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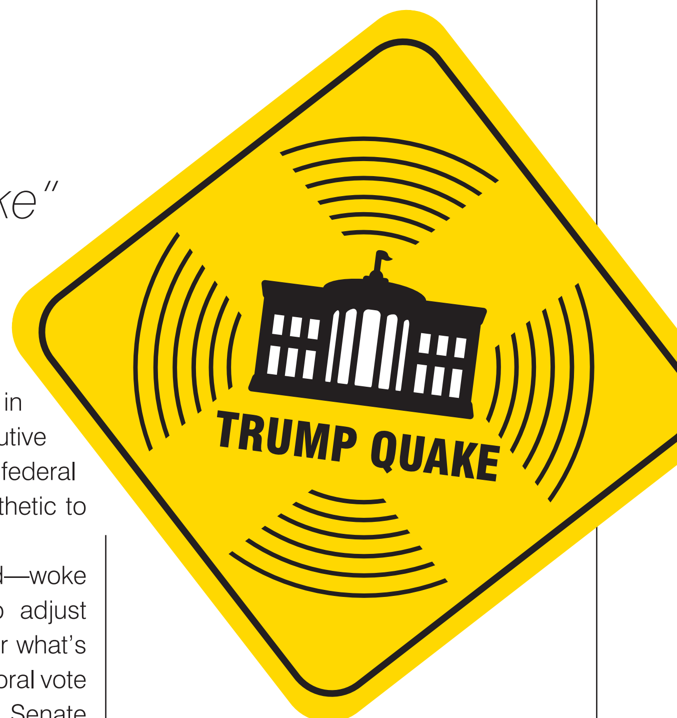
A Publication of the National Organization of Life and Health Insurance Guaranty Associations

Regulation, Resolution &… Revolution?

Financial services after the "Trump Quake" and its aftershocks



By Patrick D. Hughes & Alison F. Watson

Each year at this time in the political cycle, Charles Richardson expounds on the elections of the preceding November and lays out what we think the year will bring on the public policy/Washington front, generally, and on the resolution issues we most care about. After the surprising results of the federal election on November 8, Mr. Richardson fobbed his annual prognostications off on us, with the cheery command "after my humiliation, try to make us sound smart."

So here goes.

Conventional Wisdom Was Unconventionally Wrong

For the six weeks before the election, Capitol Hill conventional wisdom was predicting a Clinton Presidential victory, a flip of the Senate from Republican to Democrat control, and a narrowed Republican majority in the House. Given the outcome on November 8, it is hard to recollect the degree of certainty that crept into the predictions.

On the policy front, our analysis was that a Clinton Administration would continue Dodd-Frank implementation (including international standard setting); that resolution planning, systemic discussions, and Covered Agreement negotiations would be in full swing; and that the major tension would be in the courts, pitting an activist executive branch against industry, with a federal court system increasingly sympathetic to attacks on regulatory overreach.

We—like the rest of the world—woke up on November 9 needing to adjust our perspective on the outlook for what's next. Donald Trump won the electoral vote 306–232; the GOP lost only two Senate seats (Illinois and New Hampshire, both of which were seen as fairly sure losses in the first place), with its final majority of 52–48; and the GOP lost only seven House seats, leaving Republicans with a 241–194 majority and Rep. Paul Ryan (R-WI) as Speaker.

What to Watch Generally

We can't just take the opposite of any Clinton-directed policy predictions as a road map for what happens next. It simply isn't that easy to assess the path forward, given the complicated political, economic, and statutory brew in Washington.

Here is our outlook for what will shape the landscape this year and beyond—though with Mr. Richardson's track record for predictions, the following should come with more than the usual caveats:

Important Early Dates: Following the Inauguration, there are three important dates to keep in mind on the legislative front. First, on **March 16**, the suspension of the debt limit expires. Congress and President Trump will need either to extend the suspension or raise the debt limit to avoid defaulting.

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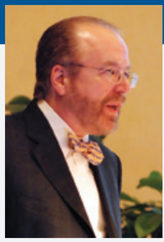

All About Them

The following was adapted from my President's Address, delivered on October 27, 2016, at NOLHGA's 33rd Annual Meeting.

Bob Ewald, the former Executive Director of the Illinois guaranty association, once compared this address to the State of the Union Address given by the President of the United States—not in pomp or splendor, but because this address serves as an occasion for an annual appraisal by all of us of where we stand and of our most significant current concerns.

In that regard, my chief observation is that, while the state of the life and health insurance guaranty system remains strong, the challenges confronting us are as serious as any we have faced before. They will require our best efforts and our clearest thinking.

Speaking of clear thinking, we are sadly deprived of the presence of Bob Ewald today due to illness. Bob, as some of our newer members might not know, is one of the Founding Fathers—patron saints might be a better term—of the modern-day guaranty system, and he had kindly accepted an invitation to speak to our group this morning. The idea behind his presentation, other than giving you all a glimpse into the mind of a man who's been puzzling out the challenges of the guaranty system for more than 30 years, was that it is difficult to know where you are going unless you know where you have been. No one knows more than Bob about where the guaranty system has been, and no one has keener insights into where we are going—or should be going. It's a shame he couldn't join us here, but he shared a few thoughts with me in preparation for his presentation, and I would like to share them with you today.

All of us—guaranty association administrators, Board members, and other industry representatives—worked together to accomplish what none of us could have done separately.

Here is Bob on the formation of the guaranty system:

As CEO of a life insurer I opposed the creation of a guaranty association as the imposition of a social responsibility on private industry. I came to realize that it was better that we manage this responsibility effectively than leave it to government. It would have been more costly, and in any event, the price would have been paid by the industry through taxes.

As we continue to face debates about the merits of the guaranty system—more on that later—I find it comforting to remember that one of our founders was a convert to the cause.

As the guaranty system grew in size and experience, it inevitably encountered a number of vexing issues. Bob went over a few with me, noting that some of them are still unresolved:

There were, and continue to be, two schools of thought about when to order liquidation or rehabilitation. Our preference was based on the belief that a failing business should be allowed to fail, that forestalling action led to greater losses, that once ordered into rehabilitation the market is lost to the insurer, and that settlement of policyholder benefits is delayed. Others hoped to rebuild and preserve the rights of all creditors and stockholders.

This is a discussion that continues to this day, both here and among regulators in the international community. We now have decades' worth of information that, in my opinion, speaks eloquently on the need for prompt corrective action to protect policyholders, and I know that our domestic regulators continue to make this case to their colleagues overseas.

Just one more—a warning from Bob on what we might be facing in the near future:

The latest idea that buyers should be allowed to purchase just the specific coverages they like from an online menu, while seemingly a non-starter, augers mighty challenges for the industry, regulators, and the guaranty system. Too many non-starters have become reality in recent years.

One more thing for us to worry about, this one from the always fertile mind of Bob Ewald.

Weakness for Books

Now, on to the bulk of my own comments. I want to preface them by saying that I am not a Luddite. I have nothing against modern technology. I am reading these very comments from an iPad. It is rare to see me at a meeting without this iPad, and I am as attached to my cell phone as any of you.

Nevertheless, I have a profound weakness for books. I know you can read them on tablets, and believe me, I do. But there is something very special about opening a new book. And my fondness for that experience is, I have been told, single-handedly keeping the publishing industry alive.

I am no stranger to surfing the Net and clicking on sound bites from the latest debate or political commentary show, but to me, there is a shallowness in this sort of reading that can't match the education to be found in books, not to mention the education inherent in real-life, in-depth experience. I know that I am venturing into old man, "get off my lawn" territory here, but to put it simply, I get information from the Internet, but I learn from books.

I mention this because I recently came across the book *All About Them* by Bruce Turkel. If the name rings a bell, I referred to him in my speech last year for his "he had a hat" story, which to me perfectly encapsulated how some view the activities of the guaranty system.

In his new book, Turkel writes that successful salespeople dedicate themselves to the mantra "all about them." He argues that when organizations focus on the needs of their customers and not themselves, success follows. I think the guaranty system has learned this lesson quite well, though we face the additional challenge of having more than one set of "customers."

Fair or not, we have to bat 1.000. The first time we strike out will be the last time we strike out.

In one sense, policyholders are our customers, and when we keep their needs at the forefront of our efforts, good results follow. One of my favorite Bob Ewald moments, if I can return briefly to Bob, came in the early days of the ELNY insolvency, during a special all-day MPC meeting in Chicago held on a Saturday. Bob was there. For hours, people debated minutia of law and finance and procedure. Finally Bob stood up and said, "Shouldn't our primary focus be on how we're going to take care of these poor policyholders?"

When we keep our eyes on the policyholders, as Bob reminded us all that day, good things happen.

But they are not the only people we need to please. As members of the guaranty system, our customers—or stakeholders, to use a popular term—also include our member companies, as well as insurance regulators. If we are to embrace the "all about them" philosophy, we need to remember that we have a lot of "thems" to keep happy.

Who We Are

I bring this up because it seems to me that for years, there have been two competing narratives about the guaranty system. One can be summed up by a memorable quote from the ELIC insolvency—"these guys can't run a gas station." In this narrative, we're too small, too unprofessional—the "not ready for prime time players" who have gotten lucky for 30-plus years. But don't worry, say these naysayers—the next insolvency will no doubt show that the system can't handle its responsibilities.

At the risk of spoiling the ending of my speech, I don't agree with this school of thought. But there is a kernel of truth in it, which we'll come to later.

The other narrative is that we are a true, reliable, national safety net, one that has protected policyholders admirably for more than 30 years. An efficient, effective system that has kept costs down for member companies—one set of customers—and come to be viewed as a reliable source of expertise by regulators—another set of customers.

I like this narrative much more than the first one. And it has the added benefit of being true.

The best and most illustrative moment I've ever seen indicating that the guaranty system is seen as a real and reliable national insurance safety net was in a room in New York, late at night about seven years ago. I was in that room—the room where it happened, if you're a *Hamilton* fan—along with Jack Falkenbach, Kevin Griffith, and Jack Gibson. Also in that room were then–MetLife CEO Rob Henrikson, Prudential CEO John Strangfeld, and New York Life CEO Ted Mathas.

We were there to talk about the ELNY receivership and how we could make the best of a very bad situation for thousands of policyholders. As you may remember, those companies and some others really led the charge to put together a comprehensive plan—featuring guaranty association coverage as well as additional, voluntary industry funding—for ELNY payees.

In that room, and in ELNY discussions that went on for years (through no fault of any of ours), we didn't have to ask for a seat at the table. We were invited, because we had expertise that the other parties needed to accomplish their goal of protecting ELNY's payees. They wanted us at that table. They saw ELNY as a real threat to the stability of the insurance industry, and they called upon us to help head off that threat.

As a result, all of us—guaranty association administrators, Board members, and other industry representatives—worked together to accomplish what none of us could have done separately.

That night showed that these leaders of industry viewed the guaranty system as a professional partner. Do the companies pay the bills? They do, and in cases like ELNY, they are acutely aware of that fact. But they are also aware of the vital role the guaranty system plays, and they wanted to work with

["President's Column" continues on page 11]

The Times They Are *A-Changin'*

NOLHGA's 2016 Annual Meeting was held two weeks before the presidential election. About those predictions...

Texas Insurance Commissioner David Mattax welcomed meeting attendees to Texas and discussed some of the main issues on the NAIC's agenda, in particular long-term-care insurance.

By Sean M. McKenna

In his opening address at NOLHGA's 2016 Annual Meeting, then–NOLHGA Chair Lee Douglass noted that sportswriters make a lot of predictions. And while they're quick to remind people when they're right, they're far less likely to bring up the predictions that turned out wrong.

The same can be said for political commentators, most of whom were fairly confident in October 2016 that Hillary Clinton would be our next president. This confidence was shared by most of the speakers at NOLHGA's Annual Meeting that month, which means that some of their predictions—about how the insurance industry will continue to deal with the Affordable Care Act (ACA) and Dodd-Frank Act (DFA)—are more or less DOA. Somewhat paradoxically—and fortunately for the more than 150 people who attended the meeting—many of their insights into the political environment on Capitol Hill, insurance regulation, the health market, and the financial markets were strong enough to withstand the events of November 8.

Political commentator Mark Shields entertained the luncheon audience with his insights into the then-upcoming presidential election and the political scene in Washington. While he seemed confident that Hillary Clinton would be elected president, he did say that "the year 2016 is about change" and that divisions in American society had led to the rise of Donald Trump and Sen. Bernie Sanders. He marveled that "Trump destroyed the operating philosophy of the Republican Party" while claiming the party's nomination for president.

The View from All Sides

Gov. Frank Keating (Holland & Knight), former President and CEO of both the America Council of Life Insurers and the American Bankers Association, spoke to attendees about the prospects for regulatory reform in Congress. He began by reminding everyone that the ACA and DFA were passed with little or no support from Republicans in Congress: "You can't do significant change nationally without the support of the other party." While the prospects for amending or repealing either Act were dim at the time he spoke (in the DFA's case, in part because the bill was seen as the legacy of Rep. Barney Frank), the lack of any real Republican support makes repeal or significant amendments likely under President Trump. Keating pointed to the "wounded, 'blood in the water' parts of Dodd-Frank," such as the Consumer Financial Protection Bureau, as the most vulnerable.

Keating also noted that he was "concerned that courts are making determinations instead of legislatures." This, he added, is turning the United States into "a heavy regulatory state" and "what is becoming a European-style economy." His parting message for attendees was that nothing will get done unless people participate in the process. "The only way we're going to improve things is by getting aggressively involved."

Maine Insurance Superintendent Eric Cioppa also had his eyes on Europe when he spoke about the International Monetary Fund's Financial Sector Assessment Program (FSAP) and its Key Attributes of Effective Resolution Regimes. The 2015 assessment of U.S. banking and insurance regulation featured a number of suggestions for improving U.S. regulation, but Superintendent Cioppa said that many of these suggestions stemmed from a lack of understanding of the U.S. system. "They wanted more specific authority for regulators, and we have broad authority," he explained. "You can't anticipate everything, and this broad authority gives us much more flexibility." He added that when it comes to effective resolutions, "the U.S. guaranty system has worked very well and is very nimble. Our system is time-tested."

Turning his attention to our shores, Superintendent Cioppa addressed the recent failures of many consumer operated and oriented health plans (CO-OPs) by saying that "the whole CO-OP structure was set up to fail." The few remaining solvent CO-OPs, like many health insurers, are seeking

Maine Insurance Superintendent Eric Cioppa

rate increases. "Rate increases give me a headache," Cioppa said. "Insolvencies give me an ulcer."

The Superintendent also discussed recent troubles in the long-term-care insurance market, calling it "one of the most problematic lines regulators have to deal with." Even after a few iterations of the product, he said, it's clear that the industry hasn't found a design that works, even though the need for the product is real. Regulators "are going to be talking a lot more about long-term care, but hopefully not in an insolvency setting."

Kim Holland (Blue Cross Blue Shield Association) talked about the many demands on health insurance companies in the ACA era, and she began by noting that while the uninsured rate in America is down to 9%, "it came at a cost that is unsustainable. The ACA and the market are at a crossroads." Many companies are pulling out of the health exchanges, most of the CO-OPs established by the ACA have failed, and two-thirds of counties in the United States have two or fewer companies in their exchange. Many companies entered into the market expecting the federal government to serve as a backstop in the form of the Risk Mitigation Program (also known as the Three R's), but that program "was held hostage by political maneuvering and grandstanding," Holland said.

Chairs Cite System's Ability to Adapt in Addresses

In looking to the past and the future in their remarks at NOLHGA's 2016 Annual Meeting, Outgoing Chair Lee Douglass (Arkansas Blue Cross and Blue Shield) and Incoming Chair Deborah Bello (Prudential Financial) both focused on the guaranty system's ability to adapt as the key to its continuing success.

Douglass began his remarks by taking stock of the last year, which was another hard one for health insurers. "No one in the health insurance industry has had a good year since 2010," he said. "We're having a tough decade, and it doesn't look to be getting any better." Douglass pointed to the demands of the Affordable Care Act (this was before Donald Trump was elected president, remember) and the assessments health insurers faced with the looming liquidations of Penn Treaty and its subsidiary, American Network Insurance Company (ANIC).

The Penn Treaty/ANIC case has also placed demands on the guaranty system, which have prompted the system to do what it does best—adapt to changing realities. "We've had to adapt to a number of different factors as we've worked to put together a resolution plan," Douglass said. "A captive insurer, rate adjustments, the role of industry in oversight of that captive,

assessments, and the crucial role communications to all parties will play in any resolution plan, to name just a few." Throughout the process, he stressed, "our people have truly left no stone unturned in their efforts to craft the best possible solution."

He added that this adaptability has been a hallmark of the system. "That's the funny thing about being in this system—

Gov. Frank Keating (Holland & Knight)

Kim Holland (Blue Cross Blue Shield Association)

In short, there are key problems in the ACA that need to be addressed. The health industry has been advocating for these changes, Holland said, "but we're not being heard." She cited a number of areas where the law could be amended, such as the mandate ("we need to boost participation by young adults") and the special enrollment periods, which people are using to "game" the system by signing up for care and then not paying the premiums. "We can't allow people to purchase health insurance when they're sick and drop it when they're healthy," she said. "No other insurance works that way."

Holland acknowledged that during the campaign, there was pressure from the Left for a single-payer system, while on the Right, Donald Trump had campaigned on repealing the ACA. Neither side offered much comfort to health insurers,

just when you think you have a handle on it, something changes," he said. "The players aren't the only thing that changes. The market always moves faster than the statutes, which means that we as a system have to react quickly."

Bello also praised the system's flexibility, pointing out that NOLHGA and its member guaranty associations are called upon to do more than protect policyholders—what she called "NOLHGA's many missions." One of those missions, she added, is to defend the system against critics, and the best way to do this is to tell the system's story of success. "The more facts we can get out there, the better," she said. "Facts are our friends. And one of the most vital roles NOLHGA plays is producing accurate, unbiased information about the guaranty system." She pointed to the report on coverage of pension benefits and the ongoing "stress test" as prime examples of NOLHGA serving as an "honest broker" and critical source of information.

Bello noted that the guaranty system's adaptability stems in part from the need to incorporate so many different viewpoints. "We have lots of constituencies—insurance commissioners, all the other regulators, guaranty associations, our customers, and the companies—but we're all part of the same system, and we have to come together," she said, warning that if the system doesn't resolve its issues internally, "they will be resolved for us—and I can assure you we won't like it."

She expressed confidence that the system will, as it has so often before, adapt to changing conditions and continue to serve policyholders in their time of need. "We need to listen to issues raised by all the different constituencies," she explained. "We can't fall into the trap of saying, 'This is the way we've always done it.' We need to think out of the box. That's how any successful organization works and survives."

she added. "As an industry, we feel more vulnerable than we ever have to either party."

Looking Long Term

Adam Berger (Wellington Management) wasn't shy about making predictions, but his had to do with capital markets rather than the presidential race. And in a business that often looks for short-term gain, Berger looked long-term: 20 years out. He identified four main factors that will drive the market over the next 20 years: demographics, volatility/speed, environmental/social/governance issues, and the emerging market in China.

Everyone knows the world's population is getting older, but what impact will that have on the markets? "I think we're going to see a shift in the supply and demand of growth assets," Berger said. Baby Boomers have been accumulating growth assets, but as they retire, "there's likely to be more demand for income to meet longevity risk." In addition, GDP growth could slow due the smaller working population.

The volatility/speed issue is also fairly easy to spot—"the world has gotten faster," Berger noted—but what will that mean for investors? The increasing speed of life, not to mention the markets, "doesn't promote stability," he explained. It's easy to panic, "so make sure you don't overreact. To go one step beyond that, you might think of being opportunistic" and buying when others panic.

The rising importance of environmental/social/governance factors in investing is being driven by millennials—what Berger referred to as a shift from pure profit motive to principles-based investing. "It seems to have more staying power" than in previous age groups, he added. "I think it will begin to cut across generations."

As for China, it's one big market looming on the horizon. The United States offers a wealth of opportunities for foreign investment—as China keeps growing, it could do the same. "We could see a different and broader playing field of places where you can invest," Berger said. "The biggest 'if' in my mind is how open that economy will become." He added that India could open up more—and faster—than China. ✯

Sean M. McKenna is NOLHGA's Director of Communications. All photos by Ari Photography.

See You In October!

NOLHGA's 2017 Annual Meeting

October 18 & 19

Belmond Charleston Place

Charleston, South Carolina

An MPC meeting will be held on October 17.

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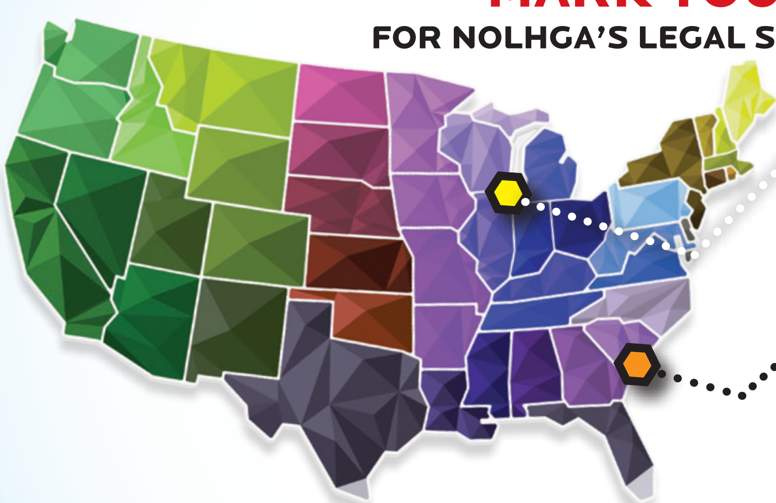
FOR NOLHGA'S LEGAL SEMINAR AND ANNUAL MEETING!



NOLHGA'S 25TH LEGAL SEMINAR
JULY 20–21, 2017
CHICAGO, ILLINOIS

NOLHGA'S 34TH ANNUAL MEETING
OCTOBER 18–19, 2017
CHARLESTON, SOUTH CAROLINA

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Second, the government currently is operating under a Continuing Resolution, which funds the government at the previous fiscal year's level when Congress fails to complete the Appropriations process. The current Continuing Resolution expires on **April 28**. Both issues—the debt limit and government funding levels—will test the Republican majority's governing functionality.

Last, **April 29** will mark the Trump Administration's 100th day, notable due to the build-up on accomplishments that have been promised in the "first 100 days."

Dodd-Frank Changes: With a Republican President, repeal and reform efforts are no longer an empty game, and the probability of real nips and tucks to the fabric of the Dodd-Frank Act is high. Moreover, the Trump imprint on federal agencies means that Dodd-Frank implementation can be slowed, or in some areas stopped dead in its tracks, with key political appointees holding turnkeys on Dodd-Frank authorities—systemic designation chief among them.

First up will be House Financial Services Committee Chairman Jeb Hensarling's (R-TX) Financial CHOICE Act, which would fundamentally reform Dodd-Frank. During the last Congress, the House Financial Services Committee passed it along party lines, and Rep. Hensarling currently is working on a new version that is expected to be introduced in the first quarter.

Of particular interest is the Chairman's vision for the future of the Federal Insurance Office (FIO). Last year's CHOICE Act reformed Title V of Dodd-Frank by consolidating FIO and the Financial Stability Oversight Council (FSOC) Independent Member with Insurance Expertise into the new Office of the Independent Insurance Advocate (IIA). IIA would be an independent office housed in the Treasury Department, with its head subject to Senate confirmation for a six-year term (unlike the current FIO Director position, which is a career appointment). Responsibilities of the new office would include those of the current FIO and the FSOC insurance member, including coordinating federal efforts on the prudential aspects of international insurance matters; representing the United States on the International Association of Insurance Supervisors (IAIS); and participating in negotiating covered agreements—in other words, most of the key authorities housed in FIO under Dodd-Frank.

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Due to six-year term limits for Chairs, Senator Mike Crapo (R-ID) has taken over the helm from Senator Richard Shelby (R-AL) in the Senate Banking Committee. Last Congress, Sen. Shelby introduced the Financial Regulatory Improvement Act, which included Dodd-Frank reforms and passed the committee along party lines. While the Shelby bill may provide somewhat of a baseline, Chairman Crapo is expected to take his own approach to reform.

International Effort Changes: Ditto on the international front, including international capital standards setting. The November 8 political trend is *anti*-international and *pro*-domestic, but how that translates to insurance is just not clear; after all, there is not complete clarity on goal-setting on the international front among the industry or even state regulators. While the international regulatory scene still needs to evolve post-election, the political pressure points can be mapped out.

President Trump's rhetoric during the campaign was firmly against international agreements, calling for wholesale revisiting of the United States's approach and past agreements. However, we found no statements specifically targeting international standards in the financial services realm; nor have there been any after the election. But commentators have speculated post-election about what that philosophy could mean for international insurance and other financial services standard setting.

Meanwhile, some key financial services legislators have supported FIO's negotiating role on behalf of the United States and international standards on capital and other critical regulatory issues. As noted, Chairman Hensarling's CHOICE Act preserves the international negotiating authority of FIO's successor.

Agency Appointments: Watch what the Trump team does in staffing federal agencies and bodies. That's where the action will be on the ground: Treasury, FIO (in whatever form), the Federal Reserve, the Department of Labor, and the FDIC. Those are the people with whom the NAIC and the industry will be dealing over the next four years in answering questions about exactly what should be done and not done in insurance regulation. So as House Financial Services Committee Chairman Jeb Hensarling's CHOICE Act for Dodd-Frank amendments is debated in Congress, the real action may be among the people in the federal government who will have a say—with the Congress and other thought leaders—about the proper response to the shift in power away from the people who brought the country Dodd-Frank.

Meanwhile, the Trump White House released an Executive Order on February 3 establishing "Core Principles for Regulating the United States Financial System." These Core Principles are generally consistent with the goals of the CHOICE Act (for example, "prevent taxpayer-funded bailouts" and support the advance of "American interests in international financial regulatory negotiations and meetings"). The Executive Order instructs the Secretary of the Treasury to consult with members of FSOC and report to the President regarding laws inconsistent with those Core Principles and what actions have been taken consistent with them.

Covered Agreement Negotiations

The big new news in January 2017 was the announcement from FIO and the United States Trade Representative (USTR) that they had reached agreement with the European Union on the long-anticipated covered agreement. Once finalized, the agreement would, between the United States and Europe:

- Prevent discriminatory collateral requirements on cross-border reinsurance
- Avoid any local presence requirements on cross-border reinsurers
- Place any group supervisory authority in the home authority of the ultimate parent entity

FIO/USTR's January 13 notice starts a 90-day Congressional "layover" period through April 13, after which the U.S. process for Congressional oversight would be complete, absent adverse action. EU authorities also will need to finalize their approval. Trade association and NAIC advocacy has geared up during the Congressional review period.

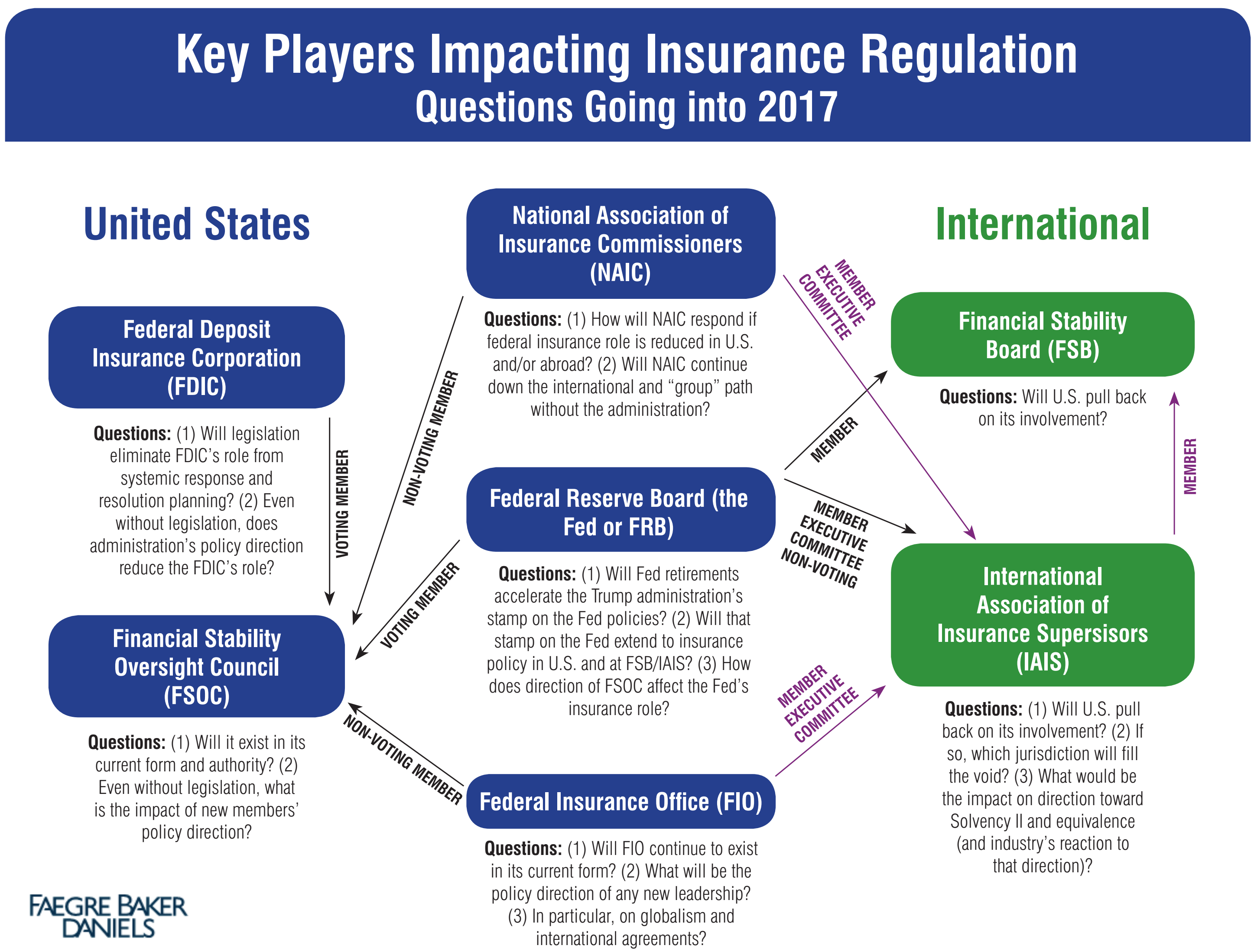
Resolution

Since Dodd-Frank's Title II provides for an orderly liquidation authority for failed systemically important financial institutions, Dodd-Frank reform efforts have the potential to affect resolution policy. Recall that under Title II, state receivership processes *and* the national state-based guaranty system retained their authority, even in a systemic situation. Last year's CHOICE Act draft contained language that would eliminate Title II and replace it with a federal bankruptcy process for large financial holding companies, still leaving insurance company resolution (and policyholder protection) to the states.

Putting It All Together

Below is a key players chart that we have used since 2010 in describing Dodd-Frank impacts. Take a close look at the questions we have posed below the box for each player. Those questions may not all be asked in 2017 (after all, ACA repeal/replace, tax reform, and infrastructure may come first), but it's likely that they will be asked (and answered) as the new Administration and the new 115th Congress take shape over the next two years. ✯

Patrick D. Hughes and Alison F. Watson are Partners with Faegre Baker Daniels.



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us to build out a plan that would protect as many people as possible.

You'll see the phrase "keeping the promises of the insurance industry" on some NOLHGA documents. That may sound like just a catchy slogan, but the people in that room knew how important it is. Insurance is a promise, and if the industry can't keep its promises, the entire enterprise is threatened. We keep those promises. We work with others, of course, but we play a vital role in the process—a role no one else can play.

So it is fair to say that we can, metaphorically speaking, run a gas station. But in truth, we do a lot more than that. I've already discussed what our system did in helping to craft the ELNY resolution plan, but here are a few more things we've accomplished:

- We navigated through a storm of media focus and law enforcement involvement to find quickly a safe, sure, and certain home for policyholders who otherwise would have been victimized by the Thunor Trust insolvencies after the massive fraud perpetrated by Marty Frankel.
- Speaking of massive fraud, we also dealt with the Lincoln Memorial and Memorial Service insolvencies, crafting a resolution plan that, and this is not exaggeration, saved the funeral home industry in many states.
- We met the challenges of the London Pacific failure, protecting thousands of annuitants in the process.
- During the financial crisis—what is known sometimes as "AIG Week" in the NOLHGA office—we protected, not just the guaranty system, but the insurance industry by reassuring policyholders that a strong safety net was in place should the need arise. And we did it again during the media-generated furor over coverage of retained-asset accounts.
- We reacted quickly to the failures of the Affordable Care Act CO-OP insolvencies as well as other recent health failures.
- We counteracted the flood of misinformation about guaranty association coverage of pension de-risking transactions with a meticulously researched comparative study of pension protection schemes under ERISA and in the insurance sector.
- We provided vital input during the drafting of the Dodd-Frank Act to prevent any incursions into guaranty system prerogatives.
- We also offered expert, objective input while the FSOC was considering SIFI designation of insurance companies.

When we keep our eyes on the policyholders, good things happen.

There's more—a lot more—but in conclusion, not only can we run that gas station—we can do just about anything our customers need when they pull in. We do things that border on the impossible.

That's who we are.

That's what we do.

And that, to me, is the true narrative about the guaranty system. But what about the other one I mentioned earlier? The one that says we're small time, and that maybe we've been lucky so far, but eventually our luck will run out—that the next insolvency will show that we are not a true safety net?

I don't believe that, but I do believe that the next insolvency is always the most important. As Warren Buffett says, you can work a lifetime to build a good reputation, and lose it in a minute.

We can lose all the goodwill we have built up with our various customers—policyholders, industry, and regulators—if we mishandle just one insolvency. Fair or not, we have to bat 1.000. The first time we strike out will be the last time we strike out. If the nation's opinion leaders conclude that we can't run a gas station—whether it's true or not—we become irrelevant, forever.

To put it another way, the "truth" of what the guaranty system is will be defined by our behavior. If we lose sight of our "customers"—if we turn inward, or turn on all that we have built over the years—people might very well conclude that they have no more need for us.

But if our behavior is driven by a desire to meet the needs of others, if we make it "all about them"—policyholders, member companies, regulators—then the system fulfills its highest purpose. If we place our trust in each other and in the institutions and processes we have built up over decades—in the people and structures we know to be worthy of that trust—the system lives to fight another day.

It isn't about us—it's about them. It's about service. The insurance industry meets the needs of the people. The guaranty associations provide a safety net for those people when things go wrong. NOLHGA helps the associations in making that net as strong as possible. When we remember this—when we recall the higher purpose we are called on to serve—the system works. Policyholders receive the protection they need. The industry remains strong in the eyes of the nation. And the question about the guaranty system—is it the group who can't run a gas station, or the group that handles multi-billion-dollar insolvencies flawlessly?

That question answers itself.

It has been a pleasure and an honor to serve this great organization for another year, and I look forward to working with all of you in the year to come. Thank you very, very much. ✯

Peter G. Gallanis is President of NOLHGA.

NOLHGA Calendar of Events

2017

April 8–11	NAIC Spring National Meeting Denver, Colorado
April 20–21	**MPC Meeting Louisville, Kentucky**
July 19	**MPC Meeting Chicago, Illinois**
July 20–21	**NOLHGA's 25th Legal Seminar Chicago, Illinois**
August 5–8	NAIC Summer National Meeting Philadelphia, Pennsylvania
October 8–10	ACLI Annual Conference Orlando, Florida
October 17	**MPC Meeting Charleston, South Carolina**
October 18–19	**NOLHGA's 34th Annual Meeting Charleston, South Carolina**
December 2–5	NAIC Fall National Meeting Honolulu, Hawaii

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