

Testimony of the
National Association of Insurance Commissioners

Before the
Committee on Commerce, Science and Transportation
United States Senate

Regarding:
Modernizing Insurance Regulation for the 21st Century

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Testimony of Ernst Csiszar, Vice President National Association of Insurance Commissioners

Introduction

Good morning, my name is Ernst Csiszar. I am the Director of Insurance for the State of South Carolina, and this year I am serving as Vice 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 Committee on Commerce, Science and Transportation with an overview and 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, effective consumer protection that focuses on local needs is the hallmark of state insurance regulation because we understand local and regional markets and the needs of consumers in those markets.

- Second, with the NAIC’s adoption in September 2003 of “*A Reinforced Commitment: Insurance Regulatory Action Plan*”, state regulators are on time and on target to accomplish changes needed to modernize the system of insurance regulation in the United States. Our goal is to achieve a more uniform state regulatory system because it makes sense for both consumers and insurers. However, in areas where different standards among states are required because they address regional needs, we are harmonizing state regulatory procedures to ease compliance by insurers and agents doing business in those markets.

- Third, we believe any federal legislation dealing with insurance regulation carries the risk of creating an unnecessary bureaucracy and the risk of undermining state consumer protections due to unintended or unnecessary preemption of state laws and regulations.

Why Are Insurance Companies and Agents Regulated?

As the Senate Commerce Committee evaluates state insurance regulation, members of the NAIC hope you will start by asking the fundamental question: “Why are insurance companies and agents regulated in the United States?” Government regulation of insurance companies and agents began in the states well over a century 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 recently evidenced in the aftermath of September 11th and Hurricane Isabel. 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.

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. As the Director of the South Carolina Department of Insurance, I believe that competition, within the proper regulatory framework, can be used as an effective component of insurance regulation. Consumers benefit directly from competitive insurance markets.

Protecting Consumers is the First Priority of State Insurance Regulation

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. As regulators of insurance, state governments are responsible for making sure the expectations of American consumers are met regarding financial safety and fair treatment by insurance providers. The states maintain a system of financial guaranty funds that cover personal losses of consumers in the event of an insurer insolvency. 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 some industry groups 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* government regulation, including insurance regulation, may be considered inconvenient and occasionally frustrating to those persons who wish to do business on their own terms.

However, the NAIC and its members do not believe the consumers we serve each day think we are inefficient or burdensome. During 2001, we handled approximately 3.6 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. This does not include the numerous industry complaints that were successfully resolved by regulators.

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 \$40 billion catastrophe that ultimately will be the most expensive in history. If our existing system operates smoothly under the most horrific and unexpected conditions, we question why anyone would want to supplant it.

State regulators know from years of firsthand experience that when consumers need help with insurance sales or claims problems, they naturally look to their state agency to get assistance. We are accessible through a local call or visit, and every state has trained staff and programs to assist consumers promptly.

State Regulatory Modernization: On Time and On Target

While recognizing the inherent strength of the state 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 by endorsing an action plan entitled "*Statement of Intent – The Future of Insurance Regulation.*" Working in their individual states and collectively through the NAIC, we have made tremendous progress in achieving an efficient, market-oriented regulatory system for the business of insurance as shown below –

Producer Licensing and Reciprocity

- Adopted the Producer Licensing Model Act (PLMA) that 49 states have enacted.
- By year-end 2002, 36 states had implemented State Licensing Reciprocity, thus exceeding the federal mandate. To date, 39 states now implement SLR.
- Via the NAIC's affiliate, the National Insurance Producer Registry (NIPR), we've created the Producer Database, which holds information relating to over 3 million insurance agents and brokers. 50 states, D.C. and Puerto Rico now use the Producer Database to share information; 1,200 insurers also utilize it.
- 15 states now use the NIPR Gateway, a system that links state regulators electronically with insurance companies to facilitate the exchange of producer information. Allows for the exchange of non-resident license applications, appointment renewals and termination information.
- Have created a streamlined company licensing system via uniform laws and electronic processing, called the Uniform Certificate of Authority Application (UCAA). 51 jurisdictions now accept the UCAA licensing application.

Speed to Market

- Created the System for Electronic Rate and Form Filing (SERFF) in 2001.
- As of August 31, 2003, more than 48,000 filings were submitted via SERFF to the states, an 88% increase over all filings in 2002. The target for 2003 is 75,000 filings.
- Total number of insurance companies licensed to use SERFF now exceeds 885, including major players such as Prudential, Liberty Mutual, Manulife, The Hartford and Zurich America.
- To date, 50 states accept property/casualty filings via SERFF, 48 states accept life insurance filings via SERFF, and 41 states accept health insurance filings via SERFF.
- Goal of all states accepting rate and form filings via SERFF, for all lines of insurance and all filing types, by December 31, 2003.
- Average turnaround time for filings made via SERFF is only 17 days.

Market Conduct and Consumer Protection

- Drafted the Uniform Examination Outline
- 42 states currently certify compliance with two or more of the following exam areas: scheduling, pre-exam planning, procedures, and reports.
- Created the Consumer Information Source (CIS) link on the NAIC web site, allowing consumers to file complaints electronically, research complaint history of insurance companies and to search and download information on selected insurance companies.

We have now taken the next step of developing specific program targets and establishing a common schedule for implementing them. At the NAIC's Fall National Meeting in September 2003, we adopted "*A Reinforced Commitment: Insurance Regulatory Action Plan*" (See Attachment A). This landmark document – the result of lengthy discussions

and difficult negotiations – puts the states on a track to reach all key modernization goals at scheduled dates ranging from December 31, 2003 to December 31, 2008.

Let me point out that these specific regulatory program targets were developed with extensive input from industry and consumer representatives who are active in the NAIC’s open committee process. To our knowledge, *every* legitimate complaint regarding inefficiency and redundancy in the state system has been effectively addressed by our new regulatory action plan that will phase-in the necessary improvements over the next five years. Even if an alternative federal regulatory system were set up tomorrow, there is no way it could achieve these improvements on a schedule that comes close to the aggressive timetable which state regulators have adopted voluntarily.

Specific Action Goals in the NAIC Plan

Although a complete description of our detailed program is contained in Attachment A, the following is a summary of NAIC’s declared principles and goals reflecting our commitment to continue modernizing insurance regulation:

I. Consumer Protection

“An open process ... access to information and consumers’ views ... our primary goal is to protect insurance consumers, which we must do proactively and aggressively, and provide improved access to a competitive and responsive insurance market.”

II. Market Regulation

“Market analysis to assess the quality of every insurer’s conduct in the marketplace, uniformity, and interstate collaboration ... the goal of the market regulatory enhancements is to create a common set of standards for a uniform market regulatory oversight program that will include all states.”

III. Speed-to-Market for Insurance Products

“Interstate collaboration and filing operational efficiency reforms ... state insurance commissioners will continue to improve the timeliness and quality of

the reviews given to insurers' filings of insurance products and their corresponding advertising and rating systems."

IV. Producer Licensing

"Uniformity of forms and process ... the NAIC's broad, long-term goal is the implementation of a uniform, electronic licensing system for individuals and business entities that sell, solicit or negotiate insurance."

V. Insurance Company Licensing

"Standardized filing and baseline review procedures...the NAIC will continue to work to make the insurance company licensing process for expanding licensure as uniform as appropriate to support a competitive insurance market."

VI. Solvency Regulation

"Deference to lead states ... state insurance regulators have recognized a need to more fully coordinate their regulatory efforts to share information proactively, maximize technological tools, and realize efficiencies in the conduct of solvency monitoring."

VII. Change In Insurance Company Control

"Streamline the process for approval of mergers and other changes of control."

NAIC members understand that these goals present difficult challenges; however, with the active participation of governors and state legislators, as well as industry and consumer advocates, we are confident that NAIC member states will achieve these goals in the near term.

Achieving State Uniformity for Life Insurance Products

Life insurance product approval by regulators is an area that deserves special comment. Where appropriate, the 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 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 – in consultation with state legislators – developed an interstate compact model that we are working to get adopted by the states. 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.

The key points that make a compact attractive are: (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; and (4) states will be able to withdraw from the compact through legislative action.

Market Regulation – More Difficult to Harmonize than Financial Regulation

Another regulatory area that deserves special comment is market regulation. The GAO issued a report on this subject in September 2003 entitled “Insurance Regulation: Common Standards and Improved Coordination Needed to Strengthen Market Regulation” (GAO-03-433). While the NAIC cooperated with GAO and agrees with much of the GAO’s analysis, we believe a deeper understanding of how market regulation works is necessary to appreciate the difficulties any regulatory agency faces in attempting to harmonize market conduct processes.

On the financial regulation side, the NAIC and the states have developed an effective accreditation system that is built on the concept of domiciliary deference (i.e., the state where the insurer is domiciled takes the lead role). This makes eminent sense because financial records do not change state to state; if one state has reviewed financial records and determined a company to be in good standing, it would truly be redundant for another state to review those same records. The market side is not as straightforward. The market behaviors of insurers can be quite different from one state to another, both

because the laws may be different and because insurer compliance with the laws may vary by state. In short, market regulation is definitely not an area where “one size fits all” across the country.

Efforts to improve market regulation must start by recognizing that it is multi-faceted, and that the best way to make market regulation both more effective and more efficient is to focus on bringing more coordination to the various facets of regulation. The NAIC has identified seven major market regulatory components that are common to all state insurance departments:

- Consumer complaint handling
- Producer licensing
- Rate and form review
- Market analysis
- Market conduct examinations
- Investigations
- Enforcement

In addition, state insurance departments typically include various other ancillary activities, such as consumer education and outreach, oversight of residual markets, and antifraud programs.

A *formal* market analysis program is being integrated into the market surveillance programs as a part of our modernization efforts. Effective use of market analysis techniques, such as enhanced data sharing and interpretation, can also help achieve coordinated state regulatory action with substantially less redundancy and cost. While market conduct examinations may require more collaboration and consistency, they will continue to be necessary components of market surveillance.

The NAIC has been looking carefully at the extent to which one state can rely on the findings of another state when it comes to making regulatory decisions about examinations, investigations, and enforcement actions. We are looking at collaborative models for relying on the domestic state (or some combination of states) for baseline

monitoring of companies, and we have several specific collaborative projects underway. But, ultimately, we cannot escape the fact that regulatory violations can affect consumers in different states quite differently. Because regulators are government officials who must enforce the laws of their state, they cannot delegate that responsibility to someone who may not understand or appreciate the nature of a particular violation and its impact on local consumers. Any modernized market surveillance program developed must contain sufficient flexibility to permit states to enforce their laws and protect their citizens.

We believe much progress can be made to achieve the goals of efficiency sought by industry representatives in our market surveillance processes. However, we do not overlook the fact that insurance must be regulated to protect local consumers. Regulatory efficiency for its own sake should not undermine the credibility and effectiveness of the state regulators charged with enforcing consumer protection laws.

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. For example, 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. Even though Congress tried very hard in GLBA to craft language that would *not* preempt state laws unnecessarily, there have already been disagreements and inconsistent interpretations about the extent to which federally-chartered banks may conduct insurance-related activities without complying with state laws.

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. For instance, 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. The result will be years of market and regulatory confusion that will benefit the legal community rather than insurance providers and consumers.

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

A federal charter and its regulatory system would result in two separate insurance systems operating in each state. The first would be the current system of supervision by state insurance departments under state law that will continue responding directly to state voters and taxpayers.

The second system would be a new federal regulator with zero experience in the local state laws that control the content of insurance policies, claims procedures, contracts, and legal rights of citizens in tort litigation. This new federal regulator would undoubtedly have the power to preempt state laws that disagree with the laws governing policyholders and claimants of federally-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.

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. Keeping in mind that the original purpose of regulation is to protect consumers, we believe such participatory democracy and state decision-making based upon the realities of local markets 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 federal regulators.

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 specific improvements set forth in NAIC's *A Reinforced Commitment: Insurance Regulatory Modernization Action Plan* 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 NAIC and its members 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.



President Commissioner Mike Pickens (Arkansas)
Vice President Director Ernst Csiszar (South Carolina)
Secretary-Treasurer Administrator Joel Ario (Oregon)
Immediate Past President Commissioner Terri Vaughan (Iowa)

A Reinforced Commitment: Insurance Regulatory Modernization Action Plan

In March 2000, the National Association of Insurance Commissioners put forth our *Statement of Intent – The Future of Insurance Regulation*. Working in our individual states and collectively through the NAIC, we have made tremendous progress. We are proud of what has been accomplished, but believe more dramatic advances in unifying state regulatory processes are needed to further improve insurance marketplace efficiencies and to protect the needs of insurance consumers in the 21st Century.

The National Association of Insurance Commissioners is renewing our commitment to modernizing the state-based system of insurance regulation. As committed in our original *Statement of Intent*, our primary goal is to protect insurance consumers, which we must do proactively and aggressively. We also recognize that consumers and the marketplace are best served by efficient, market-oriented regulation of the business of insurance.

The insurance industry must operate on a financially sound basis in order to manage risk and to provide financial protection to families and businesses. Our Nation's economy depends on the insurance industry's ability to effectively manage risk. A solid regulatory framework provides for efficient, safe, fair and stable insurance markets.

Like other sectors of the financial services marketplace, the insurance industry and its products are changing in response to the wants and needs of consumers. Increasingly the insurance

industry is viewed in a global context. Advances in technology facilitate the opportunity to offer new insurance products thus providing consumers with greater choice and enabling them to become better informed as to those choices.

States have met the challenge of regulating a national and international business on a fifty state basis using a number of innovative mechanisms. The NAIC Financial Regulation and Accreditation Standards Program has served the insurance industry and consumers well for the past fourteen years. The program has ensured coherent financial solvency oversight and has proven to be a highly effective approach within the state-based system. As licensing states substantially defer to the insurer's home state for nearly all aspects of financial and solvency regulation, the state solvency system promotes intelligent and efficient use of finite regulatory resources. By focusing on those insurers that pose solvency risks, this system has strengthened protection of policyholders and benefited both the insurance industry and policyholders by minimizing regulatory costs. While NAIC members continue to seek greater effectiveness and improvements to the financial standards of the program, it can serve as a template for market based regulatory reforms.

Using this state-based solvency system as a model, the members of the NAIC will design and implement similar uniform standards for producer licensing, market conduct oversight, and rate and form regulation. In addition, the NAIC will expand the existing financial regulation framework to institute true uniformity and reciprocity in company licensing requirements, and further enhance financial condition examinations, and changes of an insurer's control during mergers and acquisitions.

PRINCIPLES AND GOALS

The following is a declaration of NAIC principles and goals reflecting our commitment to continuing to modernize insurance regulation:

I. Consumer Protection

“An open process ... access to information and consumers' views ... our primary goal is to protect insurance consumers, which we must do proactively and aggressively, and provide improved access to a competitive and responsive insurance market.”

II. Market Regulation

“Market analysis to assess the quality of every insurer's conduct in the marketplace, uniformity, and interstate collaboration ... the goal of the market regulatory enhancements is to create a common set of standards for a uniform market regulatory oversight program that will include all states.”

III. Speed-to-Market for Insurance Products

“Interstate collaboration and filing operational efficiency reforms ... state insurance commissioners will continue to improve the timeliness and quality of the reviews given to insurers' filings of insurance products and their corresponding advertising and rating systems.”

V. Producer Licensing

“Uniformity of forms and process ... the NAIC's broad, long-term goal is the implementation of a uniform, electronic licensing system for individuals and business entities that sell, solicit or negotiate insurance.”

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VIII. Change In Insurance Company Control

"Streamline the process for approval of mergers and other changes of control."

NAIC members understand that these goals present difficult challenges; however, with the active participation of state governors and state legislators, industry and consumer advocates, and state insurance department regulators, we are confident NAIC member states will achieve these goals in the near term.

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ACTION PLAN

I. Consumer Protection

An open process ... access to information and consumers' views ... our primary goal is to protect insurance consumers, which we must do proactively and aggressively, and provide improved access to a competitive and responsive insurance market.

The NAIC members will keep consumer protection as their highest priority by:

(1) Providing NAIC access to consumer representatives and having an active organized strategy for obtaining the highly valued input of consumer representatives in the proceedings of all NAIC committees, task forces, and working groups;

(2) Developing disclosure and consumer education materials, including written and visual consumer alerts, to help ensure consumers are adequately informed about the insurance market place, are able to distinguish between authorized and unauthorized insurance products marketed to them, and are knowledgeable about state laws governing those products;

(3) Providing an enhanced Consumer Information Source (CIS) as a vehicle to ensure consumers are provided access to the critical information they need to make informed insurance decisions;

(4) Reviewing and assessing the adequacy of consumer remedies, including state arbitration laws and regulations, so that the appropriate forums are available for adjudication of disputes regarding interpretation of insurance policies or denials of claims; and

(5) Developing and reviewing consumer protection model laws and regulations to address consumer protection concerns.

II. Market Regulation

Market analysis to assess the quality of every insurer's conduct in the marketplace, uniformity, and interstate collaboration ... the goal of the market regulatory enhancements is to create a common set of standards for a uniform market regulatory oversight program that will include all states.

The NAIC has established market analysis, market conduct, and interstate collaboration as the three pillars on which the states' enhanced market regulatory system will rest. The NAIC recognizes that the marketplace is generally the best regulator of insurance-related activity. However, there are instances where the market place does not properly respond to actions that are contrary to the best interests of its participants. A strong and reasonable market regulation program will discover these situations, thereby allowing regulators to respond and act appropriately to change company behavior.

Market Analysis

While all states conduct market analysis in some form, it is imperative that each state have a formal and rigorous market analysis program that provides consistent and routine reports on general market problems and companies that may be operating outside general industry norms. To meet this goal:

(1) Each state will produce a standardized market regulatory profile for each "nationally significant" domestic company. The creation of these profiles will depend upon the collection of data by each state and each state's full participation in the NAIC's market information systems and new NAIC market analysis standards; and

(2) Each state will adopt uniform market analysis standards and procedures and integrate market analysis with other key market regulatory functions.

Market Conduct

States will also implement uniform market conduct examination procedures that leverage the use of automated examination techniques and uniform data calls; and

(1) States will implement uniform training and certification standards for all market regulatory personnel, especially market analysts and market conduct examiners; and

(2) The NAIC's Market Analysis Working Group will provide the expertise and guidance to ensure the viability of uniform market regulatory oversight while preserving local control over matters that directly affect consumers within each state.

Interstate Collaboration

The implementation of uniform standards and enhanced training and qualifications for market regulatory staff will create a regulatory system in which states have the confidence to rely on each other's regulatory efforts. This reliance will create a market regulatory system of greater domestic deference, thus allowing individual states to concentrate their market regulatory efforts on issues that are unique to their individual market place conditions.

(1) Each state will monitor its "nationally significant" domestic companies on an on-going basis, including market analysis and appropriate follow up to address any identified problems;

(2) Market conduct examinations of "nationally significant" companies performed by a non-domestic state will be eliminated unless there is a specific reason that requires a targeted market conduct examination; and

(3) The Market Analysis Working Group will assist states to identify market activities that have a national impact and provide guidance to ensure that appropriate regulatory action is being taken against insurance companies and producers and that general market issues are being adequately addressed. This peer review process will become a fundamental and essential part of the NAIC's market regulatory system.

III. "Speed-to-Market" for Insurance Products

Interstate collaboration and filing operational efficiency reforms ... state insurance commissioners will continue to improve the timeliness and quality of the reviews given to insurers' filings of insurance products and their corresponding advertising and rating systems.

Insurance regulators have embarked on an ambitious 'Speed-to-Market Initiative' which covers the following four main areas:

(1) Integration of multi-state regulatory procedures with individual state regulatory requirements;

(2) Encouraging states to adopt regulatory environments that place greater reliance on competition for commercial lines insurance products;

(3) Full availability of a proactively evolving System for Electronic Rate and Form Filing (known as 'SERFF') that includes integration with operational efficiencies (best practices) developed for the achievement of speed-to-market goals; and

(4) Development and implementation of an interstate compact to develop uniform national product standards and provide a central point of filing.

Integration of Multi-state Regulatory Procedures

It is the goal that all state insurance departments will be using the following regulatory tools by December 31, 2008:

(1) Review standards checklists for insurance companies to verify the filing requirements of a state before making a rate or policy form filing;

(2) Product requirements locator tool, which is already in use, will be available to assist insurers to locate the necessary requirements of the various states to use when developing their insurance products or programs for one or multiple-state markets;

(3) Uniform product coding matrices, already developed, will allow uniform product coding so that insurers across the country can code their policy filings using a set of universal codes without regard for where the filing is made; and

(4) Uniform transmittal documents to facilitate the submission of insurance products for regulatory review. The uniform transmittal document contains information that is necessary to track the filing through the review process and other necessary information. The goal is that all states adopt it for use on all filings and databases related to filings by December 31, 2003.

Adoption of Regulatory Frameworks that Place Greater Reliance on Competition

States will continue to ensure that the rates charged for products are actuarially sound and are not excessive, inadequate or unfairly discriminatory. To the extent feasible, for most markets, states recognize that competition can be an effective element of regulation. While recognizing that state regulation is best for insurance consumers, it also recognizes that state regulation must evolve as insurance markets change.

Full availability of a proactively evolving System for Electronic Rate and Form Filing (SERFF)

SERFF is a one-stop, single point of electronic filing system for insurance products. It is the goal of state insurance departments to be able to receive product filings through SERFF for all major lines and product types by December 2003. We will integrate all operational efficiencies and tools with the SERFF application in a manner consistent with our Speed-to-Market Initiatives and the recommendations of the NAIC's automation committee.

Implementation of an Interstate Compact

Many products sold by life insurers have evolved to become investment-like products. Consequently, insurers increasingly face direct competition from products offered by depository institutions and securities firms. Because these competitors are able to sell their products nationally, often without any prior regulatory review, they are able to bring new products to market more quickly and without the expense of meeting different state requirements. Since policyholders may hold life insurance policies for many years, the increasing mobility in society means that states have many consumers who have purchased policies in other states. This reality raises questions about the logic of having different regulatory standards among the states.

The Interstate Insurance Product Regulation Compact will establish a mechanism for developing uniform national product standards for life insurance, annuities, disability income insurance, and long-term care insurance products. It will also create a single point to file products for regulatory review and approval. In the event of approval, an insurer would then be able to sell its products in multiple states without separate filings in each state. This will help form the basis for greater regulatory efficiencies while allowing state insurance regulators to continue providing a high degree of consumer protection for the insurance buying public.

State insurance regulators will work with state law and policymakers with the intent of having the Compact operational in at least 30 states or states representing 60% of the premium volume for life insurance, annuities, disability income insurance and long-term care insurance products entered into the Compact by year-end 2008.

IV. Producer Licensing Requirements

Uniformity of forms and process ... the NAIC's broad, long-term goal is the implementation of a uniform, electronic licensing system for individuals and business entities that sell, solicit or negotiate insurance.

The states have satisfied GLBA's licensing reciprocity mandates and continue to view licensing reciprocity as an interim step. Our goal is uniformity.

Building upon the regulatory framework established by the NAIC in December of 2002, the NAIC's members will continue the implementation of a uniform, electronic licensing system for individuals and business entities that sell, solicit or negotiate insurance. While preserving necessary consumer protections, the members of the NAIC will achieve this goal by focusing on the following five initiatives:

- (1) Development of a single uniform application;
- (2) Implementation of a process whereby applicants and producers are required to satisfy only their home state pre-licensing education and continuing education (CE) requirements;
- (3) Consolidation of all limited lines licenses into either the core limited lines or the major lines;
- (4) Full implementation of an electronic filing/appointment system; and
- (5) Implementation of an electronic fingerprint system. In accomplishing these goals, the NAIC recognizes the important and timely role that state and federal legislatures must play in enacting necessary legislation.

National Insurance Producer Registry (NIPR)

Through the efforts of NIPR, major steps have been taken to streamline the process of licensing non-residents and appointing producers, including the implementation of programs that allow electronic appointments and terminations. Other NIPR developments helping to facilitate the producer licensing and appointment process include:

- (1) Use of a National Producer Number, which is designed to eliminate sole dependence on using social security numbers as a unique identifier;
- (2) Acceptance of electronic appointments and terminations or registrations from insurers; and
- (3) Use of Electronic Funds Transfer for payment of fees. The goal is to have full state implementation of the services provided by NIPR by December of 2006.

V. Insurance Company Licensing

Standardized filing and baseline review procedures...the NAIC will continue to work to make the insurance company licensing process for expanding licensure as uniform as appropriate to support a competitive insurance market.

Except under certain limited circumstances, insurance companies must obtain a license from each state in which they plan to conduct business. In considering licensure, state regulators typically assess the fitness and competency of owners, boards of directors, and executive management, in addition to the business plan, capitalization, lines of business, market conduct, etc. The filing requirements for licensure vary from state to state, and companies wishing to be licensed in a number of states have to determine and comply with each state's requirements. In the past three years, the NAIC has developed, and all states have agreed to participate in, a Uniform Certificate of Authority Application process that provides significant standardization to the filing requirements that non-domestic states use in considering the licensure of an insurance company.

In its commitment to upgrade and improve the state-based system of insurance regulation in the area of company licensing, the NAIC will:

(1) Maximize the use of technology and pre-population of data needed for the review of application filings;

(2) Develop a Company Licensing Model Act to establish standardized filing requirements for a license application and to establish uniform licensing standards; and

(3) Develop baseline licensing review procedures that ensure a fair and consistent approach to admitting insurers to the marketplace and that provide for appropriate reliance on the work performed by the domestic state in licensing and subsequently monitoring an insurer's business activity.

As company licensing is adjunct to a solvency assessment, the members of the NAIC will consider expanding the Financial Regulation and Accreditation Standards Program to incorporate the licensing and review requirements as appropriate. This action will assure appropriate uniformity in company licensing and facilitate reciprocity among the states. As much of this work is well underway, the NAIC will implement the technology and uniform review initiatives, and draft the model act by December 2004.

VI. Solvency Regulation

Deference to lead states ... state insurance regulators have recognized a need to more fully coordinate their regulatory efforts to share information proactively, maximize technological tools, and realize efficiencies in the conduct of solvency monitoring

Deference to "Lead States"

Relying on the concept of "lead state" and recognizing insurance companies by group, when appropriate, the NAIC will implement procedures for the relevant domestic states of affiliated insurers to plan, conduct and report on each insurer's financial condition.

Financial Examinations

In regard to financial examinations, many insurers are members of a group or holding company system that has multiple insurers and that may have multiple states of domicile. These affiliated insurers often share common management along with claims, policy and accounting systems, and participate in the same reinsurance arrangements. Requirements for coordination of financial examinations will be set forth in the NAIC *Financial Condition Examiners Handbook*. To allow time for the states to adjust examination schedules and

resources, such coordination will be phased in over the next 5 years, with the goal of full adherence to the Handbook's guidance for examinations conducted as of December 2008.

Insolvency Model Act

The NAIC will promote uniformity by reviewing the Insolvency Model Act, maximizing use of technology, and developing procedures for state coordination of imminent insolvencies and guaranty fund coverage. The Financial Regulation Standards and Accreditation Committee will consider the requirements no later than January 1, 2008.

VII. **Changes of Insurance Company's Control**

Streamline the process for approval of mergers and other changes of control.

Coordination Using "Lead States"

Regulatory consideration of the acquisition of control or merger of a domestic insurer is an important process for guarding the solvency of insurers and protecting current and future policyholders. At the same time, NAIC members realize that these transactions are time sensitive and the process can be daunting when approvals must be obtained in multiple states. As a result, states will enhance their coordination and communication on acquisitions or mergers of insurers domiciled in multiple states by designing a system through which these multi-state reviews are coordinated by one or more "lead" states.

Form A Database

Insurers are required to file for approval on documents referred to as Form A filings when mergers or acquisitions are being considered. The NAIC has created a database to track these filings so that this information is available to all state regulators. Usage will be monitored to ensure that all states use the application to improve coordination of Form A reviews and to alert state regulators to problem filings. The Form A Review Guide and Form A Review Checklist, which contain procedures to be utilized when reviewing a Form A Filing, will be enhanced and incorporated into the existing NAIC *Financial Analysis Handbook* as a supplement. NAIC members will work on amending the Accreditation Program to include the Form A requirements to further promote stronger solvency standards and state coordination, as well as an efficient process for our insurers. The Form A requirements will be targeted for incorporation into the Accreditation Program no later than January 1, 2007.

Integrate Policy Form Approval and Producer Licensing into the Merger and Acquisition Process

The NAIC members will develop procedures for the seamless transfer of policy form approvals and producer appointments to take place contemporaneously with the approval of mergers or acquisitions where appropriate. We will begin developing and testing these procedures through pilot programs in 2003 and fully incorporate them system wide by 2006.

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