

Late Summer Delight: Fishing for Acronyms

Many years ago I participated in a meeting at the old New York insurance department moderated by a relatively new deputy. A few minutes into the meeting the deputy interrupted the proceedings and declared: “No more acronyms!” The offending acronym was “Pru Re.”

Pru Re, of course, is not an acronym – it is simply an abbre-



Peter H. Bickford

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viation of Prudential Reinsurance Company. But the deputy’s declaration underscored a common insecurity when introduced to a world of unfamiliar terminology peppered with acronyms, initialisms and insider abbreviations.*

**Technically, an acronym is a word formed by parts of a series of words. Modem, for instance, is an acronym derived from “modular/demodular.” Most examples of what we commonly call acronyms are actually initialisms, such as FBI or NYSE, because they do not actually form words.*

The aggressive use of acronyms, initialisms and insider abbreviations can be intimidating, and their use is often intentionally designed to evoke a “twilight zone” fear of being unable to communicate effectively in a strange land with a strange language. That seems to be the case with the national and international insurance regulatory world the past few years, which has been inundated by a bevy of new laws, agencies and oversight entities with their officious and scary acronyms/initialisms: NRRA, FSOC, FIO, IAIS, FSB, SIFI, G20 and G-SII to list a few, not to mention related abbreviations such as Dodd-Frank, Solvency II, and ComFrame. Most of these new “instruments of mass regulation” (IMRs) do not change the day-to-day activities of most insurance professionals, but they do reflect an important shift in the regulatory sands that will have serious and long-lasting consequences for the health and survivability of the insurance business as we know it. Therefore a brief, semi-serious, semi-cynical look at the language of this new regulatory invasion could prove helpful in communicating with the invaders if and when that becomes a survival necessity.

Dodd-Frank = “The Dodd-Frank Wall Street Reform and Consumer Protection Act,” signed into law by President Obama in July 2010. In many respects, Dodd-Frank was D-

Day for the new regulatory invasion (or D-F Day, if you will). Dodd-Frank was purportedly designed to stabilize the financial markets and the speculative investment activities of banks and other financial institutions that were considered a central cause of the “great recession.” Insurance was not a main focus of Dodd-Frank, but it has certainly been swept into the basket of financial institutions, resulting in a further blurring of the lines between state and federal regulation of insurance. For instance, Dodd-Frank begat:

NRRA = The Nonadmitted and Reinsurance Reform Act. While not the only reference to insurance in Dodd-Frank, the NRRA is the only piece of Dodd-Frank dealing specifically with the business of insurance, and was intended to provide some uniformity in the regulation of surplus lines and reinsurance. It does not replace state regulation in these areas: it simply tells the states how to do it.

FSOC = Financial Stability Oversight Council. The Council’s job is to monitor the stability of the US financial system. It has a board of 15, of which ten are voting members, and all are government financial bigwigs except one “independent member with insurance expertise.” So far it appears that the main function of this banking-centric Council is to find insurance companies that it can label as too important to leave to state regulation alone and subject them to additional layers of Federal financial oversight (see **SIFI** below).

SIFI = Systematically Important Financial Institution. The scarlet letter designation imposed by the **FSOC** (see above) subjecting the designee to greater financial scrutiny and capital requirements. So far two entities – Prudential Group and Met Life – are resisting the designation while two others – AIG and GE Capital – (sorry for the additional use of initialisms and abbreviations) seem prepared to wear the **SIFI** designation with pride.

FIO = Federal Insurance Office (NOT the singular form of FiOS!). An agency whose mission is to collect data on the workings of the insurance and reinsurance industries, and eventually – someday – report to the **FSOC** (see above). With the ability to collect data and make recommendations but no “power” to make changes, **FIO** is like a consulting firm that can wreak havoc without any responsibility.

The **FIO** was also empowered to “coordinate Federal efforts and develop Federal policy on prudential aspects of international insurance matters, including representing the United States, as appropriate, in the International Association of Insurance Supervisors” (**IAIS** – see below). This charge codifies the Fed’s recognition that the “global” financial community has created and continues to develop its own instruments of mass regulation (IMRs), and that it would be important to have a common voice representing the US position regarding these global initiatives. Here are explanations of some of these global IMRs:

G20 = The Group of Twenty Finance Ministers and Central

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Bank Governors. Not to be confused with the old G-7 that then became G-8 (the Group of 8) whose main purpose apparently was to cause riots in the host cities of its summit meetings. What could possibly go wrong with letting the finance ministers of 19 countries plus the European Union decide what's best for the world economy?

FSB = Financial Stability Board. Originally established by the G-7 and re-chartered by the **G-20** for the purpose of "coordinating at the international level the work of national financial authorities and international standard setting bodies in developing and promoting the implementation of effective regulatory, supervisory and other financial sector policies in the interest of global financial stability." (Note: this quote, taken from the FSB website, was too perfectly bureaucratic to try and summarize!)

The **FSB** is the international counterpart to the **FSOC** (see above), and not to be outdone by the **FSOC**, is in the process of designating international insurance entities as **G-SIIs** (see below).

G-SII = Global Systematically Important Insurer. The international equivalent of a **SIFI** (see above). The FSB so far has designated 9 global insurance entities as potential **G-SIIs**, including all the designated **SIFIs** except GE Capital.

IAIS = International Association of Insurance Supervisors. Organized to "Promote effective and globally consistent supervision of the insurance industry . . ." The main purpose of the **IAIS** seems to be to provide the means and criteria for the **G-20** and the **FSB** to impose strict banking regulations on international insurance operations, while making it look like actual insurance professionals have some input to the process. Although the **FIO** (see above) is supposed to be the singular US voice at the **IAIS**, the **IAIS** also includes a number of state insurance regulators and the **NAIC** (see below) as members. So much for one voice!

ComFrame = Common Framework

for the Supervision of the Internationally Active Insurance Groups (**IAIGs**). An ongoing effort by the **IAIS** to find the highest common denominator for an international set of financial and other limitations on **IAIGs**, which — probably not coincidentally — is an initialism with **AIG** at its core.

And finally:

Solvency II = The sequel to the existing European Union directive on capital requirements for insurance entities (**Solvency I**). Apparently the EU decided the pain imposed on insurance entities by **Solvency I** was not great enough, thus requiring a much stricter regime. **Solvency II**'s labour pains (British spelling), however, have caused repeated delays in implementation, including a prolonged, arrogant discussion on how to determine the "equivalency" of disparate international regulatory systems.

Standing up to this Federal and global assault on state-based regulation of insurance is the stalwart National Association of Insurance Commissioners (known to most, of course, by its initials - **NAIC**). Forever, it seems, the **NAIC** has been the standard bearer for state regulation of the business of insurance. Without the power to actually make laws, the **NAIC** has succeeded in shaping the regulation of insurance through model acts, standardized filing forms and accreditation standards for state insurance departments. In the past, I was often frustrated, amused and critical of the **NAIC**'s plodding, endless deliberation of issues, and determined — quite unfairly it turns out — that it served no useful purpose other than to be able to wave the flag of state regulation. The authors of Dodd-Frank apparently had the same attitude given that neither the **NAIC** nor any of its members have a vote on the **FSOC** (see above) and little statutory opportunity to provide input to the Federal **IMRs**.

Over time, however, I have come to realize that what many perceive as a weakness of the **NAIC** is its very strength. In its plodding, overly deliberative fashion, the **NAIC** has over many decades established a sound, consistent but locally flexible basis for insurance regulation that has proven responsive but not reactionary in approach. The ultimate proof of this lega-

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cy is that state-based insurance regulation was not a contributing factor to the great recession! Now, it seems, only the **NAIC** and its supporters stand in the way of the state-regulation baby being thrown out with the soiled Federal regulatory bath water.

Consider also that the **NAIC** has to fend off attacks from within its own ranks, particularly from the enforcers from the United States of New York (**USNY**). While the New York superintendent of financial services keeps directing the **NAIC** and its members to follow its lead on such matters as restricting private equity investments and the use of captives, the **NAIC** has continued to proceed in its standard plodding and deliberate fashion to effectively tell the **USNY** to go pound sand. How can you not appreciate this underdog?

What better way to end these musings than with a new acronym (not an initialism or an abbreviation, but a real acronym): **STRESS** – STOP REGULATORY EXCESSES!

And speaking of new, confusing languages, LOL. ☺ [A]

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