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EXECUTIVE COMMITTEE TASK FORCE TO STREAMLINE AND SIMPLIFY INSURANCE REGULATION

JUNE 7-8, 2002
LOEWS HOTEL
PHILADELPHIA, PENNSYLVANIA

PRELIMINARY MEETING MINUTES

Task Force Members

Senator Hannon (NY), Co-chair
Senator Saland (NY), NCSL President
Assemblywoman Farragher (NJ)
Representative Keenan (VT)
Senator Larkin (NY)
Representative Parke (IL)
Representative Wald (ND)
Representative Waters (FL)

Staff

Andrew Beal, NAIC
Cheye Calvo, NCSL
Robert Mackin, NCOIL
Susan Nolan, NCOIL
Neal Osten, NCSL
Chad Underwood, NCOIL
Kathy Weatherford, NAIC
David Wetmore, NAIC
Graham Williams, NCSL

Commissioners

Commissioner Vaughan (IA), NAIC President
Commissioner Ario (OR)
Director Covington (OH)
Commissioner Poolman (ND)
Administrator Shapo (IL)
Director Wagner (NE)

OPENING AND INTRODUCTIONS

Senator Hannon opened the meeting on Friday, June 7, 2002 at 9:35 a.m. Introductions were made. Senator Hannon called on Commissioner Vaughan, NAIC President, for a presentation on the interstate insurance compact.

NAIC PRESENTATION ON INTERSTATE INSURANCE COMPACT

Commissioner Vaughan said that there have been substantial changes in the insurance industry and these changes are particularly evident in the life insurance industry. Although property and casualty losses are unique to each state, she said, life mortality tables are consistent across state lines. Life insurers must compete against federally regulated banks and securities products, which either have

no product approval system or are reviewed more quickly. Therefore, the existing state systems place life insurers at a competitive disadvantage. Also, she said, as people move from state to state, the product standards are based on those in the state where the policy originated.

To address life insurers' concerns, Commissioner Vaughan said that the NAIC created CARFRA—the Coordinated Advertising, Rate and Form Review Authority—a state-based entity that provides one-stop filing and review for the same product filing in multiple states according to a set of newly formulated national standards. Regulators launched CARFRA in 10 states for limited health and life insurance in May 2001. Although CARFRA was a good first step, she said, it has fallen short. The deviations from the national standards have made use of CARFRA too difficult.

To address the problems of CARFRA, Commissioner Vaughan said that state commissioners at the NAIC spring meeting in Reno, NV endorsed the idea of an interstate insurance compact to set national uniform product standards for annuity, life insurance, disability income and long-term care products and to review and approve product filings. She said that five major issues related to the compact had emerged.

The first issue, said Commissioner Vaughan, is which products should the compact address. Everyone agreed that annuity and life insurance products should be included. There also was general agreement about disability income. The question is long-term care, she said. Long-term care shares many of the features of the other products—namely that it is a retirement-oriented product that is held for a long time by people who may move out of state. It also presents problems, such as the licensing of assisted living facilities—which some states do and other states do not. Including long-term care could make it harder to enact a compact in some states, she said; however, NAIC's working group concluded that it should be included.

The second issue, said Commissioner Vaughan, is the management committee. There is recognition that the compact must include the large states—namely California, Florida, New York and Texas—that tend to go their own way. If they are going to be included in the compact, she said, these states must have a regular say. After extensive discussion, NAIC's working group recommended a management committee of 12 members. The management committee would run the day to day operations of the compact. The working group recommended permanent seats on the management committee for the six largest states, one member from each of NAIC's region zones and two at-large members. The management committee, she said, would draft the standards and recommend policy that would need to be approved by all member states.

The third issue, said Commissioner Vaughan, relates to a state's ability to reject or "opt-out" of a uniform standard. A state would need to reject an complete line of business, but a state would be able to "opt-out" if it was concluded that a uniform standard did not protect the citizens of a states, she said. However, she said that the NAIC wanted a public process so that rejection of a uniform standard would not be arbitrary.

The fourth issue, said Commissioner Vaughan, is a consumer-funded advocate. Consumer groups have requested a consumer-funded advocate like those that exist in some states. Although she said that consumer groups have not made a specific proposal and that she did not know specifically what

powers they would like the consumer advocate to have, they want an office to represent the voice of consumers at the compact level.

The final issue, said Commissioner Vaughan, relates to public records. In a few states, product filings become public immediate upon their filing and this has created a problem for CARFRA. Therefore, she said that the compact would decide privacy rules as a matter of the bylaws, she said.

TASK FORCE DISCUSSION

Senator Larkin said that he had a few questions on some things discussed at the meeting in Albany, notably the membership issue. He said that the state representative to the commission should not be just someone in the insurance department but should be left to the governor's discretion. Commissioner Vaughan said that provision would be removed. Senator Larkin also said that the issue of representation would cause fighting between the large and small states.

Senator Hannon asked about the funded consumer advocate. He asked if they wanted an office or a coordinating committee. Commissioner Vaughan said that consumer representatives did not go into detail about the role or scope of the office, but that Birny Birnbaum with the Center for Economic Justice of Texas made the recommendation. Senator Hannon said that he had cost concerns.

Representative Wald asked if the compact would cover group as well as individual products. Commissioner Vaughan said that it would. Representative Wald then asked who would be the third party filer envisioned in the definitions. Commissioner Vaughan said that she could not think of any for life insurance, but the NAIC wanted flexibility in case third party filers emerged in the future as they have in property and casualty insurance. Representative Wald asked, if the compact adopted non-forfeiture requirement for long-term care, must the state take all or nothing. Commissioner Vaughan said yes—that they want to eliminate all deviations.

Representative Wald said that states would need more time than 10 days to reject a product line. Commissioner Vaughan said that the compact would take considerable time to develop the uniform standards and they envisioned that states should know when they were adopted whether they wished to reject the standard. Representative Wald asked if the compact would monitor states for compliance with the rejection test. He also noted that the compact was getting into advertising and asked if everything would have to be approved by the NCSD. Commissioner Vaughan said that some states require approval of advertising and that they may have to include it for companies to launch national advertising campaigns.

Representative Parke said that NCOIL has supported an interstate compact for many years, but they have been attracted to the voluntary nature of a compact. He asked if the proposal required states to participate. Commissioner Vaughan said that state would join by enacting legislation. It would begin to develop uniform standards with 12 states and would begin to approve products with 26 states or 50 percent of premium volume.

Representative Parke asked if the compact's authority would come from state legislatures. Commissioner Vaughan said that it would. Representative Parke asked who would pay for the compact. Commissioner Vaughan said that it would be funded by fees while seed money may be provided by NAIC. Representative Parke asked how that would differ from NAIC's funding.

Commissioner Vaughan said that NAIC is funded about three percent from premium taxes, about 50 percent from database services and the balances from other sources, such as fees and publications.

Representative Parke asked how long it would take to hit the working threshold. Commissioner Vaughan replied that his question probably is a better one for state legislators to determine. Commissioner Poolman said that he expected that there would be market pressure on states to get out in front and this would provide an incentive for small states. Administrator Shapo said that the market is driving reforms. Citigroup's purchase of Travelers preceded Gramm-Leach-Bliley (GLBA) and may have gotten its passage over the hump, he said. He said that there also are implicit regulatory requirements in GLBA that Congress did not impose but made clear that they want more.

Representative Waters asked if this would satisfy Congress. Commissioner Vaughan said that she did not know, but—from her observations—the life insurance industry is applying pressure from companies and that the compact would address their major concerns.

Assemblywoman Farragher asked about contested approval by companies and what avenue they would have to petition for redress. Commissioner Vaughan said that was a good question. Although the NAIC must do research on the subject, companies would be able to take the compact to court. Assemblywoman Farragher asked if the compact would require congressional approval. Commissioner Vaughan said that multi-state issues are subject to federal jurisdiction and that normally they would require the approval of Congress, but that the NAIC believe that the compact would not. Still, the court of jurisdiction is likely to be federal. Mr. Beal added that an argument could be made that Congress must consent to federal jurisdiction for disputes involving the compact, but—even with approval—there may be an implied consent. Mr. Osten said that federal jurisdiction has been an issue for NCSL's task force working on the streamlined sales tax project and one potential compromise that they are considering is binding arbitration.

Senator Larkin asked about self-certification of product filings. Commissioner Vaughan said that some states allow self-certification for very simple lines of insurance and that the compact would allow for the possibility that self-certification could be used in similar situations.

PUBLIC HEARING

Patricia Parachini with the ACLI and Bill Fischer with Mass Mutual Life addressed the task force. Ms. Parachini said that ALCI wished to comment on political issues associated with the compact and on specific matters; however, a May 23, 2002 letter detailed specific issues related to the May 14 version of the discussion draft. Regarding political matters, Ms. Parachini said that ACLI could give preliminary support to the compact, but had concerns about its enactment. She said that ACLI also drafted enabling legislation for a single point of filing that the task force may want to examine. ACLI likes the June 4, 2002 version of the compact more than the first, especially the inclusion of long-term care, she said.

Ms. Parachini also mentioned specific concerns about the compact. First, she said that powers of the management committee were uncertain and should be more defined. Second, she said that insurers need access to the courts through judicial review, which they have today but rarely use. They have not discussed binding arbitration, she said. Third, she said there was concern about other state laws and they would like to see stronger language that all state-specific requirements—both those in

conflict and additional measures—would be superceded. Finally, she expressed concern regarding the introduction of innovative products and the approval process if no product standards were in place for them.

Mr. Fischer said that the compact would be an alternative for companies; therefore, it should be mainstream and close to the existing system. If it were viewed as disadvantageous to the existing system, it would not be as successful, he said. Ms. Parachini said that a funded consumer advocate currently is not part of the approval process. Although it may be appropriate for a consumer to provide comment, a formalized role in the approval process would be an addition to current procedures. Approval is the regulator's job, she said. Commissioner Vaughan noted that a few states have funded consumer advocates and that the NAIC has a funded consumer advocate program for consumer representatives to bring issues forward and provide informal advice. Ms. Parachini said that consumers could have input—just like the industry—during the development of the uniform standards.

Ms. Parachini said that the ACLI would like to see work on product standards before 12 states joined the compact.

Representative Keenan asked if the ACLI would back off the duel track. Ms. Parachini said they have decided to pursue a duel track of state reforms and an optional federal charter and that its too early to say what they would do if the compact was enacted. Mr. Fischer said that this would address speed to market concerns, but there are other issues. Senator Larkin mentioned the potential loss of premium taxes. Mr. Fischer said that ACLI supports a revenue neutral federal option, but that he recognizes political realities. However, many companies want to stay with the states system and action that weakens state department resources would be bad for those companies.

Senator Saland asked if the ACLI optional federal charter proposal envisioned some federal insurance revenues. Mr. Fischer said that it did. Senator Saland said that someone will have to pay for it—first the industry but eventually the consumer. Commissioner Poolman said that Congress likely would take state revenues.

Director Covington said that the ACLI legislation also is a compact in a different form. Ms. Parachini said that the legislation would preempt state standards once national standards are created. Commissioner Vaughan said that NAIC sees the compact as more political viability. The ACLI proposal, she said, leave it to the commissioner to join any national system while the compact identifies the system and how it works.

Mark Skinner with AIA addressed the task force. Mr. Skinner provided written remarks, but he said that he wanted to join others to express his support for modernization efforts. Mr. Skinner said he supported “speed to market for all.” Although he was pleased that the compact could address life insurers concerns, he said that it was important to address property and casualty concerns, too. Specifically, AIA supports NCOIL's comprehensive rate and form model law, he said.

Roger Schmelzer with NAMIC addressed to the task force. Mr. Schmelzer also provided written comments. The compact was a good idea, he said, but he echoed Mr. Skinner's request for “speed to market for all” and for support of the NCOIL model. He also noted that Congress is considering

tactical preemption of state authority and they are discussing property and casualty issues as well as life insurance concerns.

Robert "Skip" Myers, who is a member of the law firm Morris, Manning & Martin, LLP but spoke as an individual with extensive experience with interstate compacts, addressed the task force to raise three issues.

First, Mr. Myers said that the management committee needed greater clarity in the discussion draft. It merely states that it would be "in the nature of an executive committee," but it is not clear and it needs more careful thought, he said. There must be a better understanding going forward and the creation of a legislative record, would be helpful to resolve disagreements as they arise in the future. Existing compacts involve only a few states or are without much authority, he said, and few have rule-making authority. In addition, the language of the compact must be identical in all states. In effect, he said, the compact is a constitution that is difficult to amend and, therefore, must be comprehensive from the beginning.

Second, Mr. Myers encouraged more public hearings to flesh out concerns. New issues present themselves with every new reading and it is important to get them out before the compact is enacted by the states, he said.

Third, Mr. Myers raised the issue of review of the commission's decisions regarding product filings included in article XI of the discussion draft. He suggested that it ought to apply to the withdrawal of an approved standard and that it add new language to incorporate the Administrative Procedure Act's standard of "arbitrary, capricious or otherwise not in accordance with law" as a substitute for the standard of "abuse of discretion." This standard includes "abuse of discretion" but also would address factual misunderstandings, he said. A broader standard would enable the reviewing entity to consider abuse of discretion, which is part of the standard but also the other ingredients of the broader test. This language has a body of law, which would not be binding, but would provide guidance and predictability of outcome, he said.

Senator Saland asked if the "substantial evidence rule" also is recognized by federal standards. Mr. Myers said that it was. Senator Hannon asked whether it was better to put the management structure into the compact or have it in the bylaws. Mr. Myers said that flexibility favors the bylaws, but could leave a political problem. State legislatures may want to see the structure, he said. The drafting also would provide a legislative history. He said that he suggests putting it in if the parties could come to a consensus, but other wise it should be left out.

Laura Kotelman with NAIH addressed the task force. Ms. Kotelman provided written remarks, but echoed the call of the other property and casualty trade groups for "speed to market for all."

TASK FORCE DISCUSSION

Senator Hannon asked Mr. Osten to discuss NCSL's participation in the Streamlined Sales Tax Project. Mr. Osten discussed the the Streamlined Sales Tax Project, which is state-based effort to design, test and implement a sales and use tax system that radically simplifies sales and use taxes. He said that 33 states have joined the effort and that legislators and tax administrators have been

meeting for two years to examine various model bills to flesh out the issues and smoke out the opposition.

Mr. Osten said that state sovereignty has been a major issue tackled by project. To address concerns, a compromise has been reached that would establish a governing body with one vote from each state, but each state would be represented by a three-member team with one member appointed by the governor and one member appointed by each legislative chamber. In states with only one legislative chamber, the legislature would appoint two members.

Commissioner Vaughan noted the significant parallels between tax systems and insurance regulation. The NAIC had been discussing ways to get legislature more involved and that this could be a good approach. Mr. Osten said that they also have had problems between the big states and the small states and that the big states tend to have more complicated tax structures. Assemblywoman Farragher said that tax policy is a primary function of the legislature while this is less so with insurance regulation.

The task force agreed to meet in the afternoon on Wednesday, July 10, 2002 in Boston, MA—the day before the NCOIL's summer meeting. It again would meet in the morning on Tuesday, July 23, 2002 in Denver, CO—the day before the opening of NCSL's annual meeting. At the Denver meeting, the task force would finalize its report to the NCSL Executive Committee to be given that afternoon. It was noted that NCSL's Executive will hold its fall meeting in Portland, ME during the first week of October 2002.

In the meantime, Senator Hannon stated that NCSL would update the task force Web site to link to NAIC's interstate insurance compact Web site, would produce a frequently asked questions (FAQ) page and would establish an insurance regulation listserv to make it easier for that legislators and commissioners to communicate.

NAIC PRESENTATION ON PROPERTY AND CASUALTY COMMERCIAL LINES

Director Covington, who co-chairs NAIC's Improvements to State-Based Systems Working Group, provided a brief history of the state insurance regulation. The historic reasons for rate regulation, he said, were to maintain the reverse preemption established by McCarran-Ferguson and the state preemption for anti-competitive authority, to control insurance cartels and to ensure compliance with state mandatory auto and home insurance laws. The typical state requirement prohibits rates that are excessive, inadequate or unfairly discriminatory, he said, and the Casualty Actuarial Society defines a rate to meet this standard if it is an actuarially sound estimate of expected value of all future costs associated with an individual risk transfer.

For commercial lines, Director Covington categorized rate regulation systems into four groups. Prior approval systems in 16 states require insurers to receive prior approval of rates before policies can be sold. File and use systems in 23 states require that rates be filed with the insurance commissioner before they can be used. Use and file systems in 10 states require that rates be filed with the commissioner within a certain period after they have been used. No file systems in three states do not require that rates be filed, but must be maintained by the insurer and available upon request.

Twenty-six states now have laws to exempt certain commercial policyholders from rate regulation, said Director Covington. Although standards continue to apply, he said, insurers do not need to file rates with the commissioner for exempt policyholders—typically those with premiums that exceed a certain level.

Director Covington said that the reasons not to modernize state systems include solvency regulation, the political consequences of a hard market and the availability public market information for competitive purposes. On the other hand, studies show that rate regulation is inefficient, causes slow market reaction to economic change and results in supply shortages, he said. He also mentioned the negative impacts of cross-subsidies, of rate lock-ins, and the fact that insurers no longer engage in cartel pricing.

Director Covington cited a 1998 NAIC white paper that reached several conclusions. One, for most segments of the market, the “less intrusive regulatory approaches are likely to be the most cost effective and to produce markets that are healthy and competitive.” Two, For most commercial lines scenarios, a “competitive rating approach should be best for the consumer. Three, prior approval should be restricted to non-competitive lines and to loss costs submitted by advisory organizations. It recommended that those commercial policyholders with greater than \$50,000 in premiums should be exempted from rate and form regulation, he said.

Director Covington said that the new NAIC commercial lines model law would establish a use and file system for commercial lines rates. Filings would be information and the supporting data would not be required. It would presume that a rate is not excessive in a competitive market but would retain for the commissioner the regulatory authority to disapprove a rate if it were not actuarially sound. The model, he said, would establish a file and use system—with an optional 30 day waiting period—for commercial lines forms, but multi-state policies only must meet the filing requirement in the state where the business is primarily located. Director Covington said the model would waive the rate filing requirement for sophisticated products, but would require prior approval for title insurance, mortgage guaranty, residual markets and advisory organization filings.

Director Covington said that a commissioner following a hearing also could institute prior approval or file and use upon a finding that a market is non-competitive based on economic tests. NAIC's statistical task force has plans by December 2002 to report on methods to monitor competition on a regular basis, he said.

Director Covington compared the provisions of the NAIC model law, which only addresses commercial lines, with the NCOIL model, which address both commercial and personal lines. He said that the NAIC model was not deregulation, but there was a question of whether the NCOIL model deregulates. The reverse preemption provision in McCarran-Ferguson states that federal anti-trust laws are “applicable to the business of insurance to the extent that the business is not regulated by state law,” he said

Commissioner Vaughan said that commissioners are moving in favor of market-based regulation. Although she said that the NAIC supports specific reforms for commercial lines, they have not taken a position on personal lines. However, studies show that prior approval systems—at best—have no effect on rates, and, over time, have been shown to have negative effects, she said.

PUBLIC COMMENTS

JoAnne Kron with Allstate addressed the task force to support comments made by trade representatives earlier in the day and to encourage the task force to endorse market-based reforms to state insurance regulation. Ms. Kron provided written comments.

TASK FORCE DISCUSSION

Senator Hannon said that commissioners and industry representatives had presented a strong case in favor of market-based reforms. He encouraged the various parties to get together to see if they could find common ground between the NAIC and NCOIL model acts.

The task force adjourned for the evening at 4:04 p.m.

OPENING SATURDAY

Senator Larkin opened the meeting on Saturday, June 8, 2002 at 9:25 a.m. As the plans for the next meeting were set on Friday, Senator Larkin proceeded to public comments on market conduct.

PUBLIC COMMENTS ON MARKET CONDUCT

Brian Cox with ACLI addressed the task force to say that the ACLI has identified market conduct along with producer licensing and speed to market as the top three reform priorities of the life insurance industry. He also said that ACLI commends NAIC and Commissioner Ario for the significant progress that has been made in the area of market conduct.

Director Tim Wagner of Nebraska joined the task force and was asked to address the group on market conduct reforms. Director Wagner said that he has been involved with the interstate reciprocity agreement for market conduct examinations formed to address redundancy of regulatory exams. The group could call for an examination of a company if not otherwise done every four years and would allow other states to participate, he said, in a manner similar to the administration of financial exams. The goal is to eliminate redundancies and reduce costs. Right now, he said, states do not have the staff by themselves to examine each company every four years. State still can call for targeted exams, but cooperation brings accountability to the process to prevent the same exam of the same company by multiple states in a short span of time, he said.

Senator Larkin said that states need to look at the trigger and scope of exams and asked if there are uniform guidelines. Director Wagner said that one outgrowth of the coordination is that a single regulator becomes responsible for an exam and that regulator is accountable to other member states. He said that it makes it easier to get a picture of a national company and to see if the problems are similar across state lines. The guidelines and coverage become uniform and the responsibilities clear.

Senator Larkin asked how states could help other states. Director Wagner said that states without market conduct units could participate in the process or have other states conduct exams for them.

Bill Shepard with Citigroup addressed the task force to say that NAIC is doing a good job, but he added that there remain things to look at. He encouraged legislators to look at the market conduct handbook, which gives regulators authority to do things that are not written into law.

Director Wagner said that market conduct needs to be about how people are treated and if they are treated fairly. He raised the question of whether market conduct should be a tool to ensure proper treatment or law enforcement. Enforcement actions should come from the complaint process, he said.

Mr. Shepard said that market conduct exams have been around forever, originally as part of the financial exam. However, in the mid-1970s, market conduct units were formed and the nature of the activity changed, he said. Mr. Shepard said that Director Wagner was preaching a return to the philosophy generally accepted prior to the mid-1970s.

Ms. Kotelman for the NAI addressed the task force to say that the property and casualty trade groups have presented a 12-point program to improve the market conduct process. Their companies want more cost-benefit analysis, she said. The revamping by NAIC is based on a reduction in front-end regulation. NCSL should support the critical self-audit approach that is accepted in five states, she said, and that allows companies to examine themselves and make corrections.

Mr. Osten asked if the states were cutting back on market conduct exams. Ms. Kotelman said that they see reductions in staff as part of state budget problems. Mr. Mackin asked with whom states are contracting and for what percent of exams. Ms. Kotelman said that his was a good question but did not know the answer.

Mr. Schmelzer with NAMIC addressed the task force to say that regulators should use the data that they currently have in hand. He said that data issues raise confidentiality questions and can be costly to insurers. Insurers should be allowed to mitigate problems before there are fines, he said.

Representative Parke asked what was the cost of a market conduct exam. Ms. Schmelzer said that the cost could be as high as \$1 million for a large company. Commissioner Ario, who joined the task force, said that the \$1 million figure for large companies can be about right or it could be \$50,000 for a small company.

NAIC PRESENTATION ON MARKET CONDUCT

Commissioner Joel Ario of Oregon, who chairs NAIC's market regulation and consumer affairs committee, presented to the task force an overview of state commissioners activities to reexamine and reform the broad range of consumer protections. He said that regulators often look too closely at the examination process at the expense of other areas, but there actually is a multitude of consumer protections. Some states have multiple units while others have no market conduct office or in-house auditors, he said. Looking at consumer protections broadly, he said that it's important to include things like residual markets to ensure availability.

Commissioner Ario said that, across states, some activities should be uniform, especially for life insurance, while others must be responsive to local concerns, especially for property and casualty lines.

Commissioner Ario outlined four areas of reform. First, he said that NAIC is working to develop uniform procedures for market conduct examinations. They have set a goal to have at least half the

states committed to uniformity by the end of this year, he said. This would include time and expense estimates, baseline exams, scheduling guidelines and protocols to report and read exams.

Second, Commissioner Ario said NAIC had plans to develop a "how to" guide for market analysis. To do this, they need consistent information gathering to help target resources and to avoid trivial details, he said. A system should draw on complaint data, past exams, citations and financial information. All inquiries should not end with exams, he said, and regulators should do a better job talking to companies to resolve problems. The response should be proportional to the problem and departments always do not need to conduct an exam, he said.

Third, Commissioner Ario said NAIC has plans to develop resource guidelines. He said that resources are uneven and are deployed differently among states. The process hopes to define and discuss each of the 12 consumer protection functions to provide regulators greater guidance.

Finally, Commissioner Ario discussed interstate collaboration. He said that all but a couple states have 1,000 licensed companies and that no state can cover all of them by themselves. The NAIC is looking for ways that states can rely on each other, he said. Property and casualty laws differ greatly among states and require state-specific reviews. However, there is potential for reciprocity where there are base-line examinations of domestic insurance companies, he said, and states can work together to conduct exams where a non-domestic insurer has substantial premium volume in the state or the domestic regulator has inadequate resources.

Commissioner Ario said that his greatest worry is that thing will get too focused on market conduct exams and that they will miss the broader things that regulators are trying to do.

TASK FORCE DISCUSSION

Mr. Mackin said that departments never take enough credit for the work that they do on consumer complaints. He said that market conduct is very much a part of state modernization efforts. He then discussed the findings of the NCOIL market conduct report. Commissioner Ario said that, in discussions with regulators, there tends to be a continuum where commissioners take a broader view while examiners often focus more on the letter of the law. Assemblywoman Farragher said that she applauded NAIC's efforts.

Mr. Calvo asked if commissioners have sufficient data to perform market conduct analysis. Commissioner Ario said that they are in the process of producing an inventory of existing data and there is another group examining new data that may be needed. Director Covington said that three states—Arizona, Illinois and Ohio—have annual data statements and that NASD data can help target resources more effectively.

Mr. Osten said that states originally opposed efforts for home states to perform banking exams and that may have been a mistake. Commissioner Ario said that there is a similar dynamic with insurance market conduct exams.

Director Covington said that Ohio did an analysis of top P/C and life companies that revealed that the large percentage of companies had never had an exam while others have been examined many times.

NCSL's Executive Committee Task Force to Streamline and Simplify Insurance Regulation
Philadelphia Meeting Minutes
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Senator Larkin discussed the offers of assistance that New York received from other insurance departments following September 11, 2002. It showed that there nothing that states can't handle if they put their minds to it, he said, and that there is room to improve and cooperate if we remember our mission—to protect the consumer.

Senator Larkin restated that the task force agreed to meet in the afternoon on Wednesday, July 10, 2002 in Boston, MA—the day before the NCOIL's summer meeting—and again in the morning on Tuesday, July 23, 2002 in Denver, CO—the day before the opening of NCSL's annual meeting.

The task force adjourned at 10:57 a.m.