Contents

A Note From the Editor,

Whew! This is tough. Putting out back-to-back issues of the *Research Quarterly* until we get back on schedule has been a real effort for the NAIC Research staff. We are all so busy trying to keep up with Gramm-Leach-Bliley issues and Statement of Intent Working Group projects, we haven't had a lot of time to be too—well, original. Beginning with the Spring 2001 issue, scheduled for distribution in February 2001, we will resume publication on a quarterly schedule.

This issue of the *RQ* was actually a privilege to develop. It features my "heralded" article on the Kentucky Insurance Department. It was an absolute pleasure visiting the Department in Frankfort, and interviewing the hard-working staff. Since I wanted candid information, I didn't announce my visit to the employees, but sort of wandered about the buildings asking slightly bewildered staff innocent little questions such as, "How do you like your Commissioner?" and "Has the increased workload negatively affected morale?" I'm pleased to inform you that *everyone* I spoke with was cooperative and (surprisingly) upbeat. Suffice to say the NAIC President, Commissioner George Nichols III is a pretty popular man in Kentucky not to mention other parts of the world.

I hope our readers enjoy the article as much as I did writing it. A special thank you to the Kentucky Insurance Department staff, of course to the amazing Commissioner Nichols and especially to the Commissioner's "corner people" (you'll have to read the article). I appreciate everything you did for me and hope the article meets with your approval.

Highlights of several NAIC annual statistical reports are also featured in this *RQ* issue, including the 1998 Insurer Investment Reports, Long-Term Care Experience Tables and Medical Supplement Loss Ratios. 1999 editions of these reports are currently in production and will be featured in the spring 2001 issue. From then on, we intend to regularly highlight NAIC statistical reports in the *RQ* spring issue each year.

Upcoming Features

In the next issue of *RQ*, to be distributed in November 2000, look for an update on the progress of the GLB/Statement of Intent Working Groups that were featured in the Spring 2000 issue (distributed in August). Also, as promised, there will be several articles devoted to statistical data needs for regulators in the changing regulatory environment. Contributors to this issue will include various regulators with statistical data expertise, some prominent industry data managers and actuaries, statistical agents, industry and regulatory attorneys with perspectives on data confidentiality and privacy, and perhaps an academic or two. Risk-Based Capital Results By Line for 1999 will also be published in the winter issue. We hope our readers find this issue informative and that you will look forward to future *RQ* issues.

Talk to Us

As always we want to hear from our readers. Even more we want our readers to submit articles for publication. Let us know what you think about the articles we feature and what regulatory issues you are interested in knowing more about. Please e-mail your articles, suggestions for articles, comments, questions, surveys and survey results, highlights of department research projects and activities, and any other type of insurance and regulatory research information you want to share to my attention at nhughes.naic.org.

The *RQ* is a global forum with subscribers in 17 countries. Subscribe today to the *RQ* for the only insurance research information written by and for regulatory insurance professionals.

Natalai Webster Hughes,
Editor, *Research Quarterly*

A message to our readers:

Traditionally the *RQ* has served as a vehicle to showcase insurance department and NAIC research projects and studies, to share regulator viewpoints and to present insurance topics of global, national and local interest to our readers. Its role is that of "little sibling" to the *Journal of Insurance Regulation* and as such we are seeking to increase its circulation among regulators and other insurance professionals. In this issue, as in the past, the majority of articles were written by NAIC staff members in response to questions that come directly from our regulator members and others who attend NAIC meetings and use NAIC publications, products and services.

NAIC staff researchers and writers intend to keep you informed through the *RQ*. We will continue to tell you about projects, programs and products developed by NAIC committees and working groups, and we will still inundate you with pages and pages of statistical and financial information from the world's most comprehensive database. But, we want the *RQ* to evolve. We want it to become a professional journal for our members. We want regulators to use the *RQ* as a forum to advocate regulatory viewpoints, share regulatory theories and promote regulatory ideas and innovations. Okay, we want you to write more articles.

Beginning with the 2001 volume, we will schedule the release of the *RQ* approximately one month before each national meeting as follows: Spring—February; Summer—May; Fall—September and Winter—November. This is intended to associate the distribution of each *RQ* issue with the NAIC quarterly national meetings, which are also designated by season.

Copies of each new issue, as well as back issue information and subscription forms, will be available at the NAIC Publications display booth set up at each quarterly meeting site. Contributing writers can submit articles and other information for publication with the expectation that each *RQ* issue will be exposed to more than 1,000 meeting attendees.

If you would like to contribute an article(s) of interest on an insurance issue, share a department project or idea, provide written commentary in response to someone else's project or ideas, advertise an event or special activity or just plain get your name in print, PLEASE contact:

Natalai Hughes, nhughes@naic.org or Teresa Bozeman, tbozeman@naic.org

for information on getting your article published.

An annual subscription to the *Research Quarterly* is $100; individual copies are $25. Contact the NAIC Publications Department for order information.

Making A Difference: Insurance Regulation at the Kentucky Insurance Department

By Natalai Webster Hughes

So much has been written about Kentucky Insurance Commissioner George Nichols III that another Nichols article would only seem like plagiarized drooling. Industry journals have done stories about his "vision" with regard to financial modernization and its impact on the insurance world. Various articles talk about his intelligence and wit; and by now everyone knows that his warmth is not just skin deep but radiates from sincerely caring about the people with whom he works.

This article takes a different tact. Its focus is *not* on Commissioner Nichols. Instead, it attempts to spotlight the other people who are employed at the Kentucky Insurance Department—the public servants who have been working in an accelerated mode for the past four years as their Commissioner has taken on the additional responsibilities inherent in serving on the executive board of the National Association of Insurance Commissioners.

Thinking Outside of the Box

Frankfort, the capital of the state of Kentucky, is a beautiful place. Many of the people who live there are state employees and some have worked for many years in various government agencies. For the past four years, employees of the Kentucky Insurance Department have worked extremely hard under the dynamic George Nichols and, in spite of their burgeoning workloads, have many good things to say.

Most agree the Kentucky Insurance Department is not run like other bureaucratic agencies, but more like a great big family business. People at *every* level are encouraged to come up with ideas for improving the way they work, and more often than not, their ideas are placed into practice. Unlike many government agencies, sharing information is not considered taboo. In fact, communication among divisions is the norm.

"Think outside the box" is the mantra for this organization, and everyone speaks of being "energized" by the opportunity to share in the decisions that are made regarding the way the Kentucky Department operates. Commissioner Nichols' management style is "refreshing" they say, because he not only challenges them to be creative, something many public servants are denied, he also allows for occasional mistakes.

People generally want to go to work and feel like they make a difference. Nichols' is able to help his staff see how their work does make a difference to the people of Kentucky. The result is that few seem to think in terms of "it can't be done," instead, the staff seeks out ways to "just do it." The new Consumer Protection and Education Division provides strong evidence of this attitude.

Consumer Protection—Education Pays

Kentucky's state motto is "Education Pays" and nowhere is this emphasized more than at the Insurance Department. Consumer protection is currently a major focus and the staff believes the best protected consumer is an educated consumer. Before Nichols took office, the Department's consumer protection staff consisted of four complaint investigators who operated under the auspices of the Department's Legal Division. Today the Consumer Protection and Education Division is a separate Department unit and, as the name implies, consumer education is an important component. There are a total of 16 employees including nine investigators, a Consumer Ombudsman and a Consumer Educator.

Education staff duties include helping consumers learn to read their policies and file claims, determine what coverages are necessary for their families and businesses, locate and shop for those coverages and get answers to other questions that arise. The Department believes that when people can make informed choices about the products they purchase, and about the rights they have with regard to the servicing of those products, the companies that provide those products will work harder to become the consumer's "best choice."

Kentucky's state motto is "Education Pays" and nowhere is this emphasized more than at the Insurance Department.

The Division has developed more than 60 types of consumer education materials on many aspects of insurance and the list of material grows as new issues develop. All information is kept as current as possible—a Holocaust Insurance Claims Packet is now available—and staff is encouraged to find new and different ways to reach and teach people. An 800 number has been put into effect and insurance "TIPS OF THE WEEK" are published in local newspapers throughout the state.

The Department has also begun conducting town forums designed to educate the people of Kentucky on the complicated business of insurance. Participation in these forums is required, not only of the Consumer Education staff, but also of the department directors, deputy commissioners and even the Commissioner. These top-level staff members regularly travel around the state, both during and after work hours, and talk to people about insurance. Days are spent with insurance agents helping them to understand how to better inform their clients and evenings are spent communicating directly with the insurance buying public.

Commissioner Nichols is constantly thinking of ways to improve the insurance regulatory system so that it meets the challenges of a rapidly changing environment. He was among the first of a handful of regulators to realize several years ago that "financial modernization" was not just a coined phrase but an emerging concept. Accordingly, many technological changes designed to streamline processes and increase efficiency have been made at the Kentucky Insurance Department. The total number of staff has increased and additional training has helped increase productivity. According to Nichols, technology has enabled business to increase productivity tenfold, and its impact will multiply over time. "In the insurance world," he notes, "both regulators and the regulated must use technology to become more centralized and as a result, more efficient, otherwise, both will be left behind in global industrialization."

Similarly, Nichols' ideas and actions are generated in cyber-speed, and as he has helped lead the charge to revamp the insurance regulatory system, he has entrusted a hand

Seated: Commissioner George Nichols III. Standing, left to right: Chlora Lindley-Myers, Telitha Woods, Treva Wright-Donnell, Janie Miller and Mona T. Carter.

picked group of close-knit advisers to fill in the specifics of his vision and carry out the obligations of his plan. These are the women and men he tunes into with one ear, while problems are voiced in the other. He calls them his "corner people" and while he kiddingly refers to himself as their "puppet," he more seriously states that they are "the warriors that back him up in a battle." Because he is not blind to the vulnerability of his position, he has selected his team based on their intelligence, insurance knowledge, loyalty and above all honesty. He wants people to tell him the truth. If he's running down the wrong road heading for disaster, he wants to know *before* the steamroller flattens him.

The Fuel Behind the Fire

I recently had the pleasure of interviewing six of the Commissioner's corner people. They are: Mona T. Carter, Deputy Commissioner; Janie Miller, Deputy Commissioner for Health Insurance Policy and Managed Care; Chlora Lindley-Myers, Chief Compliance Officer; Treva Wright-Donnell, Director of Agency Licensing, Roger Snell, Communications Director, and Telitha Woods, Executive Assistant to the Commissioner.

According to Nichols, all possess the knowledge, loyalty and honesty he requires of anyone he allows into the protective circle he has established around himself, and all are born leaders with the intelligence, strength and the ability to succeed in their own right. Each, however, has a special talent that is unique and vitally important in helping him to accomplish his goals.

Mona Carter a former insurance agent with more than 15 years experience, has been with the Kentucky Department for six years and served as Director of the Property and Casualty Division prior to her appointment, this year, as Deputy Commissioner. Described by Nichols as the most passionate of his team, Ms. Carter is never uninformed or unprepared when it comes to the Kentucky Insurance Code. She keeps a marked up copy close to her at all times and can quote language, by chapter and section, practically verbatim. She is a strong advocate of the Commissioner's "thinking outside of the box" philosophy and is most often the person heard at meetings asking why or why not?

Janie Miller, Deputy Commissioner for Health Insurance Policy and Managed Care, served the Department twice in the Nichols administration, having left for a brief time to work in the private sector. Health insurance has been at the forefront of legislation since 1993 in Kentucky. When receiving the appointment to be Commissioner, Nichols called his good friend Ms. Miller to "come back and straighten this mess out," and she agreed. Her experience and understanding of the local and federal issues made her the perfect candidate for the position. She provides, according to Nichols, a certain poise and soundness to his team, not to mention a deep and abiding concern for the well-being of people served by the Department.

Not surprisingly, Ms. Miller finds her job in public service infinitely more rewarding than the fatter paycheck she received in private industry. Under Nichols, she too has learned to think "outside of the box" and has become more comfortable with performing in a less bureaucratic fashion, particularly when it comes to sharing information with others. Under her direction, the state is in the process of creating a state health insurance pool to provide coverage to high-risk persons unable to obtain insurance in the voluntary market.

Chlora Lindley-Myers is the person most likely to be found at the right hand of the Commissioner. He confesses to being awed by her level of intelligence and selected her for his team because of her broad-based knowledge

Left to right: Telitha Woods, Executive Assistant to the Commissioner; Chlora Lindley-Myers, Chief Compliance Officer; DJ Wesson, Principal Assistant to the Commissioner; Mona T. Carter, Deputy Commissioner; Treva Wright-Donnell, Director of Agency Licensing; and Janie Miller, Deputy Commissioner for Health Insurance Policy and Managed Care.

and experience in every aspect of insurance regulation. An attorney, Ms. Lindley-Myers worked for years for Aetna Life and Casualty while earning her law degree. She then went to the Connecticut General Assembly where she worked as counsel and bill drafter for the Insurance and Real Estate and Banking Committees.

Subsequently, she worked as the Property and Casualty Section Chief for the Missouri Insurance Department, and briefly as Senior Regulatory Specialist for the NAIC before being tapped by Nichols, in 1998, to develop a new Market Conduct Unit at the Kentucky Department. Ms. Lindley-Myers has a talent for working on many tasks simultaneously and her work ethic has convinced those who know her of her sincere dedication to insurance consumers. She currently serves as Chair on several NAIC Market Conduct Committees and was principally involved in several multi-state examinations, including one involving race-based underwriting by a large national insurance company.

Treva Wright-Donnell is the person the Commissioner specifically chose to tackle one of the most difficult tasks in the Kentucky Department—guiding the Agent Licensing Division into the 21st century. Nichols describes Ms. Wright-Donnell as the "go-getter" of the group and her progress so far indicates that description is understated.

By nature she thinks outside the box, and by necessity she is a master at delegation. Before Ms. Wright-Donnell took office in March 2000, system difficulties had forced agent applications to be processed by hand. Later that month, under Commissioner Nichols' authority and with Ms. Wright-Donnell's direction, Kentucky became the first state in the nation to pass the Producer Licensing Act designed to create uniformity among states in the agent licensing process.

When looking for someone to take on the Department position of Communications Officer, Nichols was not interested in a public relations person. As NAIC President, he is constantly under the scrutiny of an entire industry and wanted a person he could trust to prepare him for any situation that he might encounter.

Roger Snell, Communications Officer

Roger Snell spent 18 years as an investigative reporter. During that time he won a Pulitzer Prize as a member of the *Akron* (Ohio) *Beacon Journal* staff for a series about race relations and also won the American Bar Association's highest journalism award for a report on ethical misconduct on the Ohio Supreme Court. Before working with the Kentucky Insurance Department, he was capital bureau chief for newspapers in Ohio and Missouri. When preparing for a public appearance, Nichols includes Mr. Snell in the executive strategy session. He has the utmost trust in Mr. Snell and is confident that the Communications Officer, along with the rest of his corner people, will provide him with the information necessary to move on an opportunity at any time.

Telitha Woods is the person unanimously considered by the entire Kentucky Department staff as having the most difficult job of all—managing George Nichols. She began working for the Kentucky Department in 1982 in the Legal/Enforcement Division. She served two commissioners before becoming the Executive Assistant to Commissioner Nichols in 1996. Nichols considers her the "Manager-of-all-Managers" without whom he simply could not do all that he does. Indeed, Ms. Woods is the one person above all others who keeps the entire Department running smoothly, while simultaneously seeing to it that the world's busiest Insurance Commissioner is where he needs to be, when he needs to be there.

Lead, Follow or Get Out of the Way

What Nichols' advisors have taught him is "to follow." He has a vision and surrounds himself with people who want to make the vision a reality. They provide the details that support his ideas, and he has learned to follow along with the results. There are certainly others upon whom the Commissioner depends to fulfill the Department's regulatory duties. Among them—Sharon Clark, Director of Consumer Protection and Education; Joseph Vaughn, Chief Financial Examiner; Sharron Burton, Chief Market Conduct Examiner; Brian Staples, Director of Life Insurance; Ellen Navolio, Director of Property and Casualty; DJ Wasson and Suetta Dickinson, Principal Assistants to the Commissioner. All work extremely hard to provide protection, information and assistance to Kentucky policyholders and to guide the Insurance Department into a new regulatory era.

Spend a couple of days in Frankfort talking to the people behind the scenes at the Insurance Department. People know what they are doing, and why they are doing it, and they have pride in their work. Communication is valued, information flows among Divisions and a mutual respect exists throughout the building. Everyone will tell you how much more work Commissioner Nichols has brought to the Department, but they will also tell you how rewarding that additional work has been and how much support they have in getting it done.

The entire staff seems to be putting their heart and soul into their jobs and everyone knows how much their boss appreciates it. Commissioner George Nichols III is a great leader, but the Kentucky Insurance Department is *all* of the people who work there—a dedicated group of regulators who are public servants and keep that first and foremost in their hearts.

Kentucky Department of Insurance
215 West Main Street
Frankfort, KY 40602-0517

(502) 564-3630
http://www.doi.state.ky.us

Insurers' Distribution of Assets in 1998

By Jim Bugenhagen

The nature and quality of an insurance company's assets are key aspects in evaluating its overall financial strength. Insurers structure their investments to match the nature and timing of their liabilities. Property/casualty insurers' investments tend to be more short-term and liquid relative to life insurers, reflecting the difference in timing in the payout obligations between these two segments.

The tables on the following pages are from the *1998 NAIC Insurers' Distribution of Assets Report*—the first in a series of three annual NAIC reports that deal with insurance company investments. Information in the tables represents aggregated industry data for 1998 and 1997 summarized by type of insurer. Table I shows distribution of assets for life and health insurers; Table II shows the distribution for property and casualty insurers, and Table III shows the distribution for fraternal insurers. Total assets are provided, as well as a breakdown of assets by the categories shown below, each expressed as a percent of total assets:

- bonds
- preferred stock
- common stock
- mortgage loans - first liens
- mortgage loans - other than first liens
- real estate
- policy loans (certificate loans for fraternal insurers, not applicable for property/casualty)
- premium notes (life/health insurers only)
- cash and short-term investments
- receivable for securities
- other invested assets
- premium balances (property/casualty insurers only)
- other assets
- separate accounts (life/health and fraternal insurers only)

Note: Caution should be used when interpreting results and drawing conclusions from this data. An insurer's distribution of assets is only one of many factors that should be considered in evaluating its financial strength. Any questions regarding this data should be directed to Jim Bugenhagen at (816) 873-8229; e-mail: jbugenha@naic.org.

The *1998 NAIC Insurer Distribution of Assets Report* provides similar asset information for individual insurers. The two other reports in the series—*Insurers' Medium- and Lower-Quality Bond Investments in 1998* and *Insurers' Long-Term Mortgage Loans and Real Estate Investments in 1998* provide more detailed information on insurers' medium to lower grade bond holdings and insurers' real estate/mortgage loan investments. All three reports can be purchased from the NAIC Publications Department at (816) 783-8300; Internet address: www.naic.org/publications.

Table I
Life Health and Insurers' Distribution of Assets
1998 and 1997 (as of December 31)
($100s)

	1998		1997	
	Amount	**Pct.**	**Amount**	**Pct.**
Bonds	1,313,892,441	45.8	1,266,842,095	48.3
Preferred Stock	16,412,637	0.6	11,830,013	0.5
Common Stock	108,727,328	3.8	105,741,647	4.0
Mortgage Loans–First Liens	210,580,856	7.3	204,062,479	7.8
Mortgage Loans–Other Liens	635,561	0.0	898,704	0.0
Real Estate	27,782,790	1.0	33,589,806	1.3
Policy Loans	102,107,999	3.6	101,781,494	3.9
Prem. Notes	46,470	0.0	45,270	0.0
Collateral Loans	N/A	N/A	165,307	0.0
Cash and Short-Term Inv.	62,232,884	2.2	60,657,753	2.3
Receivable for Securities	3,139,304	0.1	N/A	N/A
Other Inv. Assets	31,330,521	1.1	28,196,190	1.1
Other Assets	69.648,993	2.4	66,341,395	2.5
Separate Accounts	921,817,557	32.1	740,789,077	28.3
Total	2,868,355,342	100.0	2,620,941,231	100.0
Number of companies	1,439		1,466	

Note: Above figures on unconsolidated basis.
N/A - Not Available
Source: National Association of Insurance Commissioners

Table II
Property and Casualty Insurers' Distribution of Assets
1998 and 1997 (as of December 31)
($000s)

	1998		1997	
	Amount	**Pct.**	**Amount**	**Pct.**
Bonds	544,874,584	51.2	537,493,195	53.2
Preferred Stock	12,170,467	1.1	13,042,516	1.3
Common Stock	270,381,456	25.4	245,068,025	24.2
Mortgage Loans-First Liens	2,007,606	0.2	2,255,730	0.2
Mortgage Loans-Other Liens	37,899	0.0	56,729	0.0
Real Estate	9,200,502	0.9	9,477,360	0.9
Collateral Loans	N/A	N/A	67,231	0.0
Cash and Short-Term Inv.	47,862,390	4.5	41,095,780	4.1
Receivable for Securities	1,241,963	0.1	N/A	N/A
Other Inv. Assets	20,916,628	2.0	18,984,836	1.9
Premium Balances	61,403,524	5.8	60,264,254	6.0
Other Assets	94,307,852	8.9	83,157,414	8.2
Total	1,064,410,099	100.0	1,010,981,068	100.0
Number of companies	2,763		2,737	

Note: Above figures are on an unconsolidated basis.
N/A - Not Available
Source: National Association of Insurance Commissioners

Table III
Fraternal Insurers' Distribution of Assets
1998 and 1997 (as of December 31)
($000s)

	1998		1997	
	Amount	**Pct.**	**Amount**	**Pct.**
Bonds	40,291,624	65.4	38,036,213	66.8
Preferred Stock	393,631	0.6	309,418	0.5
Common Stock	2,794,860	4.5	2,442,217	4.3
Mortgage Loans-First Liens	7,733,273	12.5	7,905,275	13.9
Mortgage Loans-Other Liens	945	0.0	1,386	0.0
Real Estate	574,044	0.9	649,412	1.1
Certificate Loans	2,256,997	3.7	2,210,772	3.9
Collateral Loans	N/A	N/A	2,252,641	0.0
Cash and Short-Term Inv.	1,986,799	3.2	1,660,087	2.9
Receivable for Securities	457,428	0.7	N/A	N/A
Other Invested Assets	191,864	0.3	237,366	0.4
Other Assets	839,584	1.4	818,277	1.4
Separate Accounts	4,130,309	6.7	2,695,769	4.7
Total	61,651,356	100.0	56,968,447	100.0
Number of companies	124		130	

Note: Above figures are on an unconsolidated basis.
N/A - Not Available
Source: National Association of Insurance Commissioners

Insurers' Medium- and Lower-Quality Bond Investments in 1998

By Jim Bugenhagen

Since 1986, the NAIC annual statement blanks have required reporting of all bonds owned by investment grade and quality as determined by the NAIC Securities Valuation Office (SVO).

The table below illustrates the change in classification systems, as well as corresponding Moody's and Standard and Poor's ratings.

NAIC Class	NAIC Definitions	Moody's	S&P
1	Highest Quality	Aaa, Aa, A	AAA, AA, A
2	High Quality	Baa	BBB
3	Medium Quality	Ba	BB
4	Low Quality	B	B
5	Lower Quality	Caa, Ca, C	CCC, CC, C
6	In or Near Default	(or above)	CI, D

Each year the NAIC Research Division develops a report that shows information on the amount of Class 3-6 grade bonds held by insurers at year-end based on information contained in the NAIC database. The tables on the following pages are from the NAIC *1998 Insurers' Medium- and Lower-Quality Bond Investments*—the second in a series of three reports dealing with insurance company investments. Information in the tables represent aggregated industry data for 1998 and 1997 summarized by type of insurer. Table I shows the insurers' holdings of Class 3-6 bonds and Table II shows the distribution of insurers in terms of Class 3-6 bonds as percent of assets.

The full report provides the following information for each insurer:

- total assets (excluding separate accounts for life/health and fraternal insurers)
- total capital and surplus
- Asset Valuation Reserve (AVR) (for life/health and fraternal insurers only)
- total bonds
- amounts of the insurer's bonds that fall into category Class 3
- amounts of the insurer's bonds that fall into each of the categories Class 4, 5 and 6 (for property insurers only)
- amounts of the insurer's bonds that fall into categories Class 4 through 6 combined (for life/health and fraternal insurers only)
- total Class 3-6 bonds
- Class 3-6 bonds as a percentage of total assets
- Class 3-6 bonds as a percentage of total capital and surplus
- Class 3-6 bonds as a percentage of capital and surplus and AVR (for life/health and fraternal insurers only)

The two other reports—*Insurers' Distribution of Assets in 1998* and the *Insurers' Long-Term Mortgage Loans and Real Estate Investments in 1998*—provide information on insurers' distribution of assets and real estate/mortgage loan investments. All three reports can be purchased from the NAIC Publications Department at (816) 783-8300; Internet address: www.naic.org/publications.

Table I
Insurers' Holdings of Class 3-6 Bonds 1998 and 1997
(as of December 31)
(in 000s)

	Life/Health		Property/Casualty	
	1998	1997	1998	1997
Class 3 Bonds	$ 59,015,815	$ 48,790,872	$ 7,920,997	$ 6,419,586
Class 4 Bonds	30,441,538	29,087,392	5,165,398	4,787,525
Class 5 Bonds	5,010,774	2,121,964	832,311	478,008
Class 6 Bonds	863,017	654,562	401,199	413,703
Class 3-6 Bonds*	95,329,150	80,654,790	14,319,906	12,098,822
Total Bonds	**$1,371,161,132**	**$1,321,808,960**	**$585,787,045**	**$571,302,818**
Class 3-6 as Pct. of Total Bonds	7.0	6.1	2.4	2.1
Total Assets**	$1,946,537,785	$1,880,152,154	$1,064,410,099	$1,010,981,068
Class 3-6 as Pct. of Total Assets	4.9	4.3	1.3	1.2
	Fraternal		**Total**	
	1998	1997	1998	1997
Class 3 Bonds	$ 1,111,209	$ 772,642	$ 68,048,021	$ 55,983,100
Class 4 Bonds	283,329	307,559	35,890,265	34,182,476
Class 5 Bonds	19,900	10,903	5,862,985	2,610,875
Class 6 Bonds	16,356	15,728	1,80,572	1,083,993
Class 3-6 Bonds*	1,430,794	1,106,832	111,079,850	93,860,444
Total Bonds	**$41,964,573**	**$39,394,950**	**$1,998,912,750**	**$1,932,506,728**
Class 3-6 as Pct. of Total Bonds	3.4	2.8	5.6	4.9
Total Assets**	$57,521,047	$54,272,678	$3,068,468,931	$2,945,405,900
Class 3-6 as Pct. of Total Assets	2.5	2.0	3.6	3.2

* The sum of the individual classes may not equal total due to rounding.
* * Assets are on an unconsolidated basis & exclude separate accounts for life/health & fraternal insurers.
Source: National Association of Insurance Commissioners

Table II
Distribution of Insurers in Terms of Class 3-6 Bonds as Percent of Assets (as of December 31, 1998)

	Life		Property		Fraternal		Total	
Average investment in Class 3-6 bonds	1.4%		0.5%		1.3%		0.9%	
Median investment in Class 3-6 bonds	0.0%		0.0%		0.5%		0.0%	
Distribution of Insurers In Terms of Class 3-6 Bonds								
	No.	**Pct.**	**No.**	**Pct.**	**No.**	**Pct.**	**No.**	**Pct.**
20% or more	1	0.1	2	0.1	0	0.0	3	0.1
10-19.9%	23	1.6	10	0.4	1	0.8	34	0.8
5-9.9%	128	8.9	54	2.0	5	4.0	187	4.3
1-4.9%	314	21.8	308	11.1	42	33.9	664	15.3
0.5-0.99%	69	4.8	120	4.3	14	11.3	203	4.7
0-0.49%	904	62.8	2,269	82.1	62	50.0	3,235	74.8
Total companies	1,439	100.0	2,763	100.0	124	100.0	4,326	100.0

Source: National Association of Insurance Commissioners

Insurers' Long-Term Mortgage Loans and Real Estate Investments in 1998

By Jim Bugenhagen

The other reports in the series provide information on insurers' distribution of assets and medium- to low-grade bond holdings.

Conditions in the real estate market during the past few years have raised questions about the extent and quality of the mortgage loans and real estate investments of insurance companies. Life insurers are more sensitive to conditions in the real estate market than property/casualty insurers because life insurers have greater investments in mortgage loans and real estate as a percentage of their total invested assets. Real estate and mortgage loans combined represented 12.3 percent of life and fraternal insurers' assets in 1998. For property/casualty insurers, real estate and mortgage loans represented only 1.1 percent of total assets. Life insurers often invest significantly in real estate mortgages because they are able to match their benefit payments with the income stream generated from such mortgage loans.

The NAIC life/health and fraternal annual statements capture information on mortgage loans in Schedule B. This Schedule excludes "short-term" mortgages with maturities of one year or less at the time of acquisition. The information captured in Schedule B includes:

- a summary of mortgage loans by geographical location
- types of mortgage loans
- loans that have been restructured
- loans with overdue interest
- loans in the process of foreclosure
- loans that have been foreclosed and transferred to real estate.

The NAIC property/casualty annual statement captures information on mortgage loans in the "Assets" section of the balance sheet. Only the total amount is available.

Real estate information is captured in the "Assets" section of the balance sheet for life/health, property/casualty and fraternal insurers. Real estate is broken down into three categories for life/health and fraternal insurers:

- properties occupied by the company
- properties acquired in satisfaction of debt
- investment real estate.

For property/casualty insurers, the data is provided in two categories: properties occupied by the company and other properties.

For life/health and fraternal insurers, data on earned income on real estate and mortgages is obtained from the "Annual Statement Exhibit 2 - Net Investment Income." For property/casualty insurers, earned income on real estate and mortgages comes from the "Underwriting and Investment Exhibit - Part 1."

The NAIC *Insurers' Long-Term Mortgage Loans and Real Estate Investments Report in*

1998 can be obtainted from the Publications Department. Information is displayed in three sections by line of business 1) individual life/ health insurers; 2) individual property/casualty insurers; and 3) fraternals.

Each report lists insurers by name in alphabetical order. The following information is provided for each insurer:

- total assets (excluding separate accounts for life/health and fraternal insurers)
- total capital and surplus
- total real estate
- total mortgages
- real estate and mortgages as a percent of assets (excluding separate accounts for life/ health and fraternal insurers)
- real estate acquired in the process of foreclosure (life/health and fraternal insurers only)
- mortgages with interest more than three months overdue (life/health and fraternal insurers only)
- mortgages in foreclosure (life/health and fraternal insurers only)
- real estate and past due/in foreclosure mortgages as a percent of assets (life/health insurers and fraternal insurers only, excluding separate accounts for life/health and fraternal insurers)
- real estate and past due/in foreclosure mortgages as a percent of capital and surplus (life/health insurers and fraternal insurers only, excluding separate accounts for life/health and fraternal insurers)
- real estate and mortgages as a percent of assets (property/casualty insurers only)
- real estate and mortgages as a percent of capital and surplus (property/casualty insurers only)
- earned income on the sum of real estate and encumbrances (gross real estate) as a percent of average book value of gross real estate
- earned income on mortgages as a percent of average mortgages

In the publication, average gross real estate and average mortgage loans are calculated by dividing year-end 1997 and year-end 1998 values by two.

Although real estate acquired in the process of foreclosure and loans in default (defined as the sum of all loans with interest overdue more than three months **and** those in the process of foreclosure) as a percentage of capital and surplus is a useful measure of a company's relative exposure, the ultimate loss on these investments is likely to be considerably less than their stated value. Not all loans with overdue interest will be foreclosed and insurers are often able to sell real estate acquired through foreclosure and recover most, if not all, of the original loan value. Most loans held by insurers are limited to 75-80 percent of the value of the property at the time of the loan. This allows for a considerable decrease in the market value of the property without affecting the recoverability of the loan amount.

In addition, earned income on real estate should be interpreted with caution. For some companies, the **book value** on total real estate may be low while net income on real estate is high, resulting in a high ratio of net income on real estate to total real estate. This situation may occur because of financial reporting guidelines that require companies to record real estate at depreciated cost. Therefore, the book value of home office real estate or real estate owned for a number of years may be low relative to the income generated by the real estate.

For companies that reported a negative value for real estate and a negative value for net income on real estate, the ratio for net income on real estate was not calculated. A null value is shown in the report for these instances.

Qualifications

The accuracy of the reports included in this publication depends on the accuracy of the information contained in the annual statements filed by insurers. The NAIC system cannot identify a misstatement in accordance with statutory requirements or errors caused by information filed incorrectly by the insurers. Even though the data elements used to prepare the reports are extracted from annual statements filed with the NAIC, the NAIC cannot verify or guarantee their accuracy.

In the case of this report, some companies failed to file the Schedule B information in the format prescribed in the Annual Statement Instructions. Consequently, for these companies, the detail of the mortgage loans does not cross-check to the summary total. While this may be significant in a particular company's case, the difference in the aggregate is immaterial.

While the NAIC exercises a great deal of care in capturing data from the annual statements and producing various reports, as with any statistical project of a significant magnitude, errors can occur. Consequently, the NAIC makes no representations or warranties with respect to the accuracy of the data and statistics in this report.

Summary Statistics

Summary statistics on long-term mortgage loans and real estate holdings for the industry are provided in two tables following this narrative. Table I provides aggregate data on holdings of long-term mortgage loans and real estate for life/health, fraternal and property/casualty insurers for 1989-1998. These figures indicate that life/health and fraternal insurers' holdings of long-term mortgage loans and real estate have declined as a percentage of assets since 1989.

Table II shows aggregate figures on total long-term mortgage loans, long-term mortgage loans in default, defaults as a percentage of total mortgage loans, and defaults as a percentage of capital and surplus for all life/health insurers combined for 1989-1998. Defaults represented 0.5 percent of total long-term mortgage loans at the end of 1998, down significantly from 0.7 percent in 1997.

Note: The figures in Table I and II reflect the sum of individual companies' data and are not consolidated to eliminate investments in affiliated insurers. Consequently, aggregated industry assets and capital and surplus utilized in the calculations will be somewhat overstated. This will cause the figures shown on long-term mortgage loans and real estate as a percentage of assets and capital and surplus to be slightly understated.

If you have any questions regarding this report, please contact Jim Bugenhagen at (816) 873-8229 or e-mail at jbugenha@naic.org. This report may be obtained from the NAIC Publications Department at (816) 783-8300; Internet address www.naic.org/publications.

Table I
Insurers' Long-Term Mortgage Loans and Real Estate Holdings
1989 - 1998
(000s)

Life/Health and Fraternal Insurers

	Long-Term Mortgages	L-T Mort As % Assets	Real Estate	Real Estate As % Assets	L-T Mort + Real Estate As % Assets
1989	254,017,036	21.5	29,253,325	2.5	24.0
1990	270,305,255	21.1	31,320,189	2.4	23.6
1991	261,760,289	19.3	35,799,770	2.6	21.9
1992	243,755,454	16.9	40,159,503	2.8	19.7
1993	226,782,558	14.5	43,792,114	2.8	17.3
1994	218,754,330	13.2	43,064,461	2.6	15.8
1995	220,423,493	12.4	41,972,384	2.4	14.8
1997	212,867,846	11.0	34,239,218	1.8	12.8
1998	218,950,635	10.9	28,356,834	1.4	12.3

Property/Casualty Insurers

	Long-Term Mortgages	L-T Mort As % Assets	Real Estate	Real Estate As % Assets	L-T Mort + Real Estate As % Assets
1989	6,490,792	1.1	6,125,239	1.0	2.1
1990	6,886,342	1.1	6,996,354	1.1	2.2
1991	6,551,859	0.9	7,711,169	1.1	2.0
1992	5,709,296	0.8	8,429,296	1.2	1.9
1993	4,520,658	0.6	9,064,288	1.2	1.8
1994	3,813,611	0.5	9,445,374	1.2	1.6
1995	2,857,564	0.3	9,271,522	1.1	1.4
1996	2,460,589	0.3	9,621,636	1.0	1.3
1997	2,312,459	0.2	9,477,360	0.9	1.1
1998	2,045,505	0.2	9,200,392	0.9	1.1

Table I (con't.)
Insurers' Long-Term Mortgage Loans and Real Estate Holdings
1989 - 1998
(000s)

All Combined

	Long-Term Mortgages	L-T Mort As % Assets	Real Estate	Real Estate As % Assets	L-T Mort + Real Estate As % Assets
1989	260,507,828	14.6	35,378,564	2.0	16.6
1990	277,191,598	14.5	38,316,543	2.0	16.5
1991	268,312,148	13.1	43,510,939	2.1	15.2
1992	249,464,750	11.5	48,588,799	2.2	13.7
1993	231,303,216	9.9	52,856,402	2.3	12.2
1994	222,567,942	9.1	52,509,835	2.1	11.2
1995	223,281,057	8.5	51,243,906	1.9	10.4
1996	218,221,954	7.9	48,402,718	1.8	9.7
1997	215,180,305	7.3	43,716,579	1.5	8.8
1998	220,996,140	7.2	37,557,226	1.2	8.4

Source: National Association of Insurance Commissioners

Table II
Life/Health Insurers' Long-Term Mortgage Loan Summary
1989 - 1998

	Long-Term Mortgages (000s)	Long-Term Mortgages in Default* (000s)	Default Rate#	Defaults as % of Capital and Surplus@
1989	249,062,442	5,809,010	2.3	6.6
1990	265,706,930	8,132,373	3.1	8.5
1991	256,445,913	11,335,772	4.4	10.6
1992	237,831,401	12,267,045	5.2	10.6
1993	220,219,358	7,944,410	3.6	6.1
1994	211,420,141	6,360,778	3.0	4.6
1995	212,486,320	4,135,937	1.9	2.7
1996	207,361,177	3,153,926	1.5	1.8
1997	204,961,184	1,531,081	0.7	0.8
1998	211,216,418	1,023,834	0.5	0.5

* Defined as "the sum of all loans with interest overdue more than three months and those in the process of foreclosure."
# Defined as "defaults as a percentage of total mortgage loans."
@ Capital and surplus are net of separate accounts.

Source: National Association of Insurance Commissioners

Long-Term Care Insurance Experience Reports for 1998

By Jim Bugenhagen

Each year the NAIC Research Department develops two long-term care insurance experience reports, based on the Long-Term Care Experience Reporting Form B of the annual statement. The first reports countrywide company-specific experience for all forms combined, with the experience segmented by duration, and the second reports countrywide company-specific experience displayed on a form-by-form basis. Note that the experience reported in Form B from 1991 or earlier is cumulative, except for policies developed after 1991, as opposed to the single calendar year experience that is reported in Form A.

The NAIC long-term care reports include actual premiums earned, actual incurred claims, actual loss ratios, anticipated loss ratios and the number of covered lives for all companies engaged in this line of business and that have submitted this form. This requirement originated with the 1991 annual statement filing in 1992.

Summary of Experience

In 1998, insurers reported cumulative actual earned premiums of $21.1 billion and actual incurred claims of $7 billion resulting in an actual loss ratio of 33.2 percent. These reports indicate that the anticipated loss ratio continues to rise and that the actual loss ratio continued its upward direction. In 1996, the actual loss ratio had declined for the first time since 1992. The actual loss ratios for 1996 and 1997 stood at 32.2 and 32.3 percent, respectively. As with previous years, the anticipated loss ratio, at 35.1 in 1998, was fairly approximate of the actual loss ratio though the magnitude of the difference between the anticipated and actual loss ratio, at 1.9 percent, matched the greatest, which occurred in 1997. Prior to that, the greatest difference in terms of absolute value had been the -1.4 percent posted in 1993.

Unlike the years 1995 and 1996 which registered sharp declines largely as a result of incorrect reporting by companies, the number of covered lives reported in 1998 increased substantially to 4,130,368 from the 2,945,612 reported in 1997, an increase of 40.2 percent. In the event that a company has exited this business or was unable to provide the number of covered lives, zeros appear. Immediately following this introduction is a table presenting a seven-year summary of totals for the years 1992 through 1998.

Qualifications

While 1998 was the eighth year that the Long-Term Care Experience Reporting Forms were required to be filed, there remains some misunderstanding among the insurance companies regarding how the form should be completed given the level of detail requested. Thus, the reported figures should only be viewed as very general indicators of the experience under long-term care insurance.

This is especially true when viewing company-specific information, since a particular company's results may not be of a sufficient size to be statistically credible.

The accuracy of the reports depends on the accuracy of the information contained in the exhibits filed by the insurers. Even though the data elements used to prepare the reports are extracted from exhibits filed with the NAIC, the NAIC cannot guarantee their accuracy.

While the NAIC exercises a great deal of care in capturing data from these exhibits and producing these reports, as with any statistical project of a significant magnitude, errors can occur. Consequently, the NAIC makes no representations or warranties with respect to the accuracy of the data and statistics in these reports and recommends that extreme caution be used in analysis of these data.

If you have any questions concerning this report, please contact Jim Bugenhagen (816) 783-8229 or Diana Wright at (816) 783-8227. Additional copies of this report can be obtained from the NAIC Publications Department at (816) 783-8300; Internet address: www.naic.org/publications.

Long-Term Care Insurance Experience Reports
Cumulative Countrywide Experience*
Seven-Year Summary**

	Actual Earned Premiums ($000)	Actual Incurred Claims ($000)	Actual Losses Incurred to Premiums Earned (%)	Anticipated Losses Incurred to Premiums Earned (%)	Number of Covered Lives
1992	3,180,464	957,510	30.1	30.2	1,704,206
1993	5,290,259	1,684,574	31.8	30.4	3,337,771
1994	7,211,102	2,350,776	32.6	31.4	3,697,460
1995	9,508,929	3,113,072	32.7	31.8	3,201,556
1996	12,726,847	4,093,796	32.2	33.2	2,600,690
1997	16,078,753	5,198,014	32.3	34.2	2,945,612
1998	21,112,237	7,011,967	33.2	35.1	4,130,368

* These data include experience that is, except for policy forms developed since 1991, cumulative from 1991 or earlier.
** CAUTION: The accuracy of the reports depends on the accuracy of the information contained in the exhibits filed by the insurers. Even though the data elements used to prepare the reports are extracted from exhibits filed with the NAIC, the NAIC cannot guarantee their accuracy. Please refer to the Qualifications section in the INTRODUCTION for further caveats to these reports.
Source: National Association of Insurance Commissioners

Medicare Supplement Loss Ratio Report for 1998

Each year the NAIC Research Department develops the *Medicare Supplement Loss Ratio Report.* Reporting of these loss ratios on forms conforming to those developed by NAIC is required by the Medicare Catastrophic Coverage Act of 1988, Public Law 100-360. Although major provisions of the Catastrophic Coverage Act were repealed one year later, this reporting requirement was left intact. The data reported are utilized by state insurance departments to help evaluate insurers' compliance with loss ratio standards for Medicare supplement policies. A copy of the experience exhibit used to collect the data is included. The filing deadline for the 1998 exhibit was March 1, 1999.

The report shows direct premiums earned, market share, direct claims incurred and loss ratios on a countrywide basis for the 319 insurers filing Medicare Supplement Insurance Experience Exhibits with the NAIC in 1998. The report lists companies in descending order of direct premiums earned and in alphabetical order by name. The report also shows insurers' experience separately for: 1) individual policies issued through 1995; 2) individual policies issued in 1996, 1997 and 1998; 3) total individual policies; 4) group policies issued through 1995; 5) group policies issued in 1996, 1997 and 1998; 6) total group policies; and 7) total individual and group policies.

Also included at the beginning of the report is a table (See Table I, page 22) presenting aggregated data for all companies reporting. Insurers reported total direct premiums earned in 1998 of $13.7 billion with direct claims incurred of $11 billion for all Medicare supplement policies. This resulted in an 79.8 percent loss ratio.

A second table (Table II, page 22) presents a 10-year summary of totals for the years 1989 through 1998. **Note: The transfer of the AARP business from Prudential Insurance Company of America to United Healthcare Insurance Company resulted in a significant portion of this business, more than one-third, being reported now under individual policies. In the past, it had been reported by Prudential under group policies. Also, the 1998 three-year and prior to three-year results may differ considerably from the equivalent results for previous years because of the transfer. Therefore, caution should be exercised in making any comparisons to prior year results.**

The majority of the Medicare supplement insurance market is written through individual policies. Total direct premiums earned for individual policies only were $10.3 billion with direct claims incurred of $8.2 billion in 1998. This resulted in a 79.7 percent loss ratio. The loss ratio for individual policies issued through 1995 was slightly higher at 80.5 percent. The loss ratio for individual policies issued in 1996, 1997 and 1998 was lower at 78.2 percent.

Total direct premiums earned for all group policies in 1998 were $3.4 billion with total direct claims incurred of $2.7 billion, resulting in an 80.1 percent loss ratio. The loss ratio for group policies issued through 1995 was significantly higher at 88.6 percent whereas the loss ratio for group policies issued in 1996, 1997 and 1998 was much lower at 77 percent.

The 1994 filings, companies have been required to report the number of covered lives for each policy form. Total covered lives reported in 1998 for both individual and group policies was 11 million, down from slightly more than 12 million reported last year. A significant portion of this decline may be attributed to the transfer of the AARP business. In the event that a company has exited this business or was unable to provide the number of covered lives, zeros appear.

Qualifications

The accuracy of the reports included in this publication is dependent on the accuracy of the information contained in the exhibits filed by insurers. Although the data elements used to prepare the reports are extracted from exhibits filed with the NAIC, the NAIC cannot verify or guarantee their accuracy.

While the NAIC exercises a great deal of care in capturing data from these exhibits and producing these reports, as with any statistical project of a significant magnitude, errors can occur. Consequently, the NAIC makes no representations or warranties with respect to the accuracy of the data and statistics in this report.

If you have any questions regarding this report, please contact Jim Bugenhagen at (816) 783-8229 or Diana Wright at (816) 783-8227. The *Medicare Supplement Loss Ratio Report* can be obtained from the NAIC Publications Department at (816) 783-8300; Internet address: www.naic.org/publications.

1998 Medicare Supplement Insurance Experience Summary
Countrywide *

	Direct Premiums Earned ($000)	Direct Claims Incurred ($000)	Direct Claims Inc to Prem Earned (%)
Experience on Individual Policies Issued through 1995:	7,005,109	5,637,170	80.5
Experience on Individual Policies Issued in 1996, 1997 and 1998:	3,313,387	2,591,745	78.2
Experience on Total Individual Policies:	10,318,496	8,228,914	79.7
Experience on Group Policies Issued through 1995:	900,696	797,612	88.6
Experience on Group Policies Issued in 1996, 1997 and 1998:	2,528,215	1,947,716	77.0
Experience on Total Group Policies	3,428,912	2,745,328	80.1
Experience on Total Ind. and Group Policies:	13,747,408	10,974,242	79.8

* The 1998 three-year and prior to three-year results may differ considerably from the equivalent results for prior years.

Source: National Association of Insurance Commissioners

1998 Medicare Supplement Insurance Experience Summary
Countrywide
Ten Year Summary

		Direct Premiums Earned ($000)	Direct Claims Incurred ($000)	Direct Claims Inc to Prem Earned (%)
Experience on Total Individual Policies Issued:				
	1989	5,502,338	4,224,262	76.8
	1990	7,154,328	5,629,881	78.7
	1991	7,465,051	6,000,326	80.4
	1992	8,480,664	6,571,804	77.5
	1993	8,222,288	6,057,029	73.7
	1994	8,938,061	6,894,222	77.1
	1995	8,559,978	6,955,272	81.3
	1996	8,886,873	7,151,301	80.5
	1997	9,160,660	7,456,728	81.4
	1998	10,318,496	8,228,914	79.7
Experience on Total Group Policies Issued:				
	1989	2,541,452	2,028,214	79.8
	1990	2,847,365	2,495,614	87.6
	1991	3,518,158	3,158,705	89.8
	1992	3,355,104	2,862,242	85.3
	1993	3,905,180	3,148,571	80.6
	1994	3,698,695	3,380,679	91.4
	1995	3,934,484	3,741,492	95.1
	1996	4,423,356	3,830,707	86.6
	1997	4,403,277	3,766,145	85.5
	1998	3,428,912	2,745,328	80.1
Experience on Total Individual and Group Policies Issued:				
	1989	8,043,790	6,252,476	77.7
	1990	10,001,693	8,125,495	81.2
	1991	10,983,209	9,159,032	83.4
	1992	11,835,769	9,434,046	79.7
	1993	12,127,468	9,205,601	75.9
	1994	12,636,756	10,274,901	81.3
	1995	12,494,462	10,696,764	85.6
	1996	13,310,230	10,982,008	82.5
	1997	13,563,937	11,222,873	82.7
	1998	13,747,408	10,974,242	79.8

Source: National Association of Insurance Commissioners

NAIC Action on Model Laws and Papers for August and September 2000

By John Bauer

Following is a brief description of the NAIC's action on model laws and papers that occurred at the Fall National Meeting in Dallas and by conference call. One model was adopted at the August conference call of the Executive Committee and Plenary, and six models and one white paper were adopted by the Executive Committee Plenary during a September conference call. Six model drafts were adopted by parent committees to be considered for adoption by the Executive Committee in December. Ten new drafts of models were released.

The Plenary Adopted This Model at an Interim Conference Call in August

1. Long-Term Care Insurance Model Regulation (#641) (Draft: 6/13/00)

   The Accident and Health Working Group of the Life and Health Actuarial Task Force drafted amendments to the Long-Term Care Insurance Model Regulation as part of its discussion on rate stabilization. The proposed language eliminates initial loss ratio minimums, requires dual loss ratio minimums to be satisfied before rate increases will be considered, and further empowers the commissioner to impose various penalty measures depending upon the frequency and magnitude of rate increases.

   At the same time the Long-Term Care Working Group of the Senior Issues (B) Task Force considered consumer protection amendments to the Long-Term Care Insurance Model Regulation. The amendments focus primarily on disclosures to consumers regarding potential future rate increases for long-term care insurance policies other than noncancellable policies. Specifically, these amendments add a new Section 9 to the model, which lists extensive information that must be supplied to an applicant so that the applicant is aware that the policy may be subject to rate increases in the future. That information must be provided to the consumer in a revised Appendix B, the *Long-Term Care Personal Worksheet*, and a new Appendix F, the *Long Term Care Insurance Potential Rate Increase Disclosure Form*. Appendix B has been revised to require a specific acknowledgment by the consumer that the policy may be subject to rate increases in the future along with adding information on inflation protection and elimination periods. Appendix F includes information about potential rate increases, options for the consumer when there is a rate increase, and the contingent benefit upon lapse benefit that will be triggered by a substantial rate increase. Both groups completed work on the amendments and they were packaged together and adopted by the Health Insurance and Managed Care (B) Committee. When the Executive Committee and Plenary considered it in

August 2000, the model was adopted without change.

The Plenary Adopted These Models at a Conference Call in September

1. Life Insurance Disclosure Model Regulation (#580) (Draft: 6/10/00)

   When the Life Insurance Illustrations Model Regulation was adopted in 1995, regulators on the Life Disclosure Working Group recognized that there were inconsistencies with the Life Insurance Disclosure Model Regulation. The drafters of the illustrations model decided it was a higher priority to develop disclosure or illustration standards for annuities first, and then revise the disclosure rules for life insurance. The project was completed in June and adopted by the Life Insurance and Annuities (A) Committee. *In September, the Executive Committee and Plenary adopted the model at a conference call.*

2. Health Carrier External Review Model Act (#75) (Draft: 6/13/00)

   The External Grievance Review Working Group of the Regulatory Framework (B) Task Force amended the Health Carrier External Review Model Act to create a separate external review process for cases involving a determination that a requested health care service is experimental or investigational. The Regulatory Framework (B) Task Force adopted the amendments in June. The amendments were then considered and adopted by the Health Insurance and Managed Care (B) Committee, also during the Summer National Meeting. *In September, the Executive Committee and Plenary adopted the model at a conference call.*

3. Health Insurance Reserves Model Regulation (#10) (Draft: 3/3/00)

   The model regulation amendments adopted by the Accident and Health Working Group and the Life and Health Actuarial Task Force specify that the standard for claim reserves should be the 1985 Commissioners Individual Disability Table A with adjustment factors, and they include individual disability income insurance minimum standard morbidity tables. The model was then considered by the Health Insurance and Managed Care (B) Committee, which adopted the recommendations. *In September, the Executive Committee and Plenary adopted the model at a conference call.*

4. Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651) (Draft: 6/12/00)

   Technical amendments to the model regulation were adopted by the Medicare Supplement Working Group of the Senior Issues (B) Task Force. The model needed changes because of changes to Medicare by the Balanced Budget Refinement Act of 1999 and the Ticket to Work Incentive Improvement Act of 1999. The Health Insurance and Managed Care (B) Committee adopted the amendments at the Summer National Meeting. *In September, the Executive Committee and Plenary adopted the model at a conference call.*

5. Privacy of Consumer Financial and Health Information Regulation #672 (Draft: 9/19/00)

   The Privacy Issues Working Group, reporting to the Financial Services Modernization (G) Task Force, was challenged with the task of drafting privacy rules to protect personal information held by insurance entities, whereas federal privacy rules apply to information held by other financial entities covered under the Gramm-Leach-Bliley Act. The working group reviewed the draft at the interim meeting in August, made further changes in response to comments, and considered a new draft at the Fall National Meeting. Further changes were made to the draft and the Privacy Issues Working Group adopted it. *Following the National Meeting, the model was adopted by the Financial Services Modernization Task Force and the parent Special Insurance Issues (G) Committee through votes by electronic mail. In September, the Executive Committee and Plenary adopted the model at a conference call.*

6. Producer Licensing Model Act (#218) (Draft: 7/21/00)

   One of the outstanding issues related to producer licensing that was not addressed earlier relates to limited licenses. Additional questions were raised concerning delegation of the commissioner's ministerial functions and retaliatory fees. Revisions were adopted by the Agent Licensing Working Group of the Market Conduct and Consumer Affairs (D) Committee to address these issues. The D Committee adopted the revised model. In addition, the NARAB Working Group of the Financial Services Modernization (G) Task Force engaged in lengthy discussion about the meaning of Section 4B(8). A recommendation to delete that paragraph was adopted by the working group. *Following the National Meeting, the Financial Services Modernization Task Force and the Special Insurance Issues (G) Committee adopted the recommendation by electronic mail. In September, the Executive Committee and Plenary adopted the model at a conference call.*

The Plenary Adopted This White Paper in September

1. Definition of Insurance White Paper (Draft: 9/12/00)

   The Definition of Insurance Working Group of the Financial Services Modernization (G) Task Force developed a white paper focused mainly on developing a definition of insurance, including those factors typically found in insurance products. Additional focus was placed on the dispute resolution process under Section 304 of Gramm-Leach-Bliley Act and background information on the business of insurance. The purpose of the white paper is to guide state insurance regulators in formulating language for statutes and regulations, and in determining whether to regulate new financial services products in the new era of functional regulation under the act. The working group adopted the paper at the Fall National Meeting. *Following the National Meeting, the white paper was adopted by the Financial Services Modernization Task Force and the parent Special Insurance Issues (G) Committee through votes by electronic mail. In September, the Executive Committee and Plenary adopted the Definition of Insurance White Paper during a conference call.*

Drafts of Models to Be Considered by Executive Committee in December

1. Home Service Disclosure Model Act (Draft: 6/11/00)

   The Home Service Working Group of the Market Conduct and Consumer Affairs (D) Committee drafted a new model to establish rules that ensure meaningful information is provided to the purchasers of insurance policies distributed through the home service system. Technical amendments were made at the Summer National Meeting and the working group adopted the model. The parent committee did not meet in June 2000, but adopted the model at the Fall National Meeting in Dallas.

2. Individual Health Insurance Portability Model Act (#37) (Draft: 5/31/00)

   The NAIC charged the Regulatory Framework (B) Task Force with the duty to review and revise NAIC model laws and regulations affected by the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and final federal regulations promulgated pursuant to HIPAA to make sure the models conform with the requirements of HIPAA and the regulations. A new section, "Availability of Coverage—Federally Defined Eligible Individuals," was added to incorporate requirements of Section 2741 of the Public Health Service Act, as amended by HIPAA. The task force adopted the model at the Fall National Meeting and forwarded it to the Health Insurance and Managed Care (B) Committee with the other three drafts covered by the HIPAA charge. The B Committee adopted all four models at the Fall National Meeting.

3. Small Employer Health Insurance Availability Model Act (Prospective Reinsurance With or Without an Opt-Out) (#118) (Draft: 6/13/00)

   The NAIC charged the Regulatory Framework (B) Task Force with the duty to review NAIC model laws and regulations affected by HIPAA and final federal regulations promulgated pursuant to HIPAA to make sure the models conform with the requirements of HIPAA and the regulations. Proposed amendments are derived from those discussed in relation to the Small Employer and Individual Health Insurance Availability Model Act. The Health Insurance and Managed Care (B) Committee adopted this and three other models at the Fall National Meeting.

4. Model Health Plan for Uninsurable Individuals Act (#85) (Draft: 10/4/99)

   The NAIC charged the Regulatory Framework (B) Task Force with the duty to review NAIC model laws and regulations affected by HIPAA and final federal regulations promulgated pursuant to HIPAA to make sure the models comport with the requirements of HIPAA and the regulations. This model is one of several revised by the task force. The amendments were adopted by the task force in 1999, but were held before being recommended to the Health Insurance and Managed Care (B) Committee until the other models under this charge were completed. The B Committee adopted all four models at the Fall National Meeting.

5. Small Employer and Individual Health Insurance Availability Model Act (#35) (Draft: 9/6/00)

   The NAIC charged the Regulatory Framework (B) Task Force with the duty to review NAIC model laws and regulations affected by HIPAA and final federal regulations promulgated pursuant to HIPAA to make sure the models comport with the requirements of HIPAA and the regulations. The task force adopted its amendments, but did not send the revised model to the Health Insurance and Managed Care (B) Committee until it has completed work on HIPAA-related changes to other NAIC model laws and regulations.

The B Committee adopted all four models at the Fall National Meeting.

6. Universal Life Insurance Model Regulation (#585) (Draft: 9/9/00)

   The Life Disclosure Working Group of the Life Insurance and Annuities (A) Committee considered amendments to the Universal Life Insurance Model Regulation to coordinate this model more closely with the Life Disclosure Illustrations Model Regulation. Material that could conflict with the illustrations regulation was removed from the model. The Life Insurance and Annuities Committee adopted the revised model during a conference call shortly after the Fall National Meeting.

Drafts of Models Released for Comment

1. Viatical Settlements Model Act (#697) (Draft: 9/12/00)

   Many changes have taken place in the young viatical settlements industry, rendering the NAIC's model quickly out of date. The Viatical Settlements Working Group of the Life Insurance and Annuities (A) Committee is developing amendments that address issues related to life settlements (sales of policies by those not terminally or chronically ill), fraud, and protections for investors in viatical settlements. The working group plans to finish the model at an interim meeting in October and hear final comments before adopting the model at the Winter National Meeting in Boston.

2. Credit Property Insurance Model Act (Draft: 9/12/00)

   The Credit Property Working Group of the Market Conduct and Consumer Affairs (D) Committee was formed in May 2000 to draft a model on credit property insurance. The group intends to finish its task by the end of the year. The Act will create a legal framework for states to regulate this line of coverage, maintain separation between creditors and insurers, and minimize the possibilities of unfair practices in the sale of credit property insurance. The working group continued its work on this model at the Fall National Meeting.

3. Health Maintenance Organization Model Act (#430) (Draft: 7/18/00)

   The Managed Care Organization Working Group of the Regulatory Framework (B) Task Force is considering amendments that would revise the Health Maintenance Organization Model Act. The working group reviewed the current scope of the draft amendments to the model act and considered whether the working group wanted to continue developing a broad model addressing all managed care plans—both HMOs and insurers offering managed care plans. The working group decided to focus its efforts more narrowly on HMOs and on updating the HMO Model Act, paying particular attention to issues of solvency and insolvency protections. Other issues, such as downstream risk, Medicaid-only HMOs, and Medicare+Choice HMOs, will be addressed by the working group in the context of revising the model act. The working group identified several more changes to the model that they wish to make, and a new draft will be prepared later to include those revisions.

4. Actuarial Opinion and Memorandum Regulation (#822) (Draft: 9/8/00)

   The Life and Health Actuarial Task Force has discussed various amendments to the model for some time. A new draft was exposed at the Fall National Meeting with several modifications from previous versions. The proposed changes include: (1) restoration of existing language relative to the allocation of negative interest maintenance reserve; (2) elimination of the reference to net deferred and uncollected premium within the text of the actuarial opinion, substituting an expanded table of tested reserves to include the net deferred and uncollected premium; (3) modifying the language in Section 6B(6) pertaining to the commissioner's waiving of an asset adequacy test for single-state companies; and (4) altering the reference in the table of asset adequacy tested amounts. Interested parties repeated the previously expressed concerns over the elimination of Section 7. Particular concern was stated relative to the expense small companies will incur in performing asset adequacy analyses.

5. Determination of Nonforfeiture Benefits and Guaranteed and Non-Guaranteed Elements for Life Insurance and Annuity Contracts Model Act (Draft: 9/8/00)

   The Life and Health Actuarial Task Force has been charged with developing a new nonforfeiture law for life insurance, health insurance, and annuities to replace the existing nonforfeiture standards. The latest draft has several significant features. First, on the subject of operational plans, all guaranteed elements and methodologies for nonguaranteed elements and nonforfeiture values are addressed in a detailed, confidential operational plan available for regulatory review. Second, there is no cash value required. Third, regarding fairness, disclosure to the purchaser of salient points of the plan of operation is addressed. Adherence by the company to the applicable regulatory requirements and company plan of operation will be attested by management (including supporting actuarial disclosures). Fourth, on dual approach, at least as a transitional measure, companies could choose to be subject to existing or new standards. The task force asked for final comments prior to an anticipated adoption at the Winter National Meeting.

6. Unfair Trade Practices Act (Draft: 8/2/00)

   The Suitability Working Group of the Life Insurance and Annuities (A) Committee is drafting a new model regulation addressing the suitability of sales of life insurance and annuities. For states without the regulatory authority to adopt the model regulation, the drafters suggest amendments to the Unfair Trade Practices Act.

7. Suitability of Sales of Life Insurance and Annuities Model Regulation (Draft: 8/2/00)

   In the white paper drafted by the Suitability Working Group of the Life Insurance and Annuities (A) Committee and adopted earlier this year by the Executive Committee and Plenary, the working group recommended suitability standards for insurers issuing life insurance and annuities. A small drafting group prepared this first draft that requires insurers to have standards in place to determine if the policy being sold is suitable. The working group heard comments at the Fall National Meeting and solicits further suggestions for changes by Oct. 13, 2000.

8. Actuarial Guideline VL-GMDB: Variable Life Insurance Reserves for Guaranteed Minimum Death Benefits (Draft: 9/8/00)

   The Life and Health Actuarial Task Force is considering Actuarial Guideline VL-GMDB. This guideline's primary focus is to clarify the appropriate projection assumptions and methodologies used to determine statutory reserve liabilities for Guaranteed Minimum Death Benefits (GMDBs) offered with variable life insurance products. At the Fall National Meeting, the task force voted to expose for comment a revised version of this guideline. The latest draft changes the earlier March 2000 draft in two ways: (1) language has been added that emphasizes the nonapplicability of Regulation "XXX" to variable life and variable universal life products; and (2) it has reinserted the "Version X" and "Version Y" that were included in the October 1999 report from the American Academy of Actuaries relative to the calculation of Attained Age Level Reserves. The task force also voted to change the effective date to 2001 and to add a sentence to the second paragraph under "effective date" clarifying the calculation of the residue for in force policies.

9. Actuarial Guideline IX-C: Use of Substandard Annuity Mortality Tables in Valuing Impaired Lives under Individual Single Premium Immediate Annuities (Draft: 9/8/00)

   The Life and Health Actuarial Task Force is considering Actuarial Guideline IX-C. The NAIC model Standard Valuation Law permits modifications of annuity mortality tables approved by the commissioner. In states that have adopted this or similar Standard Valuation Law language, this guideline provides for modifications of annuity mortality tables. This may be done solely for the purpose of valuing individual single premium immediate annuities not covered by Guideline IX-A, but for which medical records indicate the expectation of life has been reduced and for which the premium charged reflects such reduction. A substandard annuity mortality table may be used where the annuitant (or measuring life) has relevant hospital records, treating physicians' reports, and/or independent medical evaluations from those medical doctors that have been used during the underwriting process and have been retained in the underwriting file of the company as proof of the individual's impaired health and shortened longevity.

10. Actuarial Guideline MMMM: Reserves for Variable Annuities with Guaranteed Living Benefits (Draft: 9/8/00)

    The Life and Health Actuarial Task Force is considering Actuarial Guideline MMMM. The purpose of this guideline is to interpret the standards for the valuation of reserves for Guaranteed Living Benefits included in variable deferred and immediate annuity contracts (VAGLBs). This guideline codifies the basic interpretation of the Commissioners Annuity Reserve Method (CARVM) by clarifying the assumptions and methodologies that will comply with the intent of the NAIC model Standard Valuation Law. This guideline also interprets the standards for applying CARVM to VAGLBs; clarifies standards for developing Integrated Benefit Streams, where VAGLBs are integrated with other guaranteed and variable benefits; clarifies standards for determining the level of reserves to be held in the General Account; clarifies standards for reserves when the VAGLB risk is reinsured; and presents an approach on how to integrate VAGLBs with other guaranteed benefits within Integrated Benefit Streams.