

IAIS ANNUAL CONFERENCE
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Welcome Speech

“A Global Climate for Change — The Future of Insurance Supervision”

Introduction

Good Morning. Members and Observers of the IAIS, academic and industry representatives, on behalf of the NAIC, it is my distinct honor and privilege to welcome you to the 14th Annual IAIS Conference in beautiful Fort Lauderdale, Florida. In my role as NAIC President and as Vice Chair of the IAIS Executive Committee, I am delighted to see close to 500 insurance supervisors and professionals from the financial services industry participating in this event on US soil. From our most recent registration list, we have representatives from 102 countries—out of which forty-seven percent (47%) are supervisors and fifty-three (53%) are from the insurance industry.

What was once an organization of just 15 jurisdictions is now close to 180 from more than 120 countries! As a founding member of the IAIS, the NAIC hosted the first two Annual Conferences in 1994 and 1995 and four years later in San Francisco in 1999. We are truly grateful for the opportunity to host for the fourth time, and this year, in the sunny state of Florida. Please join me this morning in thanking the sponsors of the Annual Conference for all of their financial contributions. You will find information in your conference materials about the extensive list of sponsors who helped make this event possible.

I would also like to express my appreciation and gratitude for whoever has kept the tropical storms and hurricanes away thus far.... however, I should probably not speak too soon.

Today marks the opening of the IAIS Annual Conference and as I look out in front of me, your presence here clearly indicates the high level of interest and support in global insurance standard setting activities. The theme for this year’s conference is “A Global Climate for Change— The Future of Insurance Regulation.” Providing a framework for discussion over the next week, the theme highlights the challenges associated with dynamic changes in a globalized financial services sector, whether it is reacting to a natural catastrophe or a new way of supervising financial conglomerates. Working together across international boundaries is no longer a choice but a critical component to keeping up with the fast pace of an integrated global economy.

Having served on the front line of insurance regulation for over 150 years, US insurance regulators have an outstanding record of consumer protection and industry oversight. In the US, the NAIC coordinates and applies a NATIONAL SYSTEM OF STATE BASED REGULATION. Our extensive experience with coordinating among the states to ensure efficiency is parallel to many of the initiatives we are considering here at the IAIS. In fact, it is the nature of how we regulate insurance on a state-based system that allows us to play an effective role internationally. So what kinds of state regulatory modernization efforts are currently in place? How is the NAIC keeping up with the constant changes posed by the expansion of financial markets and growing interdependencies? Where is the NAIC active internationally? These are some of the questions that I will explore this morning.

NAIC/State Regulation

State insurance regulation in the US in 2007 is robust, effective and constantly evolving to better reflect the changing marketplace and improve consumer protection. As many of you know, the NAIC is the association of state insurance commissioners from the fifty states, Washington, DC and five U.S. territories. Formed in 1871, it is the oldest association of state government officials. We have been meeting for over 136 years to share our experiences in insurance regulation and to ensure the coordination of supervision of multi-state insurers.

Our mission is to encourage and maintain the appropriate balance between individual states and insurance markets, while also supporting the harmonization of regulatory practices in order to best protect consumers. The NAIC has evolved into a regulatory support organization and has developed an extensive body of work in the form of model laws, regulations, handbooks, manuals and highly sophisticated database systems. We have been the face of regulatory reform, coupling an aggressive enforcement mindset with advanced techniques to provide comfort to American consumers in times of peril.

In addition to successfully protecting consumers, state insurance officials have proven adept stewards of a vibrant, competitive insurance marketplace. As the host of this year's conference, I would like to take this opportunity to highlight briefly the U.S. insurance market, the NAIC's key modernization initiatives and our involvement internationally.

The insurance industry in the United States has grown exponentially in recent decades in terms of the amount and variety of insurance products and the number of insurers.

In 2006, there were 7,660 domestic insurers operating in the United States (an increase of more than 1,000 companies from 2004), with a combined premium of \$1.409 trillion—more than one-third of the international market share. If you viewed each U.S. state as a country, we would have eight states in the top twenty insurance jurisdictions worldwide—including California, New York, Florida, Texas, Pennsylvania, New Jersey, Illinois and Michigan. California alone would be number six in the world.

As a share of the U.S. economy, total insurance income grew from 7.4 percent of gross domestic product in 1960 to 11.9 percent in 2000. In 2005, while insurance companies were absorbing record losses, they were also making record profits. Profits and surplus increased again in 2006, and the industry is on pace to set yet another record this year. Insurance company surplus is now over \$500 billion for the first time ever. Due to the sheer size and significance of the U.S. insurance market, it is imperative that the state-based system of insurance regulation continues to evolve and adapt. The NAIC has undertaken a number of major initiatives with state regulators in recent years to successfully strengthen the state insurance regulatory process:

- Speed to market;
- Solvency and guaranty funds;
- Consumer assistance and education;
- Fraud detection;
- Regulatory actions against companies, agents and brokers;
- Turnaround time on rate and form filings;
- Producer licensing; and
- Company licensing.

Speed to Market

Insurance regulators have embarked on an ambitious "Speed to Market Initiative" that encompasses the following four main areas:

- Putting in place an interstate compact to develop uniform national product standards and provide a central point of filing
- Integrating multi-state regulatory procedures with individual state regulatory requirements;
- Encouraging states to adopt regulatory environments that place greater reliance on competition for commercial lines insurance products; and
- Making fully available a proactively evolving System for Electronic Rate and Form Filing (“SERFF”) to achieve speed to market goals.

Interstate Compact

The Interstate Insurance Compact (“the Compact”) is a key state-based initiative that allows insurers to file new life insurance, annuities and other wealth-protection insurance products and receive a single, streamlined review. This vital reform allows insurers to speed new products to market nationally according to strong uniform product standards, while preserving a state’s ability to address front-line problems related to claims settlement, consumer complaints, and unfair and deceptive trade practices. The Compact became fully operational earlier this year and reviewed and approved the initial filings in less than thirty days - a dramatic demonstration of providing speed to market while upholding strong consumer protections.

Solvency and Guaranty Funds

State insurance departments in the past fifteen years have continually enhanced their statutory authority and regulatory practices in this critical area, leading to a dramatic reduction in major insolvencies. These improvements have allowed regulators to identify more easily when insurers are troubled and react more quickly to protect policyholders and consumers.

Consumer Assistance and Education

With the many changes taking place in the financial services marketplace, consumer protection poses significant challenges to a regulator. I am happy to say that state insurance regulators have risen to the challenge. Insurance is a unique and complex product that is fundamentally different from other financial services, such as banking and securities. Unlike banking products, which provide individuals up-front credit to obtain a mortgage or make purchases, or securities, which offer investors a share of a tangible asset, insurance products require policyholders to pay premiums in exchange for a legal promise. Insurance is a financial guarantee to pay benefits, often years into the future, in the event of unexpected or unavoidable loss that can cripple the lives of individuals, families and businesses. The cost to insurers to provide those benefits is based on a number of factors, many of which are prospective assumptions, making it difficult for consumers to understand or anticipate a reasonable price.

Unlike most banking and securities products, consumers are often required to purchase insurance both for personal financial responsibility and for economic stability for lenders, creditors, and other individuals. Insurance products inevitably touch a host of important and difficult issues whose impact is felt locally.

Most consumers find themselves concerned with their insurance coverage, or lack thereof, only in times of crisis—such as illness, death, accident or catastrophe. State officials have responded quickly and fashioned effective remedies to respond to local conditions in the areas of claims-handling, underwriting, pricing and market practices.

The NAIC has been proactive in ensuring that state insurance regulators have the very latest and best tools to educate consumers on important insurance issues. These have included outreach campaigns, public service announcements and media toolkits. With its landmark *Insure U—Get Smart about Insurance* public education program, the NAIC has demonstrated its deep commitment to educating the public about insurance and consumer protection issues. Insure U's educational curriculum helps consumers evaluate insurance options to meet different life stage needs.

Available in English and Spanish, the Insure U website covers basic information on the major types of insurance—life, health, auto and homeowners/renters insurance.

NAIC's International Role

The NAIC has certainly increased its activities internationally through our extensive leadership roles at the IAIS, enhanced regulatory cooperation and technical assistance programs over the last several years and we expect this trend to continue. As the world's largest insurance market, we value the standard setting process at the IAIS and have focused a great deal of our resources in the international organization.

Next year, as part of the NAIC's International Strategy, a full-time NAIC employee will be placed on sabbatical to the IAIS in Basel, in order to provide support and enhance IAIS internal administration and transparency and to assist in the development of procedures. The decision to place a secondee is further evidence of the importance we place on the work of the organization.

From the beginning of the IAIS' existence, we have led as Chair of the Executive Committee twice and currently participate as Vice Chair of the Executive Committee, Chair of the Technical Committee, Reinsurance and Insurance Contracts Subcommittees. Representing the interests and issues of the state based system during the global standard process, the NAIC understands that to be an effective regulator from a dominant market, it is imperative to engage internationally and encourage an open and transparent process. The NAIC coordinates its voice on key subject matters such as international accounting standards, mutual recognition, reinsurance supervision and solvency standards through committees and working groups within the NAIC committee structure. Supervisors' participating from various states is invaluable when it comes to sharing experiences and looking for the most appropriate solutions to vital issues. In doing so, we must always emphasize the need to raise the level of international collaboration among regulators, as well as the industries we regulate.

To improve its capacity to work outside of its domestic borders, the NAIC's growing global reach now includes regular dialogues with the European Union, Switzerland, China, India and Japan to name a few. And we participate on a consistent basis in the work of international organizations such as the Joint Forum, Financial Stability Forum, the OECD and the International Accounting Standards Board.

In addition to our work through international organizations, the NAIC has signed 9 Memoranda of Understanding with China, Vietnam, Hong Kong, Korea, Iraq, Brazil, Russia, the Association of Latin American Supervisors (ASSAL) and most recently, Egypt. The establishment of closer relationships with our global partners will only encourage greater discourse to address issues of mutual interest as well as a deeper understanding of one another's system. These agreements will further enhance NAIC's relationships from a bilateral, regional and global perspective.

I would be remiss if I didn't highlight the NAIC's International Internship Program. The 7-week program includes a week at NAIC headquarters in Kansas City, five weeks in a host state, attendance at an NAIC national meeting and a debriefing in Washington, and is designed to

promote the transfer of applied regulatory knowledge to practical application in the interns' home countries.

After the completion of this year's fall program, 39 interns will have completed the training, representing 10 countries in just 4 years.

Closing

As I end my formal remarks, I hope to have offered some responses to the questions I posed earlier. We, as state based insurance regulators, serve a vital and relevant role in overseeing and fostering a vibrant, well-functioning and competitive insurance marketplace. While there are a number of challenges ahead of us including the growth of the insurance industry and changing demographics, the regulatory community will continue to meet the needs of a financial marketplace, while at the same time, effectively protecting individual and commercial policyholders. The importance placed on state based coordination and the NAIC's increased regulatory collaboration internationally provides the necessary framework for the US to meet the core functions of an effective insurance supervisor.

Thank you.