

## Message from the Co-Chairs

by Aaron E. Lunt, JD, CPCU, ARe, and Joe Bieniek, CPCU, AIE, CRM, CCP, CIC, ARC, MCM, AIS, AU, AINS



Lunt



Bieniek

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Prior to joining Zurich, Aaron was an associate at a Chicago law firm, focusing on first-party property and third-party liability insurance claims litigation and subrogation.

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**Aaron Lunt:** Greetings! As the incoming co-chair for the Regulatory & Legislative Interest Group, I wanted to share with you some key takeaways from the 2011 Annual Meeting & Seminars in Las Vegas. Like the many hands that were dealt, the 2011 Annual Meeting was filled with some good and some not so good—namely, my luck at the tables and slots.

There were too many positives to count, but a few highlights come to mind. First, this year the CPCU Society welcomed 1,853 new designees. This is a very strong number, building on the upward trend of recent years. At the Conferment Ceremony, deep-sea explorer **Robert D. Ballard, PhD**, addressed the 2011 class with dazzling stories about his expeditions, including his legendary discovery of the Titanic. As expected in Las Vegas, the Conferment Ceremony wouldn't have been complete without a floor show, so the Jersey Boys brought their award-winning talents to conclude the event. Human Nature applied their Aussie accents to traditional Motown music to entertain the crowd at Tuesday's final celebration, which was held at

Caesar's Palace's amazing pool complex, with more than seven pools! Countless meetings, seminars, and networking opportunities perfected the complement of activities.

The major issue that was considered at the event was the recommendation by the CPCU Society Board of Governors to bring about an affiliation between the CPCU Society and The Institutes. Throughout the several days, Society leadership visited with attendees to discuss the value proposition and rationale for the recommended affiliation. Although many spirited conversations took place discussing the pros and cons of a potential affiliation, it was announced at the Society's Annual Meeting on October 24, 2011, that the bylaws were approved for amendment to pave the way for Society affiliation with The Institutes.

One event the Regulatory & Legislative Interest Group is very proud of is our presentation of "GAME ON: SHOW ME THE MONEY—Test Your Insurance Knowledge." Our co-hosts, Bob the Barker and Drew Carry Them to

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the Curb, were superb. They led the largest seminar audience in a fun-filled educational event exploring attendees' knowledge of the insurance world. The winning team was awarded with lavish prizes worthy of the Las Vegas setting, but still way below the threshold for reporting of any ethical violation. I am sure that everyone attending the event had a good time and really learned a lot. The questions posed by the hosts often stumped the participants and left them searching for answers. The dialogue accompanying the responses was educational to all. Some of the issues were historical, while others focused on current regulatory and legislative events. Everyone left knowing more about the Dodd-Frank Wall Street Reform and Consumer Protection Act than when they arrived.

Although Las Vegas is behind us, there is much before us. The CPCU designation is truly a remarkable badge of honor, and the affiliation between the Society and The Institutes will continue building on our proud tradition. As co-chair of the Regulatory & Legislative Interest Group, I am committed to working with you to enhance the prestige of the CPCU designation through the lens of our regulated world!

**Joe Bieniek:** This issue of the newsletter finds us once again at a crossroads. Unlike legendary bluesman Robert Johnson, who lamented, "Well, I'm standing at the crossroads; I believe I'm sinking down," I see a world of opportunity before us. The economy seems to be slowly improving, and that is good for all of us and the health of the property-casualty insurance industry. The year 2011 was an unusual one. It was a year of frequent, costly natural disasters in the United States. It was a very windy year, with nineteen tropical storms, seven of which reached hurricane strength. Three of the hurricanes were major storms of Category 3 or higher. Fortunately, only Hurricane Irene made landfall in the U.S. It is an unusual result

that insured losses were less than normal in spite of the greater-than-normal activity. However, other perils took up the slack.

Tornado activity was incredible, with the Joplin, Mo., tornado leading the way. In Joplin, the May 22, 2011, tornado killed 139 people and will cost roughly \$4 billion when all is said and done. The Joplin storm followed a series of tornadoes that struck Alabama and other southern states, causing extensive damage. In total, more than 1,700 tornadoes occurred in 2011. In a lighter side note, the Joplin tornado led one of our committee members, **Eric Nordman**, to write a song. You can listen to it and view some incredible pictures of the tornado at: <http://www.youtube.com/watch?v=DAZfYWswEGY&feature=youtu.be>. The song, "Joplin," by his group, The Perils™, is also available on iTunes® and Amazon®. Scientists are making progress toward modeling the seasonal frequency of tornadoes. That should help in future monitoring efforts. For more information, please visit: <http://www.sciencedaily.com/releases/2012/01/120119134019.htm>.

The U.S. also experienced costly major wildfires and earthquakes. According to the National Oceanic and Atmospheric Administration (NOAA), there were fourteen weather- or climate-related disasters that exceeded \$1 billion in damages, breaking all historical frequency records. It is safe to say the U.S. property-casualty industry had a rough year. Catastrophes were up, and investment income was down. I am so happy 2012 has arrived.

In spite of all the opportunities for alarm, the property-casualty insurance industry in the U.S. is performing pretty well. I took a look at financial filings for the third quarter and have the following observations. The 2011 third-quarter net earned premiums rose 2.5 percent, compared to third-quarter 2010. This could be a result of a healthier economy

and some upward price movement. The incurred losses were definitely affected by the significant number of catastrophes; however, the magnitude of the catastrophe losses was not as high as one might expect, given the record frequency of major catastrophic events. The third-quarter combined ratio was 109.5 percent—a figure that cannot be sustained long term in a low-interest-rate environment. Year-end figures should give us a better picture; however, I am expecting the industry aggregate surplus will decline slightly. Nevertheless, the U.S. property-casualty insurance industry is generally well capitalized and poised for a positive 2012.

Featured in this newsletter are articles on several topics. I find it hard enough to keep up with all the insurance acronyms we use in the U.S. In the article "Know Your ABCs ... It's Still Relevant," the authors explore the meaning behind several acronyms used in the international world of insurance. This article should be of practical use to both international and domestic audiences. It was originally published in the October 2011 Issue of the CIPR newsletter (See? Another acronym already). It stands for Center for Insurance Policy and Research. I hope you enjoy it.

Our newsletter editor, **Eric C. Nordman, CPCU, CIE**, presents an article discussing the new Federal Insurance Office. Also in the newsletter is an article by Regulatory & Legislative Interest Group Committee member **Loren D. McGlade, CPCU, ARM, ARe, APA, CIPA**. He discusses mandatory auto insurance laws and the systems states have developed to monitor drivers' compliance with the insurance mandates. Loren is uniquely qualified to comment on the mandatory reporting laws, as he serves as chairman of the Insurance Industry Committee on Motor Vehicle Administration. Finally, **Lamont Boyd, CPCU, AIM**, writes about the ongoing success of the CPCU Society Student Program.

The Regulatory & Legislative Interest Group Committee website at <http://rl.cpcusociety.org/> provides links to the state legislative calendars and to the House Committee on Financial Services; Senate Committee on Commerce, Science and Transportation; and Senate Committee on Banking, Housing & Urban Affairs websites. These three House and Senate committees are the primary committees for introducing and enacting laws affecting insurance on the federal level. We also try to highlight important items on our LinkedIn page. Please let us know if you have any suggestions for adding to our website or LinkedIn page.

As this newsletter goes to press, we are anxiously awaiting the report from the Federal Insurance Office on how to modernize and improve state regulation of insurance. Our next newsletter will have a reaction to the much-anticipated report.

It should make for an interesting 2012 in the regulatory world.

At a high level, that is a quick review of items the Regulatory & Legislative Interest Group Committee is involved with and of what is occurring in the property-casualty industry. I hope you will review our website and join us on LinkedIn. I encourage you to write an article for a future issue of this newsletter. Whether it's through writing an article, posting something on LinkedIn, or sending an e-mail, we would like to hear from you. ■

# 2011 CPCU Society Student Program— “Ongoing Success!”

by Lamont D. Boyd, CPCU, AIM



**Lamont D. Boyd, CPCU, AIM**, director, insurance scoring solutions, with FICO® (Fair Isaac Corporation), is responsible for client and partnership opportunities that make use of FICO's credit-based insurance scoring and property risk scoring products and services. Speaking regularly to various groups on behalf of FICO for the past 18 years, he is recognized as a leading expert in predictive scoring technology. In addition to managing the CPCU Society Student Program, he is a member of the Underwriting Interest Group Committee and the 2012 Annual Meeting Task Force.

**D**ozens of notes from chapter and Society leaders, risk management/insurance students and professors, mentors and others involved in our CPCU Society Student Program for 2011 inspired me to express my own sincere appreciation for all who contributed time, effort and money to make this program another in a series of “ongoing successes”!

Here are just a few of the comments we've received about the 2011 Student Program:

**Tyler Cockrum**, Missouri State University, expressed appreciation very similar to so many others:

“I would like to begin by saying how grateful I am that I had the opportunity to participate in the CPCU Student Program. The Annual Meeting was a very successful trip for me. I had the opportunity to learn about several different career paths (the majority of which I had not even considered). I also was given countless opportunities to meet new people, and network with both students and professionals in the industry. This experience is something that has had a positive impact on me and will greatly help to advance me in my future career.”

**Brigid Tarpey**, University of Southern Maine, shared her thoughts and plans for the future:

“I just wanted to thank you for all you did to make the conference as successful and meaningful to me as you did. I can't imagine all the hard work and organization that goes into setting up something like this, and I want to thank you for making it possible for my fellow classmates and me to have attended such a fantastic conference. We all benefited greatly from attending and enjoyed all the networking we did. I look forward to graduating in the spring, and furthering my education and career in the insurance field.”

**Erika Villavicencio**, University of North Texas, offered insight into her CPCU study plans:

“I just wanted to tell you how much I appreciated your time throughout this whole process and for getting the Student Program to be so successful. It was a great experience for me, and I fully enjoyed my time with the rest of the CPCU members. The whole week there made me excited to start my journey with CPCU and start studying for the exams. I'm hoping to get everything done by 2016!”

**Le'Yante Williams**, Florida State University, also expressed her appreciation:

“I would really like to thank you for extending the opportunity to attend the CPCU Society Annual Meeting. I had a fantastic time learning about the industry, listening to the fascinating stories of the speakers, and also being able to not only network with professionals, but make some friends along the way. I will definitely relay the awesome experience I had at the meeting to help increase awareness of the outstanding possibilities the meeting had to offer.”

**Steve McElhiney, CPCU, MBA, ARe, AIAF**, 2011-2012 CPCU Society president and chairman, shared his thoughts for the future:

“The pipeline issue is the core strategic challenge faced by the insurance industry and the Society in the next 10 to 15 years as a generation of knowledge workers retire, and new talent needs to be identified, trained and developed to fill these technical roles. This program, going now into its third year, serves as a prototype for success for the industry as bright and eager insurance students from programs based around the country gain an opportunity to be immersed into a vibrant CPCU Society Annual Meeting and Seminars, and network with



professionals at all levels and discover various career options. At this point, I cannot imagine an Annual Meeting and Seminars where students are not present as an integral part of the meeting experience for all of us — this program has had this profound of an impact in such a short period.”

**Warren L. Farrar, CPCU, CLU, ChFC,** 2011–2012 CPCU Society immediate past president and chairman, offered the following observations:

“I continue to be impressed with the level of excitement and commitment demonstrated by the students attending our annual event. They, too, benefit by gaining insight into our industry, having the opportunity to meet with leaders of the industry and developing new relationships that can enhance their careers as they develop. This is a small, but important, effort at attracting young professionals into our industry — a critical issue for the industry and the CPCU Society.”

“A Look into the Future” — our very unique “student-focused” seminar in Las Vegas — was a rousing success, as well. The seminar highlighted the property-casualty insurance industry’s need for the “best and brightest” now and in the future, and provided the unique perspective of students working toward risk management/insurance careers. The seminar was specifically designed to help risk management and insurance students understand more fully the variety of paths available to them in the property-casualty insurance industry. Students also gained a clear understanding of the value of the CPCU designation in helping them on their chosen path.

Many thanks to our seminar speakers: **Noelle Codispoti, ARM**, executive director of Gamma Iota Sigma, the international risk management, insurance



Forty students from some of the country’s leading universities and colleges attended the 2011 CPCU Society Annual Meeting and Seminars in Las Vegas. Participating students, in alphabetical order: Alexander Abbott, St. John’s University; Scott Adams, Illinois State University; Masmoudath Anjorin, Morgan State University; Matt Baber, University of Southern Maine; Ashleigh Buchanan, University of North Texas; Cheng Cheng, University of Illinois; Tyler Cockrum, Missouri State University; Erin Connell, University of Colorado-Denver; Danielle Corde, Boston College; Walter Filmore, University of North Texas; Brendan Francis, Howard University; Dan Fuld, Illinois State University; Kaitlin Graf, St. John’s University; Weijing “Lilia” He, University of Illinois at Urbana-Champaign; Jocelyn Horton, University of Colorado-Denver; James Howe, UNC Charlotte; Jonathon Jaeger, University of Iowa; Christopher Juntura, University of Southern Maine; Jennifer Medeiros, St. John’s University; DeAndrai Mullen, Morgan State University; Jin Na, University of North Texas; Jacqueline Negrete, Southern Methodist University; Mason Novess, Olivet College; Christina Oda, University of Illinois; Kwesi Ofori-Atta, Georgia State University; Rachel Patterson, Appalachian State University; Linda Pollock, University of Southern Maine; Mary Rhodes, University of Louisiana at Lafayette; Ashley Rieger, Illinois State University; Benjamin Robbins, Appalachian State University; Sanae Russell, St. John’s University; Catherine Sebolt, University of Iowa; Olena Shchukina, Georgia State University; Marcus Somerville, Georgia State University; Brigid Tarpey, University of Southern Maine; Ottonian “Toni” Tate, University of North Texas; Edward Van Strate, Olivet College; Erika Villavicencio, University of North Texas; Le’Yante Williams, Florida State University; and Dahao Zheng, University of Illinois at Urbana-Champaign.

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and actuarial sciences collegiate fraternity; **Dale M. Halon, CPCU, CIC**, vice president of sales, ISO Innovative Analytics; **Connor M. Harrison, CPCU, ARe, AU**, director of custom products, The Institutes; and **James R. Jones, CPCU, ARM, AIC**, executive director of the Katie School of Insurance and Financial Services at Illinois State University.

Our hope is that all students, new designees and industry veterans walked away from this seminar with great ideas and a clear understanding of what is needed to grow our industry through the development of talented individuals. The CPCU Society is uniquely positioned — in large part due to the direction and support provided by chapter and interest group leaders — to offer a bridge between those who are seeking a rewarding future in the industry and those who are seeking people to contribute to a successful future.

## 2012 Student Program

As a direct result of the efforts of so many of you and your colleagues over the past two years, the Society has given our Student Program an enthusiastic "green light." Our next stop will be in Washington, D.C., for the 2012 Annual Meeting and Seminars.

Being ever mindful of chapter interests, overall expense considerations and very complicated coordination efforts, the 2012 Student Program has been amended slightly:

- The Society will waive Annual Meeting and Seminars registration fees for 24 students. This will allow for greater, focused attention on each student. As in previous years, registrations will be taken in the order of contact with the Society's Membership Resource Center. The first 24 qualifying students will receive the waiver. A waiting list will be available in the event of student cancellations.

- Students must be juniors, seniors, or graduate students in risk management, insurance or actuarial sciences programs to qualify for the Student Program. This helps focus our attention on those students who have clearly chosen the insurance industry as their career path.
- All students must be individually recommended by their professor/advisor.
- Each participating university/college will be able to recommend up to two students.
- Qualifying students who do not receive direct chapter sponsorship will receive "out-of-pocket" expense reimbursement based on chapter contributions to the 2012 Student Program.
- A chapter directly sponsoring a qualifying student for 2012 can reserve one spot among the 24 students within the program. This student must be named prior to Aug. 1, 2012, or the spot will be opened to the next student on the waiting list.

At the request of some chapter leaders, there is an option available for students who would not otherwise qualify under the 2012 Student Program guidelines. A chapter can choose to fully sponsor (including any payment of full registration fees) a "non-qualifying" student (e.g., business major). This student will be included in all Student Program activities and, if possible, will be "paired" with another student to help mitigate hotel expenses.

A final note: Once again, my sincere appreciation to all who contributed in so many ways to the success of our 2011 Student Program. Since "ongoing success" is fully expected again in 2012, please don't hesitate to contact me ([lamontboyd@fico.com](mailto:lamontboyd@fico.com)) with any thoughts you may have, or assistance you're willing to offer to help us attract bright, young minds to the insurance industry and the CPCU Society! ■

# The New Federal Insurance Office

by Eric C. Nordman, CPCU, CIE



**Eric C. Nordman, CPCU, CIE**, is currently the director of regulatory services at the National Association of Insurance Commissioners (NAIC). He directs the regulatory services division staff in a wide range of insurance research, financial and market regulatory activities, supporting NAIC committees, task forces and working groups. He has been with the NAIC for 20 years. Prior to his appointment as director of the regulatory services division, Nordman was director of research and, before that, the NAIC's senior regulatory specialist. Previously, he was with the Michigan Insurance Bureau for 13 years. Nordman earned a bachelor's degree in mathematics from Michigan State University. He is a member of the CPCU Society Kansas City Chapter.

## Overview

**T**he purpose of this article is to explore details of the new Federal Insurance Office (FIO).

The Dodd-Frank Wall Street Reform and Consumer Protection Act established the FIO in Title V. The FIO is housed in the Department of the Treasury and is headed by a director who is appointed by the secretary of the Treasury. This article will explore both what the FIO is authorized to do, as well as areas in which it has no authority. In general, the FIO is an adviser to the secretary of the Treasury and a source of information to other areas of the federal government.

## Scope And Functions

The FIO is authorized to cover all lines of insurance except health, long-term care, and crop insurance. The Dodd-Frank Act outlines several areas where the FIO has certain powers but also contains language constraining some of the potential FIO activities. The FIO is not an insurance regulator, as the Dodd-Frank Act contains a savings provision stating, "Nothing in this section or section 314 shall be construed to establish or provide the Office or the Department of the Treasury with general supervisory or regulatory authority over the business of insurance."<sup>1</sup>

The FIO does have some important duties. It is charged with monitoring all aspects of the insurance industry and identifying issues or gaps in regulation that could contribute systemic risk. It is authorized to monitor the extent to which underserved communities have access to affordable insurance products. It serves as a non-voting member of the Financial Stability Oversight Council, which has the power to designate a non-bank financial company to be regulated by the Federal Reserve. Once a company is designated, the Federal Reserve Board of Governors must apply "enhanced

prudential standards" to such company, including heightened capital requirements and stress tests. The Federal Reserve must coordinate with FIO and any primary federal financial regulator on annual stress tests. The FIO is required to coordinate with the appropriate federal regulatory agencies in issuing regulations regarding stress tests of the systemically important non-bank financial institutions. It is required to assist the secretary of the Treasury in administering the Terrorism Risk Insurance Program.

The FIO is expected to develop federal policy and represent the federal government on "prudential aspects of international insurance matters."<sup>2</sup> As a result, FIO Director Michael T. McRaith will represent the U.S. federal government at meetings of the International Association of Insurance Supervisors (IAIS) and other similar organizations. However, state insurance regulators, either directly or through their NAIC representatives, will continue to present the views of the insurance regulatory community and to actively participate in IAIS activities.

The FIO is tasked with assisting the secretary of the Treasury in negotiating covered agreements:

A covered agreement is] a written bilateral or multilateral agreement regarding prudential measures with respect to the business of insurance or reinsurance that is entered into between the United States and one or more foreign governments, authorities, or regulatory entities and relates to recognition of prudential measures with respect to the business of insurance or reinsurance that achieves a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulation.<sup>3</sup>

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The term substantially equivalent means the prudential measures of a foreign government, authority, or regulatory entity that achieve a similar outcome as those achieved under state law.

The FIO has a role in managing an insolvency of a systemically important non-bank financial institution. It can determine that a systemically risky insurer requires a Dodd-Frank Title II orderly resolution, but there are some strings attached. The determination requires written request of the Treasury secretary, and then there must be a two-thirds vote of the Federal Reserve Board of Governors and an affirmative vote of the FIO director. If these hurdles are overcome, the resolution proceeds; however, the resolution is conducted pursuant to state law. The Federal Deposit Insurance Corp. (FDIC) can step in the shoes of state regulator if no state action is taken within sixty days.

The FIO is also able to consult with the states on insurance matters of national or international importance. It advises the secretary of the Treasury on major domestic and international insurance matters and assists the Treasury in carrying out any related duties or authorities.

## Powers

The FIO is authorized to collect data, and it can enter into information-sharing agreements with state regulators and others. Further, the FIO can require an insurer or its affiliate to submit data to the office. However, it must determine whether any public or regulatory sources are available before requiring that such information is sent directly from an insurer. The law provides an exemption for small insurers; however, regulations defining what constitutes a small insurer have not been issued. The FIO does have subpoena power; however, use of the subpoena power is limited. Exercise of the subpoena power requires a written finding that data is required for the office to carry out its functions and that the office has first coordinated with a regulator or



agency to ensure there are no other public or regulatory sources for such information.

The FIO is authorized to assist the Treasury secretary and U.S. trade representative in negotiating covered agreements, as described earlier. Such agreement must provide consumer protections substantially equivalent to those under state law. To be substantially equivalent, the outcome of the agreement must provide at least the same level of consumer protections as those contained in state laws and regulations. Further, before a covered agreement can be executed, the secretary of the Treasury and U.S. trade representative must consult with the House Financial Services Committee, the House Ways and Means Committee, the Senate Finance Committee, and the Senate Banking Committee. The consultation occurs when the Secretary of the Treasury and U.S. trade representative jointly submit the proposed covered agreement to the committees listed above. There is a

layover period of 90 days specified in the law.<sup>4</sup>

The FIO has some limited preemption powers regarding conflicting state laws and regulations. The FIO can recommend preemption of a state law or regulation if 1) applying the state law or regulation results in less-favorable treatment of a non-U.S. insurer subject to the covered agreement than a U.S. insurer admitted in the state and 2) the law or regulation is inconsistent with the terms of the covered agreement.<sup>5</sup> There is also a savings provision prohibiting the preemption of any state law or regulation governing an insurer's rates, premiums, underwriting practices, sales practices, or insurance coverage requirements.<sup>6</sup> Further, there can also be no preemption of state antitrust laws or regulations that apply to the business of insurance.<sup>7</sup> State measures governing solvency or capital requirements are free from preemption unless the state insurance measure results in less-



favorable treatment of a non-U.S. insurer than a U.S. insurer.<sup>8</sup>

There are procedural steps the FIO is required to follow if preemption is to occur. The process starts with a notice called the Notice of Potential Inconsistency. The first steps require the FIO director to provide notice to a state regarding the inconsistency, consult with the Office of the U.S. Trade Representative, and publish notice of the inconsistency in the Federal Register for comment.<sup>9</sup> Following an investigation to consider written comments received in response to the publication in the Federal Register, the FIO director will issue a Notice of Determination of Inconsistency and advise the affected state of the determination and the extent of the inconsistency. The notice shall establish the effective date of the preemption, which must be reasonable and cannot be less than 30 days after the notice.<sup>10</sup> The FIO director must also notify the House Financial Services Committee, the House Ways and Means Committee, the Senate Finance Committee, and the Senate Banking Committee. The third and final step occurs if the inconsistency is not addressed by the state during the

time period specified in the Notice of Determination of Inconsistency. Then the FIO director will issue a Notice of Effectiveness specifying that the preemption has become effective and providing an effective date. After the effective date, the state may not enforce the preempted law or regulation. The Notice of Effectiveness must be published in the Federal Register, and the FIO must also communicate directly with the affected state.<sup>11</sup>

If a state wishes to contest the determination that its law or regulation is inconsistent, and therefore preempted, it may do so, and the Federal Administrative Procedures Act will apply. However, there is a requirement that any judicial review of the determination is *de novo*,<sup>12</sup> a Latin phrase meaning “from the beginning.” As applied in this circumstance, it would mean the trial judge would hear the evidence that both sides wished to present and would not give the FIO’s decision any legal deference.

## Reports

One of the main functions of the FIO is to issue reports. At the time of this

writing, the initial, long-awaited report on “how to modernize and improve the system of insurance regulation in the United States”<sup>13</sup> has not been released. The deadline for the report was eighteen months following enactment of the Dodd-Frank Act. In real time, the deadline was January 23, 2012.

The FIO is responsible for issuing certain annual reports to Congress. Beginning September 30, 2011, and by September 30 each subsequent year, the FIO was required to issue an annual report documenting any preemption actions.<sup>14</sup> This report is intended to inform Congress about the insurance industry and to provide information deemed important by the FIO director or requested by the House Financial Services Committee, the House Ways and Means Committee, the Senate Finance Committee, and the Senate Committee on Banking, Housing and Urban Affairs.<sup>15</sup> So far the FIO has not undertaken any preemption actions—and the report has not yet been issued.

The FIO has responsibility for other one-time reports. On September 30, 2012, it is to deliver a report “describing the breadth

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## Regulatory and Legislative Interest Group Committee

### Mission Statement

In a regulated industry where “compliance matters,” we provide information and insight on the laws and regulations affecting the business of insurance. We promote healthy discussion and dialog on the rapidly evolving federal and state regulatory insurance arena.

### Vision

The Regulatory and Legislative Interest Group strives:

- To be the first place Society members choose to learn about proposed or recently enacted insurance laws and regulations.
- To be recognized within the Society as one of the premier interest groups.
- To provide relevant regulatory information about all countries, including those that may impact United States marketplaces.
- To be a trusted source of information about the various United States insurance markets.
- To provide a forum for discussion on pertinent regulatory or legislative issues.

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and scope of the global reinsurance market and the critical role such market plays in supporting insurance in the United States.”<sup>16</sup> A report is due on or before January 1, 2013, describing the impact of the changes to reinsurance regulation on regulators’ access to reinsurance information for regulated companies in their jurisdiction. This report is intended to measure the impact of changes to reinsurance regulation, where the domestic regulator of a reinsurer is now the sole regulator for solvency, provided that the state is accredited by the NAIC or has substantially similar financial solvency requirements as accredited states. An update to this report is required on or before January 1, 2015.<sup>17</sup> The FIO may also decide to produce other unspecified reports.

## Conclusion

The Federal Insurance Office is open for business. It is charged with advising the secretary of the Treasury and providing Congress with reports regarding the fifty-six independent U.S. insurance jurisdictions that form the national, state-based insurance regulatory system. These state-based insurance markets comprise roughly one-third of the world insurance markets, ranging from the sixth largest market in the world, California, to the 104th largest jurisdiction in the world, Wyoming.<sup>18</sup>

Insurance regulators look forward to working closely with the newly formed FIO to more fully represent the interests of U.S. insurers and insurance regulators in the international insurance community.

Once the FIO releases its long-awaited study, a follow-up article will appear in this newsletter. ■

## Endnotes

- (1) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(k).
- (2) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(c)(1)(E).
- (3) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(r)(2).
- (4) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 314.
- (5) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(f).
- (6) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(j)(1)(A)&(B).
- (7) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(j)(1)(C).
- (8) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(j)(1)(D).
- (9) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(f)(2)(A).
- (10) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(f)(2)(C).
- (11) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(f)(3).
- (12) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(g).
- (13) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(p).
- (14) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(n)(1).
- (15) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(n)(2).
- (16) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(o)(1).
- (17) The Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 313(o)(2).
- (18) U.S.-written premiums are provided by the NAIC, and the international premiums were obtained from Swiss Reinsurance at [http://media.swissre.com/documents/WI\\_2010\\_Appendix\\_update\\_v2.pdf](http://media.swissre.com/documents/WI_2010_Appendix_update_v2.pdf). Guam, the U.S. Virgin Islands, the Northern Marianas Islands, and American Samoa do not make the Top 100 insurance jurisdictions list.

# Know Your ABCs—They're Still Relevant

by CIPR Staff

There aren't too many things I remember from my early childhood years, but I do recall my mother teaching me the alphabet, and I remember learning to count to 100, as though these were prerequisites for entering kindergarten.

For those of us engaged in the financial world of insurance, knowing our alphabet is still relevant. With acronyms such as GFC, G-20, FSB, EIOPA, IAIS, FSOC, CEA, and a host of others, it's important to know what these letters stand for, the scope of work these organizations are involved with, and the influence and change they can bring to our daily work.

This brief article is not focused on identifying every relevant financial organization and acronym, but it will raise your level of awareness and your familiarity with a few of the more common acronyms, their scope of work, and how insurance regulators are engaged.

## Global Financial Crisis (GFC)

Let's begin with the global financial crisis (GFC). The greatest financial crisis since the Great Depression of the 1930s now has its own acronym. The proliferation of complex and nontransparent financial instruments involving massive leverage, combined with lack of transparency and inadequate risk management, led to a systemic financial crisis due to the interconnectedness of financial institutions. Questions on the solvency of financial institutions and the financial system's ability to absorb another shock of equal magnitude have motivated policymakers and financial regulators, including insurance supervisors, to understand how risk spreads in an interconnected world, to identify the reasons for the systemic breakdown that occurred, and to evaluate policy changes to mitigate risk and promote stability.

Key to the policy responses to the GFC in the United States was the enactment

of the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA), which brought sweeping changes to the financial markets. The bill expanded the role of the federal government in overseeing capital markets, enhancing the role of existing agencies, and creating new agencies and offices to strengthen and streamline regulation and increase oversight of systemically important financial institutions. Among those new federal organizations are FSOC (Financial Stability Oversight Council), OFR (Office of Financial Research), FIO (Federal Insurance Office) and CFPB (Consumer Financial Protection Bureau).

On the international level, policy responses to the GFC include the creation of the FSB (Financial Stability Board) and the new Basel III capital, leverage, and liquidity standards for banking institutions.

## International Association of Insurance Supervisors (IAIS)

The International Association of Insurance Supervisors (IAIS) is like the United Nations of insurance regulation. This international organization brings together the world's insurance supervisors and regulators from roughly 190 jurisdictions in nearly 140 countries, constituting 97 percent of the world's insurance premiums. The IAIS U.S. members include the National Association of Insurance Commissioners (NAIC)—the insurance supervisors of all fifty-six NAIC member jurisdictions and the Federal Insurance Office (FIO). Established in 1994, the IAIS is located in Basel, Switzerland, and leverages the support of the Bank for International Settlements (BIS), which hosts the IAIS Secretariat. IAIS's objective is to promote effective and globally consistent supervision of the insurance industry and to foster financial stability. The IAIS, along with the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO), sponsor the

Joint Forum, a cross-sectoral organization of banking, insurance, and securities supervisors.

IAIS is engaged in creating international standards of insurance supervision, promoting standards implementation in member jurisdictions, and forging dialogue between insurance regulators and regulators in other financial services sectors. The IAIS holds an annual conference where supervisors, industry representatives, and other professionals discuss developments in the insurance sector and topics affecting insurance regulation. A number of state insurance regulators and NAIC staff members participate actively in key IAIS committees.

Central to the IAIS is the organization's Insurance Core Principles (ICPs). ICPs are key insurance supervisory and regulatory standards. They provide a globally accepted framework for the regulation and supervision of the insurance sector and serve as a basic benchmark for insurance supervisors in all jurisdictions. ICPs can be used for identifying areas in existing regimes that need to be improved. They are utilized within the International Monetary Fund (IMF) Financial Sector Assessment Program (FSAP), providing a comprehensive and in-depth analysis of a country's financial regulatory sector. This October, the IAIS adopted twenty-six revised core principles, creating a new set of expectations for insurance supervisory systems.

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In August 2009, the NAIC conducted a self-assessment, using the existing twenty-eight ICPs, and participated in the FSAP process, which reviewed the U.S. insurance regulatory system. The NAIC received high marks from the FSAP's Detailed Assessment Report. In the report, the U.S. received a rating of observed or largely observed for twenty-five out of the twenty-eight core principles. The report acknowledged the important role that the national state-based system of insurance regulation played in providing strength and stability during the financial crisis, noting that "strong regulation contributed to the overall resilience of the insurance sector."

The IAIS continues to refine its work in a number of areas of insurance supervision highlighted by the recent financial crisis. One of these initiatives is the development of a common framework (ComFrame) for group-wide supervision of operating internationally active insurance groups (IAIGs). Through ComFrame, the IAIS aims to develop methods for supervising insurers that do business in two or more countries, establish a comprehensive framework for supervisors to address group-wide activities and risks, set grounds for better supervisory cooperation, and foster global convergence of regulatory and supervisory measures and approaches.

## The Bank of International Settlements (BIS)

The Bank of International Settlements (BIS) is, simply put, the bankers' bankers' bank. It is a bank for central banks. Established in 1930, the BIS is the world's oldest international financial organization. It currently has fifty-six member central banks from which the BIS's shareholders and board of directors are drawn.

One of the key objectives of the BIS is to promote monetary and financial stability through international and inter-agency cooperation. The bank's

Basel-based committees support its members and other public agencies, including insurance regulatory bodies, by providing research and analysis as well as policy recommendations. The BIS, along with the Financial Stability Board and international supervisory bodies, has been charged by the Group of Twenty (G-20) Finance Ministers and Central Bank Governors with developing a system-wide macro-prudential policy framework that includes tools to mitigate systemic risks, which threaten the safety and soundness of the financial system as a whole.

## Committee on the Global Financial System (CGFS)

The Committee on the Global Financial System (CGFS), formerly known as the Euro-Currency Standing Committee, was established in 1971 with a mandate to monitor international banking markets. Its original focus was to monitor off-shore financing and study its implications for monetary policy. The committee's attention has shifted to issues of financial market stability and the challenges faced by the global financial system. The committee tries to identify and assess potential sources of stress in the global financial environment through a regular and systematic monitoring of developments in financial markets and systems, including through an evaluation of macroeconomic developments at the national and international levels.

The CGFS works in close cooperation with other national, supranational and international institutions with responsibilities for pursuing related objectives as it examines alternative policy responses to the current financial crisis. The International Association of Insurance Supervisors (IAIS) has worked with the committee on the disclosure of risks by financial institutions in order to enhance market discipline. Also, at the request of the Financial Stability Forum, the IAIS has partnered with the CGFS on the issues of financial stability and the possible

implications of credit risk transfer between the insurance and banking sectors.

## Group of Twenty (G-20)

The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 as a response to the financial crises in Asia and Latin America that threatened the stability of the world economy. It grew out of a similar initiative, the G-7 (group of the seven leading developed countries), which was formed in 1975 following the oil crisis. As economic and political power began shifting from the West to the bigger developing nations, the more-balanced G-20 was formed to include these emerging powers whose economies could significantly impact global stability.

The G-20 is currently the premier forum for debating key economic issues and considering policy options that promote growth and enhance stability. It is an integral player in the process of building a more efficient and resilient international financial architecture. As the scope of financial regulation has been broadened in response to the global financial crisis, the G-20, in close cooperation with multilateral organizations like the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD), supports efforts to strengthen macro-prudential regulation and supervision to mitigate the spread of risk.

The NAIC, representing the views and concerns of the U.S. insurance regulatory community, works closely with the G-20 in various international forums and bodies on such issues as the supervision of internationally active insurance groups (IAIGs), systemically important financial institutions (SIFI) and systemic risk. Furthermore, in the interest of global cooperation and alignment, the G-20 is promoting the convergence of U.S. and international accounting standards. This effort directly involves the NAIC, as such a convergence directly impacts its





current financial reporting and accounting environment.

## Financial Stability Board (FSB)

In response to the global financial crisis, the Group of Twenty (G-20) Finance Ministers and Central Bank Governors created the Financial Stability Board (FSB) in 2009 as a successor to the Financial Stability Forum (FSF). The FSF, founded in 1999 by the G-7 finance ministers and central bank governors, was re-established as the FSB with an expanded membership and a broader mandate to address vulnerabilities affecting the global financial system and to develop and promote the implementation of effective supervisory and regulatory policies promoting financial stability. The FSB membership now includes, in addition to prior FSF members, all G-20 economies and the European Commission.

The FSB steering committee is a board of twenty-five people, primarily made up of central bankers and national banking/financial services regulators. The U.S. is represented by the Federal Reserve Board, the U.S. Department of Treasury, and the Securities and Exchange Commission (SEC). There is only one insurance representative body on the FSB steering committee—the International Association of Insurance Supervisors (IAIS).

The FSB is tasked with providing recommendations and exploring how to treat systemically important financial institutions (SIFIs) so as to prevent another financial crisis. SIFIs are financial institutions whose disorderly failure—because of their size, complexity, and systemic interconnectedness—would cause significant disruption to the wider financial system and economic activity.

So far, the FSB has focused on systemically important banks, as they were at the center of the financial crisis. Bank supervisors have developed draft methods for identifying these banks; however, the focus is now shifting to other financial institutions, including insurers. Recognizing that the roles of banks and insurers in the economy differ significantly, the FSB is consulting with the IAIS on developing methods for identifying systemically important insurers. NAIC and state insurance regulators are active members of the IAIS Financial Stability Committee, which provides direct input to the FSB.

## Financial Stability Oversight Council (FSOC)

The Financial Stability Oversight Council (FSOC) was created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) in 2010 to identify emerging threats to U.S. financial stability from the ongoing activities, material distress or failure of large interconnected financial companies, including insurance companies. FSOC can designate an insurance company or insurance holding company to be “systemically significant” if it believes the company’s activities or failure could threaten U.S. financial stability.

The DFA gives the FSOC the authority to require that a nonbank financial company deemed systemically significant be supervised by the Board of Governors of the Federal Reserve and be subject to heightened prudential standards (Section 113). Insurance companies or groups determined to be systemically significant may be subject to enhanced requirements for risk-based capital, leverage, liquidity, and credit exposures.

Identifying systemically significant nonbanks requires a two-thirds vote (including the Treasury Secretary) of the FSOC’s ten voting members. FSOC

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# Know Your ABCs—They're Still Relevant

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has one voting member with insurance expertise, plus two nonvoting members representing state insurance regulators and the newly created Federal Insurance Office. The FSOC must consult the company's primary financial regulator (such as a state insurance commissioner) when making such a determination.

## International Accounting Standards Board (IASB)

The International Accounting Standards Board (IASB) is an independent, privately funded accounting standard-setter based in England. The IASB was founded in 2001 as the successor organization to the International Accounting Standards Committee (IASC). It is responsible for developing International Financial Reporting Standards (IFRS) and promoting the global use and application of these standards.

In pursuit of this goal and with the explicit support of the G-20, the IASB closely cooperates with national accounting standard-setters and regulators to adopt or converge with IFRS in the near future. The IASB and the U.S. Financial Accounting Standards Board (FASB) have been working together since 2002 to achieve convergence of IFRS and U.S. generally accepted accounting principles (GAAP). A common set of high-quality global standards remains a priority of both the IASB and the FASB.

Since NAIC's SAP (statutory accounting principles) structure utilizes the framework established by GAAP, any changes as a result of the convergence of accounting standards would directly impact the U.S. insurance regulatory function.

## Basel Committee on Banking Supervision (BCBS)

The Basel Committee on Banking Supervision (BCBS) was established in 1974 to formulate broad supervisory



standards and guidelines and to encourage convergence toward global banking supervisory approaches and standards. The membership of BCBS is composed of central banks and banking supervising authorities of twenty-seven developed and developing countries, and the U.S. is represented by the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The Committee reports to the central bank Governors and Heads of Supervision of its member countries, and it offers advice on banking matters to supervisory authorities in all jurisdictions. As a member of the Joint Forum of international financial regulators, the BCBS, alongside the International Association of Insurance Supervisors (IAIS) and International Organization of Securities Commissions (IOSCO), develops guidance and principles and identifies best practices that are of common interest to all three supervisory standard setters.

The BCBS is noted for its work on international standards on capital adequacy, the Core Principles for Effective Banking Supervision, and the Concordat on cross-border banking supervision. Following the global financial crisis, the BCBS undertook an effort to address some of the weaknesses of the Basel II regulatory framework. A new set of standards incorporating countercyclical measures has been developed to address both firm-specific and macro-prudential system-wide risks. Collectively, these new standards are referred to as Basel III.

## The International Organization of Securities Commissions (IOSCO)

The International Organization of Securities Commissions (IOSCO) was founded in 1983 as an association of organizations that regulate the world's securities and futures markets. IOSCO has members from more than 100 different countries that regulate more

than 90 percent of the world's securities markets. From the U.S., the Securities and Exchange Commission (SEC) is a voting member of IOSCO, while the Commodity Futures Trading Commission (CFTC) and the North American Securities Administrators Association (NASAA) are nonvoting members. The organization's role is to assist its members in promoting high standards of regulation and to act as a forum for national regulators to cooperate with each other and other international organizations.

IOSCO participates in the Joint Forum of international financial regulators with the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS) to look at issues common to the banking, securities, and insurance sectors, including the regulation of financial conglomerates.

### European Insurance and Occupational Pensions Authority (EIOPA)

On January 1, 2010, the European Union (EU) replaced the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS) with a new European Insurance and Occupational Pension Authority (EIOPA) as part of broader revamping of financial services regulation. The newly created EIOPA forms part of the European System of Financial Supervision and is one of three new European supervisory authorities, along with the European

Securities and Markets Authority (ESMA) and the European Banking Authority (EBA).

The EIOPA is expected to lead to closer integration of European insurance supervision by linking national regulators within a strong EU network. Its core responsibilities are to support the stability of the financial system and transparency of markets and financial products, as well as to protect insurance policyholders, pension scheme members and beneficiaries.

The EIOPA, along with the European Commission and local regulators, is developing Solvency II, a risk-based regulatory framework for the region's insurers. Solvency II is a rigorous set of Europe-wide rules for insurers and reinsurers regarding the management of capital, risk, and reporting needs. The new regime replaces fourteen existing EU insurance directives (Solvency I) with a single directive, aimed at achieving a high degree of regulatory convergence across Europe. Solvency II is scheduled to be implemented on January 1, 2013; however, certain requirements will likely be implemented in stages, detailed in Ominbus II, the directive proposed by the European Commission.

EU and U.S. regulators regularly engage in transatlantic regulatory dialogue. In March 2011 and September 2011, insurance representatives from the NAIC, EIOPA and the European Commission met in Washington, D.C., and Frankfurt, Germany, respectively, to discuss

challenges with international insurance regulation. Topics discussed included the U.S. Solvency Modernization Initiative (SMI), EU's Solvency II reforms, group supervision, implementation of the Dodd-Frank Act, systemic risk, and financial stability.

### European Insurance and Reinsurance Federation (CEA)

Founded in 1953, the CEA (Comité Européen des Assurances) is the European insurance and reinsurance federation. The Brussels-based federation represents the views of more than 5,000 insurance and reinsurance companies. The CEA groups national member associations of thirty-three European countries—the twenty-seven European Union (EU) member states as well as six non-EU countries (Croatia, Iceland, Liechtenstein, Norway, Switzerland, and Turkey). It also has two observer members, Russia and the Ukraine.

The CEA represents the views of European insurers in all areas of change, with a focus on the regulatory framework. The implementation as well as the complexities of the new Solvency II regime is a top priority for the CEA. As many European insurers prepare for Solvency II, the CEA has communicated industry concerns to EIOPA, the European Commission, and other important industry bodies. In addition, the CEA is working with member associations to ensure that the principles of the Solvency II Framework Directive enhance the resilience of EU insurance companies.

### In Closing

As you can plainly see—my mother was right. Knowing the ABCs of the financial services world is important. Hopefully this article provides you a primer to help make some sense of the jargon and acronyms used in our puzzling world of high finance and regulation. ■



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# The Regulatory Road to Confirmation of Financial Responsibility of Vehicle Operators by Individual State Departments of Motor Vehicles

by Loren McGlade, CPCU

Loren McGlade is vice president of regulatory data management and compliance for the Chartis U.S. and Canada region. The author's statements, opinions, views, and/or ideas expressed herein are his alone and do not necessarily represent or otherwise reflect those of American International Group, Inc.; Chartis, Inc.; or any of their respective subsidiaries or affiliates.

**M**andatory liability insurance laws exist in forty-nine of fifty states. Auto Liability Insurance Reporting (ALIR) state laws are currently in place in thirty-two states, with several more in development.

Evidence suggests, however, that some of these reporting laws may be failing to meet their primary objective: the enforcement of financial responsibility and the identification of uninsured motorists. Not only are some of these laws not working, but also they are costly, difficult to maintain, and a burden for insured drivers.

## Some Current Laws Are Costly to Administer With Inherent Limitations

Some state laws, as currently designed, consume significant state and insurance company resources while having

negligible impact on the overall uninsured motorist rate. The effectiveness of these laws may be hampered by data integrity issues related to consistency, accuracy, and timeliness.

### Consistency

Customers are hardly consistent in their use of personal data, often providing different parties with accurate but somewhat varying information. For example, a driver may register his vehicle with the state under the name "James Robert Smith" but apply for an insurance policy under the name "Bobby Smith." The inconsistency between these values makes it difficult, if not impossible, to match when comparing data from the two databases. While these data may be similar, the independent and unique purposes for which they are collected adversely affect the ability of the state to successfully match records.

### Accuracy

Typographical errors caused by keystroke mistakes or customer miscommunication are common during the collection of data by both state jurisdictions and insurance carriers. The Vehicle Identification Number (VIN), a unique identifier commonly composed of seventeen characters, is the most common data element subject to errors.

### Timeliness

Insurer and state business practices differ and sometimes conflict. For example, a state's requirement of valid evidence of insurance before a vehicle is permitted to be driven or registered conflicts with an insurance policy's typical provision of coverage for a newly acquired vehicle for a period of time without adding it to the policy. Moreover, once an automobile is added to a policy, an insurer's business practice may mean the vehicle isn't added to its database until days or even weeks later. These timing issues obviously affect the ability to match registered vehicles to reported insurance data.

In addition, batch processing of insurance records required by database reporting laws (for example, weekly or monthly reporting) means the data are obsolete the moment they leave the insurer's database. The inherent delay of database reporting laws means the state is verifying evidence of insurance based on outdated information.

At any given point, certain data maintained by either party may be incorrect or outdated. Simply put, it is impossible for either a jurisdiction or an insurance company to collect and maintain data that are 100 percent accurate and complete.

### Consumers Pay Twice

Consumers are forced to pay twice under these laws. They pay higher insurance premiums to offset insurer costs associated with these laws. They pay again as citizens when they pay for jurisdictional expenses associated with the program via fines, fees, assessments, and taxes.

The cost to consumers is compounded by the fact that they are frequently forced to spend their time correcting data errors that incorrectly identify them as uninsured.



To learn more about this important regulatory topic, the Regulatory and legislative Interest Group has produced a webinar for CPCU Society members. Please check the CPCU Society On-Demand webinar list to purchase the recording.



Additional potential costs to consumers include the fact that large volumes of personal data sent back and forth in “reporting” models puts consumers’ personally identifiable information at risk.

## Costs to Business Customers

These laws do not account for the complexities of how auto insurance is written for vehicles owned and insured by commercial entities. Most notably:

- Commercial businesses typically own large capital assets and willingly purchase high limits of insurance to protect them. Commercial clients are less likely to allow their employees to drive uninsured.
- Commercial insureds do not register all vehicles the same way and do not use personal identifiers such as name, address, and VIN. This causes matching errors. The inability to match evidence of insurance information to DMV registration databases results in undue hardships for these customers.
- The complexity of tracking the multi-state operations of many commercial customers makes it almost impossible to accurately report this unique customer data.

While the commercial uninsured rate is calculated to be approximately 3 percent nationwide, commercial customers bear a disproportionate amount of the costs associated with database laws, particularly when they are more likely to be mistakenly identified as uninsured because of data limitations and the unavailability of the necessary data for matching.

## Web Services Solution

Fortunately, the development of web services and Internet-based transaction processing provides insurance carriers with the capability to verify evidence of insurance to state jurisdictions with increased accuracy and at a lower cost than with traditional reporting systems.

## No Correlation Exists Between Reporting Programs and the Number of Uninsured Motorists

Despite the lack of evidence that state reporting laws are effective at identifying uninsured motorists, new state laws are continually implemented. The American Association of Motor Vehicle Administrators’ (AAMVA’s) Financial Responsibility & Insurance Discipline “Resource Guide,” published in 2002, states:

“In general, there is no correlation between compulsory insurance and the number of uninsured motor vehicles on the highway. The same absence of correlation can be said of insurance data reporting programs. Insurance Research Council studies of states with reporting programs in place for 5 years or more showed 2/3 of those states showed an increase in the uninsured motorists and only 1/3 showed a reduction. These results suggest there may be other factors involved in determining the success level of these programs, factors such as level of enforcement and consistency of penalties. Matching of data is critical but may never reach comfortable levels due to data accuracy issues, differences in database elements and formats, and a laundry list of items that generate false negatives on the DMV database...Considerations must weigh the costs, the payback realities, and intrusion on law-abiding citizens.”

The Insurance Industry Committee on Motor Vehicle Administration (IICMVA) has developed a model using web service technology to verify evidence of auto liability insurance.

The verification of evidence of auto liability insurance and identification of uninsured vehicles should be event-based, such as vehicle registration, traffic stop, or after an accident. To this end, IICMVA has developed an insurance-industry-supported alternative to verify evidence of automobile insurance based on web services technology.

This online inquiry approach for verifying evidence of auto liability insurance provides many benefits:

- Jurisdictions can obtain real-time status of insurance information.
- Jurisdictions are able to incorporate online verification systems into their license plate renewal laws.
- Accurate and/or timely.

- There is no need to exchange massive amounts of data that are rarely, if ever, referenced.
- The confidentiality of insurance information is protected within the confines of each insurance carrier’s IT environment.
- Privacy is protected because only legally authorized entities will have access. The information provided is limited, and technological safeguards, such as encryption, are included.

## IICMVA Model

The IICMVA Model Guide offers a set of recommendations for online insurance verification web services for providing real-time evidence of insurance verification:

- Each insurance company is responsible for maintaining the data necessary to verify the evidence of auto liability insurance for its own customers.
- Each insurance company is responsible for maintaining a web portal or service through which online evidence of

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# The Regulatory Road to Confirmation of Financial Responsibility of Vehicle Operators by Individual State Departments of Motor Vehicles

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insurance verification can take place by trading partners.

- Valid verification inquiries are made using unique key information to route a request to the appropriate carrier for a response.
- The information exchanged is limited to those items needed to accurately route the request and confirm evidence of insurance, keeping privacy concerns to a minimum.
- The methods used to make requests can vary, as long as they are ultimately transmitted in a standard format set by the industry.
- Confirmation of evidence of auto liability insurance, or lack thereof, is sent back to the requesting entity, in real time, for appropriate action.

## Conclusion

The IICMVA Online Verification (OLV) model provides states with a tool to support enforcement of financial responsibility laws and aid in the identification of uninsured motorists. A proven, practical tool, OLV reduces operational and maintenance costs and benefits states, insurers, and consumers by eliminating the data integrity problems associated with some current laws.

Several states have already implemented or tested (or have passed or proposed legislation to do so) web services using the IICMVA model or have tested the IICMVA model or other versions either exclusively or as a supplement to their existing program. These states include the following:

- Alabama
- California
- Connecticut
- Florida
- Minnesota
- Mississippi
- Montana
- Nevada
- New Mexico
- Oklahoma
- South Carolina
- Texas
- Utah
- Washington, D.C.
- West Virginia
- Wyoming ■

## About the Author

Loren McGlade, CPCU, current co-vice chair of the CPCU Society's Regulatory & Legislative Interest Group, is past chair of the Insurance Industry Committee on Motor Vehicle Administration (IICMVA). You can check out the IICMVA and its many publications at [www.IICMVA.com](http://www.IICMVA.com). Loren continues to be an expert on this particular topic and wanted to share some of his knowledge and experiences with his fellow CPCUs. We hope you will find this beneficial in your organization.

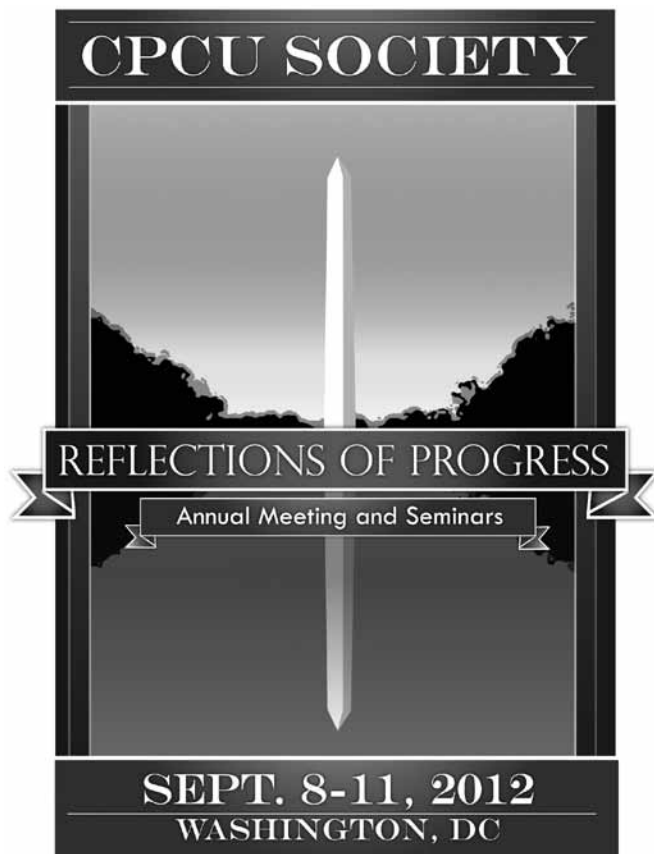
## Highlights

- When insurance verification is mandated, the IICMVA encourages states to consider the insurance-industry-supported insurance verification web service developed by the IICMVA rather than enacting a traditional database program that attempts to track registrants' coverage all the time.
- The IICMVA web service model is an efficient, cost-effective, and vendor-neutral solution that provides real-time verification and is based on the concept of checking for coverage only when the state needs to confirm coverage, such as at a traffic stop or during registration.
- The web service model eliminates the need to exchange and maintain massive amounts of information.

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# Regulatory & Legislative Interest Group

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