

Testimony of the  
National Association of Insurance Commissioners

Before the  
Subcommittee on Finance and Hazardous Materials  
Committee on Commerce  
United States House of Representatives

Regarding  
State Insurance Regulatory Modernization and  
Implementation of the Gramm-Leach-Bliley Act

July 20, 2000

George Nichols III  
Commissioner of Insurance  
Kentucky

## **Summary of Testimony by George Nichols III, NAIC President**

- The NAIC and State insurance regulators are currently on track to implement all provisions of GLBA as intended by Congress –
  - a) We are actively coordinating and cooperating with Federal functional regulatory agencies through high-level policy meetings, regulatory cooperation agreements, personal contacts and information exchanges among State and Federal supervision staff, and shared educational programs.
  - b) In addition to having an existing privacy model law adopted in 17 States that exceeds the requirements of GLBA, we are developing privacy model rules similar to Federal regulations that can be quickly adopted by States with no present regulations to assure their compliance with GLBA.
  - c) We are establishing a national licensing system for insurance agents and brokers that will fully satisfy the NARAB provisions in GLBA by achieving reciprocity among States while we develop a truly uniform 50-State system.
- The NAIC is spearheading a bold set of national initiatives that will move State insurance regulation far beyond the minimum requirements of GLBA in order to satisfy larger goals of regulatory uniformity and efficiency in such areas as agent licensing, national treatment of companies, speed-to-market for insurance products, and market conduct reviews.
- Meeting the requirements of GLBA and the larger goals of national regulatory uniformity will demand prompt action by several groups in addition to NAIC and State insurance regulators, including Congress, State legislators and governors, and insurance industry participants. NAIC specifically requests that Congress grant us access to the FBI's criminal database and appropriate confidentiality for regulatory communications with Federal agencies to help us meet our responsibilities.

## **Testimony of George Nichols III, President National Association of Insurance Commissioners**

### **Introduction**

My name is George Nichols. I am the Commissioner of Insurance in Kentucky, and this year, I am serving as President of the National Association of Insurance Commissioners (NAIC). This is a particularly challenging time as we work to improve State insurance supervision to better meet the demands of consumers and a global insurance industry.

Let me start by thanking the Commerce Committee and its Members for the important work you did in preserving the role of State insurance supervision during Congressional consideration of HR 10. Although HR 10 was originally intended to modernize Federal banking and securities laws, its negative side impact on State laws governing the solvency and market conduct of insurance providers could have been devastating. Your insistence that HR 10 be amended to fully protect insurance consumers was a critical step in opening the door for State regulators to meet and exceed the financial modernization goals of the Gramm-Leach-Bliley Act (GLBA).

Today, I would like to make three points regarding the response of State insurance regulators to financial modernization and the Gramm-Leach-Bliley Act –

- First, the NAIC and State insurance regulators are currently on track to implement all provisions of GLBA as intended by Congress.
- Second, the NAIC is spearheading a bold set of national initiatives that will move State insurance regulation far beyond the minimum requirements of GLBA in order to satisfy larger goals of regulatory uniformity and efficiency.

- Third, meeting the requirements of GLBA and the larger goals of regulatory uniformity will demand prompt action by several interested groups in addition to State insurance regulators, including State legislators and governors, Congress, and insurance industry participants.

### **Protecting Consumers is the First Priority of State Insurance Regulation**

Paying for insurance products is one of the largest consumer expenditures of any kind for most Americans. Figures compiled by the NAIC show that an average family can easily spend a combined total of \$3,000 each year for auto, home, life, and health insurance coverage. This substantial expenditure – often required by law or business practice – is typically much higher for families with several members, more than one car, or additional property to insure. Consumers clearly have an enormous financial and emotional stake in making sure that the promises made by insurance providers are kept.

Protecting American insurance consumers in a world of hybrid institutions and products must start with a basic understanding that insurance is a different business than banking and securities. Insurance is a commercial product based upon subjective coverage decisions, subjective product pricing, subjective claims determinations, and subjective figuring of claims payment amounts. All of these business subjectives add up to one big certainty – Insurance products can generate a high level of consumer backlash and customer dissatisfaction that requires a high level of regulatory resources and responsiveness.

As regulators of insurance, State governments are responsible for making sure the expectations of American consumers – including those who are elderly or low-income – are met regarding financial safety and fair treatment by insurance providers. State insurance commissioners are the public officials who are appointed or elected to perform this consumer protection function. Nationwide in 1998, we employed 12,500 regulatory personnel and spent \$853 million to be the watchful eyes and helping hands on consumer

insurance problems. State insurance departments presently handle approximately four million consumer complaints and inquiries each year.

The States also maintain a system of financial guarantee funds that cover personal losses of consumers in the event of an insurer insolvency. The costs of this financial guarantee system are borne entirely at the State level, with no assistance from the Federal government.

### **State Insurance Regulators Are Strongly Committed to Implementing GLBA**

The Gramm-Leach-Bliley Act establishes a new order of functional financial regulation that will depend upon the active cooperation of many Federal and State agencies to be effective. Although this approach is novel at the national level, it is well known among State insurance regulators who have been working together cooperatively for more than a century. We have found from experience that organized cooperation through the NAIC produces strong supervision results overall, yet we are also know that extraordinary effort, hard work, and constant attention are needed to achieve such results.

The regulatory framework established by GLBA designates the States as the appropriate functional regulators of insurance products in the United States, including those provided by Federally-supervised banking and securities firms. This most recent Federal statutory affirmation of State insurance authority is wise because it recognizes our successful record over the years in meeting the special consumer protection requirements of insurance products. For example, all 50 commissioners joined together to end the use of race-based insurance premiums and obtain rightfully-owed insurance payments for victims of the Holocaust.

In addition to recognizing general State authority over insurance, GLBA mandates specific State regulatory action in three areas –

- a) Coordinating and cooperating with Federal functional regulatory agencies for banks and securities firms;
- b) Issuing privacy rules to protect the non-public financial information given by consumers to insurance providers; and
- c) Establishing a national licensing system for insurance agents and brokers in order to avoid the creation of the National Association of Registered Agents and Brokers (NARAB).

Working through the NAIC, State insurance departments are strongly committed to implementing all requirements of GLBA promptly. Furthermore, State regulators are committed to uniform insurance regulation by eradicating outdated procedures that overly favor home-state autonomy at the expense of efficient interstate commerce. Our ultimate goal of a national regulatory system based upon existing State authority goes well beyond the requirements of GLBA.

### **Going Beyond GLBA – NAIC’s Regulatory Modernization Program**

I was elected President of NAIC in December 1999, just one month after GLBA was signed into law. My first action as President was to announce that modernizing the State regulatory system would be my top priority for NAIC during the year 2000. To achieve this goal, I immediately began working with my fellow commissioners to develop a plan that will get us there.

The critical first step was the acknowledgement of insurance commissioners in every State that common progress cannot occur without common agreement on our objectives. To that end, we began collectively drafting a regulatory modernization mission statement. After careful discussions, the commissioners from each of the 50 States and the District of Columbia individually signed a document entitled “Statement of Intent: The Future of

Insurance Regulation” (Attachment One). A copy is appended to the end of my testimony.

The insurance commissioners’ Statement of Intent is a major breakthrough toward regulatory modernization. We are personally and jointly committed to achieving the same specific objectives on a set schedule. These are now the shared goal of insurance commissioners throughout the United States.

The Statement of Intent sets forth the following mission objectives –

- Working with our governors and State legislatures, we will undertake a thorough review of our respective laws and regulations to determine needed changes that accomplish functional regulation as contemplated by the Gramm-Leach-Bliley Act.
- We are committed to streamlined licensing for producers, and will work to implement effective uniform licensing standards.
- Building on initiatives already underway, we will review our financial reporting, analysis, and examination processes to address market changes that demand consideration of the national and international impact of insurance industry operations.
- We will continue to use the NAIC process to develop and implement effective regulatory cooperation agreements with other Federal and State regulatory agencies regarding the sharing of financial monitoring and enforcement information.
- Working with our governors and State legislatures, we will take steps to improve the speed to market for new insurance products.

- We will evaluate the experience of specific States with regard to reforming the system of rate forms and filings for certain insurance lines in order to achieve greater uniformity and eliminate unnecessary requirements.
- We will review the current focus, structure, and implementation of market conduct programs to determine the merits of voluntary uniform national standards as a basis for market conduct examinations and enforcement that will protect local consumers.
- We have endorsed the Uniform Electronic Transactions Act (UETA), and will continue to identify necessary reforms that will facilitate e-commerce while maintaining important consumer protections.
- We are committed to exploring all options that could offer greater uniformity within the State-based system of insurance regulation, and we will explore the development of a proposal for a State-based system that could provide the same efficiencies as a Federal charter for insurance companies.

### **Insurance Regulators Are on Schedule to Meet All Modernization Objectives**

Prior to final approval of the commissioners' Statement of Intent in March, the NAIC began a series of actions to implement GLBA requirements and lay the groundwork for larger improvements. The implementation schedule set by Congress for certain parts of GLBA is quite tight for Federal and State regulators, especially the provisions that will require State legislative action. The NAIC and its members have approached this implementation effort with urgency and determination, and have committed to meet the same deadlines as Federal agencies even where GLBA does not require us to do so.

In December 1999, I sent letters to the heads of all Federal functional regulatory agencies seeking to meet with them in order to establish a process for cooperation. At mid-July, I can report that I have met personally with the Comptroller of the Currency (OCC), the



Director of the Office of Thrift Supervision (OTS), and Governor Laurence Meyer who oversees insurance matters for the Federal Reserve Board. The NAIC and several State regulators have also met with officials at the Federal Deposit Insurance Corporation (FDIC). These meetings and communications have been very successful in getting the process of cooperative functional regulation off to a good start.

Within NAIC, we created nine special working groups and assigned them particular tasks to accomplish the GLBA mandates and mission objectives in our Statement of Intent. The activities of these working groups have dominated our time and attention at NAIC since then.

As a result of exceptional efforts, the NAIC and State insurance regulators are on target to meet the objectives set by GLBA and our Statement of Intent. We have a lot of work yet to do, but we are well on the way to attaining our goal. Furthermore, I am confident that State insurance regulators will continue to do whatever it takes to get the job done right.

### **Cooperating with Federal Regulators under GLBA**

Establishing sound working relationships with Federal regulators is absolutely essential for State insurance departments under GLBA. In fact, it is so important that NAIC was actively engaged in meeting with our Federal counterparts more than a year before GLBA became law. After enactment of GLBA, we decided to consolidate our efforts under a new Coordinating with Federal Regulators Working Group given broad responsibility to stimulate cooperation at all levels.

There are two basic ingredients for making regulatory cooperation a success. The first is negotiating and signing written agreements between Federal and State agencies that lay out the ground rules for sharing information and keeping it confidential when necessary. The second is establishing personal contacts at other agencies to promote mutual

understanding, education, and practical cooperation on monitoring and enforcement matters.

The NAIC is currently involved in achieving acceptable written cooperation agreements with the Federal Reserve, OCC, OTS, and FDIC. We are farthest along with OTS and OCC. Our model consumer complaint sharing agreement with OCC has been signed by 28 State insurance departments, and our broad information sharing agreement with OTS has been signed by 21 States to date. While we continue to encourage State departments to sign these existing model agreements, we are simultaneously working to improve all cooperation agreements with Federal agencies to better reflect the final provisions in GLBA.

The process of establishing personal working contacts between State and Federal regulators is also going very well. Attached to my testimony is a chart summarizing the most important meetings held by NAIC so far (Attachment Two), however there have been many additional contacts with Federal regulators through the NAIC and directly with State department personnel. Generally, these are high-level meetings that have focused on exchanging information and viewpoints regarding regulatory jurisdiction, supervision methods, and specific cases such as the Citigroup merger. Federal banking agencies have also started sending regular attendees to NAIC national meetings held four times each year, which is an excellent way for them to meet State regulatory staff and observe how we make our policy decisions.

NAIC has an extensive schedule of insurance supervision training classes and materials which we have made available to Federal regulators. In exchange, Federal agencies are beginning to open their training programs to State insurance regulators. Taking part in these classes develops professional expertise in other financial industries and facilitates the process of making personal contacts.

## **Meeting GLBA Consumer Privacy Requirements**

The Title V consumer privacy requirements in GLBA create a quandary for State insurance regulators. Section 501 of GLBA directs us to implement the same privacy rules for consumer financial information as those prescribed by Federal agencies, while Section 507 permits States to implement stronger privacy standards. This dual charge sets up a conflict between what State insurance authorities **MUST** do under GLBA and what States **MAY** do regarding consumer privacy. In neither case does it appear that Congress gave full consideration to the privacy needs of insurance consumers, as opposed to consumers of other financial products.

Protecting the privacy of insurance consumers is an important area where NAIC is 20 years ahead of Congress. NAIC issued a consumer privacy model law in 1980 that gives insurance consumers far greater privacy rights than those in GLBA. Our records indicate that 17 States have adopted all or part of the NAIC model. In those States, consumers are presently enjoying a high level of privacy protection, and insurance providers are complying without problems as far as we know. We believe State laws based on the NAIC model exceed GLBA, which means they will remain in force under Section 507 of GLBA.

NAIC issued a newer model law in 1998 to protect the privacy of consumer health information. While offering protections similar to the 1981 model, this newer model is specifically tailored for States wishing to focus on health information. We expect this model will receive consideration as legislators have more time to consider the model or public attention becomes more focused on keeping personal health information under the control of consumers.

In addition to these existing models, the NAIC's Privacy Issues Working Group is moving swiftly to construct model insurance consumer privacy regulations intended to serve as guidance for States not presently having privacy regulations that satisfy Title V of GLBA. The purpose of these interim regulations is to help State insurance authorities

comply with the minimum requirements of GLBA quickly and give essential interim guidance to insurers. In addition, the NAIC will consider how to achieve stronger privacy protections across-the-board for all consumers of financial services, including insurance.

The Working Group started in February by requesting public comments from interested parties regarding how NAIC should implement the privacy provisions in GLBA. After evaluating many comment letters and hearing public witnesses at NAIC meetings in March, May, and June, the Working Group circulated a draft of proposed regulations that mirror the Federal GLBA privacy rules as much as possible, while addressing specific insurance issues such as medical information. Additional public comments are still being received, and the Working Group will consider these at the next NAIC meeting scheduled for late August.

Although final GLBA privacy rules are not completed, by unanimous vote all 51 commissioners endorsed making the date for enforcing State insurance privacy rules under GLBA the same as the July 1, 2001 date set in the Federal rules. We hope to finish the NAIC's model GLBA rules at our national meeting in September.

### **Satisfying NARAB – Starting with Reciprocity and Moving toward Uniformity**

The message from NARAB is clear: fix and make more uniform the system for agent licensing. That is what we are doing. We wholeheartedly support the licensing goals endorsed by Congress in NARAB. We do not, however, support the creation of NARAB itself as a separate organization. NARAB would cast a cloud of uncertainty over the legal authority of State insurance departments to protect consumers throughout the United States. If NARAB were to prevent States from exercising their full range of powers to regulate insurance for the benefit of consumers, there would be nobody to perform this vital function.

Prior to passage of GLBA, the NAIC was working on an improved Producer Licensing Model Act that would promote uniformity and efficiency among the States. We moved quickly to amend this model legislation to comply fully with the NARAB provisions in GLBA when they became final. The revised version of the Producer Licensing Model Act was completed in February 2000 in order to make it available in time for consideration by several State legislatures which were just beginning their sessions. At this point, three States – Kentucky, New Hampshire, and Missouri – have enacted the model, two States have a bill pending, and 31 States are expected to introduce the bill during their next session in 2001.

The NAIC's Producer Licensing Model Act is the primary vehicle for States to satisfy the statutory requirements of GLBA because it fully implements the requirements for licensing reciprocity among States. Adoption of the Model Act by a majority of States will assure full compliance with the NARAB provisions by November 2002.

Adoption and implementation of this model law, however, does much more than simply satisfy the minimum requirements of GLBA. It provides for significant uniformity in licensing and goes a long way toward achieving our ultimate goal of uniformity among the States in agent licensing. Although our immediate goal is minimum compliance with GLBA, our ultimate goal is for all 50 States to be operating under a national system of unified standards and procedures.

The NAIC expects that States will meet and exceed the NARAB provisions in GLBA within the three-year time allotted by the statute. We plan to accomplish this goal by making necessary changes to the existing system of State insurance supervision so that NARAB will never be created as a separate organization. This approach will satisfy the objectives of NARAB sponsors who want to see State regulation improved without additional Federal action.

The NAIC is taking several additional steps to improve agent licensing. In partnership with the National Insurance Producer Registry (NIPR), a non-profit affiliate of the NAIC,

we have been aggressively investing over the past three years in modernizing our technical infrastructure to develop a more centralized producer licensing processing center. At present, the NAIC maintains a regulatory network and centralized database of 2.6 million of the Nation's 3 million producers. This information is available to regulators and insurance companies over the Internet, and is updated daily by automated processes at the State insurance departments.

Currently, 32 States are online with the Producer Database and the target is to have all 50 States contributing to PDB between December 2000 and June 2001. Because PDB is a mirror of the State licensing database, NIPR is creating a single system to automatically process appointments, terminations, and uniform non-resident license applications on behalf of individual State insurance departments against data in PDB within 24 hours of receiving the electronic data from an insurance company or producer. Approximately 110,000 producer appointments and terminations are being processed by 24 States through NIPR monthly right now, and we expect to have all 50 States participating in 2001.

The next key step in this process will be the implementation of a single electronic licensing application. These system improvements will bring about regulatory efficiencies that far exceed the expectations in NARAB and set the stage for uniformity.

### **State Regulators Need Help from Others to Comply with NARAB**

The key to State compliance with the NARAB provisions in GLBA is adoption of the NAIC's Producer Licensing Model Act by a large majority of States. As regulators, we have started the process at the NAIC by developing the Model Act and revising it to meet the requirements of GLBA.

The next step will be for State legislatures and governors to consider the Producer Licensing Model Act, and hopefully adopt it without substantial changes. NAIC members will be urging our legislators and governors to act as quickly as possible

because the clock is ticking toward the November 2002 deadline for State compliance with NARAB provisions.

NAIC officers and members have also been reaching out to insurance industry trade groups and companies to seek their support for adopting the Producer Licensing Model Act in each State. Industry representatives are active and influential in State government affairs. Having them join with regulatory officials in pushing the Model Act would be very helpful to getting it enacted into law.

Many industry groups participated in drafting the modernization reforms contained in the Model Act. These include: Council of Insurance Agents and Brokers, National Association of Insurance Financial Advisors, Independent Insurance Agents of America, Professional Insurance Agents, National Association of Professional Surplus Lines Offices, Consumer Credit Insurance Association, National Association of Life Companies, American Council of Life Insurers, Alliance of American Insurers, American Bankers Association Insurance Group, Association of Banks in Insurance, National Association of Independent Insurers, and the American Insurance Association.

Some commercial firms have complained to Congress and others that State regulation needs to be modernized. We hope industry representatives will actively support the modernization efforts which are now the top priority of the NAIC and State insurance regulators. Now is the time for all of us to replace words with actions.

There is also a role for the Congress with respect to giving NAIC access to NCIC, which I will discuss later.

### **NAIC Initiatives Go Beyond Federal Requirements**

There are three key NAIC program initiatives in our regulatory modernization plan that go far beyond the requirements in GLBA and other Federal laws. To make them happen, NAIC has created special working groups, whose activities are described below –

## **National Treatment of Insurance Companies**

The National Treatment of Companies Working Group is responsible for identifying regulatory procedures that will treat eligible insurance companies the same across the Nation. Already, 29 states are participating in the NAIC's Uniform Certificate of Authority Application (UCAA), and one more is in transition. The Working Group's goal is to encourage all 50 states and the District of Columbia to use the UCAA by December 2000.

Another goal is standardizing the licensing review process. While the UCAA provides a uniform application, the Working Group is looking to expand this effort to also include standardized review criteria nationwide. We also plan to develop a streamlined operating structure that would give certain companies "national treatment", including regulatory procedures related to solvency monitoring, holding company supervision, approval of mergers and acquisitions, market conduct reviews, and corporate re-organizations. A draft model to accomplish this goal is currently underway, and will be discussed during the Working Group's next meetings in August and September.

The importance of this national effort is set forth in our Statement of Intent –

“We are committed to exploring all options that could offer greater uniformity within the state-based system of insurance regulation.

“An initial step toward this streamlined system is already available through the Accelerated Licensure Evaluation and Review Techniques (ALERT) program, which is a streamlined insurer licensing procedure. We will encourage all states to join ALERT and initiate use of the newly developed expansion application process. This will allow streamlined admissions for those companies already admitted in one ALERT state simply through the filing of an expansion application in another ALERT state. The expansion application process



introduces elements of reciprocal reliance on the more detailed work of the state reviewing the complete application. We will pursue development of an e-repository for company applications to facilitate one-stop filing.

“In addition, we will evaluate the broad range of regulatory issues and concerns and develop a proposal for a state-based system that could provide the same efficiencies as a federal charter for insurance companies.”

### **Speed-to-Market**

The Speed-to-Market Working Group is responsible for identifying one-stop product filing procedures and a more efficient product approval process. The Working Group is considering domestic regulatory approval in conjunction with some form of oversight or the formation of a single-source entity that is charged with filing review. They are considering a centralized electronic filing repository as a key objective, and have discussed methods for implementing long-range speed-to-market plans. Still on the table are development of an interstate compact and reciprocal agreements.

There is widespread support among the States to pass legislation regarding commercial lines de-regulation. Just as we revised our producer licensing model law to respond to NARAB, we will similarly revisit our rate and form filing procedures to assure they promote true speed to market.

Much progress has already been made on speed-to-market through the NAIC’s System for Electronic Rate and Form Filing (SERFF) program. SERFF is an electronic process for insurers to file required rates and policy forms with State regulators. The current monthly total of such filings is 300 to 400, which has been increasing steadily since the beginning of this year. There are 34 States approved for SERFF, with 20 of those States currently active in receiving and reviewing SERFF filings. Of the 287 companies eligible, about 150 are active in making SERFF filings.

Version 2.0 of SERFF is set to roll-out around Labor Day. It offers the advantage of being available through the Internet, and will provide many enhancements such as improvements in multi-state filing and a more user-friendly interface. Version 2.0 should greatly boost interest in SERFF and rapidly increase the numbers of licenses, active participants, and electronic filings transmitted.

### **Market Conduct Issues**

Along with solvency, consumer protection is the hallmark of the State insurance regulatory system. Our goal is to address national market conduct to make it as strong as our coordinated solvency monitoring system. The Market Conduct Issues Working Group is responsible for streamlining regulatory procedures dealing with coordination or duplication, uniform procedures, philosophy, focus of examinations, self-audits and assessments, training, costs, and uniform legal standards. Streamlining insurance supervision is a top priority, but assuring consumers of fair treatment in the marketplace will always be our highest priority.

### **Congress Can Help Improve State Regulation**

Improvements in several Federal laws affecting State insurance regulation would help give us all the tools we need to meet the challenges of the modern marketplace. During Congressional consideration of GLBA, the NAIC suggested several amendments to Federal laws that would be useful.

The primary benefit of making the following changes to Federal laws is to achieve uniform regulatory procedures and national enforcement quickly by using the existing system of State regulation. The NAIC proposes that Congress –

- Provide State insurance regulators with access to the national criminal information database (NCIC) through the NAIC or its affiliates for regulatory

purposes and for checking criminal histories as required by the Federal Insurance Fraud Prevention Act. (18 USC 1033)

- Grant Federal immunity from liability for NAIC and NIPR database activities related to creating a national licensing and enforcement system.
- Protect the confidentiality of regulatory communications among NAIC, State regulators, and Federal agencies.

NAIC and its members will be pleased to provide additional information and assist Congress in adopting Federal legislation to achieve these goals.

### **Conclusion – State Regulators Are Meeting the Challenge of Modernization**

The NAIC and State insurance regulators are well on the way to implementing the provisions of GLBA as intended by Congress. More importantly, we are also well on the way to doing far more than Congress or industry representatives have asked us to do regarding uniformity, efficiency, and modernization. We will need help from other State officials, industry, and Congress to complete the job expected by consumers, policyholders, and claimants as we begin the 21<sup>st</sup> century.

We look forward to working with Congress and other interested parties as State insurance regulators continue to develop and implement our modernization programs.

# National Association of Insurance Commissioners

The logo for the National Association of Insurance Commissioners (NAIC) is displayed in a large, light gray, serif font, centered behind the main title text.

President Commissioner George Nichols III (Kentucky)  
Vice President Commissioner Kathleen Sebelius (Kansas)  
Secretary-Treasurer Commissioner Terri Vaughan (Iowa)  
Immediate Past President Commissioner George Reider, Jr. (Connecticut)

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## **Statement of Intent: The Future of Insurance Regulation**

Our primary goal is to protect insurance consumers, which we must do proactively and aggressively. We also recognize that consumers as well as companies are well served by efficient, market-oriented regulation of the business of insurance.

Insurance is unique in the world of financial services. Historically, insurance markets have developed from state to state reflecting the differences in population, geography, weather patterns and delivery systems. State regulation has addressed that marketplace efficiently and effectively.

Fueled by enhanced technology and globalization, the world financial markets are undergoing rapid changes. In order to protect and serve more sophisticated but also more exposed insurance consumers of the future, insurance regulators are committed to modernize insurance regulation to meet the realities of an increasingly dynamic, and internationally competitive financial services marketplace. This will include working with all parties to combat and reduce the incidence of fraud, thereby providing a safer environment for consumers and lower costs.

We pledge to work cooperatively with all our partners – governors, state legislators, federal officials, consumers, companies, agents and other interested parties – to facilitate and enhance this new and evolving marketplace as we begin the 21<sup>st</sup> Century.

## **I. Implementing the Gramm-Leach-Bliley Act**

### Proposed Amendments of State Laws

Working with our governors and state legislators, we will undertake a thorough review of our respective state laws to determine needed regulatory or statutory changes to achieve functional regulation as contemplated by the Gramm-Leach-Bliley Act. Anti-affiliation statutes, licensure laws, demutualization statutes, and various essential consumer protections, including sales and privacy provisions, will be part of this review. We will move forward quickly to both promulgate regulations and suggest statutory changes to facilitate implementation of the new law.

### Streamlined Licensing for Producers

We are committed to uniformity in producer licensing and will work to implement effective uniform producer licensing standards. As a necessary interim step, the NAIC adopted the Producer Licensing Model Act for consideration by state legislatures. This Model Act provides specific multi-state reciprocity provisions to comply with the requirements of the Gramm-Leach-Bliley Act.

While reciprocity is a short-term answer, uniformity is the efficient, long-term solution. As a result, we have empowered the NAIC's non-profit affiliate Insurance Regulatory Information Network (IRIN) to develop recommendations for a streamlined, national producer licensing process that will reduce the cost and complexity of regulatory compliance related to the current multi-state process. We believe that by leveraging work already done on the Producer Database and the Producer Information Network and by using IRIN as a central clearinghouse for non-resident licensing information, efficiencies will be realized that exceed expectations outlined in the National Association of Registered Agents and Brokers (NARAB) provisions of the Gramm-Leach-Bliley Act.

### Financial Examinations and Reviews of National Companies

We will consider the implications of the Gramm-Leach-Bliley Act on the regulatory authority, focus, and procedures provided by the NAIC Insurance Holding Company System Model Act and accompanying Model Regulation and will recommend changes for consistency with the functional regulatory scheme set forth in the Gramm-Leach-Bliley Act and related federal regulations.

Building on initiatives already underway, we will review our financial reporting and financial analysis and examination processes in light of the new law and changes occurring in the market place. We will refine our risk-based approach to examining the insurance operations of financial holding companies to place greater emphasis on a company's unique risk exposures and how it manages those risks.

We will recommend mechanisms to enhance communication and coordination among all functional regulators, and we will review the role of the NAIC resources in supporting such communication and coordination.

We will pursue development of a group-wide approach to regulating insurer groups and enhancing coordination among states. As a part of this initiative, we will consider consolidated financial statements for the insurance operations of groups.

#### Implementing Functional Regulation and Sharing Regulatory Information

We will continue to use the NAIC process for the development of model agreements, and we will build on our progress to date. We will actively encourage the execution of information sharing agreements between the individual states and each of the key federal functional regulators.

In addition, we will develop a comprehensive agreement for the sharing of information among states.

The NAIC adoption of the model confidentiality law provisions demonstrates its commitment to break down barriers to sharing information between the States. We will work with state legislators to support such confidentiality legislation. We will pledge to form coalitions with interested parties to promote uniform and consistent enactment of the confidentiality provisions.

## **II. Year 2000 National Regulatory Priorities**

### “Speed to Market”

Working with our governors and state legislators, we will take steps to improve speed to market for insurance products. This will include development and implementation of a system of deference to the state of domicile using one-stop filing for products issued on a multi-state basis, where appropriate. To support this system, we will develop and implement state-based uniform standards for policy form and rate filings for appropriate product lines. In pursuing this evaluation, we will keep in mind the need for flexibility to allow local treatment of conditions produced by local markets. For lines that do not lend themselves to uniform standards, we are committed to reviewing market barriers for further efficiencies. We will take steps to shift the focus of states away from a prior approval system, where appropriate. We will also develop an e-repository for filings, a system for tracking data, and a state certification process.

In addition, we will take steps to shift the focus of states away from a prior approval system, where appropriate.

### Regulatory Re-engineering

The benefits of uniform regulatory procedures for insurers selling products to large, sophisticated commercial policyholders are compelling. Many states have adopted and are implementing laws to re-engineer their commercial lines regulatory functions.

We will evaluate the progress of specific states with respect to commercial lines reform, and compare those actions with the Property and Casualty Model Rate and Policy Form Law. Based on this evaluation, we will consider amending the Model and taking other appropriate steps to achieve greater uniformity and consistent application of rate and form requirements with our members.

We will continue to explore avenues to reduce unnecessary requirements for policies sold to insurance purchasers with insurance knowledge and market power. Where appropriate, we will explore increased reliance on the benefits of open competition.

### Market Conduct Reform

Market conduct is an essential regulatory tool. Its importance to regulators, producers and consumers will increase as the “Speed to Market” reforms are implemented and the marketplace evolves.

We will examine the current focus, structure and implementation of market conduct programs in the states to identify the issues and concerns that currently exist in this area. This examination will help us determine the merits of voluntary uniform national standards as a basis for market conduct examinations and enforcement actions. In pursuing this evaluation, we will keep in mind the need for flexibility to allow local treatment of conditions produced by local markets.

### Facilitating Electronic Commerce that Protects Consumers

The insurance-buying public and industry must be allowed to benefit from the broad range of opportunities that e-commerce offers. As a result, we adopted the recommendations of the Electronic Commerce and Regulation Working Group and endorsed the Uniform Electronic Transactions Act (UETA) for consideration and enactment in each of the states. As e-commerce evolves, we will continue to identify necessary reforms that will facilitate e-commerce while maintaining important consumer protections.

### Treatment of National Insurance Companies

We are committed to exploring all options that could offer greater uniformity within the state-based system of insurance regulation.

An initial step toward this streamlined system is already available through the Accelerated Licensure Evaluation and Review Techniques (ALERT) program, which is a

streamlined insurer licensing procedure. We will encourage all states to join ALERT and initiate use of the newly developed expansion application process. This will allow streamlined admissions for those companies already admitted in one ALERT state simply through the filing of an expansion application in another ALERT state. The expansion application process introduces elements of reciprocal reliance on the more detailed work of the state reviewing the complete application. We will pursue development of an e-repository for company applications to facilitate one-stop filing.

In addition, we will evaluate the broad range of regulatory issues and concerns and develop a proposal for a state-based system that could provide the same efficiencies as a federal charter for insurance companies.



**Attachment Two****NAIC Meetings with Federal Agencies**

<b>Federal Agency</b>	<b>Date</b>	<b>Key Participants</b>	<b>Notes</b>
Federal Reserve Board	April 9, 1998	Governor Susan Philips/ George Nichols, Elizabeth Costle	Initial meeting to open a cooperation dialogue at the Federal Reserve Building in DC.
Federal Reserve Board	May 8, 1998	Rich Spillenkothen, Fed supervision chief/ Commissioner Terri Vaughan	Day-long meeting between NAIC and Federal Reserve experts to explore regulatory methods at the Federal Reserve Building in DC.
Federal Reserve Board	June 20, 1998	Roger Cole, Fed financial chief/ Commissioner Terri Vaughan	Discussion of RBC and other Accounting/ Financial Issues at NAIC national meeting in Boston.
Federal Reserve Board	December 5, 1999	Connecticut and Federal Reserve experts handling Citigroup merger	NAIC/ Federal Reserve regulator-only meeting re Citigroup at NAIC national meeting in San Francisco.
Federal Reserve Board	January 10, 2000	Governor Laurence Meyer, Rich Spillenkothen/ Commissioners George Nichols and George Reider	Meeting of top leaders from Federal Reserve and NAIC to discuss GLBA cooperation – Held at the Federal Reserve Building in DC.
Federal Reserve Board	February 24, 2000	Rich Spillenkothen and numerous Federal and State regulators	Domestic Joint Forum regarding GLBA compliance issues – Regulators only – Held at Federal Reserve Building in DC.
Federal Reserve Board	March 12, 2000	Rich Spillenkothen/ Commissioner Terri Vaughan	Discussion of GLBA issues at NAIC national meeting in Chicago.
Office of the Comptroller of the Currency	November 17, 1998	Sam Golden, OCC Ombudsman/ Commissioner Donna Lee Williams	Visit with OCC Ombudsman at OCC's Houston office to review consumer complaint procedures.
Office of the Comptroller of the Currency	February, 1999	Jerry Hawke, Comptroller	Addressed NAIC commissioners conference in DC.
Office of the Comptroller of the Currency	March 8, 1999	Sam Golden, OCC Ombudsman	Addressed NAIC FSM Committee at national meeting in DC.
Office of the Comptroller of the Currency	June 7, 1999	Sam Golden, OCC Ombudsman	Addressed NAIC FSM Committee at national meeting in Kansas City.
Office of the Comptroller of the Currency	October 1999	Senior OCC officers from DC and regional offices	Met with insurance commissioners at their regional zone meetings at NAIC national meeting in Atlanta.
Office of the Comptroller of the Currency	October 4, 1999	Leann Britton, OCC supervision chief	Addressed NAIC FSM Committee at national meeting in Atlanta.
Office of the Comptroller of the Currency	November 1, 1999	Leann Britton/ Commissioner Terri Vaughan	Day-long meeting of senior NAIC and OCC officials to discuss regulatory cooperation at OCC office in Kansas City.
Office of the Comptroller of the Currency	December 6, 1999	Delora Jee, OCC deputy supervision chief	Addressed NAIC FSM Committee at national meeting in San Francisco.

<b>Federal Agency</b>	<b>Date</b>	<b>Key Participants</b>	<b>Notes</b>
Office of the Comptroller of the Currency	February 11, 2000	Leann Britton, Julie Williams/ Commissioners George Nichols and Terri Vaughan	Day-long meeting of senior NAIC and OCC officials to discuss regulatory cooperation at OCC office in DC.
Office of Thrift Supervision	February 27, 1998	Ellen Seidman, OTS Director/ Commissioners Glenn Pomeroy and George Nichols	Initial meeting of OTS and NAIC leaders to promote regulatory cooperation.
Office of Thrift Supervision	June 1998	Ellen Seidman, OTS Director	Addressed NAIC Banks and Insurance Committee at national meeting in Boston.
Office of Thrift Supervision	October 14, 1998	Mary Jane Cleary/ Jack Chesson	Discuss next steps in promoting regulatory cooperation between OTS and state regulators.
Office of Thrift Supervision	November 3-4, 1998	Rick Riccobono, OTS Deputy Director/ Commissioner Terri Vaughan	Two-day meeting in Kansas City between senior experts at NAIC and OTS to explore regulatory methods and cooperation issues.
Office of Thrift Supervision	December 16, 1998	Scott Albinson, OTS Deputy/ NAIC Staff	Discuss OTS-NAIC regulatory cooperation agreement at NAIC DC office.
Office of Thrift Supervision	December 1998	Senior OCC officers from DC and regional offices	Met with insurance commissioners at their regional zone meetings at NAIC national meeting in Orlando.
Office of Thrift Supervision	April 6, 2000	Ellen Seidman, OTS Director/ Commissioner George Nichols	Meeting of leaders at OTS office in DC to discuss GLBA implementation issues and promote signing of regulatory cooperation agreements.
Office of Thrift Supervision	June 29, 2000	NAIC's Nat Shapo/Eric Nordman and senior attorneys from Federal banking agencies	Consultation meeting regarding implementation of Section 305 insurance sales rules for banks.
Federal Deposit Insurance Corporation	February 8, 2000	FDIC staff and Jack Chesson	Initial meeting at FDIC office in DC to discuss regulatory cooperation under GLBA.
Federal Deposit Insurance Corporation	June 11, 2000	FDIC staff/ Commissioner Terri Vaughan	Meeting of FDIC officials and state regulators to explore regulatory cooperation under GLBA at NAIC national meeting in Orlando.
Federal Deposit Insurance Corporation	June 28, 2000	FDIC staff and Jack Chesson/John Fielding	Meeting regarding development of model regulatory cooperation agreement between FDIC and State insurance departments.