

Internal Administration (EX1) Subcommittee  
Public Budget Hearing  
Conference Call  
November 5, 2008

The Internal Administration (EX1) Subcommittee met via conference call Nov. 5, 2008. The following Subcommittee members were present: Sandy Praeger, Chair (KS); Roger A. Sevigny, Vice Chair (NH); Linda Hall (AK); Susan Voss (IA); Jim Long (NC); and Jane L. Cline (WV).

1. Presentation and Discussion of the NAIC 2009 Proposed Budget

Commissioner Sevigny thanked everyone for participating in the NAIC's public budget hearing on the proposed 2009 budget and stated the receipt and consideration of comments from interested parties is an important part of the NAIC's budget process. The purpose of today's hearing is to review comments received on the proposed budget prior to its consideration for adoption by the Internal Administration (EX1) Subcommittee.

Commissioner Sevigny reminded the audience of earlier budget presentations to all NAIC members at the Fall National Meeting, to all interested parties and consumers representatives via conference calls in October, and to the National Council of Insurance Legislators (NCOIL) and National Conference of State Legislators (NCSL) by staff via teleconference. He stated that the comments received generally noted concerns with growth in 2009 revenues and expenses and the resulting net assets that comprised the NAIC's operating reserve, responding that NAIC leadership and members are very cautious of the need to control spending and eliminate costs where necessary throughout the preparation of its budget proposals. However, the membership also recognizes the need to leverage NAIC resources to support critical regulatory tools and initiatives and, as a result, he strongly supports the proposed plan for 2009 and the added funding of member travel and new NAIC member initiatives in 2009. Commissioner Sevigny stated that it is difficult to argue the fact that the NAIC delivers tremendous value to state regulators, value that far exceeds the NAIC's annual operating budget. The efficiency and cost-savings generated by the NAIC's development and ongoing maintenance of critical regulatory tools, products, and services are exponential in comparison to 2009 planned spending. Commissioner Sevigny said reducing the NAIC's investment in enhanced regulatory tools or regulatory modernization efforts would be irresponsible in today's environment. Commissioner Voss stated the NAIC provides resources for states to step up and to do their jobs better, which is difficult in these trying economic times. Commissioner Cline noted the cost that would be involved in duplicating the services the NAIC provides at each jurisdiction.

Commissioner Sevigny noted staff had distributed all written comments received, as well as NAIC responses to written comments and a proposed amendment to the NAIC 2009 budget (Attachments One). Because of the thorough responses, which were helpful in providing additional information and perspective to the comments received, there was no need to go through each letter or comment in detail. Rather, Commissioner Sevigny asked interested parties with oral testimony to focus their time discussing additional comments, questions, or areas where further clarification may be necessary. Commissioner Sevigny noted at the conclusion of this hearing the Subcommittee will reconvene to vote on the proposed budget. It will then be placed on the Executive (EX) Committee agenda for consideration and adoption at the Winter National Meeting.

2. Presentation of Oral and Written Comments

Miriam Krol (American Council of Life Insurers—ACLI) represented ACLI's concern with NAIC's growth in revenues and expenses and resulting reserves as a result of presumed increased fees from their member companies. Commissioner Sevigny assured Ms. Krol much consideration and deliberation had been given to the amount of growth in the NAIC budget. Commissioner Sevigny responded the NAIC must have the ability to provide the tools, technology, products and services the state regulatory community demands, and those demands invariable increase in weak economic times as a result of state budget cuts and restraints. Commissioner Sevigny explained that the NAIC was very careful to avoid any growth in industry-direct fees and focused on keeping fee levels consisted with 2008 with one exception relating to a very minor increase in filing fees with the NAIC International Insurers Department. Otherwise, 2009 increases in NAIC revenues represent growth in non-industry direct, voluntary revenue streams effectively reducing reliance on direct fees from insurers.

Phil Carson (American Insurance Association—AIA) commented that there is no natural constraint on the growth of the expense side of the NAIC budget, and that AIA is concerned the 80% liquid reserve may lead to a tendency to grow the budget. Increasing expenses would create the need to increase revenues to attain the 80% reserve level. There is no self imposed discipline to control this increase in revenues and expenses to maintain the 80% reserve level. Commissioner Voss commented the NAIC's business operations and membership services are much different than industry trade organizations; the NAIC is not governed by membership dues. The NAIC is focused on uniformity among states, uniformity takes

technology, and technology takes funding. Uniformity is a benefit to both regulators and industry. Commissioner Cline remarked the NAIC has several forms of constraint, 56 members with oversight authority and a very public budget process. Mr. Carson asked if a functional or program analysis of the 2009 budget would be forthcoming. Brady Kelley (NAIC) responded the 2009 program budget would be completed and available following the Winter National Meeting.

Mr. Carson asked how the International Insurance Relations Support Resource would differ from the IAIS secondee that was approved as part of the NAIC 2008 Budget. Commissioner Cline explained while the IAIS secondee was assigned specifically to IAIS matters, the position in the 2009 budget would establish U.S. representation and a global presence in a number of international organizations in addition to the IAIS. While the development of the position is still in the evolution stages, the details of this position will be finalized once the NAIC CEO is hired and on board. Andy Beal (NAIC) added the International Insurance Relations Support Resource would be an NAIC employee doing much broader work other than just that related to the IAIS, benefiting not just regulators but industry as well. Commissioner Praeger commented having someone abroad could reduce some of the international travel cost incurred by the NAIC.

Bill Boyd's (National Association of Mutual Insurance Companies—NAMIC) comments focused on the NAIC reserve and the International Insurance Relations Support Resource. Mr. Boyd asked if this position would have the credentials to negotiate with the International Accounting Standards Board (IASB) and other groups of that nature. George Brady (NAIC) stated that this position would be actively engaged in dialogue with the European Union, international organizations, and foreign regulators to provide the U.S. insurance regulatory perspective and report on the state of the U.S. insurance sector's financial solvency. The NAIC membership recognizes the importance of hands-on involvement in international solvency initiatives, including Solvency II, the possible International Financial Reporting Standards convergence, reinsurance, micro insurance and regulatory equivalency, among others.

Deirdre Manna (Property Casualty Insurers Association of America—PCI) remarked PCI is appealing to the NAIC to develop a flat budget, to reflect the current economic environment in which insurance companies operate. She asked the NAIC to consider a major reduction in travel expenses. Commissioner Voss questioned how to achieve uniformity without getting all NAIC members around the table, which is the purpose of the expanded travel subsidies in 2009. Bringing regulators and legislators together at NAIC quarterly meetings is the best way to make progress. Commissioner Sullivan stated that the Connecticut Governor had put a ban on out of state travel, making it difficult for Connecticut regulatory staff to participate in the Fall National Meeting. Other NAIC member states are experiencing similar travel cuts. Commissioner Michie commented not having commissioners at the table is problematic, but not having seasoned state staff personnel is also detrimental to state regulation.

### 3. NAIC 2009 Budget Amendment

Commissioner Sevigny commented on the very successful orientation for state legislators at the Fall National Meeting. The NAIC had provided funding for up to \$3,000 per member to host their state legislator in Washington, D.C. and the feedback was very positive. As a result, the Subcommittee is recommending the addition of \$168,000 in travel funds to the NAIC 2009 budget proposal, representing a similar \$3,000 allocation to each member state to host a similar legislator session at an NAIC 2009 National Meeting. This amendment results in total revenues of \$73,129,568 and total expenses of \$70,682,002, for net revenues over expense of \$2,447,566.

Having no further business, the Internal Administration (EX1) Subcommittee adjourned into executive session, to consider and approve the 2009 budget proposal.

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