[INSIGHT] By Peter H. Bickford

Alphabet Soup

Last August I took a semi-serious look at the acronymic National and International insurance regulatory agencies, institutions and forces of nature ("*Late Summer Delights: Fishing for Acronyms*," **IA**, August 19, 2013), with a somewhat jaundiced view of how these paragons of regulatory expertise may affect the future course of the insurance industry and its denizens. I thought it would be interesting to take a look at what these initialized institutions have been up to these past 12 months in the name of saving our industry from itself.

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As a refresher and guide, the principal players reviewed below are:

FSOC - Financial Stability Oversight Council
FIO - Federal Insurance Office
G20 - International Group of Finance Ministers and Central Bank Governors
FSB - Financial Stability Board
IAIS - International Association of Insurance Supervisors
NAIC – National Association of Insurance Commissioners

The most noise this past year was probably caused by the **FIO**, which was created by the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) for the purpose of collecting data from and monitoring the insurance and reinsurance businesses. The noise was all the industry talk and speculation about the **FIO**'s breathlessly anticipated, long-overdue report on the state of insurance regulation. The anticipation, however, was far more exciting than the report itself. Like so many over-hyped premieres, the report, finally issued last December under the profound title "*How to Modernize and Improve the System of Insurance Regulation in The United States*," came out with a melded approach between Federal and State regulation of insurance. The **FIO** report was probably a disappointment to the supporters at both ends of the Federal v. State debate, but also a relief to most by not making any strong push for immediate intervention by the Feds.

Causing less obvious noise than the **FIO** but with decidedly more authority and ability to dispense pain to the insurance industry is the **FSOC**, also established by Dodd–Frank and charged with "identifying risks to the financial stability of the United States; promoting market discipline; and responding to emerging risks to the stability of the United States' financial system." You may recall that the **FSOC** has ten voting members but only one that has any insurance expertise, and five non-voting members, including the director of the **FIO** and a state insurance commissioner designated by the **NAIC**. The major accomplishment of the **FSOC** this past year was to designate a third company, Prudential Financial, Inc., as a strategically important financial institution (**SIFI**) subject to enhanced oversight and capital standards by the Federal Reserve (the other two being AIG and GE Capital, with Met Life fighting the designation).

The other major accomplishment of the **FSOC** was the publication of an annual report, which neatly divides the world into two parts: banking and non-banking, but then treats them all as banking institutions. The report's major observation regarding insurance was to note the strain that low interest rates place on insurers, particularly life insurers.

Meanwhile the standard bearer for state-based regulation of insurance, the **NAIC**, continued to plod along with its promotion and development of its various ongoing initiatives including **ORSA** (Own Risk Solvency Assessment), and enhancements to group (i.e., holding company) reporting requirements, including **ERM** (Enterprise Risk Management). Because the **NAIC** has no enforcement authority - other than the threat of decertification - much of the activity regarding these initiatives has necessarily come from the individual states. For instance, since the adoption of the revised holding company model act in 2012, close to half of the states and other **NAIC** member jurisdictions have passed amendments to their holding company statutes to conform or substantially conform to the enhanced reporting requirements of the model act. Then of course there is New York. In lieu of a legislative change, the NY regulators adopted a new "emergency" regulation governing its required **ORSA** and **ERM** reports from insurers, while seemingly trampling on the confidentiality protections of the **NAIC** initiatives.

It is interesting to note, however, that many of these Federal and **NAIC** initiatives actually arise from or mimic international initiatives, particularly those of the **IAIS** as "requested" by the **FSB**, the entity chartered by the **G20** to develop worldwide financial standards for financial institutions.

Over the past year, the **IAIS** has been showing off its extraordinary skills in collecting, organizating and largely ignoring comments from the industry and industry experts. These comments have been solicited by the **IAIS** as part of its ongoing charge (from the **FSB**) to develop global capital standards to be applied to G-SIIs (Global Systematically Important

continued on page 8

continued from page 6

Insurers), the international equivalent of **SIFIs** (or is it vice versa?). These standards are being developed in three stages: basic capital requirements (**BRC**) to be submitted to **G20** by the end of 2014; higher loss absorbency requirements (**HLA**) by the end of 2015; and ultimately the development of a risk-based group-wide global insurance capital standard (**ICS**) by the end of 2016 to be applied to internationally active insurance groups (**IAIGs**).

Come on, I see the eyes glazing over. You have come this far, so stick with me a bit longer!

For the past several years the agenda for regulation of the U.S. insurance industry has trended away from State regulators and the NAIC. However, the fact is that even the Feds have been following the lead of the International community. The agenda seems to be controlled by **G20** with the **FSB** and the **IAIS** as its principal agents. Consider for example all the games and manipulation between the Feds and the **NAIC** to ensure a place at the **IAIS** table as it pursues establishing global insurance capital standards, including the step taken earlier this year to have the **IAIS** add the Federal Reserve as a member.

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To their credit, I suppose, the Feds and the **IAIS** have each acknowledged that bank capital requirements are not necessarily appropriate for insurance companies. But in reading through their proposals, methodologies and formulae (no easy task, by the way) it is still not at all clear what the ultimate goal is for establishing capital requirements for insurance entities, or what consideration is being given to the downside of increasingly strict reporting and capital requirements on issues like availability, market flexibility or new product development. This top-heavy, ivory tower emphasis on capital standards has overwhelmed any consequential dialogue on the actual business of insurance.

While insurance companies continue to get beat up by the Federal, State and International turf war over capital standards, the mundane regulation of the everyday conduct of the business of insurance at street level is left to an increasingly ignored, marginalized and underappreciated state-level bureaucracy.[IA]

INSURANCE ADVOCATE 125

 By Christopher Paradiso, CPA

Mobile Moments: Are You Ready?

First it was the "web." Then it was "social." Now it's "mobile." The pace of technological change is daunting. If you were late to the party for the first two, you better not be late for mobile.

Mobile has fundamentally transformed every element of consumer behavior. And it's transformed how businesses engage with shoppers and buyers. From my perspective, the mobile transformation is good for insurance agencies. That's because mobile is the one platform that can put your business directly and immediately in the hands of your customers and prospects before, during and after events happen. Call them mobile moments. Is your agency prepared for mobile moments?

Chris Paradiso

…People are using their smartphones to get things done. While very few business verticals deserve real estate on a smartphone, I'd say insurance is one of them. Although clients may not engage with insurance agencies often, when they do, it's usually because some event…has occurred and they need you right away.

Mobile: What and why?

Generally speaking, when people refer to "mobile" these days, they are referring to smartphones and tablets. A smartphone is a term for distinguishing mobile phones with advanced features from basic feature phones. Today, some 240 million mobile phones are used in the U.S. Up to three-quarters of mobile phone users are using smartphones. And these are your customers and prospects. The number one activity of Americans is actually unlocking their mobile devices.

There's a phrase that's been coined by Flurry Analytics, a firm that analyzes how people use "apps"—the programs that drive smartphone operations. They say, "It's an app world. The web just lives in it." They can say that because data show that, on average, the U.S. consumer spends more than 2.5 hours a day on smartphones and tablets—80% of which is spent inside apps and the rest on the mobile web.

According to Flurry, overall app use in 2013 posted a 115% year-over-year growth. This growth was led by a 203% increase in the use of messaging and social apps, followed by a 149% jump for utility and productivity apps.

Let's cut to the chase: People are using their smartphones to get things done. While very few business verticals deserve real estate on a smartphone, I'd say insurance is one of them. Although clients may not engage with insurance agencies often, when they do, it's usually because some event—or mobile moment—has occurred and they need you right away. With a mobile app, you can be there for them in a meaningful way with just one tap of the screen.

You may have seen the new commercial from Geico with the cute piglet at the DMV. It focuses on convenience for the consumer, you can store your ID card, make a payment and even start the claims reporting process. One thing the commercial doesn't talk about is the reduction on service tasks for their staff. Less phone calls to their team drives profitability for the company.

Mobile Strategy for Agents

There are three steps you can take to engage your clients on the mobile platform. A good first step is to optimize your website for viewing on a mobile device. Sometimes this is also called a "web app." The boundaries "website" and "web app" become somewhat blurry when the developer implements some functionality into the web page.

There a few reasons to optimize your site for viewing on a mobile device. The number of searches done on a mobile device continue to grow. If a prospect looking to connect with you becomes frustrated by your website on their mobile device, the chances of conversion diminish substantially.

The second step you should take is to build a "responsive" site, to achieve a measure of consistency across devices. Doing so creates a similar experience for users across platforms. While responsive web

continued on page 12