



NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS

# Insurance Regulatory Reform Proposals

## INTERSTATE INSURANCE PRODUCT REGULATION COMPACT (INTERSTATE COMPACT)

- The Interstate Compact is an initiative of the National Association of Insurance Commissioners (NAIC) to improve the speed-to-market conditions for life insurance, annuity, disability income and long-term care products.
- NAIFA supports the Interstate Compact.
- The Interstate Compact does not impact property/casualty or health insurance products.
- The Compact does not address any other area of insurance regulation.
- NAIFA and AHIA serve as the agent representatives to the Interstate Compact Commission's Insurance Industry Advisory Committee.
- The Compact's goal is to get life insurance, annuity and related insurance products to market faster by allowing companies to file new products in one place for approval in every state that enacts the Compact law.
- The Compact aims to give insurers who offer products in more than one state a more efficient product approval process than the current multi-state system and to make new products available for sale to consumers sooner.
- Currently the Interstate Compact has been adopted by 33 states and is pending in others.

## NATIONAL ASSOCIATION OF REGISTERED AGENTS AND BROKERS OR "NARAB II"

- The *National Association of Registered Agents and Brokers Reform Act*, or "NARAB II," was introduced in the House of Representatives on March 13, 2008, and was passed by the House on September 17, 2008. It did not advance to the Senate floor before the end of the 110th Congress, but will likely see further action in the 111th Congress.
- NAIFA supports NARAB II.
- The NARAB II bill, H.R.5611, creates an Association, NARAB, which any producer (individual or agency) licensed in their home state could choose to apply to join for a fee. NARAB members would be subject to one licensing and CE standard for all of their non-resident state licenses.
- NARAB membership criteria, such as cost and licensing standards, would be determined by a governing board made up of insurance commissioners, producers and carriers.
- The cost to join NARAB is a separate fee from the required state licensure fees.
- Producers who apply for NARAB membership will be required to submit to a criminal background check.
- Non-resident states would be prohibited from imposing on NARAB members any additional requirements for licensing or other qualifications to do business.
- Non-resident states would continue to have the power to discipline NARAB members and to suspend their licenses.
- The NARAB Board must coordinate disciplinary efforts with the states and establish a consumer complaint office.
- The NARAB Board can seek a court order if necessary to enforce its disciplinary actions.
- NARAB members would renew their membership every two years.
- NARAB II does not create a federal regulator for insurance.

## OPTIONAL FEDERAL CHARTER (OFC)

- OFC is a proposal to create a federal insurance regulator for any insurer or agent that chooses to be regulated by the federal government, rather than by one or many states.
- In its 2008 “Blueprint for a Modernized Financial Regulatory Structure,” the U.S. Department of Treasury recommended the creation of an optional federal charter for insurance.
- OFC regulation would be optional and the state insurance regulatory system would retain full authority over insurers and agents who continue with the state system.
- Legislation to create an OFC was introduced in the both the House and Senate in 2006, and modified versions were introduced in both chambers in 2007. The bills, S.40 and H.R.3200, are both known as the *National Insurance Act of 2007*, but NAIFA conditionally supports the concept of an OFC provided certain circumstances are met.
- NAIFA has not endorsed the *National Insurance Act*.
- The *National Insurance Act*, does not preempt state law for state-licensed companies and agents, but offers an alternative to state law for those that opt for federal regulation.
- The *National Insurance Act* does preempt most state insurance laws and regulations for federally licensed companies and agents.
- The *National Insurance Act* aims to give insurance agents the choice to remain licensed in the state regulatory system or “opt” for a national, federal license that would be valid in all 56 U.S. insurance jurisdictions (including the states, the District of Columbia and five U.S. territories).
- With a federal license, the agent may sell insurance in any state on behalf of federally licensed insurers and/or state licensed insurers.
- Nationally licensed agents would still be required to pay taxes in their home states.
- For agents who choose to remain state licensed, they may still sell insurance on behalf of state or federally licensed insurers doing business in their state.
- For agents who work primarily for a single carrier, the bill requires federally licensed insurers (National Insurers) to supervise the activities of their federally licensed agents. In addition, federally licensed insurance agencies (National Agencies) would be required to supervise their employees engaged in the sale of insurance.
- The *National Insurance Act* would create a federal regulator, the Office of National Insurance (ONI), that would be housed in the Department of Treasury and headed by a commissioner appointed by the president and subject to confirmation by the U.S. Senate.
- The ONI would have the authority to determine licensing fees and continuing education standards for nationally licensed agents—the ONI would not have authority over agents that choose to remain state licensed.
- The ONI would be responsible for establishing the supervision standards of National Insurers and National Agencies and would oversee the sales and marketing practices of federally licensed producers who are not employed by a National Insurer or National Agency, and who do not work primarily for a federally licensed insurer.
- The ONI-established supervision standards would not conflict with the rules adopted by any self-regulatory organization approved by the SEC (including, but not limited to, FINRA).
- The *National Insurance Act* allows for the establishment of insurance self-regulatory organizations (SROs) for National Insurers, National Agencies and federally licensed insurance producers.
- Federal Insurers would be required to participate in all state guaranty funds unless a state guaranty fund is not deemed “qualified” by the National Commissioner. In the case of a non-qualified state fund, the National Insurer would be required to participate in a new federal guaranty fund.



## INSURANCE INFORMATION ACT

- In its 2008 “Blueprint for a Modernized Financial Regulatory Structure”, the U.S. Department of Treasury recommended the creation an Office of Insurance Oversight (OIO) to establish an immediate federal presence in insurance for domestic and international regulatory issues.
- In response to years of hearings on insurance regulatory reform and the Treasury's recommendation, the *Insurance Information Act of 2008*, H.R. 5840, was introduced in the House of Representatives in April 2008 and was favorably reported out of the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises on July 9, 2008. Due to heightened interest in this legislation, it is anticipated that the bill will be reintroduced in the 111th Congress that begins in January 2009.
- NAIFA supports the Insurance Information Act.
- H.R.5840 would create Office of Insurance Information (OII) within the Department of the Treasury and would be headed by a Deputy Assistant Secretary appointed by the Secretary of the Treasury.
- The OII would not be a federal regulator.
- The OII would be responsible to collect and analyze data on insurance and advise the Secretary of the Treasury on major domestic and international insurance policy issues.
- The OII would establish Federal policy on international insurance matters and ensure that State insurance laws are consistent with international trade agreements.
- The OII would report to the U.S. Congress on policy issues impacting the industry.
- The OII would establish an Advisory Group to make recommendations to the Office. The Advisory Group would include representatives of the NAIC, the Department of Commerce, the Office of the U.S. Trade Representative, and individuals associated with the insurance industry, consumer groups, and other appropriate organizations.

For more information, on the Interstate Compact, contact Bill Anderson at [wanderson@naifa.org](mailto:wanderson@naifa.org) or Michael Gerber at [mgerber@naifa.org](mailto:mgerber@naifa.org).

For more information on NARAB II, Optional Federal Charter or the Insurance Information Act, contact Jill Edwards at [jilledwards@naifa.org](mailto:jilledwards@naifa.org) or Jen Piantedosi at [jpiantedosi@naifa.org](mailto:jpiantedosi@naifa.org).

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