COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

March 9, 2007

CIRCULAR LETTER NO: 2007-1771-AV

TO ALL DOMESTIC INSURERS THAT WRITE LIFE AND DISABILITY INSURANCE, ANNUITIES AND VARIABLE ANNUITIES, AND ALL GENERAL AGENTS OF FOREIGN INSURERS AUTHORIZED TO WRITE LIFE AND DISABILITY INSURANCE, ANNUITIES AND VARIABLE ANNUITIES

IMPLEMENTATION OF THE COMPACT FOR THE INTERSTATE REGULATION OF INSURANCE PRODUCTS

Dear Sirs and Madams:

Public Law No. 161, enacted on December 22, 2005, hereinafter "Law 161", approved in Puerto Rico the "Compact for the Interstate Regulation of Insurance Products," (hereinafter, "the Compact"), making Puerto Rico the 21st jurisdiction to adopt it.

Based on the Interstate Insurance Product Regulation Compact Model Act promulgated by the National Association of Insurance Commissioners, (the NAIC), the Compact seeks to provide a new review process for life insurance and annuity products, among others.

To be operational, the Compact must be adopted in 26 states of the United States, including Puerto Rico, or in those states that represent 40% of the written premium on a national level, which happened, in both instances, on May of 2006. Until now, twenty-nine (29) states, including Puerto Rico, have approved the Compact and are members of the Commission for the Interstate Regulation of Insurance Products (hereinafter, "the Commission"), based in Washington, DC. [1]

[1] In addition to Puerto Rico, the member states are Alaska, Colorado, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, Texas, Utah, Vermont, Virginia, Washington, West Virginia and Wyoming. With the entry of Michigan into the Compact in February of 2007, the volume of premium of the participating jurisdictions increased to 48% of the total premium written in the insurance market in the United States.

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THE COMMISSION FOR INTERSTATE REGULATION OF INSURANCE PRODUCTS

A central point for filing and evaluation of insurance products life, annuity, variable annuity, disability income, and long term health care insurance lines has been established through the Commission, by developing uniform standards that guarantee a responsive and flexible process for the approval of these products, while maintaining a high level of protection for insurance consumers.

Since June 2006, different working committees have developed draft by-laws, rules and procedures to facilitate the operation of the Commission and the implementation of the Compact. At the first official meeting of the member states, which was held on November 15, 2006, the by-laws of the Commission were approved, officers were elected, and the necessary staff was retained for operations. At the meeting Mrs. Frances Arrindale was officially recruited as Executive Director of the Commission.

The Commission works through a Management Committee constituted by no more than 14 participating states, selected based on the percentage of premium written at the national level.[2] The decisions of this group, particularly the procedures for adopting the by-laws and the draft Rule-Making Rule,[3] are the result of an extended period of notification, discussion, and public comment in plenary sessions of the Commission and its working committees. This Management Committee is also advised by a Legislative Committee and a Committee Representing the Insurance Industry and Independent Consumers.

During the past nine months, the Office of the Commissioner of Insurance, the "OCI," has received and evaluated draft uniform standards and operational procedures of the Commission, including the 2007 budget.

Under the provisions of the Compact, a member state, such as Puerto Rico, may opt out of a uniform standard, through legislation or regulation approved by the OCI. The OCI may proceed, among other things, to notify the Commission in writing, within ten (10) days after the promulgation of the legislation or regulation, regarding that decision under the premise that a given uniform standard does not provide reasonable protection to insurance consumers. In those cases, the Office of the Commissioner of Insurance would have the obligation to make findings of fact and conclusions of law, which are duly substantiated, and specify the conditions in our market that would justify a deviation from the uniform standard for the corresponding evaluation by the Commission.

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[2] The Management Committee is divided into three categories. The states included in Category One, which have the highest volume of written premium at the national level in individual and group life, variable life, annuity, disability, and long-term health care policies, are Texas, Pennsylvania, Ohio, North Carolina, Massachusetts, and Georgia. The states included in Category Two, with at least 2% of the volume of written premium at the national level, are Virginia, Minnesota, and Indiana, while the states in Category Three, with less than 2% of the volume of premium written at the national level, include the States of Vermont, West Virginia, Oklahoma, and Washington.

[3] This Rule includes the uniform standards for the approval of insurance products.

Further to a careful analysis of the uniform standards that have been proposed up to now, we have determined that these in no way expose the interests of Puerto Rican insurance consumers, so that there is no justification for a deviation from the uniform standards that have been proposed and adopted by the Commission for the approval of insurance products.

The rules that have been adopted up to February of 2007 are:

- Conditions and Procedures for Public Inspection and Copying of Information and Official Records of the Interstate Insurance Product Regulation Commission. Adopted December 8, 2006.

- Operating Procedure for the Resolution of Disputes between States. Adopted February 28, 2007. [4]

- Operating Procedure for Notice and Hearing. Adopted February 28, 2007. [5]

- Operating Procedure for the Implementation of Uniform Products Standards. Adopted February 28, 2007. [6]

The following standards have been adopted:

- Individual Flexible Premium Adjustable Life Policy Standards. Adopted December 8, 2006.

- Individual Joint Last to Die Survivorship Flexible Premium Adjustable Life Policy Standards. Adopted December 8, 2006.

- Individual Flexible Premium Variable Adjustable Life Policy Standards. Adopted December 8, 2006.

- Individual Joint Last to Die Survivorship Flexible Adjustable Life Policy Standards. Adopted December 8, 2006.

- Individual Modified Single Premium Adjustable Life Policy Standards. Adopted December 8, 2006.

The Rules and Standards that have been adopted will be available for easy access at www.insurancecompact.org. This portal may be accessed directly or through the website of the OCI, www.ocs.gobierno.pr.

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[4] This procedure will be effective forty-five (45) days after approval, that is to say April 16, 2007.
[5] Idem.
[6] Idem.

PROCEDURE FOR THE EVALUATION AND APPROVAL OF INSURANCE PRODUCTS BY THE COMMISSION

Under the by-laws of the Commission, the draft of any rule or uniform standard will be announced on the Rule Making Docket of the Commission and will also be available through the Internet portal and/or link mentioned above.

The announcement or notification of the draft standard or rule under consideration will provide for a period of at least 60 days so that any interested party may submit in writing arguments, information, or opinions in favor of or against its adoption.

The Management Committee may hold a public hearing on any proposed rule or standard if a member of the Commission (that is to say, the representative of each state/member, a member of the Management Committee, Legislative Committed or consulting committees) so requests in writing, within twenty (20) days to be counted from the aforementioned notification.

The Management Committee shall also have the obligation to issue an analysis of the proposed rule or standard if within fifteen (15) days of publication, it is so requested by any member, a member of the Commission, of the Legislative Committee or of the consulting committees.

No standard or rule will be approved before the end of the period provided for the submission of written comments or a request for a public hearing. In the case of a standard, the Executive Director will send a written notification of the proposed standard to the members that have been designated in the respective state legislatures, prior to the end of the period for participation or public discussion.[7]

Under the Rules of the Commission, a standard adopted by two thirds (2/3) of the member states, will enter into effect ninety (90) days after adoption, except if a different term is established.

IMPORTANT CONSIDERATIONS REGARDING THE APPROVAL OF PRODUCTS BY THE COMMISSION

It should be clarified, that as in the other member state, licensed insurers in Puerto Rico do not have the obligation to submit to the Commission the insurance products mentioned in this Circular Letter. Public Law 161 provides that the insurers who prefer to do so may continue submitting their products fora evaluation and approval through normal procedures of the OCI.

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[7] In cases in which the Management Committee has just cause to consider that there are emergency circumstances where the aforementioned notification process would be contrary to the best interest of the public, the Committee may adopt an emergency rule that will be effective 180 days after the date of its adoption or at another date to be adopted by majority vote of the Commission.

If an insurer decides to submit to the Commission any of the products mentioned in this Letter, it must do so through the System for Electronic Rate and Form Filing, SERFF, which will entail a service fee. The procedures for the evaluation and approval of products are under evaluation by the Commission and it is expected that they will be adopted soon according to the operational regulations and standards of the Commission.

Through this letter, and given the importance of this interstate effort in the regulation of the insurance industry, the OCI urges the local insurance industry to participate in the period of public comments on the rules and standards that have been proposed by the Commission.

The next standards that will be discussed at the Commission meeting to be held in New York City are:

- Individual Life Insurance Application Standards
- Standards for Application Change Form
- Standards for All Benefit Features Added by Rider, Endorsement or Amendment to an Individual Life Policy
- Standards for Accelerated Death Benefit
- Standards for Accidental Death Benefits
- Standards for Accidental Death and Dismemberment Benefits
- Standards for Waiver of Premium Benefits
- Standards for Waiver of Monthly Deduction Benefit
- Standards for Waiver of Premium Benefit for Child Insurance in the Event of Payor's Total Disability or Death

The rule to be discussed is:

- Operating Procedure for the Filing and Approval of Products.

The calendar for public comment up to March 26, 2007, is pending the draft of:

- Individual Term Life Insurance Policy Standards and Conforming Amendments to Individual Adjustable Life Policy Standards.

The following standards are scheduled for public comment on March 30, 2007:

- Individual Single Premium Term Life Insurance Policy Standards
- Individual Term Life Insurance Policy Standards
- Individual Joint Last to Die Survivorship Term Life Insurance Standards
- Individual Single Premium Joint Last to Die Survivorship Term Life Insurance Policy Standards and Conforming Amendments to Individual Adjustable Life Policy Standards

The Commission foresees that for 2007, some 30 additional standards will be published for life and annuity insurance lines.

All entities that are being notified in this communication are required to take note of the content of this Circular Letter.

Very truly yours,

SIGNED

Dorelisse Juarbe-Jiménez
Commissioner of Insurance