STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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Testimony of the Connecticut Insurance Department

The Insurance and Real Estate Committee

March 1, 2011

House Bill 6470 – An Act Adopting the National Association of Insurance Commissioners' Interstate Insurance Product Regulation Compact

House Bill 6470—An Act Adopting the National Association of Insurance Commissioners' Interstate Insurance Product Regulation Compact, if enacted, would enable the State of Connecticut to join a successful initiative which implements speed-to-market regulatory decisions to meet the demands of the ever-evolving insurance marketplace while continuing to uphold a regulator's most important responsibility -- to protect consumers.

The Compact provides a central point of electronic filing for insurance products, including life insurance, annuities, disability income, and long-term care insurance.(The Compact does not apply to major medical or other health insurance, except for disability and long term care insurance) These products are reviewed for compliance with Uniform Standards embedded with a high level of consumer protection accepted by Compact Members through an open and transparent deliberative process. Thus, the Compact affords insurers the ability to make one filing under one set of national standards for one approval that is valid in all Member states. This speed-to-market efficiency provides more competitive and sound insurance products for the benefit of consumers.

BACKGROUND

The Compact reflects the efforts of the National Association of Insurance Commissioners (NAIC), with the support of the National Conference of State Legislators (NCSL) and the National Conference of Insurance Legislators (NCOIL), to modernize state-based insurance regulation and promote regulatory uniformity.

The vehicle of an interstate compact provides states with the ability to act collaboratively and jointly while maintaining state sovereignty. Connecticut belongs to 29 interstate compacts to date. By joining the Compact, Connecticut would be continuing our beneficial tradition of working cooperatively with other states to address issues of national concern.

As a proactive initiative to implement more efficient insurance regulation at the state level, the Compact was created by state insurance commissioners and legislators to

leverage the best of the state system into a national approach. The successful launch of the Compact throughout the U.S. advances the vital objective of insurance regulatory modernization while also effectively responding to ongoing calls in the U.S. Congress for the creation of a federal insurance regulator. The Compact gives insurers the speed-to-market results for which they have been advocating at the federal level while continuing to protect consumers under the time-tested regulatory expertise of the states. To date, there are 38 Members of the Compact, representing over sixty percent (60%) of premium volume nationwide in the Compact's authorized product lines.

COMPACT GOVERNANCE

The Compact became operational when 26 states had joined by May 2006. During its inaugural meeting in June 2006, the Compact created the Interstate Insurance Product Regulation Commission ("Commission") to govern the activities of the Compact. The Commission includes one member from each Compact state, each with an equal vote. The Commission's Management Committee of 14 Members manages the activities of the Commission. The Management Committee includes one Member from each of the six (6) largest states, four (4) Members from mid-sized states with over 2% premium volume, and one Member from four (4) smaller states with less than 2% premium each representing the NAIC regional zones.

Connecticut, with 2.05% of the premium volume in the U.S., would fall into the second-tier of Compact states under this representational governing structure, and may have a seat on the Management Committee through a rotational process of the second-tier states which occurs annually.

The Commission also has a Legislative Committee as part of its structure which oversees the developments of the Compact. The Legislative Committee has eight (8) state legislators as Members – four (4) appointed by the National Conference of State Legislatures (NCSL) and four (4) appointed by the National Conference of Insurance Legislators (NCOIL).

The Commission Office and staff are managed by an Executive Director and are based in Washington, DC. The Commission Office handles the day-to-day operations of the Compact, including its uniform standard-setting procedures, central product filing platform and review processes with a professional review staff from the state regulatory ranks, and reporting to Member state legislatures.

Rules and operating procedures which govern the operations of the Commission are made through an open, public participation process that conforms to the Model State Administrative Procedure Act.

TRANSPARENT UNIFORM STANDARDS

Uniform Standards are adopted by the Commission membership through a transparent public process with input from all constituencies – including regulators, legislators, consumers, and industry. In advance of consideration for adoption, the Commission

provides written notice to all Member state legislatures of the intent to adopt new uniform standards, so that state legislatures are consistently kept informed of the Compact's standard-setting process. Therefore, upon becoming a Member, the Connecticut Legislature would be kept fully apprised of Compact developments.

In order to be adopted, a uniform standard must receive approval by two-thirds of the Commission's Management Committee, and two-thirds majority of all the Member states of the full Commission ensuring a wide degree of support for national standards.

As of summer 2009, there are over 50 uniform standards available for insurance companies to file, including all of the standards for the individual life product line and several annuity standards. In summer 2010 the full suite of individual long term care insurance standards was adopted. The IIPRC also plans to adopt and implement group life and group long-term care insurance standards for filing companies to utilize.

ENSURING STATES RIGHTS AND REMEDIES

In line with ensuring state sovereignty and regulatory prerogatives, the Compact provides compacting states with a mechanism to "opt out" or reject product standards developed by the Commission in two ways. First, a state may enact legislation opting out of any uniform standard at any time. Second, a state may also opt-out by regulation through notice provided to the Commission that the state has found the standard does not provide reasonable protections to the citizens of the state, given the conditions in that state. It is noteworthy that to date, no state has opted-out of a Compact standard which may be viewed as attributable to the benefits of the Compact's Member state consensus process for decision-making at the Commission.

While the Compact provides a central point of filing under national standards, Member state insurance departments continue to oversee market regulation activities in their respective states; and continue to record and mediate consumer complaints, including those with respect to Compact-approved products. The Commission does provide assistance to state insurance departments in determining whether a violation of a uniform standard had occurred.

But it should be highlighted that with Compact membership, the rights and remedies afforded the citizens of Connecticut will remain under the purview of the Connecticut Legislature and Department of Insurance. The Compact legislation specifically preserves such existing rights and remedies by expressly providing that "...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." Thus, the Compact framework enables speed-to-market while continuing to have the states respond to concerns locally – ensuring consumer protection as the hallmark of state-based regulation.

CONCLUSION

The Connecticut Insurance Department has undertaken a careful and considered analysis of the potential benefits for Connecticut in joining the Insurance Compact. With its professional product review processes, the high level of consumer protection in its uniform standards, and transparency and accountability to its Member states and the public, we believe that consumers, industry and the Department would benefit from Compact membership. The Commission has been operational since late 2007, and has received and reviewed product filings with speed-to-market results. Member insurance departments have obtained the advantages of central review efficiencies without sacrificing state filing fees or premium taxes. And consumers in Member states have continued to be protected. Additionally, on a national level, Compact states have demonstrated that the states can best ensure a robust insurance sector without the need for federal oversight.

The Connecticut Insurance Department supports passage of HB 6470 and urges this Committee to support Connecticut's entry in the Compact and join with other states in modernizing insurance regulation for the benefit of all consumers.