



**“A REINFORCED COMMITMENT: INSURANCE REGULATORY  
MODERNIZATION ACTION PLAN”**

**Updated – March 2006**

**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;

**Update:** To help ensure active and organized consumer representation, the NAIC provides funding for consumer representatives to participate in NAIC activities. The NAIC also formally recognizes three un-funded consumer representatives. Finally, the NAIC's Consumer Protections Working Group provides a formal structure for consumer issues.

(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;

**Update:**

***Stop. Call. Confirm. Fight Fake Insurance Campaign.***

The NAIC has continued efforts to warn insurance consumers about potential fraud through a national consumer awareness and media outreach campaign titled “Fight Fake Insurance: Stop. Call. Confirm.” The campaign, in its second year, features as its spokesperson nationally known fraud expert and former con man Frank Abagnale, whose life story was depicted in the movie “Catch Me If You Can.” The NAIC developed and distributed a public service announcement featuring Abagnale, which was distributed to television radio stations nationwide. The PSAs included a seven-second tagline at the end mentioning the respective

state insurance department and contact information. A generic version of the PSA is on the NAIC website [www.naic.org](http://www.naic.org).

In 2005, the spot received more than 60,000 broadcast hits, 78 print placements and 93 online media placements for a total of 268 million media impressions.

***Get Smart About Insurance Week***

The NAIC continued the tradition and success of Get Smart About Insurance Week, a campaign that has involved more states each year, since its inception. In 2005, a record high of 48 states took part and implemented the consumer awareness program locally and on a statewide level. This program received 77 million media placements.

(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;

**Update:** The CIS allows consumers to view a variety of information about insurance companies and to file a consumer complaint with a state insurance department. The most recent enhancement to the CIS was the posting of key financial information designed to provide the average consumer with an easier way to view and understand important financial information about insurance companies. In 2005, the NAIC Web site was updated with Frequently Asked Questions and information regarding automobile insurance, life insurance, health insurance, and homeowners insurance. In addition, general educational information was added to aid consumers in identifying a company that might be servicing an existing life insurance policy. Almost 219,000 users accessed the CIS website for 1,201,495 hits in 2005.

(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

**Update:** The Consumer Protections Working Group reviewed a detailed summary of the testimony received during its two public hearings in 2003. Because of the extensive testimony and focus this issue received in 2003, the working group agreed the issues regarding state arbitration laws have been appropriately reviewed and that further discussion on this issue is unnecessary at this time. The Consumer Protections Working Group and the Consumer Liaison Committee continue to serve as the appropriate forums for discussing and assessing consumer remedies.

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

**Update:** The Consumer Protections Working Group oversees this effort as necessary. For example, in 2005 the Working Group completed a study addressing the effectiveness of consumer disclosures that accompany insurance products.

## **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.

The NAIC, in conjunction with the National Conference of Insurance Legislators, has helped develop the statutory framework set forth in NCOIL's *Market Conduct Surveillance Model Act*. The provisions of this model act are consistent with the NAIC's reforms of market analysis, uniform examination procedures and interstate collaboration. The NAIC will consider the adoption of the NCOIL model act as an NAIC model act at or prior to the NAIC 2004 Fall National Meeting.

### 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

**Update:** Based upon the information contained in the market information systems, the NAIC developed and implemented automated programs that generate standardized market regulatory profiles, which include the following 5-year information for each company: (1) state specific premium volume written, (2) modified financial summary profile, (3) complaints index report, (4) regulatory actions report, (5) special activities report, (6) closed complaints report, (7) exam

tracking systems summary, (8) modified IRIS ratios, (9) defense const against reserves information, and (10) Schedule T information.

In 2005, the NAIC created Level 1 Analysis, which consists of 16 uniform questions that are used by market analysts to evaluate individual companies without the need to contact them for additional information. The Market Analysis Review System (MARS) application automated the questions, and provided states with access to see analysis performed by other states. In addition, the NAIC developed a further level of analysis (Level 2 Analysis), which provides analysts with detailed recommendations concerning additional places to obtain crucial information on insurers, both inside and outside of the insurance industry. Towards the end of 2006, the NAIC will release a Company Listing Prioritization Tool, which will aid analysts in identifying outliers for various measures.

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

**Update:** The NAIC adopted the *Market Analysis Handbook* during the NAIC Winter National Meeting in December 2003. The guidelines in this handbook provide states with uniform market analysis, standards, and procedures, which will integrate market analysis with other regulatory functions. In 2005, the NAIC combined the NAIC's *Market Analysis Handbook* with the NAIC's *Market Conduct Examiners Handbook* to create a more integrated system of market regulation. The purpose of the new Market Regulation Handbook is to identify data and other information that is available to regulators, and provide guidance on how that data can be used to target the most significant market problems with the most efficient regulatory response

Finally, the market conduct annual statement pilot project became a permanent NAIC project in 2004 and continues to serve as a market analysis tool that eighteen participating states use to consistently review market activity of the entire insurance market place and identify companies whose practices are outside normal ranges. This tool is meeting its objective to help states more effectively target market regulatory efforts. With this success, the NAIC is now discussing the need for centralization of this data. That step will provide states even greater uniformity in comparing companies' performance, not only within their respective states, but also across the various states, thus providing enhanced opportunities for coordinating market regulatory efforts. As the statement continues to develop, states should be able to reduce the number of state-specific data calls, and move toward collecting data about claims, non-renewals and cancellations, replacement-related activity and complaints on an industry-wide basis.

## 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

**Update:** A Market Analysis track was added to the NAIC's E-Regulation Conference held annually in May. Because the NAIC funds each state to send a market regulator to this conference, significant training on market analysis techniques is accomplished through this conference. In addition, the NAIC offers a classroom market analysis training every August and multiple on-line market analysis training sessions each year. Finally, market analysis techniques were incorporated into the NAIC's Staff Education Program and Integrating Market Regulation Programs.

In 2006, the NAIC is implementing its Insurance Regulator Professional Designation Program to provide professional growth opportunities for state insurance regulators at all levels, and to promote the improvement of their knowledge, skills and best practices in the areas of consumer protection, insurer solvency and market conduct regulation. The designation program will provide insurance regulators with a NAIC-sponsored professional designation recognizing their expertise in insurance regulation, including market regulatory functions. Regulators who complete the NAIC Designation Program will be better equipped to provide high quality services and protections to insurance consumers.

(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.

**Update:** The Market Analysis Working Group (MAWG) is already a functioning group using adopted protocols for the coordination and collaboration of market regulatory interventions. In 2005, the structure of MAWG was refined to become a higher level working group, analogous to the Financial Analysis Working Group. MAWG is now carrying out the following functions: (1) provide policy oversight and direction of the Collaborative Action Designees (CADs), collaborative analysis and collaborative regulatory interventions; (2) facilitate interstate communication and coordinate collaborative state regulatory actions, (3) recommend appropriate corrective actions and common solutions to multi-state problems, and (4) facilitate the use of a broader continuum of regulatory responses.

## 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.

**Update:** To help minimize variations in market conduct examinations so that states can rely on each other's findings, the NAIC adopted the *Market Conduct Uniform Examination Outline*. This outline, which was developed in 2002, focuses on the following four areas: (1) exam scheduling, (2) pre-exam planning, (3) core examination procedures and (4) exam reports. Forty-one states and the District of Columbia have self-certified compliance with all four uniform examination areas. To ensure public accountability, the NAIC adopted a process for resolving complaints about state non-compliance with Uniform Examination Procedures.

In 2005, the NAIC adopted uniform core competencies, which each state is encourage to implement, for the following areas: (1) resources, (2) market analysis, (3) continuum of regulatory responses and (4) interstate collaboration. In 2006, the D Committee will focus on consumer complaint handling procedures and enhancing the continuity of regulatory responses.

(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;

**Update:** As referenced above, NAIC staff has provided company profiles to each state for initial baseline monitoring of company activity. The Market Analysis Handbook contains a spectrum of regulatory responses that might be initiated. For example, the handbook identifies responses that could range from consumer outreach and education to a desk audit to an on-site examination. The NAIC is also creating a list of regulatory actions that can be taken before an exam is called. Beginning in the summer of 2006, all states will have the ability to track a broader continuum of market regulatory actions by entering these actions into an electronic database called the Market Initiative Tracking System (MITS).

(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

**Update:** States continue to move toward targeted examinations based upon market analysis, and are coordinating their efforts through MAWG.

(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.

**Update:** The NAIC adopted Market Analysis Working Group procedures, which set forth guidelines for interstate collaboration and centralized coordination through MAWG.

### 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' that 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.

**Update:** To demonstrate that states are up to the challenge of providing speed to market for insurance products without sacrificing adequate consumer protection, a system of measurement is needed. NAIC has developed a set of uniform metrics that rely on the four operational efficiencies listed above. The Action Plan establishes 2008 as the goal for universal use; however, those working on the project believe most jurisdictions will implement filing metrics long before that date. SERFF has the necessary counting and reporting framework for both paper and electronic product filings, and has been implemented in all states.

## 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;

**Update:** The review standards checklists provide a means for insurance companies to verify the filing requirements of a state before making a rate or policy form filing. The checklists contain information regarding specific state statutes, regulations, bulletins or case law that pertain to insurance issues. Currently, most states have developed and posted Review Standards Checklists to their state Web sites. All insurers may access the information for all states via the NAIC Web site.

States report that insurers taking advantage of this regulatory modernization have found the likelihood for successfully submitting a filing increases dramatically, vastly improving speed to market for insurers.

(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;

**Update:** The product requirements locator tool is available to assist insurers in locating the necessary requirements of various states, which must be used when developing insurance products for one or more states. This program allows someone to query a searchable NAIC database by product (i.e. auto insurance), requirement (i.e. cancellation statute), or state to determine what is needed to develop an insurance product or make a filing in one specific state or many states, for one type of insurance or for many types of insurance. Thirty states have populated the property and casualty product requirements locator tool, and eight states are in the process of populating the tool. The life and health product requirements locator tool is being re-tooled for greater efficiency, and should be considered under development. The Action Plan establishes a goal of 2008 for universal use; however, those working on the project believe most jurisdictions will implement this long before that date.

(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

**Update:** Product coding matrices have been developed to provide a uniform product naming convention and corresponding product coding, so that insurers across the country can seamlessly communicate with insurance regulators

regarding product filings. This key feature forms the basis for counting and measuring speed to market for insurance products. The Action Plan establishes a goal of 2008 for universal use. To date, 40 states have implemented the Uniform Product Coding matrix within SERFF and other states are in progress.

(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.

**Update:** Uniform transmittal documents were developed to permit 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. Instead of using the numerous codes developed historically by each individual state for its own lines of insurance, a set of common codes have been developed, using the annual statement blanks as a guideline, in an effort to eliminate the need for insurance companies to keep separate lists of codes for each state insurance department's lines of insurance. To date, 18 states have fully implemented use of the Uniform Transmittal Documents in SERFF, and others are in varying states of progress. The Action Plan establishes a goal of 2008 for universal use; however, those working on the project believe most jurisdictions will implement this long before that date.

It is important to note that the SERFF system is being modified to model the adopted uniform transmittal documents. When version 5 of SERFF is released later in 2006, the Uniform Transmittal Documents will effectively be in use by all states by virtue of the system design.

#### 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.

**Update:** The NAIC has adopted a model law that places greater reliance on competition for commercial lines insurance products. It is actively encouraging states to consider it; however, hard market conditions in the property and casualty insurance markets in many states make it difficult for state legislators to support a relaxing of rate regulatory requirements in a time when prices are dramatically rising for businesses seeking coverage. The NAIC's Personal Lines Market Regulatory Framework Working Group has discussed whether an appropriate regulatory framework can be agreed upon by NAIC members. Its work should be completed by the end of the year.

## 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.

**Update:** SERFF is the ultimate answer to speed to market concerns of insurers. All 50 states, the District of Columbia, and Puerto Rico are SERFF-ready. Insurers that have chosen to use SERFF are experiencing an average 23-day turn-around time for the entire filing submission and review cycle. SERFF offers functionality that can enable all regulatory jurisdictions to accept electronic rate and form filings from insurance companies for all lines of insurance and product types. There are 51 jurisdictions accepting filings for the property/casualty line of business, 47 of which are accepting all major lines. There are 49 states accepting life filings, 43 of which are accepting all major lines, and 46 states are currently accepting health filings via SERFF, 37 of which are accepting all major lines. SERFF enables states to include all operational efficiency tools such as the review standards checklists, requirements included in the product requirements locator, and uniform transmittal documents to facilitate an efficient electronic filing process. There are over 1,700 insurance companies licensed to use SERFF and nearly 184,000 filings were submitted via SERFF thus in 2005. Thus far in 2006, over 37,000 filings have been submitted, with just over 20,000 being submitted in February. The NAIC estimates that the total universe of filings is approximately 750,000 total filings in an average year.

## 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.

**Update:** The NAIC adopted draft model legislation for the Interstate Insurance Product Regulation Compact (the “Compact”) in December 2002. Working with the National Conference of State Legislatures (NCSL) and the National Conference of Insurance Legislators (NCOIL), as well as the American Council of Life Insurers (ACLI), the NAIC adopted technical amendments to the model legislation in July 2003. The NCSL and NCOIL have endorsed the Compact.

As of January 1, 2006, Compact legislation has been enacted in the following 20 jurisdictions: Colorado, Hawaii, Idaho, Indiana, Iowa, Kansas, Maine, Maryland, Nebraska, New Hampshire, North Carolina, Pennsylvania, Puerto Rico, Rhode Island, Texas, Utah, Vermont, Virginia, Washington, and West Virginia. These 20 states represent approximately 30 percent of the premium volume. As of March 1, 2006, the legislation is pending in sixteen additional states. The NAIC has a strong commitment to helping the Compact meet its goal of 26 states or 40 percent of premium volume to become operational by the end of 2006.

Through the work of the Interstate Compact National Standards Working Group of the Speed-to-Market Task Force, draft product standards for 39 insurance products have been developed so far. Most of these standards deal with individual life and annuity products, with one standard each for individual long-term care insurance and individual disability income. This Working Group is also tackling tough issues like the fraud exception for incontestability and mandatory arbitration clauses, but these issues are most likely ones where the Commission will make the ultimate determination. The Interstate Compact Implementation Task Force has developed draft bylaws for the Interstate Commission, and is currently drafting proposed operating rules for the Commission, such as rules for public access to Commission records and product filings and rules for the review and approval of product filings.

#### **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;

**Update:** The NAIC adopted a Uniform Producer Licensing Application that can be used for both resident and non-resident licensing. Every state accepts the Uniform Producer Licensing Applications for non-resident licensing. Thirty-four states accept the Uniform Producer Licensing Applications for resident licensing.

(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;

**Update:** This system of CE reciprocity is already established and working. The NAIC continues to monitor this system to ensure CE reciprocity remains in place. In addition, states are streamlining the CE course approval process for CE providers. Forty-eight states and the District of Columbia have signed the Uniform Declaration Regarding CE Course Approval Guidelines.

(3) Consolidation of all limited lines licenses into either the core limited lines or the major lines;

**Update:** The NAIC has adopted definitions for the following core limited lines, and has included these limited lines as part of the uniform applications: Car Rental, Credit, Crop, Travel and Surety. Thirty states have adopted the NAIC definitions. The remaining states continue to pursue legislative changes to consolidate all their limited lines into these core categories. This process will continue through the 2006 state legislative sessions.

(4) Full implementation of an electronic filing/appointment system; and

**Update:** Thirty-nine states and the District of Columbia have implemented an electronic filing/appointment system. In addition, three states are processing electronic appointment renewals. Eight states do not require appointments. The NAIC and its affiliate, the National Insurance Producer Registry, continue to work with the remaining states to implement an electronic filing/appointment system.

(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.

**Update:** The NAIC successfully implemented a fingerprint pilot program with the states of Alaska, California, Idaho and Pennsylvania submitting fingerprints to the NAIC's centralized fingerprint repository during 2005 and 2006. (California and Pennsylvania have since suspended their submissions to the repository.) In addition, the NAIC is in the process of drafting and adopting an Authorization for Criminal History Record Check Model Act, which will provide states with the necessary language to obtain clear authority to collect fingerprints and obtain criminal history record information from the FBI. While states are currently able to obtain access to the FBI database through the adoption of proper legislative authority, Federal law prohibits states from sharing criminal history record information with each other. The NAIC continues to seek solutions to enhance states access to the FBI database and resolve the prohibition against the sharing of such information among the states.

#### 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:

**Update:** There are 39 states and the District of Columbia accepting electronic non-resident licensing applications through NIPR with the goal of all states and territories by December 31, 2006. There are seventeen states on electronic non-resident renewals. In addition, two states are processing electronic resident licensing applications, and five states are processing electronic resident renewals.

(1) Use of a National Producer Number (NPN), which is designed to eliminate sole dependence on using social security numbers as a unique identifier;

**Update:** There are 28 states and the District of Columbia currently using the NPN as the unique identifier on the database.

(2) Acceptance of electronic appointments and terminations or registrations from insurers;

**Update:** There are 39 states and the District of Columbia accepting electronic appointments and terminations through NIPR's Gateway. Eight states do not require appointments. In addition, three states are processing electronic appointment renewals. The NAIC and its affiliate, the National Insurance

Producer Registry, continue to work with the remaining states to implement an electronic filing/appointment system.

(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.

**Update:** There are 16 states using Electronic Funds Transfer for payment of fees.

## **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.

**Update:** Presently, all 50 states and the District of Columbia accept the NAIC's Uniform Certificate of Authority Application (UCAA) from insurers desiring to do business in their state. The UCAA has been under development for sometime and work continues to eliminate a few remaining state-specific filing requirements. However, many of these additional requirements result from state statute or regulation in a small number of states.

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;

**Update:** NAIC Information Systems staff, with assistance from an outside consultant, has completed a comprehensive business analysis of the UCAA system. As a result, numerous modifications to improve the application's automation and user-friendliness were recommended and approved by the National Treatment and Coordination Working Group. Two of the more significant recommendations were: convert the system to a data input driven system versus a form-based system, and modify the applications to interface with

the Financial Data Repository (FDR) to extract all possible application elements in order to complete the UCAA more efficiently. These changes were implemented for both the expansion and corporate amendment applications, and are currently in production in the electronic UCAA tool.

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

**Update:** The National Treatment and Coordination Working Group is in the process of developing this model act. The Working Group reviewed areas of the company licensing process that cause the most problems and additional work for insurer applicants due to non-uniformity amongst the states. As a result of that review, the Working Group dedicated itself to first addressing uniformity in the definitions of lines of business and in capital and surplus requirements, two very complicated areas with wide-ranging implications to various regulatory processes. The Working Group is currently considering two primary proposals regarding definitions of lines of business: using the lines of business from the statutory financial statement or using broader categories of business that incorporate multiple lines of business from the statutory financial statement within each category. The Working Group is also discussing ways to synchronize these definitions with those used in the product licensing area, to achieve even greater uniformity and synergy.

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

**Update:** Through the efforts of a consultant and the National Treatment and Coordination Working Group, the Company Licensing Best Practices Handbook was completed and adopted by the NAIC. This publication provides a wealth of best practices for the entire company licensing review process that occurs in each state. The most significant areas addressed in the publication are the use of a prioritization system for allocating review resources to various applications, communication between the domiciliary and expansion states, and review considerations that should be stressed for the various application types. These best practices establish a consistent approach for reviewing company licensing applications, and encourage efficiency in review procedures to help ensure timely company licensing decisions occur.

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.

**Update:** Once the Company Licensing Model Act has been completed and the NAIC sees states conforming, the model and Company Licensing Best Practices Handbook will be presented to the Financial Regulation Standards and Accreditation (F) Committee for consideration.

## 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.

**Update:** The NAIC’s Insurance Holding Company Working Group adopted the Examination Coordination Initiative during the 2005 Spring National Meeting. This initiative requires additional actions by the designated ‘lead states’ to proactively improve examination coordination, and requires communicating those coordination efforts to the NAIC on select groups.

In accordance with the Examination Coordination Initiative, each group has been classified into one of three categories to represent the coordination efforts expected for their upcoming exams. Within two categories, (Currently Coordinated Exams and Focused Coordination Efforts) states are required to coordinate exams in accordance with the lead states designated examination schedule. If coordination cannot be achieved, the non-lead must provide notification to the NAIC on the elements that hindered exam coordination and the efforts that will be taken to ensure coordination during the lead state’s next planned examination date. For examinations within the third category (Other Exams to Coordinate), all states are requested to adhere to the lead state’s planned examination schedule. However, as these groups are comprised of several companies domiciled in multiple states with various examination schedules, further time will be needed for complete coordination. As such, no notification requirement has been established for the groups within these categories.

In order to assist states in complying with the Examination Coordination Initiative, a new application is being developed within the Exam Tracking System (Examination Calendar) that will serve as a forum to collect information and notify other states about the lead state’s planned examination schedules, and also to provide reports on the groups/companies that have been successful in coordinating with the lead state. In addition, this application will provide a forum

for non-lead states to communicate regarding problems preventing exam coordination, as well as their efforts toward future coordination. This Examination Calendar application is expected to be available in 2006.

Additionally, in order to ensure that state coordination efforts are improving communication and examination efficiencies, the lead state and non-lead states will be requested to document in the examination work papers how they communicated and coordinated their efforts to improve examination efficiencies.

### 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 five years, with the goal of full adherence to the Handbook's guidance for examinations conducted as of December 2008.

**Update:** The Financial Examiners Handbook (E) Technical Group revised The NAIC *Financial Condition Examiners Handbook* in the summer of 2005. The revisions provide guidance on the responsibilities common to the role of the lead state and non-lead states. These revisions also include the key elements of the Examination Coordination Initiative and the responsibilities of the states. As this Handbook is an NAIC Accreditation Standard, the Financial Regulation Standards and Accreditation (F) Committee will consider these changes during the March 2006 Spring National Meeting.

In addition to the Examiners Handbook, the Financial Analysis Handbooks have also been revised. These revisions stress the need to maintain confidentiality of information, and refer to current confidentiality arrangements in place between each state and federal banking agencies, state banking supervisors, and other functional regulators. Part of the lead state's role is to perform a review of the consolidated group, including analysis of the group's financial results and overall business strategy.

As previously mentioned, there are proposals to provide a new application so that the Exam Tracking System can serve as a forum to collect planned examination schedules and report on the groups/companies that are planned to be examined in accordance with 'as of' dates in order to improve coordination of exams. This 'examination calendar' is expected to be available in 2006.

## 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 (F) Committee will consider the requirements no later than January 1, 2008.

**Update:** In 2005, the NAIC adopted the Insurer Receivership Model Act (IRMA) as the foundation of modernization in the receivership area. IRMA is intended to comprehensively address the administration of an impaired or insolvent insurer from conservation and rehabilitation to liquidation and winding up of an estate. The Financial Condition (E) Committee and its working groups are developing and considering changes to the Property & Casualty Insurance Guaranty Association Model Act and model language addressing the administration of high deductible policies. It is also developing a recommendation for a proposed revision to the accreditation standard addressing receiverships. The Financial Regulation and Standards Accreditation (F) Committee is expected to address this issue in 2006. The NAIC will also be working on a revision to the Receivers' Handbook to incorporate the modernization provisions of IRMA.

The NAIC continues its efforts to make improvements in the automation of information and processes in the receivership area. The Global Receivership Information Database continues to be enhanced and populated through the efforts of state insurance departments. The NAIC has developed a Uniform Receivership Internet Template to allow states to present minimum standard information to consumers in a manner that is uniform from state to state. The NAIC is also developing a system for use by states in the administration of proof-of-claims.

## 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.

**Update:** As noted above (Section VI), regulators are in process of implementing the NAIC lead state framework.

### 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.

**Update:** The NAIC's Form A Database, initially released in March 2002, was designed to alert states to Form A filings from the same or similar individuals or entities in other states. Efforts continue to educate and inform regulators regarding the use and benefits of this database system. Benefits occur largely in the area of coordinating on common Form A filings and identifying acquiring parties who are suspicious. A formal training program was developed and offered to states throughout 2004 and 2005.

The Insurance Holding Company Working Group adopted a revised Holding Company Analysis Framework during the 2005 Spring National Meeting. The revised Framework was referred to the Financial Analysis Handbook Working Group, which developed a Holding Company Analysis checklist and adopted it in October of 2006. The primary objective of this Holding Company Analysis Checklist is (A) to gain an overall understanding of the holding company structure or insurance group and how the insurance subsidiary fits into the organization, and (B) to assess the potential risks the holding company or other affiliates pose to the insurance subsidiary.

### 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.

**Update:** With regard to integrating policy form approval and producer licensing into the M&A process, two pilot projects have been completed. However, further work to develop a procedural manual has not been completed because the National Treatment & Coordination Working Group is focused on modernizing the company licensing process.