



Highlights of [GAO-09-372](#), a report to congressional requesters

## Why GAO Did This Study

Because the insurance market is a vital part of the U.S. economy, Congress and others are concerned about limitations to reciprocity and uniformity, regulatory inefficiency, higher insurance costs, and uneven consumer protection. GAO was asked to review the areas of (1) producer licensing, (2) product approval, and (3) market conduct regulation in terms of progress by NAIC and state regulators to increase reciprocity and uniformity, the factors affecting this progress, and the potential impacts if greater progress is not made. GAO analyzed federal laws and regulatory documents, assessed NAIC efforts, and interviewed industry officials.

## What GAO Recommends

GAO recommends that, as Congress considers changes to its oversight of the insurance industry, it explore ways to ensure all states and jurisdictions can conduct nationwide criminal background checks as part of their producer licensing and consumer protection functions. GAO also recommends that NAIC and state insurance regulators work with the insurance industry to identify product approval differences among state regulators and improve how consistently state regulators review and approve product filings once received through SERFF.

NAIC generally agreed with GAO's recommendation, and provided additional comments on a number of issues associated with insurance regulation in general.

To view the full product, including the scope and methodology, click on [GAO-09-372](#). For more information, contact Orice M. Williams at (202) 512-8678 or [williamso@gao.gov](mailto:williamso@gao.gov).

# INSURANCE RECIPROCITY AND UNIFORMITY

## NAIC and State Regulators Have Made Progress in Producer Licensing, Product Approval, and Market Conduct Regulation, but Challenges Remain

### What GAO Found

Reciprocity of producer licensing among states has improved, but consumer protection and other issues present challenges to uniformity and full reciprocity. Congress' passage of the Gramm-Leach-Bliley Act (GLBA) in 1999, NAIC's Producer Licensing Model Act (PLMA) of 2000, and uniform licensing standards (2002) have helped improve reciprocity and uniformity. However, NAIC officials noted that as of March 2009, only 17 states were performing full criminal history checks using fingerprinting, and some states that do such checks have been unwilling to reciprocate with states that do not. In addition, some insurance regulators in our sample noted that regulators do not have a systematic way to access disciplinary records of other financial regulators. Without full checks on applicants, states may less effectively protect consumers. Licensing standards, including how state regulators define lines of insurance, also vary across states, further hindering efforts to create reciprocity in agent licensing. These differences may result in inefficiencies that raise costs for insurers and consumers.

State regulators' processes to approve insurance products have become more efficient, but barriers exist to greater reciprocity and uniformity. NAIC and state regulators have improved product approval filings by creating the System for Electronic Rate and Form Filing (SERFF) in 1998, which, according to some industry participants, has simplified filings and reduced filing errors. However, SERFF does not address differences in regulators' review and approval processes. In addition, an Interstate Compact was created in 2006 to facilitate approval of certain life, annuity, disability income, and long-term care products, which are accepted across participating states. As of March 2009, 34 states participated in the Compact. However, the Compact leaves some decisions on approval up to the individual states, and several key states have not joined because they feel their processes and protections are superior to the Compact's. Moreover, differences in state laws are likely to limit reciprocity in the approval of property/casualty insurance products. To the extent these areas lack reciprocity and uniformity, some industry participants noted that there may be inefficiencies that slow the introduction of new products and raise costs for insurers and consumers.

NAIC and the states have taken steps to improve reciprocity and uniformity of market conduct regulation, but variation across states has limited progress. For example, NAIC noted that in 2006 it developed uniform guidance, and in 2008 created core competency standards, which are intended to be part of an accreditation process for market conduct regulation. NAIC noted that the accreditation plan has not been finalized, and the standards do not include adherence to all NAIC market conduct guidance. In addition, NAIC in 2002 developed the Market Conduct Annual Statement (MCAS) to promote uniform data collection and better target exams. However, industry participants have several concerns about the MCAS and NAIC noted that fewer than half of insurance regulators use it for data collection. NAIC has also created a working group to coordinate enforcement actions. While better communication and coordination appears to have resulted, according to some states in our sample, the effect on uniformity of market conduct regulation is uncertain. Lack of uniformity and reciprocity may lead to inefficiencies, higher insurance costs, and uneven consumer protection across states.