

## State Insurance Regulatory Systems

Each state has created a regulatory system that enables the DOI to oversee insurers' operations within the state. A typical state insurance regulatory system contains the following four features:

1. *Licensing requirements.* All states require insurers to obtain a certificate of authority—or a license—before conducting insurance business within the state. The states also require insurance producers to be licensed before they can solicit the sale of insurance within the state. Licensing ensures state quality control of insurance industry activities.
2. *Reporting and filing requirements.* Every state requires each licensed insurer to file a comprehensive financial report, called an Annual Statement, with the DOI at least annually. Insurers must file their Annual Statements by March 1 each year with all states in which they are licensed. Most states require insurers to file abbreviated versions of these statements quarterly. In addition, most states require insurers to file other types of reports and materials, such as policy forms, before using those materials in the state.
3. *Periodic examinations.* Insurance laws in all states authorize the DOI to periodically examine the financial condition and financial records of insurers operating in the state to ensure that they are financially sound and are complying with regulatory requirements. DOIs are authorized to take specified actions when such an examination reveals that an insurer is in financial difficulty or is not complying with applicable regulatory requirements.
4. *Power to impose sanctions.* All state insurance commissioners have the power to impose sanctions on insurers and insurance producers when they fail to comply with regulatory requirements.

## ROLE OF STATE LEGISLATURES AS INSURANCE REGULATORS

State legislatures influence insurance regulation on many levels. They often directly control DOI budgets. They also pass the insurance laws that insurance commissioners must enforce. In addition to those activities, state legislatures have other means of influencing state insurance regulation, such as tax and corporate laws.

Most states have legislators who have work experience in the insurance industry. Such experience can be beneficial during insurance discussions in the legislatures. However, competing interests are often involved in legislative issues, concerning both political and economic considerations. Additionally, the number of legislators who are knowledgeable about insurance issues can be small.



The National Conference of Insurance Legislators (NCOIL) is an organization of state legislators whose primary area of public policy concern is insurance. Many of the legislators serve in leadership positions or are active members of the committees responsible for dealing with insurance issues in their respective legislatures.

NCOIL's activities include the following:<sup>1</sup>

- Educating legislators on insurance issues
- Helping legislators from different states communicate with each other about insurance issues
- Improving insurance regulation
- Asserting legislators' prerogative in making state insurance policy
- Speaking about Congressional initiatives that might affect state insurance regulation

Another organization related to insurance legislation, the National Conference of State Legislatures (NCSL), also seeks to inform legislators about insurance and other financial services issues and to facilitate communication among legislators involved in insurance legislation.

## Direct Legislative Oversight

Insurance commissioners are authorized to regulate the insurance industry for the states. However, state legislatures retain some direct control over how insurance commissioners perform their duties. Because legislatures control DOIs' budgets, provide the legal framework of regulation through legislation, and may confirm commissioners' appointments for office, regulators have to submit periodically to legislative oversight. The oversight takes different forms, including requiring annual reports, completing performance reviews, and conducting DOI audits.

## Annual Reports

Most states have laws requiring insurance commissioners to submit annual reports to legislatures (or to governors or other state officials) summarizing DOI activities and the status of the insurance industry in the state. A few states stipulate semiannual or biennial reports, and some states require additional reports on specific insurance matters. These reports are often available to the public.

Annual reports often include the following items:

- Statement of DOI revenue and expenses
- Exhibit summarizing licensed insurers' financial status and business transactions, as disclosed by filed annual reports
- List of insurers closed for that business year



- List of insurers in receivership or other official financial difficulty, with brief explanations of their status
- Insurance commissioners' recommendations about insurance laws and DOI operations
- List of other insurance matters of general interest, as determined by the insurance commissioner

State annual reports also often include information on specific state programs. The length and scope of reports vary by state. An annual report covers the period from the issuance of the prior report to the end of the designated fiscal period, and the information is neither cumulative nor repetitive.

Some states also require other types of reports, such as the following examples:

- *An annual report on the profitability of a specific line of insurance, such as motor vehicle liability insurance*
- *An annual report analyzing specific types of tort cases, including analyses of types of tort actions—such as medical malpractice claims and products and design liability actions*
- *An annual report to the legislature, including data on the number of insurers reporting business written by category; loss ratios; analysis of changes in loss reserves; and analysis of the state's program to reduce the number of uninsured motorists and its effect on auto insurance rates*
- *An annual report of insurers' public liability loss experience*
- *An annual report of fraudulent claims*

### Performance Reviews

Another role of state legislatures involves using performance reviews to evaluate the operations of DOIs. Performance reviews can affect the DOI's budget and operations. For example, a state legislature might review certain aspects of the DOI's work, such as budget or workload measures and standards, and evaluate any justifications for new positions.

### Audits

In their role of overseeing DOIs, state legislatures deal with other governmental authorities, such as state auditors who periodically issue reports on various state agencies, including DOIs. For example, a state auditor report might focus on a DOI's policies, procedures, and practices to determine the financial condition, solvency, and adequacy of reserves of all licensed insurers operating within a state.

State auditors have a wide range of authority and responsibility and sometimes can choose what to examine, subject to state legal requirements.

