Testimony of the
National Association of Insurance Commissioners

Before the
Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises

Committee on Financial Services
United States House of Representatives

Regarding:
Insurance Regulation and Competition for the 21st Century

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Testimony of Terri Vaughan, President
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Introduction

My name is Terri Vaughan. I am the Commissioner of Insurance for the State of Iowa, and this year I am serving as President of the National Association of Insurance Commissioners (NAIC). I am pleased to be here on behalf of the NAIC and its members to provide the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises with an update of our efforts to modernize state insurance supervision to meet the true demands of the 21st Century.

Today, I would like to make three basic points –

- First, the sole reason for government regulation of insurers and agents is to protect American consumers. Effective consumer protection that focuses on local needs is the hallmark of state insurance regulation. We understand local and regional markets and the needs of consumers in these markets. We recognize that consumer protection is the purpose of our jobs. Meaningful evaluation of the existing state regulatory system or any federal alternative must begin with a hard look at its impact on current protections that the public expects.

- Second, NAIC and the states are well underway in our efforts to modernize state regulation where improvements are needed, while preserving the benefits of local consumer protection that is the real strength of state insurance regulation. In some areas, our goal is to achieve national uniformity because it makes sense for both consumers and insurers. In areas where different standards among states are justified because they reflect regional needs, we are harmonizing state regulatory procedures to ease compliance by insurers and agents doing business in those markets.

- Third, we believe that all federal legislation dealing with insurance regulation carries the risks of undermining state consumer protections due to unintended or unnecessary preemption of state laws and regulations. Implementing proposals to create an optional federal charter and establish a related regulatory apparatus will have a serious negative impact on the state regulatory system, including our efforts to make improvements in areas sought by proponents of a federal charter.

Why Are Insurance Companies and Agents Regulated?

As the Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises evaluates state insurance regulation, the NAIC and its members hope you will start by asking the fundamental question: "Why are insurance companies and agents regulated in the United States?" We believe the answers to other questions being raised about the success of the state system will be found by first asking the right question regarding why we regulate insurance products and providers.

Government regulation of insurance companies and agents began in the states well over 100 years ago for one overriding reason – to protect consumers. Our most important consumer protection is to assure that insurers remain solvent so they can meet their obligations to pay claims, as most recently evidenced in the aftermath of September 11th. Beyond that, states supervise insurance sales and marketing practices, as well as policy terms and conditions, to ensure that consumers are treated fairly when they purchase insurance products and file claims. Unlike most products, the purchaser of an insurance policy will not be able to fully determine the value of the product purchased until after a claim is presented—when it is too late to decide that a different insurer or a different product might make a better choice.

The Subcommittee's theme for these hearings is "Insurance Regulation and Competition for the 21st Century". While commercial competition is certainly a significant aspect of the insurance markets in the United States, it has not been the primary purpose of government regulation, nor is it the most important factor in judging how well the state

system – or any potential federal supervision system – works. Vigorous competition to attract profitable business is widespread in the insurance industry for most insurance lines. The purpose of government supervision is to make sure the critical personal interests of consumers are not lost in the arena of commercial competition.

Once the consumer protection responsibilities of government insurance regulators are satisfied, it is fair to ask how the system of regulation can be made most compatible with the demands of commercial competition without sacrificing the needs of consumers. The NAIC and state regulators have given much attention over the years to minimizing the impact of our essential supervision responsibilities on commercial competition. We continue to give this matter our highest attention.

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 $4,500 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 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 business decisions such as these: Will an insurance policy be offered to a consumer? At what price? What are the policy terms and conditions? Is a claim filed by a policyholder valid? If so, how much should the customer be paid under the policy terms? All of these subjective business decisions 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 2000, we employed 12,500 regulatory personnel and spent $880 million to be the watchful eyes and helping hands on consumer insurance problems. The states also maintain a system of financial guarantee funds that cover personal losses of consumers in the event of an insurer insolvency.

It is important for Congress to note that the entire state insurance system is authorized, funded, and operated at no cost to the federal government.

States Have a Strong Record of Successful Consumer Protection

There have been charges from industry that the state regulatory system is inefficient and burdensome, and that a single federal regulator would be better. As government officials responsible for operating the state system, we understand that any and all government regulation, including insurance regulation, can be inconvenient and occasionally frustrating to commercial entities who wish to do business on their own terms. We are constantly improving our standards and procedures to meet those concerns.

However, the NAIC and its members do not believe the consumers we serve each day think we are inefficient or burdensome when compared to the agencies and departments of the federal government. During 2000, we handled approximately 4.5 million consumer inquiries and complaints regarding the content of their policies and their treatment by insurance companies and agents. Many of those calls led to a successful resolution of the problem at little or no cost to the consumer.

The September 11, 2001 terrorist attacks on America were a horrible and tragic event that exposed serious weaknesses in certain government operations in this country. Yet the

state insurance regulatory system was proven to be sound, even when hit with a sudden catastrophe that ultimately will be the most expensive in history, estimated to cost $35 to $40 billion. From the earliest days until the present, state insurance departments and the NAIC have closely monitored the solvency of affected insurers and the payment of claims to policyholders. If our system operates smoothly under the most horrific and unexpected conditions, we question why anyone would want to supplant it.

At the Subcommittee's June 4th hearing, one of the industry witnesses testified that a recent Roper opinion poll concluded the public rates state governments as being better than the federal government at consumer protection. This statement does not surprise us. State regulators know from years of firsthand experience that when consumers need help with insurance sales or claims problems, they naturally look to their local state agency charged with supervising insurance to get assistance. We are accessible through a local call or visit, and every state has trained staff and education programs to assist consumers promptly.

State Regulatory Modernization Update

While recognizing the inherent strength of our system when it comes to protecting consumers, we also agree that there is a need to improve the efficiency of the system. In March 2000, the Nation's insurance commissioners committed to modernizing the state system in specific areas by endorsing a new action plan entitled *Statement of Intent – The Future of Insurance Regulation*. Working in their individual states and collectively through the NAIC, the commissioners have made tremendous progress. Looking ahead, these efforts will continue as the states work to deliver on the goals and objectives set forth in the *Statement of Intent*: Creating an efficient, market-oriented regulatory system for the business of insurance.

The NAIC and its members are proud of what's been accomplished so far, but there is still much work to be done. Consumer needs and the realities of the new financial services marketplace make smart and efficient regulation all the more critical.

Implementing the initiatives in the *Statement of Intent* will move state insurance regulation beyond the specific requirements of the Gramm-Leach-Bliley Act by promoting uniformity and greater efficiency for agent and company licensing, while speeding up the process for bringing new products to market.

A summary giving the current status of state modernization initiatives can be found at the end of this statement as "Attachment A".

Achieving State Uniformity for Life Insurance Products

In responding to the demands of insurance consumers in each state, the NAIC generally agrees with the comment by a previous industry witness that "state uniformity is not the holy grail." However, where appropriate, NAIC and the states are working to achieve full regulatory uniformity to benefit both consumers and insurance providers. Marketing life insurance is an area where we agree with industry that national uniformity is needed to enable life insurers to market products nationally. In fact, aside from producer licensing, this is one of the few areas that has generated a true national consensus for reform among all segments of industry, consumers, and regulators.

To accomplish uniform supervision of life insurance products within the state system, the NAIC is currently working with state regulators and legislators to draft an interstate compact that gets the job done, while preserving necessary and effective state consumer protections.

These are the reasons we believe an interstate compact is the correct mechanism to achieve state uniformity:

- Many products sold by life insurers have evolved to become primarily investment products. Consequently, life insurers increasingly face direct competition from products offered by depository institutions and securities firms. Because these competitors are able to sell one product nationally, often without any prior regulatory review, they are able to bring new products to market more quickly and without the added expense of meeting different requirements in different states.

- Recognizing that consumers may hold life insurance policies for many years, the increasing mobility in society means states have many consumers who have purchased policies in other states. This reality raises questions about the logic of different standards in different states.

- State insurance regulators have worked diligently for more than two years to identify the issues in this area, and come up with possible solutions to reflect the new market realities. The CARFRA pilot project is currently underway with 22 states now participating. One issue that is proving difficult to overcome is the elimination of state regulatory differences.

- State insurance regulators now believe an interstate compact is a way to develop a more efficient review process for life insurance and annuity products – one that will help insurers better compete in the marketplace while maintaining a high level of protection for insurance consumers.

- The goal of the compact is to establish a single point of filing where life insurers would file their products for approval and thereafter, assuming the product satisfies appropriate product standards created jointly by the compacting states, be able to sell those products in multiple states without the need for making separate filings in each state.

  First, it allows the states to jointly develop uniform standards for certain annuity and life insurance products having very similar characteristics nationally.

  Second, it allows the states to conduct product reviews in a more efficient manner, i.e., "Fewer sets of eyes required to review a product filing."

  Third, it will allow states to continue providing a high degree of protection to insurance consumers without increasing the cost of providing quality regulatory oversight of the marketplace.

  Finally, it will allow life insurers to develop their products and get them to the marketplace in a timely manner and with cost savings (which benefits the insurance-buying public).

- Key points: (1) The states will continue to regulate product approvals for annuities and life insurance products through the compact (as opposed to federal preemption). (2) Each state in the compact helps govern the activities of the compact. (3) We do not anticipate that states will lose revenues generated through product filings. (4) States will be able to withdraw from the compact through legislative action.

- Timeline: Over the next few months, state insurance regulators will continue to work with their legislators, as well as consumer and life insurance industry

representatives to develop model compact legislation. The goal is to get the model legislative language finalized by September and be in position to have compact legislation introduced in state legislatures during the 2003 session.

Subcommittee Questions to NAIC

In its letter of invitation, the Subcommittee asked that NAIC address the following specific questions in its testimony today –

What is the current status of state agent licensing reforms?

In the area of producer licensing reform, states remain on target to exceed the goals set forth in the NARAB section of the Gramm-Leach-Bliley Act (GLBA). GLBA requires that 29 states enact laws providing for producer licensing reciprocity. To date, 46 states have enacted legislation designed to satisfy GLBA, and legislation is being considered by four additional jurisdictions. While the NAIC believes these numbers represent a significant success in the area of producer licensing reform, the NAIC continues to work toward the goal of uniformity in state producer licensing.

After the passage of GLBA, the NAIC formed the NARAB Working Group to oversee the process of producer licensing reform. In the course of its work, the NARAB Working Group identified a number of issues related to producer licensing generally, and the achievement of reciprocity specifically, for which GLBA provides no clear guidance. Consistent with the responsibility GLBA gives to the NAIC to make the determination as to whether the reciprocity objectives have been met, the NARAB Working Group developed a framework through which it analyzed and resolved important issues crucial to meeting reciprocity. This framework provides the legal lens through which the NARAB Working Group is analyzing whether states in fact meet the requirements for reciprocity as set forth in GLBA.

For the NAIC to certify that 29 states meet reciprocity, we believe GLBA requires our best assessment of where the state licensing laws and procedures will stand on November 12, 2002. Using its own reciprocity framework as well as the NARAB provisions of GLBA, the NARAB Working Group developed a Reciprocity Checklist as a tool for undertaking this reciprocity verification process.

The Checklist asks specific questions relating to the achievement of reciprocity. States were asked to undertake a thorough review of their laws, complete the Checklist, and certify that their laws meet the criteria for reciprocity. Once completed and returned to the NAIC, the Checklists are posted on the NAIC's website (www.naic.org) for public review. Interested parties were notified of the availability of the Checklists, as well as the opportunity to provide written comments within 30 days of each Checklist's posting. These comments have also been posted to the website. The NARAB Working Group expects to recommend to the NAIC membership by our September national meeting that the states collectively have exceeded GLBA's reciprocity target. We will notify Congress when the NAIC as a whole adopts the NARAB Working Group's confirmation of state success in meeting the requirements of GLBA.

Although the NAIC's efforts in achieving producer licensing reciprocity are almost complete, the NARAB Working Group is continuing to work on refining uniformity issues in the following producer licensing areas: (a) licensing qualifications, (b) pre-licensing education training, (c) producer licensing testing, (d) integrity and personal background checks, (e) application for licensure structure, and (f) continuing education requirements.

To date how many jurisdictions have passed NARAB-compliant legislation? What percent of total premium do these jurisdictions represent?

To date, 46 states have enacted new producer licensing legislation. The premium volume for these 46 states is approximately $679 billion, which represents 76

percent of total nationwide premiums of $892 billion. In addition, producer licensing legislation is now being considered in four additional jurisdictions. As explained above, the NAIC process of determining compliance with NARAB is still ongoing.

What are the NAIC's goals for improving the insurance product approval process in both the life and property/casualty industries?

The NAIC created the Improvements to State Based Systems Working Group to review product approval modernization efforts and expedite state adoption of them. The Working Groups has five subgroups that focus on specific areas of reform – the Review Standards Checklists Subgroup, the Property/Casualty Product Uniformity Subgroup, the SERFF Enhancements Subgroup, the Life, Accident and Health Product Coding Subgroup, and the Filing Submission Uniformity/Metrics Subgroup. They are also assisted by the Statistical Information Task Force.

During 2001 and 2002, the NAIC developed common filing transmittal documents for both property/casualty and life/health insurers. Also, a matrix was developed to implement a common naming process for all insurance products. Phase I uniform filing metrics have been developed to evaluate speed to market goals and allow for measurement of the time it takes for insurance departments to react to filings and insurers to respond to inquires from insurance departments. This should allow us to pinpoint whether the problem is with slow response from states or delay in response by insurers. Phase II will include quality measures to evaluate the effectiveness of filing review. Full details and a map of participating states can be found on the NAIC's website under "RATES & FORMS." The next phase of that project is to identify differences in state requirements, and to establish a searchable tool on the web that will allow a filer to know exactly what is required for every state and every line of business. Many states have implemented filing review standards checklists. These can also be found on the NAIC web site.

The NAIC has also implemented SERFF (System for Electronic Rate and Form Filings). All 50 states and the District of Columbia have SERFF licenses, and 49 of the jurisdictions are accepting electronic SERFF filings checklists to facilitate company compliance with filing requirements. SERFF has been vastly improved. The average turnaround time for a filing submitted through SERFF is 16 days from start to finish, offering insurers that use the system true speed to market for product review.

Almost 500 companies are now filing with the states using SERFF. One company told us that with SERFF its cost per filing has dropped from $38 down to less than $10 per filing, with added savings because the regulatory review is done more quickly. With SERFF, we have a readymade opportunity to streamline and generate savings to companies and presumably their customers. We wonder why more companies aren't taking advantage of SERFF, since many have testified to the NAIC about the costs and times savings.

What steps are being taken by the NAIC to reach these goals, including a discussion of the interstate compact mechanism currently being considered by the NAIC to improve life insurance product review?

The NAIC is currently working on a plan to develop an interstate compact to: (a) develop uniform standards for annuities, life insurance, disability income insurance and long-term care product lines; (b) receive and review product filings from insurers; and (c) approve those product filings that satisfy applicable uniform standards.

As currently envisioned, the compact entity will serve as a single point of filing for those insurers seeking to introduce produced on a national scale Once the compact is in place with a sufficient number of states as members, products approved by the compact entity may be sold or issued in those compact states

where the insurer is licensed to do business. Other important points to remember about the proposal: it allows the development of uniform standards that will protect consumers while at the same time affording insurers a more efficient process to get their products to the market place. This will benefit consumers, who will have access to more competitive products, as well as insurers, who will be able to remain competitive with banks and securities firms.

What is the NAIC's position on the need for market-based regulatory reform of commercial and personal forms and rates?

The NAIC has developed a streamlined model law to implement market based reforms for commercial lines. We long ago concluded that competition could be an effective regulator of property/casualty insurance rates. Recent consideration of commercial lines rate regulation led to the conclusion that commercial insurance consumers will generally be better served by less restrictive regulatory interventions and a greater reliance on competition. This led to a recommendation supporting a use and file system for commercial lines rates.

The NAIC has two other alternative model laws for property and casualty rates. One is a prior approval law, and the second is a file and use law that relies on competition as the principle regulatory of rate level. There is also an NAIC group that is evaluating the benefits of market-based models for personal lines markets. However, this group has not completed its review process and has not yet made any recommendations regarding personal lines.

Federal Legislation Must Not Undermine State Modernization Efforts

The NAIC and its members believe Congress must be very careful in considering potential federal legislation to achieve modernization of insurance regulation in the United States. Even well-intended and seemingly benign federal legislation can have a substantial adverse impact on state laws and regulations that protect insurance consumers.

Because federal law preempts conflicting state laws under the United States Constitution, ill-considered or poorly written federal laws can easily undermine or negate important state legal protections for American consumers.

When Congress passed the Gramm-Leach-Bliley Act (GLBA) in 1999, it acknowledged once again that states should regulate the business of insurance in the United States, as set forth originally in the McCarran-Ferguson Act. There was a careful statutory balancing of regulatory responsibilities among federal banking and securities agencies and state insurance departments, with the result that federal agencies would not be involved in making regulatory determinations about insurance matters. The only exception was in a few narrow areas where the Office of the Comptroller of the Currency (OCC) had previously determined that certain insurance-related activities were incidental to banking under federal law.

Even though Congress tried very hard in GLBA to craft language that would not preempt state laws unnecessarily, there have already been disagreements about the extent to which federally-chartered banks may conduct insurance-related activities without complying with state laws. Under GLBA, no state law may "prevent or significantly interfere" with the ability of a federally-chartered bank to conduct insurance-related business permitted by GLBA. Federally-chartered banks, with support from OCC, are aggressively asserting their perceived rights under GLBA to conduct insurance-related business unhindered by state laws. The limited entry of federally-chartered banks into insurance has thus become a source of uncertainty and dispute, despite the best efforts of Congress to avoid this very result.

We fully expect that creating a federal charter for insurers, along with its federal regulatory structure, will cause far greater problems for states and insurance regulation in general than those resulting from the GLBA provisions dealing with banks. Federally-chartered insurers would certainly insist that state laws involving solvency and market conduct cannot "prevent or significantly interfere" with their federally-granted powers to conduct insurance business anywhere in the United States. A federal insurance charter

with its associated laws and regulations must necessarily parallel every aspect of existing state laws and regulations, meaning that potential conflicts between state and federal laws will likely occur across the board. The result would be years of market and regulatory confusion that will benefit the legal community rather than insurance providers and consumers.

The Financial Services Committee carefully noted the role of states as insurance regulators in passing HR 1408 (Financial Services Antifraud Network Act) and HR 3210 (Terrorism Risk Protection Act). One of the great strengths of state insurance regulation is that it is rooted in other state laws that largely apply when insurable events occur. The NAIC requests that you avoid undercutting state authority in considering any federal legislation that would set national standards for states or create a federal insurance charter. Federal laws that appear simple on their face can have devastating consequences for state insurance departments trying to protect the public.

The Impact of Federal Chartering on State Regulation Will Not Be Optional

Some witnesses have told this Subcommittee that a federal charter merely adds an optional choice to the insurance regulatory system in the United States, and that it would not seriously affect the existing state system. In my home state of Iowa, folks might refer to such claims as "hogwash." A federal charter may be optional for an insurer choosing it, but the negative impact of federally-regulated insurers will not be optional for state-chartered insurers, consumers, state government, and local taxpayers who are affected, even though they have no say in the choice of a federal charter.

Let us be clear about the impact of a federal insurance regulator upon state regulation and our ability to protect consumers – the federal government is not an equal regulatory partner because it can preempt state laws and regulations. This simple fact contradicts the very foundation of insurance in the United States, because insurance products are uniquely intertwined and dependent upon state law for everything from underwriting standards to pricing to claims procedures to legal resolution of disputes. There is no

logical or practical way to divorce insurance regulation from the state laws that give rise to insurance products in the first place.

Despite our different sizes, geography, and market needs, states work together through the NAIC as legal equals under the present system. We find solutions as a peer group through give-and-take and mutual respect, knowing that no single state can force its own way over the objections of other states. We believe such participatory democracy and local decision-making based on the realities of local markets and consumers is a major strength of our system for regulating insurers and agents.

A federal insurance regulator would not be just another member of NAIC, it would instead be a super-agency with power to intervene and overrule every state and territory under United States jurisdiction. The local needs and wants of citizens protected under state laws would be subjugated to the national agenda of insurers and regulators located "Inside-the-Beltway."

Ultimately, a federal charter and its regulatory system would result in two separate insurance systems operating in each state. The first would be the current department of insurance established and operated under state law and government supervision. This system will continue responding directly to state voters and taxpayers, including the statewide election of the insurance commissioner in several states.

The second system would be a new federal regulator with zero experience or grounding in the local state laws that control the content of insurance policies, claims procedures, contracts, and legal rights of citizens in tort litigation. Nonetheless, this new federal regulator would undoubtedly have the power to preempt state laws and authorities that disagree with the laws that govern policyholders and claimants of state-chartered insurers. At the very least, this situation will lead to confusion. At worst, it will lead to two levels of consumer protection, based upon whether an insurer is chartered by federal or state government.

Granting a government charter for an insurer means taking full responsibility for the consequences, including the costs of insolvencies and the complaints of consumers. The states have fully accepted these responsibilities by covering all facets of insurance licensing, solvency monitoring, market conduct, and handling of insolvent insurers. The NAIC does not believe Congress will have the luxury of granting insurer business licenses without also being drawn into the full range of responsibilities that go hand-in-hand with a government charter to underwrite and sell insurance. Furthermore, we doubt that states will accept responsibility for the mistakes or inaction of a federal regulator by including federal insurers under state guarantee funds and other consumer protection schemes.

Conclusion

The system of state insurance regulation in the United States has worked well for 125 years. State regulators understand that protecting America's insurance consumers is our first responsibility. We also understand that commercial insurance markets have changed, and that modernization of state insurance standards and procedures is needed to ease regulatory compliance for insurers and agents.

We ask Congress and insurance industry participants to work with us to implement the NAIC's modernization initiatives through the state legislative system. That is the only practical way to achieve necessary changes quickly in a manner that preserves state consumer protections expected by the public. The state process may take more effort than having an insurance czar in Washington, but it rewards the citizens and consumers in each state by giving them control over important aspects of insurance and claims procedures that affect their financial security in the communities where they live.

The NAIC and its members have cooperated fully over the years with important inquiries by Congress into the adequacy of the state regulatory system. We believe these inquiries have demonstrated clearly that local and regional state regulation of insurance is the best way to meet the demands of consumers for this unique financial product. We will

continue to work with Congress and within state government to improve the national efficiency of state insurance regulation while preserving its longstanding dedication to protecting American consumers.

ATTACHMENT A

The Statement of Intent — Delivering on a Promise

In March 2000, the nation's insurance commissioners endorsed the *Statement of Intent – The Future of Insurance Regulation*. Working in their individual states and collectively through the NAIC, the commissioners have made tremendous progress. Looking ahead, these efforts will continue as the states work to deliver on the *Statement of Intent* promise: The creation of an efficient, market-oriented regulation of the business of insurance.

The NAIC members are proud of what's been accomplished. But there's still work to be done. Consumer needs and the realities of the new financial services marketplace make regulation all the more critical. That's why these *Statement of Intent* initiatives — many of which are now being implemented — are needed. They will move state insurance regulation beyond the specific requirements of the Gramm-Leach-Bliley Act, by promoting uniformity and greater efficiency for agent and company licensing, while speeding up the process for bringing new products to market.

As an organization of state officials responsible for protecting the public, the NAIC is committed to protecting consumers, keeping insurers and producers accountable, and maintaining a sound and non-discriminatory insurance regulatory system in the United States. And, NAIC members are prepared to prove that functional insurance regulation, at the state level, is the best insurance regulatory system.

Responding to the NARAB Requirement

- As of June 5, 2002, 46 states have passed the Producer Licensing Model Act (PLMA) or other licensing laws with the intent of satisfying the reciprocity licensing mandates of GLBA. Four more legislatures are considering PLMA in 2002.
- Ten states have begun to process non-resident applications electronically through the National Insurance Producer Registry (NIPR) gateway. Since Jan. 1, 2002, more than 1,500 license applications have been processed.

- The Uniform Non-Resident Application is now accepted in 46 states, and in some states is accepted for surplus lines and limited line licensing.

Speed to Market Initiatives

- SERFF and Other State-based Systems Reforms
    - All 50 states and the District of Columbia are licensed to use the System for Electronic Rate and Form Filing (SERFF), the first electronic system for product filings by insurers.
    - Forty-four jurisdictions have implemented rate and form filing checklists and review standards, which are linked from the NAIC Web site.
    - 474 companies are licensed to use SERFF, 74 of which joined the program in the fourth quarter of 2001.
    - SERFF Filings are turned around in sixteen days on average.
- CARFRA
    - The Coordinated Advertising, Rate and Form Review Authority (CARFRA) provides a single point of filing and review, along with national standards for life and health insurance products. Twelve new states were added to the CARFRA program in June, bringing total participation to 22 states. Two new products — Individual Flexible Premium Universal Life and Individual Variable Annuity — are being considered.
- Interstate Compact
    - NAIC members are working to create an interstate compact for single point of filing that will develop uniform standards, and will have the flexibility to include life insurance, annuities, disability income and long-term care products.
    - The interstate compact will set uniform standards, receive product filings, and give regulatory approval.
- Five New Subgroups
    - The Improvements to State-Based Systems Working Group has appointed four new subgroups: the Review Standards Checklist Subgroup, the Property and Casualty Product Uniformity Subgroup, the SERFF Enhancements Subgroup, the Life, Accident and Health Product Coding Subgroup, and the Filing Submission Uniformity/Metrics Subgroup.

Uniformity in Company Licensing and Corporate Governance

- The Uniform Certificate of Authority Application (UCAA), a company licensing system that expedites the review process of a new state license, is in its implementation phase. With some exceptions, the information underlying the application is uniform throughout the United States. All jurisdictions have agreed to accept licensing applications according to UCAA system forms and guidelines.
- In addition to addressing regulatory requirements associated with a company licensing process, the "national treatment" initiative is focused on bringing greater consistency to corporate governance requirements and procedures for amending a certificate of authority.
- An NAIC automated system for facilitating the UCAA and related filings was put into production in late 2001.
- Later this year, the National Treatment & Coordination Working Group will conduct a corporate reorganization pilot project. This project will focus on the regulatory requirements involved after an approved merger or acquisition of multiple insurers. The project is expected to cover such areas as product approval, re-appointment of agents, changes in articles/by-laws and company name, etc.
- Efforts are currently underway to have 35 states waive paper filings of annual and quarterly financial statements from foreign companies. The states that waive paper filings will rely on electronic data filed with the NAIC to serve their regulatory needs. These states will benefit significantly by reducing the costs involved in receiving, tracking and storing paper filings.

Coordination on Insurance Holding Company Matters

- NAIC members drafted an extensive and detailed guide for state financial regulators to use in analyzing the overall operations of an insurer that is part of a larger business group. The paper, titled "Framework for Insurance Holding Company Analysis," provides guidance on understanding a holding company structure with insurers, as well as a coordinated approach to the review of holding company transactions that impact insurance subsidiaries domiciled in multiple jurisdictions.
- An NAIC database has been developed to facilitate information sharing on acquisition and merger filings, otherwise known as a Form A filing. This database, in conjunction with other related work, will help ensure effective communication among states on merger and acquisition filings, as well as provide regulatory efficiencies to the insurance industry.
- Focused efforts are presently underway to institute a "lead state" framework within the state regulatory system. Once implemented, on-site examinations,

financial analysis and other regulatory review processes are expected to function in a more coordinated and efficient manner.

Implementing Privacy Protections

- Forty-nine states and the District of Columbia now have privacy protections in place that meet GLBA standards, with discussions about uniform interpretation now underway.
- NAIC members adopted the Standards for Safeguarding Customer Information Model Regulation in April. The new model regulation establishes standards for insurers to meet the confidentiality and security requirements of section 501 of GLBA. New York has promulgated a regulation based on the model, and other states are expected to follow suit.
- The Privacy Notice Content Subgroup was formed to draft sample language for insurers to use so privacy notices are understandable to consumers, while retaining operational uniformity and compliance with the requirements of the NAIC model privacy regulation that are critical to industry. The subgroup is actively working on this project.

Consumer Protections

- In December 2001, members of the NAIC successfully launched an interactive Web tool, the Consumer Information Source (CIS), specifically created for consumer research of company complaint and financial data.
- CIS allows consumers to locate basic information about a specific insurance company, including amount of premiums written, assets, liabilities and licensing information. The site also allows consumers to file consumer complaints and review statistical information on previously resolved complaints against a company. During 2002, the Consumer Protection Working Group hopes to refine and enhance the CIS program.
- The NAIC's Consumer Protection and Antifraud Division is working with the NAIC's Information Systems Division to set up a pilot program for producer fingerprinting.

Coordinating with Federal Regulators

- Recognizing the need for improved cooperation and communication with federal financial services regulators, particularly in the wake of enactment of GLBA and the convergence of the financial services industries, the NAIC continues to push

for strong working relationships between state insurance regulators and their federal financial services counterparts.

- Over the last several years, the NAIC has participated in a series of high-level meetings involving NAIC officers and members with the top federal regulators from the OCC, OTS, Federal Deposit Insurance Corporation (FDIC) and Federal Reserve. Ongoing regulator-to-regulator consultations have been held to discuss examination procedures and enhance the development of needed expertise and exchange of information with respect to regulatory trends in the changing financial services marketplace.
- Efforts are currently underway to develop stronger working relationships with the Securities and Exchange Commission (SEC). Through the NAIC, the SEC is working with several states on privacy enforcement efforts, and the NAIC hopes to expand these coordination efforts to new areas this year. The NAIC is scheduled to meet with SEC representatives in June to discuss issues of common concern.
- The development of regulatory cooperation agreements with federal agencies has been a high priority for NAIC members. These model agreements provide for the sharing of relevant regulatory information, including information about examinations, enforcement and consumer protections. They also include provisions to ensure the protection of confidential information.
- As of May 2002, 45 states plus the District of Columbia have signed regulatory cooperation agreements with the OTS; 33 states plus the District of Columbia have signed agreements with the OCC; 40 states plus the District of Columbia have agreements with the FDIC; and 25 states plus the District of Columbia have agreements with the Federal Reserve.

Market Regulation Reforms

- The NAIC is focusing on the following four areas to build a more effective, nationally coordinated market regulation system: (1) market analysis, (2) uniform examination procedures, (3) market conduct examination resource guidelines and (4) interstate collaboration.
- Market analysis will provide important tools for monitoring the broader marketplace so that (1) market regulatory problems can be identified, (2) states may better prioritize and coordinate the various market regulation functions and (3) states may establish an integrated system of proportional responses to market problems. The goal for 2002 is to develop a “Market Analysis How-To Guide” for states and a Market Conduct Annual Statement to identify priority issues and collect data on these issues.
- The following four areas have been identified as the most important areas for exam uniformity: (1) exam scheduling, (2) pre-exam planning, (3) exam procedures and (4) exam reports. The goal for 2002 is to have a majority of states

self-certify they are conducting examinations according to two of the four areas of exam uniformity.

- For various reasons, not all states have the same amount of resources when it comes to performing market conduct examinations. A paramount objective is to address the problem of limited resources. The goal for 2002 is to finalize the Market Conduct Examination Resources Recommendation document, which will define the market conduct examination function, and develop an inventory of guidelines on the other consumer protection functions.
- In order to help offset issues dealing with limited resources, state insurance departments are seeking to more effectively monitor the activities of insurers doing business on either a regional or national scale through use of greater interstate collaboration on market regulatory activities. The goal for 2002 is to develop two to three best practices interstate collaboration models and have 30 states participate in at least one collaborative effort by December of 2002.