

VIA EMAIL

November 9, 2012

Jim Woody
Chief Financial Officer
National Association of Insurance Commissioners

Re: Proposed 2013 Budget

Dear Mr. Woody:

On behalf of the member companies of the National Association of Mutual Insurance Companies, I am pleased to offer comment on the NAIC's proposed 2013 budget.

NAMIC is the largest and most diverse property/casualty trade association in the country, with 1,400 regional and local mutual insurance member companies serving more than 135 million auto, home, and business policyholders and writing in excess of \$196 billion in annual premiums that account for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. More than 200,000 people are employed by NAMIC member companies.

NAMIC is supportive of a reformed and modernized state-based regulatory system, and recognizes the need for the NAIC to play a central role in that system. However, as we have indicated in the past, we are concerned about the growth of the NAIC in total and in specific areas of operation. We feel that the 2012 projections and the 2013 proposed budget once again shows the NAIC to be on a steady, unyielding path of self-sustaining growth and expansion which makes it subject to criticism, and especially to criticism by those who do not support the preservation of a state-based insurance regulatory system.

We observe that the growth of the NAIC is not unlike that experienced by other bureaucracies such as state and federal government agencies. But at least those are subject to fiscal constraints and realities as well as reform efforts which from time to time are able to curb and even reverse trends. Where the NAIC lacks such checks it is difficult to divine what factors, if any, will be able to change the growth trend. This is a matter of great concern to NAMIC since, as we consider the budget, we are mindful that the costs reflected therein are borne by insurers initially and by the insurance-buying public ultimately. And specifically as a trade

association representing mutual insurers, we offer these comments with the interests of our members' policyholders in mind.

Overall Growth and Operating Reserve

As both budgeted revenues and expenses pass the \$80 million mark, and with 2013 proposed revenues increasing 5.4% compared to the 2012 budget and proposed expenses increasing 3.8% compared to 2012, it is appropriate to once again raise concern about the continuing growth of the NAIC.

Additionally, at the risk of repeating both our statements from past years and those of our fellow trade associations, we submit that the operating reserve maintained by the NAIC is excessive for an organization with sure funding sources. Consequently, we question both the increase of the reserve ratio and the target range. Where the budget Executive Summary describes an "extensive review" of reserve policy by the NAIC Executive Committee and the retention of an independent professional services firm to further review the policy, we question the results of the review based on "a comprehensive review of current and future identified risks and comparisons to comparable organizations" for the simple reason that we are not aware of organizations that are sufficiently comparable to the NAIC in terms of its funding, status and role in a regulatory regime.

Travel

One of the most frankly eye-popping areas of growth within the NAIC budget is the increase in travel expenses. We note that the proposed budget amount for 2013 is a staggering \$4.9 million, representing a 21% increase over the 2012 amount budgeted for travel. That the percentage difference is less when compared to projected expenses for 2012, over budget by \$340,000, is of no comfort.

We are at the point where travel budget amounts thought by the industry to be excessive just a few years ago now appear quaint in comparison to the 2012 projection and 2013 budget. Year to year this is clearly to be an area of rapid growth and we believe it merits further scrutiny and modification.

Fiscal Initiatives

Turning to specific fiscal initiatives:

- Regarding the financial staff exchange program, an initiative to allow experienced regulators from one state to work with financial regulators from another state for a limited period of time to enhance the solvency expertise of the receiving state, we question how this activity does not fall within the scope of existing means and methods of training activities. In other words, why is a special initiative necessary and

what is preventing insurance departments from sharing expertise in this way currently? We are mindful of the financial constraints faced by state insurance departments as described in the initiative's business and fiscal impact statement, yet we do not believe such considerations should be addressed by having the NAIC intercede in the manner described.

- Regarding the natural catastrophe stress test, an initiative to conduct a financial stress test involving a natural catastrophic event to determine the financial impact on an insurer and its reinsurers as well as on the insurance sector as a whole, we question how this differs from what is currently done by state regulators, rating agencies and reinsurers. The business and fiscal impact statement describing the initiative describes its primary benefit as giving regulators "greater comfort that insurers are sufficiently capitalized to withstand a specific catastrophic event." We would submit that any comfort that could be achieved would not be a material addition to what is already gained from existing analyses. We encourage this project to be dropped.

In concluding what is admittedly a letter largely negative in tone with a positive comment, we commend the decision to end the practice of charging fees access to NAIC model laws, regulations and guidelines. We would hope this marks the start of a trend of moves to make the NAIC function more like an organization working for the public interest and less like a for-profit entity.

Thank you for your consideration of these comments on this matter of importance to insurers and policyholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Tetraault". The signature is fluid and cursive, with a large initial "P" and "T".

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