

INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE

Internal Administration (EX1) Subcommittee Sept. 21, 2009, Minutes

2010 Internal Administration (EX1) Subcommittee Charges (Attachment One)

Internal Administration (EX1) Subcommittee Aug. 24, 2009, Minutes (Attachment Two)

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Joint Meeting of the Executive (EX) Committee and
Internal Administration (EX1) Subcommittee
Washington, DC
September 21, 2009

The Executive (EX) Committee and Internal Administration (EX1) Subcommittee met jointly in regulator-to-regulator session Sept. 21, 2009, in Washington, DC, to receive updates on various NAIC administrative matters. The following Committee and Subcommittee members were present: Roger A. Sevigny, Chair (NH); Jane L. Cline, Vice Chair (WV); Susan E. Voss, Vice President (IA); Kevin McCarty, Secretary-Treasurer (FL); Sandy Praeger, Most Immediate Past President (KS); Linda S. Hall (AK); Thomas R. Sullivan (CT); James J. Donelon (LA); Morris J. Chavez (NM); Kim Holland (OK); Joel Ario (PA); Scott H. Richardson (SC); Merle D. Scheiber (SD); Leslie A. Newman (TN); Kent Michie (UT); Paulette Thabault (VT); and Sean Dilweg (WI).

1. Adoption of Aug. 24 Minutes

Upon a motion made by Commissioner McCarty and seconded by Commissioner Newman, the Committee and Subcommittee adopted the minutes of the Subcommittee's Aug. 24 meeting (Attachment Two).

2. Report of the Audit Committee

Commissioner McCarty presented the report of the Audit Committee, which met Sept. 14. He reported on the financial results through July 31, noting operating revenues performed below budget \$1,077,650 (2.2%) and operating expenses yielded savings of \$681,273 (1.7%), producing an operating margin performing below budget by \$396,377 (4.7%) through July 31. Investment activity produced gains resulting in investment income of \$3,654,654 compared to a budget of \$1,101,364, for a positive investment income variance of \$2,553,290 and overall positive net income variance of \$2,156,913 (22.7%) through July 31.

Commissioner McCarty also provided a preliminary update on financial results through Aug. 31, noting operating revenues performed below budget \$906,266 (1.7%) and operating expenses continue to yield savings of \$899,636 (1.9%). As a result, the operating margin is now performing below budget by just \$6,630 (0.1%) through Aug. 31. Investment activity again produced gains resulting in investment income of \$4,309,255 compared to a budget of \$1,247,612, for a positive investment income variance of \$3.1 million and overall positive net income variance of \$3.1 million (41.2%) through Aug. 31.

Commissioner McCarty noted NAIC management continues to update 2009 projections, based on revenue recovery and cost-reduction measures discussed with the Subcommittee in early June and implementation by the NAIC division directors. To date, management is confident in the results of the 2009 cost reductions and believes the NAIC is on track to meet projections.

The Audit Committee discussed the NAIC policy regarding grant fund allocations to NAIC members. In December 2005, the Subcommittee voted to allow the states to carry grant fund balances for 2005 through 2008 forward into future years, primarily due to: (1) the cancellation of the 2005 Fall National Meeting; (2) the fact that some states had significant outstanding balances in December 2005; and (3) in consideration for those states needing to build grant funds to offset the cost of travel to the 2009 Winter National Meeting in Hawaii. Beginning in 2009, balances accumulated through Dec. 31, 2008, will continue to be available to members into future years; however, any unused balance of the \$13,000 allocated to members during 2009 will expire Dec. 31, 2009. As a result, the Audit Committee agreed to encourage members to use their calendar-year 2009 grant funds to the extent needed by Dec. 31, and distributed a letter to all members to that effect.

Given the continued pressure on state budgets and the need for state insurance regulators to actively participate in various activities, such as supervisory colleges and meetings associated with state regulatory and/or NAIC business, the Audit Committee also approved revisions to the NAIC Grant Fund Policy as follows:

The NAIC grant funds are available to defray the cost of tuition and related travel expenses to NAIC-sponsored education and training programs and for travel expenses to NAIC-sponsored meetings; expenses associated with any Society of Financial Examiners (SOFE) educational program for state and contract examiners; expenses associated with any Insurance Regulatory Examiners Society (IRES) education and training program for state and contract market regulation personnel; expenses associated with attendance at meetings of international associations of regulators, such as the International Association of Insurance

Supervisors (IAIS) and the Asociación de Superintendentes de Seguros de América Latina (ASSAL); expenses associated with attendance at meetings of Interstate Insurance Product Regulation Commission (IIPRC) activities; expenses associated with member participation in supervisory colleges; and/or other meetings associated with state participation in national regulatory and/or NAIC business.

Upon a motion made by Commissioner Donelon and seconded by Superintendent Chavez, the Committee and Subcommittee adopted the report of the Audit Committee.

3. Report of the Information Systems Task Force

Neil Woerman (KS) presented the report of the Information Systems Task Force, which met Sept. 21. The Task Force reported on its review of member-approved information technology projects.

Upon a motion made by Commissioner Praeger and seconded by Commissioner Holland, the Committee and Subcommittee adopted the report of the Information Systems Task Force.

4. Approval of 2010 Budget Proposal for Public Exposure

Brady Kelley (NAIC) presented a report of updates to the 2010 budget proposal, including changes since the budget was reviewed in detail by the Committee and Subcommittee at its Aug. 24 meeting. The 2010 budget proposal includes total revenues of \$73,648,374 and total expenses of \$70,985,103 — representing a 0.7% increase and 0.8% decrease, respectively, from the 2009 budget, and a 2.0% and 2.3% increase from 2009 projected revenues and expenses, respectively. The NAIC 2010 budget proposal will be made available on the NAIC Web site, with comments due to NAIC staff by Oct. 23 for consideration during the public hearing teleconference, which is tentatively scheduled for Nov. 5.

Upon a motion made by Commissioner Newman and seconded by Commissioner Cline, the Committee and Subcommittee approved the NAIC's 2010 budget proposal for presentation to all NAIC members and release for public review and comment.

5. Report of the National Catastrophe Model Study Group

Commissioner McCarty provided an update regarding the report of the National Catastrophe Model Study Group. The Subcommittee plans to continue its review of the feasibility study and evaluate options, including considering additional options not included in the Study Group's report. Recognizing the need for further transparency to regulators and regulator access to existing market models, and balancing these needs with significant operational and financial impacts of developing a national model, the Subcommittee will continue its evaluation into 2010.

6. Residential Mortgage-Backed Securities Proposal

Matti Peltonen (NY), on behalf of Mike Moriarty (NY) as chair of the Valuation of Securities (E) Task Force, provided an update regarding a proposal to consider modifications to current NAIC designations for residential mortgage-backed securities (RMBS). Given the rating agency downgrades of RMBS holdings, in large part because of models requiring an automatic downgrade regardless of loss severity, the Task Force is evaluating options for considering the loss severity of projected principal losses in RMBS holdings and their resulting impact on NAIC designations and, ultimately, risk-based capital charges.

Upon a motion made by Commissioner Ario and seconded by Commissioner Praeger — and assuming a policy decision to pursue this proposal is adopted by the Valuation of Securities Task Force and the Capital Adequacy (E) Task Force, through the Financial Condition (E) Committee — the Committee and Subcommittee approved next steps to include: (1) development of a request for proposal (RFP) to potential vendors to conduct the reviews of RMBS holdings; (2) development of a framework for the requirements for and related operational and financial impact of this project; and (3) reporting of the potential vendor selection and related operational and financial considerations for approval by the Committee and Subcommittee prior to implementation.

7. Report from the Chief Executive Officer

Therese M. Vaughan (NAIC) presented a report regarding (1) implementation and staffing of the Center for Insurance Policy and Research (CIPR); (2) the CIPR's work and support of the Solvency Modernization Initiative (EX) Task Force, including research on systemic risk; and (3) NAIC Executive Office outreach efforts and discussions regarding the NAIC's regulatory modernization efforts designed to strengthen and preserve the state-based insurance regulatory system.

8. Report from the Chief Operating Officer

Andy Beal (NAIC) presented a report regarding (1) cost-control measures implemented in June 2009 and improved operating projections through Dec. 31; (2) an update on year-to-date NAIC staff turnover, which is just above 5% and consistent with local trends; (3) implementation of the automated Human Resources Information System and related operational enhancements; (4) SVO staff research of additional analytical tools to significantly enhance the SVO and state insurance regulators' understanding and evaluation of insurer investment portfolio risks, noting the NAIC reserves the right, as part of its 2010 budget proposal, to assess a portion of the existing \$1.68 million SVO assessment (noting that only one-half, or \$790,000, of the assessment is currently included in the 2010 budget proposal) in order to cover the potential costs of value-added analytical tools for the benefit of regulators and the industry; and (5) an update on the NAIC's evaluation of its Kansas City office space lease and alternatives for this space upon expiration of the current lease on Jan. 31, 2012.

9. Adoption of 2010 Charges

The Subcommittee reviewed its proposed 2010 charges. Upon a motion made by Commissioner Holland and seconded by Commissioner Voss, the Committee and Subcommittee adopted the Subcommittee's 2010 charges (Attachment One).

10. Multi-State Enforcement (EX) Task Force Proposal

Commissioner McCarty presented a proposal for the establishment of a Multi-State Enforcement (EX) Task Force for the purpose of better oversight and coordination of multi-state settlement agreements and conducting multi-state examinations.

Upon a motion made by Commissioner McCarty and seconded by Commissioner Holland, the Committee and Subcommittee agreed to refer the proposal to the Market Analysis (D) Working Group to provide an opportunity for review, prior to considering the establishment of the Task Force and adoption of charges by the Executive Committee at the Winter National Meeting.

11. Capital and Surplus Relief Working Group Charges

The Subcommittee discussed an outstanding charge of the Capital and Surplus Relief (E) Working Group, relating to discussion of NAIC procedures for making necessary changes to the existing NAIC process when necessary to accommodate emergency items. The Committee and Subcommittee agreed to establish a subgroup of the Executive Committee to consider this charge and to include members from Connecticut, Iowa, Kansas and Wisconsin.

Having no further business, the joint meeting of the Executive (EX) Committee and Internal Administration (EX1) Subcommittee was adjourned.

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PROPOSED 2010 CHARGES
INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE

Adopted by Jt. Executive (EX) Committee/Internal Administration (EX1) Subcommittee September 21, 2009

The mission of the Internal Administration (EX1) Subcommittee is to monitor the operations of the NAIC, including preparing a budget for Executive (EX) Committee review, providing direction on personnel issues, approving emergency expenditures, evaluating the Chief Executive Officer and assisting the Chief Executive Officer in resolving competing demands for staff resources.

Ongoing Support of NAIC Programs, Products or Services:

1. The Subcommittee will review and approve all expenditures of funds not included in the final 2010 budget by considering any fiscal impact statements of unbudgeted resource requests and reporting its actions to the Executive Committee.—*Essential*
2. The Subcommittee will annually work with the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer to review the business operations plan, which will incorporate the Executive Committee's strategic management initiatives, and will report its actions to the Executive Committee.—*Essential*
3. The Subcommittee will oversee a review of any management areas of the NAIC that should be designated for formal operational reviews by working through the Chief Executive Officer.—*Essential*
4. The Subcommittee will oversee the development, revision, and delivery of all NAIC education programs, or the addition of new programs, by coordinating with other committees as appropriate and providing direction to the Chief Executive Officer and Chief Operating Officer.—*Essential*
5. The Subcommittee will receive a report at each national meeting from the NAIC Audit Committee, which will be chaired by the Secretary-Treasurer. The Audit Committee will meet with NAIC management at least at each national meeting, or more frequently as necessary, to review the NAIC financial statements and to hear reports from the NAIC management on emerging financial issues for the NAIC, and will report such information to the Subcommittee. The Audit Committee shall also carry-out the following activities pursuant to its charter:
 - Engage the NAIC's independent accountants with respect to the annual audit. This will include the appointment of an independent audit firm, a review of the results of the annual audit, and discussions with the independent auditors and NAIC management to ensure that all audit comments or suggestions are addressed in a timely manner;
 - Serve as the primary liaison between the NAIC membership and the NAIC investment advisor, including the receipt of reports on the performance of the NAIC's investment portfolio and, from time to time, meet directly with investment firm representatives to hear periodic reports and recommendations.—*Essential*
6. Select NAIC national meeting sites five to six years in advance of the meeting date to ensure efficient and economical locations and facilities.—*Essential*
7. Review and revise, as necessary and appropriate, the procedures for selection of NAIC national and interim meeting sites.—*Essential*

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8. Review and revise, as necessary and appropriate, the criteria and categories for registrants at NAIC national meetings.—*Essential*
9. Appoint the Information Systems Task Force to provide regulator-based technology expertise.—*Essential*

Sponsors for 2010 Charges
(Except as noted, I support all charges)

Roger A. Sevigny
New Hampshire

Jane L. Cline
West Virginia

Susan Voss
Iowa

Staff Support: Therese M. Vaughan/Andrew J. Beal/Brady R. Kelley

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Draft: 8/31/09

Internal Administration (EX1) Subcommittee
New Castle, New Hampshire
August 24, 2009

The Internal Administration (EX1) Subcommittee met in Executive Session on Aug. 24, 2009 in New Castle, NH, to receive updates on various NAIC administrative matters. The following Subcommittee members were present: Roger A. Sevigny, Chair (NH); Jane Cline, Vice Chair (WV); Linda Hall (AK); Kevin McCarty (FL); Susan Voss (IA); Sandy Praeger (KS); and Leslie Newman (TN).

1. Consider National Meeting Hotels – Fall 2010 and Fall 2015

NAIC staff presented proposals for potential national meeting sites for the fall 2010 and fall 2015 meetings. In early 2009, concerns were raised by a variety of national meeting attendees about the 2010 Fall National Meeting dates conflicting with Election Day, November 2. NAIC staff was directed by this Subcommittee to work with the contracted hotel, Gaylord National (Washington, DC), to find an alternative date to avoid the Nov. 2, 2010 election day and allow the NAIC to reschedule the national meeting dates without a contract penalty.

The Gaylord National offered two alternatives: Nov. 19–22, 2010 or Dec. 13–16, 2010. However, it was determined the November dates conflicted with the National Conference of Insurance Legislators (NCOIL) winter meeting and the December dates conflicted with several commissioners' schedules. NAIC staff worked with Gaylord corporate to pursue moving the 2010 Fall National Meeting to an alternate Gaylord property. Gaylord corporate offered the Gaylord Palms in Orlando for more favorable dates of Oct. 18–21, 2010 and at less-expensive hotel rates. Gaylord corporate also was able to secure a new client event to cover the NAIC's initial fall 2010 meeting contract dates; however, the new client group represented a smaller piece of business than the NAIC, which would not fully eliminate 100% of the NAIC's contract cancellation penalty. As a result, Gaylord corporate agreed to waive 100% of the NAIC's fall 2010 hotel contract penalty in exchange for a commitment to the Gaylord Palms in Orlando for Oct. 18–21, 2010 and a commitment to the Gaylord National for the 2015 Fall National Meeting Nov. 19–22, 2015.

Upon a motion by Commissioner Praeger and seconded by Commissioner Newman, the Subcommittee selected the Gaylord Palms in Orlando as the headquarters hotel for the 2010 Fall National Meeting Oct. 18–21, 2010 and the Gaylord National as the headquarters hotel for the 2015 Fall National Meeting Nov. 19–22, 2015.

Having no further business, the Internal Administration (EX1) Subcommittee adjourned.

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