



OFFICE OF
INSURANCE COMMISSIONER

June 16, 2008

The Honorable John Morrison, Commissioner
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

By e-mail to Tmullen@naic.org

Re: Proposal for an Accreditation Program in Market Regulation

Dear Commissioner Morrison:

Thank you for taking the first step toward accreditation in the area of market regulation. During my tenure as D committee chair, I strongly advocated for this and still support it. Your proposal gives us something more tangible to think about and build upon. As you further refine the proposal, please consider the following suggestions:

To be truly meaningful, I believe that an accreditation program must be more than business-as-usual. A mandatory accreditation program will be necessary to provide meaningful change. A planned phase-in of the program would give everyone an opportunity to build the resources and systems required, and would likely lessen resistance to a mandatory system.

In my assessment, your proposed program is almost identical to the voluntary "report card" program that was tried and then abandoned in 2006. When it began, there was little participation. When the decision was made to compile report card data and publish it, most states became active and reported compliance with core competencies. Without a report card, some states may not have continued their core competency work. An accreditation program should not be a re-tread of a tried-and-abandoned program.

Your proposed accreditation program uses only 12 of the 99 core competency standards. Using so few of these appears to be a step backward even from the report card program. Those 12 standards relate primarily to the use of NAIC reporting standards, which, in my understanding, most states are currently meeting. To be meaningful, the market regulation accreditation program should phase-in all 99 core competency standards over a four-year period. I suggest that the core competency standards be divided into three phases and implemented in the following manner:

During 2009 – Phase I is optional

During 2010 – Phase I is required, Phase II is optional

During 2011 – Phase I and II are required, Phase III is optional

During 2012 – All phases are required.

Mailing Address: P. O. Box 40255 • Olympia, WA 98504-0255

Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501



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Perhaps your proposal could also identify the core competency standards that will be assigned to each part of the phase-in approach. This would allow states to make system updates and enact legislation in order to meet accreditation requirements. For example, Washington State's market oversight statute covering complaint verification requires us to hold a closed complaint for 45 days before transmitting it to the NAIC. We will need to have a full legislative cycle before we can change this process, and we'll need to plan and implement our strategies to make the change quickly. Knowing which competencies and standards are scheduled in which phase will be an integral part of ensuring compliance with the accreditation program.

Some core competency standards would be dependent on fully-developed and functional systems for reporting level 2 analysis, continuum activity, and market conduct annual statement data. Phasing of those standards would be dependent on system development.

I believe that a program of market regulation accreditation will find greater acceptance if more detail on organization and operation can be provided up front. The composition of the Market Regulation Standards and Accreditation Committee (MRSAC) could be identified in the proposal. I recommend that the committee consist of four zone representatives, four representatives elected by and from the eight largest premium volume states, and a chair appointed by the NAIC Executive Committee. All MRSAC members should have active market analysis programs. The proposal should provide that MRSAC be constituted and begin work on fully developing the program and guidelines to be used as soon as this proposal is adopted by Plenary. The proposal should also recommend that MRSAC, immediately upon being established, begin selecting contractors to perform accreditation review.

Another approach to gaining acceptance could be an indication in the proposal that states could request accreditation review at any time and not be required to wait until 2012. That would require review teams to be in place with written guidelines for their review process on a specified and agreed-upon date.

Acceptance of an accreditation program may be more easily gained if the proposal includes:

- A stated accreditation cycle (perhaps 5 years?),
- A clear indication that accreditation can be lost and how it can be lost, and
- Possible consequences of the lack or loss of accreditation.

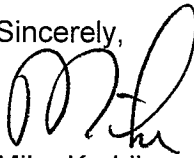
Perhaps as part of the support for this accreditation program, the NAIC Market Conduct Surveillance Model Law could be amended to provide that domestic deference is only available to accredited states. Perhaps a separate core competency could require domestic deference to accredited states.

I believe that your concept for market regulation accreditation is essential for continued effective state regulation. My comments are intended only as suggestions to make your

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proposal more acceptable. I hope that a comprehensive program of market regulation accreditation can be adopted by the NAIC before the end of 2008, with implementation beginning in early 2009. If my office can help in any way, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Kreidler". The signature is stylized with a large, looped initial "M" and a smaller "K" following it.

Mike Kreidler
Insurance Commissioner