

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE
Conference Call
Thursday, August 24, 2017
4:00 p.m. Eastern

ROLL CALL

Katharine L. Wade, Chair	Connecticut	Bruce R. Ramge	Nebraska
Gordon I. Ito, Vice Chair	Hawaii	Richard J. Badolato	New Jersey
Stephen C. Taylor	District of Columbia	Maria T. Vullo	New York
David Altmaier	Florida	John D. Doak	Oklahoma
Doug Ommen	Iowa	Jessica Altman	Pennsylvania
James J. Donelon	Louisiana	Raymond G. Farmer	South Carolina
Gary Anderson	Massachusetts	TBD	Texas
Patrick M. McPharlin	Michigan		

AGENDA

1. Discuss Draft NAIC Comments on International Association of Insurance Supervisors Revised Insurance Core Principles 1, 2, 18 and 19—*Commissioner Katharine L. Wade (CT)* Attachments A and B
2. Discuss Any Other Matters Brought Before the Committee—*Commissioner Katharine L. Wade (CT)*
3. Adjournment

IAIS Revised ICPs 1, 2, 18 and 19 - NAIC Draft Comments

August 23, 2017

Paragraph	Comment
ICP 1 Objectives, Power and Responsibilities of the Supervisor	
ICP 1	Suggesting revising to better reflect the three concepts addressed by the standards: “Each authority responsible for insurance supervision <u>has its powers, responsibilities</u> and the objectives of insurance supervision are clearly defined.”
1.0.2	First sentence, suggest “fixed” would be a more appropriate word choice than “stable”. Second sentence, suggest adding “transparent” before “manner.”
1.2	Requiring that primary legislation “defines” the objectives may be emphasizing a different outcome than intended. The way jurisdictions draft primary legislation varies, and while primary legislation should reflect the objectives of supervision, it may not include explicit statements to define such objectives. Suggest: “Primary legislation clearly <u>defines reflects</u> the objectives...” Contributing to financial stability may be an objective, but as the standard is on the <i>principal</i> objectives of insurance supervision, we suggest keeping the current standard’s wording so that the focus remains on the first two bullets. As the ICPs are minimum standards applying to insurance supervisors and insurers of all kinds, not including financial stability (and saying “at least to”) in the standard does not prevent supervisors from adopting and acting on a financial stability objective should it be appropriate in their particular circumstances. Financial stability as an objective could then be mentioned in guidance.
1.2.3	Suggest different order to better reflect intended meaning: Depending on the evolution of the jurisdiction’s insurance or financial markets, the supervisor may emphasise temporarily one or more of the objectives, <u>in which case such an approach should be explained to stakeholders, including insurance industry participants and consumers</u> . Regardless, the supervisor should take into account <u>the other any relevant objectives</u> in fulfilling its function. In such circumstances, this should be explained to stakeholders, including insurance industry participants and consumers.
1.3.2	Editorial suggestion: “Legislation should clearly address insurance legal entity and group-wide supervision, <u>providing and provide</u> the supervisor with sufficient powers to achieve their respective responsibilities and objectives.”
1.3.3	The types of powers a group-wide supervisor should have may depend on the type of group it supervises; suggest: “The supervisor should have sufficient powers in place to perform the role of group-wide supervisor <u>as appropriate</u> , including coordination and collaboration with other relevant supervisors.”
1.4.2 and 1.4.3	The final sentence of each reads: “the supervisor should initiate or propose changes in legislation.” As the preceding text uses “may,” suggest these be changed from “should” to “may” as well. Additionally, initiating or proposing changes in legislation may not be the only or best way for the supervisor to address such shortcomings.
ICP 2 Supervisor	
2.0.3	Suggest re-working the first sentence to better emphasize public accountability: The supervisor should be accountable for the actions it takes in the exercise of its supervisory responsibilities to the <u>public at large, those it supervises, and those legislative and government, including other governmental bodies and the legislature, which that</u> delegated various responsibilities to the supervisor, as well as to and the public at large.
2.1.2	Last sentence, suggest “fixed” would be a more appropriate word choice than “stable”.
2.2	Change “legal action” to “personal liability.” Public bodies are sued all the time; the point is that public officials are generally

	shielded from personal liability for official actions.
2.3.1	Last sentence, change “should” to “may” as jurisdictions may have these procedures elsewhere.
2.3.2	Last sentence, add “,if applicable” to the end.
2.3.3	For consistency with the standard and other paragraphs of guidance, should say: “ <u>Procedures Legislation</u> should disclose the general criteria for appointing members of a governing body, including for example, that they possess relevant qualifications...”
2.4.3	The text as drafted seems to suggest something rather specific, whereas supervisors in some jurisdictions may not need a plan that contains all those elements as their responsibilities are set out by statute. Suggest some additional guidance or clarification on strategic or operational plans would be useful.
2.5	Adding reference to contributing to financial stability is not necessary/appropriate here (see comment on 1.2). Protection of policyholders’ interest should be broad enough to encompass the variety of reasons why the supervisor would need to make an intervention.
2.5.3	Last sentence, delete the “for example...” clause at the end as this is not an appropriate example to the main sentence. Also, decisions are appealed all the time.
2.7.1	Suggest deleting the second and third bullets as these seem to relate to strategic planning, which is different from transparency. Perhaps replace these bullets with “accessible information about the decisions it makes and reasons for doing so.”
2.7.2	Instead of publishing an annual report, suggest the emphasis of this paragraph should be more on the supervisor making available publicly information that relates to its goals and objectives as well as its decisions.
2.9.3	Suggest adding some additional clarity: This review could lead the supervisor to implement measures to bridge any gaps in numbers and/or skills <u>where necessary</u> .
2.9.5	Editorial suggestion: “The technological resources <u>available to</u> of the supervisor should enable supervisory staff...”
ICP 18 Intermediaries	
18.0.1	Last sentence of the paragraph should clarify an insurer’s direct sales staff are still required to be licensed if they sell, negotiate or sell insurance.
18.0.4	<u>While a license is not required if the individual/firm simply refers customers, there may be instances where the person making the referral receives compensation from the intermediary/insurer based upon the placement of a policy, resulting in commission sharing. In such circumstances, the supervisor may require both parties to be licensed. Suggest adding clarification to 18.0.4 that the supervisor should consider and be clear on what constitutes a referral so as to prevent a situation where a party who is actually part of the intermediation process avoids applicable supervision.</u>
18.0.13	It appears the sentence “It may be possible for an intermediary to have different status...” should be “It may be possible for an intermediary to have a different status...”
18.1.5	While recognizing the list of bullets is information “such as,” what is listed may be too comprehensive for every type of license, nor is this necessarily an exhaustive list. Suggest adding some additional guidance that clarifies the amount and type of information the supervisor may require may depend on the type of license.
18.1.6	This paragraph seems to suggest the imposition of capital requirements on intermediaries, which are not risk bearing entities. Further clarification on the intent of this language would be helpful.
18.1.8	Rather than suggesting a supervisor may make exceptions for compliance to certain licensing requirements, the language should be revised to reflect the supervisor will use his/her regulatory judgement and discretion in the application of licensing requirements.

18.3.8	In addition to the items listed in this section, consideration should be given to including administrative actions by regulatory agencies and Self-Regulatory Organizations.
18.4	While some revisions have been made to this standard and its guidance, it still seems to suggest having governance requirements for all insurance intermediaries that may be too unrealistic for small firms and sole traders. Suggest editing/clarifying text in 18.4.1 and 18.4.3 to better communicate different expectations for different intermediaries and perhaps focus more on “governance” than constantly referring to “governance requirements”. Additionally, suggest swapping the order of 18.4.2 and 18.4.3 as the latter seems more connected to 18.4.1.
18.4.3	Last sentence, delete the extra comma after “regardless”.
18.5.6	The sentence structure of the second sentence should be revised; suggested: “Where insurance is solicited, negotiated, or sold over the internet, the customer may be required to acknowledge the terms of business before a policy is issued.”
18.5.13	Suggest the last sentence of this paragraph read, “...such information may be less important to customers.” This is more consistent with the focus on the paragraph rather than the independence of advice, which is addressed in 18.5.16.
18.5.17	The phrase “customers’ best interests” in the first sentence may suggest a fiduciary relationship. Suggest deleting “best” so the first sentence ends with “and deliver outcomes aligned with customers’ interest.”
18.5.18	The term “inducements” in the second sentence may have a negative connotation. To eliminate this, suggest replacing “inducements” with “incentives.”
18.6.6	The insolvency of an insurance intermediary is different than the insolvency of an insurer and may not be subject to the same insolvency rules/processes. Thus it may not be appropriate for the IAIS to opine on what should or should not be permissible for insolvencies of non-insurers. Suggest revising this to make it relevant to the insurance supervisor.
ICP 19 Conduct of Business	
19.4.5	Third subpoint of the third bullet, change the term “suitable” to “appropriate” to eliminate potential confusion of a suitability standard being applied to all products. This would be consistent with the language in the 5 th bullet point, which references an insurer assessing whether its target market is appropriate.
19.8.4 and 19.8.5	Additional guidance regarding the distinction between incentives and inducements would be helpful. The term inducement appears to have a negative connotation and suggests an inducement results in a conflict of interest.
19.8.6	If the reference to inducements is left in the ICPs, the first sentence should be deleted or rephrased to clarify that an inducement <i>may</i> lead to a conflict of interest. It should not be presumed an inducement creates a conflict of interest. In addition, the use of the phrase “customer’s best interest” may suggest a fiduciary duty. Suggest using the phrase “customer’s interests” instead.
19.8.7	First bullet, the use of the phrase “customer’s best interest” may suggest a fiduciary duty. Suggest using the phrase “customer’s interests” instead.
19.8.7	Sixth bullet, suggest changing the word “inducement” to “incentive”. This would be consistent with the use of the phrase “non-financial incentives” in 19.8.9.
19.11.1	This section should clarify that a complaint is a written expression (i.e., it is something more substantial than a phone call).
19.11.10	The third sentence specifies decisions are non-binding for the policyholder and may be binding for the insurer. This should be modified to reflect decisions may be binding for both the policyholder and the insurer.
19.12.7 (4 th bullet)	Fourth bullet, may want to consider including notification to customers regarding the use of certain data. If not, a customer may not know about the need to access and, if needed, correct the data.



August 21, 2017

Ryan Workman
International Insurance Program Counsel
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: NAIC Comments Concerning IAIS ICP 18

Dear Mr. Workman:

On behalf of the Independent Insurance Agents and Brokers of America (IIABA), the largest insurance producer organization in the country, I write to offer our organization's views concerning the NAIC's draft comments regarding the proposed revisions to IAIS ICP 18. We agree with the vast majority of the comments and believe the draft is well-done and comprehensive, but we respectfully request that you delete your comments concerning ICP Paragraph 18.0.4.

The NAIC's draft comments urge IAIS to revise ICP Paragraph 18.0.4 to "clarify [that] individuals or firms, which receive compensation based upon the placement of insurance by an insurance intermediary would need to be licensed" and to indicate that "[a] license is not required if the individual/firm either does not receive any compensation or receives a set compensation for each referral regardless of whether a referral results in the placement of insurance by an insurance intermediary." This recommendation runs counter to existing licensing principles and requirements, and we urge the NAIC to delete this particular comment from its submission.

The NAIC Producer Licensing Act and the laws of many jurisdictions require a person to obtain a producer license in order to sell, solicit, or negotiate insurance. The particular acts that trigger the licensing requirement are defined in law, and they ensure that any person who discusses policy terms with a consumer, advises a consumer regarding insurance coverage, offers related recommendations, or urges the purchase of particular coverage must obtain a license. The licensing requirement is important for many reasons, and the pre-licensing, testing, and continuing education mandates that apply help ensure that licensees are competent and qualified.

The problem with the NAIC's proposed comment is that it is inconsistent with the recognized framework and recommends the establishment of a new licensing trigger. Specifically, the proposal would call for the licensing requirement to be triggered if a person does not sell, solicit, or negotiate insurance yet merely "receives compensation based upon the placement of insurance by an insurance intermediary." This recommendation conflicts with the NAIC's model act and existing law in numerous respects, and we do not believe there is any public policy rationale for this alternative approach. We wonder, for example, what benefit there would be in requiring a person who is not discussing insurance matters with the public to satisfy the training,

testing, and ongoing education requirements that apply to agents and brokers. For these reasons, we urge the NAIC to delete this comment from its final submission to IAIS.

IIABA thanks you and the International Insurance Relations Committee for your consideration of our views. If we can provide you with any additional information or assistance, please feel free to contact me by phone at 202-302-1607 or via email at wes.bissett@iiaba.net.

Very truly yours,

A handwritten signature in black ink that reads "Wesley Bissett". The signature is written in a cursive, flowing style.

Wesley Bissett
Senior Counsel, Government Affairs