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Producer Appointments:

An Opportunity for Greater Regulatory Efficiency

American Insurance Association presentation to the NCOIL Spring Meeting, March 3, 2018

What is an appointment?

A producer appointment is a legally required registration/filing notifying an insurance department that a licensed producer is authorized to represent a particular insurer

- States typically charge a fee and NIPR charges a processing fee
- Must notify the insurance department within set time period (e.g., 15 days) after first transacting business or entering into a contract with a producer
- May apply to individual producers, agencies (entities) or both

A little background on appointments

- NAIC Producer Licensing Model Act (PLMA) includes the appointment process as an **optional** provision
- Nine (9) states do not have an appointment requirement – AK, AZ, CO, IL, IN, MD, MO, OR, RI
- In addition to processing appointment transactions, insurers also must notify the insurance departments of appointment terminations
- Many states also require annual appointment renewals

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Appointments are no small matter

Millions of transactions generating hundreds of $ millions in fees

- According to NIPR, the 2,427,382 licensed producers across the U.S. generated > 18.6 million appointment transactions over the last two years
    - 10,905,076 appointments
    - 7,785,793 appointment terminations
- In just the 27 states where NIPR collects appointment fees, it has remitted more than $650 million in appointment fees to states over past two years

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Appointments are no small matter

Even looking at individual states, the numbers are large – for example:

- Connecticut Insurance Department reports processing more than 490,000 company appointments annually
- Virginia Bureau of Insurance collected > $15.7 million in 2016 = more than $1.86 for every man, woman and child living in the State during that year

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Inefficiencies associated with appointments

- **Redundant:** Agents and insurers already have been fully vetted by the insurance department during the licensing process
- **Lack of Uniformity:** Each state has its own set of rules for addressing appointments of individuals and/or business entities or appointment per each line of authority or sub-agent appointments
- **Distribution Costs:** Processing > 18.6 million transactions adds costs for insurers using agents and the independent agency system

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Inefficiencies associated with appointments

- **Inconsequential for Consumer Protection:** Does not add any material consumer protections to the regulatory system = eliminating appointments would not affect a regulator's authority to address issues in the market place, including the authority to deny, revoke, suspend or refuse to renew a producer's license and/or levy civil penalties
- **Cost-Benefit:** What regulatory purpose is being achieved that is worth processing > 18.6 million transactions?

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The big issue = revenue

- **Revenue:** Clearly, appointment fees are a huge revenue raiser for the states
  - Even if insurers continued to pay fees to the states, insurers using agents and the independent agency system would benefit from greater efficiencies in the distribution system by eliminating the work of submitting appointments
  - AIA would like to open a dialogue with NCOIL regarding the possibility of eliminating producer appointments in a manner that would be revenue-neutral to the states