

EXAM 6 – UNITED STATES, FALL 2012

2. (2 points)

a. (1 point)

Briefly describe four functions of the National Association of Insurance Commissioners (NAIC).

b. (0.5 point)

Discuss one reason a state legislator might use to support the adoption of a proposed NAIC model law.

c. (0.5 point)

Discuss one reason a state legislator might use to oppose the adoption of a proposed NAIC model law.

CONTINUED ON NEXT PAGE

## 2) Sample Answer

### Part a

- a. Briefly describe four functions of the National Association of Insurance Commissioners (NAIC).

0.25 point per each valid function. List of functions from reading include:

1. NAIC's fundamental insurance regulatory goals are:
  - a. Protect the public interest;
  - b. Promote competitive markets;
  - c. Facilitate the fair and equitable treatment of insurance consumers;
  - d. Promote the reliability, solvency, and financial solidity of insurance institutions;
  - e. Support and improve state regulation of insurance.
2. Types of ways NAIC employee's assist regulatory officials:
  - a. Develop standards for uniform insurer financial reporting;
  - b. Maintain databases to help regulators track insurers' financial solvency;
  - c. Scrutinize alien surplus or excess lines insurers seeking to do business in the U.S.;
  - d. Support individual state regulators in court cases by issuing "friend of the court" supportive briefs;
  - e. Value insurers' securities;
  - f. Track insurance issues at the federal level while working on behalf of state regulators;
  - g. Help state insurance officials with information about pricing and coverage;
  - h. Assist the states in responding to federal reporting requirements;
  - i. Produce various publications about insurance issues for state use;
  - j. Develop statistical reports dealing with a variety of market matters and interpreting them for regulators;
  - k. Give expert advice about financial regulation, market conduct regulation, and computerized applications to state regulators.

### Four Main NAIC Purposes / Areas of Operation

3. Develop Model Laws, Regulations, and Guidelines to promote consistency between states.
  - a. Help legislative bodies streamline their legislative development process.
  - b. Guides States in adopting the same or similar insurance laws, regulations, and guidelines.
4. Grants Financial Accreditation to DOIs
  - a. NAIC helps States and the insurance industry operate more efficiently through accreditation progs for DOIs.
  - b. NAIC created basic financial regulation standards to improve quality of insurer solvency regulation by DOIs.
5. Conduct Research (Statistics, Insurance Issues, Advice on Pricing and Coverage). Research division assists by:
  - a. Giving information to DOIs;

- b. Helping DOI staffs with technical and regulatory questions;
- c. Giving information to federal and state government agencies and others;
- d. Helping develop the NAIC financial and statistical databases;
- e. Providing pertinent statistical material and research studies; and
- f. Supporting other NAIC departments through research.

#### Expansion of the Research Division Functions

- A. NAIC provides extensive statistical analysis in various areas such as: Quality Monitoring; Routine Reporting; Special Reporting and Model Plans.
  - 1. Quality Monitoring – works with DOIs regarding monitoring of insurer’s filings and data quality.
  - 2. Routine Reporting – generate routine statistical reports such as, premium and losses ....
  - 3. Special Reporting – generate reports in response to state insurance regulators, GAO, SEC, etc.
  - 4. Model Plans – create model statistical reporting plans for the major insurance lines.
- B. Insurance Issues
  - 1. NAIC research division assist DOIs by preparing reports on special subjects for insurance regulators’ public comments.
- C. Regulatory Advice
  - 1. Provides assistance on regulatory issues involving pricing and coverage and provides solutions to regulatory problems as well as regulatory coverages.
- 6. Provides other services through three different offices (SSO, GRO and SVO)
  - A. Support and Services Office (SSO) activities include database dev. and maintenance, education and training, financial services, consumer information, publications, electronic communications and legal assistance.
    - 1. Provides information about the insurance industry’s behavior in the marketplace.
      - a. RIRS – names of people and insurers against whom regulatory or disciplinary action was taken.
      - b. SAD – names of people and insurers of concern to insurance regulators.
      - c. CDS – complaints made against insurers and people in the insurance business.
    - 2. Compiles US domiciled insurers’ annual and quarterly financial statements and all special exhibits. Forms basis for insurance regulators solvency checks.
    - 3. Offers insurance education and training for regulators and in some instances the public.
      - a. Ex: “Regulating for Solvency” and “Regulating the Marketplace” training programs.
    - 4. Gives expert advice to insurance regulators about accounting, reinsurance, and financial reporting to aid in examining insurers’ financial condition.
    - 5. Provides consumer protection through publication of consumer guides on various types of insurance.
  - B. Government Relations Office (GRO) handles certain government relations activities for the NAIC.
    - 1. Present oral and written testimony, conduct research, and assist state insurance officials who appear as witnesses in federal government proceedings.

2. Monitor the financial condition of “nationally significant” insurers and provide professional assistance in the areas of financial regulation and solvency tracking for insurance regulators.
- C. Securities Valuation Office (SVO) monitors the quality and value of insurers’ investments.

### **Part b**

- b. Discuss one reason a state legislator might use to support the adoption of a proposed NAIC model law.
1. Adopting the model law would streamline state processes. Research and drafting has already been done and would not have to be re-created at the state level.
  2. It is to the mutual benefit of states when examining multi-state insurers to have consistent laws.
  3. Compliance with various state standards/regulations for multi-state insurers is easier and less expensive with uniform standards.
  4. Insurers can benefit from legal uniformity among the states on a variety of matters, such as agency and claim adjuster licensing standards, and pricing, coverage, and statistical filing requirements, because of economies of scale.
  5. Adopting NAIC model laws may assist DOI accreditation by satisfying NAIC standards for 1) State laws & regulations; 2) regulatory methods; and DOI practices.
    - a. Just specifying ‘Obtaining DOI accreditation’ is not sufficient for full credit; only one element to accreditation.
  6. From Wagner p 196: After the NAIC adoption of the model rating laws, state legislatures reacted quickly to prevent federal involvement in insurance.

### **Part c**

- c. Discuss one reason a state legislator might use to oppose the adoption of a proposed NAIC model law.
1. Legislator views a particular model law as inappropriate or unnecessary because other state laws sufficiently address the issue.
  2. A model law may not meet a given state’s specific needs or coordinate well with existing legislation and require modification.
  3. Adoption of a particular model insurance law may not be a high enough legislative priority when resources are limited, i.e. legislators might view NAIC model laws as lower priority than other matters.
  4. NAIC model laws might not be part of a legislative agenda because of competing interests, other issues, or philosophical objections.
  5. Legislators may view the NAIC accreditation program, of which models laws are one element, as a usurpation of their legislative authority.
    - a. Adoption of new or revised NAIC model law accreditation requirements creates a continuous need for new legislation.

## **Examiner's Report**

### **Part a**

Most candidates were able to give four brief examples of the many NAIC functions. Candidates did not receive credit when responses were lacking or misstating critical verbs or nouns. This primarily occurred when a candidate had partially or insufficiently memorized the NAIC mission statement. Some candidates also conferred more regulatory authority to the NAIC than what they truly have. Credit was also not given when a candidate repeated a valid function using slightly different wording.

### **Part b**

Many candidates gave sufficiently complete responses to this question. To receive full credit, a candidate needed to provide the rationale for the reason given to support adoption of the model law. Just noting "Adopting model law makes state's regulation more consistent with other states" was not sufficient. The candidate needed to further explain it reduces compliance costs for multi-state insurers operating in state's with similar laws.

### **Part c**

Most candidates were able to list a reason not to adopt a model law. There were occasions where answers were too brief to convey a candidate's sufficient understanding. A common instance would be "The model law is unnecessary." To receive full credit the candidate needed to explain why that would be the case.