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THE MODEL LAW PROCESS

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From a federal, state, and an NAIC perspective, how are ideas from new laws/regulations translated into actual laws and regulations? How is it decided which NAIC models become part of the accreditation package? Once the NAIC adopts a model, what is the process that leads to state adoption?

MS. MONICA HAINER: I'd like to summarize our activities of the past year. It's been a great year. I've really enjoyed it. I worked with some wonderful people whom I'd like to acknowledge.

I'm sure all of you read the paper *Risk Transfer in Life Insurance Company Reinsurance Transactions*. The writing and rewriting of this paper was a major step for us. Many people contributed to it, and I'd like to recognize Diane Wallace for her work on this paper. We hope this paper is the beginning of an educational effort that we will continue to sponsor in the Reinsurance Section. Jeremy has many ideas. The council has talked about many different things, and we hope to see this educational focus move forward.

We ran a very successful seminar the day prior to the Valuation Actuary Symposium. Again, many people contributed to this but most particularly, John Tiller and Lee Christenson were the people who ran this session. We enjoyed programs that were generally very well received. We must like ourselves because we rate our programs very highly. Jerry Kopel ran the spring meeting, and he will do this again next year together with a team that he has put together to help him. Paul Schuster has put together the program for this annual meeting. In fact, we're very interested in your response to the programs at this meeting because Paul had an entire committee of people who developed the ideas and formats. We'd like to hear your comments, and we'd like to continue that process of getting more people involved in the program in the future.

We started reviewing all the examination materials that relate to reinsurance to ensure their relevance and their completeness. I guess we were pleased with what we saw, but we have a few ideas that we'd like to take forward to the examination people, particularly the risk transfer paper that we'd like to see incorporated into the syllabus. Tom Skillman is heading this effort.

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Of course, our newsletter continues to be produced. I think Craig would ask each of you to think of any topics to be discussed in the newsletter. Please take the time to write something down and send it to him. We need that kind of input to keep the paper viable.

Those are just the highlights of the year. I've had the pleasure of working with a fantastic group. I'd like to recognize each of them: Wayne Bidelman, Lee Christenson, Kin Gee, Don Kiefer, Jim Pilgrim, Tom Skillman, Jeremy Starr, and John Tiller. It has been a pleasure to work with all of you. Wayne, Kin, and John officially retire from the council at this time, but I know we can count on their continued support. The new council members are Ken Mihalka, Paul Nitsou, and Bob Tiessen. Congratulations, gentlemen. As most of you are aware, Jeremy Starr will be this year's Reinsurance Section chairperson. The vice chairperson is Lee Christenson, and the secretary-treasurer position will be held by Paul Nitsou. I know you'll enjoy working together, and I hope I can be a part of the team.

MR. JEREMY STARR: Before I get to the business section, I want to take this opportunity to thank Monica Hainer for her year as chairperson. I think she deserves a round of applause for the all work that's she done. Also, I would like to remind you that the Reinsurance Section is here to meet the demands of its membership. So, please, if you have ideas about papers, seminars, research, or any kind of activity that the Section can pursue that will help in your reinsurance business, be it from a ceding company side or from a reinsurer side, you can send them to me.

As you recall, last year's session consisted of a panel of regulatory actuaries discussing current events in reinsurance regulation. As a follow-up to that meeting, this session will focus on how the regulatory process works; how an idea for a model bill or act works its way through the NAIC; how from an industry side you can find out about these model bills; and how you can influence the process at the state and at the federal levels.

The order of presentation will be as follows. Carolyn Johnson, who is senior counsel and model law coordinator at the NAIC, will speak about NAIC activities. Carolyn has been with the NAIC for ten years. As model law coordinator, she assists committees in the development of model laws. She edits model laws, adopts them for NAIC publications, keeps track of state adoptions, and answers questions about model laws. She also provides support for the Life Insurance (A) Committee, which is a parent committee of the Life and Health Actuarial Task Force.

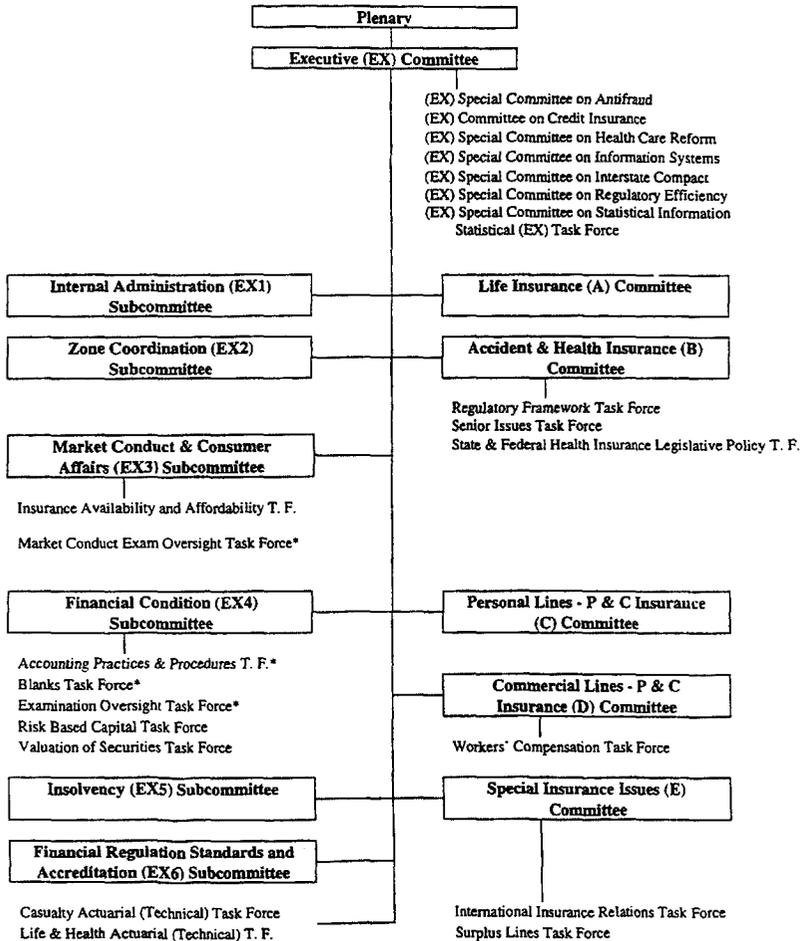
Next, Bill Schreiner, an actuary with the ACLI, will speak. He has been with the ACLI for 15 years. His responsibilities range from AIDS to group insurance, and from New York expense laws to asset valuation issues. Most recently he has taken up reinsurance issues.

Our last speaker is Barbara Burgess, who is vice president of government regulations with John Hancock. She has been a lobbyist at both the federal and state government for 19 years. Her responsibilities encompass direction of world federal lobbying and government relation efforts, including grassroots support and federal tax. Her achievements include passage of legislation removing FDIC insurance on bank investment contracts (BICs), and she hopes to achieve a favorable outcome on Massachusetts AIDS legislation.

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MS. CAROLYN JOHNSON: If you are going to be aware of what's happening at the state and at the federal level, the starting point for much of that legislation is at the NAIC. If you are not familiar with the NAIC, I'd like to begin by telling you just a little bit about how things are organized at the NAIC, some people think it's a little confusing. Chart 1 shows the committees to give you an overview of what the NAIC structure looks like.

**CHART 1
NAIC ORGANIZATIONAL CHART**



*Standing Task Forces

It starts at the top with the plenary, which is all the membership: the 50 state insurance commissioners, the District of Columbia and four territories. They make the final decisions and cast the final votes. Just below that is the executive committee, which is composed of 12 members representing the different areas of the country, plus the officers.

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They're the next lower level to vote. Underneath that are many committees. Along the left side of the chart are the committees that report directly to the executive committee on issues. The internal administration subcommittee works on internal NAIC issues. Its members decide if I get a raise and they decide how big the budget should be. Underneath that is the zone coordination subcommittee. Its members work on the meeting issues. We have quarterly meetings, and they make decisions about where they should be. Those are probably not committees that you'd be particularly interested in.

Below those two on the chart are a group of committees that work on issues that go across all lines of insurance and affect almost everyone to some extent. On the right side of the page are the committees that refer to one line of insurance: the Life Insurance (A) Committee, the Accident and Health Insurance (B) Committee, and so forth. At the very bottom of this chart are the actuarial task forces. They are unique and don't fit nicely in any of the categories.

The Life and Health Actuarial Task Force brings issues to the Life Insurance (A) Committee and the Accident and Health Insurance (B) Committee. The Casualty Actuarial Task Force takes recommendations to the committees that would be interested in their issues (the commercial lines, the personal lines, and so forth), and reports to those committees with its recommendations.

I will give you a little more detail about the committees on the chart. The Market Conduct and Consumer Affairs Subcommittee looks at market conduct issues. It has four working groups reporting directly to it. It has two task forces and the task forces also have working groups. That's what makes the NAIC structure so confusing to many people. The organization has all these different working groups reporting at different places, so many committees will end up working on one project or another. At the last quarterly NAIC meeting, there were about 160 different sessions were going on with all these different working groups and then the committees that they reported to, and so it becomes difficult to keep track of everything that's going on.

The Financial Condition Subcommittee works on financial issues, and it has three working groups reporting directly to it as well as several task forces: accounting practices and procedures, blanks, examination oversight, risk-based capital, and valuation of securities. Underneath the valuation of securities task force is the investment law working group, which is probably one of the really important working groups right now. The insolvency subcommittee, as its title says, has control over issues of guaranty funds and rehabilitations and liquidations. The financial regulation standards and accreditation subcommittee has become very important during the last few years. It makes decisions about states becoming accredited and the accreditation standards that are included in the NAIC recommendations.

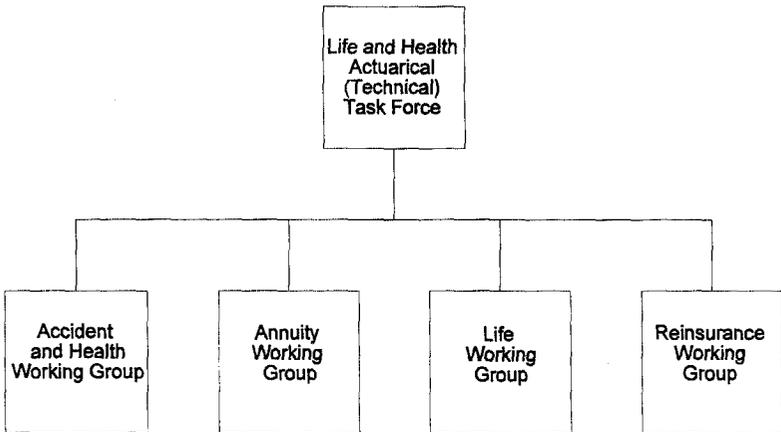
On the issues side of the NAIC chart, there is a committee working on life insurance issues and it has a number of working groups developing positions on issues such as life insurance illustrations, which has become important to many actuaries because the Actuarial Standards Board (ASB) has assisted that group to a great extent. Health insurance, of course, in these times is a very important issue and has a lot of interest to actuaries also. Personal lines, commercial lines, and special insurance issues are the other three special areas. Under the special insurance issues committee is a working group

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working on credit for reinsurance regulation and act changes, and I know some of you are interested in that also.

Chart 2 shows the life and health actuarial task force working groups, and many of you have become interested and active in those. The accident and health working group works on health issues. The Annuity Working Group and Life Working Group are working on the standard nonforfeiture laws, and the Reinsurance Working Group has been working on a question-and-answer document for the Life and Health Reinsurance Agreements Model Act, and that has also been of interest to many of you.

CHART 2
TASK FORCE WORKING GROUPS



Now that you know how the committee structure works at the NAIC, let's talk about how a model law is adopted. All the models start with a charge from the executive committee. Occasionally, an industry group, a regulator, or a consumer will say, "You know, this is a problem. The NAIC should have a model law on this particular topic, or the existing NAIC law is completely inadequate, or it's going in the wrong direction." Eventually, those comments make it to the executive committee, and the executive committee decides whether to give a charge to some committee to work on a particular project. If the executive committee decides that this is, indeed, something the NAIC should be working on, it will give a charge to a committee. In the past, this has not been a difficult step to achieve. The committees have received charges upon charges upon charges.

The atmosphere at the NAIC is slightly different now. This is the first time, at least since I've been there in the last ten years, that we've had to worry about the budget. This year the NAIC is looking at each charge and saying, "How much will this cost? Is there enough need for this project to justify the expense and time and dollars to accomplish it?" So perhaps not all the charges that are requested in 1996 will be given to a committee.

Once a committee has been assigned a particular charge, a working group may be established to draft whatever legislation might be needed. The typical development of a model law can take many forms. Sometimes the members of the working group will draft

together. They will sit down at a meeting and ask, "What do we need in this law? How shall we say it?" If you've been involved in that kind of drafting, you know that takes a long time. To draft in that manner is a tedious process. So, often, one member will be assigned or will volunteer to do the initial draft, and that will give the working group a starting point for its conversation. Other members can contribute and critique the draft and provide their input that way.

Sometimes there's already an existing state law that is close to what the committee is looking for, and that serves as a starting point for the draft. Sometimes an industry group, such as the ACLI, an actuarial group, or a company will have a suggestion for a draft. This is probably the most typical way, in the actuarial area, that NAIC models get started. Perhaps it's because many of the issues are so technical, or because the actuaries are so well organized, but in many cases the committee will have a draft on the table from a group as a starting point. Sometimes the committee will make the issue decisions and then ask the NAIC staff to produce the first draft.

The first draft is usually a long way away from the last draft. Once a draft has been produced, the working group members will review the draft, they will receive comments on the draft, and they'll revise it, revise it, and revise it. This is when you have an opportunity to influence the process to a great degree. As the working group is revising a draft, it will ask for written comments. The comments go to the NAIC staff and then we distribute them to the members of the working group. They will be able to read them at their leisure, consider them, and make notes. Then when they get back together, they use those comments to help them make decisions. Often the NAIC meetings will be public comment sessions and you can make comments on the draft during the meeting. Sometimes they will be in a more formal setting of a hearing and you can testify about a draft and make your comments known at that point.

The difficult part is to know what you want to comment on, and there are several ways that you can keep informed about what the NAIC is doing. We've developed some new opportunities to keep you informed. Very recently, the NAIC added a home page on the Internet. On that home page we try to keep you informed about the upcoming NAIC meetings, both the quarterly meetings, which have always been well publicized, as well as the interim meetings of a particular committee, which may have been a little more difficult to find out about. The home page includes a schedule of all the upcoming meetings and where they will be, information on how to register, and what the topic of discussion will be at the meeting so that you can decide whether you want to participate.

Also, after the quarterly NAIC meeting, I send out a memo that summarizes what has happened with the NAIC model laws. It tells which ones have been adopted and are now final on the NAIC level. It tells which ones have been adopted by parent committees and will be considered by the plenary at the next meeting, and then it tells of all the new drafts that are being worked on. You can go through that and look to see which ones are of interest to you. The summary tells which committee or which working group is concentrating on the task so that you know where to find more information so that you can participate.

As of January 1, 1996 there will be information on our home page about how to participate in, or at least listen in on, conference calls. In the past, the conference calls have been limited to regulators only to a great extent just because of the logistics. If you've ever

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participated in a conference call with 50 or 75 people, you know it's difficult. First, it takes an hour to get everyone hooked up, and then someone talks and everybody says, "Who was that?" People usually forget to say who they are, two or three people start talking at once, and it's very difficult to know what's happening. As of the first of January, a conference call mechanism will let you listen in on the conference calls by calling a special number. You may not be able to talk, but you'll know what the regulators are thinking, and then you'll be able to send written comments or call someone directly later.

I hope all of you are aware of the subscription that the NAIC has for the life and health actuarial task force. Every month an update goes out that tells you what's happening. It includes comments that have been received by the working groups and the task force and helps you see what other people are saying. That gives you an opportunity to keep up-to-date and also to participate.

Once the NAIC committees have come to conclusions or have decided to adopt a model, what's next? One of the decisions that's made at the NAIC is whether that model should become part of the accreditation standards. Originally, the accreditation standards were compiled by looking at all the NAIC model laws and saying, "Does this have to do with solvency?" The ones that did were compiled into a list that would be good to have adopted in your state. You should have a law that has capital and surplus requirements. You should have something that deals with examinations. You should have a plan for liquidation of a company and so forth.

After the standards were initially set up, the regulators kept finding new things to add, and the list of standards grew. I don't think that will happen as quickly anymore because the list of standards got too big too fast. As new standards are added now, it will be after a long deliberation period in which there will be time for comments on whether something should be added and deliberation as to whether that's a good idea. You will have the opportunity to give your input as to why something should or should not be included in the accreditation standard.

Once the NAIC has adopted something, companies often use the NAIC's models as a guide or a standard of what might be applied in the state. But the real importance is when the NAIC model laws are adopted by the states as their official laws or regulations, and that's what Bill will tell you about.

MR. WILLIAM J. SCHREINER: One of the things that has always fascinated me about the NAIC meetings is its "opening" meeting, which is held early on Monday. As Carolyn pointed out, there are many meetings and a great deal of activity, and it has increased greatly in recent years.

Jeremy has asked me to provide you with background on the state legislative and regulatory process. I'm going to do that from the perspective of the ACLI, and I think I'll start by telling you about the ACLI. It's a membership association of 606 life insurance companies, including fifteen Canadian companies, five Japanese companies, and one company from the U.K. These companies account for 91% of the life insurance in force in the U.S., 90% of life company assets, about 94% of insured pension business, and about 63% of health insurance premiums.

The ACLI's job is to represent the interests of its members in various forums, including dealing with legislation and regulatory issues on a state level. The starting point in the process is keeping our members informed about such issues as they emerge. The starting point for this is the publication of bulletins. With respect to NAIC issues, before each NAIC quarterly meeting we publish a preview bulletin to let people know what issues are coming up. After each meeting, we publish a meeting report telling people what happened and what might be carried over to the next meeting.

With respect to state legislation, we track all bills that affect member companies, and we issue legislative bulletins to our members weekly that contain a summary of the activity on bills that are of interest to them. We track all proposals from insurance departments and issue bulletins to inform members and to obtain feedback. Particularly in the regulatory area, feedback is a two-way street. When the insurance department changes the speed limit, a company usually gets the first ticket and is the first to know about this. Feedback between the ACLI and its member companies is very important to accomplish our task.

What does the ACLI do? As I said, its job is to represent its members' interests. How are those interests determined? How is policy formed? We use the committee system, a form of representative democracy. Eleven committees report to the board of directors, which is the ultimate policy-making body. The legislative committee deals with most issues for which no special committee has been set up. Twenty-four committees and subcommittees, of which the reinsurance committee is one, report to the legislative committee. These committees and subcommittees make policy recommendations to the legislative committee which, in turn, makes the recommendations to the board. Once policy has been decided upon, it's the ACLI staff's job, working with member company people, to obtain legislative or regulatory implementation. This may entail seeking positive adoption of proposals. It may require seeking modification of the proposals. Or, in some instances, it may cause us to seek defeat of proposals.

At the NAIC level, with respect to model legislation and regulation, we seek to work on behalf of our members to obtain models that meet regulatory needs without inappropriate cost or marketplace distortion. As Carolyn pointed out, when a model is passed at the NAIC, it has no impact until it's passed by a state legislature or adopted by a state insurance department. It is common for the ACLI to work to see that those models are adopted at the individual state level.

Let us turn to the legislative process. Most states have two legislative houses. Only one state, Nebraska, has one. Most states meet every year, although there are seven states, glory be, that meet only every other year. Typically, a model law will be introduced in one particular chamber and it will be referred to the committee that has jurisdiction over insurance in that state for that house. If the committee approves it, it will return to the chamber. If it is adopted by the chamber, it will move on to the next chamber where the process is repeated. When both houses agree on legislation, as I'm sure you're aware, it will go to the governor and the governor has the choice of either vetoing it or signing it.

There is an incredible amount of activity in state legislatures these days. It is not uncommon for 2,000–5,000 bills to be introduced in a legislative session. In fact, in a recent year in New York state, 14,000 bills were introduced. Fortunately, only a small portion of them had to do with insurance.

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Let's consider regulation. It's not uncommon to work with regulators in the process of developing and drafting proposed regulatory matters. Once a state insurance department has developed a proposed regulation to its satisfaction, it will publish it in the state register, it will provide time for comments, and it may hold a hearing. At the ACLI, we will distribute those proposals and when it comes time for comments, we may write a letter or we may appear at a hearing. As a result of comments received, the insurance department may amend the proposal and then implement it, or it may go back to the drawing board and issue a second draft and start the process all over again, or it may choose to issue it as originally proposed.

At the ACLI, the state law department is composed of 19 professionals, and each state has two people assigned to follow the legislature and the insurance department. We cover 50 states, the District of Columbia and Puerto Rico. In January a legislative bulletin that identifies the individuals who are assigned to each jurisdiction is sent to our member companies. These individuals are responsible for providing information to member companies via our bulletins, for bringing issues to our committees for consideration, and they're always available to answer questions relative to issues or state activities.

Most states have a local state insurance association that represents domestic insurers. We work very closely with these groups, recognizing that occasionally our members' interests may go beyond those of the domestic carriers. For specific legislative proposals, interested individuals, including association and company people, work to assess the political situation: the sponsor of the bill, the degree of its support, how urgent it is, and so forth. If there are problems, an attempt will be made to set up meetings with the sponsor, perhaps to explain changes that need to be made to obtain industry support. If there's a hearing, we may supply testimony and, in general, work to bring our views to the attention of the people who are going to vote on the issue.

The NAIC credit for reinsurance model is probably a good example of how the process works. The ACLI worked with the NAIC throughout the drafting process for this model legislation and regulation. When the model was finally adopted by the NAIC, it was brought to the ACLI reinsurance committee, which recommended that we support its adoption in the states. The ACLI legislative committee and board of directors voted to make it ACLI policy to support the NAIC model regulation on credit for reinsurance. Now, when this bill or regulation, as the case may be, is introduced in a particular state, we will review it to see whether it conforms to the model. In those cases where it doesn't conform to the model, we will attempt to convince legislators or regulators to bring it in line with the model. Thus far, about half the states have adopted the model regulation.

Jeremy also asked me to touch on the question of how individuals can become involved in this process. Speaking from the ACLI perspective, service on the committees and subcommittees that deal with issues is key to the process of deciding ACLI policy. Each spring a letter is sent to your CEO that says, "Here are the ACLI committees, please *nominate your people for membership on these committees.*" Those nominees, to the extent room allows, become the members of our committees and subcommittees.

An important thing to remember is that you don't have to be a member of an ACLI committee or subcommittee to participate in that process. Our rules provide that employees of member companies are welcome at all meetings. They're welcome to speak and to present their views on all issues. The only privilege that they do not have is they're not

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able to vote when a vote is required. But the truth of the matter is that, more often than not, decisions are reached by consensus, so that one can be a very important force in these deliberations without actually being a member of the committee. How do you participate without being a committee or subcommittee member? That's easy. Just get on the mailing list. All you have to do is ask and we'll put you on the mailing list. Then when something comes along that you care about, let the staff person dealing with that subcommittee or committee know about it, and come to the meeting and participate. Another good thing to do is to get to know your friendly ACLI state representative in our state law department.

That, in brief, is how the process works at the ACLI. But before we turn to Barbara, I'd like to mention that the ACLI actively lobbies issues of interest to our members at the federal level, both with the Congress and regulatory agencies, as well as at the state level. The process of determining ACLI policy for federal issues is identical to what I described for state issues.

MS. BARBARA BURGESS: It's probably easier for me to say that the ACLI not only lobbies at the federal level, but also does it in an extremely competent way. Dick Schweicker was always a good head of the ACLI. Carroll Campbell, I must say, is bringing a very high level of access to the ACLI's federal and state lobbying procedures, and we are quite impressed with the work that is being turned out for all of us.

Let me talk about what it's like to lobby at the federal level and give you some idea of the changes that have occurred in lobbying over the years. As you know from my introduction, I've been in this business for about 20 years, equally divided between the state and federal side. When I was asked to speak before you, I recalled what has to be my worst lobbying experience ever. It was at the state level, and I was trying to make changes in the standard valuation and nonforfeiture laws before a state legislature. I can honestly say, without in any way denigrating myself, my performance on that issue was hopeless. I didn't have a clue as to what I was talking about. Teams of actuaries tried to explain to me what changes in the standard valuation and nonforfeiture laws were all about. It didn't help at all. I tried explaining it to the committee and to the committee chairman, and I could tell I was getting nowhere at all. Their eyes would glaze over and they were very polite, but I was dismissed.

At the time we were trying to effect these changes, lobbying was very much a sort of contact kind of job. It was very much who you knew. Can you get in to see this person so that you can give the business perspective. During the 20 years that I have been involved in it, lobbying still has got that contact component. But in addition, grass roots, advocacy via the media, and political action committees (PACs) have been added.

Grass roots consists of getting our own employees involved in lobbying on our behalf. Advocacy takes place in both earned and unearned advertising time. Business spends time and money determining how to present its arguments via focus groups. It has become a very different kind of profession.

Let me take you through some of those steps in a very brief way. The lobbyist years ago was always viewed as the intermediary between the politician or the regulator and the business community, and that is true, we do play that role. Although the business community, by and large, does not have a great view of politicians, what I don't think

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business people have ever focused on is how politicians view the business community. Their image of us is not great.

Let me tell you how one politician describes business lobbying to me. His definition of a radical terrorist is a businessman who just wants a reasonable leg up on the competition. That is an exact quote, and the congressional representative who said that is Barney Frank (D-MA). Some of you know him. He's a member of our Massachusetts delegation and a very colorful guy. There's a tension between politicians and the business community. Lobbyists must straddle that line between the two. They need to like politics. They need to have a business background as well.

In the 20 years before I worked as a lobbyist, I was in many different business parts of John Hancock, including the health operations and human resources. So I have some idea of how the company operates and some idea of how our business has changed over the years. That is helpful, and this is essential to the lobbying job. The goal always in traditional lobbying, as it existed 20 years or so ago, was protection of the bottom line. I would say that goal has not changed. Lobbying is still all about trying to improve the bottom line if we can, and hold onto what we have if that is possible.

In the mid-1960s, the dimension of grass roots was added, but in a very sophisticated way. It came primarily from two groups. You may not want to be associated with these groups, but they did do quite an effective job in building grassroots support. One group includes the tobacco organizations. Most of the tobacco companies in the 1960s were hit with the surgeon general's report, and their product was being attacked on all sides. It is astonishing to me that we can still smoke in this country today. I think it is probably because the tobacco industry has been able to be, perhaps, more effective than some of us might want to see it be. A great deal of heavy grassroots action was taken by the National Rifle Association. Again, it is always under attack, and I'm not sure how well it does at representing its side of the issue. But it went into a very sophisticated approach to grass roots, and it can call on people in an individual isolated area very quickly to represent its point of view. So can the tobacco people.

We all learned from those groups. We learned in terms of how to set up a computerized grassroots system. It is no longer just having names of employees and who you know. The systems are very sophisticated today, and you can basically put your employee database into a computer file and section it off by congressional districts. You know how many are in each congressional district and you can contact them quickly, should you need to activate them. This was a change. We were using our own employees to help us lobby business issues.

PACs also developed in the early 1970s, and they have made an enormous change. They have many pluses and minuses to them. PACs have always been available to unions, and in the early 1970s, primarily through efforts of the Republicans at the time, PACs were then extended to the business community. As you know, because probably most of your companies have PACs, you can ask your employees who are American citizens if they're willing to participate with a financial contribution to their PAC. That PAC is then used to support people primarily on committees where your legislation will be heard. It supports the business decisions that we are trying to affect in some way.

This basically started to build some significant changes in the way lobbying was approached. The one-dimensional aspect of lobbying very quickly became multidimensional. Today the lobbyist is almost routinely accompanied by a grassroots component and frequently by earned and sometimes unearned media attention. Barbara Bey at the ACLI has done a superb job of building an extremely effective grassroots component for that trade association. She started by building a computer network of all employees and member companies, and now the ACLI has about 200,000 employees who can be activated for grassroots alerts. The ACLI utilizes grassroots on business issues that we are concerned about. I have heard of virtually no problems that are connected with it. It runs smoothly and I think it is effective.

The polling and focus groups became a new technique that was utilized in the 1980s. That became extremely important in an area of health insurance. I'm not sure how many of you are in the health insurance business, but certainly in the last two years when health insurance was a primary concern in Congress, it affected almost everyone's business in one way or another. When the Clinton bill first came out, had it been implemented in its original form, it would have resulted in a loss of 35,000 jobs at John Hancock. It would have made a \$100 million impact on the Massachusetts economy, most of it in the city of Boston. We had that down to the last penny. That was not going to happen. That bill was certainly not going to go through in the form in which it was submitted.

All of us wanted change, but not exactly revolution. What we got was not what anyone wanted. We had to go after that bill to try to refine it, to try to make it somewhat easier to live with for everyone. We put together a campaign at the Health Insurance Association of America (HIAA), known as the Harry and Louise ads. I think some of you may have heard of them. They have set the standard for advocacy in political advertising. They were so effective that Harry and Louise ads are used to describe political advertising in general, much as you say Kleenex™ to describe any brand of tissues that we use. It is a campaign that, whether you like it or not, certainly did change the course of the health care reform going through the Congress.

Hillary Clinton's bill was never going to go through in the form in which she started, simply because there wasn't enough money in all the world to fund it. It was a very good idea in many respects, and I am told that the market has changed much along the lines that she suggested in her original bill. But we all had to work together to see what changes we could make, and I would say that campaign was quite successful.

Not only are there now coalitions of our own employees, but there are also coalitions of a nonemployee base because it is not unusual in campaigns today to put together a coalition that is basically a coalition of concerned citizens. Frequently, you will go to people who might be tagged as political activists or opinion leaders in the community and try to bring them together in an organization, a coalition where their interests and your interests are similar. It takes the onus off any one particular company, and it spreads it to the consumer base in a way that frequently is effective.

As I said, I think one of the best examples of this, and the way in which it was used, was in the Harry and Louise campaign. But one that you might be somewhat more familiar with is in the area of tort reform. Tort reform, as you know, has been through the House and we were able to get the issue of punitive damages added in the House bill.

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The damage awards, particularly those that are going through some of the state courts, are astronomical and are certainly not helpful to the growth of businesses. We were able to get a cap on punitive damages on the House side, but when the bill got over to the Senate side, the campaign—actually, the opposition, I think—was more effective, and that was primarily the lawyers who, I think, did a good job of lobbying their desire to retain punitive damages. Basically, the bill is on hold. Senator Bob Dole (R-KS) did not allow it to come to a final vote because the hope is that we might be able to vote on that sometime in this session. I am told that we will get a tort reform bill of some nature. I think that the bill that we might ultimately get will be a very different one. My guess is that there's probably some very active negotiation going on at the moment on tort reform issues and certain areas will be eliminated. For example, the President referred to the tort reform act as "the drunk drivers act of 1995." My sense is that you will probably see drunk driving punitive damages eliminated from any tort reform bill that goes through the Senate, and other areas may be eliminated from punitive damage awards as well.

The campaign that surrounded this was a broad based coalition of company people and consumers and community activists. It was accompanied by an advertising campaign, and there are many ads on tort reform on the House side. The ACLI used the same firm to develop its ads that the HIAA had used. It developed an ad of a little girl on a baseball field. As you know, most of the baseball fields and other municipal lots are being closed because they can't afford the insurance protection that lawsuits require. The ad basically said to let her continue to play baseball. I thought it was a bit corny when I first saw it, but apparently it was effective and it worked. It was helpful in getting the legislation through the House.

That's a short summary of the many changes that have taken place. I honestly cannot see how we could use grassroots advertising or focus groups to make changes in the standard valuation and nonforfeiture laws. I think that's a hopeless issue and I'm going to leave it to you to figure out how to handle that.

MR. STARR: The original topic that was listed in the prerelease program that we were to discuss was the reinsurance white paper that Diane Wallace wrote discussing reinsurance risk transfer and the NAIC question-and-answer document on the NAIC life health reinsurance agreements model. The latter document has a history to it. The NAIC in 1985 developed a model regulation dealing with risk transfer in a reinsurance transaction. In 1992 it adopted a revised version of that model. State regulators who had not been involved in the process of developing the regulation sought guidance from regulators who wrote the regulations to interpret portions of the regulation. Because these questions became somewhat frequent, the regulators undertook to develop a document that contained commonly asked questions along with the answers based on interpretation of what the regulation meant. A significant piece of this work occurred behind closed doors, but when it became public, industry lobbying began.

The AAA and the ACLI became aware of the NAIC activity in December 1994. A prerelease copy was provided to the Academy and to the ACLI at the end of April 1995. Both groups developed critiques of their concerns with the document. The issues related to both content and concept. The content of the document was viewed as providing an overly narrow interpretation of the regulation's intent. Conceptually the industry thought that there was no precedent for a group of regulators to dictate the interpretation of a regulation. Based on the industry's comments it was revised. At the June 1995 NAIC

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meeting, the document received its first full exposure to the general public. At the September 1995 meeting of the NAIC, it was passed from the Life and Health Actuarial Task Force to its parent, the Life Insurance (A) Committee. Because the Task Force made significant changes to the document at the September meeting, the Life Insurance (A) Committee decided to expose the document again. The current plan is to consider adopting the document in December 1995 at the San Antonio meeting of the NAIC.

The ACLI has written a comment letter on the September draft of the document. This letter outlines the industry's view on some of the weaknesses in the document. It also suggests how it should be disseminated.