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A Brief History

Benjamin Franklin helped found the insurance industry in the United States in 1752 with the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. The current state insurance regulatory framework has its roots in the 19th century with New Hampshire appointing the first insurance commissioner in 1851. Insurance regulators' responsibilities grew in scope and complexity as the industry evolved. Congress adopted the McCarran-Ferguson Act in 1945 to declare that states should regulate the business of insurance and to affirm that the continued regulation of the insurance industry by the states was in the public's best interest.

The Financial Modernization Act of 1999—also called Gramm-Leach-Bliley—established a comprehensive framework to permit affiliations among banks, securities firms and insurance companies. Gramm-Leach-Bliley once again acknowledged that states should regulate the business of insurance. However, Congress also called for state reform to allow insurance companies to compete more effectively in the newly integrated financial service marketplace and to respond with innovation and flexibility to evermore demanding consumer needs—all while continuing to protect consumers, which is the hallmark of state regulation.

[Click here for more information about how state insurance regulators are addressing issues related to GLBA](#)

The Role of the State Legislatures

State legislatures set broad policy for the regulation of insurance. They establish and oversee state insurance departments, regularly review and revise state insurance laws, and approve regulatory budgets. State insurance departments employ 12,500 regulatory personnel. Increases in staff and enhanced automation have allowed regulators to substantially boost the quality and intensity of their financial oversight of insurers and expand consumer protection activities.

State regulation of insurance provides a major source of state revenue. In 2000, states collected more than \$10.4 billion in revenues from insurance sources. Of this amount, \$880 million—roughly 8.4 percent—went to regulate the business of insurance while the remaining \$9.6 billion went to state general funds for other purposes.

[*Click here to link to your state's insurance department*](#)

[*Click here to link to the National Conference of State Legislatures*](#)

[*Click here to link to the National Conference of Insurance Legislators*](#)

National Association of Insurance Commissioners (NAIC)

The NAIC serves as a vehicle for individual state regulators to coordinate their activities and share resources. Established in 1871, the NAIC functions as an advisory body and service provider for state insurance departments. Commissioners use the NAIC to pool scarce resources, to discuss issues of common concern and to align their oversight of the industry. Each state, however, ultimately determines what actions it will take.

[*Click here for more information on the NAIC*](#)

[*Click here to link to the NAIC's annual report*](#)

The Purpose and Structure of Insurance Regulation

The fundamental reason for government regulation of insurance is to protect American consumers. State systems are accessible and accountable to the public and sensitive to local social and economic conditions. State regulation has proven that it effectively protects consumers and ensures that promises made by insurers are kept. Insurance regulation is structured around several key functions, including company licensing, producer licensing, product regulation, market conduct, financial regulation and consumer services.

Company Licensing. State laws require insurers and insurance-related businesses to be licensed before selling their products or services. Currently, there are approximately 7,200 insurers in the United States. All U.S. insurers are subject to regulation in their state of domicile and in the other states where they are licensed to sell insurance.

Insurers who fail to comply with regulatory requirements are subject to license suspension or revocation, and states may exact fines for regulatory violations. In 2000, nearly 300 companies had their licenses suspended or revoked.

The NAIC's Uniform Certificate of Authority Application (UCAA)—a company licensing system—helps states expedite the review process of a new company license. In addition, an NAIC database has been developed to facilitate information sharing on acquisition and merger filings. These databases assist insurance regulators by creating a streamlined and more cost-efficient regulatory process.

[Click here for more information on UCAA](#)

Producer Licensing. Insurance agents and brokers, also known as producers, must be licensed to sell insurance and must comply with various state laws and regulations governing their activities. Currently, more than 3.2 million individuals are licensed to provide insurance services in the United States. State insurance departments oversee producer activities in order to protect insurance consumer interests in insurance transactions.

The states administer continuing education programs to ensure that agents meet high professional standards. Producers who fail to comply with regulatory requirements are subject to fines and license suspension or revocation. In 2000, nearly 16,000 insurance producers had their licenses suspended or revoked.

When producers operate in multiple jurisdictions, states must coordinate their efforts to track producers and prevent violations. Special databases are maintained by the NAIC to assist the states in this effort. The National Insurance Producer Registry (NIPR)—a non-profit affiliate of the NAIC—was established to develop and operate a national repository for producer licensing information.

[Click here for more information about NIPR](#)

Product Regulation. State regulators protect consumers by ensuring that insurance policy provisions comply with state law, are reasonable and fair, and do not contain major gaps in coverage that might be misunderstood by consumers and leave them unprotected. The nature of the rate review, rating rules and forms varies somewhat among the states depending on their laws and regulations.

For personal property-casualty lines, about half of the states require insurers to file rates and to receive prior approval before they go into effect. With the exception of workers' compensation and medical malpractice, commercial property-casualty lines in many states are subject to a competitive rating approach. Under such a system, regulators typically retain authority to disapprove rates if they find that competition is not working.

Premiums for life insurance and annuity products generally are not subject to regulatory approval, although regulators may seek to ensure that policy benefits are commensurate with the premiums charged. Many states subject health insurance rates to prior approval—with all other lines using a “file and use” system or no provisions for review.

[Click here for more information on what individual states are doing to improve the efficiency of filing and approval of insurance products](#)

[Click here for more information about CARFRA, a modernization initiative for the filing and approval of property-casualty insurance products](#)

[Click here for more information about the Interstate Insurance Compact, a modernization initiative for the filing and approval of annuity, life insurance, disability income and long-term care products on a national basis](#)

Financial Regulation. Financial regulation provides crucial safeguards for America's insurance consumers. The states maintain at the NAIC the world's largest insurance financial database, which provides a 15-year history of annual and quarterly filings on 5,200 insurance companies.

Periodic financial examinations occur on a scheduled basis. State financial examiners investigate a company's accounting methods, procedures and financial statement presentation. These exams verify and validate what is presented in the company's annual statement to ascertain whether the company is in good financial standing.

When an examination of financial records shows the company to be financially impaired, the state insurance department takes control of the company. Aggressively working with financially troubled companies is a critical part of the regulator's role. In the event the company must be liquidated or becomes insolvent, the states maintain a system of financial guaranty funds that cover consumers' personal losses.

[Click here for more information about the NAIC's accreditation program](#)

Market Regulation. Market regulation attempts to ensure fair and reasonable insurance prices, products and trade practices in order to protect consumers. With improved cooperation among states and uniform market conduct examinations, regulators hope to ensure continued consumer protections at the state level.

Market conduct examinations occur on a routine basis, but also can be triggered by complaints against an insurer. These exams review agent-licensing issues, complaints, types of products sold by the company and agents, agent sales practices, proper rating, claims handling and other market-related aspects of an insurer's operation.

When violations are found, the insurance department makes recommendations to improve the company's operations and to bring the company into compliance with state law. In addition, a company may be subject to civil penalties or license suspension or revocation.

[Click here for more information about market regulation](#)

Consumer Services. The states' single most significant challenge is to be vigilant in the protection of consumers, especially in light of the changes taking place in the financial services marketplace. States have established toll-free hotlines, Internet Web sites and special consumer services units to receive and handle complaints against insurers and agents. The states also have launched an interactive tool to allow consumers to research company complaint and financial data using the NAIC Web site.

During 2000, state insurance departments handled 4.5 million consumer inquiries and complaints. As needed, state insurance departments worked together with policyholders and

insurers to resolve disputes. In addition, many states sponsor educational seminars and provide consumer brochures on a variety of insurance topics. Some states publish rate comparison guides to help consumers get the best value when they purchase insurance.

[*Click here to research financial and complaint information about an insurance company*](#)

[*Click here to learn more about consumer protection and antifraud efforts at the NAIC and in the states*](#)