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Compiled by NAIC Staff

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[*A Brief Description of Federal Bank and Thrift Supervision and Regulation*](#)

By Mike Barth (NAIC/SSO)

The purpose of this article is to provide an overview of the federal regulatory structure of the banking industry and to identify areas of mutual interest to federal bank regulators and state insurance regulators.



[*Recent Growth of Risk Retention Groups \(RRG's\)*](#)

By Teresa Walker (NAIC/SSO)

The definition and brief history of Risk Retention Groups is provided within this article. Some discussion regarding the growth of these entities is given along with a chart representing the number of Risk Retention Groups filing financial data with the NAIC for the years 1990 through 1996.



[*Utah's Uninsured Motorist Identification Database*](#)

By Vanna Hunter, CPCU

This article describes Utah's uninsured motorist identification database, and answers common questions that are raised about the database. Problems that have been encountered are discussed, as well as what can be expected for the future.

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The National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, American Samoa, Guam, Puerto Rico and the Virgin Islands. The NAIC provides its members with a forum for discussing common interests and for working cooperatively on regulatory matters that transcend the boundaries of their own jurisdictions.

The views expressed in these articles do not necessarily represent the view of the NAIC members, individually or collectively.

The NAIC and NOLHGA Work Together to Provide Premium Data

Compiled by NAIC Staff

The NAIC provides many services for its members that receive little publicity. This article discusses one of the lesser known services performed by NAIC staff to assist states with their obligation to report premium information to guaranty associations. The guaranty associations use this information to determine the assessments that will be allocated to each insurer participating in the market for which the assessment is being calculated.

Approximately 93 percent of the states and territories have a law or regulation similar to the NAIC Life and Health Insurance Guaranty Association Model Act that includes the following language:

The Commissioner shall, upon the request of the board of directors, provide the (guaranty) Association with a statement of the premiums in this and any other appropriate states for each member insurer.

To fulfill this obligation during the course of the Executive Life Insurance Company insolvency, the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), as requested by the NAIC members, developed a survey for capturing more detailed premium information necessary for determining accurate guaranty fund assessments. This survey,

which was completed and processed by NOLHGA for the years 1988 through 1992, provided information to each state guaranty association and the state insurance commissioners.

In 1992, the NAIC Blanks (EX4) Task Force adopted a new exhibit to be filed with the year-end 1993 NAIC Life, Accident and Health Annual Statement as a required supplement to provide the necessary detail to calculate accurate guaranty fund assessments. At this time, NOLHGA discontinued its survey and the NAIC and NOLHGA began a joint project to share the data and expertise needed to provide assessment data to each state. This not only obviated the need for each state to compile the data and perform the complex calculations to determine assessments, but also ensured more accurate and consistent information.

What is a Guaranty Association?

Guaranty associations are formed to cover insolvent insurers' financial obligations to policyholders, annuitants, beneficiaries and third-party claimants. State law establishes the guaranty associations and their coverage provisions, funding mechanism, administrative structure, authorities and duties. Each insurance company licensed within a state that has formed a guaranty association must be a member of the state guaranty association. Guaranty associations are then funded by assessments made to the member companies licensed within the state. NOLHGA was formed by the state guaranty associations to assist in coordination and cooperation among state guaranty associations in the event that an insurer licensed in more than one state becomes insolvent. The organization also provides various information, data and administrative services to assist state guaranty associations in carrying out their responsibilities.

Overview of the Guaranty Exhibits

The Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibit (Base Exhibit) is a supplemental filing to the NAIC Life, Accident and Health Annual Statement. This exhibit is used to determine the guaranty association assessment base. Schedule T, which is found within the annual statement, provides a one-page

summary of the various types of annuity considerations and deposits received directly by the insurer, separated by state. However, because of the limits placed on certain considerations for assessment purposes, the variations by states in designation of “funds” for assessments and other factors that are interpreted differently by the individual states, it is necessary to further modify the amounts reported in Schedule T. Therefore, the NAIC developed the Base Exhibit to provide the necessary modifications to the Schedule T information. The Base Exhibit starts with premiums as reported in Schedule T, and then makes necessary adjustments (both positive and negative) to establish the premium assessment base as defined by the current NAIC Life and Health Insurance Guaranty Association Model Act. Each insurer is required to complete a Base Exhibit for each state (including the District of Columbia and Puerto Rico) in which the company is licensed or received any direct premiums or deposits. The Base Exhibit is not required for American Samoa, Guam, U.S. Virgin Islands, Canada and other alien jurisdictions.

The NAIC also developed the Adjustments to the Life, Health and Annuity Guaranty Association Model Act Assessment Base Reconciliation Exhibit (Adjustments Exhibit) to collect premium information needed by state guaranty associations to make assessments. The Adjustments Exhibit requires annuity information only for states that have not adopted the most recent NAIC Model Act. Companies are not required to submit the Adjustments Exhibit for states where they write only life and/or accident and health insurance. Companies also are not required to submit the Adjustments Exhibit for states that utilize the Base Exhibit for their respective assessment premium base. Each year a listing of the calculations used by the states to calculate the premium base is furnished to the insurers.

Review of the Assessment Data and Common Reporting Errors

According to specifications developed by the NAIC and NOLHGA's consultant, Coopers & Lybrand LLP, the NAIC compiles the Base Exhibit and the Adjustments Exhibit data submitted by life insurers to the NAIC into a format that feeds easily into reports and products

developed by NOLHGA/Coopers & Lybrand LLP. Both the NAIC and NOLHGA perform complimentary data quality review activities that are critical to accurate assessment information. NOLHGA's familiarity with the nuances of state guaranty fund law enables it to correct problems that would not be detected by NAIC staff who do not have the same expertise. Those reports and products are then provided to state insurance departments and state guaranty associations at no charge.

The data review done by the NAIC includes numerous crosschecks and queries processed for each exhibit. The crosschecks indicate companies with reporting errors or problems by depicting reporting inconsistencies. The NAIC staff then follows up with the reporting companies to ensure accurate data. This process continues throughout the year to verify that the data submitted to NOLHGA in each delivery is free of any detectable errors.

There are several common reporting errors within the Base and Adjustments Exhibits that are encountered from year to year:

- Many companies fail to complete subtotals and totals on the exhibits. In most cases it is possible for the NAIC staff to complete the totals and subtotals and then notify the company of the changes that were made.
- Companies tend to overlook the necessity to complete the Base and Adjustment Exhibits for those states where they are not licensed, but are reporting premiums on Schedule T.
- Inconsistencies between Schedule T and Line 1 of the Base Exhibit are common. Any time that a company amends Schedule T amounts, the Base and Adjustment Exhibit data also need to be amended. Since the Base and Adjustments Exhibits are not a part of the annual statement, companies forget to make these amendments.
- Inconsistencies between Line 11 of the Base Exhibit and Line 1 of the Adjustments Exhibit are also common.

NOLHGA publishes a report that reflects assessable premium data to the industry so they

can calculate guaranty fund assessment accruals by insurance companies. This accrual is covered in the NAIC Statement of Statutory Accounting Principle No. 35. Also, the American Institute of Certified Public Accountants has recently issued a Statement of Position requiring guaranty fund assessment accruals.

NOLHGA has no obligation regarding the calculation of assessments. The guaranty acts require the state insurance commissioners to provide the necessary premium data to the guaranty associations. NOLHGA has always maintained that the surveys and reports have been undertaken at the request and on behalf of the NAIC membership.

Other Reports Delivered to NOLHGA

Along with the Base and Adjustments Exhibit data, the NAIC provides a series of tests to NOLHGA. These tests are produced for the insurers that have Schedule T annuity considerations and deposit-type fund premium volume greater than \$100 million. The guidelines for each of the tests were provided to the NAIC by NOLHGA.

The test results are used by NOLHGA to complete a more in-depth analysis of the companies with the largest premium volumes. The test information is compiled and printed on a sheet for each of the companies meeting the premium volume criteria. Exhibit 1 is an example of the test sheet format that is used. Tests 12, 15 and 17 compare data taken from the annual

statement and that reported in the Base and Adjustments Exhibits. Test 13 calculates Lines 3.99, 4.1, 4.2, 4.3, 7.4 and 8 of the Base Exhibit as percentages of Line 5 of the Base Exhibit. Test 16 indicates any negative amounts reported on Lines 3, 6, 7, 8 and 9 of the Base Exhibit. The last test (premiums greater than zero test) indicates any states other than those utilizing the Base Exhibit calculations as their respective assessment premium base where unallocated annuity and other unallocated fund deposits as reported on Column 4, Line 11 of the Adjustments Exhibit are greater than zero.

Certain listings are submitted along with the data and test sheets. Following is a summary of the additional information that is provided to NOLHGA:

1. Top annuity writers (those companies with Schedule T annuity considerations and deposit-type fund premium volume greater than \$100 million)
2. Companies where data amounts have been changed since the last delivery of data
3. Companies with unresolved reporting inconsistencies
4. Companies that failed to submit their Base and/or Adjustments Exhibits for any states to the NAIC

A Brief Description of Federal Bank and Thrift Supervision and Regulation

by Mike Barth (NAIC/SSO)

The purpose of this article is to provide an overview of the federal regulatory structure of the banking industry and to identify areas of mutual interest to federal bank regulators and state insurance regulators. As the country moves toward modernization in the financial services arena, regulators will need to form partnerships to effectively manage the new financial services entities that appear. A survey of some of the solvency literature and a look at the monitoring systems used by federal agencies indicates that there are at least as many similarities between bank regulation and insurance regulation in the current regulatory framework as there are differences.

The information on banking regulation that appears in this article was gleaned from the Internet pages of the various federal agencies. There is a wealth of information available and this article only touches on the highlights. Interested readers are encouraged to check out those Web sites for themselves.

Throughout this article, the term "states" is used rather loosely to refer to the members of the NAIC. The NAIC members are the chief insurance regulators of the 50 states, the District of Columbia, American Samoa, Guam, Puerto Rico and the U.S. Virgin Islands.

REGULATORY STRUCTURE

Banks are subject to supervision and regulation by a number of federal agencies as well as the state banking agencies. There is a distinction between *supervision* and *regulation* in banking jargon: *supervision* is the monitoring function while *regulation* is generally the rule-making function. In the insurance industry jargon, *regulation* frequently encompasses both functions because both supervision and regulation of insurers is handled by the state insurance regulator. Therefore, while the distinction between supervision and regulation is unimportant in an insurance context, it can lead to misunderstanding when applied to the banking context. In the interest of keeping this simple for an insurance audience, *regulation* throughout the rest of the article will refer to the combined monitoring and rule-making function unless otherwise specified.

The primary federal regulatory authorities for banks are the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC). For most laypersons, "thrifts" such as savings and loan organizations are all but indistinguishable from banks, and historical differences between banks and thrifts have largely eroded. A discussion of the differences between the powers allowable under thrift charters and bank charters can be found in "A Unified Federal Charter for Banks and Savings Associations: A Staff Study" published by the FDIC. Currently, however, thrifts receive a separate charter (either state or federal) and are regulated by the Office of Thrift Supervision (OTS). Credit unions are also regulated separately by the National Credit Union Administration (NCUA).

These five agencies comprise the Federal Financial Institutions Examination Council (FFIEC). The mission statement of the FFIEC describes it as "a formal interagency body empowered to prescribe uniform principles, standards and report forms for the federal examination of financial institutions" of the member agencies. The FFIEC also serves an important liaison function between these federal agencies and state agencies that also regulate depository institutions. It is interesting to note the similarity in the mission of the FFIEC and the mission of the NAIC: both organizations are intended to promote uniformity, especially in the

area of financial reporting and examinations, and to provide a liaison function between various regulatory agencies.

Banks are supervised at both the state level and at the federal level, depending on the type of charter that the bank obtains. Federally chartered banks are supervised by the OCC. As of the end of 1996, there were about 2,700 national banks with combined assets of \$2.5 trillion. There were another 6,800 state-chartered banks with combined assets of \$2 trillion. Of those state-chartered banks, 1,000 were members of the Federal Reserve System and subject to primary supervision by the FRB while the other 5,800 were regulated at the federal level by the FDIC. Thrifts, whether state or federally chartered, are regulated by the OTS. Credit unions are regulated by the NCUA.

Table 1 offers a comparison of the number and total assets of banks and insurance companies by asset size. Table 2 shows the number and aggregate assets of banks and insurance companies by state.

SOLVENCY MONITORING

Solvency monitoring is an important function for both bank regulators and insurance regulators. Widespread failures in the savings & loan industry and in the banking industry in the last 15 years have highlighted the need for close monitoring of the solvency depository institutions and have led to significant changes in the methods by which that monitoring is accomplished.

Similarly, the states have long recognized a need for more joint monitoring of insurance and have set up a number of programs over the years to cooperatively review the solvency of insurers. These cooperative programs are in addition to the unique company solvency monitoring programs in place in each state.

Uniform Annual Statement Filings

Insurers file detailed annual statements, and most file quarterly statements, with the insurance regulator in their state of domicile and with regulators in other states where they are licensed. Except for small single-state or specialty companies, most insurers also file annual and quarterly statements with the NAIC. Virtually all submissions to the NAIC are filed electronically

and uploaded to the NAIC annual statement database, where the statements then undergo significant quality assurance testing and reconciliation procedures. The NAIC promulgates uniform reporting forms (blanks) as well as instructions for filling in the necessary data elements through the Blanks (EX4) Task Force. Although the blanks are uniform, there are differences in accounting practices and procedures from one state to the next that lead to state-specific differences in reporting. The NAIC membership is currently developing rules for codifying the statutory accounting principles (SAP) used in the blanks, which should further harmonize the financial data used to monitor insurers.

The FFIEC is the federal body charged with developing uniform reporting standards for banks. The "blanks" used by banks, which are frequently referred to as *call reports*, are officially titled Consolidated Reports of Condition and Income. There are separate editions of the call reports for (1) banks with domestic and foreign offices (FFIEC 031), (2) banks with domestic offices only and total assets of \$300 million or more (FFIEC 032), (3) banks with domestic offices only and total assets of between \$100 and \$300 million, and (4) banks with domestic offices only and total assets of less than \$100 million. There is little substantive difference between the various versions of the call reports, though. Most banks file call reports electronically, and beginning in 1998 electronic filings will be mandatory. The call reports are filed quarterly and contain much of the same summary information that can be found in the NAIC annual statement or quarterly statement blank, but without the line-by-line detail. Typically, a call report will have about 600 data elements, regardless of the size of the bank. An NAIC annual statement for a large insurer can contain thousands of times that number of data elements, owing to the line-by-line reporting of investments (e.g., Schedule D), reinsurance arrangements (Schedule F or Schedule S) or derivative instruments (Schedules DB and DC).

An important difference between insurers and banks is that financial reporting by depository institutions uses generally accepted accounting principles (GAAP). In the past, special rules for regulatory accounting were used but some of those accounting rules have been cited as contributing factors to the savings and loan problems of the 1980s. The statutory accounting principles used by

insurers are generally restrictive in nature and tend to overstate liabilities while understating assets. This is an important distinction when trying to make comparisons between a bank's equity position and that of an insurance company.

On-Site Examinations

Examinations of insurance companies are on a three-to-five year cycle, although the examination cycle can be more frequent for troubled companies. In contrast, examinations of depository institutions are conducted on a more frequent basis. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires that all depository institutions insured by the FDIC be examined once every 12 months. (There is an exception for a few very small banks, which have an 18 month requirement.) There are also special requirements for examination of bank holding companies and of non-bank activities by the FRB.

Examinations may be carried out by federal bank regulators, by state bank regulators, or jointly. The FRB places great emphasis on on-site examinations, using off-site examinations (desk audits) as a supplementary tool or to prioritize banks for examination. Insurance regulators, by contrast, place greater emphasis on off-site audits, which are then augmented by the more thorough triennial examinations conducted on-site. Of course, if an insurance regulator smells blood in the water, the on-site audit process is speeded along.

The CAMELS system, also known as the Uniform Financial Institutions Rating System (UFIRS), is a quality rating system for banks. CAMELS is an acronym for **C**apital Adequacy, **A**sset Quality, **M**anagement Administration, **E**arnings, **L**iquidity, and **S**ensitivity to Market Risk. The last component, sensitivity to market risk, has only recently been added and is meant to measure an institutions sensitivity to, and its management of the risk of, interest-rate changes, foreign-exchange rate changes, and commodity or equity price movements. Each institution is graded on a scale of 1 (highest) to 5 (lowest) in each of these categories, and an aggregate score is also produced. A grade of 1 or 2 indicates a well-managed bank, while a grade of 3 to 5 indicates a problem. Generally, CAMELS ratings are developed through examinations. Those examinations focus mainly on asset quality, but also go into detail on

management practices and procedures to handle bank risk.

Off-Site Examinations

The off-site monitoring of banks is in many ways similar to the off-site monitoring of insurance carriers. Federal agencies such as the FDIC and the FRB conduct off-site examinations to identify problem banks and to prioritize institutions for examination. For example, the FRB's System to Estimate Examinations Ratings (SEER) is used to estimate an institution's CAMELS ratings from the information reported in the call report. The FRB, OCC and FDIC also examine combined and aggregate data to identify trends, both positive and negative, occurring in the banking industry and to identify emerging areas of concern.

Exploiting the economies of scale inherent from using their joint database for mechanical monitoring functions, the members of the NAIC conduct some routine monitoring systems jointly. The results of these monitoring systems are also used to prioritize insurers for more detailed desk audits. Additionally, individual states also have systems in place to monitor their domestic insurance industry and their domestic insurers. Some of those state systems are every bit as complex, if not more so, than the joint systems operated under the auspices of the NAIC. Therefore, state insurance departments are able to delegate some of the simpler monitoring functions to the NAIC and concentrate their expertise on the insurance industry in their local area.

The NAIC uses two separate systems for prioritizing insurers for more detailed solvency review. The Insurance Regulatory Information System (IRIS) is a set of financial ratios that are used to prioritize the annual statements of insurers for more detailed review by insurance examiners. The IRIS system is deliberately designed to trigger the alarm on a large number of insurers, and many academics use this facet of the system design to argue that it does not work well. However, the IRIS is not meant to predict insurer failure, but rather it is meant to identify annual statements that should receive more detailed review. Usually, there is a sound reason that an insurer might have several of its IRIS ratios fall outside of the "normal" range, but it requires an experienced insurance examiner to make that determination.

The NAIC also uses the Financial Analysis for Solvency Tracking (FAST) system to prioritize nationally significant insurers for detailed review by experts in the NAIC's Financial Analysis Division. Nationally significant insurers are those insurers whose scope of operations are broad enough to require some degree of joint review by the states. Although insurance regulation is still in the hands of the individual states, the FAST system and the peer review of nationally significant troubled insurers are evidence of the cooperative efforts carried out through the auspices of the NAIC. Regulatory *authority* is still vested in the individual states but there is still a high degree of cooperative effort and mutual support between state insurance regulators.

Risk-Based Capital Systems

Risk-based capital (RBC) requirements for banks were introduced in the early 1990s. The RBC formula for banks is considerably simpler than that used for insurance companies, and this has led to a number of complaints about the usefulness of the system. There is very little distinction between asset types, although certain assets such as U.S. government securities have no requirement and other assets such as state general obligation bonds have capital requirements that are one-fifth the requirement for general assets. However, beyond these exceptions, the risk categorizations are extremely rudimentary. There is no distinction, for instance, between high quality corporate bonds and low quality junk bonds, and there is no quality distinction in the loan portfolio. In contrast, the NAIC RBC requirements for insurance companies make strong distinctions between different types of assets (bonds versus stocks, for instance) and also distinguish between quality levels within the same asset class (high quality bonds versus low quality bonds, for example).

The bank RBC system also makes a distinction in the type of capital that a bank holds. Tier 1 capital consists of common stock, non-cumulative perpetual preferred stock, paid in capital and retained earnings, less intangible assets and goodwill. Tier 2 capital includes subordinated debt, cumulative preferred stock, convertible debt and the loan loss reserve, subject to limitations on size. Banks are required to have Tier 1 capital equal to at least 4 percent of risk-weighted assets and combined Tier 1 and Tier 2 capital equal to at least 8 percent of risk-weighted assets. Banks with less

than the required capital amounts are subject to increasingly stringent regulatory requirements.

The NAIC RBC formula computes the capital requirements for each asset class and also establishes a minimum amount to support underwriting operations. Actual capital is compared to the hypothetical risk-based capital developed by the RBC formula, and if an insurer's capital is insufficient to meet the test, the insurer is subject to increasingly stringent regulatory penalties, up to and including mandatory seizure by the state insurance regulator.

One aspect of the RBC system for insurers that does not get much attention, but which nonetheless exemplifies the strength of the cooperative approach used by state insurance regulators, is the provision in the RBC for Insurers Model Act that allows a state insurance commissioner to treat a foreign insurer as if it were a domestic insurer for RBC purposes if that foreign insurer's state of domicile does not have an RBC law in place. In effect, this provision creates a uniform national standard, *by choice*, in those states that enact a law with the same provisions as the NAIC model. However, it still allows flexibility for an individual state because state law may still excuse single-state companies from meeting the RBC requirements if circumstances warrant an exemption. With a one-size-fits-all federal requirement, such flexibility is lacking. Additionally, even where state law excuses domestic companies from the RBC system, other states have the ability to impose the RBC system on non-domestics that are doing business in their state. States are also free to impose other capital requirements, risk-based or not, on insurers operating in their states. In fact, studies have shown that the state-by-state minimum capital requirements are often a higher standard than those imposed by the NAIC RBC system, which still leaves maximum flexibility in the hands of local state regulators.

Recent reports out of the Federal Reserve Board indicate that the FRB is looking at ways of improving its RBC system to make it more responsive to risk. For instance, one suggestion has been to allocate loans into quality classes with different RBC requirements or asset weights. Such an approach would be more in line with the system developed by state insurance regulators. Perhaps it is time that bank regulators took a closer look at the system developed by insurance regulators.

Guaranty Funds

Deposits in banks and thrifts are insured by the FDIC up to \$100,000. In the past, the FDIC (and the now-defunct Federal Savings and Loan Insurance Corporation, FSLIC) would in practice provide coverage in excess of these levels in some failures, but that practice has been curtailed. As of March 31, 1997, there were 11,368 insured institutions with assets of nearly \$5.7 trillion. There were \$2.7 trillion in insured deposits (out of a total of \$3.45 trillion in total domestic deposits).

There is currently a separate Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) under the FDIC, but the two systems will be integrated in the near future. This integration of the guaranty fund for thrifts into the bank guaranty fund system is a result of the savings and loan industry meltdown of the 1980s. The integration of the two systems will provide additional strength to the entire system. A separate guaranty fund for credit unions is administered by the NCUA.

Insurance premiums paid by banks and thrifts for this coverage are risk-based to some extent and range from 0 to 27 cents per \$100 of assessable deposits. There is also a separate assessment to pay for the costs still outstanding from financing FSLIC problems in the 1980s. Prior to the recent enactment of a risk-based deposit insurance premiums system, premiums were assessed as a flat percentage of deposits. That system is still in place with regard to credit union deposits insured by the NCUA. Interestingly, this non-risk-based pricing system for insurance was cited as a contributing factor to the savings and loan mess and the less dramatic, but still expensive, bank solvency problem of the past decade. The FDIC continues to review its deposit insurance pricing system in order to avoid a rehash of the moral hazard problems that arose from the flat percentage insurance premiums and that contributed so much to the cost of the taxpayer-funded bailout of the deposit guaranty system.

The BIF and SAIF operate on a pre-funding basis, which means that these funds build up reserves. The target reserve is approximately 1.25 percent of insured deposits. The funds can pay dividends to insured banks when there are excess funds available.

Insurance guaranty funds, by comparison, are established and administered by the individual states and operate on a post-assessment basis. That is, insurers are assessed to cover costs as they occur and there is no build-up of funds. Similar to the federal deposit insurance system, there are dollar limits on the amount of coverage (claims and/or premiums) and on the types of insurance products that are covered. Insurers are assessed a flat percentage of direct written premiums to cover those costs that occur in each state. There have been periodic calls suggesting that the guaranty funds move to a risk-based pricing system, but so far there has been no support for that among states.

MARKET CONDUCT STANDARDS

Both banks and insurance companies are subject to market conduct rules and regulations. A host of federal laws mandate fair treatment in lending, and those laws are similar in substance to the state insurance laws that prohibit unfair discrimination. The various federal agencies operate consumer complaint programs and complaint databases, similar to those maintained by the states and by the NAIC. Depository institutions are subject to market conduct examinations as are insurance companies. Banks are examined on a regular basis, generally every 18 months, by professional examiners with expertise in evaluating compliance with market conduct laws and regulations. Currently, roughly one-half of the states insurance departments have market conduct units.

However, unlike insurance companies, banks and other depository institutions are subject to some very stringent market conduct requirements that go beyond simple compliance with anti-discrimination rules. One such example is the Community Reinvestment Act (CRA). The CRA was meant to encourage banks and other depository institutions to put money back into the local community by extending credit, especially in lower income neighborhoods. This does not mean that banks are encouraged to make high-risk loans, but it does mean that a bank's record with respect to making small business loans, small farm loans and housing loans will be evaluated periodically. Banks and other depository institutions must file reports that detail compliance with CRA and are also subject to examination. If an organization doesn't have a satisfactory record, there are restrictions

and penalties, and CRA compliance is specifically considered when federal regulators review applications for mergers, acquisitions and the formation of holding companies.

Another example of a stringent market conduct rule that banks must comply with is the Home Mortgage Disclosure Act of 1975. Mortgage lenders, which includes depository institutions and certain other non-bank lenders, are required to disclose their lending activity by geographic location as well as loan approval rates and lending by sex, race and income. The FFIEC is required to report annually on the aggregate lending in each Metropolitan Statistical Area (MSA) by census tract. Compliance with these rules allows bank regulators and other public officials to monitor institutions for compliance with fair lending laws and also helps to evaluate community development trends and needs.

Interestingly, in the past few years there has been some discussion by state regulators and consumer advocates of requiring similar detailed reporting of personal lines insurance transactions. There was strong opposition from insurers, industry trade associations and many regulators and thus those proposals never materialized into public policy. Some states collect information on a zip code-level basis, though, and do measure compliance with state laws against discrimination in the provision of insurance.

INFORMATION SOURCES ON THE INTERNET

There is a wealth of information on banks, bank regulators and the banking economy available through the Internet. Each of the principle

regulatory agencies has its own Web site, which contains a wide variety of materials, from research papers to news releases to data reporting formats (e.g., call reports) to annual reports to specific financial data on individual banks and bank holding companies. Information is generally available at no charge and can be either downloaded directly or ordered through the regulatory agencies. Web sites are listed in the accompanying box. Also note that the FRB internet site has links to each of the 12 federal reserve district internet sites as well.

The NAIC operates a Web site at <http://www.naic.org> that includes links to the Web sites of individual state insurance departments. The state sites frequently include consumer information, downloadable publications, market information and rate comparisons, contact names and telephone numbers of key insurance department personnel, news releases and links to other state government Web sites. The NAIC Web site also contains copies of white papers on various aspects of insurance regulation, issue papers with regard to codification of statutory accounting, abstracts of *Journal of Insurance Regulation* articles, and other important information.

While many state regulators are familiar with the contents of the insurance-related sites on the internet, many are unfamiliar with the banking-related sites. Many of the topics of interest to state insurance regulators are also of interest to federal and state bank regulators. These Web sites are an excellent source of this information as well as a fresh perspective on regulation.

Topics of Mutual Interest to Bank and Insurance Regulators

There are thousands of economics and research

A Sampling of Federal Agency Web sites

http://www.ffiec.gov	Federal Financial Institutions Examination Council (FFIEC)
http://www.fdic.gov	Federal Deposit Insurance Corporation (FDIC)
http://www.occ.treas.gov	Office of the Comptroller of the Currency (OCC)
http://www.frb.gov	Board of Governors of the Federal Reserve System (FRB)
http://www.ncua.gov	National Credit Union Administration (NCUA)
http://www.access.gpo.gov/ots	Office of Thrift Supervision (OTS)

papers available through the various Web sites of bank regulators. Topics cover a broad range of subjects and are generally oriented toward finance topics or economic development, but a surprising number have direct relevance to topics under discussion by state insurance regulators.

The NAIC has been reviewing the use of credit scoring models in insurance underwriting and/or rating over the last two years. The use of these models is also a concern for bank regulators, and the FDIC's *Regional Outlook* for the second quarter of 1997, which is on the FDIC Web page at <http://www.fdic.gov/publish/regout/regout2.html>, includes a discussion of the effect of credit scoring on the market for small business lending. The OCC's Web site includes OCC Bulletin 97-24 (<http://www.occ.treas.gov/ftp/bulletin/97-24ATT.pdf>) which discusses policy issues on the use of credit scoring models by financial institutions. Many of the same concerns were raised in the NAIC's white paper on the use of credit reports in insurance underwriting, which is scheduled for a vote on adoption in September 1997. NAIC meeting, (<http://www.naic.org/committee/credrpt/credrpt.doc>) are also discussed by bank regulators.

Catastrophes and their impact on the U.S. economy are a concern to both insurance regulators and bank regulators. A major hurricane could severely damage an insurance company because of devastating losses, but banks are also prone to catastrophic occurrences as well. If a bank's loan customers are washed away by a flood or tsunami, those customers are unlikely to stay current on their loans. Given an event of sufficient magnitude, the banking industry, just like the insurance industry, would be prone to severe disruption.

Additionally, securitization of catastrophe risks can have an impact on investment returns for banks as well as for insurers. This emerging link between property insurers and the capital markets is discussed in "Securitizing Property Catastrophe Risk" in the August 1996 edition of *Issues in Economics and Finance* on the Federal Reserve Bank of New York's Web site (http://www.ny.frb.org/rmaghome/curr_iss/ci2_9.html).

The real estate market has been a real concern to insurance regulators over the past decade. There has been a general improvement in the market in

recent years and many of the problem real estate portfolios of individual insurance companies have been rectified. However, the exposure to real estate losses and market instability still exists for many insurers. Banking regulators are also very concerned with the state of the real estate market, both regionally and nationally. Banks and thrifts have a large risk exposure to adverse trends in both the commercial and residential real estate market. Consequently, banking regulators keep a close watch on those markets through a quarterly survey of senior bank regulators and real estate asset managers. A composite index of those responses, plus discussion of national regional trends, is published by the FDIC quarterly. Current and past editions of the *Survey of Real Estate Trends* are available on the FDIC's Web site (www.fdic.gov/databank/retrends). An automatic subscription service is also available, and interested parties can sign up for the service over the Internet or by phone or fax.

As the debate over financial services reform continues in Congress, there is concern over the extent to which banks should be allowed to sell and/or underwrite insurance. An economic working paper on the OCC Web site by James Barth, Daniel Nolle and Tara Rice entitled, "Commercial Banking Structure, Regulation, and Performance: An International Comparison," examines the extent to which insurance companies in other countries are allowed to engage in securities and insurance transactions. Table 6a of that document lists permissible insurance activities of banks in Austria, Canada, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom, and there is a broad discussion of the policy issues within the body of the paper. Currently, the NAIC's (EX) Special Committee on Banks and Insurance is reviewing many of these same issues.

Data of Mutual Interest to Bank and Insurance Regulators

There is a huge amount of economic data available through the federal reserve bank Web sites that is of interest to both insurance and bank regulators. Investment performance is critical to insurer solvency as well as to bank solvency, so detailed information on investment performance and cashflows is important. The Federal Reserve Bank of St. Louis' *FRED* database includes

historical time series data on interest rates, commodity prices, real estate loans, business indicators, and employment information. The Federal Reserve Bank of Boston also lists a large number of economic times series, both for the United States and for the region. The Federal Reserve Bank of New York includes an extensive set of time series data on foreign exchange rates, interest rates and other economic indicators.

Each of the federal reserve banks publishes economic studies and data on its particular region. The federal reserve banks also provide input to the Federal Reserve Board's *Beige Book*, which is a detailed economic report published eight times a year. Each federal reserve bank gathers anecdotal information on economic conditions in its region through reports and interviews with bankers, economists, business leaders and other economy watchers.

General economic conditions and insurance cycles are known to be correlated, so these economic summaries, especially by state and region, can be of enormous value to insurance regulators. As an example, economic downturns or changes in unemployment can be leading indicators of upcoming availability or affordability problems with workers' compensation markets.

SUMMARY

In this era of heightened debate over the form that financial services modernization will take, it is important for insurance regulators to be familiar with the scope of activities carried out by federal banking regulators. Some day in the not too distant future, federal banking and state insurance regulators might find themselves in partnership as they examine a consolidated financial services company. Therefore, some familiarity with the practices and procedures of federal regulators is desirable. It is also interesting to note that many of the same tools used by insurance regulators, such as IRIS and RBC, have counterparts in the federal system. Additionally, many of the same concerns faced by state insurance regulators are also of great concern to federal bank regulators, and those federal regulatory agencies can serve as an important information source on those problem areas.

Table 1
Number and Aggregate Assets of Banks and Insurers By Asset Size

<u>Number of Institutions</u>							
Assets	National Banks	State Banks - Fed Members	State Banks - Non-Fed Members	Thrifts - National	Thrifts - State	Total FDIC Insured	Total Insurers
Less than \$25 million	266	113	1,212	73	85	1,749	2,418
\$25 to 50 million	529	191	1,484	140	128	2,472	568
\$50 to 100 million	663	271	1,476	248	170	2,828	466
\$100 to 300 million	776	283	1,179	346	250	2,834	598
\$300 to 500 million	172	54	185	94	99	604	213
\$500 to 1 billion	112	37	127	75	55	406	237
\$1 to 3 billion	96	31	83	64	37	311	223
\$3 to 10 billion	65	16	34	29	14	158	116
\$10 billion or more	47	20	6	15	2	90	63
Total institutions	2,726	1,016	5,786	1,084	840	11,452	4,902
<u>Aggregate Assets</u>							
Assets	National Banks	State Banks - Fed Members	State Banks - Non-Fed Members	Thrifts - National	Thrifts - State	Total FDIC Insured	Total Insurers
Less than \$25 million	4,301	1,948	19,927	1,156	1,335	28,666	19,330
\$25 to 50 million	19,720	7,161	54,293	5,337	4,917	91,428	20,201
\$50 to 100 million	48,030	19,655	105,117	18,398	12,593	203,794	33,291
\$100 to 300 million	127,454	46,733	191,238	60,995	45,273	471,693	102,522
\$300 to 500 million	66,657	20,750	70,903	36,163	38,382	232,855	82,947
\$500 to 1 billion	77,534	24,772	87,299	51,500	37,797	278,902	167,272
\$1 to 3 billion	165,915	51,562	133,978	104,072	61,583	517,110	389,343
\$3 to 10 billion	379,497	88,396	183,054	154,590	65,296	870,833	627,100
\$10 billion or more	1,638,997	863,988	79,463	294,252	34,553	2,911,252	1,908,090
Total institutions	2,528,104	1,124,966	925,273	726,461	301,730	5,606,535	3,350,097

Source: Bank statistics come from the FDIC's annual report for 1996. Insurance totals are taken from the NAIC's database.

Table 2
Comparison of Banking and Insurance Industries By State

State	Banks		Insurers	
	Number	Combined Assets	Number	Combined Assets
Alabama	183	63,220	66	8,902
Alaska	8	5,816	6	835
American Samoa	1	55	0	0
Arizona	35	48,052	277	45,304
Arkansas	233	30,633	60	13,880
California	360	417,223	216	117,722
Colorado	223	41,013	52	32,580
Connecticut	28	10,875	117	372,595
Delaware	39	115,166	131	140,001
District of Columbia	8	3,411	11	1,122
Florida	289	160,708	142	16,785
Georgia	354	147,081	79	29,082
Guam	2	757	3	30
Hawaii	14	22,068	26	1,371
Idaho	15	6,576	18	1,291
Illinois	833	247,105	308	297,943
Indiana	204	66,538	130	105,822
Iowa	467	42,515	91	105,715
Kansas	416	28,608	41	13,148
Kentucky	275	52,686	31	8,071
Louisiana	172	46,967	109	7,916
Maine	20	9,024	16	8,412
Maryland	90	38,913	81	35,546
Massachusetts	50	153,977	87	174,513
Michigan	176	112,181	111	95,338
Minnesota	519	72,124	87	118,063
Mississippi	111	28,522	47	8,475
Missouri	430	88,301	137	66,916
Montana	100	8,670	8	61

Table 2 (continued)
Comparison of Banking and Insurance Industries By State

State	Banks		Insurers	
	Number	Combined Assets	Number	Combined Assets
Nebraska	329	27,766	78	62,216
Nevada	26	32,406	12	172
New Hampshire	20	10,724	42	17,538
New Jersey	66	70,031	98	211,780
New Mexico	69	15,538	12	313
New York	159	1,032,218	358	577,511
North Carolina	56	191,424	91	38,061
North Dakota	123	8,544	21	2,116
Ohio	257	172,732	203	130,829
Oklahoma	332	36,134	96	12,230
Oregon	43	22,155	33	9,519
Pennsylvania	217	243,682	309	83,056
Puerto Rico	14	29,881	35	2,456
Rhode Island	8	6,451	30	21,508
South Carolina	79	26,353	44	5,031
South Dakota	117	29,335	23	3,991
Tennessee	238	75,930	78	33,568
Texas	877	205,143	482	104,094
Utah	48	35,991	49	9,396
Vermont	22	6,221	50	9,845
Virgin Islands	2	82	2	16
Virginia	154	89,893	53	26,433
Washington	84	44,727	55	39,876
West Virginia	113	22,268	9	116
Wisconsin	365	65,696	148	120,845
Wyoming	54	8,184	3	142
Grand Total	9,527	4,578,293	4,902	3,350,097

* All FDIC-insured commercial banks, but does not include thrifts.

** Companies that filed with the NAIC in 1996. Includes life, property, Blue Cross, HMOs, Title, etc.

Recent Growth of Risk Retention Groups (RRGs)

by Teresa Walker (NAIC/SSO)

In response to the liability crisis of the mid-1980s, risk retention groups were created by the Liability Risk Retention Act passed by Congress in 1986. The Liability Risk Retention Act was put in place to assist U.S. municipalities, professionals and businesses in obtaining liability insurance. For many, liability coverage had become unaffordable or unavailable because of the increasing frequency of liability claims, which pushed premium rates higher and higher. Risk retention groups are insurance companies that provide liability insurance to their member owners. Some of the groups that might form such an entity are trade and professional associations and insurance professionals. The Liability Risk Retention Act defines the liability that the risk retention groups are allowed to assume. These liabilities include all types of third party liability, such as auto, errors and omissions, general liability, products liability, etc. Workers' compensation, property insurance and personal lines insurance are not included as acceptable liabilities for risk retention groups.

The Liability Risk Retention Act, being a federal law, preempts all state statutes and regulations. This makes national operation much easier to obtain for newly established risk retention groups. According to the Liability Risk Retention Act, it is necessary for each risk retention group to be domiciled in a particular state. After obtaining licensure in the domiciliary state, liability insurance may be offered to all members of the risk retention group within any state. The Liability Risk Retention Act does require that the risk retention group be registered with any state where insurance coverage is to be provided. Even though the risk

retention groups were created by Congress, the regulation of the entities is left with the states.

The number of risk retention groups filing as active companies with the NAIC has been on the increase in recent years. Chart 1 shows the growth pattern of the RRGs during the time period from 1990 to 1996. In 1990, 49 risk retention groups indicated that they were active companies required to file with the NAIC, and in 1996 there were 62 such companies.

Risk retention groups have grown not only in number, but also in significance according to the levels of premiums written. The growth of the risk retention groups is demonstrated in Table 1 by means of premiums written during each of the years 1990 through 1996. The direct and net premiums written by the risk retention groups for the given years have been compared to the industry total direct premiums and total net premiums.

When studying the chart and tables provided, it can be seen that there was a 55 percent increase in the number of active RRGs required to file with the NAIC from 1990 to 1996. The increase in direct premiums written for those RRGs from 1990 to 1996 was 217 percent. This drastic increase in direct premiums written has been somewhat skewed due to the percentage of required filers that did not file with the NAIC. In 1990 27 percent of the 49 RRGs that indicated that they were active companies required to file with the NAIC did not file. This percentage had dropped to 8 percent of the active RRGs required to file in 1996.

Tables 2 and 3 give another perspective of the growth of the risk retention groups. Table 2 lists the number of risk retention groups by state of domicile for the data years 1990 through 1996. This view shows the growth patterns within the various states and also shows that there are many states that do not have any risk retention groups domiciled under their jurisdiction. The listing of the risk retention group net premiums in Table 3 are listed for each state having domiciliary risk retention groups. This also shows the regional premium levels and growth.

Given the increasing number of risk retention groups and the increasing premiums written by these entities, this is an area of insurance

regulation that may require further attention in the future. Monitoring the growth of RRGs in each state will help to determine the actions necessary to properly regulate these entities. State statutes and regulations may need to be implemented to assist state regulators in monitoring these entities. Also, in order to

responsibly monitor the financial condition of the entities through financial analysis and examinations, new reporting guidelines may need to be studied. These decisions will be considered in future years as the continued growth of risk retention groups is monitored.

Chart 1

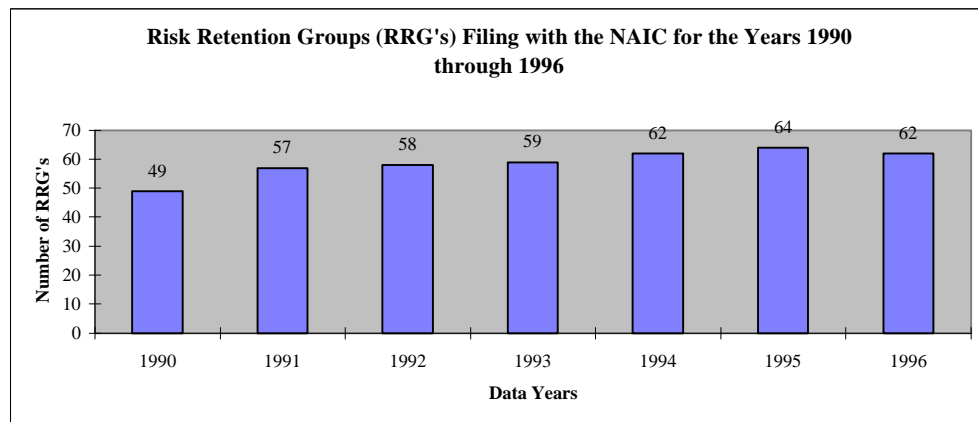


Table 1
Comparison of RRG Premiums Written to Total Industry Premiums Written

Data Year	RRG Direct Premiums Written (DPW)	RRG Net Premiums Written (NPW)	Total Direct Premiums Written	Total Net Premiums Written	RRG DPW %	RRG NWP %
1990	206,119,790	128,158,616	236,971,748,482	223,924,751,261	0.09%	0.06%
1991	249,218,290	156,602,225	243,528,352,452	230,823,544,259	0.10%	0.07%
1992	282,962,995	176,587,297	249,653,468,043	236,648,380,509	0.11%	0.07%
1993	319,819,213	190,998,173	262,855,231,753	250,733,087,984	0.12%	0.08%
1994	463,327,998	226,054,441	273,918,064,005	260,464,766,146	0.17%	0.09%
1995	470,517,382	230,664,405	280,986,245,192	267,238,415,593	0.17%	0.09%
1996	653,442,540	223,505,961	288,699,064,761	276,145,460,965	0.23%	0.08%

Table 2
RRGs Filing with the NAIC, Listed by State of Domicile and Data Year

State of Domicile	1990	1991	1992	1993	1994	1995	1996
AZ	3	3	3	3	2	0	0
CO	2	3	3	3	3	3	3
DE	1	1	1	1	1	1	1
FL	2	2	2	3	3	3	3
GA	2	2	2	2	2	2	1
HI	0	2	3	4	6	7	7
IA	3	3	3	3	3	3	3
IL	2	1	2	2	2	2	2
IN	3	2	3	3	2	2	2
KS	0	0	0	0	0	1	0
LA	1	0	0	0	0	0	0
MD	2	2	2	2	2	2	2
MO	3	3	3	3	1	1	1
MS	1	1	1	1	1	1	1
MT	1	1	1	1	1	1	1
NE	1	1	0	0	0	0	0
NM	1	1	0	0	0	0	0
TN	5	7	6	6	7	7	7
TX	2	2	2	1	1	1	1
VA	1	1	1	1	0	0	0
VT	<u>13</u>	<u>19</u>	<u>20</u>	<u>20</u>	<u>25</u>	<u>27</u>	<u>27</u>
Totals	49	57	58	59	62	64	62

Table 3
Premiums of RRGs Filing with the NAIC, Listed by State of Domicile and Data Year

State of Domicile	1990	1991	1992	1993	1994	1995	1996
AZ	5,628,956	7,486,173	8,441,458	6,125,075	38,399	0	0
CO	7,960,332	9,738,617	13,146,072	16,870,763	23,358,863	31,755,204	28,389,478
DE	1,017,316	1,083,356	1,204,097	1,418,666	1,871,027	1,239,980	909,332
FL	4,150,250	17,782,864	7,635,673	10,422,101	11,144,931	10,979,372	11,358,401
GA	6,856,129	6,049,887	5,816,293	5,173,302	2,134,781	2,249,579	1,366,409
HI	0	4,718,172	6,433,212	10,928,638	11,972,308	12,188,691	12,018,096
IA	2,115,629	1,635,243	2,493,065	3,593,340	3,455,008	4,320,548	3,485,364
IL	11,087,391	14,060,869	18,058,739	16,224,781	18,361,135	19,044,831	19,894,459
IN	10,003,100	8,291,860	7,113,180	7,690,604	4,727,562	4,392,283	3,546,647
KS	0	0	0	0	0	0	0
LA	0	0	0	0	0	0	0
MD	2,360,498	3,047,042	3,316,748	3,673,592	4,780,550	2,388,504	2,786,419
MO	9,649,720	16,425,489	23,906,508	28,500,839	18,173,086	18,829,893	16,640,918
MS	384,657	1,115,370	1,523,996	1,675,855	2,177,525	1,350,701	0
MT	2,232,978	3,273,924	4,027,909	5,083,636	6,095,958	7,752,334	8,904,569
NE	12,010,945	5,681,246	0	0	0	0	0
NM	1,456,232	1,826,204	0	0	0	0	0
TN	17,362,554	23,103,331	28,645,800	22,517,457	33,083,606	25,846,955	24,117,237
TX	7,439,385	7,843,779	1,335,441	4,147,901	3,503,866	1,320,537	2,198,374
VA	19,167,234	11,710,737	11,086,624	13,054,539	0	0	0
VT	<u>7,275,310</u>	<u>11,728,062</u>	<u>32,402,482</u>	<u>33,897,084</u>	<u>81,175,836</u>	<u>87,004,993</u>	<u>87,890,258</u>
Totals	128,158,616	156,602,225	176,587,297	190,998,173	226,054,441	230,664,405	223,505,961

Utah's Uninsured Motorist Identification Database

by Vanna Hunter, CPCU

The problem of uninsured motorists has plagued state legislators for years. They receive the telephone calls from the irate injured parties who cannot collect compensation because of the responsible party's failure to obtain insurance. Thus, for years state legislatures have sought ways to deal with the issue. This has generally taken the form of trying to identify those who are uninsured. Most of these systems have had a terrible record for accuracy and have often caused more problems than they were trying to solve.

In 1994 the Utah Legislature passed House Bill 33, entitled the Uninsured Motorist Identification Database. Its intent was to establish a way to identify those who are uninsured before they cause an accident. Notwithstanding the skepticism of many, the database actually seems to be working!

What Is It?

HB 33 provided for the selection of a "designated agent" (a contractual third party or vendor) to track compliance with Utah's owner's and operator's security requirements by means of a computer database. The law requires each insurer writing motor vehicle liability coverage in Utah to report to the Utah Department of Public Safety's designated agent, on a monthly basis, records of each motor vehicle insurance policy in effect at the given date.

Vanna Hunter is a Property & Casualty Analyst who has been with the Utah Insurance Department for more than 11 years. She supervises the Rate and Form Analysis Division of the Department.

In addition, the designated agent must be provided with a record of all current driver's licenses and a record of all current motor vehicle registrations, by the Department of Public Safety and the Utah Motor Vehicle Division respectively. The combination of these three databases becomes the Uninsured Motorist Identification Database. This database is then used to identify vehicles that are registered but not insured (uninsured). The information as to whether there is insurance is made immediately available on-line to law enforcement officers when they check a vehicle or driver's license record.

What Are The Results?

Table 1 shows the trend in the percentage of uninsured motorists since January 1996. Table 2 shows the accuracy rate of Insure-Rite, Inc., the designated agent selected through a bid process, in matching records received from insurance companies with state vehicle registrations and drivers' license records.

Utah has approximately 1600 law enforcement officers assigned to traffic enforcement. Combined, these 1600 officers tap into the database on an average between 7000 - 8000 times **per day** for the purpose of confirming the existence of insurance on a registered vehicle.

The traffic courts are subpoenaing the database records to confirm the existence of insurance at a given time and date. The Financial Responsibility Division is also using the database records in dealing with automobile accidents.

Questions have been asked about the effect on auto premiums. The Utah Insurance Department has not set up any specific mechanism to measure the effect on premiums. The database has been functioning less than two years, which is not really long enough to produce actuarially credible data for rate-making purposes. Because the factors that go into automobile insurance rates are so varied and so numerous, it is not expected that the presence of the database alone will effect a reduction in premium rates. However, it is expected to have the effect of reducing the rate of any increase in premium rates. Measurement of that will be difficult.

How Does It Work?

At least once each month, every insurance company writing automobile liability coverages on Utah risks sends to Insure-Rite, Inc. a computer tape, cartridge, or diskette. This computer media report contains, in a specific format, a record for every vehicle and every driver on all active insurance policies on Utah risks. The State of Utah sends to Insure-Rite a computer tape of all registered vehicles and of every licensed driver in the state. Through Insure-Rite's unique process, all of this data is matched and the result of the match is available to Utah state law enforcement agencies on-line through the State Computer System.

When a call is initiated by a law enforcement officer to the State Computer System, the state computer accesses the database program which displays "yes," "no," or "exempt" into the insurance field of the traffic computer screen.

The law also requires the vendor to send letters to those the database identifies as uninsured. This is done for two reasons: 1) to make the public aware of the database, and 2) to help verify the accuracy of the system. Those who receive letters who truly are insured are asked to contact Insure-Rite with their insurance information. Though a burdensome job, more than 300,000 letters have been sent to date, it has proven invaluable in helping to fine tune the computer and reporting systems.

Why Is It Different?

Utah's Uninsured Motorist Identification Database has some unique qualities that seem to differentiate it from other systems.

It is an interactive system, it interacts with law enforcement. When a vehicle is stopped, the officer is able to verify whether the vehicle is insured or not on-line right then. There is a growing public awareness of the fact that law enforcement officers have this information.

In this system it is possible to go back to a given point in time to verify insurance.

Insure-Rite collects, compiles and purifies the database on a continual basis assuring a program with a margin of error as little as +/- 5 percent.

Data from insurance companies is not collected on an "exception report" basis. Most other systems have the insurance company report their full book of business only at the first report. After that, the insurer reports "exceptions" to that data in the form of cancellations, additions, deletions, renewals, new policies, etc. The Insure-Rite system asks insurers to report the full book of business each month, as of a given day of the month.

How Is It Funded?

The database is funded by the collection of a \$1 fee added to the application for registration or renewal registration of motor vehicles. Certain exemptions are made for commercial fleets and farm vehicles. The fees collected provide for the payment for the services of Insure-Rite, Inc. and for the cost of law enforcement officials to use the state's computer system to obtain the vehicle registration and insurance information.

What Are Some Of The Problems That Have Been Encountered?

There is a problem in dealing with the differences between personal auto policies and commercial auto policies. Many commercial fleet policies do not list the vehicles insured. This is usually handled by matching the registered owner with the named insured. The real challenge is the combining of personal and commercial registrations with personal and commercial auto policies. For example, the independent contractor who registers his vehicle in his own name might insure it under his business name.

The current law has no real teeth in it. When an uninsured motorist is stopped by an officer, he or she may be cited at that time. However, it is not yet possible to fine anyone simply because the database shows them as uninsured. There has to be a traffic stop first. This was done intentionally by the Utah Legislature because it was unsure of the technical ability of the database to really identify uninsured vehicles. The law is written with a sunset provision for July 1, 1998. The intent was to revisit the law and add more teeth in the form of severe fines if the database program proved to be highly accurate.

The program has met with **intense opposition** from insurance companies and their lobbyists who have tried to derail the legislation and its implementation at every turn. Insurers have maintained from the beginning that such a database cannot work. In spite of such claims, no insurer has ever fully explained why it objects to the concept of an uninsured motorist identification database.

What's In The Future?

Legislation passed in the 1997 Utah Legislature provided for using the database in another way. Not only can the database identify registered vehicles that are not insured, it can identify vehicles

insured in Utah, but not registered. To avoid what they believe to be high registration fees and property taxes in Utah, some people register their vehicles in neighboring states. This means a loss of revenue to Utah and its counties. The database may now be used to track these people.

The future of the database is unclear. The law will expire July 1, 1998, unless it is re-enacted by the 1998 Utah Legislature. Legislation to renew the database and provide stronger law enforcement penalties will be introduced. Whether the Utah Legislature will re-enact and strengthen the database will depend on political debates and circumstances that exist at the time.

**Table 1
UNINSURED MOTORIST TRENDS**

Month/ Year	(1) Registered Vehicles	(2) Matched Vehicles	(3) Difference (1) - (2)	(4) Unmatched Vehicles	(5) Probable Uninsured (3) - (4)	(6) Percent Uninsured
1/1996	1,440,734	1,170,748	269,995	18,463	251,532	17.46
4/1996	1,442,312	1,168,706	273,606	33,382	240,334	16.66
7/1996	1,415,517	1,176,600	238,917	23,200	215,717	15.24
10/1996	1,426,260	1,234,859	191,401	10,560	180,841	12.68
1/1997	1,425,934	1,219,303	206,631	23,432	183,199	12.85
4/1997	1,429,086	1,235,683	193,403	25,100	168,303	11.78

- (1) Number of registered vehicles per the Dept. of Motor Vehicles
- (2) Number of registered vehicles matched with insured vehicles
- (3) Difference between (1) and (2) (1) - (2)
- (4) Approximate unmatched vehicles (have insurance records but cannot match with a registered vehicle)
- (5) Probable uninsured vehicles (3) - (4)
- (6) Percentage of uninsured vehicles (5) / (1)

**Table 2
REPORTS FROM INSURANCE COMPANIES**

Month Reported	(1) Number of Records	(2) % of Complete Records	(3) Number of Records Matched	(4) % of Records Matched
11/1996	2,916,503	99.38	2,852,825	97.82
12/1996	2,915,087	99.38	2,853,507	97.89
1/1997	2,887,370	99.12	2,832,927	98.11
2/1997	2,905,826	99.11	2,852,287	98.16
3/1997	2,903,581	99.10	2,849,677	98.14
4/1997	2,912,259	99.06	2,854,280	98.01

- (1) Total number of complete records received from insurance companies
- (2) Percentage of records received from insurance companies that were complete
- (3) Total number of insurance records matched with vehicle registration or driver records
- (4) Percentage of records received from insurance companies that were matched (3) / (1)