

*States, Strength & Speed Aligned*

**Written Testimony**

**Interstate Insurance Product Regulation Commission  
Karen Z. Schutter, Interim Executive Director**

**Joint Committee on Insurance and Real Estate  
State of Connecticut Legislature  
Senator Joseph J. Crisco, Jr., Co-Chair  
Representative Steve Fontana, Co-Chair**

Senator Crisco, Representative Fontana and Members of the Committee:

The Interstate Insurance Product Regulation Commission ("Commission") respectfully submits this written testimony in support of SB 456 and Connecticut's adoption of the Interstate Insurance Product Regulation Compact.

The Interstate Insurance Product Regulation Compact ("Compact") is an innovative vehicle formalizing the joint and cooperative action among the compacting states, while leveraging regulatory resources and expertise to establish Uniform Standards that strongly protect the interest of consumers and form the foundation of a central clearinghouse for prompt review of asset-based insurance products. Today, the Compact has been adopted by 33 Member jurisdictions – 32 States and Puerto Rico - representing over one-half of the premium volume for the authorized product lines nationwide (life, annuity, long-term care and disability income). The Compact is intended to address concerns expressed by the insurance industry and others regarding the speed-to-market inefficiencies of state-by-state product filing, review and approval; while at the same time, expressly preserving the market conduct and law enforcement authority of state insurance regulators and state attorney generals as well as consumers' access to state courts and state remedies.

The Compact legislation (SB 456) under consideration by this Committee is based on the model law developed by the National Association of Insurance Commissioners (NAIC) through an open, deliberative process and in close consultation and collaboration with the National Conference of State Legislatures (NCSL) and the National Conference of Insurance Legislators (NCOIL). One important provision strongly endorsed by all three organizations is Article XVI of the Compact model which provides that other than the limited jurisdiction of the Interstate Insurance Product Regulation Commission over the content, approval and certification of Products and Advertisements filed with the Commission, *"no action taken by the Commission shall abrogate or restrict: (i) the access of any person to state courts; (ii) remedies available under state law related to breach of contract, tort, or other laws not specifically directed to the content of the Product; (iii) state law relating to the construction of insurance contracts; or (iv) the authority of the attorney general of the state, including but not limited to maintaining any actions or proceedings, as authorized by law."* States and state attorney generals retain

their full authority to regulate the marketing of Compact-approved products in their respective jurisdictions.

As a contract between states, an interstate compact allows for cooperation on multi-state or national issues while maintaining state sovereignty. Although interstate compacts historically have been used to address border disputes and water rights, their use has expanded significantly in recent decades to cover such areas as tax issues, drivers' licensing and vehicle registration, environmental issues, emergency management, juveniles, adult offenders and other issues. According to the Council of State Governments (CSG), there are approximately 200 interstate compacts in existence today, and every state belongs to at least one or more compacts. In fact, according to the CSG, Connecticut currently is a member of 29 interstate compacts. See, <http://www.csg.org/programs/ncic/database/search.aspx>. The Compact was modeled on other widely-adopted compacts including the Interstate Compact for Adult Supervision and the Interstate Compact for Juveniles.

Under the Compact legislation, each state, through its Commission member and state legislature, has a significant role and authority in terms of its participation in the Compact. The legislature retains ultimate authority to enter into and withdraw from the Compact as well as to opt-out of Uniform Standards at any time. The member actively participates in the Compact Commission decision-making process including development and adoption of Uniform Standards, operating procedures and rules and may opt-out of a Uniform Standard by regulation pursuant to the terms of the Compact and the state's own administrative procedures. Further, the Compact has several protections to ensure reasonable notice is provided to states, including their legislature, before Uniform Standards are adopted with the further requirement that a Uniform Standard can only be adopted by a two-thirds vote of the its Management Committee and the entire Commission.

In this period of state budget shortfalls, the Compact provides a solid resource for compacting states to handle the review and approval of product filings and allowing states to focus limited staffing resources on market regulatory functions. Importantly, State Filing Revenue is not diminished as a result of joining the Compact, as the terms of the Compact expressly preserve the states' rights to collect filing fees.

The Compact has an operational track record of adopting Uniform Standards with high consumer protection thresholds such that no Compact Member State has exercised its legislative or regulatory right to opt out of any of the 49 Uniform Standards adopted to date. The Compact has also conducted its policy- and decision-making process in an open and transparent process providing multiple opportunities for public notice and comment on proposed Uniform Standards and operating procedures while soliciting input from its Legislative Committee, both the Industry and Consumer Advisory Committees and other interested parties; as well as publishing all information related to both proposed and adopted rulemaking actions on its web site at [www.insurancecompact.org](http://www.insurancecompact.org).

State legislators are actively represented in the Compact process with the proactive Legislative Committee, comprised of 8 legislators who are very supportive of this state-

based modernization initiative, selected by the National Conference of Insurance Legislators (NCOIL) and the National Conference of State Legislatures (NCSL) (both have endorsed the Compact), and who provide extremely useful input into policy matters before the Interstate Insurance Product Regulation Commission ("Commission"). The Compact encourages consumer participation through its Consumer Advisory Committee and funds the travel expenses for consumer representatives to participate in Commission meetings and conference calls.

Compact Product Filings are submitted through the System for Electronic Rate and Form Filing (SERFF), which is utilized by all states, including Connecticut, and over 3,000 companies. SERFF allows the state insurance departments to have ready access to Compact Product Filings during the review process and after final disposition in order to carry out their market conduct duties. It also allows the timely collection and remittance of state filing fees through the Compact to your state.

Moreover, the Compact Review Team is comprised of experienced regulatory staff who have previously worked for state insurance departments with a combined 40 years of state product review experience. The Compact Review Team has reviewed and approved more than 150 product filings since June 2007 with an average turnaround time of 30 days - considerably less than the 60-days turnaround time required by the Commission's Operating Procedure for the Filing and Approval of Product Filings

I have attached the Commission's Frequently Asked Questions to provide further background on this key state-based speed-to-market initiative along with Commission's current filing statistics and map.

### *Conclusion*

On behalf of the members of the IIPRC, we appreciate Connecticut's consideration of the Compact legislation. We would be happy to provide additional testimony or information as well as answer specific questions. Thank you.

For Additional Information, please contact:

Karen Z. Schutter,  
Interim Executive Director  
Interstate Insurance Product Regulation Commission  
444 North Capitol Street, NW, Suite 701  
Washington, DC 20001  
(202) 471-3972  
fax (816) 460-7476  
email: [KSchutter@insurancecompact.org](mailto:KSchutter@insurancecompact.org)  
web site: [www.insurancecompact.org](http://www.insurancecompact.org)

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## **Interstate Insurance Product Regulation Commission (IIPRC) Frequently Asked Questions**

***What does this Compact do?*** The Interstate Insurance Product Regulation Compact (“Compact”), which to date has been adopted by 33 Member jurisdictions – 32 States and Puerto Rico, and represents over one-half of premium volume in our authorized product lines nationwide, created the Interstate Insurance Product Regulation Commission (“Commission”) - a public entity functioning as an instrumentality of the Compacting Member States. The Commission provides the States with a vehicle to (1) develop uniform national product standards that afford a high level of protection to consumers of life insurance, annuities, disability income, and long-term care insurance products; (2) establish a central point of electronic filing for these insurance products; and (3) thoroughly review product filings and make regulatory decisions according to the uniform product standards.

***What are the benefits of the Compact?***

- The Compact is a proactive, state-based regulatory modernization initiative that enhances the efficiency and effectiveness of the way asset-based insurance products are filed, reviewed and approved in the United States.
- The Compact’s new streamlined processes provide speed-to-market for the insurance industry, thus affording consumers quicker access to more competitive insurance products in the evolving global financial marketplace.
- The Compact leverages proven state insurance regulatory expertise into a national approach which provides the speed-to-market platform for one set of uniform insurance regulatory standards with one central point of electronic filing for one product approval that is valid in all current 33 member states and growing.
- The standards and operations of the Commission uphold strong consumer protections as the hallmark of state-based regulation, while its transparent processes encourage public comment and ensure accountability to its Member States.
- Membership in the Commission allows state insurance departments to efficiently utilize department resources originally designated for product review towards other regulatory operations, including a focus on important market conduct.

***What is the rationale behind the creation of this Compact?*** There are a number of factors which have influenced the creation of this Compact. Since the early 1990s, state insurance regulators have recognized the need to identify and make improvements in many areas of state insurance regulation. These modernization efforts include a “speed-to-market” initiative which focuses on making the process by which insurance products are reviewed and approved by state insurance regulators more efficient. Additionally, for certain insurance products such as life insurance and annuities, state insurance regulators recognize that standards for these products do not generally vary greatly from state to state as these tend to be “mobile”

*Interstate Insurance Product Regulation Commission*

*111 North Capitol Street, NW, Hall of the States South, 701, Washington, DC 20001*

*(202) 471-3962, Fax (202) 462-7176, [www.iiprc.com](http://www.iiprc.com), [www.insurancecompact.org](http://www.insurancecompact.org)*

products, moving with consumers throughout their lives. Hence, these insurance products lend themselves to a national product standards framework.

Another factor is the increasing scrutiny of insurance regulation at the federal level. The enactment of the Gramm-Leach-Bliley Financial Modernization Act of 1999 directly and indirectly affected many areas of state insurance regulation, with a key emphasis on increased attention to uniformity, harmonization and coordination among the states. There have also been numerous reports issued by the Government Accountability Office, as well as Congressional hearings, covering a broad range of efforts within this subject matter. Such efforts are focusing on areas where possible enhancements could be made to state insurance regulation, as well as the current consideration in Congress for the creation of a federal insurance regulator.

*How are these asset-based insurance products regulated now?* Currently, insurance companies must seek individual state approval for product filings, which creates a complicated and timely process for insurers aiming to bring a new product to the market. Whereas the banking and securities industries may introduce innovative products and receive rapid approvals, an approval for a new life insurance or annuity product to be sold on a national basis must receive separate approvals in all 56 jurisdictions in the United States which can take over a year. Moreover, a company may require 30 or 40 versions of the same product to satisfy state-specific requirements.

Driven by demanding market forces, products have become increasingly sophisticated and their shelf lives have reduced from seven or eight years to two or three years. These factors have increased the workload for the approximately 200 regulators, about 2 percent of the nation's insurance regulators, charged with reviewing and making regulatory decisions on asset-based insurance products. By pooling state resources and leveraging the proven expertise of the state-based system, the Compact increases the efficiency of product review while continuing to hold the bar high on consumer protection.

*How will the Compact raise product standards and consumer protection?* The standard-setting process in the Compact engages the collective expertise of the Member insurance departments as well as seeks the input of the greater state insurance regulatory community through the NAIC. Since the process is open to public participation, comments and concerns from legislators, consumers and industry assist the Compact process and ensure robust, practical and modern regulatory standards.

Another important feature of the Compact process is its voluntary nature. If the uniform standards created by the Commission do not adequately serve a Member State's consumers, states will opt-out of the standards and the Compact will not work. It is important to note that while states always retain their right to opt-out of the Compact's standards, no Member State has opted-out to date. Given the Compact requirements for supermajorities of both the Management Committee and Commission to approve uniform product standards, a high level of agreement is obtained in producing these nationally-accepted uniform standards to meet the concerns of all Members.

These features promote a consensus-based approach to decision-making, which produces strong, nationally-accepted product standards to benefit consumers in exchange for an effective single point of filing with uniform standards that will provide insurers with the "speed-to-market" they want to compete more effectively.

***How is the Compact governed?*** The Compact is governed by the Commission, which includes one Member from each Compacting State and each Member has one vote. The Management Committee of 14 Members directs the activities of the Commission. The composition of the Management Committee under the Commission Bylaws includes: (1) one Member from each of the six largest states by premium volume, (2) four Members from states with greater than 2% of premium volume, and (3) four Members from states with less than 2% of premium representing each of the four geographic zones recognized by the NAIC.

According to NAIC statistics for the last reported year (2006), Connecticut residents pay 2.10 % of the nation's premiums for products covered by the Compact; and therefore, Connecticut would qualify in the second tier category of membership, and could serve for the Northeast Zone on the Management Committee.

***How does the Commission operate?*** The Compact is designed to facilitate transparency and accountability. The activities of the Commission are governed by our *Bylaws* and rulemaking procedures which have been developed through extensive consultations with the Member States, legislators and consumer and industry interested parties. Our meetings are required to be open to the public, except in very limited situations which are detailed in our *Bylaws* and rules. As aforementioned, our uniform standard-setting process is conducted through comprehensive public notice and comment procedures which afford all interested parties the opportunity to provide input.

***How do state legislatures participate in the Compact?*** A state legislature must enact the *Compact Model Statute* through legislation in order for a state to join the Commission. Under the Compact law, the Commission created a Legislative Committee comprised of eight (8) Member State legislators appointed by NCSL and NCOIL which works as an active partner by monitoring the operations of the Commission and making recommendations. The Commission also is required to give notice to all Member State legislatures before any uniform product standards can be adopted, and file an annual report on the Commission's operations with the governor and legislature of each Member State. Additionally, state legislatures may opt-out of a uniform standard for any product line at any time through legislation.

***How may a state opt-out of product standards after it joins?*** States may opt-out of a uniform product standard in two ways if it does not meet the needs of the state. First, it may enact legislation opting out of any uniform standard at any time for any reason. Second, it may opt-out by regulation following the promulgation of a uniform standard if it meets certain conditions as detailed in the Model Compact Statute.

***How does the Compact affect the rights of persons and the authority of state attorneys general to challenge insurance companies in state court?*** The Compact preserves all the

*Interstate Insurance Product Regulation Commission*

*444 North Capitol Street, NW • Hall of the States Suite 701 • Washington, DC 20001*

*(202) 471-3962 • fax (816) 460-7476 • comments@insurancecompact.org • www.insurancecompact.org*

rights and the 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. This language was developed in conjunction with state legislators through NCSL and NCOIL.

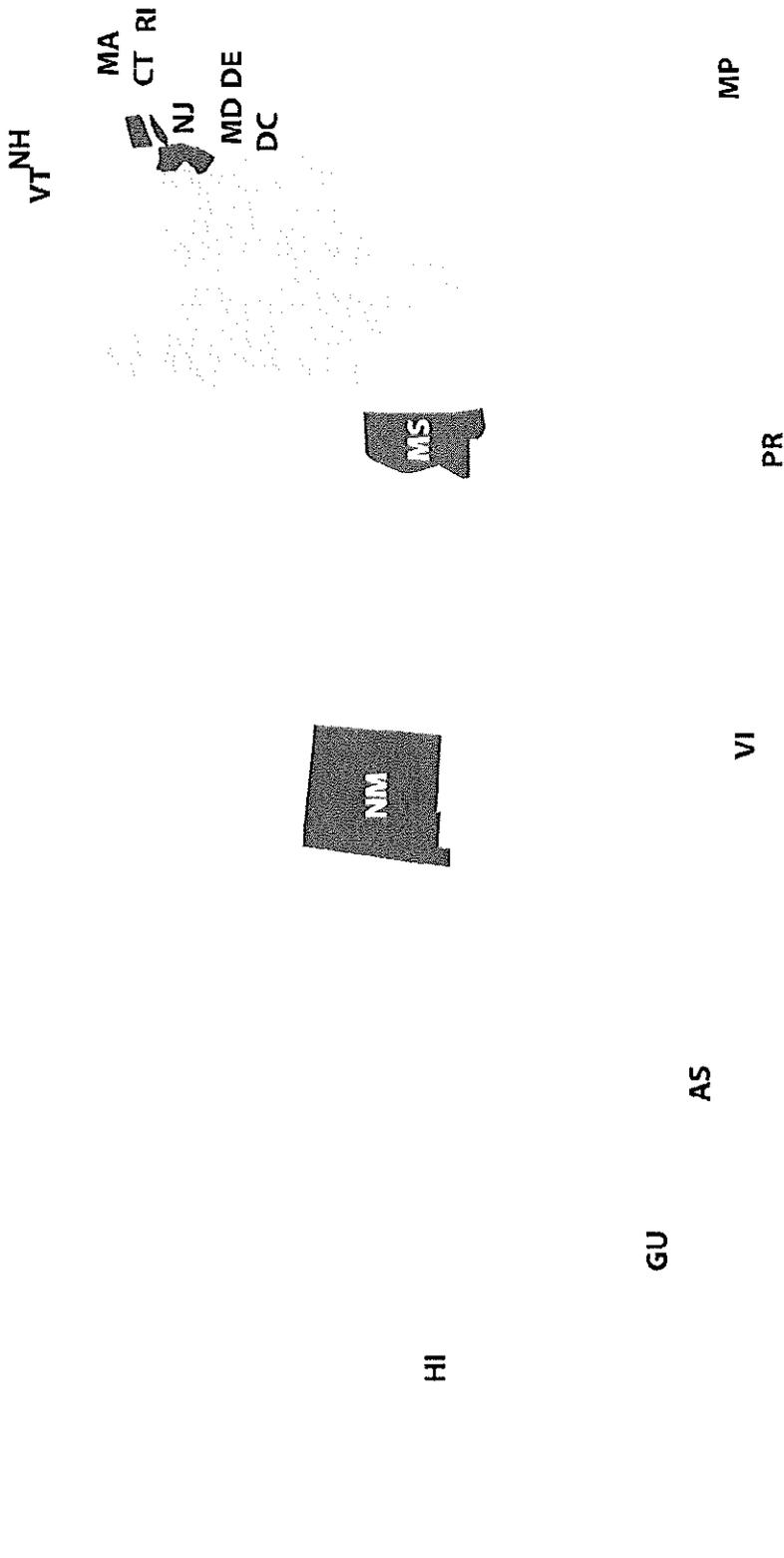
*What is the current status of this Compact?* Although the Compact came into existence in 2004 when the first two states, Colorado and Utah, enacted the Compact Model Statute, it did not become operational until 26 states or states representing 40 percent of the premium volume joined the Compact and the Commission was initiated. This Compact threshold was met in May 2006, and the Commission held its inaugural meeting in June 2006.

Within one year of its establishment, the Commission brought its central product filing operations on-line and received its first filings from insurers in June 2007. The Compact defines its speed-to-market mandate by providing a 60-day turnaround time for Compact filings. Initial filings with the Commission were reviewed and approved within this timeframe. The Commission is moving beyond its initial start-up phase to a fully functional product filing and review operation on behalf of its Member States as filings from large, medium and small sized insurers are submitted under the Compact's new national standards which took effect in 2007. Experienced regulators were brought on board at the Commission to review the product filings and enhance the centralized filing operations. The Commission continues working to build the highest-caliber, modern electronic product filing platform to meet the increasing Compact filings as the Commission enhances its operational build-out during the first half of 2009.

As of today, the following 33 jurisdictions, representing over one-half of the premium volume nationwide, have enacted the Compact: Alaska, Colorado, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming.

# Interstate Insurance Product Regulation Compact

\* As of January 26, 2008 \*



Enacted into Law

Current Pending Legislation

## Enacted into Law (33)

AK, CO, GA, HI, IA, ID, IN, KS, KY, LA, MA, MD, ME, MI, MN, NC, NE, NH, OH, OK, PA, PR, RI, SC, TN, TX, UT, VA, VT, WA, WI, WY

## Introduced or Pending Legislation in 2008 (4)

CT, MS, NJ, NM

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## 2007-2008 IIPRC PRODUCT FILING STATISTICS

\* JANUARY 2009\*

- ★ Final product filing determination, under the IIPRC Product Filing Rule parameters, is made within an average of 29 days after initial submission.
- ★ There are currently 49 Uniform Standards available for filing use with the IIPRC.
- ★ 154 products have been approved by the IIPRC to date since the 2007 operational start-up; which equates to 3633 SERFF Transactions.
- ★ The Types of Insurance (TOI) for the Product Filings submitted through SERFF for Compact Filings:
  - 20 % have been Term Life Products
  - 16 % have been Variable Life Products
  - 19 % have been Whole Life Products
  - 36 % have been Flexible Premium Adjustable
  - 5 % have been TOI - Other
  - 3 % have been Endowment Life Products
  - 1% have been Immediate Non-Variable Annuity
- ★ Of the companies which have filed to date:
  - 5 % have filed more than 10 times
  - 25 % have filed 6 to 10 times
  - 45 % have filed 2 to 5 times
  - 25 % are first time filers
- ★ Filing Fees:
  - \$65,230 in Compact Per Filing Fees have been received as of December 31, 2008.
  - \$157,500 in Annual Compact Registration Fees have been received as of December 31, 2008.
    - 38 companies registered in 2008
    - 18 companies utilized the IIPRC in 2007; with 42% registering to use the Compact in 2008
  - The IIPRC has collected \$202,875 in Member state filing fees and remitted these fees directly to the Member states.
- ★ Of the filings received, these have spanned from a single-state submission to those that include all 32 Compact States. On average the number of Member states selected per filing is 25.