

**Testimony of the
Interstate Insurance Product Regulation Commission
(IIPRC)**

**Before the
Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises
Committee on Financial Services
United States House of Representatives**

**Regarding:
“Examining Proposals to Reform Insurance Regulation”**

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**Frances Arricale
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Interstate Insurance Product Regulation Commission
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Introduction

Chairman Kanjorski, Ranking Member Pryce and Members of the Subcommittee:

Thank you for opportunity to testify before the Subcommittee today as you examine proposals to reform insurance regulation.

My name is Frances Arricale. I am the Executive Director of the Interstate Insurance Product Regulation Commission (“IIPRC”). The IIPRC is the public agency charged with managing the operations of the Interstate Insurance Product Regulation Compact (“Insurance Compact”). As an instrumentality of our Member states, the IIPRC functions under a delegation of authority by our Member state legislatures and under protocols similar to the obligations imposed upon state governments and public officials.

I am very pleased to be invited before the Subcommittee today to provide an update on the successful start-up of our interstate compact as a proactive state-based reform initiative to modernize insurance regulation for the benefit of all constituencies in the ever-evolving, global financial marketplace.

As you just heard in testimony from New York Superintendent Eric Dinallo on behalf of the National Association of Insurance Commissioners (NAIC), the insurance regulatory community

continues to work diligently to implement necessary regulatory reforms to promote a robust insurance sector while upholding regulators' primary responsibility – to protect consumers. One of the critical areas on the state reform agenda is aimed at speed-to-market for insurance product accessibility; whereby, insurers are able to get new products approved and to market in a timely and cost-effective manner, so that sound and competitive products are available to consumers. The Insurance Compact is a key successful speed-to-market initiative launched by the NAIC in partnership with state legislators across the country to meet the challenges of insurance regulation within an international financial market dynamic.

Interstate compacts afford states the ability to act collaboratively on issues of national concern while continuing to respond locally to their constituencies. Our Insurance Compact has utilized this interstate cooperative structure, and added time-tested regulatory expertise along with modern technology to meet today's demands for increasingly necessary asset protection insurance. We have achieved initial operational success by initiating a central, electronic product review platform under national standards to fulfill the essential goals of regulatory modernization and uniformity while holding the bar high on consumer protection. We have accomplished this without impinging on state budgets or taxpayers.

With 31 Members to date, including 30 States and Puerto Rico, representing approximately one-half of premium volume in our authorized product lines nationwide, the Insurance Compact has made great strides in a short time, with plans for greater achievements moving forward. State regulators and legislators have built the framework for the future of insurance product regulation – and the future is now.

Background

There are a number of factors which have influenced the creation of this Insurance Compact. Since the early 1990s, there has been a heightened awareness among state insurance regulators of the need to identify and make improvements in many areas of state insurance regulation. Additionally, the enactment of the Gramm-Leach-Bliley Financial Modernization Act of 1999 directly and indirectly affected many areas of state insurance regulation, with a key emphasis on increased attention to uniformity and coordination among the states. The insurance regulatory community focused on critical areas for reform, including speed-to-market initiatives to improve the process by which insurance products are reviewed and approved by state insurance regulators across the nation.

Historically, insurance companies have been required to seek individual state action for product filings in order to roll out a product on a national basis. Regulators recognized that this created a complicated and time-consuming process for insurers aiming to bring a new product to the market; the costs of which are passed on to the consumer through product pricing. Whereas the banking and securities industries may introduce innovative products and receive rapid approvals, an approval for a new life insurance or annuity product to be sold nationally had required separate regulatory approval processes in all 56 jurisdictions in the United States which could at times take more than a year. Moreover, a company may have needed to submit 30 or 40 versions of the same product to satisfy state-specific requirements.

Driven by demanding market forces, insurance products also have become increasingly sophisticated and their shelf lives have been reduced from seven or eight years to two or three

years. These factors increased the workload for the approximately 200 regulators, about two (2) percent of the nation's insurance regulators, charged with reviewing and making regulatory decisions on asset-based insurance products.

In reviewing the options for new speed-to-market processes under the *2000 NAIC Statement of Intent: The Future of Insurance Regulation*, state regulators acknowledged that for certain insurance products, such as life insurance and annuities, these standards do not generally vary greatly from state to state since these products tend to be “mobile,” moving with consumers throughout their lives. Hence, these insurance products lent themselves to a national product standards framework.

Through the NAIC, state insurance regulators agreed to utilize the vehicle of an interstate compact to meet the challenges of speed-to-market for asset-based insurance products. As a contract between states enacted through legislative action and with a statutory foundation, an interstate compact allows for cooperation on multi-state or national issues, while maintaining individual state authority and ability to act in the best interests of each respective state’s local citizenry.

Although interstate compacts traditionally have been used to address border disputes and water rights, their use has expanded significantly in recent decades to cover such areas as tax issues, drivers' licensing and vehicle registration, environmental issues, emergency management, juveniles, adult offenders and other issues. According to the Council of State Governments

(CSG), there are approximately 200 interstate compacts in existence today, and every state belongs to at least one or more compacts.

Insurance has rightly attained national focus as a supporting pillar of our national economy, enabling the effective management of risk and the conversion of savings into investment possibilities. However, the unique character of insurance as a financial product which provides a promise for future protection to a consumer in exchange for current premiums, underscores the critical importance of state insurance regulators as consumer protectors. So while insurance is a national concern, the ability of state regulators to respond locally to consumers in a rapid and efficient manner has been the hallmark success of insurance regulation in our country. The Insurance Compact provides the modern structure and streamlined processes to meet the noted competitive demands of the insurance sector in the expanding global financial services market, while ensuring the imperative of continued protections for consumers of insurance.

Insurance Compact

IIPRC Structure and Governance

A state legislature must enact the *Model Compact Statute* in order for a state to join the Insurance Compact. The *Statute* was developed by the NAIC through an open, deliberative process and in close consultation and collaboration with the National Conference of State Legislatures (NCSL) and the National Conference of Insurance Legislators (NCOIL).

Twenty-six (26) states and/or states representing 40% of premium volume in asset-based insurance products nationwide was the threshold required to enact the *Statute* in order to make

the Insurance Compact operational. This goal was met in 2006, followed by the inception of the IIPRC as the public agency charged with managing the day-to-day activities of the Insurance Compact on behalf of the Member states.

The IIPRC provides the Member states with a vehicle to (1) develop uniform national product standards that afford a high level of protection to consumers of life insurance, annuities, disability income, and long-term care insurance products; (2) establish a central point of electronic filing for these insurance products; and (3) thoroughly review product filings and make regulatory decisions according to the uniform product standards.

The Insurance Compact is governed by the IIPRC, which includes one Member from each Compacting State, and each Member has one vote. Each state selects a representative as the Member of the IIPRC. The insurance commissioner is usually chosen as the Member in each state.

The IIPRC has a Management Committee of 14 Members which directs the actions of the IIPRC. The composition of the Management Committee under the *Statute* is based upon a representational structure by premium volume and includes: (1) one Member from each of the six largest states by premium volume, (2) four Members from states with greater than 2% of premium volume, and (3) four Members from states with less than 2% of premium representing each of the four geographic zones recognized by the NAIC.

Under the Compact law, the IIPRC also has a standing Legislative Committee comprised of eight (8) Member state legislators appointed by NCSL and NCOIL. Our Legislative Committee works as an active partner by monitoring the standards-setting process and making recommendations pertaining to the operations of the IIPRC.

Additionally, the IIPRC structure encompasses two advisory committees. Our Consumer Advisory Committee is comprised of consumer representatives, including the AARP and experienced consumer advocates based in our Member states. Our Industry Advisory Committee is comprised of industry representatives, including the American Council of Life Insurers (ACLI), America's Health Insurance Plans (AHIP), National Association of Insurance and Financial Advisors (NAIFA), Association of Health Insurance Advisors (AHIA), and insurance companies.

The IIPRC Office is based in Washington, DC. As Executive Director, I oversee the day-to-day operations of the IIPRC on behalf of our Member states, including our uniform standard-setting process, public notice and comment procedures, product filing operations, and reporting to Member state regulators and legislators. The actual central, electronic filing platform under the Insurance Compact is managed by the IIPRC Office. Product reviews and systems development are conducted by professionals, who are former state insurance department regulators now working for the IIPRC, and a credentialed actuary. The IIPRC Office will add new professionals to our operations as our product filing platform expands.

Uniform Standards-Setting Process

The standard-setting process under the IIPRC engages the collective expertise of the Member insurance departments as well as seeks the input of the greater state insurance regulatory community through the NAIC. The development of standards is open to public participation and comments throughout the process. Concerns from legislators, consumers and industry are actively sought by the IIPRC to ensure robust, modern regulatory standards. The IIPRC also is required to give notice directly to all Member state legislatures before any uniform product standards may be adopted.

Under the requirements of the Insurance Compact, supermajorities of both the Management Committee and the full membership of the IIPRC are necessary to adopt uniform product standards. Accordingly, a high level of agreement must be obtained in producing these nationally-accepted uniform standards to meet the concerns of all states.

As an interstate compact, our Member states always maintain their right to opt-out of the uniform standards developed by the IIPRC. However, it is most noteworthy that no Member state has opted-out of our standards to date. I would submit that given the inclusive and comprehensive standard-setting process under the IIPRC, our consensus-based approach to decision-making has forged strong but practical nationally-accepted product standards to benefit consumers and insurers. This highly-engaged interstate cooperation by our Member states and inclusive processes for all interested parties under the Insurance Compact is a testament to the states' commitment to real and rapid insurance regulatory reform.

Preservation of Rights and Remedies

The delegation of authority to the IIPRC under the Insurance Compact is for regulatory product review. Market conduct examinations, investigations and all other regulatory activities remain with our Member insurance departments. The IIPRC provides the streamlined review processes for asset-based insurance products while our individual Member states continue their market conduct activities for IIPRC-approved products.

The Insurance Compact preserves all the rights and remedies afforded to consumers and insurers under the current state-based regulatory system. The authority of persons and state attorneys general to bring action against insurance companies and agents in state court under general consumer protection laws remains intact for IIPRC-approved products. Article XVI of the *Model Compact Statute* expressly reserves these rights, including the right of access of any person to state courts; remedies available under state law not specifically related to content of a product; state law relating to construction of an insurance contract; and authority of the attorneys general of the states to bring any action or proceeding.

Insurance Compact Goals

The goals of the Insurance Compact as stated in our *Statute* and encompassed under the daily work of the IIPRC are summarized by the following:

- The purpose of the Insurance Compact is to protect consumers of asset-based insurance products in the lines of individual and group life, annuity, disability income, and long-term care insurance while providing for speed-to-market regulatory modernization.

- The Insurance Compact is enabled to initiate speed-to-market by providing a national filing platform under uniform standards for product approval processes utilized by the insurance industry. The IIPRC is charged with implementing the central clearinghouse for this product review on behalf of the Insurance Compact Member states to enhance the efficiency and effectiveness of the way asset-based insurance products are filed, reviewed and approved in the United States.
- The collective expertise of state regulation is leveraged into a national approach for “one-stop filing” under the cooperative framework of the IIPRC which provides for one central point of electronic filing under one set of uniform insurance regulatory standards for one product approval that is valid in all 31 Member states and growing.
- The standards and operations of the IIPRC, as a public agency and instrumentality of our Member states, are to uphold strong consumer protections as the hallmark of state-based regulation, while our transparent processes encourage public comment and ensure accountability to our Member States.
- The Insurance Compact framework promotes the competitiveness of the insurance industry in the global financial sector; thus, affording insurance customers quicker access to more competitive insurance products.
- Membership in the IIPRC also allows state insurance departments to more efficiently utilize department resources originally designated for product review towards other regulatory operations, including a focus on important market conduct and financial solvency reviews.

- The regulatory operations of the IIPRC are to be self-funding through filing fees which ensures that additional burdens are not placed on state budgets or taxpayers, while state filing fee and state premium tax structures continue to remain in place.

Accomplishments to Date

Membership

Currently, the Insurance Compact has been adopted by 31 Member jurisdictions – 30 States and Puerto Rico, and represents approximately one-half of premium volume in our authorized asset-based insurance product lines nationwide. Our Members are: Alaska, Colorado, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

All states are encouraged to join the Insurance Compact, and presently an additional ten (10) jurisdictions have legislation pending and under consideration for membership this year – Alabama, California, Connecticut, District of Columbia, Illinois, Louisiana, Missouri, New Jersey, New York, and South Carolina (Insurance Compact Map attached). The IIPRC anticipates that additional states will join the Insurance Compact during 2008 and 2009.

National Standards and Uniformity

Within six (6) months of our inaugural meeting in June 2006, the IIPRC adopted the first uniform standards for life insurance products, demonstrating the commitment of all Member

states to initiate uniformity in state regulatory product review while continuing to ensure high level consumer protections.

The IIPRC has continued to work diligently to promulgate new standards, resulting in the adoption of 39 Uniform Standards thus far. Today, we are working on the last set of standards on our current agenda for Individual Life Insurance. The IIPRC also is working on Individual Annuity Standards which are nearing final review for adoption by the IIPRC. We intend to begin work on Group Life and Group Annuity Standards during the remainder of 2008, and expect to take up proposed standards for Disability Income and Long-Term Care during 2009 to complete the portfolio of standards in our authorized asset-based product lines.

While we continue work to promulgate the full complement national uniform standards under our authorized product lines, the IIPRC has built in a transitional filing method to expand our review platform, so companies may have increased filing possibilities under the Insurance Compact in the interim.

Central Electronic Product Filing

Within one year of its establishment, the IIPRC brought its central product filing operations on-line through the NAIC's System for Electronic Rate and Form Filing (SERFF) and on-target with the Members' time frame of June 2007. The IIPRC immediately received its first life insurance product filings from insurers during the same month our national filing platform was initiated.

The Insurance Compact defines its speed-to-market mandate by providing a 60-day review turnaround time for Compact filings. This provides for the IIPRC's professional team to review filings for compliance with the national standards in terms of the content of policy forms submitted, and issue final regulatory decisions. Policy submissions to the IIPRC include policy contracts, applications and benefit riders which comprise an asset-based insurance product. Product submissions which do not meet our uniform standards and filing rules must be corrected before approval, or these submissions will be disapproved.

The initial filings received by the IIPRC have been reviewed and approved within our 60-day timeframe. To date, the average turnaround time from date of filing to final disposition has been 38 days. Large, medium and small insurers are taking advantage of the ability to make one filing under one of set of easily-accessible standards under the IIPRC for one approval received in an average of 38 days that is valid in all our Member states.

The central filing platform under the IIPRC has been moving through its initial start-up phase with less than one year of filing operational history; but within this short time, we have already approved 53 life insurance products to date. We are continuing to receive new filings as insurers are assessing the new national standards and the efficiencies of "one-stop filing" under the Insurance Compact.

Future Plans

Build Upon Start-Up Success

The IIPRC is working to build the highest-caliber, modern electronic product filing platform to meet the increasing Insurance Compact filings as we move beyond our initial start-up and complete our operational build-out during 2008.

- The IIPRC plans to continue work on promulgating new uniform standards in all four of our authorized product lines – life, annuity, disability income, and long-term care insurance. With the necessary time afforded to engage all stakeholders in the national standards-setting process, including public notice and hearings under the IIPRC's procedures, it is anticipated that our timetable to promulgate our full portfolio of standards will extend towards the end of 2009.
- As the dynamic insurance sector develops new products to meet the asset-protection needs of customers, the IIPRC will look to encompass new uniform standards, not currently on our agenda, which will allow for the filing of yet-to-be created and innovative products. As a practical central filing platform, the IIPRC Members recognize the necessity of keeping pace with the market demands.
- The Insurance Compact filing platform on SERFF will be enhanced with key improvements to accommodate the increase in filings and the requirements of our uniform standards. Additionally, the IIPRC will be upgrading the filing information interface for our Member state insurance departments to streamline their access and enhance their records capabilities for IIPRC-approved products as utilized by their market surveillance, examination, and consumer affairs divisions.

- The IIPRC will continue to promote the use of our “one-stop filing” with insurers nationwide. We anticipate an increasing volume of filings as new uniform standards are brought on-line by the IIPRC, and the operational start-up success of the Insurance Compact is assessed by companies.
- With the assistance of our Members and Legislative Committee, the IIPRC will continue to outreach to all states to encourage membership in the Insurance Compact as we expand the goals of uniformity nationwide.

Conclusion

The Compact represents a successful state-based modernization reform initiative that benefits consumers, industry and insurance regulators. It makes state insurance regulation more efficient and effective in the financial marketplace while maintaining and enhancing protections for consumers. Although Member States work jointly to develop strong national product standards, individual states will continue to monitor these products in their respective states and take appropriate enforcement actions, as they deem necessary. The Compact will allow consumers to get access to more competitive insurance products more quickly, without restricting their rights and remedies. Finally, insurance companies will be able to make their product filings at a central point; thus, avoiding duplicate filing procedures and allowing them to get competitive products into the marketplace without unnecessary delay.

Insurance regulators and state legislators have recognized the necessity for insurance regulatory reform, and proactively have engaged to respond to the competitive needs of the vital insurance sector in our global economy while continuing to meet their obligations to each insurance

consumer in their respective states. By promoting uniformity through the application of national product standards embedded with strong consumer protections, the Insurance Compact has built the framework for modern regulatory review practice in the United States. The IIPRC has implemented these modernization imperatives in short order as state insurance regulatory reform for asset-based product review moves from a modernization initiative to a state regulatory operational reality to serve the public nationwide.

Thank you again for the opportunity to testify before the Subcommittee today. I look forward to answering any questions.

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