



Highlights of [GAO-03-433](#), a report to the Chairman, Committee on Financial Services, House of Representatives

## Why GAO Did This Study

Consumers of insurance depend on state regulators to ensure that insurance companies are behaving fairly and in accordance with the law. This report evaluates the states' use of market analysis (information gathering to determine issues and identify companies that may need attention) and on-site examinations in market regulation and the progress the National Association of Insurance Commissioners (NAIC) has made in creating more uniformity in the regulation of market conduct.

## What GAO Recommends

GAO recommends that NAIC and the states give increased priority to identifying a common set of standards for a uniform market oversight program that includes all states. These standards should include procedures for conducting market analysis and coordinating market conduct examinations. Further, NAIC needs to establish a mechanism to encourage state legislatures and insurance departments to adopt and implement the standards.

[www.gao.gov/cgi-bin/getrpt?GAO-03-433](http://www.gao.gov/cgi-bin/getrpt?GAO-03-433).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman at (202) 512-8678 or [hillmanr@gao.gov](mailto:hillmanr@gao.gov).

# INSURANCE REGULATION

## Common Standards and Improved Coordination Needed to Strengthen Market Regulation

### What GAO Found

Market conduct regulation—oversight of insurance company practices such as selling and underwriting policies—is the responsibility of the same state agencies that oversee insurance companies' financial solvency. Unlike financial regulation, however, with its nationwide standards that allow for coordination among state regulators, no generally accepted standards exist for market conduct regulation. While all states do some kinds of market regulation, including issuing licenses and responding to consumer complaints, two key tools—market analysis and on-site examinations—are used inconsistently, if at all. The result is inconsistent and often spotty coverage from state to state and potential gaps in consumer protection. Formal and rigorous market analysis, which could be used to determine which companies to examine and how broad the examination should be, is in its infancy among state regulators, and states that do perform examinations vary widely in the way they choose companies to examine and the scope of the examinations they conduct. These inconsistencies in performing market conduct examinations make it difficult for the states to depend on each other for regulation, leaving each state with the virtually impossible task of examining every company within its borders. And with each state conducting its own examinations, some insurance companies find themselves undergoing simultaneous examinations by several states, while other companies may not be examined at all.

NAIC has been pursuing initiatives since the 1970s to improve uniformity in standards and procedures for a market analysis program and market conduct examinations, but progress has been limited. In 1975 NAIC first published guidance for market conduct examinations and since then has updated it regularly. NAIC has also developed and continues to improve a tracking system that allows states to share examination schedules. But states are not required to use the guidance, although many do, and may choose which parts they wish to apply. Similarly, states are not required to use the tracking system, and most have not. The success of NAIC's initiatives will be determined in large part by regulators' willingness to share in these efforts and to rely on regulators in other states to assess an insurance operation. Recently, NAIC set as one of its major goals improving the way states use market analysis and market conduct examinations. However, it remains uncertain whether NAIC and the states can agree on and implement a program that will result in the standardization of market conduct regulation. Much work remains to be done to promote the coordination and cooperation that are needed for consistent market conduct regulation to protect insurance consumers.