EXHIBIT C-2

DRAFT MINUTES
SENATE AND HOUSE INTERIM COMMITTEES ON INSURANCE AND COMMERCE
Meeting Jointly
Room 171, State Capitol, Little Rock, Arkansas
Wednesday, August 17, 2016

The Senate and House Interim Committees on Insurance and Commerce met jointly Wednesday, August 17, 2016, at 10 a.m. in Room 171, at the State Capitol, in Little Rock, Arkansas.

Insurance and Commerce members present: Senators Jason Rapert, Chair; Terry Rice, Vice Chair; Jonathan Dismang, Jane English, Jeremy Hutchinson and Uvalde Lindsey. Representatives Charlie Collins, Chair; Reginald Murdock, Vice Chair; John Baine, Scott Baltz, Bruce Cozart, Jeremy Gillam, Bill Gossage, Grant Hodges, Joe Jett, Robin Lundstrum, Micah Neal and James Sorvillo.

Other legislators present: Senator Gary Stubblefield, Representatives Charles Armstrong, Nate Bell, Charles Blake, Jana Della Rosa, Dan Douglas, Trevor Drown, Kenneth Ferguson, Justin Gonzalez, Michael John Gray, Kim Hammer, Ken Henderson, Mary "Prissy" Hickerson, David Hillman, Douglas House, Mathew Pitsch, Marcus Richmond and Laurie Rushing.

Senator Rapert called the meeting to order.

CONSIDERATION TO APPROVE JUNE 24, 2015, AND JULY 1, 2015, SENATE AND HOUSE INSURANCE AND COMMERCE MEETING MINUTES [EXHIBITS C-1 & C-2]

<u>Representative Neal made a motion to approve the June 24, 2015, and July 1, 2015, meeting minutes. The motion was seconded by Senator Rice, and the motion carried.</u>

CONSIDERATION OF A MOTION TO AUTHORIZE CHAIRMEN TO APPROVE SPECIAL EXPENSES INCURRED BY THE COMMITTEES

<u>Representative Neal made a motion to authorize the chairmen to approve special expenses incurred by the committees. The motion was seconded by Senator Rice, and the motion carried.</u>

Mr. Aaron Burkes, President, Arkansas Development Finance Authority (ADFA), was recognized and explained Standard and Poor's (S & P) general obligation (GO) bond rating for Arkansas is AA. It is a good rating and has remained the same since 1966. The three primary entities that issue GO bonds are ADFA, the Highway Commission and the Arkansas Natural Resources Commission. GO bonds have the full faith and credit of the State of Arkansas behind them, whereas appropriation bonds are reliant upon an annual appropriation for payment, and revenue bonds are contingent upon revenue generated. Arkansas has a low debt level, therefore offering lower rates and trading better than 14% of the 28 states with higher ratings. ADFA's goal is to acquire an upgrade because of the savings that accompanies a higher rating. The main difficulties for states in ratings are the economy, energy and pensions. Factors which can be improved in Arkansas are increasing the Rainy Day Fund from $125 million to about $500 million, dealing with unfunded pension liabilities and other post-employment benefit costs. **[EXHIBIT E & HANDOUT 1]**

Representative Collins asked about the state's retirement systems switching from defined benefit to defined contribution plans when considering the unfunded pension liabilities. Mr. Burkes said he would work on this with the appropriate agencies.

Ms. Candace Franks, Commissioner, Arkansas Bank Department, was recognized and presented an update on regulatory issues and the health of state banks. She explained the Arkansas Bank Department has 68 employees and is funded by assessments paid by the Arkansas banks. She noted Arkansas banks have continued a stronger level of loan quality than banks nationally since the financial crisis of 2007 – 2009. Profitability levels for banks with main offices in Arkansas have increased since 2012. Since 2014, loan volume and deposit growth have increased as a result of acquiring six out of state banks.

The last application to establish a state-chartered bank was submitted over 11 years ago. The declining number of banks is due to consolidation. Despite the decline, assets have grown by 172%, or $50 billion, since December 1997. The four largest banks in Arkansas are Arvest Bank, Bank of the Ozarks, Centennial Bank, and Simmons Bank.

The Bank Trade Associations and The Conference of State Bank Supervisors are trying to "right-size regulation" which means accommodating regulation to the business model and the risk profile of a financial institution. There are two bills in Congress aimed at doing this: 1) TAILOR (Taking Account of Institutions with Low Operational Risk) Act of 2015 that is awaiting approval in the full House, and a Senate version was introduced in the Banking Committee on July 11, 2016; and 2) CHOICE (Creating Hope and Opportunity for Investors Consumers and Entrepreneurs) Act of 2016 which would repeal and replace the Dodd Frank Act of 2010. The Dodd Frank Act has been a tremendous cost to banking institutions and a difficult challenge in regulatory compliance specifically to smaller banks. **[EXHIBIT F]**

Senator Rapert asked Ms. Franks to let the Chairmen of the Insurance and Commerce Committees know if she needs input on various issues.

Senator Rapert referred members to the National Conference of Insurance Legislators (NCOIL) Newsletter (Exhibit G-1), and urged them to participate in these meetings, noting the next is in Las Vegas. NCOIL has a resolution (Exhibit G-2) opposing a Department of Labor fiduciary standard rule which is as problematic to the financial securities arena as Dodd Frank is to the banking industry.

Mr. Edmond Waters, Commissioner, Arkansas Securities Department, **[EXHIBITS G-1 & G-2]**
was recognized and introduced Mr. David Smith, the departments' Chief Counsel, who outlined recent issues that are being dealt with on a state and national level:

- Senior investors with diminished capacity;
- Easier ways to provide better access to investment opportunities for investors;
- Efforts to ease regulatory requirements for advisors to private funds;
- Business continuity and succession plans;
- The Federal Labor Department adopted a regulation that provides consumer protections for retirement investors that went into effect in June 2016 and compliance begins in April 2017.

Senator Rapert clarified that the regulation was not a law passed by the U.S. Congress. He stated that it is important to know the distinction between a body of law that's passed by Congress and a department just promulgating a rule. The opponents claim that the Department of Labor exceeded its statutory authority, and that the rule was burdensome, unworkable and will drive up costs for the consumer. It is a very complex issue, and he asks that the members be informed of its impact.

Mr. Allen Kerr, Commissioner, Arkansas Insurance Department (AID), **[EXHIBITS I-1 through I-7]**
explained the department ended last year with 115,137 licensed agents and producers in Arkansas which is a 32% increase over 2014 as well as a 27% annual increase in licensed business entities. AID collected $131.7 in receipts, recovered $1.58 million for consumers, and authorized 11 new companies to do business in Arkansas.

The Workers Compensation Division is showing many requests from companies to do business in Arkansas which has the lowest workers compensation premium rates in the nation due to its diversity.

In response to a question by Senator Rice, Mr. Kerr noted The National Association of Insurance Commissioners (NAIC) is working to address the problem of beneficiaries not being awarded life insurance policy payouts, because they did not know the policy existed. The NAIC should have a centralized database in place soon, so life insurance policy beneficiaries can enter identifying information and find out if the deceased had a policy.

Representative Bell inquired about a previous conversation regarding start-up costs versus long term maintenance costs while changing from on-site to online training. Mr. Kerr will provide him with that information.

Mr. Chris Howlett, Director, Employee Benefits Division (EBD) **[EXHIBIT J]**
Arkansas Department of Finance and Administration, stated there was an issue regarding the integrity and documentation process in scoring the medical management services contracts. Based on the State Procurement Office recommendation, EBD convened a new evaluation panel to review the contracts, and it should conclude this week, anticipating to award a contract soon.

OTHER BUSINESS

Senator Rapert announced the upcoming joint meetings September 26 and 27, 2016, in Rogers, during the Southern States Energy Board annual meeting.

There being no further business, the meeting adjourned at 12:00 p.m.