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September 12, 2014

VIA EMAIL

Director Bruce Ramage (NE), Chair  
NAIC Market Conduct Examination Standards (D) Working Group

Ms. Petra Wallace  
Market Regulation Specialist

NAIC Central Office  
1100 Walnut, Suite 1500  
Kansas City, MO 64106-2197

**RE: Request for Comments on Core Competencies and Standards of Chapter 14 – Sampling of the *Market Regulation Handbook***

Dear Director Ramage and Ms. Wallace:

The American Insurance Association (AIA) writes in response to the call for comments on draft revisions to Core Competencies and Section D. Standards of Chapter 14 – Sampling of the *Market Regulation Handbook*. AIA represents approximately 300 major U.S. insurance companies that provide all lines of property-casualty insurance to U.S. consumers and businesses, writing nearly \$117 billion annually in premiums. Our membership includes U.S. insurers that write insurance only within the U.S., U.S. insurers that write insurance inside and outside the U.S., and the U.S. subsidiaries of multi-national insurers. Thank you for this opportunity.

The proposed amendments to Standards Two and Five of the Core Competency related to contract examiners are good ones. AIA suggests more detail be provided regarding the “status reports” contractors are required to provide to state insurance regulators under Standard Five. The status report should include a detailed account of *what* the contractor is looking *for* during the examination, and *what* the contractor is looking *at* to make their determinations. This will ensure that, for a targeted exam, the contractor is proceeding within the intended scope of the exam, and for all exams, targeted or comprehensive, that resources are being allocated in the most expeditious manner possible for both insurers and regulators.

It is important to note that not all jurisdictions follow the tolerance level recommendations contained in the *Market Regulation Handbook*. There are states that start fining insurers if they fall below a 100% compliance level. AIA’s recommendation would be that a starting point for the Working Group be in assuring all states adhere to the recommended tolerate levels of 7% for auditing claim practices and

10% for other trade practices, at a minimum. A related concern is states that employ a sample size so small that any error will put a carrier below the recommended tolerance level. It is troubling that some states view one instance as evidence of a “general business practice” as a matter of course. A single error should not necessarily garner such a designation.

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Again, AIA appreciates the opportunity to comment on the Core Competencies and Section D. Standards of Chapter 14 – Sampling of the *Market Regulation Handbook* and looks forward to working with the Working Group going forward.

Respectfully submitted,

A handwritten signature in black ink that reads "Lisa Brown". The signature is written in a cursive style with a long horizontal line extending to the right.

Lisa Brown  
Sr. Counsel & Director, Compliance Resources