

SERFFING, U.S.A

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Did Industry Get What It Wanted?

Developed in the early 1990's, the System for Electronic Rate and Form Filing ("SERFF") continues to limp along. In the early stages of the National Association of Insurance Commissioners ("NAIC") development of SERFF, several insurance departments and insurance carriers agreed to test a system that would assist insurers in bringing products to market with greater speed and cost efficiency. Almost a decade later with relatively little advancement in comparison to time elapsed, it appears that the NAIC has attempted to breathe life into SERFF by tying its existence to its speed-to-market and Coordinated Advertising Rate and Form Review Authority ("CARFRA") initiatives.

As a majority of insurers had not embraced SERFF and its resulting NAIC held database after nearly a decade, the NAIC continues to promote its existence and necessity especially in light of recent federal entreaties into regulation. Although accepted nationwide, state insurance departments have indicated the actual use as limited. Recent conversations with a sampling of states brought forth interesting insights. At least a few states have indicated that paper filings are preferred and filings submitted via SERFF are redundant as hard copy filings are required. Use by industry in the sampled states has been limited and questions of cost effectiveness still exist.

Is It Worth the Cost?

A 1998 NAIC copyrighted brochure listed the minimum system requirements for SERFF customers as: Workstations (for filers & reviewers), Pentium 133 Mhz, 32MB RAM, Windows 3.11, 95, or NT, 17" Color Monitor, Lotus Notes Desktop Client 4.5a, Adobe Acrobat (for companies), Adobe Reader (for states), TCP/IP connection to your Note's Server, Server (one per company or state), Pentium 200Mhz, 128 MB RAM, Windows NT 3.5.1 or higher, 2 GB Free Disk Space, Lotus Domino Server 4.5a, TCP/IP connection to workstations, TCP/IP connection to SERFF Hub. The technology requirements for this system in 1998 as listed above appear to have rendered it outdated at a time when most insurers had already moved to a LAN based system and were communicating primarily through electronic mail. It seems reasonable that an electronic filing outside of the SERFF environment could be submitted to a state by e-mail with accompanying documents attached in Microsoft Word and/or Excel documents. Only recently, when industry pointed to the fact that insurers and states have the capability of submitting filings electronically without the need for NAIC intervention and related fees, did the NAIC revisit its technology requirements. Therefore, the initial cost for SERFF appeared to far outweigh the benefits especially for small regional insurers making few filings per year.

In an era of renewed cost consciousness and industry budget constraints, industry skeptics continue to try to understand the need for the NAIC to develop and retain a database that has not gained widespread acceptance. One apparent reason for the NAIC database appears to be industry and regulatory reliance upon the NAIC for access to information.

Confidential material submitted under a state's privacy laws can remain confidential in a state based system. Once such material is submitted to a NAIC database, the ability to retain confidentiality could become compromised. It is likely that a fear of loss of confidentiality has kept some insurers from using the system.

Filing material which becomes public information under state law should permit easy access to an insurer's forms, rates and rules. However, in order to gain access, most states require an insurer to identify the name of the insurer and any other relevant data such as year of filing and/or form numbers. As the data is collected into one accessible data bank, insurers fear that the path of access to their data will be made easier for their competitors.

Help Or Hindrance?

While the CARFRA initiative promoted one-stop filing review, there is some industry concern with review by

consensus. For example, an innovative coverage change could be denied by a CARFRA reviewer based upon the specific reviewer's experience. In the alternative, when filing an innovative product individually to the states, an insurer can reasonably expect acceptance in approximately two thirds of the states dependent upon the product's characteristics.

Until such time as electronic signatures, electronic transfer of funds and electronic notarization become the norm, insurers and regulators will be barred from operating in an electronic only format. Hard copy documents submitted to fulfill filing requirements cause redundant work when an insurer also opts to file electronically.

After a decade of stops and starts, industry and state regulators may have to step back and decide whether the money spent so far on development of the system has been worthwhile (commonly known as a cost-benefit analysis). Industry and state regulators may need to request data on the number of electronic versus hard copy submissions made during SERFF's life span, and to ask if SERFF's tie to the NAIC's speed-to-market initiative will bring speed to the process or will allow SERFF a reason to survive. Finally, industry and state regulators may explore electronic filing directly to state insurance departments for insurers who are not eager to use SERFF but prefer an electronic format.

Is It Time To Look At Alternatives?

It would appear logical that the limited use of SERFF would cause state regulators and industry to question the necessity of the NAIC's role in form and rate filings and to either abandon SERFF or to look for innovative, cost-efficient alternatives. Optional electronic filings in lieu of hard copy filings with a state based database (created from electronic filings submitted directly to the state(s) via electronic mail) would allow the states to control their own data while eliminating third party reliance and possibly reducing electronic filing costs to industry. A state based system would also preserve confidentiality where applicable. Perhaps it is not so much a question of what the industry wanted as it is a question of what the industry can efficiently use and still be able to live within its own budget and expense constraints.