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Statement of the
National Association of Insurance Commissioners

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

Committee on Financial Services
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Summary

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.

As the debate on insurance supervision in the United States continues, I want to emphasize the NAIC's basic position –

- 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 due to 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 existing state regulatory system, including our efforts to make improvements in areas sought by proponents of a federal charter.

State Regulatory Modernization Update

Achieving State Uniformity for Life Insurance Products

- Marketing life insurance is an area where we agree with industry that national uniformity is needed to enable life insurers to market products nationally. To accomplish uniform supervision of life insurance products within the state system, the NAIC and state regulators are currently working with state legislators, the life insurance industry, and consumer groups to draft an interstate compact that gets the job done, while preserving necessary and effective state consumer protections.
- In March 2002, the NAIC established the Interstate Compact Working Group to accomplish to create a national, state-based system of insurance regulation that would provide for uniform standards and a single point of filing for several lines of insurance.
- The Working Group is drafting a proposed interstate compact that will have the flexibility to include life insurance, annuities, and disability income and long-term care products. We expect it to include the following:
 1. Promote and protect the interest of consumers of insurance products, including individual and group annuity, life insurance, disability income and long-term care insurance products.
 2. Develop uniform standards for insurance products covered under the compact.
 3. Establish a clearinghouse to receive and provide prompt review of insurance products covered under the compact, and in certain cases related advertisements submitted by insurers authorized to do business in one or more compacting states.
 4. Give appropriate regulatory approval to those product filings and advertisements satisfying applicable uniform standards.
 5. Improve coordination of regulatory resources and expertise between state insurance departments regarding the setting of uniform standards and review of insurance products covered under the compact.
 6. Create a product approval commission to carry out the purposes of the compact.
- 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 this year and be in position to have compact legislation introduced in state legislatures during the 2003 session.

Responding to the NARAB Requirement

- The states will exceed the reciprocity requirements of NARAB set forth in the Gramm-Leach-Bliley Act (GLBA). After careful review, the NAIC's NARAB Working Group determined that 35 states meet the GLBA criteria, which requires that at least 29 states meet criteria for reciprocity or uniformity by November 12, 2002. The NAIC membership unanimously approved this certification last week during its national meeting in New Orleans.
- Three additional states have enacted producer licensing legislation that will take effect after the November 12, 2002 deadline in GLBA. It is expected that these states – Massachusetts, South Carolina, and Tennessee – will be added to the list of reciprocal states when their laws become effective at the end of this year or the beginning of next year.
- The fact that some states that do not meet GLBA's reciprocity standards is no barrier to other states affording reciprocal treatment to them. For example, many states have indicated that they will treat other states as reciprocal if the only difference is a fingerprinting requirement.
- Reciprocity certification is an important first step. However, the NAIC will continue working to reach the ultimate goal of achieving uniformity for producer 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.
 - SERFF Filings are turned around in sixteen days on average.

- 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.
- 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.

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.
- 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. Approximately 12 states have taken action to promulgate the model, and other states are expected to follow suit in coming months.
- 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 has drafted a report including sample clauses and other suggestions for improvements. This draft report is currently open for public comment.

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.

Coordinating with Federal Regulators

- Recognizing the need for improved cooperation and communication with federal financial services regulators, 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 has discussed expanding these coordination efforts to new areas in the future.
- 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 September 2002, 47 states plus the District of Columbia have signed regulatory cooperation agreements with the OTS; 37 states plus the District of Columbia have signed agreements with the OCC; 47 states plus the District of Columbia have agreements with the FDIC; and 34 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 following four areas have been identified as the most important areas for market 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.
- 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.