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The NAIC Accreditation Program

- *The Accreditation Program identifies key financial authorities and responsibilities of state insurance regulators that merit national consistency among the states, which improves oversight of multi-state insurers and ultimately reduces the cost of inefficiencies borne by policyholders.*
- *Accreditation standards are only identified after an extensive and transparent process that receives broad support from state commissioners around the country, and also includes a peer-review component to ensure all state insurance departments continue to strive for best practices and seek to remain world-class regulatory bodies. Currently, all 50 states, the District of Columbia and the U.S. Virgin Islands are accredited.*
- *The Accreditation Program is a key tool in promoting and maintaining state-based regulation of the insurance industry and is a key defense against federal intrusion due to inconsistencies among the states. The strength of the Accreditation Program has been cited as a hallmark to the success of the U.S. national system of state-based regulation.*

Background

The NAIC Financial Regulation Standards and Accreditation Program (Accreditation Program) serves as the backbone of the U.S. national system of state-based regulation. The Accreditation Program defines baseline standards deemed essential for effective solvency regulation in each state. In June 1989, the NAIC adopted the Financial Regulation Standards (Standards) to guide state legislatures and state insurance departments in the development of effective solvency regulation. In June 1990, the NAIC adopted a formal certification program to provide guidance to the states regarding the Standards, as well as an incentive to put them in place.

The Accreditation Program provides the impetus for states to adopt in a consistent manner the NAIC model laws, regulations and requirements that make up the U.S. insurance financial solvency framework. It is designed to ensure state insurance departments perform adequate and timely financial analysis and examinations, maintain appropriate organizational and personnel practices, and have sufficient resources and statutory authority to carry out their duties. Accreditation, granted to those states in line with the Standards, fosters accountability and uniformity, and allows regulators of multi-state insurers to rely on the domiciliary state's solvency regulation to avoid duplication of effort and expense. Each accredited state's laws or regulations contain a provision that all licensed companies are to be examined periodically. 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. This inter-state reliance ultimately saves insurance companies, and by extension consumers, millions of dollars in duplicative examination costs.

The process for a model law to become an accreditation standard is extensive and involves input and feedback from numerous parties, including state legislators and consumer and industry representatives. This is in addition to the extensive model law/regulation process at the NAIC where state insurance regulators consider comments and receive input from all insurance sector stakeholders. Only after several years and extensive feedback from the industry and consumers are model laws developed and become accreditation standards. Even then, once a model is adopted as an accreditation standard, states are given a two year time-frame to implement new standards before they take effect.

Key Points

- The Accreditation Program allows for inter-state cooperation, reduces regulatory redundancies, and provides baseline consumer protections.
- The standards used in the accreditation process are carefully considered and are developed in an open and transparent NAIC multi-layered committee process. Regulators receive input from numerous interested parties including state legislators, consumer representatives and industry representatives.
- Significant negative consequences stem from the loss of accreditation, including potential loss of domiciled insurers and negative implications for the professional reputation of the state insurance department.
- The high quality and high degree of consistency attributable to the Accreditation Program is a key defense against federal encroachment in state-based insurance regulation.