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EXECUTIVE COMMITTEE TASK FORCE TO STREAMLINE
AND SIMPLIFY INSURANCE REGULATION

REPORT TO THE NCSL EXECUTIVE COMMITTEE

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Quebec City, Canada
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Good Afternoon. I am Donna Stone, a State Representative from Delaware, where I chair the House Economic Development, Banking and Insurance Committee. I speak to you today as a Member of the NCSL *Executive Committee Task Force to Streamline and Simplify Insurance Regulation*.

The NCSL Executive Committee established the Task Force in 2001 to explore the issues that confront state insurance regulation in the modern economy and—if necessary—to develop and review draft legislation for state consideration.

NCSL strongly supports the states as sole regulators of the business of insurance. For 152 years, states have successfully protected consumers and ensured the safety and soundness of insurance companies operating in the United States. State regulators are accessible, accountable, and responsive—and state legislatures are uniquely positioned to set policies that effectively serve local markets and concerns. State insurance regulation also ensures \$11.8 billion dollars a year in state insurance revenues (see attached the one-page discussion and 50-state table on state insurance revenues).

That said, insurance companies are now part of a larger integrated financial marketplace, which requires them to confront the forces of e-commerce, globalization, consolidation and ever-increasing market demands. Congress has called on states to “modernize” state systems or face federal action, possibly a new federal insurance regulator with the authority to preempt state laws. The NCSL Task Force believes that the federal threat is very real and has worked over the last two years to consider state actions that would forestall congressional legislation.

Therefore, while we support the states’ role as the exclusive regulators of the business of insurance, it is important that states work together to make improvements that are needed to meet the needs of the modern economy. The Task Force is coming together around two recommendations that it plans to bring to the Executive Committee when it meets at the Annual Meeting in San Francisco. These fall into two areas.

The first area deals with life insurance and annuity products. In the new marketplace, these insurers compete directly against the products of banks and securities firms. However, where their federally-regulated competitors can roll out new products in 30 to 90 days, it can take state-regulated insurers up to two years before they are approved to sell their products nationally and can require them to produce 30 to 40 variations to meet state-specific requirements.

The Task Force has been working with the National Association of Insurance Commissioners on a model act to create an Interstate Insurance Compact. The Compact would create a new multi-state system to receive, review and quickly make decisions on product filings according to uniform product standards that the member states would create. The Compact would include life insurance, annuities, disability income and long-term care insurance—but not property and casualty or health insurance.

The Task Force has been working with insurance commissioners on the compact idea since last summer. We have made a number of recommendations that address the structure for the Management Committee, require supermajority voting for uniform standards, and preserve legislative participation and authority—all of which were accepted by insurance commissioners.

Although we continue to discuss and consider additional changes to address more targeted issues raised by legislators and others, the Task Force increasingly views the Compact as the best way to preserve the state system while raising product standards, improving the quality of product review and giving companies the regulatory efficiency that they need to compete.

The Task Force also has spent considerable time exploring the new economic realities faced by property and casualty insurers. Because property and casualty insurance must serve local economic and social needs, a uniform regulatory approach is not required. Instead, the Task Force is considering a Statement of Principles for the regulation of property and casualty insurance.

The Statement would make the case for state regulation of insurance while recommending that states consider systems that rely increasingly on market-based approaches to product regulation. It also would encourage states to consider additional efforts to streamline, simplify and coordinate state regulatory efforts. Like the Compact, the Task Force plans to submit the Statement of Principles to the Executive Committee when it meets at the NCSL Annual Meeting in San Francisco.

The Task Force will be working over the next three months to solicit additional input from state legislatures and other state officials. Your thoughts and suggestions are welcome and encouraged. Thank you for this opportunity to update you on the work of this very important NCSL Task Force. I am pleased to answer any questions.