

# **State Accreditation: Then and Now**

ASSAL – July 2011

Todd Sells

# Why is Accreditation Needed?

- Insurance company insolvencies during late 80s & early 90s
- Rep. John Dingell - “Failed Promises, Insurance Company Insolvencies”
- Weaknesses noted in state regulation of insurance companies
- Report suggested that federal regulation may be more efficient

# State Regulation Weaknesses

## Noted in the Dingell Report

- Information provided by companies not verified
- Insufficient staffing and regulatory resources
- No mandatory requirement regarding frequency of examinations
- Lack of interstate coordination and cooperation

# History of the NAIC Accreditation Program



- Formed in 1989
- Voluntary program for state insurance departments administered by the NAIC
- Focus on multi-state life/health and property/casualty insurers
- First state accredited in 1990
- 50 states and District of Columbia accredited

# Mission Statement of the Accreditation Program

The objective of the accreditation program is:

- To provide a process whereby solvency regulation of multi-state insurance companies can be enhanced and adequately monitored with emphasis on the following:
  - Adequate solvency laws and regulations to protect consumers and guarantee funds.
  - Effective and efficient financial analysis and examination processes
  - Appropriate organizational and personnel practices
- To allow states to rely on the work performed by other states.

# Supervision and Administration of the Accreditation Program

- Financial Regulation Standards and Accreditation (F) Committee
  - Chair: Linda Hall (AK)
  - Vice Chair: Commissioner Julie Mix McPeak (TN)
- Open Session:
  - Typically begins after Opening Session on first official day of National Meeting
- Regulator-to-Regulator Session:
  - One day prior to first official day of the National Meeting. 1-3 hours in length, depending on agenda

# Accreditation Standards

- Part A: Laws and Regulations
- Part B: Regulatory Practices and Procedures
- Part C: Organizational and Personnel Practices

# Part A: Laws and Regulations

- States must adopt certain laws and regulations for solvency
- 18 laws and regulations are currently required
- The state must have all the laws and regulations in effect to be accredited (i.e. pass or fail)



# Part B: Regulatory Practices & Procedures

- Financial Analysis
  - 8 standards
- Financial Examinations
  - 10 standards
- Information Sharing and Procedures for Troubled Companies
  - 2 standards
- Scored by the accreditation team members

# Overview of Scoring:

## Part B

- The scoring range for each component will be on a scale of 0 to 5
  - 1 = Poor
  - 2 = Needs Improvement
  - 3 = Good
  - 4 = Very Good
  - 5 = Excellent
- Must receive an average score equal to or greater than 3.0 on each of the three major subparts
- Minimum score of 2.0 must be attained on each individual standard
- Scores are confidential

# Part C: Organizational & Personnel Practices

- 3 Standards
  - Professional Development
  - Minimum Educational and Experience Requirements
  - Retention of Personnel
- Not scored by the accreditation team members

# Types of Accreditation Reviews

- Pre-Accreditation Review
- Accreditation Review
- Sub-Part Re-Review
- Interim Annual Review
- Periodic Reporting

# Pre-Accreditation Review

- Performed one to two years prior to full review by NAIC Staff
- Duration is approximately 1.5 days
- High level review of financial analysis and financial examination functions to identify areas of improvement
- Voluntary but strongly recommended
- Confidential pre-accreditation report issued to the Commissioner
- No Committee responsibility

# Accreditation Review

- Once every 5 years subject to interim annual reviews
- Duration is approximately 1 week (5 business days)
- Review Team composition supervised by the NAIC Accreditation Program Manager
- Full review of Part B & C Standards by Review Team
- Full review of Part A Standards by NAIC Legal Division
- Reports distributed to the Financial Regulation Standards and Accreditation (F) Committee (FRSAC)
- FRSAC members vote

# Sub-Part Re-Reviews

- May be required by the Committee in certain circumstances following a full review
- Utilize same accreditation team members and NAIC Accreditation Program Manager
- Review limited to only areas which require follow-up
- Same reports issued as with a full accreditation review for areas under review
- FRSAC members vote

# Interim Annual Review

- Completed IARs submitted to NAIC Staff on annual basis
- Review performed to assess compliance
  - Review of Part B & C by NAIC Accreditation Staff
  - Review of changes to Part A by NAIC Legal Division
- Required to maintain accredited status between accreditation reviews
- Results are communicated to the Committee each National Meeting
- FRSAC members vote



# Periodic Reporting

- May be required by the Committee for continued monitoring of concerns noted in a full review or interim annual review
- Detailed information sent to NAIC staff
- NAIC staff prepare a summary memo for Committee members, including staff recommendation
- FRSAC members vote



# Group Discussion

- In your experiences, how has accreditation improved state-based regulation?
- How has accreditation increased collaboration between states?

# How has accreditation helped the regulatory process?

- Information provided by companies was not verified
  - Annual CPA audit and actuarial opinion required
- Insufficient staffing and regulatory resources
  - Accreditation helped justify increased budgets/staffing

# How has accreditation helped the regulatory process?

- No mandatory requirement regarding frequency of examinations
  - Domestic companies must be examined no less frequently than every five years
- Lack of interstate coordination and cooperation
  - Documented policy regarding such is required

# Communication Tools

- NAIC Administrative Policies Manual of the Financial Regulation Standards and Accreditation Program
  - Published each year as of January 1<sup>st</sup>
  - Hard copies of manual sent to state insurance departments
  - Updates to manual included on the website
- Accreditation Website
  - [http://www.naic.org/committees\\_f.htm](http://www.naic.org/committees_f.htm)*
  - [https://i-site.naic.org/cgi-bin/statenet/financial\\_accreditation.htm](https://i-site.naic.org/cgi-bin/statenet/financial_accreditation.htm)*
- Quarterly Accreditation Newsletter

# Questions?

