



Department of Consumer and Business Services

350 Winter Street NE, Room 200

P.O. Box 14480

Salem, Oregon 97309-0405

(503) 947-7872

www.cbs.state.or.us

Insurance Holding Company

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Accreditation

Definition: In general, accreditation is the process by which a program has been certified as fulfilling certain standards by a national professional association. In the terms of the insurance industry, accreditation is a certification given to a state insurance department once it has demonstrated it has met and continues to meet an assortment of legal, financial and organizational standards as determined by a committee of its peers.

Background: The concept of accrediting state insurance departments began in the mid-to-late 1980s when several large insurance companies became insolvent. In May 1988, as a response to the insolvencies, a congressional inquiry began looking at the insolvencies. In turn, the NAIC began discussing and shaping the Financial Regulation Standards and Accreditation Program in September 1988.

In an effort to provide guidance to the states regarding the baseline Standards and as an incentive to put them in place, the NAIC adopted in June 1990 a formal certification program. Under this plan, each state's insurance department will be reviewed by an independent review team whose job is to assess that department's compliance with the Standards.

Mission Statement: The mission of the NAIC accreditation program is to establish and maintain standards to promote sound insurance company financial solvency regulation. The accreditation program provides a process whereby solvency regulation of multi-state insurance companies can be enhanced and adequately monitored with emphasis on the following:

1. Adequate solvency laws and regulations in each accredited state to protect consumers and guarantee funds.
2. Effective and efficient financial analysis and examination processes in each accredited state.
3. Appropriate organizational and personnel practices in each accredited state.
4. Effective and efficient processes regarding the review of organization, licensing and change of control of domestic insurers in each accredited state.

Benefits of accreditation: The accreditation program allows for inter-state cooperation and reduces regulatory redundancies. 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. 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. Inter-state reliance that the accreditation program produces ultimately saves millions of dollars in duplicative regulatory costs.

Contact: Lou Savage, Insurance Commissioner, 503-947-7200