NAIC
National Association of Insurance Commissioners
& The CENTER for INSURANCE POLICY and RESEARCH

NAIC Financial Regulation Standards and Accreditation Program
Consequences of Not Being Accredited
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The purpose of this memo is to discuss consequences a state insurance department may face if it is not accredited under the NAIC's Financial Regulation Standards and Accreditation Program. A system of effective solvency regulation provides crucial safeguards for America's insurance consumers. Insurance consumers benefit when the insurance industry is strong enough financially to be able to pay and settle claims in a timely manner, to provide diverse and competitively priced products and to provide meaningful customer service. To guide state legislatures and state insurance departments in the development of effective solvency regulation, the NAIC adopted the Financial Regulation Standards (Standards) in June 1989. These Standards establish baseline requirements for an effective regulatory system in each state. To provide guidance to the states regarding the baseline Standards, as well as an incentive to put them in place, the NAIC adopted a formal certification program in June 1990. Under this plan, each state's insurance department is reviewed on a periodic basis to assess that department's compliance with the Standards.

There are various negative consequences if a state insurance department were to have its accreditation revoked. The accreditation program allows for inter-state cooperation and reduces regulatory redundancies. That is, if a company is domiciled in an accredited state, the other states in which that company is licensed and/or writes business may be assured that, because of its accredited status, the domiciliary state insurance department is adequately monitoring the financial solvency of that company. In fact, each accredited state's laws or regulations on financial examinations contain a provision that all licensed companies are to be examined periodically; however, in lieu of performing its own examination, a state may accept the examination report prepared by an insurance department that was accredited at the time of examination. Therefore, the inter-state reliance that the accreditation program produces ultimately saves millions of dollars in duplicative examination costs. If a state were to have its accreditation revoked at any time, its domestic insurance companies would need to be examined by every state in which a company is licensed and/or writes insurance policies. This would be a costly, unnecessary and certainly unwelcome burden to the insurance companies domiciled in that state.

If a state insurance department's accreditation is revoked and its domestic companies then face the possibility of multiple examinations, those companies may choose to redomicile to another state. Ultimately, the non-accredited state would lose tax and fee revenue from those companies that choose to domicile to another state. In 2003, when the state of Illinois was threatened with the loss of its accreditation, Rep. Frank J. Mautino (D), who chaired the Illinois House Insurance Committee, said that, "It would be a financial embarrassment nationally. The real loss would be companies would consider moving their charters to other states." At the time, Rep. Mautino estimated an impact of $300 million in lost tax and fee revenue to the state of Illinois.

Another consequence of revoked accreditation would be the significant negative publicity that stems from such a loss and the resulting negative implications to the insurance department's professional reputation. It would be a known fact that the state insurance department is not meeting the baseline standards that nearly all other jurisdictions have been successful in attaining. The accreditation program is a key tool in promoting and maintaining state-based regulation of the insurance industry. The creation of the accreditation program was prompted by a Government Accounting Office report that suggested that federal regulation may be more effective than state-based regulation. It is imperative that in order to maintain the integrity and credibility of the accreditation program, and state-based regulation as a whole, states maintain their accredited status. This demonstrates that the current scheme of regulatory monitoring is intact and working effectively.

For further information regarding the NAIC's accreditation program, please contact Julie Garber, Senior Accreditation Manager, at 816-783-8130 or Jgarber@naic.org.

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