrats took control of the Senate and the House in 2008.

The House voted to pass the Colombia measure, the most controversial of the three deals because of concerns about the treatment of unions in that country, 262 to 167; the Panama measure passed 300 to 129, and the agreement concerning South Korea passed 278 to 151. The votes reflected a clear partisan divide, with many Democrats voting against the president. In the Senate, the Colombia measure passed 66 to 33, the Panama bill succeeded 77 to 22 and the South Korea measure passed 83 to 15. Senator Harry Reid of Nevada, the majority leader, voted against all three measures. The agreements were signed into law by President Obama on October 21, 2011, bringing to 20 those countries that have free trade relations with the United States.

The most significant of the three agreements for the insurance sector is the U.S.-South Korea Free Trade Agreement ("KORUS FTA") which was heralded as "a groundbreaking achievement, providing more extensive provisions related to financial services than ever before included in a U.S. FTA" by the United States Trade Representative. Korea is the 9<sup>th</sup> largest insurance market in the world with \$114 billion in premium value in 2010. This agreement has been cited as a model for future trade agreements, as the KORUS FTA further opens Korea's market to U.S. financial services companies and could pave the way for access to the growing Asian market. For State regulators little will change except the creation of a special annual insurance committee to address foreign insurer market access issues. The U.S. insurance market is already fully open

to investors from around the world and this agreement will create a level playing field which is critical for U.S. companies to be able to invest further in these emerging insurance markets. Trade agreements contribute to stronger and more resilient economies and help deepen capital markets and investment in the long run.

The U.S. is one of the world's largest insurance markets in the world having developed over 150 years ago. With sophisticated consumers in the U.S., with a high demand for new and innovative insurance products, the U.S. provides an excellent opportunity for world class insurers to invest in. There are many foreign insurers already operating in the U.S. and these agreements will in the long run bring more well run, stable insurers into the marketplace.

The U.S. Trade Representative Office is now shifting its attention to the Trans-Pacific Partnership, an economic alliance that would link the United States with Brunei, Malaysia, New Zealand, Vietnam and four countries that are already free trade partners — Australia, Chile, Peru and Singapore. Going beyond cutting tariffs, the alliance would tackle such areas as financial services, intellectual property rights, government procurement, investment and conservation.

### **JOINT FORUM UPDATE**

Since the last report, the Joint Forum has issued its "Report on asset securitisation incentives" and has finalized its non-public report on Intra-group Support Measures. It is also working on a pilot study monitoring the implementation of the recommendations in the 2010 "Review of the Differentiated Nature and Scope of Financial Regulation".

The Joint Forum is proposing to its parent committees that its membership be expanded by three authorities, one from each sector.

There are current proposals to add new mandates for the working group on Risk Assessment and Capital (JFRAC) relating to point of sale disclosure, mortgage insurance, and longevity risk. These will likely be formally endorsed by the Plenary in early November. US State Insurance Regulator input will be sought on all mandates.

The working group on Principles for the Supervision of Financial Conglomerates (JFPSFC) continues to work on updating the 1999 principles. Consultation with the parent committees in detail will shortly take place, although the work may continue in the latter part of the year and during next year. The JFPSFC has, we hope, managed a compromise definition of a financial conglomerate that requires that a conglomerate conduct material financial activities in at least two of the regulated banking, insurance or securities sectors, while allowing that jurisdictions may choose to apply the principles to entities with activities in only one of the sectors so as to cover non-regulated entities that might otherwise escape group-wide supervision. In addition, the JFPSFC is expected to undertake a new work stream on "coordinating the pre-conditions of Core Principles among standard setters".

### **NAIC FELLOWS PROGRAM PARTICIPATION EXTENDS BEYOND 150 PARTICIPANTS**

On October 10<sup>th</sup>, the NAIC welcomed 14 fellows to the International Fellows Program, including from Albania (1); Australia (1); China (1); India (6); Saudi Arabia (2); and Thailand (3). Host jurisdictions for the fall 2011 Program include Alabama, California, Connecticut, Iowa, Louisiana, Missouri, Nebraska, Ohio, Oklahoma, Pennsylvania and Washington, D.C. The NAIC developed the program in 2004 to advance working relationships with foreign market regulators, emphasizing the exchange of regulatory techniques and technology. The success of the program is reflected by the fact that over 150 regulators will have participated in this program with the completion of this 2011 fall program.



The program will conclude in New York, NY with a seminar hosted by the NAIC Capital Markets & Investment Analysis Office followed by a debriefing program, a seminar on industry-regulator relations by the US insurance industry and a

ceremonial graduation dinner to highlight the fellows’ accomplishments. The NAIC Fellows Program is conducted twice a year—spring and fall.

To date, 32 US jurisdictions have hosted these non-U.S. regulators, including: Alabama, Arkansas, California, Connecticut, Colorado, District of Columbia, Georgia, Hawaii, Iowa, Illinois, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Puerto Rico, South Carolina, Texas, Vermont, Virginia, Washington, and West Virginia. We look forward to additional jurisdictions joining this growing list.

<b>Timeline for Fall 2011 International Fellows Program</b>	<b>Timeline for Spring 2012 International Fellows Program</b>
<b>NAIC Central Office, Kansas City, Missouri</b> Training Dates: October 10 – 14	<b>NAIC Central Office, Kansas City, Missouri</b> Training Dates: April 9 – 13
<b>Host State—State Insurance Department</b> Week 1–5: October 17 – November 18	<b>Host State—State Insurance Department</b> Week 1–5: April 16 – May 18
<b>NAIC Capital Markets &amp; Investment Analysis Office – New York</b> Dates: November 21 – 22	<b>NAIC Capital Markets &amp; Investment Analysis Office – New York</b> Dates: May 21 – 22

**IAIS ANNUAL CONFERENCE AND GENERAL MEETING**  
**SEOUL, KOREA, OCTOBER 2011**

The IAIS convened its 18th Annual Conference and General Meeting, following three days of Committee Meetings, in Seoul, South Korea on September 26-October 1, 2011. The Annual Conference provided the opportunity for supervisors and insurance professionals to discuss current market conditions, emerging trends and regulatory developments in a global financial environment that continues to be challenging.

During the General Meeting, the Association took an important step in formally adopting the newly revised Insurance Core Principles (ICPs) and supporting standards and guidance material. Members and Observers also received updates on important ongoing IAIS initiatives including ComFrame, financial stability and the Supervisory Forum. Also at the General Meeting, the IAIS welcomed five new Observers and seven new Members, including the Federal Insurance Office.

The theme of this year’s Annual Conference was *Toward a New Horizon for Insurance Supervision: Cross-Sector & Cross-Border Harmonization and Cooperation*. The panel discussions focused on a variety of topics including:

- ComFrame in an evolving Regulatory and Corporate Environment
- Macprudential Surveillance: Current Uses and Future Applications
- Market Conduct: Supervisory Practices and Challenges for Protecting Consumers
- Cross-Sectoral Debate on Financial Stability and Systemic Risk
- Innovation and Insurance: Products and Risk Management
- The New ICPS – Implications and Implementation
- Response of the Insurance Sector to the Recent Natural Disasters (in particular the Japanese Earthquake)
- A Proportionate Approach to Insurance Regulations in Developing Markets: Opportunities and Threats for Promoting Access to Insurance

Participants on the Annual Conference panels from the United States included Commissioner Kevin McCarty, Director John Huff, Director Christina Urias, Dr. Therese Vaughan and Michael McRaith, Director of the Federal Insurance Office. The Annual Conference also featured keynote speeches by Kim Seok-Dong Kim, Chairman of the Financial Services Commission, Korea and Masaaki Shirakawa, Governor of the Bank of Japan and Vice-Chairman of the Board of Directors of the Bank for International Settlements.

The NAIC also organized a number of side meetings during the week to discuss regulatory issues of mutual concern with China, Korea, EIOPA, Thailand and the Asian Development Bank.

## **IAIS ADOPTS REVISED INSURANCE CORE PRINCIPLES**

On October 1, 2011 at its Annual General Meeting, the International Association of Insurance Supervisors (IAIS) adopted an updated and revised version of its Insurance Core Principles, Standards, Guidance and Assessment Methodology (ICPs). The ICPs constitute the globally-accepted framework for the supervision of the insurance sector. It is also used in the evaluation of supervisory regimes under the Financial Sector Assessment Program conducted jointly by the World Bank and International Monetary Fund.

The ICPs are presented in a hierarchy of supervisory material. The ICP statements (Principles) are the highest level in the hierarchy, with Standards at the next level and Guidance below that. The Principles prescribe the essential elements that must be present in a supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of policyholder protection. Standards set out key high level requirements that are fundamental to the implementation of each Principle. Guidance elaborates on the meaning of a Principle or Standard and provides examples of possible ways to implement them.

To facilitate the revision process, the ICPs were allocated to working parties for review in line with their areas of expertise. The substance of the work took place at the working party level where the NAIC had state regulators and/or staff actively participating in the ICP review and revision process. The US representatives on these IAIS working parties additionally worked through the relevant NAIC groups to receive feedback and guidance on material being discussed at the IAIS level.

While the recent adoption of the ICPs marks the end of a lengthy revision process, the standard setting work of the IAIS is an ongoing process as the various working parties continue to enhance the ICPs to be reflective of supervisory practices and insurance sector issues.

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### **IAIS COMMITTEES AND SUBCOMMITTEES: UPDATE**

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Established in 1994, the IAIS represents insurance regulators and supervisors of some 190 jurisdictions in more than 130 countries, constituting 97% of the world's insurance premiums. Since 1999, the IAIS has welcomed insurance professionals as Observers. Currently there are more than 120 Observers representing industry associations, professional associations, insurers and reinsurers, consultants and international financial institutions. The IAIS issues global insurance **principles, standards and guidance papers**, provides training and support on issues related to insurance supervision, and organizes meetings and seminars for insurance supervisors.

The IAIS works closely with other **financial sector standard setting bodies and international organizations** to promote financial stability. It holds an Annual Conference where supervisors, industry representatives and other professionals discuss developments in the insurance sector and topics affecting insurance regulation.

An Executive Committee, whose members represent different geographical regions, heads the IAIS. It is supported by three main committees - the Technical Committee, the Implementation Committee and the Budget Committee. These committees form subcommittees and working parties (working groups, task forces and groups) to accomplish their objectives.

#### **Executive Committee [Commissioners McCarty (FL), Urias (AZ); and Therese Vaughan (NAIC)]**

- The last meeting took place in Seoul on September 28<sup>th</sup>.
- The Chair reported on changes in Chair and Vice Chairs as well as Committee membership.
- The Performance and Compensation Committee (PCC) was established to evaluate the performance of the Secretary General and the Secretariat and deal with the Secretariat's compensation structure.
- The Executive Committee agreed to the establishment of the Membership Scope Task Force which will look into how the IAIS defines who is eligible for Membership.
- Received a report from the Secretariat about changes in staff.
- Discussed a number of strategic IAIS issues and workstreams including ComFrame, relationship with the FSB, education and communication strategies, and decision making processes

- Discussed the process for creating the Roadmap for 2012-2013, which lays out workplans and the strategies they relate to over the next two years.
- Received a report from the Internal Review Task Force which was dissolved as its work has been completed.
- Received a report on the Supervisory Forum and its proposed workplan based on its mandate.
- The Cayman Islands were approved as the venue for the June 2012 Committee Meetings and Chinese Taipei was selected as the host for the 2013 Annual Conference.

#### **Budget Committee [Ryan Workman (NAIC)]**

- The last meeting took place on September 26<sup>th</sup> in Seoul. The Committee received a report from the Secretariat about plans for expenditure on implementation activities, Secretariat staff movements, fee payment status and Membership changes.
- The Budget Committee reviewed and approved the Budget and Fees for 2012, which were to be adopted by the General Meeting on October 1st.
- Budget reports were received for the 2011 Annual Conference in Seoul and the 2012 Annual Conference in Washington.

#### **Technical Committee [Commissioner McCarty (FL)]**

- The last meetings took place on September 27-28 in Seoul.
- With the ICPs ready for adoption, it was noted that part of the implementation process included self-assessment and peer review. The first round of self-assessments and peer reviews will focus on three ICPs as requested by the Financial Stability Board (ICP1 Objectives, Powers and Responsibilities of the Supervisor, ICP2 Supervisor and ICP 23 Group-wide Supervision).
- It was recognized that the 2012-2013 Roadmap would include further work on ICPs 9, 14, 20 and 24. Coordination on ICP 9 work is required as all Working Parties will be reviewing ICP 9 from their perspective and providing drafting material to the Secretariat.
- Following a decision made at the June 2011 Committee Meetings in Macau, the ComFrame Task Force was disbanded and the standard setting work of the project is now under Technical Committee and its relevant subcommittees. At the Macau meeting the draft ComFrame Concept Paper was released for comments by Members and Observers until the end of August. In Seoul, Technical Committee held a Dialogue with Observers to discuss issues and general themes that were raised by comments received. The Technical Committee discussed the comments received on the ComFrame Concept Paper – issues addressed included the relationship between ComFrame and the ICPs as well as existing regulatory/supervisory requirements; level of prescription; treatment of solvency and valuation; and process. Technical Committee has scheduled a meeting to be held in Basel on November 10<sup>th</sup> in order to focus on addressing key issues on ComFrame as development moves forward.
- An update was provided on current economic and financial market pressures current risks to financial stability, especially sovereign debt in the European periphery and likely bank contagion, drawing on the IAIS Key Insurance Risks and Trends (KIRT) survey among Technical Committee members and other analysis from IMF, FSB, ECB and IAIS.

#### **Financial Stability Committee [Commissioner McCarty (FL); Elise Liebers (NAIC), Vice Chair]**

- The FSC is in the process of analyzing insurance data in order to evaluate an initial set of systemic risk indicators and, in addition, to assess the appropriateness of various methodologies for combining the results that flow from the indicators
- The FSC is also in the process of considering what policy measures should apply to G-SIFI insurers should any such insurers be identified. In this regard, the Chair of the FSC invited Observers to provide written comments by October 28 on specific questions. Depending upon the nature of the comments received, the FSC intends to invite Observers to join a conference call with the FSC to discuss their contributions for 90 minutes during the afternoon of its meeting in Basel on Wednesday November 9. Specific questions for Observers include:
  - In what situations (or for which activities) would higher loss-absorbency capacity (that is, a capital surcharge) be more appropriate or less appropriate?
  - Do you think that it is appropriate to apply the whole set of Basel III-rules (not just a capital surcharge) to entities of G-SIFIs carrying on non-insurance activities which are quasi-banking or capital markets activities?
  - What forms of "enhanced supervision" could be appropriate in the context of dealing with non-traditional insurance activities or non-insurance activities?
  - How might "enhanced supervision" (e.g. via ComFrame) be different between traditional and non-traditional insurance activities (or non-insurance activities)?
- It was also noted that other follow up discussions with FSC members may be arranged prior to a proposed process of public consultation on these issues next March.

- The IAIS anticipates that they will submit a provisional assessment methodology for identifying global systemically important insurers and policy measures to the G20 Summit in June 2012.

#### **Accounting & Auditing Issues Subcommittee [Rob Esson (NAIC), Vice Chair]**

- The Accounting and Auditing Issues Subcommittee, chaired by Richard Thorpe of the UK FSA, met October 21 to discuss input into the IASB's Insurance Working Group on October 24.
- US State Insurance Regulators provided input via a prior conference call of the International Solvency & Accounting Standards (EX) Working Group, and the majority of the suggestions from that group were adopted by the Subcommittee.
- The Subcommittee will meet again November 28-29 to discuss ComFrame valuation and disclosure issues.

#### **Governance and Compliance Subcommittee [Andrew Stolfi (IL)]**

- The last meeting was held on September 6-7 in Basel where comments received on the governance aspects of the ComFrame Concept Paper were discussed. Guidance material focusing on microinsurance was reviewed and will be circulated to other working parties for comment prior to approval. The subcommittee also discussed ICP 9 on supervisory review and reporting to consider the need to add material related to governance issues.
- The next meeting is scheduled for November 17-18 in Singapore will work will focus on reviewing more in depth the comments received on the governance aspects of the ComFrame Concept Paper and drafting suggestions for ICP 9.

#### **Insurance Groups & Cross-Sectoral Issues Subcommittee [Danny Saenz, Doug Slape (TX) & David Vacca (NAIC)]**

- The last meeting was held in September in Basel where the group discussed modifying the existing Non-Regulated Entities Guidance Paper to the new ICP Standards/Guidance structure/format.
- The IGSC also decided to draft an issues paper on supervision of cross-border operations through branches.
- The IGSC began to discuss the ComFrame comment responses related to Module 1 and Module 4, as well as potential solutions.
- The IGSC directed the Supervisory Forum and the Solvency Subcommittee to help the IGSC determine how to ensure that involved supervisors of a group will accept the group supervisors ORSA.
- The IGSC transferred to the Supervisory Cooperation Subcommittee the IAIS Repository of Supervisory Colleges (IROSC).
- IGSC continues to work on supervisory college topic in order to assess activity and effectiveness. NAIC and Bafin are drafting a questionnaire on the effectiveness of supervisory colleges that will be distributed in November in order to supplement the "regional in person forums" that were held by North America (NAIC/OSFI in Kansas City during May 2011) and Asia. The EU's forum is schedule in January 2012.

#### **Insurance Fraud Working Group [Ryan Workman (NAIC)]**

- The last meeting was held in Kansas City on May 12-13 where the group reviewed and resolved consistency comments received on the draft ICP on Insurance Fraud as well as comments of substance on the draft ICP, standards and guidance on AML/CFT.
- As the IAIS material on AML/CFT is tied to the Financial Action Task Force (FATF), the group will continue to ensure that the ICP material on AML/CFT is in line with FATF recommendations once they become finalized; the existing Guidance paper on AML/CFT will remain as-is until the FATF work is complete and thereafter will be revised into an Application paper.
- The next meeting is scheduled to take place during the week of January 16<sup>th</sup> in Dubai.

#### **Market Conduct Subcommittee [Commissioner Voss (IA)]**

- The last meeting was held in Kansas City on May 10th where the subcommittee reviewed and resolved comments received from the consistency consultation on the draft ICP, standards and guidance on Insurance Intermediaries and on the Conduct of Business as well as reviewed market conduct related terms in the Glossary. The content on policyholder protection schemes within ComFrame was discussed as well as the potential need to address market conduct risks elsewhere within ComFrame.
- A subgroup working on a policyholder protection schemes project met on September 5-6 in Basel and developed an outline for a potential issues paper.
- The next meeting of the full Subcommittee is scheduled for the week of November 14<sup>th</sup> in Singapore and will include discussions on the Subcommittee's input on potential enhancements for ICP 9, review of relevant comments received on ComFrame and developing the issues paper on policyholder protection schemes.

**Reinsurance and Other Forms of Risk Transfer Subcommittee and Reinsurance Mutual Recognition Subgroup**  
**[Ryan Couch (NAIC), Chair]**

- The Reinsurance Subcommittee (RSC) and Reinsurance Transparency Group (RTG) met July 27-28 in Toronto, Canada.
- The RSC is in the early stages of reviewing the guidance paper on the regulation and supervision of captive insurers, taking into consideration revisions to the ICPs. A drafting group is planning to meet November 7 in Washington DC.
- The RSC is reviewing ICP 9 Supervisory Review and Reporting, along with its standards and guidance, and will provide feedback on any further enhancement that should be considered from a reinsurance perspective.
- The RSC will continue to provide input into the IAIS considerations with respect to macroprudential surveillance. This includes consideration of potential revisions to the RTG/GRMR data collection templates.
- After this November meeting, the next meeting of the RSC/RTG is tentatively planned for the end of January/early February in Basel.

**Solvency and Actuarial Issues Subcommittee** [Ramon Calderon (NAIC), Chair; Joe Fritsch (NY)]

- The SSC last met in Basel, Switzerland during August 22-24, 2011. As with previous SSC meetings, we had two internationally active insurance groups provide presentations on their enterprise risk management approach, followed by questions from SSC members.
- Most of the time was spent on developing Module 3 of the ComFrame Concept Paper. A small group was formed to address technical provisions for IAIGs, as well as the role of the actuary for IAIG purposes. At the time of the meeting, the July 1<sup>st</sup>, 2011 version of the ComFrame Concept Paper was out for consultation.
- The SSC also concluded its review of how the ICPs address the subject of “Reduced Use of External Credit Ratings for Supervisory Purposes”. The SSC essentially concluded that the ICPs provide sufficient general guidance on reducing reliance on CRAs and will provide this commentary to Technical Committee in Seoul. The SSC also concluded its review of a “Quality of Capital” paper as issued by the Basel Committee in its report entitled “A Global Regulatory Framework for More Resilient Banks and Banking Systems”. It concluded that while the report is focused on banks, there was some general read-across application of a few of its high level recommendations, but overall, due to the significant difference in business models between banks and insurers, no changes are recommended to the overall solvency approach reflected in the ICPs.

**Implementation Committee** [Christina Urias (AZ); Ekrem Sarper (NAIC)]

- The Implementation Committee (IC) met September 27 in Seoul, South Korea.
- Members received reports from the Subcommittee Chairs of the Implementation Committee.
- Each of the subcommittee Chairs reported on the work and the progress their groups were marking in achieving their strategic objectives.
- Members discussed the IAIS Roadmap for 2012-2013 and the activities that the IC would undertake in the coming years. The draft Roadmap and relevant details will be finalized at the next Executive Committee meeting in November 2011.
- Regional coordinators also provided updates on upcoming regional training seminars which the IAIS is supporting or had supported.
- The committee also received a report on microinsurance initiatives.
- The next meeting will be held during the next Committee meeting in Basel, Switzerland.

**Standards Observance Subcommittee** [Ekrem Sarper (NAIC), Vice Chair]

- The subcommittee met September 26 in Seoul, South Korea.
- Members received a report from the Ad hoc Group for the pilot self-assessment and peer review, provided the members with the highlights on the draft aggregate report on supervisory cooperation and information exchange. The report is expected to be submitted to the Executive Committee and published on the IAIS website in the coming month.
- The subcommittee received a report on the Status of the FSB recommended self-assessments, ICP 1, 2 & 23.
- Members received a demonstration on the new IT tool which has been selected by the IAIS to undertake the self-assessment and peer review exercise.
- Members also discussed the prioritization of the ICP self-assessment and peer review and to take into account external pressures such as the FSB.
- The Chair introduced the recent FSB development on monitoring proposal entitled, *Coordination Framework for Implementation Monitoring (CFIM)*. the FSB now has a key coordination role to play in monitoring policy implementation and is collaborating with the Standard Setting Bodies, including the IAIS, on a comprehensive framework for monitoring implementation matters. The SOSC may have a role in this going forward.
- The next meeting will be held in mid-January 2012.

**Supervisory Cooperation Subcommittee [Gita Timmerman (NAIC)]**

- The last meeting of this subcommittee was held June 15 in Macau, China.
- Members discussed the revision to the mandate of the subcommittee based on the discussion between the SCS and the Signatories Working Group.
- The subcommittee discussed the self-assessment and peer review exercise on supervisory cooperation and information exchange and the timeline for completing that report.
- The subcommittee discussed the updated FAQ and guidance for MMoU applications.
- The subcommittee was also tasked with coming up with a matrix to collect statistics on the use of the MMoU.
- The subcommittee also received a report on the IAIS Repository of Supervisory Colleges and the upcoming transfer from the IGSC to SCS.

**Education Subcommittee [Ekrem Sarper (NAIC)]**

- The last meeting of this subcommittee was held September 26 in Seoul, South Korea.
- Members discussed updating the guidance for the organization of IAIS Regional Seminars.
- The subcommittee discussed greater coordination with the Standards Observance Subcommittee to avoid duplication in the work of the subcommittees.
- The members discussed the 2012 – 2013 roadmap within the broader context of the IAIS Education Strategy. The members decided that the IAIS should focus more on serving as a catalyst and forwarded the proposal to Implementation and Executive Committee for approval.
- The next meeting will be held during the next Committee meeting in Basel, Switzerland.

**NAIC INTERNATIONAL CALENDAR**  
(**Bold** denotes active NAIC participation)

DATE		MEETING	LOCATION
<b>April</b>			
3 -	10	IAA Meeting	Sydney, Australia
4 -	5	IAIS Financial Stability Committee	Basel, Switzerland
4 -	6	IAIS Insurance Groups and Cross-Sectoral Issues Subcommittee	Basel, Switzerland
5		IAIS Internal Review Task Force	Basel, Switzerland
6		IAIS ComFrame Task Force	Basel, Switzerland
7 -	8	27th PROGRES Seminar on Insurance Regulation and Supervision (hosted by the Geneva Association)	Vevey, Switzerland
24 -	29	ASSAL Annual Meeting	San Juan, Puerto Rico
<b>May</b>			
15 -	18	Insurance Day Summit	London, UK
22 -	29	MCI 2011 General Assembly Meeting (Hosted by the Geneva Association)	Rio De Janerio, Brazil
24 -	26	Joint forum Principles for Supervisions of Financial Conglomerates (JFPSFC )	Montreal, Canada
24		Joint FSB and IAIS Workshop	Frankfurt, Germany
<b>June</b>			
7		ING Supervisory College	Amsterdam, Netherlands
8		Swiss Re Meeting	Zurich, Switzerland
9 -	10	OECD - IPPC Meeting (Insurance and Private Pensions Committee)	Mexico City, Mexico
10 -	15	Beijing Iowa Department of Economic Development	Beijing, China
14 -	17	IAIS Committee (Formerly - Triannual) Meetings	Macau, China
16		CEA (Comité Européen des Assurances) International Conference	Athens, Greece
18 -	23	Financial Analysis Solvency Study	Bangkok, Thailand
19 -	23	OECD Meeting	Moscow, Russia
20		ABIR Meeting	Brussels, Belgium
20 -	22	Financial Stability Institute Seminar (FSI) on Reinsurance	Basel, Switzerland
23 -	24	OECD Annual Board Meeting - Financial Management of Catastrophes	Paris, France
28 -	29	IOSCO Joint Forum Meeting	Madrid, Spain

<b>July</b>			
5 -	9	ASSAL: U.S. Insurance Regulation And Supervision - Practical Training	Santiago, Chile
9		US/EU Financial Markets Regulatory Dialogue	Brussels, Belgium
27 -	30	Casualty Actuaries of Europe	London, UK
<b>August</b>			
22 -	26	IAIS Solvency Subcommittee, Microinsurance Working Group, Supervisory Forum, and Macroprudential Policy Surveillance Working Group	Basel, Switzerland
29 -	3-Sep	IAIS Financial Stability Committee	Paris, France
<b>September</b>			
4 -	12	EU-US Dialogue/EIOPA Meeting	Frankfurt, Germany
5 -	8	IAIS Governance Sub Committee and Market Conduct Meeting	Basel, Switzerland
9 -	11	IAIS Account and Auditing Issues Subcommittee	London, UK
12 -	14	IAIS Insurance Groups Subcommittee	Basel, Switzerland
26 -	1-Oct	IAIS Committee Meetings and Annual Conference	Seoul, Korea
29 -	4-Oct	IIA Council & Committee Meetings	Zagreb, Croatia
<b>October</b>			
12 -	14	European Parliament & European Commission	Brussels, Belgium
18		ICFR Annual Regulatory Summit	Berlin, Germany
18 -	23	Mapfre Supervisory College	Madrid, Spain
23-	24	Insurance Working Group	London, UK
24-	28	BIS/IAIS Data Analyses	Basel, Switzerland
<b>November</b>			
8 -	9	IAIS Financial Stability Committee	Basel, Switzerland
8 -	9	Joint Forum Meeting	Berlin, Germany
8 -	10	7th International Microinsurance Conference/IAIS Microinsurance Meeting	Rio de Janeiro, Brazil
9 -	11	Asia-Pacific Business Symposium - Insurance Symposium and interview for World Risk and Insurance News	Honolulu, Hawaii
10 -	11	IAIS Technical & Executive Committee Meetings	Basel, Switzerland
14 -	18	IAIS Insurance Fraud, Market Conduct, & Governance & Compliance Subcommittees	Singapore
15-	16	US-India Regulatory Dialogue	Washington, DC
15 -	18	IAIS Working Party Meetings	Basel, Switzerland
28 -	29	AAISC Meeting	Basel, Switzerland
30		NAFTA Financial Services Committee	Ottawa, Canada

<b>December</b>			
1 -	2	OECD Meeting Insurance and Private Pensions Committee	Paris, France
5-	9	BIS/IAIS Data Analyses	Basel, Switzerland
6 -	8	IAIS Insurance Groups Subcommittee Meeting	Sydney, Australia
11-	13	Seminar on Risk-Based Solvency System	Santiago, Chile
15-	16	IAIS Financial Stability Committee	Vienna, Austria

### List of Abbreviations

<b>ABIR</b>	Association of Bermuda Insurers and Reinsurers
<b>AFIRC</b>	Arab Forum of Insurance Regulatory Commissions
<b>AITRI</b>	ASEAN Insurance Training & Research Institute
<b>APEC</b>	Asian-Pacific Economic Cooperation
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASSAL</b>	Association of Latin American Insurance Supervisors
<b>BIS</b>	Bank for International Settlements
<b>CEA</b>	Comité Européen des Assurances (European insurance and reinsurance federation)
<b>CEIOPS</b>	Committee of European Insurance and Occupational Pensions Supervisors
<b>CGAP</b>	Consultative Group to Assist the Poor
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority
<b>EU</b>	European Union
<b>FSB</b>	Financial Stability Board
<b>FSI</b>	Financial Stability Institute
<b>FSWG</b>	Financial Sector Working Group
<b>GATS</b>	General Agreement on Trade in Services
<b>G30</b>	Group of Thirty, Consultative Group on International Economic and Monetary Affairs
<b>IAA</b>	International Actuarial Association
<b>IAIS</b>	International Association of Insurance Supervisors
<b>IASB</b>	International Accounting Standards Board
<b>ICCL</b>	Insurance Control Commission Lebanon
<b>IFC</b>	International Finance Corporation
<b>IIF</b>	Institute for International Finance
<b>IOPS</b>	International Organization of Pension Supervisors
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IPPC</b>	OECD Insurance and Private Pensions Committee
<b>JCCT</b>	US-China Joint Commission on Commerce and Trade
<b>MIN</b>	Microinsurance Network
<b>NAFTA</b>	North American Free Trade Agreement
<b>NCOIL</b>	National Conference of Insurance Legislators
<b>OCC</b>	Office of the Comptroller of the Currency
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OGIS</b>	Offshore Group of Insurance Supervisors
<b>PROGRES</b>	Research Programme on Regulation, Supervision and Legal Issues in Insurance
<b>USTR</b>	U.S. Trade Representative
<b>WTO</b>	World Trade Organization

### National Supervisory Authorities:

<b>Australia</b>	Australian Prudential Regulatory Authority (APRA)
<b>Belgium</b>	Commission Bancaire, Financière et des Assurances (CBFA)
<b>Brazil</b>	Superintendência de Seguros Privados (SUSEP)
<b>Canada</b>	Office of the Superintendent of Financial Institutions (OSFI)
<b>China</b>	China Insurance Regulatory Commission (CIRC)
<b>France</b>	l'Autorité de Contrôle Prudentiel (ACP)
<b>Hungary</b>	Hungarian Financial Supervisory Authority (HFSA)
<b>India</b>	India Insurance Regulatory and Development Authority (IRDA)
<b>Italy</b>	Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (ISVAP)
<b>Japan</b>	Financial Services Agency (FSA)
<b>Korea</b>	Financial Supervisory Service (FSS)
<b>Switzerland</b>	Swiss Financial Market Supervisory Authority (FINMA)
<b>UK</b>	Financial Supervisory Authority (FSA)

## ERIC THOMPSON JOINS NAIC AS INTERNATIONAL RELATIONS MANAGER

A respected Capitol Hill advisor has joined the NAIC as Manager of International Relations. Eric Thompson will be responsible for coordinating state regulators' efforts on key international financial regulatory issues. Eric replaces George Brady, who was recently appointed Deputy Secretary General at the International Association of Insurance Supervisors (IAIS).

Eric will lead our team as it assists regulators' participation at the International Association of Insurance Supervisors and will help coordinate our input to developments at the Financial Stability Board, the Organization for Economic Cooperation and Development, and the Joint Forum

Eric was most recently Professional Staff Advisor to the U.S. House of Representatives Financial Services Committee, where he was on the front lines during negotiations and passage of Dodd-Frank financial service reform. He began his public sector career working for former U.S. Representative Nancy Johnson (R-CT) where he served as chief of staff for seven years. His private sector experience includes serving as Vice President of Federal Affairs for both the Hartford and APCO Worldwide. Eric obtained his undergraduate degree from the University of Notre Dame.

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 Government and International Relations in Washington, DC at:

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