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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Meeting Daily

SUMMER NATIONAL MEETING
JUNE 12-15, 2004 SAN FRANCISCO, CA

**THE FOLLOWING SUMMARIES ARE HIGHLIGHTS FROM MEETINGS HELD ON
SATURDAY, JUNE 12 & SUNDAY, JUNE 13, 2004.**

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**For more information,
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Department at: 816.783.8017**

SERFF USE IN 2004 OUTPACING 2003 BY NEARLY 200 PERCENT

The quantity of filings submitted through the System for Electronic Rate and Form Filing (SERFF) continues to multiply as an increasing number of state regulators and insurers recognize the system as a much-needed solution to address cost efficiency, accuracy, and ease of status tracking.

As of May 31, 2004, over 50,000 filings had been submitted via SERFF, nearly twice the number of filings submitted during the first five months of 2003. It is anticipated that approximately 155,000 filings will be submitted by year-end 2004.

SERFF usage has been increasing since it was introduced by the National Association of Insurance Commissioners (NAIC) in 1998. Currently, 49 states, the District of Columbia and Puerto Rico accept SERFF filings. Of those, 50 jurisdictions accept property and casualty filings, 48 accept life insurance filings, and 42 accept health insurance filings.

“SERFF is a one-stop, single point of electronic filing system for insurance products,” said NAIC Vice President and North Dakota Insurance Commissioner Jim Poolman. “The SERFF Board of Directors, with joint regulatory and industry representation, is focused on guiding the technology solution that supports speed to market.”

In keeping with the NAIC membership’s Speed to Market program, the state insurance departments are also in the process of implementing the Uniform Product

(CONTINUED ON PAGE 2)



**IF YOU WOULD LIKE TO MAKE A CONTRIBUTION TO BAY AREA
LITERACY AS A PART OF THE NAIC’S “TOGETHER FOR
LITERACY” PROGRAM, PLEASE STOP BY THE
REGISTRATION DESK OR PICK UP A CONTRIBUTION
ENVELOPE AT COMMISSIONERS SERVICES.**

(CONTINUED FROM PAGE 1)

Coding (UPC) Matrix, an initiative to establish uniform product naming conventions within SERFF.

WHAT'S HAPPENING MONDAY, JUNE 14TH?

International Holocaust Commis- sion Task Force

8:00 a.m. – 9:00 a.m.

*Salons 5-6, Yerba Buena Ballroom,
Lower B2 Level*

Antifraud Task Force

9:00 a.m. – 11:30 a.m.

*Salons 5-6, Yerba Buena Ballroom,
Lower B2 Level*

Interstate Compact National Standards Working Group

10:00 a.m. – 12:00 p.m.

*Salon 7, Yerba Buena Ballroom, Lower
B2 Level*

Interstate Compact Implementa- tion Working Group

12:30 p.m. – 2:30 p.m.

*Salons 10-13, Yerba Buena Ballroom,
Lower B2 Level*

Joint Public Hearing: Health Insurance and Managed Care Committee and Consumer Protections Working Group

1:00 p.m. – 3:00 p.m.

*Salons 5-6, Yerba Buena Ballroom,
Lower B2 Level*

International Insurance Relations Committee

1:00 p.m. – 3:00 p.m.

*Salons 14-15, Yerba Buena Ballroom,
Lower B2 Level*

Risk Retention Working Group

3:00 p.m. – 5:00 p.m.

*Salons 5-6, Yerba Buena Ballroom,
Lower B2 Level*

To date, 17 states have implemented the UPC Matrix in SERFF, four states are in the process of implementing, and numerous others have plans to implement. The development of this matrix is expected to significantly improve the efficiency in making multi-state filings via SERFF.

“Ultimately, SERFF is designed to improve the efficiency of the rate and form filing and approval processes and to reduce the time involved in making regulatory filings. That’s speed to market,” said Poolman.

Over 1,300 insurance companies are currently licensed to use SERFF. For filings submitted via SERFF, the average turnaround time in the filing review cycle is only 23 days.

In order to help ensure that SERFF continues to meet the regulatory modernization needs of the NAIC membership and the needs of regulators and insurance company users in years to come, the NAIC recently initiated an analysis and design project. This evaluation is anticipated to result in the ongoing enhancement and evolution of SERFF in order to further support “Best Practices” and enhance rate and form filing.

SERFF Programming Interface

The NAIC is currently working to develop a new SERFF tool, the SERFF Programming Interface (SPI). The SPI will enable third-party rate and form filings to integrate with SERFF, thus giving insurance companies more flexibility by allowing them to use a third-party system when compiling a filing, yet still submit it electronically through the SERFF system. The SPI is expected to be in production by the end of June 2004.

“The NAIC is very excited about bringing this feature to SERFF, as it increases the accessibility and flexibility of SERFF for insurance company users, yet ensures that the state insurance department staff only needs one electronic system to review and approve filings,” said Poolman.

Electronic Funds Transfer

In December 2002, SERFF began offering Electronic Funds Transfer (EFT) for the 29 SERFF-using jurisdictions that charge filing fees. Of those 29 jurisdictions, there are currently eight states and 12 companies using EFT to pay and receive filing fees, with one state in testing status.

As of May 31, 2004, there were just over 400 EFT filings for this year, which is 77 percent of the total number of filings for all of 2003. The first five months of 2004 have outpaced the first five months of 2003 in EFT filings by 748 percent.

NAIC FORMS NEW TAX POLICY TASK FORCE

The NAIC on Sunday announced the creation of the new Tax Policy Task Force. The task force will enable the NAIC to analyze components of state and federal tax laws and then provide a report regarding the impact that these rules and regulations have on the solvency of the insurance marketplace and how they affect policyholders.

“We feel that the creation of this task force is extremely important for many reasons, most of which center around the need to study how tax policy affects the solvency of insurance companies. Tax policy is very complicated and this task force allows regulators and the industry an opportunity to better understand how tax policy affects the marketplace and insurance consumers with regard to market availability and benefit structure,” said John Oxendine, Georgia’s Insurance and Safety

Fire Commissioner and Chair of the newly formed task force. “We are excited about the potential benefit that this task force will have to all involved parties.”

The task force has been created in response to needs identified by both NAIC members and the insurance industry. Both groups feel that it is important to develop a dialogue with interested parties and policymakers in order to help regulators understand the relationship between state and federal tax policies and the availability, design and characteristics of insurance products available to policyholders across the nation. The Georgia Department of Insurance and Safety Fire has been involved in the creation of the task force, and therefore John Oxendine has been chosen to head the newly created task force.

NAIC CONTINUES TO REVIEW MARKET SURVEILLANCE MODEL LAW

The NAIC continued its review and discussion of a market conduct surveillance model law on Sunday, with hopes of adopting the model in the coming months. The NAIC has been reviewing an NCOIL model law over the last several months as both organizations work toward a more effective regulatory system.

The NAIC has asked state regulators for comment on the model, and has received a great deal of valuable input in an effort to clarify certain points. NAIC membership today decided that recent revisions will be provided to NCOIL members for review at their summer meeting later in June. After NCOIL has reached consensus, the model will be put before the NAIC membership for adoption, which will officially create a joint NAIC/NCOIL model.

The NAIC’s proposed recommendations are designed to accomplish three primary goals, according to Joel Ario, NAIC Secretary-Treasurer, who also serves as the Oregon Insurance Administrator. Those goals are: 1) to strengthen the intent of the NCOIL model act; 2) to help clarify language that could have resulted in ambiguity; and 3) to help address issues for which there was not a consensus among all stakeholders when the NCOIL model was adopted.

“The NCOIL model closely tracks the reform efforts of the NAIC, and it is our goal to make absolutely certain that this model is as effective as possible for all parties involved before adopting it. At the end of this process, we want to

have a model that both NCOIL and NAIC members can fully and cohesively support,” said Ario.

The broad purpose of the model is to establish a framework to guide insurance department market conduct action, which includes a process for prioritizing problems, a means by which insurance regulators can remedy problems, and procedures to coordinate and communicate regulatory actions among states.

It requires states to report market data to the NAIC’s Market Information System, which includes the Complaint Database, the Exam Tracking System, the Regulatory Information Retrieval System and the Special Activities Database.

“This model establishes market analysis as being a fundamental tool of the market regulation process, and should prove to be helpful for all states going forward,” said Ario. “The model requires states to maintain market data in accordance with NAIC standards and within NAIC databases, which we feel is a significant function of the model.”

“Essentially, the model seeks to set forth a framework for efficient and effective regulation through interstate collaboration with NAIC support,” Ario said. “We are pleased that we have come so far toward consensus on this and we look forward to being able to adopt this model and put it to use.”

HURSON ADDRESSES REGULATORS

A leader and advocate in health-insurance legislation, Maryland House Delegate John Hurson espoused the value of the legislative-regulatory relationship at the state level in a keynote address at yesterday's Opening Session. The president-elect for the National Conference of State Legislatures (NCSL), Delegate Hurson said states historically have been recognized as a respected source of authority.

"It's an interesting fact about our national system of government that ultimate authority rests—not with the President, the Congress, or even the Supreme Court—but with the nation's 50 state legislatures," he said. "Article V of the U.S. Constitution gives state legislatures the ability to call a Constitutional Convention and allows three-fourths of states legislatures—acting together—to amend the law of the land. It strikes me as a piece of profound wisdom on the part of our Founding Fathers that they conferred this authority to the states rather than concentrating it in Washington."

Ensuring a future that reflects history, Hurson said, will require continued synchronization between state legislatures and insurance regulators.

"NCSL wholeheartedly supports efforts to modernize insurance regulation, and we want to work closely with the NAIC to achieve a consensus on reforms in areas such as speed-to-market barriers, external-review laws, and market-conduct examinations," he said. "The road to significant reform, based on consensus between states, is a difficult one. But, if NAIC and NCSL can engage lawmakers on the big-picture policy issues and make insurance modernization a common goal, we will find a receptive audience

for legislative initiatives in all our states."

Delegate Hurson was elected to the NCSL Executive Committee in 2000 and elected NCSL vice president in 2002. With NCSL, Delegate Hurson, who also chaired the NCSL Task Force on Social Security, assumes a leadership role within an organization that openly believes the future of insurance regulation rests with the states. The NCSL, along with the National Conference of Insurance Legislators (NCOIL), joined the NAIC last September in signing a Joint Resolution at the 2003 NAIC Fall National Meeting, formally stating their commitment to maintain regulatory authority at the state level while continuing to streamline and modernize the system of state insurance regulation.

During its annual meeting last year, the NCSL also expressed its full support for the NAIC's Interstate Insurance Product Regulation Compact. With a unanimous vote by the NCSL Executive Committee, the organization made clear their position to back a measure that establishes nationwide uniformity and reciprocity of insurance products. The Compact also has the support of the NCOIL.

Representing Montgomery County in the Maryland House of Delegates since 1991, Hurson has been a member of the House Leadership since 1993. In his first three years in the legislature, he served on the Economic Matters Committee, developing an expertise in public health and health insurance issues. Further, he played an important role in crafting significant healthcare legislation in the mid-1990s, including laws that became national models for reforming the small group health insurance market.

VALUATION OF SECURITIES TASK FORCE DISCUSSES SVO REORGANIZATION

The NAIC, through the Valuation of Securities Task Force, announced the reorganization of the Securities Valuation Office (SVO). The newly reorganized SVO reflects the full implementation of the filing exempt (FE) proposal for rated securities effective this year, creates efficient operations, and increases the level of regulator services as they relate to investment portfolio assistance within a new SVO Research Unit for Investments.

The Investment Research Unit will also work closely with the Financial Regulatory Services Division and provide

state regulators with in-depth analysis on insurers' investment portfolios. Regulators are encouraged to contact the SVO Managing Director, Chris Evangel (cevangel@naic.org) or the Investment Research Unit Manager, Joseph Prakash (212-223-2547 or jprakash@naic.org). This newly created Research Unit has already garnered regulator interest, providing investment portfolio analysis for an initial number of state insurance departments to enhance their regulatory oversight of insurers.

TERRORISM INSURANCE IMPLEMENTATION (C) WORKING GROUP

Saturday, the Terrorism Insurance Implementation Working Group discussed both a proposed model bulletin and a short-term resolution in support of an extension of TRIA. Action on the proposed model bulletin was deferred to provide regulators and interested parties an opportunity to review and comment on the proposed bulletin. After much debate, the short-term resolution in support of an extension of TRIA was adopted. The resolution calls for a two-year extension to the program so that Congress could have ample time to review a report that it will receive from the Treasury in 2005. The working group briefly discussed concepts for a long-term solution and heard from the group life insurance industry about the need to include group life insurers in any long-term solution to address the risk of loss from acts of terrorism.

In addition, the working group received a report from David Brummond (Department of the Treasury) in which Mr. Brummond commented on the Treasury Litigation

Management proposed regulation. Mr. Brummond advised that the Department of the Treasury is developing a "Statement of Work" to determine the extent of the effort needed to conduct an audit if a claim occurs. He also advised that 93 written comments were received from the Treasury's request for comments related to TRIA's "make available" requirement. He observed that the Treasury would review all of the comments received and be able to meet the September 1, 2004 deadline for announcing its determination regarding the third year of the TRIA program.

NAIC/INDUSTRY LIAISON COMMITTEE

In its meeting on Saturday, the NAIC/Industry Liaison Committee discussed the status of NAIC regulatory modernization initiatives, including progress on state-specific legislation and the development of product standards for products under the Interstate Compact. In addition, the committee heard presentations on the "federal tools" concepts proposed by Congressman Mike Oxley, chair of the House Financial Services Committee. This discussion coincided with Saturday's public release of the NAIC's own conceptual framework document on federal standards legislation. The NAIC framework document responds to the request received from Chairman Oxley during the NAIC's National Meeting March 2004.

In addition, the committee held discussions regarding the work of the NAIC's AICPA Working Group on corporate governance issues related to the federal Sarbanes-

Oxley law as well as the status of efforts in Congress to extend the federal Terrorism Risk Insurance Act (TRIA), including the NAIC's own efforts working with the Treasury Department and Congress on a TRIA extension. Discussions on the work of the NAIC's AICPA Working Group will be continued during the Working Group's public hearing on Monday.

