

Testimony of the
National Association of Insurance Commissioners

Before the
Committee on Banking, Housing, and Urban Affairs

United States Senate

Regarding:
The State-Based System of Insurance Regulation

Wednesday, September 22, 2004

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Introduction

Good morning, my name is Greg Serio. I am the Superintendent of Insurance in New York. This year I am serving as Chair of the Government Affairs Task Force of the National Association of Insurance Commissioners (NAIC). I am pleased to be here on behalf of the NAIC and its members to provide the Committee on Banking, Housing, and Urban Affairs with an overview of the nation's state-based system of insurance regulation, as well as an update of our efforts to modernize state insurance supervision to meet the demands of the 21st Century.

Today, I would like to make three basic points:

- First, NAIC and the states are well underway in our efforts to modernize state regulation where improvements are needed, while preserving the benefits of local consumer protection that is the real strength of state insurance regulation. With NAIC's adoption in September 2003 of *A Reinforced Commitment: Insurance Regulatory Modernization Action Plan*, state regulators are on time and on target to accomplish changes needed to achieve a more efficient system of state-based national insurance regulation in the United States. In some areas, our goal is to achieve regulatory uniformity nationwide because it makes sense for both consumers and insurers. In areas where different standards among states are justified because they reflect regional market conditions, we are harmonizing state regulatory procedures to facilitate compliance by insurers and agents doing business in those markets.

- Second, insurance is a complex commercial product that is very much different from banking and securities. Consequently, the process for regulating insurance

products must also be different. Insurance policies are financial guarantees that are necessarily rooted in the contractual and tort laws of each state to provide protection against unexpected or unavoidable losses that can cripple the lives of individuals, families, and businesses. In doing so, insurance products inevitably touch a host of important and often controversial social issues that are addressed by specific statutory code language in every state. Current natural disasters, including hurricanes in Alabama and fires in California, highlight the advantages of state insurance oversight. State officials are in the best position to respond quickly, and to fashion remedies that are responsive to local conditions. We are directly accountable to consumers who live in our communities, and are more likely to effectively police claims-handling, underwriting, rating, and marketing practices. In addition, residual market mechanisms, which become important as markets harden after catastrophic losses, are more appropriately designed and administered by state officials familiar with the insurance carriers, geography, and demographics of their region.

- Third, we strongly believe an effective system of national regulation does not mean federal regulation. Involving the federal government will not simplify the complexity of insurance issues, nor diminish their number, nor smooth the process of regulation. Instead, federal intervention in supervising insurance will simply add additional layers of uncertainty, confusion, and cost for policyholders and claimants regarding “who is in charge” of supervising insurance payments when they are most vulnerable to the stresses of life’s disasters and personal losses. Any federal legislation dealing with insurance regulation carries the risk of undermining state consumer protections through unintended or unnecessary preemption of state laws and regulations. Creating an optional federal charter and its related regulatory apparatus would have a serious negative impact on the state regulatory system, including our efforts to make improvements in areas sought by proponents of a federal charter. Ultimately, a federal regulator would adversely affect state premium taxes and other revenues, which totaled \$12.3 billion in 2002.

State Regulatory Modernization: On Time and On Target

The state regulatory system is inherently strong when it comes to protecting consumers because we understand local needs and market conditions. However, we agree there is a need to make the system more uniform, reciprocal, and efficient. Consequently, state regulators have agreed upon a specific modernization plan that is now being implemented across the nation.

In March 2000, insurance commissioners committed to modernizing the state system by unanimously endorsing an action plan entitled *Statement of Intent – The Future of Insurance Regulation*. This important document set forth a common vision of our response to the Gramm-Leach-Bliley Act and how a state-based system of national regulation should develop in each area where modernization is needed. In September 2003, state regulators took the next step in the modernization process by setting specific program targets and a common schedule for implementing them through adoption of the *Reinforced Commitment: Insurance Regulatory Action Plan*. This landmark document – the result of lengthy discussions and negotiations – puts the states on a track to reach all key modernization goals at scheduled dates within the next few years. A copy of the NAIC’s *Insurance Regulatory Action Plan*, together with an update of our current implementation progress to September 2004, is attached as ATTACHMENT A to this statement.

Working in our individual states and collectively through the NAIC, we have made tremendous progress in achieving an efficient regulatory system for the business of insurance. Significantly, our specific regulatory program targets were developed with extensive input from industry and consumer representatives who are active in the NAIC’s open committee process. We strongly believe our regulatory action plan satisfies every legitimate complaint regarding inefficiency and redundancy in the state system. Even if an alternative federal regulatory system were set up tomorrow, there is no way it could

achieve these improvements on a schedule that comes close to the aggressive timetable that state regulators have adopted voluntarily.

Specific Action Goals in the NAIC Plan

The NAIC's *Insurance Regulatory Action Plan* covers every important area needed to achieve an effective national regulatory system, while still protecting consumers and industry participants in each state:

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.”

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.”

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.”

IV. Producer Licensing

“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.”

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.”

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.”

VII. Change In Insurance Company Control

“Streamline the process for approval of mergers and other changes of control.”

NAIC members understand these goals present difficult challenges. However, with the active support and participation of governors and state legislators, as well as industry and consumer advocates, we are confident NAIC member states will achieve these goals.

Insurance is a Complex Financial Product that Demands Local Regulation

Paying for insurance products is one of the largest consumer expenditures of any kind for most Americans. Figures compiled by the NAIC show that an average family can easily spend a combined total of \$4,500 each year for auto, home, life, and health insurance coverage. This substantial expenditure – often required by law or business practice – is typically much higher for families with several members, more than one car, or additional property to insure. Consumers clearly have an enormous financial and emotional stake in making sure insurers keep the promises they make.

Protecting insurance consumers in a world of hybrid institutions and products must start with a basic understanding that insurance is a different business than banking and securities. Banks make loans based upon a straight-forward analysis of a customer’s collateral and ability to pay, whereas securities can be bought by anyone having sufficient funds at a price set by open markets. In contrast, insurance is a commercial product that offers consumers a financial guarantee that takes into account each customer’s potential claims for losses (depending on variable circumstances), financial situation, place of residence, type of business, “risk management” preparations, or lifestyle choices such as smoking, exercise, education, and travel.

Insurance is thus based upon series of individual subjective business decisions such as these: Will an insurance policy be offered to a consumer? At what price? What are the policy terms and conditions? Is a claim filed by a policyholder valid? If so, how much should the customer be paid under the policy terms? All of these subjective business decisions add up to one absolute certainty: Insurance products can generate a high level of consumer backlash and customer dissatisfaction that requires a higher level of regulatory resources and responsiveness.

As regulators of insurance, state governments are responsible for making sure the expectations of American consumers – including those who are elderly or low-income – are met regarding financial safety and fair treatment by insurers. Nationwide in 2002, state insurance departments employed more than 13,000 regulatory personnel and spent \$947 million to be the watchful eyes and helping hands on insurance problems. We helped consumers collect tens of millions of dollars in claims payments.

The states also maintain a system of financial guaranty funds that cover personal losses of consumers in the event of an insurer insolvency. It is important for Congress to note that the entire state insurance system is authorized, funded, and operated at absolutely no cost to the federal government.

There have been charges from some industry groups that the state regulatory system is inefficient and burdensome, and that a single federal regulator would be better. However, the NAIC and its members do not believe the consumers we serve each day think we are inefficient or burdensome when compared to the agencies and departments of the federal government. During 2002, we handled approximately 4.2 million consumer inquiries and complaints regarding the content of their policies and their treatment by insurance companies and agents. Many of those calls were resolved successfully at little or no cost to the consumer.

Unlike banking and securities, insurance policies are inextricably bound to the separate legal systems of each state. There is no way the federal government could possibly

replicate the specific expertise of state legislatures, regulators, and courts to successfully interpret the contractual and tort laws of 50 states and the District of Columbia. Moreover, there is no reason for the federal government to do so when the states have a specific modernization plan and timetable to get the job done.

Congress Must Not Undermine State Modernization Efforts

The NAIC and its members believe Congress must be very careful in considering potential federal legislation to achieve modernization of insurance regulation in the United States. Even well-intended and seemingly benign federal legislation can have a substantial adverse impact on existing state laws and regulations designed to protect insurance consumers. Because federal law preempts conflicting state laws under the United States Constitution, hastily drafted or vague federal laws can easily undermine or negate important state legal protections for American consumers.

When Congress passed the Gramm-Leach-Bliley Act (GLBA) in 1999, it acknowledged once again that states should regulate the business of insurance in the United States, as set forth originally in the McCarran-Ferguson Act. There was a careful statutory balancing of regulatory responsibilities among federal banking and securities agencies and state insurance departments, with the result that federal agencies would not be involved in making regulatory determinations about insurance matters.

Even though Congress tried very hard in GLBA to craft language that would not unnecessarily preempt state laws, there have already been disagreements about the extent to which federally-chartered banks may conduct insurance-related activities without complying with state laws. Under GLBA, no state law may “prevent or significantly interfere” with the ability of a federally-chartered bank to conduct insurance-related business permitted by GLBA. Federally-chartered banks have aggressively asserted their perceived rights under GLBA to conduct non-banking business unhindered by state laws. As a result, the entry of federally-chartered banks into insurance has become a source of uncertainty and dispute despite the best efforts of Congress to avoid this very result.

We fully expect federally-chartered insurers would insist that state laws involving solvency and market conduct cannot “prevent or significantly interfere” with their federally-granted powers to conduct insurance business anywhere in the United States. A federal insurance charter with its associated laws, regulations, and bureaucracy must necessarily parallel every aspect of existing state laws and regulations, meaning potential conflicts between state and federal laws will likely occur across the board. The result would be years of protracted, costly litigation, as well as market and regulatory confusion that will benefit the legal community rather than insurance providers and consumers.

One of the great strengths of state insurance regulation is the fact it is rooted in other state laws that apply when insurable events occur. The NAIC urges Congress to avoid undercutting state authority in considering any federal legislation that would preempt important consumer protections or create a federal insurance charter. Federal laws that appear simple on their face can have devastating consequences for state insurance departments trying to protect the public.

The Impact of Federal Chartering on State Regulation Will Not Be “Optional”

Some industry representatives have said a federal charter merely adds an optional choice to the insurance regulatory system in the United States, and that it would not seriously affect the existing state system. State regulators disagree with this assertion. A federal charter may be optional for an insurer choosing it, but the negative impact of federally-regulated insurers will not be optional for consumers, producers, state-chartered insurers, state governments, and local taxpayers who are affected, even though they have little or no say in the choice of a federal charter.

Let’s be clear about the impact of a federal insurance regulator upon state regulation and our ability to protect consumers: The federal government is not an equal regulatory partner because it can preempt state laws and regulations. This simple fact contradicts the very foundation of insurance in the United States; because insurance products are

uniquely intertwined and dependent upon state law for everything from underwriting standards, to pricing, to claims procedures, to legal resolution of disputes. There is no logical or practical way to divorce insurance regulation from the state laws that give rise to consumer insurance products.

Despite our different sizes, geography, and market needs, states work together through the NAIC as legal equals under the present system. We find solutions as a peer group through extensive discussion and debate, give-and-take and mutual respect, knowing that no single state can force its own will over the valid concerns and objections of other states. Keeping in mind the original purpose of regulation is to protect all consumers, we believe this participatory democracy and state decision-making, based upon the political and business realities of local markets, is a major strength of the state-based system for protecting consumers and regulating insurers and agents.

Ultimately, a federal charter and its regulatory system would result in at least two separate insurance systems operating in each state. One would be the current department of insurance established and operated under state law and government supervision. This system will continue responding directly to state voters and taxpayers, including the statewide election of the insurance commissioner in twelve states.

A second system would be a new federal regulator with zero experience or grounding in the local state laws that control the content of insurance policies, claims procedures, contracts, and legal rights of citizens in tort litigation. Nonetheless, this new federal regulator would undoubtedly have the power to preempt state laws and authorities that disagree with the laws that govern policyholders and claimants of state-chartered insurers. At the very least, this situation will lead to consumer, market and regulatory overlap and confusion. At worst, it will lead to varying levels of consumer protection, perhaps even a “race to the bottom” to lower consumer protection standards, based upon whether an insurer is chartered by federal or state government.

Granting a government charter for an insurer means taking full responsibility for the consequences, including the costs of insolvencies and consumer complaints. The states have fully accepted these responsibilities by covering all facets of insurance licensing, solvency monitoring, market conduct, and handling of insolvent insurers. The NAIC does not believe Congress will have the luxury of granting insurer business licenses without also being drawn into the full range of responsibilities and hard-hitting criticism -- fair and unfair -- that go hand-in-hand with a government charter to underwrite and sell insurance. Furthermore, we doubt states will be willing to accept responsibility for the mistakes or inaction of a federal regulator by including federal insurers under state guaranty funds and other important, proven consumer protection laws.

Conclusion

The system of state insurance regulation in the United States has worked well for 125 years. State regulators understand that protecting America's insurance consumers is our first responsibility. We also understand commercial insurance markets have changed, and that modernization of state insurance standards and procedures is needed to facilitate less costly and less burdensome regulatory compliance for insurers and producers.

We respectfully request that Congress, consumers, and insurance industry participants work with us to implement the specific improvements set forth in the NAIC's *Insurance Regulatory Modernization Action Plan* through the state legislative system. This is the only practical, workable way to achieve necessary changes quickly in a manner that preserves the state consumer protections consumers demand. The state-based regulatory reform approach far exceeds having an "insurance czar" in Washington, D.C., along with the huge, costly, isolated federal bureaucracy that will accompany it. It also gives citizens in each state control over important aspects of insurance and claims procedures that affect their financial security in the communities where they live.

The NAIC and its member states have fully cooperated over the years with important inquiries by Congress into the adequacy of the state regulatory system. We believe these

inquiries have been productive, and have clearly demonstrated why local and regional state regulation of insurance is the very best way to meet the demands of consumers for this unique financial product. We will continue to work with Congress and within state government to improve the national efficiency of state insurance regulation, while at the same time preserving our longstanding proven and successful dedication to protecting American consumers.

Insurance regulatory modernization and protection of insurance consumers are not, nor should they ever be, mutually exclusive notions. We can achieve both these important objectives.



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

Updated Status – September 2004

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 thirteen consumer representatives to participate in NAIC activities. The NAIC also formally recognizes four 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: In July 2004, the NAIC launched a national consumer awareness and media outreach campaign titled “Fight Fake Insurance: Stop. Call. Confirm.” The campaign, ongoing through the end of this year, features as its spokesperson nationally known fraud expert Frank Abagnale, whose life story was depicted in the recent Spielberg movie “Catch Me If You Can.” The NAIC developed and distributed a public service announcement featuring Abagnale, which has been distributed to approximately 500 television stations and 1,000 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. A radio media tour was conducted in July, resulting in 667 radio interview placements, netting nearly 130 million consumer impressions with the key message that state insurance departments are a resource for consumers in the fight against fake insurance. The NAIC developed a CD-ROM “toolkit” for each state insurance department, containing materials that are being customized and used in local campaigns. Finally, the “Fight Fake Insurance” message will be incorporated into the upcoming “Get Smart About Insurance” state-driven consumer education campaign in January 2005. The “Get Smart” campaign continues to grow in popularity and featured 46 participating states in 2004.

(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. By the end of September 2004, additional links will be added to provide consumers critical information they need to make informed decisions about purchasing life insurance and automobile insurance. The current information regarding homeowners insurance will be updated and consumer-friendly information regarding health insurance will be added to the CIS by the end of 2004. Over 200,000 users have accessed the CIS website for 528,761 hits year-to-date in 2004.

(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 will 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.

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: The Market Information Systems Working Group (MAWG) is reviewing the current data codes, reporting structure and reports available from the NAIC's market information systems. The NAIC has established a Market Analyst's Scorecard, which tracks state achievement of the following: (1) designation of a market analysis coordinator, (2) completion of core complaint analysis, (3) coordination with MAWG regarding nationally significant companies and (4) full participation in the NAIC's market information systems (Regulatory Information Retrieval Systems, Complaint Database System, Special Activities Database and Exam Tracking System).

Based upon the information contained in the market information systems, NAIC staff has 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.

(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. The purpose of the *Market Analysis 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. In addition to helping identify potential problems, the handbook will help states develop a more detailed understanding of the market place to target their regulatory resources more efficiently. If used consistently and uniformly by the states, the handbook also should facilitate interstate collaboration by giving states a common baseline of knowledge from which to pursue collaborative actions. The handbook is being updated in 2004 to address the use of underwriting guidelines and testing.

The analysis procedures in the handbook are also being implemented in 2004. Based upon the handbook and the market regulatory profiles described above, NAIC staff has distributed detailed analysis procedures to each state. These analysis procedures provide the basis for states to select companies for further analysis by the NAIC Winter National Meeting. Moving forward, states will utilize a newly developed “Level 1 Checklist” to further analyze companies and regulatory concerns that should be coordinated through MAWG. This increased analysis, targeting, and coordination should result in fewer duplicative regulatory efforts.

Finally, the market conduct annual statement pilot project is continuing in 2004 to determine whether a market conduct annual statement could serve as a market analysis tool that all states could use to consistently review market activity of the entire insurance market place and identify companies whose practices are outside normal ranges. If the pilot is a success, this will be a tool to help states more effectively target market regulatory efforts. By using common data and analysis, states would have a uniform method of 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 develops, states should be able to reduce the number of state-specific data calls and collect 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 in May. Because the NAIC paid for each state to send a market regulator to this conference, significant training on market analysis techniques was accomplished through this conference. In July, the NAIC offered another market analysis training. This classroom session is now being followed up by two on-line market analysis training sessions; one in August and one in October. The August training has already begun. Finally, market analysis techniques were incorporated into the NAIC's Staff Education Program and Integrating Market Regulation Programs.

(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 with adopted protocols to be followed for the coordination and collaboration of market regulatory interventions. These protocols will be further refined throughout 2004. MAWG is analogous to the NAIC's Financial Analysis Working Group, and will continue to serve as the focal point for the coordination of market regulatory efforts while preserving local control for matters that directly affect consumers within each state. As part of the Market Analyst's Scorecard, NAIC staff will be tracking each state's reporting of information to MAWG for centralized coordination.

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. Thirty-six states and the District of Columbia have self-certified compliance with all four uniform examination areas. The NAIC has also adopted a process for resolving complaints about state non-compliance with these standards.

(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.

(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 are moving 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. As of the end of July, MAWG has a list of approximately 45 companies and issues for potential interstate collaboration.

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’ which 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. To date approximately 28 jurisdictions have reported preliminary information to the NAIC. The Action Plan establishes a goal of 2008 for universal use; however, those working on the project believe most jurisdictions will implement filing metrics long before that date. It should be noted that SERFF has the necessary counting and reporting framework for both paper and electronic product filings.

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, 45 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. The remaining states expect to complete their checklists and have them on-line by year-end 2004.

(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. Sixteen states have populated the property and casualty product requirements locator tool as of August 2004. The life product requirements locator tool is 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. A survey is underway to determine how many states are using these tools. The Action Plan establishes a goal of 2008 for universal use. To date, eighteen states have implemented the Uniform Product Coding matrix within SERFF and other states are in progress. Even more states use the matrix for paper-based filings.

(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. A survey is underway to determine the extent of

their use. 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.

In addition, the SERFF system is being modified to model the adopted uniform transmittal documents. Those modifications should be complete in the spring of 2005.

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 Operational Efficiencies 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 50 states accepting filings for the property/casualty line of business, 42 of which are accepting all major lines. There are 48 states accepting life filings, 39 of which are accepting all major lines, and 43 states are currently accepting health filings via SERFF, 36 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 1,400 insurance companies licensed to use SERFF and over 86,000 filings have been submitted via SERFF thus far in 2004. Current transaction activity suggests that 150,000 transactions will be submitted via the SERFF system by year-end. The NAIC has estimated 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 now endorsed the Compact.

Compact legislation has now been enacted in the following nine states: CO, HI, IA, ME, NH, RI, UT, VA and WV. Nine other states have introduced Compact

legislation so far in 2004. It is anticipated that legislation to enact the Compact will be introduced in as many as 13 additional states during 2005.

As part of the effort of state insurance regulators to develop national product standards for life insurance, annuity, disability income insurance, and long-term care insurance products, the NAIC has created the Interstate Compact National Standards Working Group. The primary goal of this working group is to begin developing high-quality national product standards while the Compact is being implemented in the states. Not only will the product standards developed by this working group serve as a foundation for those standards developed through the Compact, they will also serve as an example to all that strong consumer protections will be the highest priority under the Compact.

So far this year, the working group has adopted draft product standards covering: (1) individual variable annuities, (2) individual non-variable annuities, (3) individual endowment, (4) individual single premium endowment, (5) individual disability income insurance, (6) individual long-term care insurance, (7) individual term life insurance, (8) individual flexible premium adjustable life insurance, (9) individual whole life insurance, and (10) individual single premium whole life insurance. The working group has provisionally adopted standards covering: (1) individual fixed premium deferred non-variable annuities, (2) individual fixed premium deferred variable annuities, (3) individual single premium deferred non-variable annuities, and (4) individual single premium deferred variable annuities. The working group will continue developing additional draft product standards throughout the remainder of 2004.

Additionally, the NAIC has established an Interstate Compact Implementation Working Group to develop draft bylaws and operating procedures for the Compact. It is anticipated that draft bylaws will be adopted by the working group at the 2004 Fall National or shortly thereafter.

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 uniform individual and business entity applications to be used for both resident and non-resident licensing during the NAIC Winter National Meeting in December 2003. Thirty-three states are using these applications for resident licensing and forty-six states are using the applications for non-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-seven 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. States are now in the process of consolidating all their limited lines into these core categories. This process will continue through the 2004 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. 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 is developing an Authorization for Criminal History Record Check Model Act and the business requirements to establish an electronic, centralized fingerprint repository. 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 31 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, 2004. There are three states on electronic non-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, with a goal of all states and territories having NPN implemented by December 31, 2004.

(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. The goal is to achieve all states and territories by December 31, 2004.

(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, with a goal of 20 by December 31, 2004.

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 come 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 changes are: the system will be converted to a data input driven system versus a form-based system, and the application will interface with the Financial Data Repository (FDR) to extract all possible application elements in order to complete the UCAA more efficiently.

Actual coding work began in March and December 31, 2004 is the deadline for completion of all changes and entry into production. The National Treatment and Coordination Working Group previewed the system prototype during the first week of September 2004.

(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 NAIC is undertaking this work to further unify the states. As noted above, there are some additional filing requirements to the UCAA in certain states. By creating an NAIC model and pushing states to adopt it, absolute uniformity can be achieved. In addition, through such a model, states will be more uniform in their standards for issuing or denying a certificate of authority. This will add transparency and more certainty to the company licensing process.

This work is being considered as part of the Request For Proposal outlined below. In this regard, the National Treatment and Coordination Working Group is seeking advice on an approach to structuring and drafting an NAIC model act. We expect this work will be initiated in the second quarter of 2004, once substantial progress is made in developing baseline and best practices for reviewing UCAA's (see below). The Regulatory Modernization Action Plan calls for such a model to be ready by December 2004.

(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: The consultant hired to draft the handbook has completed the physical interviews of over ten states, as well as telephone interviews of several others. The results of the interviews have been compiled into a report and the consultant is creating a draft copy of a detailed outline of the handbook for review by the National Treatment and Coordination Working Group at the Fall National Meeting. A final version of the handbook is planned for adoption at the Winter National Meeting.

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 work identified has been completed and the NAIC sees states conforming, the model and associated review procedures and licensing standards will be presented to the Financial Regulation Standards and Accreditation (F) Committee for consideration in mid 2005.

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: Two years ago, the NAIC developed a comprehensive guidance paper on insurance holding company oversight. In conjunction with this effort, the NAIC developed a "lead state" framework under which a state or states were designated as "lead" for various group solvency oversight work (e.g., financial analysis, examinations, holding company filings/transactions etc). This framework is still in its development stages, but significantly more state coordination on solvency oversight has occurred since its creation. Through NAIC financial processes, as well as at the state level, this framework continues to be used to help ensure effective and efficient financial regulation.

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: This initiative aims to institutionalize the lead state framework and move boldly toward syncing on-site examinations of affiliated insurers. Much discussion on the effectiveness and efficiency of financial examinations has occurred during the past two years. Therefore, regulators working through the NAIC are well prepared to move forward with designing and implementing the requisite language in the NAIC *Financial Condition Examiners Handbook*. As this Handbook is an NAIC Accreditation Standard, the Financial Regulation Standards and Accreditation (F) Committee will consider these amendments in due course, which should occur by March 2005.

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: The new model act related to insolvency will be called the Insurer Receivership Model Act (IRMA). Every state has adopted a version of an NAIC model act dealing with insurer receiverships, but many of these are based on versions from the 1930's and the 1960-70's.

Currently, the NAIC is finishing the process of incorporating parts of the Uniform Receivership Law issued by the Interstate Insurance Receivership Compact Commission, and is also incorporating updates related to other recent issues. This review aims to ensure that the IRMA reflects the current best practices for conducting statutory receiverships of insurers, and is an updated model that can be adopted in substantially similar form by all of the states. The current NAIC Accreditation Standard is that states must have a scheme for handling receiverships. The Financial Regulation Standards and Accreditation (F) Committee will consider an amendment to require enactments substantially similar to the IRMA in due course, which should occur by March 2006.

In regard to maximizing the use of technology, the NAIC has begun two projects. The first project is developing a Global Receivership Information Database (GRID) to better capture, analyze, and report information on insurer receiverships and the causes of hazardous financial condition and insolvency. The GRID system should be in place in 2004.

The second project is the development of templates for Web site and claims tracking for use by state receivership offices or individual receiverships. These templates would allow for greater use of the Internet to 1) provide information useful to persons with interests in receiverships and 2) provide for the notification, filing and tracking of claims in receiverships. These templates should be completed in 2005.

Work on a third project related to maximizing the use of technology in receiverships, the Uniform Data Standards, has been ongoing since 1993. Recent efforts have focused on updating the reporting formats (used to send policy and claim data between state guaranty associations (SGAs) and receiverships) and instructions manual to increase the effective use of the Uniform Data Standards. The updates to the Uniform Data Standards should be completed in 2004.

In regard to developing procedures for state coordination of imminent receiverships and guaranty fund coverage, the NAIC has several projects under way to improve the operation of receiverships and their coordination with other governmental entities. First, the NAIC has begun drafting a White Paper regarding procedures for coordinating with SGAs. Once work on the procedures has been completed and the NAIC sees states conforming, the procedures will be presented to the Financial Regulation Standards and Accreditation (F) Committee for consideration, probably in 2005.

Second, the NAIC is working to resolve problems created by the existence of federal claims in receiverships by seeking amendments to the federal claims priority statute. Clarity on the treatment of federal claims in insurer receiverships will allow for more funds to be paid out of receiverships. An updated NAIC Resolution addressed to Congress regarding needed legislation should be done in

early 2004. Activities supplemental to that should continue until some solution is obtained.

Third, the NAIC is working to address funding problems for certain SGAs in relation to their workers' compensation accounts (overall nationwide capacity is more than adequate) that became a concern in 2003 only about the time this Action Plan was being finalized. In the near term this is being addressed by finding ways to increase payments out of receiverships to the SGAs on their insurance policy related claims. In addition to the above noted federal claims matters, the NAIC has applied an emergency effort to identify receivership estates that may be able to make payments to the SGAs from estate assets. All of this activity should be completed in 2004.

Fourth and finally, the NAIC has undertaken to develop, in conjunction with a panel of judges and state court personnel, a set of judicial training materials (likely using a CD-ROM format) that will be provided to judges and state court personnel dealing with receivership cases. These training materials should be completed in 2004.

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 on the use and benefits of this database system to the regulatory community. The benefits occur largely in the area of coordinating on common Form A filings and identifying acquiring parties who are suspicious. A formal training program has been developed and will be offered to states throughout 2004.

Along with the NAIC's guidance paper on insurance holding companies, formal review programs were designed for the various holding company disclosures and registration filings, including Form A's. The Insurance Holding Company Working Group is reviewing these forms for the purpose of developing a comprehensive program on Form A filings. The working group will focus initially on how to bring about more consistent communication on multi-state Form A filings. This program should be completed by the Winter National Meeting.

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 the integration of policy form approval and producer licensing into the M&A process, two pilot projects are underway to study how these two regulatory process are commonly handled by states. As this work is new, we expect much of 2004 will be needed to complete the research and to begin formulating an implementation plan.