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INTERSTATE INSURANCE COMPACT AND THE INSURANCE INDUSTRY'S ECONOMIC IMPACT TO CONNECTICUT

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You asked for information on the Interstate Insurance Product Regulation Compact, including its history and member states; when other New England states joined; how a member state may opt out of the Compact; if member states forgo any regulatory oversight by joining; and if Connecticut's Attorney General, Insurance Department, or legislature would be prohibited from taking action against an insurer if it joins the Compact. You also asked if the Government Administration and Elections Committee has ever voted on proposed compact legislation, in how many interstate compacts Connecticut belongs, and for an overview of the insurance industry's economic impact in the state.

SUMMARY

The Interstate Insurance Product Regulation Compact (Compact) is a multi-state agreement that creates a national public authority to receive, review, and make regulatory decisions on insurance product filings according to national uniform standards that the participating states develop and adopt. The Compact covers individual and group products for life insurance, annuities, disability income, and long-term care insurance.

The Compact came into being in March 2004. The compact's governing body, the commission, was created in May 2006, after the required number of states—26 or states representing 40% of premium volume nationwide—joined the Compact.

There are currently 30 members to the Compact, including all New England states, except for Connecticut. Maine and New Hampshire joined in 2004; Massachusetts, Rhode Island, and Vermont joined in 2005. The other members are: Alaska, Colorado, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota,

Nebraska, North Carolina, Ohio, Oklahoma, Pennsylvania, Puerto Rico, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, and Wyoming. These 30 jurisdictions represent 48. 9% of the national life, annuity, disability, and long-term care premium volume. District of Columbia, Illinois, New Jersey, New York, and Wisconsin have pending legislation to join the Compact. (A map of the members is enclosed.)

A member state may withdraw from the Compact in its entirety at any time by repealing the statute that enacted it into law. It may also opt-out of a uniform product standard if the standard does not meet the state's needs.

The Compact preserves the rights and authority of state attorneys general and other people to bring action against insurance companies and agents. And, the state insurance commissioner of a member state continues to oversee the insurance market regulation activities in his or her state.

Connecticut legislators have proposed joining the Compact in each of the last four regular sessions (2004 – 2007). The Government Administration and Elections Committee voted on the Compact legislation twice—once in 2004 (JF) and once in 2005 (JF motion failed).

Connecticut belongs to 32 interstate compacts, based on a review of statutes and data from Council of State Governments.

Connecticut licenses 1,172 insurance companies (106 domestic and 1,066 foreign), according to the Connecticut Insurance Department. The insurance industry employs approximately 65,900 people, according to Connecticut Department of Labor data.

The Connecticut Economic Resource Center estimates that the insurance industry's total added value in Connecticut was about $ 12. 2 billion in 2004. The annual state insurance industry payroll exceeds $ 6 billion. Connecticut insurance companies paid $ 210 million in personal income taxes in 2004 and $ 244 million in premium taxes in 2004-2005.

INTERSTATE INSURANCE PRODUCT REGULATION COMPACT

Compact Summary

The Compact is a multi-state agreement that creates a streamlined system of insurance product regulation. It creates a national public authority to receive, review, and make regulatory decisions on insurance product filings according to national uniform standards that the member states develop and adopt.

The Compact covers individual and group products for life insurance, annuities, disability income, and long-term care insurance. These products—also called "asset-based" insurance—are long-term, investment-oriented insurance policies that compete directly with other retirement and estate-planning instruments that are sold by banks and securities firms.

The central filing approach allows insurers to bring these insurance products to market more quickly than if it had to obtain separate approvals from each state. It also reduces the number of state-specific variations that a company might otherwise have to create to satisfy different state requirements. Once an insurer receives approval for a product filing from this central body, it may begin marketing it in all member states.

The Compact is governed by a multi-state Interstate Insurance Product Regulation Commission (commission), which includes one member from each member state. A 14-person management committee directs the commission's activities. The committee includes one person representing each of the six largest states by premium volume, four representing mid-sized states (greater than 2% premium volume), and four from smaller states (less than 2% premium volume) representing each of four geographic regions. The commission and management committee use processes conforming to the Model State Administrative Procedures Act to adopt rules and operating procedures.

Under the Compact, a uniform product standard may only be adopted if it receives approval of two-thirds of both the management committee and member states. A uniform standard is effective 90 days after promulgation or at a later date as the commission may determine.

The commission must establish conditions and procedures to promote the public inspection of its information and official records with the limited exception of information and records related to individual privacy and trade secrets. Additional rules may apply to make information and records available to state and federal agencies. The commission must establish procedures to mandate open meetings. It is allowed to meet *in camera* for specific reasons and only when a majority of the commission votes to close the meeting. Additionally, it would be required to make public the vote to close the meeting and any votes taken while the meeting was closed. The compact stipulates that commission bylaws be published and made available to the public.

The Compact requires the commission to establish an advisory committee for consumer representatives and one for insurance industry representatives. These committees provide a formal mechanism for consumers and industry to give feedback to the commission on the uniform standards, rules, and operating procedures and to make recommendations.

The Compact is intended to be revenue neutral to its member states. As such, the commission's staff collects the state-required filing fees from the companies that submit filings and forwards them to the appropriate states.

Compact History

Since the 1990's insurance regulators have been aware of the need to improve the regulatory process, particularly with respect to "speed-to-market" (streamlining the process by which regulators review and approve products that insurers want to market). In 2000, NAIC members began working on initiatives to modernize state insurance regulation. NAIC sought to make the regulatory process more efficient because of increased competition from financial institutions that could bring products to market more quickly than insurance companies and mounting pressure for federal insurance regulation.

In 2002, NAIC began discussing a way to facilitate interstate cooperation on products that are similar across states and that tend to move with a person throughout their lives: life insurance, annuities, disability income, and long-term care insurance. NAIC envisioned national uniform standards that apply in multiple states and a central location for form filing, review, and approval. This would help achieve the improvements that the industry wants because once the central office approved a product filing, the insurer would be able to market it in all member states, rather than waiting for separate approvals from each state. To achieve such interstate cooperation, NAIC determined that an interstate compact was necessary.

NAIC adopted the compact model act in December 2002 as a starting point for discussions with various stakeholders. It then worked with the National Conference of State Legislators (NCSL), the National Conference of Insurance Legislators (NCOIL), the National Association of Attorneys General (NAAG), and other state officials to refine the Compact. In July 2003, NAIC adopted eight amendments to the model legislation based on its discussions with the national groups and others. That version remains the current NAIC model compact legislation, which NCSL and NCOIL have both endorsed.

The Compact came into being in March 2004 when two states, Colorado and Utah, had adopted the legislation. The commission, the compact's governing body, was created in May 2006, after the required number of states—26 or states representing 40% of premium volume nationwide—joined by enacting the Compact legislation.

The commission held its inaugural meeting in June 2006, where it set up an interim management committee and adopted the System for Electronic Rate and Form Filing (SERFF) as its electronic filing platform. By September 2006, it adopted its bylaws and rulemaking procedure. It held its annual meeting in November 2006, where it formed its permanent management committee; elected officers from Pennsylvania, West Virginia, and Minnesota; and announced the hiring of an executive director.

In December 2006, the commission adopted its first uniform standards. In early 2007, it hired product review staff. It began receiving filings in mid-2007 and granted its first product approvals in July 2007. The commission continues to develop and adopt all necessary uniform standards.

Member States

There are currently 30 member states and jurisdictions participating in the Compact: 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, and Wyoming. Combined, these 30 jurisdictions represent 48. 9% of the national life, annuity, disability, and long-term care premium volume.

All New England states, except for Connecticut, have joined the Compact. Maine and New Hampshire joined in 2004; Massachusetts, Rhode Island, and Vermont joined in 2005.

District of Columbia, Illinois, New Jersey, New York, and Wisconsin currently have pending legislation to join the Compact.

A map of the jurisdictions that have enacted the Compact into law and those with pending legislation is enclosed. It may be viewed at: www. insurancecompact. org/compact_map. htm.

Also, a chart showing the life, annuity, disability, and long-term care national premium volume by state is enclosed and may be viewed at: http: //www. insurancecompact. org/documents/topics_compact_IIC1a_state_matrix. pdf.

Opting Out

A member state may withdraw from the Compact in its entirety at any time by repealing the statute that enacted it into law.

A member state may also remain in the Compact but opt-out of a uniform product standard if it does not meet the state's needs. It can do this in two ways. First, it may enact legislation opting out of any uniform standard at any time and for any reason. Second, it may opt-out by regulation, if it meets certain conditions, following the promulgation of a uniform standard.

More specifically, a state may opt-out of a uniform standard by regulation that the insurance department duly promulgates under the state's administrative procedures act. The insurance commissioner must give written notice of his intent to opt out no later than 10 days after a uniform standard is promulgated or at the time the state joins the Compact. The commissioner must reach a finding that the uniform standard does not provide reasonable protections to the state's citizens, given the conditions in the state. He must detail the conditions that warrant a departure from the uniform standard and determine that the standard would not reasonably protect the state's citizens.

Once a state formally initiates the process of opting out of a uniform standard by regulation and while the process is pending, the state may petition the Compact commission at least 15 days before the uniform standard's effective date to delay its effectiveness in the state. The

commission may extend the effective date by 90 days if the regulatory opt out has a reasonable chance of success, but for no more than one year without extraordinary circumstances.

Regulatory Oversight

In testimony to the Insurance and Real Estate Committee on February 15, 2007, Frances Arricale, Executive Director of the Compact Commission stated that the "Compact preserves the rights and authority of persons and state attorneys general to bring action against insurance companies and agents in state court under general consumer protection laws. 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 attorney general of the state to bring any action or proceeding."

Additionally, the state insurance commissioner of a member state continues to oversee the insurance market regulation activities in his state (e. g. , examinations, investigations). The Compact commission monitors member states for compliance with the commission's bylaws, rules, uniform standards, and operating procedures. The commission will provide assistance to state insurance departments in determining whether an insurer has violated a uniform standard.

CONNECTICUT LEGISLATION

A state legislature must enact the compact model act through legislation without amendments in order to join the Compact. Connecticut legislators have proposed joining the Compact in each of the last four regular sessions (2004 – 2007). The Government Administration and Elections Committee voted on the Compact legislation twice—once in 2004 (JF) and once in 2005 (JF motion failed).

Note that in 2007, GAE voted on a proposed bill regarding captive insurance companies (SB 58). The Senate later amended the bill in its entirety by replacing the captive legislation with the Compact legislation. So, while GAE voted on the bill, it did not vote on the Compact language.

Table 1 shows an overview of proposed legislation for Connecticut to join the Compact. A copy of the bill status reports and GAE vote tally sheets (when applicable) are enclosed for your reference.

Table 1: Proposed Insurance Compact Legislation in Connecticut

Year	*Bill No.*	*Committee Votes*	*Final Action*
2004	SB 415	Insurance – JF Judiciary – JF GAE – JF	Senate Passed.
2005	SB 1000	INS – JF JUD – JF GAE – motion failed	Senate Passed. House referral to GAE.
2006	HB 5028	INS – JF	House tabled bill for the calendar.
2007	SB 58 (captives)	INS – JFS GAE – JF	Senate passed as amended by Senate "A" (replaced captives with Compact).
2007	SB 1105	INS – JF	Senate referral to GAE.

INTERSTATE COMPACTS TO WHICH CONNECTICUT BELONGS

Connecticut belongs to 32 interstate agreements or compacts, as shown in Table 2, based on a review of Connecticut statutes and information from the Council of State Governments.

Table 2: Connecticut's Interstate Agreements and Compacts

	Compact Name	*Citation*
1	Agreement on Detainers	CGS § 54-186 et seq.
2	Agreement on Qualifications of Educational Personnel	CGS § 10-146c et seq.
3	Atlantic States Marine Fisheries Compact	CGS § 26-295 et seq.
4	Bus Taxation Proration and Reciprocity Agreement	CGS § 14-365 et seq.
5	Compact for Adoption and Medical Assistance	CGS § 17a-116d et seq.
6	Compact for Education	CGS § 10-374 et seq.
7	Compact on Mental Health	CGS § 17a-615 et seq.
8	Connecticut-New York Railroad Passenger Transportation Compact	CGS § 16-342 et seq.
9	Connecticut River Atlantic Salmon Compact	CGS § 26-302
10	Connecticut River Flood Control Compact	CGS §§ 25-99 and 25-100
11	Driver License Agreement	CGS § 14-111h et seq.
12	Emergency Management Assistance Compact	CGS § 28-23a
13	Interstate Compact for Adult Offender Supervision	CGS § 54-133
14	Interstate Compact for Mutual Military Aid in an Emergency	CGS §§ 27-37 and 27-38
15	Interstate Compact on Juveniles	CGS § 46b-151a et seq.
16	Interstate Compact on Placement of Children	CGS § 17a-175 et seq.
17	Interstate Corrections Compact	CGS § 18-105
18	Interstate Environmental Commission Tri-State Compact	CGS § 22a-294
19	Interstate Library Compact	CGS § 11-38 et seq.
20	Mid-Atlantic States Air Pollution Control Compact	CGS §§ 22a-166 and 22a-167
21	National Crime Prevention and Privacy Compact	CGS §§ 29-164f and 29-164g
22	New England Interstate Corrections Compact	CGS § 18-102 et seq.
23	New England Higher Education Compact	CGS § 10a-61 et seq.
24	New England Interstate Water Pollution Control Compact	CGS § 22a-308 et seq.
25	New England State Police Compact	CGS § 29-162 et seq.
	Compact Name	***Citation***
26	New England Radiological Health Protection Compact	CGS §§ 22a-159 and 22a-160
27	Northeast Interstate Dairy Compact	CGS § 22-203 et seq.
28	Northeast Interstate Low-Level Radioactive Waste Management Compact	CGS § 22a-161 et seq.
29	Northeastern Interstate Forest Fire Protection Compact	CGS § 23-53 et seq.
30	Northeastern Water and Related Land Resources Compact	CGS §§ 25-120 and 25-121
31	Thames River Valley Flood Control Compact	CGS §§ 25-101 and 25-102
32	Tribal-State Compact	CGS § 12-586f

INSURANCE INDUSTRY'S STATE ECONOMIC IMPACT

There are 1,172 insurance companies licensed to operate in Connecticut. Of those, 106 are domestic insurers (i. e. , incorporated in Connecticut), while the rest are foreign (out-of-state) companies, according to the Connecticut Insurance Department.

The insurance industry (i. e. , insurance carriers and related activities) employs 65,900 people in Connecticut, according to Connecticut Department of Labor statistics for September 2007, as shown on their website at http: //www. ctdol. state. ct. us/lmi/ces/nfstatcm. htm.

The Connecticut Economic Resource Center, Inc. (CERC) prepared a report on the state insurance industry in December 2006, from which the following economic impact information is taken.

1. The insurance industry's total added value in Connecticut was about $ 12. 2 billion in 2004.

2. Connecticut has three times the U. S. average of insurance jobs as a percent of total state employment.

3. Connecticut has the highest U. S. concentration of insurance jobs.

4. The average annual Connecticut insurance industry wage is $ 61,846, with average wages ranging from about $ 33,000 to $ 118,000.

5. Annual state insurance industry payroll exceeds $ 6 billion.

6. Insurance companies purchase almost $ 1 billion in goods and services from other industries in Connecticut annually.

7. One new job in the insurance industry results in an additional 1. 35 jobs in the Connecticut economy.

8. Connecticut insurance companies paid $ 210 million in personal income taxes in 2004 and $ 244 million in premium taxes in 2004-2005.

A copy of CERC's report is enclosed. It may be viewed at: http: //bestpolicy4ct. com/news_events/release_20070502. php.

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