

The Arizona Department of Insurance

Five-Year Review Report

**A.A.C. Title 20, Chapter 6, Articles 7, 8, 10, 12, 14, 16,
17 and 22**

May 2013

ARTICLE 7. LICENSING PROVISIONS AND PROCEDURES

1. **General and Specific Statutes Authorizing the Rule:**

The Department adopted R20-6-708 and Table A under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied. The rule and Table A were implemented to comply with A.R.S. § 41-1073(A), which mandates that any state agency that issues licenses shall promulgate final rules establishing time-frames during which the agency will either grant or deny each type of license that it issues.

2. **Objective of the Rule:**

R20-6-708. The purpose and objective of this rule is to establish definitions for this Section and set forth the requirements for the administrative completeness and the substantive review time frames and requirements for compliance with those time-frames.

Table A. This table lists licenses issued by the Department and the time-frames for those licenses.

3. **Effectiveness of the Rule in Achieving the Objective:**

R20-6-708. This rule effectively achieves its objective.

Table A. This table effectively achieves its objective.

4. **Consistency of the Rule with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy:**

R20-6-708. This rule is consistent with state statutes and rules.

Table A. Parts of this table are consistent with state statutes. However, parts of Table A inconsistently use the terms "agent" and "broker." The statutorily defined term that encompasses those entities is "insurance producer," which is defined in A.R.S. § 20-281(5). As a result, some references to "agent" and "broker," need to be changed to "insurance producer." However, even though the terms "agent" and "broker" are sometimes used, rather than the defined term "insurance producer," those terms are understood in the industry to mean the same thing.

Some of the specific classes of agent and broker licenses no longer need to have a separate designation in the table, but, by definition, would be included within one category for "insurance producer." Additionally, changes in SB 1177, passed in the current legislative session, will necessitate removal of the managing general agent license categories from the table as those categories will no longer require licensing, but will become subject to registration, with no

licensing time-frames. The table also contains some incorrect statutory citations and citation to some statutes that no longer exist.

There are no applicable federal statutes and rules

The Department enforces R20-6-708 and Table A as written.

5. **Clarity, Conciseness and Understandability of the Rule:**

R20-6-708 is generally clear and understandable. However, the last sentence in R20-6-708(D)(2) should be revised to read, "The notice of inadequate response shall identify each component or item of information required, to which the applicant did not make some response." The word "not" should be added for clarification. Parts of Table A are not clear and understandable because it contains outdated references to "agent" and "broker" rather than "insurance producer." Table A also contains some incorrect statutory citations.

6. **Written Criticisms of the Rules Received Within the Last Five Years Including Any Written Analysis Submitted to the Agency Questioning Whether the Rule is Based on Valid Scientific or Reliable Principles or Methods:**

None.

7. **Economic, Small Business and Consumer Impact Summary Comparison:**

The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for that rulemaking.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

The Department had proposed to revise R20-6-708 to add the word "not;" however, as a result of the rulemaking moratorium, the Department ceased rulemaking activity. The Department will promulgate rulemaking when the moratorium is lifted.

10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

The rule is not more stringent than a corresponding federal law because there is no corresponding federal law.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. **Proposed Course of Action:**

The Department will propose rulemaking to revise R20-6-708(D)(2) and Table A when the rulemaking moratorium is lifted .

ARTICLE 8. PROHIBITED PRACTICES, PENALTIES

A.A.C. R20-6-801.

1. **General and Specific Statutes Authorizing the Rule:**

The Department adopted R20-6-801 under the Director's general rule making authority pursuant to A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. The specific authority for R20-6-801 is provided by A.R.S. §20-461.

2. **Objective of the Rule:**

The purpose and objective of R20-6-801 is to set forth the minimum standards for the investigation and disposition of claims arising under specified policies issued under A.R.S. Title 20. The various provisions of this rule are intended to define procedures and practices that constitute unfair claims practices.

3. **Effectiveness of the Rule in Achieving the Objective:**

This rule achieves its objective. The rule is generally clear concise and understandable, and the regulated community understands and is able to comply with the requirements of the rule. The Department has determined that the substance of the rule should remain as it is, but the rule should be updated where necessary to be consistent with current rulewriting standards.

4. **Consistency of the Rule with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy:**

This rule is consistent with any applicable state statutes and rules.

The Department enforces this rule.

5. **Clarity, Conciseness and Understandability of the Rule:**

This rule contains some legalese, but is generally clear, concise and understandable. The rule should be revised to meet current rulewriting standards.

6. **Written Criticisms of the Rules Received Within the Last Five Years Including Any Written Analysis Submitted to the Agency Questioning Whether the Rule is Based on Valid Scientific or Reliable Principles or Methods:**

None.

7. **Economic, Small Business and Consumer Impact Summary Comparison**

The Department has not identified any significant economic impact that has happened in the past five years. There is no economic impact statement available from 1982 when the rules were initially filed. However, the impact of the rules has

been to allow the Department to carry out its mandate regarding investigations and disposition of claims arising out of policies issued under State law. The rules address wrong-doing and protect claimants by imposing standards on insurers for fair investigation and disposition of claims.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None.

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

The Department had proposed to revise R20-6-801, but ceased rulemaking activity when the moratorium was implemented.

10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

The rule is not more stringent than a corresponding federal law because there is no corresponding federal law.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. **Proposed Course of Action:**

In 2008, the Department recommended that R20-6-801 be amended to remove legalese and to reflect current rule writing standards. However, before the Department was able to promulgate rulemaking, the rulemaking moratorium was put in place and the Department, in response to the governor's directive, ceased all activity related to rulemaking. The Department determined that these were changes of insignificant consequence that did not warrant a request for exception from the moratorium. The Department will promulgate this rulemaking when rulemaking moratorium is lifted.

ARTICLE 10. LONG-TERM CARE INSURANCE

A.A.C. R20-6-1001, R20-6-1002, R20-6-1003, R20-6-1004, R20-6-1005, R20-6-1006, R20-6-1007, R20-6-1008, R20-6-1009, R20-6-1010, R20-6-1011, R20-6-1012, R20-6-1013, R20-6-1014, R20-6-1015, R20-6-1016, -6-1017, R20-6-1018, R20-6-1019, R20-6-1020, R20-6-1021, R20-6-1022, R20-6-1033, R20-6-1044 and Appendices A, B, C, D, E, F, G, H, I, and J

1. General and Specific Statutes Authorizing the Rule

The Department adopted these rules under the Director's general rulemaking authority pursuant to A.R.S. § 20-143(A) and specific long-term care insurance rulemaking authority pursuant to 20-1691.02 and statutes the Department is implementing, namely A.R.S. §§ 20-1691.01, 20-1691.04, 20-1691.06, 20-1691.11. By virtue of A.R.S. §20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objectives of the Rules:

The purpose of the rules in this Article is to set forth clear and understandable standards for long-term care policies that are delivered or issued for delivery in Arizona and to protect Arizona consumers of long-term care insurance by requiring that insurers meet the standards set forth in the rules. The objectives for each Section are listed below.

R20-6-1001. The objective of this Section is to set forth the applicability and scope of Article 10 to all long-term care insurance policies delivered or issued for delivery in this state.

R20-6-1002. This Section establishes definitions for terms in this Article.

R20-6-1003. This Section sets forth terms that are prohibited from use in long-term care policies unless the terms are specifically defined in the policy and contain the requirements specified in the listed definitions for the terms.

R20-6-1004. This Section establishes renewability provisions, limitations and exclusions restrictions, and extension of benefits requirements for long-term care insurance. This rule also establishes continuation or conversion provisions, discontinuance and replacement provisions and minimum standards for home health care benefits.

R20-6-1005. This Section establishes requirements regarding unintentional lapse.

R20-6-1006. This Section establishes that an inflation increase option be offered on all long-term care policies except those that are part of life insurance policies. This rule also requires that a graphic comparison of the policy benefits levels with and without an inflation increase be included with the outline of coverage.

- R20-6-1007.** This Section establishes required disclosure provisions.
- R20-6-1008.** This Section establishes requirements regarding disclosure of rating practices to consumers.
- R20-6-1009.** This Section contains the initial filing requirements.
- R20-6-1010.** This Section contains requirements for application forms and replacement coverage.
- R20-6-1011.** This Section prohibits post-claims underwriting, establishes the disclosures to be included on application forms and long-term care insurance policies and that a copy of the completed application be delivered to the insured no later than at the time of policy delivery. This rule also establishes that insurers submit a long-term care rescission report to the Department each year.
- R20-6-1012.** This Section provides for the Director to, after an administrative hearing, issue an order to modify or suspend a specific provision of a policy or the long-term care rules.
- R20-6-1013.** This Section establishes reserve standards for long-term care insurance policies and riders.
- R20-6-1014.** This rule establishes loss ratio standards for long-term care insurance policies.
- R20-6-1015.** This Section sets for requirements for premium rate schedule increases.
- R20-6-1016.** This Section establishes form filing requirements for group long-term care policies.
- R20-6-1017.** This Section establishes long-term care insurance marketing standards.
- R20-6-1018.** This Section contains suitability standards for the purchase of long-term care insurance.
- R20-6-1019.** This Section sets forth the nonforfeiture benefit requirements.
- R20-6-1020.** This Section contains the requirements for benefit triggers.
- R20-6-1021.** This Section contains the requirements for additional benefit triggers for qualified long-term care insurance contracts.
- R20-6-1022.** This Section contains the standard format for an outline of coverage.
- R20-6-1023.** This Section contains the requirement for delivery of a director-approved shopper's guide to prospective purchasers of long-term care insurance.

R20-6-1024. This Section references the instructions for Appendices.

Appendix A. This appendix contains the long-term care insurance personal worksheet.

Appendix B. This appendix contains the long-term care insurance potential rate increase disclosure form.

Appendix C. This appendix contains the information an insurance company must provide to an applicant regarding replacement of individual health or long-term care insurance.

Appendix D. This appendix contains the information an insurance company must provide to an applicant regarding replacement of health or long-term care insurance.

Appendix E. This appendix contains the form for long-term care insurance replacement and lapse reporting.

Appendix F. This appendix contains the long-term care insurance claims denial reporting form.

Appendix G. This appendix contains the rescission reporting form for long-term care policies.

Appendix H. This appendix lists disclosures to be made to a potential purchaser before buying long-term care insurance.

Appendix I. This appendix contains the form for the long-term care insurance suitability letter.

Appendix J. This appendix contains the form for the long-term care insurance outline of coverage.

3. **Effectiveness of the Rules in Achieving the Objective**

These rules and appendices effectively achieve their objectives.

4. **Consistency of the Rules with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy:**

These rules and appendices are consistent with state statutes and rules.

There are no applicable federal statutes and rules.

The Department enforces these rules and appendices.

5. **Clarity, Conciseness and Understandability:**

The rules and appendices are clear, concise, and understandable.

6. **Written Criticisms of the Rules Received Within the Last Five Years Including Any Written Analysis Submitted to the Agency Questioning Whether the Rule is Based on Valid Scientific or Reliable Principles or Methods:**

None.

7. **Economic, Small Business and Consumer Impact Summary Comparison:**

The Department has not identified any significant economic impact upon insurers, small businesses or consumers as a result of the adoption of these rules in 2005.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

There was no course of action indicated.

10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

No rule is more stringent than a corresponding federal law because there is no corresponding federal law.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. **Proposed Course of Action:**

This Article was extensively amended in 2005. The Department proposes to retain the current rules without changes.

ARTICLE 12. HIV/AIDS: PROHIBITED AND REQUIRED PRACTICES

A.A.C. R20-6-1201, R20-6-1202, R20-6-1203, R20-6-1204, R20-6-1205

1. General and Specific Statutes Authorizing the Rules:

The Department adopted these rules under the Director's general rulemaking authority pursuant to A.R.S. §20-143(A) and specific rulemaking authority pursuant to A.R.S. §20-448.01(J). By virtue of A.R.S. §20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objectives of the Rules:

The purpose of the rules in this Article is to provide protections to applicants for life and disability insurance and to set forth clear and understandable standards regarding prohibited practices related to HIV/AIDS by requiring that insurers meet the standards set forth in the rules. The objectives for each Section are listed below.

R20-6-1201. This rule establishes the definitions used in the Article.

R20-6-1202. This rule establishes the requirements and limitations on questions related to HIV/AIDS in applications for life and health insurance.

R20-6-1203. This rule establishes requirements and limitations on an insurer's ability to test for HIV/AIDS in connection with an application for life or health insurance, including a requirement for written consent.

R20-6-1204. This rule establishes the confidentiality requirements for the treatment of HIV-related information.

R20-6-1205. This rule establishes that life and health insurance plans shall provide the same benefits for HIV, AIDS, and AIDS-related conditions as they provide for all other diseases.

3. Effectiveness of the Rules in Achieving the Objective:

These rules effectively achieve their objectives.

4. Consistency of the Rules with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy:

These rules and appendices are consistent with state statutes and rules.

There are no applicable federal statutes and rules.

The Department enforces these rules.

5. Clarity, Conciseness and Understandability:

The rules are clear, concise, and understandable.

6. **Written Criticisms of the Rules Received Within the Last Five Years Including Any Written Analysis Submitted to the Agency Questioning Whether the Rule is Based on Valid Scientific or Reliable Principles or Methods:**

None.

7. **Economic, Small Business and Consumer Impact Summary Comparison:**

The Department has not identified any significant economic impact upon insurers, small businesses or consumers as a result of the adoption of these rules in 1994. The impact to the Department has been to use staff time to fulfill its mandate under the rules, including reviewing the confidentiality documents required to be filed with the Department.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None.

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

The Department recommended that some minor, non-substantive changes could be made to comply with current rule-writing standards, at the time that necessary substantive changes were made to the rule. No substantive changes were made to the rule, neither were minor, non-substantive changes made.

10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rules' benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

No rule is more stringent than a corresponding federal law because there is no corresponding federal law.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable

13. **Proposed Course of Action:**

The Department recommends that R20-6-1201 through R20-6-1205 remain unchanged for now.

ARTICLE 14. INSURANCE HOLDING COMPANY

A.A.C. R20-6-1401, R20-6-1402, R20-6-1403, R20-6-1404, R20-6-1405, R20-6-1406, R20-6-1407, R20-6-1408, Appendix A, Appendix B, Appendix C, Appendix D, and Appendix E.

1. **General and Specific Statutes Authorizing the Rules:**

The Department adopted these rules under the Director's general rulemaking authority pursuant to A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. The specific authority for the adoption is provided in A.R.S. § 20-481.22.

2. **Objectives of the Rules:**

The purpose of this Article is to conform the Arizona holding company act provisions governing insurers' investments in subsidiaries, to the NAIC model act. The objectives for each Section are listed below.

R20-6-1401. This rule establishes definitions applicable to filings that are prescribed by the holding company act and Article 14 of the Department's rules.

R20-6-1402. This rule and Appendices A and E have the objective of prescribing the contents of a tender offer statement in a uniform format to enable the director to evaluate acquisition of control applications pursuant to A.R.S. § 20-481.02.

R20-6-1403. This rule and appendices B and E have the objective of prescribing the contents of the registration statement that an insurer that is part of a holding company must file pursuant to A.R.S. § 20-481.10.

R20-6-1404. This rule and appendices C and E have the objective of prescribing the contents of the summary of registration statement that an insurer that is part of a holding company must file pursuant to A.R.S. § 20-481.09 and 20-481.10.

R20-6-1405. This rule has the objective of permitting affiliated insurers that are members of a common insurance holding company system to file consolidated registration statements.

R20-6-1406. This rule has the objective of establishing the required contents of a disclaimer of affiliation or control or a termination of registration filing.

R20-6-1407. This rule and appendices D and E have the objective of prescribing the contents of the notice of a proposed transaction between an insurer and an affiliate that must be filed pursuant to A.R.S. § 20-481.12.

R20-6-1408. This rule has the objective of establishing the contents that are required for prior approval requests for payment of extraordinary distributions to shareholders and contents required for disclosure of payment of ordinary distributions to shareholders.

Appendix A. Form A is the Statement Regarding the Acquisition of, Control of, or Merger with a Domestic Insurer.

Appendix B. Form B is the form for the Insurance Holding Company System Annual Registration Statement.

Appendix C. Form C is the form for the Summary of Registration Statement.

Appendix D. Form D is the form for Prior Notice of a Transaction.

Appendix E. This appendix contains instructions on forms A, B, C, D.

3. **Effectiveness of the Rules in Achieving the Objectives:**

These rules effectively achieve their objectives.

4. **Consistency of the Rules with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy:**

These rules are generally consistent with state statutes and rules.

R20-6-1408(A)(4)(d). During the 2013 legislative session, SB 1177 amended A.R.S. § 20-481.19(B) to delete the word “investment” before the word “income.” As a result, when that amendment becomes effective, R20-6-1408(A)(4)(d) will become inconsistent with the statute, as the Rule contains the word “investment” before the word “income.”

There are no applicable federal statutes and rules.

The Department enforces these rules and appendices.

5. **Clarity, Conciseness and Understandability:**

The rules are generally clear, concise and understandable. The rules should be revised to remove legalese and passive voice.

6. **Written Criticisms of the Rules During the Past Five Years:**

None

7. **Economic, Small Business and Consumer Impact Summary Comparison:**

These rules are procedural in nature and do not impact the economy. The Department has not identified any impacts on insurers, small businesses or consumers in the past five years. Many of the costs incurred by insurers are a result of statutory requirements, rather than rules. The rules allow the Department to carry out its mandate regarding regulating holding companies. The Department does incur the cost of staff to review filings made to the Department and enforcing the mandates of this Article.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule’s Impact on this State’s Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None.

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

No change indicated.

10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rules' benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

No rule is more stringent than a corresponding federal law because there is no corresponding federal law.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. **Proposed Course of Action:**

The Department recommends that the rules remain unchanged at this time.

One of the core functions of state insurance departments is to regulate the financial solvency of insurers. Oversight comprises two basic components: analysis and examination. Mandatory examinations are conducted by insurance departments on site at the insurer on a regular, scheduled basis. Given that many insurers do business in multiple states, the National Association of Insurance Commissioners (NAIC), which is the organization of insurance regulators from the 50 states, the District of Columbia and the five U.S. territories, developed an accreditation program to provide some consistency in regulation among its members. To be an accredited state, the Arizona Department of Insurance must periodically demonstrate that it has certain laws, standards, and practices relative to financial regulation that are acceptable to the NAIC. The Department was initially accredited in 1993 and must go through the accreditation process every 5 years. The Department is currently under review by the NAIC for renewal of the Department's accreditation. Article 14 is a part of the NAIC-approved financial regulation standards. Article 14 adopts the NAIC model regulation regarding insurance holding companies and allows the Department to meet accreditation standards in this area. Initially adopted in 1993, Article 14 is current and still meets the accreditation requirements of the NAIC. The language and requirements of

the Article are understood and relied upon by the insurance industry in complying with holding company requirements in Arizona and nationwide.

A holding company is not a stand alone insurance company domiciled in Arizona. Typically, the AZ domiciled insurance company is part of a large financial holding company, where the parent entities and affiliates are domiciled in other states. Often when one or more of the family members, (i.e., parent or affiliate) has financial trouble, all of the insurance regulators from the various domiciliary states act as a group in addressing the problems. The need for each state to have the same requirements to deal with the entities and the other holding company members to address issues of financial solvency, reporting and regulatory authority is crucial. If changes are made to Article 14 that make it inconsistent with the NAIC model regulation and the rules of the other states, Arizona could be put in jeopardy of losing its NAIC accreditation and compromising the Department's ability to monitor the financial health of insurers licensed to transact business in Arizona. Arizona is currently, in May 2013, in the process of undergoing review for accreditation by the NAIC, based upon the rules that are currently in place.

The NAIC will significantly revise the holding company model laws and regulations in the next couple of years, which will require the Department to revise all of Article 14, and, in order for the Department to maintain its accreditation, the Department will have to adopt new rules that are consistent. In 2011, a model law and model regulations were adopted by the NAIC. There was then a one year public comment period that ended on December 31, of 2012. The comments on the model law and regulations will be heard at the August 2013 summer national meeting of the NAIC and the NAIC will determine whether it will adopt any changes that are recommended in the comments that have been received. After consideration of the comments, there will be a two to three year waiting period before the model law and regulations become accreditation standards that states will have to adopt. At the time they become accreditation standards, the Department will promulgate rules to adopt the new accreditation standards.

So, while the department is aware of the inconsistency discussed in #4, the revised statute will be controlling and the Department will operate in compliance with the controlling statute. Also, while there are some minor, non-substantive inconsistencies with current Arizona rulewriting standards, such as passive voice and some legalese, there are overriding compelling reasons for not making changes to Article 14, at this time. The Department will revise the Article after the NAIC revision to the model regulations, as the Department will be required to do to maintain accreditation with the NAIC.

ARTICLE 16. CREDIT FOR REINSURANCE

A.A.C. R20-6-1601, A.A.C. R20-6-1602, A.A.C. R20-6-1603, A.A.C. R20-6-1604, A.A.C. R20-6-1605, A.A.C. R20-6-1606, A.A.C. R20-6-1607, Exhibit A and Exhibit B

1. General and Specific Statutes Authorizing the Rules:

The Department has adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143(A); under the Director's authority to regulate the transaction of reinsurance by domestic ceding insurers under A.R.S. §§ 20-261 and 20-732; under the Director's authority to regulate the reporting of reinsurance credits under A.R.S. §§ 20-261.01 through 20-261.04; under the Director's examination authority under A.R.S. §§ 20-156 through 20-166; under the Director's authority to levy annual filing fees under A.R.S. § 20-167 and to apply or impose upon foreign or alien reinsurers an application filing fee; under the Director's retaliatory authority under A.R.S. § 20-230 to apply or impose upon foreign or alien reinsurers, any provisions which would be applied to or be imposed upon a like Arizona reinsurer doing business or seeking to do business in a foreign or alien jurisdiction and which would be subject to retaliation, including the filing fees prescribed in A.R.S. § 20-167. These rules are also applicable to A.R.S. §§ 20-223, 20-502, 20-505 through 20-510, 20-516, 20-519 and 20-696 et seq., which require domestic insurers to properly state their reserves and liabilities, and A.R.S. § 20-501(8), relating to reinsurance recoverables as an asset. By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objectives of the Rules:

The purpose of this Article is to disclose the manner in which insurance companies can obtain reinsurance credit. Reinsurance helps to diversify risk among multiple insurers, thereby reducing the liability of the direct writing insurer, and reducing the risk of nonpayment of a policyholder's claim. The objectives for each Section are listed below.

R20-6-1601. This rule articulates the standards and procedures that reinsurers must follow to enable a domestic ceding insurer to be entitled to establish an asset or reduce its liabilities by taking credit for reinsurance ceded to a reinsurer pursuant to A.R.S. § 20-261.01.

R20-6-1602. This rule establishes that monies held in trust to secure reinsurance obligations must be held in trust for the exclusive benefit of the domestic ceding insurer for the ceding insurer to take a credit for reinsurance pursuant to A.R.S. § 20-261.02.

R20-6-1603. This rule articulates the requirements and permitted conditions for reinsurance trust agreements, and additional conditions applicable to reinsurance agreements entered into in connection with trust agreements, which must be complied with for a domestic ceding insurer to take credit pursuant to A.R.S. § 20-261.02, regarding reinsurance ceded to a reinsurer not qualifying under A.R.S. § 20-261.01.

R20-6-1604. This rule articulates the requirements and permitted conditions for letters of credit, and permitted conditions applicable to reinsurance agreements entered into in connection with letters of credit, which must be followed for a domestic ceding insurer to take credit pursuant to A.R.S. § 20-261.02, regarding reinsurance ceded to a reinsurer not qualifying under A.R.S. § 20-261.01.

R20-6-1605. This rule provides that a ceding insurer may take credit for unencumbered funds withheld by the ceding insurer in the United States subject to withdrawal solely by the ceding insurer and under its exclusive control.

R20-6-1606. This rule stipulates that credit for reinsurance pursuant to A.R.S. §§ 20-261.01 and 20-261.02 is contingent upon inclusion in the reinsurance agreement of properly worded insolvency and service of suit clauses.

R20-6-1607. This rule identifies the reinsurance contracts to which Article 16 of the Arizona Administrative Code applies. The rule also provides that all new and renewal reinsurance transactions entered into after the effective date of the rule (February 3, 1993) must conform to the requirements of A.R.S. § 20-261.01 and Article 16 of the Arizona Administrative Code, if credit is to be given to the domestic ceding insurer for the reinsurance.

Exhibit A. This exhibit establishes Form A-1, to be submitted under A.A.C. R20-6-1601(B)(2)(a), (C)(2), and (D)(2) by reinsurers qualifying under A.R.S. § 20-261.01(A) (2), (3), and (4), respectively, evidencing their: submission to the jurisdiction of a court of competent jurisdiction in the United States and agreement to abide by the final decision of such court or any appellate court in the event of appeal; submission to this state's authority; designating the director as agent upon whom service of process may be effected; and undertaking to submit to the director a current list of Arizona domiciled ceding insurers from whom the reinsurer is assuming business and to update such list at least once per calendar quarter.

Exhibit B. This exhibit provides a form of Certified Copy of Resolution to be submitted by reinsurers qualifying under A.R.S. § 20-261.01(A) (2), (3), and (4), appointing the Director to receive lawful process served against the reinsurer by or on behalf of any ceding insurer domiciled in this state.

3. Effectiveness of the Rules in Achieving the Objectives:

R20-6-1601 through R20-6-1607 effectively achieve their objectives, except R20-6-1601 should be revised to incorporate by reference the most recent NAIC manuals. There is an additional unrelated technical revision to correct the cross-reference to form A-1.

4. Consistency of the Rules with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy:

These rules are consistent with state statutes and rules, with the exception of the following:

R20-6-1607. This rule provides that all new and renewal transactions entered into after the effective date of the rule (February 3, 1993) shall conform to the requirements of A.R.S. § 20-261.01 and this Article (Article 16 of the Arizona Administrative Code) if credit is to be given to the ceding insurer for the reinsurance. However, another statute, A.R.S. § 20-261.02, contains a mechanism for a domestic ceding insurer to reduce its liabilities for reinsurance ceded to an assuming reinsurer that does not meet the requirements of A.R.S. § 20-261.01. While A.R.S. §20-261.02 does not use the term "credit," with reference to reduction of liabilities, the reduction of liabilities is the same as taking a "credit" under A.R.S. § 20-261.01. Thus, the rule does not address the alternative mechanism of A.R.S. § 20-261.02. The Department interprets both statutes and the rule to permit credit to be taken for reinsurance qualifying under either A.R.S. §§ 20-261.01 or 20-261.02.

Exhibit B. The phrase "Exhibit B" is not cited in the text of R20-6-1607, as required by R1-1-412. However, Exhibit A is cited in the text of R20-6-1607, and Exhibit A clearly refers to "the resolution of the Board of Directors ...which is attached hereto and made a part hereof," which is Exhibit B. It is clear that the intent is that the information in Exhibit B be a part of what is required under Exhibit A. The inclusion of the phrase "Exhibit B" is a minor, technical error and reference to it should be removed from the rule and table of contents, thereby making the resolution of the board of directors a part of Exhibit A.

There are no applicable federal statutes and rules.

The Department experiences no difficulty in enforcing these rules.

5. **Clarity, Conciseness and Understandability:**

The rules are generally clear, concise, and understandable, but should be amended to remove legalese and passive voice.

6. **Written Criticisms of the Rules During the Past Five Years:**

None.

7. **Economic, Small Business and Consumer Impact Summary Comparison:**

These rules are procedural in nature and do not impact the economy. The 1991 and 1998 Economic Impact Statements indicated that R20-6-1601 through R20-6-1606 would have no significant impact upon insurers, small businesses or consumers. Many of the impacts on insurers are a result of statutory requirements, rather than the rules. The rules allow the Department to carry out its mandate regarding credit for reinsurance. The Department does incur the cost of analytical staff to review filings made to the Department and enforcing the mandates of this Article.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None.

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

The Department recommended that the rules remain unchanged until the NAIC adopts new model regulations with which the Department will have to comply to maintain its accreditation. The NAIC has not yet adopted the new model regulations.

10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rules' benefits outweigh, within this State, the costs of the rules and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

No rule is more stringent than a corresponding federal law because there is no corresponding federal law.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. **Proposed Course of Action:**

The Department recommends that the rules remain unchanged at this time. The Department, in May 2013, is undergoing its five-year review by the NAIC to determine if the Department will retain its accreditation from the NAIC and maintain primacy in the regulation and enforcement in the area of credit reinsurance in Arizona. If the Department revises this Article now, the Department's rules could become inconsistent with NAIC accreditation standards. This could mean that Arizona would lose its authority to maintain regulatory authority over domestic and foreign insurers in the areas of examination, licensing and analysis of the insurers. While the NAIC did adopt a model regulation in 2012, that model regulation was not adopted as an accreditation standard, so states are not required to adopt those standards.

The minor, technical error discussed in item #4 regarding Exhibit B does not impact the understandability or clarity of the rule. Taking into consideration the rule moratorium and the cost of revising the rule for the purpose of correcting that

minor error, at this time, the benefit of correcting the error would be far outweighed by the cost. We would recommend that any change be deferred until the time the Department makes other substantive changes. The Department will revise this Article at the time that the NAIC mandates revision for consistency with NAIC accreditation standards.

ARTICLE 17. EXAMINATIONS

A.A.C. R20-6-1701, R20-6-1702, R20-6-1703, and R20-6-1704.

1. **General and Specific Statutes Authorizing the Rule**

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-1701 through R20-6-1704 is provided by A.R.S. §§ 20-156 through 20-160.

2. **Objective of the Rule**

The purpose of this Article is to establish the requirements for examination of an insurer's financial condition and provide protections to consumers by determining the solvency of insurers and their ability to continue to pay claims. The objectives for each Section are listed below.

R20-6-1701. This rule establishes definitions for "company," "examination," and "examiner" which support the remainder of Article 17.

R20-6-1702. This rule establishes who shall examine a company, how often a company shall be examined and under what conditions the Director may accept an examination report prepared by another state, in lieu of an examination performed under Article 17.

R20-6-1703. This rule establishes how examiners are appointed to perform examinations, how examiners are instructed as to the scope of the examination, the Director's authority to terminate or suspend examinations, and the Director's authority to disclose the content of examination reports.

R20-6-1704. This rule establishes the information to be contained in examination reports, time guidelines for an examiner to submit an examination report to the Department, when the company must submit a response to the examination report to the Department, when the Director must review the report, and the Director's option to either file or reject the report.

3. **Effectiveness of the Rule in Achieving the Objective**

These rules effectively achieve their objectives.

4. **Consistency of the Rule with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy**

The rules are consistent with state and federal statutes or rules.

There are no applicable federal statutes and rules.

The Department experiences no difficulty in enforcing these rules.

5. **Clarity, Conciseness and Understandability**
The rules are generally clear, concise, and understandable. There are some minor legalese and passive voice problems, but the rule is understandable.
6. **Written Criticisms of the Rules During the Past Five Years**
The Department has not received any written criticisms of these rules during the past five years.
7. **Economic, Small Business and Consumer Impact Summary**
These rules are procedural in nature and do not impact the economy. Many of the impacts on insurers are a result of statutory requirements, rather than the rules. The economic impact to the insurers and the Department depends on the complexity of the examination and the seriousness of issues raised by the examination. The Department incurs costs for staff to review reports and for contracting with examiners to conduct the examinations. The rules allow the Department to carry out its mandate regarding examinations and enforcing the mandates of this Article.
8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**
None.
9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**
No change indicated.
10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**
The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.
11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**
No rule is more stringent than the corresponding federal law because there is no corresponding federal law.
12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. Proposed Course of Action

The Department is undergoing accreditation review by the NAIC which began in May 2013. The rules in this Article are accreditation standards. The Department has already been notified by the NAIC that the Department has passed the laws and regulation review, indicating that our rules remain consistent with the current accreditation standards. While there might have been some regulations regarding examinations adopted by the NAIC since Department rules were last updated, those were not accreditation standards; consequently, the Department did not adopt those standards. The Department recommends that the rules remain unchanged so that the Department continues to meet the accreditation requirements of the NAIC. The Department will revise these rules when required by the NAIC.

ARTICLE 22. MILITARY PERSONNEL

A.A.C. R20-6-2201

1. **General and Specific Statutes Authorizing the Rule**

The Department adopted these rules under the Director's general rulemaking authority pursuant to A.R.S. § 20-143(A). By virtue of A.R.S. §20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. **Objectives of the Rules:**

The purpose of this Article is to improve the quality of life insurance products specifically designed to meet the particular needs of members of the Armed Forces. The rules prohibit certain acts and practices that, until now, had not specifically been declared to be false, misleading, deceptive or unfair. For example, the new rules make it a deceptive trade practice to solicit in barracks, day rooms and other restricted areas. The rules help to ensure that members of the military are protected from abusive sales practices. The objectives for each Section are listed below.

R20-6-2201. This Section incorporates by reference the 2007 National Association of Insurance Commissioners (NAIC) Military Sales Practices Model Regulation. The NAIC adopted the Military Sales Practices Model Regulation as a result of a mandate from Congress to improve the quality of life insurance products. Congress required that the states, through the NAIC, work with the Secretary of Defense to ensure implementation of appropriate standards to protect members of the Armed Forces from dishonest and predatory insurance sales practices while on a military installations. States were then required to report to Congress on their progress on adoption of the NAIC standards. Accordingly, the Department adopted the model standards.

3. **Effectiveness of the Rules in Achieving the Objective**

The rule effectively achieves its objectives.

4. **Consistency of the Rules with Statutes, Other Rules Made by the Agency, and Current Agency Enforcement Policy:**

The rule is consistent with state and federal statutes and rules.

The Department enforces the rule.

5. **Clarity, Conciseness and Understandability:**

The rule is clear, concise, and understandable. The address listed for the NAIC publications department has changed since these rules became effective. This is a

minor technical matter that does not impact the clarity, conciseness and understandability of the rule itself.

6. **Written Criticisms of the Rules Received Within the Last Five Years Including Any Written Analysis Submitted to the Agency Questioning Whether the Rule is Based on Valid Scientific or Reliable Principles or Methods:**

None.

7. **Economic, Small Business and Consumer Impact Summary Comparison:**

The Department has not identified any significant economic impact upon insurers, small businesses or consumers as a result of the adoption of this rule in 2008.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

There was no previous five-year review.

10. **Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

No rule is more stringent than a corresponding federal law. The rule incorporates by reference the requirements of the NAIC model regulation, which was adopted as a result of a mandate from Congress in response to the Military Personnel Financial Services Protection Act, *Pub. L. No. 109-290* (2006).

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. Proposed Course of Action:

This rule was adopted in 2008. The Department proposes to retain the current rule without changes. The address for the NAIC publications department has changed; however, the Department does not believe that this is a barrier to receipt of a copy of the publication from the NAIC. NAIC staff reports that it is rare that they receive a request for publications by street address. The vast majority of requests come via their website or by telephone. Additionally, the address for the Department is listed and the public can contact the Department for a copy. In light of the rulemaking moratorium, and the fact that the cost of rulemaking to change the NAIC address will far outweigh any benefit, the Department recommends not revising the rule at this time.

The Arizona Department of Insurance

Five-Year Review Report

A.A.C. Title 20, Chapter 6, Articles 11 and 21

May 2014

ARTICLE 11. MEDICARE SUPPLEMENT INSURANCE

A.A.C. R20-6-1101

Introduction

R20-6-1101 governs Medicare Supplement Insurance (sometimes referred to as "Medigap coverage"), which is insurance a person may buy to supplement Medicare coverage. Section R20-6-1101 incorporates by reference the NAIC Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (Model Regulation), and the Genetic Information Nondiscrimination Act of 2008 (GINA), which protects against discrimination based on genetic information when it comes to health insurance and employment. The Model Regulation provides consistency for multi-state insurers who market Medicare Supplement products in multiple states and also to consumers who relocate to a different state and own or seek to purchase this insurance product.

1. Effectiveness of the Rule in Achieving the Objective:

This rule effectively achieves its objectives. This rule incorporates by reference the Model Regulation with some modifications that are necessary to address Arizona statutory and rule standards. Revisions were made to the rule in 2009 to adopt the new federal standards in the Model Regulation and to delete unnecessary language. The overall purpose of this rule is to benefit consumers by providing for the standardization of coverage and simplification of terms and benefits of Medicare supplement policies, as well as to facilitate public understanding and comparison of the policies. The rule does need to be amended to adopt the revised Model Regulation that includes the most recent Medicare issued cost sharing numbers as listed in some of the Plan tables in Section 17 of the Model Regulation. The rule also protects from discrimination in health insurance and employment, based on genetic information. This rule provides uniformity with other states that will also adopt this Model Regulation making compliance easier for insurers who will not have to meet different requirements for each state.

2. Written Criticisms of the Rules Received Within the Last Five Years Including Any Written Analysis Submitted to the Agency Questioning Whether the Rule is Based on Valid Scientific or Reliable Principles or Methods:

None

3. Authorization of the Rule by Existing Statutes:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Under A.R.S. § 20-1133, the Director is required to make these rules as are necessary to comply with the requirements of the Social Security Disability Act and any federal laws or regulations regarding Medicare Supplement Insurance, in order for the state to retain its full authority to regulate minimum standards for Medicare Supplement Insurance

4. Consistency of the Rule with Statutes, Other Rules Made by the Agency:

The rule is consistent with statutes listed in item 3 and relevant rules in 20 A.A.C. 6, and with 42 USC §1395ss.

5. Agency enforcement policy, including whether the rule is currently being enforced and, if so, whether there are any problems with enforcement:

The Department enforces the rule and there are no problems with enforcement.

6. **Clarity, Conciseness and Understandability of the Rule:**

The rule is clear, concise and understandable.

7. **Estimated Economic, Small Business and Consumer Impact of the Rule Compared to the EIS Prepared on the Last Making of the Rule or If No Economic, Small Business and Consumer Impact Statement Was Prepared on the Last Making of the Rule, an Assessment of the Actual Economic, Small Business and Consumer Impact of the Rule:**

The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for that rulemaking.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

The last report on R20-6-1101 was completed in the same year the rule was amended, and the report was due almost immediately after the rule had been amended. For this reason the Department did not have a course of action to amend the rule.

10. **A Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons Regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rule is Not More Stringent than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

The rule is not more not more stringent than 42 U.S.C. § 1395ss. The rule incorporates the NAIC Model Regulation by reference, with minor modifications to address Arizona law, so that the rule is consistent with the requirements of 42 U.S.C. § 1395ss and not more stringent than this federal statute.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. **Proposed Course of Action**

A letter will be sent to the Office of the Secretary of State to request a minor technical correction to a citation in R20-6-1101(B)(4) from "Section 186(b)(1)(A)(v)" to "Section 1862(b)(1)(A)(v)."

The NAIC adopted revisions to the Model Regulation in 2014. The revisions are what the NAIC considers non-substantive updates to the Medicare cost sharing amounts in the Plan tables in Section 17 that list amounts Medicare pays, the amounts the Plan pays, and the amounts the insured pays. Additional minor technical corrections have also been made to the Model Regulation. The NAIC will make additional revisions to the Model in January 2015, which will also encompass the 2014 revisions to the Model Regulation. The Department intends to amend R20-6-1101 to adopt the 2015 revised Model Regulation for consistency. The Department will also amend R20-6-1101(B) to add in the citation to A.R.S. § 20-1133 that needs to be in Section 2 of the Model Regulation.

The Department will send a letter to the Office of the Governor in August 2014, requesting an exception from the rulemaking moratorium to amend R20-6-1101. The Department plans to implement rulemaking as soon as the January 2015 Model Regulation is issued and expects to file a Notice of Final Rulemaking with GRRRC by the third quarter of 2015.

ARTICLE 21. CUSTOMER INFORMATION SECURITY PROGRAM

A.A.C. R20-6-2101, R20-6-2102, R20-6-2103, and R20-6-2104

Introduction

This Article establishes standards for developing and implementing administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information, under Sections 501, 505(b), and 507 of the Gramm-Leach-Bliley Act, codified at 15 U.S.C. 6801, 6805(b), and 6807 (Gramm-Leach Bliley).

1. Effectiveness of the Rules in Achieving Objectives

These rules achieve their objectives.

R20-6-2101 contains definitions for Article 21 to make the Article more clear and understandable.

R20-6-2102 provides for implementation of a comprehensive written customer information security program that will protect customer information.

R20-6-2103 contains objectives for a customer information security program so that a licensee will know and understand the objectives of the security program that the licensee must institute.

R20-6-2104 contains guidelines for methods of development and implementation of a customer information security program to give illustrations to the licensee of the types of actions and procedures that may be implemented to protect customer information.

2. Written Criticisms of the Rules Received Within the Last Five Years Including Any Written Analysis Submitted to the Agency Questioning Whether the Rule is Based on Valid Scientific or Reliable Principles or Methods:

None

3. Authorization of the Rule by Existing Statutes:

The Department adopted Article 21 in 2004 under the Director's general rule making authority under A.R.S. § 20-143. By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. The specific authority for Article 21 is provided by A.R.S. § 20-2121.

4. Consistency of the Rule with Statutes, Other Rules Made by the Agency:

The rules are consistent with State and Federal statutes described above.

5. Agency enforcement policy, including whether the rule is currently being enforced and, if so, whether there are any problems with enforcement:

The Department enforces the rules and there are no problems with enforcement.

6. Clarity, Conciseness and Understandability

The rules are clear, concise and understandable.

7. **Estimated Economic, Small Business and Consumer Impact of the Rule Compared to the EIS Prepared on the Last Making of the Rule:**

The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for that rulemaking.

8. **Analysis Submitted to the Agency by Another Person Regarding the Rule's Impact on this State's Business Competitiveness as Compared to the Competitiveness of Businesses in Other States:**

None

9. **Whether the Agency Completed the Course of Action Indicated in the Previous Five-Year Review Report:**

The Department did not propose a change to the rules in the previous report because there were no issues with the rules.

10. **A Determination that the Probable Benefits of the Rule Outweigh Within This State the Probable Costs of the Rule, and the Rule Imposes the Least Burden and Costs to Persons Regulated by the Rule, Including Paperwork and Other Compliance Costs Necessary to Achieve the Underlying Regulatory Objective:**

The rules' benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

11. **A Determination That the Rules Are Not More Stringent Than a Corresponding Federal Law Unless There is Statutory Authority to Exceed the Requirements of the Federal Law:**

The rules are not more stringent than the corresponding federal law.

12. **For Rules Adopted After July 29, 2010 That Require The Issuance of A Regulatory Permit, License, Or Agency Authorization, Whether the Rule Complies with § 41-1037:**

Not applicable.

13. **Proposed Course of Action**

The Department proposes no action on these rules at this time. If changes are made to the federal law, necessitating changes to these rules, the Department will seek an exception to the rulemaking moratorium to conduct rulemaking.

The Arizona Department of Insurance

Five-Year Review

A.A.C. Title 20, Chapter 6, Articles 4, 5, 6 and 19

June 2015

Background

The Department of Insurance receives regulatory support from the National Association of Insurance Commissioners (the "NAIC"). The NAIC is an organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, the Department and other state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight.

The NAIC assists the Department and other state insurance regulators as they serve the public interest and meet fundamental insurance regulatory goals. Those goals include protecting the public interest; promoting competitive markets; facilitating the fair and equitable treatment of insurance consumers; promoting the reliability, solvency and financial solvency of insurance institutions; and supporting and improving state regulation of insurance. The NAIC organizes national meetings; coordinates the drafting of new insurance laws, regulations and amendments to existing laws; and oversees the accreditation state insurance departments. The model laws and regulations and accrediting of insurance departments are the NAIC objectives most relevant to the Department's rulemaking activities.

The NAIC Executive Committee determines the need for new model laws, regulations, or amendments thereto. Model laws, rules or amendments considered for development and adoption must involve a national standard and/or require uniformity among all the states. The Executive Committee vigorously vets proposed models before recommending them. Models require adoption by a minimum of two-thirds majority of the responsible parent committee and the NAIC membership.

The NAIC Accreditation Program develops and maintains standards to promote effective financial solvency regulation of insurance companies. The purpose of the accreditation program is for state insurance departments to meet baseline standards of solvency regulation, particularly with respect to regulation of multi-state insurers. NAIC accreditation allows non-domestic states to rely on the accredited domestic regulator to fulfill a baseline level of effective financial regulatory oversight. This creates substantial efficiencies for the Department and other insurance regulators, because we are able to coordinate and rely on each other's work. It also creates efficiencies for insurance companies licensed in accredited states, because the cooperation between departments streamlines financial examinations and other financial oversight between multiple jurisdictions. All fifty states, the District of Columbia and Puerto Rico are currently accredited. 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. The NAIC accredited Arizona in 1993, and re-accredited the Department several times since then. The Department's most recent re-accreditation happened in 2013.

The Department has sought exceptions to the rulemaking moratorium only to request those rules required by recently adopted model laws that would affect the Department's accreditation.

On September 12, 2014, the previous administration allowed the Department to amend Rule 20-6-1101 (incorporating by reference the Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act) to update bracketed amounts in plan tables. The Centers for Medicare & Medicaid Services update the bracketed information annually, so the Department must also.

To retain its accreditation, the Department recently updated A.R.S. §§ 20-481 through 20-481.32 relating to Insurance Holding Company Systems.¹ The legislation provided the Department with a two-year exemption from rulemaking. The Department was able to adopt the Holding Company Regulations in February 2015.

The Credit for Reinsurance legislation also gave the Department a two-year exemption from rulemaking², and the Department received permission to proceed in spite of the moratorium in September 2015.

As the Department contemplates new rules and changes to existing rules, it seeks to draft rules that are effective, clear, necessary and that will not jeopardize its NAIC accreditation.

¹ Laws 2014, Chapter 104, Section 20.

² Laws 2015, Chapter 1119, section 3.

ARTICLE 4. TYPES OF INSURANCE COMPANIES

A.A.C. R20-6-401, R20-6-405, R20-6-407, R20-6-408, R20-6-409

Information That Is Identical Within Article 4 Rules

3. **Analysis of Effectiveness in Achieving Objectives**

These rules are effective in achieving their objectives.

4. **Status of Enforcement of the Rules**

The Department enforces these rules.

7. **Written Criticisms of the Rule during the Past Five Years**

The Department has received no written criticisms of these rules during the past five years.

9. **Outsider's Analysis of Business Competitiveness**

The Department has not received analysis submitted by another person regarding the rules' impact on Arizona business competitiveness as compared to the competitiveness of business in other states.

12. **Stringency.**

There are no federal laws that correspond to the rules in this article.

R20-6-401. Proxies, Consents, and Authorizations of Domestic Stock Insurers

1. Authorization by Existing Statutes

The Department adopted A.A.C. R 206-401 under the Director's general and specific rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-401 incorporates by reference the National Association of Insurance Commissioners ("NAIC") Model Laws, Regulations and Guidelines regarding proxies, consents, and unauthorizations of domestic stock insurers and requires that domestic stock insurers comply (NAIC Model Rule 490). The rule provides proxy requirements, filing requirements, securities solicitations, information to be provided to securities holders, consent and authorization, communications with securities holders, proposals, false and misleading statements, and special provisions related to election contests. NAIC Model Law, Regulations and Guidelines facilitate insurer compliance by enhancing regulatory uniformity.

5. Analysis of Consistency with State and Federal Statutes and Rules

Rule 20-6-401 is generally consistent with State statutes and the Department's rules.

6. Clarity, Conciseness and Understandability of the Rule.

Rule 20-6-401 is generally clear, concise and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-401 became effective on March 6, 2003. At the time the Department proposed the rule, it did not know how many insurers would be subject to its regulation, but speculated that there would be five or less such insurers. One of those insurers was the petitioner for the rulemaking, and met the definition of a small business. As such, the Department expected that, for the petitioning small business insurer, the exemption under the rule would save the insurer at least \$60,000 annually. For those insurers that might incur costs for publication and mailing, the Department believed then, and continues to believe, that the benefits of the rule to the shareholders and importance of the access to the information outweighs the publication costs. The Department incurs minimal costs for the reviewing the filings. The Department has not identified any economic impact that is significantly

different from that projected in the economic impact statement for the rulemaking.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to this rule.

11. Probable Cost Benefit Analysis

Rule 20-6-401 sets forth proxy and consent requirements with which only domestic stock insurers must comply. Similar versions of this rule are currently in effect in 46 other jurisdictions. Compliance pertains to proxies, filings, securities solicitations, information to be provided to securities holders, consent and authorization, communications with securities holders, proposals, false and misleading statements, and special provisions related to election contests. The increased staff time to confirm that the consent requirements are met as well as any additional postage costs incurred are not unduly burdensome in light of the voluminous materials provided to beneficial owners in advance of an annual meeting. Companies typically provide these materials in advance of the annual meeting for other purposes; this rule imposes the least burden and cost to the insurer.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-401 predates 2010. The rule does not require the issuance of a regulatory permit, license or agency authorization authorized by state statute.

14. Proposed Course of Action

Rule 20-6-401 was effective on March 6, 2003. The Department proposes no changes to this rule.

R20-6-405. Health Care Services Organization

1. Authorization by Existing Statutes

Under A.R.S. § 20-142, the Director has authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20. The Department adopted A.A.C. R 20-6-405 under the Director's general rulemaking authority under A.R.S. § 20-143 and specific authority under A.R.S. § 20-1078. Further authority is found in A.R.S. §§ 20-106, 20-142, and 20-1051 through 20-1068 (Article 9, Health Care Services Organizations).

2. Objective of the Rule

Rule 20-6-405 regulates Health Care Services Organizations by: defining terms, setting forth and clarifying requirements applicable to: certificates of authority, solicitations, annual reports, taxes, the statutory deposit, reserves and forms; the application, examination and licensing of agents (producers) and addresses severability.

5. Analysis of Consistency of the Rule with State and Federal Statutes and Rules

The Department amended Title 20, Chapter 6, Article 19, Health Care Services Organizations Oversight in 2005. There are no federal laws that correspond with Rule 20-6-405. This Section is generally consistent with Article 19, but the Department suggests revisions to improve the rule's consistency.

The Department would like to:

- Improve consistency between A.A.C. R 20-6-405 and 20-6-1902:
 - A.A.C. R 20-6-405(E)(5) refers to the definition of enrollee found in A.R.S. § 20-1051(2), "an individual who has been enrolled in a health care plan" whereas A.A.C. R 20-16-1902 defines it as "an individual who is enrolled in a health plan operated by an HCSO.
 - Under A.A.C. R 20-6-405(E)(19) and 20-1051(11), provider means "any physician, hospital or other person that is licensed or otherwise authorized to furnish health care services in this state." Under A.A.C. R 20-6-1902, provider means "any physician, practitioner, ancillary provider, or facility."
- Delete the reference to these obsolete forms
 - E-128 in (H)
 - P107 in 20-6-405(J)(1).

- Replace the term “agent” with “producer” in A.A.C. R 20-6-405(B); (C)(1); (E)(1), (E)(12), (E)(21); (F)(1); (G)(7), (G)(8); (I)(4); and (P)(1) to be consistent with statutory authority.
- Correct the following cross-references to statutes:
 - A.A.C. R20-6-405(E)(1) refers readers to A.R.S. § 20-282 for the definition of agent is not found in A.R.S. § 20-282, but it is now an “insurance producer” as defined in A.R.S. § 20-281(5).
 - There is no definition of “basic health care services” in A.R.S. § 20-1051
 - Correct the statutory reference for the definition of insurer in A.A.C. R 20-6-405(E)(11) to A.R.S. § 20-104.
 - The reference to “Medical Service Corporation” in A.R.S. § 20-822 is incorrect.
 - Correct the references in A.A.C. R 20-6-405(G)(7) and (8) from A.R.S. § 20-1053(13) to A.R.S. § 20-1053(A)(14).
- Delete:
 - A.A.C. R 20-6-405Subsection (1) under (P) because there is no (2).
 - A.A.C. R20-6-405(E)(2) as there is no definition of “basic health care services” in Title 20.

6. Clarity, Conciseness, and Understandability of the Rule

The revisions suggested above would improve the Rule 20-6-405’s clarity and understandability.

8. Economic, Small Business, and Consumer Impact Summary

When the Department adopted Rule 20-6-405, there was no requirement for preparation of an economic impact statement; therefore, there is not one available for comparison. Economic impacts related to licensure of Health Care Service Organizations generally result from statutory requirements, rather than rule. The requirement for biographical information and fingerprints does result in additional cost to an applicant; however, the benefit of conducting thorough background investigations on the principles of and protection of the public from persons with a past criminal record, or record of financial misconduct or dishonesty outweigh the costs to the applicant. The Department believes that the costs are minimal and seeks to minimize the costs further by requiring fingerprints only at initial licensing. Any economic impact to the Department is minimal.

10. Completed Course of Action from Previous Five-Year Review

The 2010 review intended that the Department submit a rulemaking to the Council in 2012 to improve the rules consistency with Article 19 and statutory authority. The Department did not make the contemplated changes.

11. Probable Cost Benefit Analysis

There are currently 22 HCSOs active in Arizona. The burden to the regulated community, the fees and the internal costs of complying with Rule 20-6-405 are slight and outweighed by the protection afforded to the public by the application process, disciplinary procedures and controls in place for solicitations. This is the least burdensome way to achieve the goal of the rule.

13. Compliance with A.R.S. § 41-1037

It is not Rule 20-6-405, but A.R.S. § 20-1052 which requires HCSOs to obtain a certificate of authority. The rule gives additional guidance on the application process, and the rule was already in place in 2010.

14. Proposed Course of Action

If the Governor's Office grants an exception to the Moratorium, the Department intends to submit the changes suggested above for the Council's approval in August 2016.

R20-6-407. Service Companies

1. Authorization

Under A.R.S. § 20-142, the Director has authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20. The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143(A) and specific authority under A.R.S. § 20-1095.01.

2. Objective of the Rule

Rule 20-6-407 regulates service companies by establishing comprehensive requirements and procedures for the issuance of service company permits and the filing of forms.

5. Analysis of Consistency with State and Federal Statutes and Rules

Rule 20-6-407 is generally consistent with state statutes and the Department's rules. There are no federal statutes or rules that correspond to Rule 20-6-407.

6. Clarity, Conciseness, and Understandability of the Rule

Rule 20-6-407's citations and cross-references are accurate. The rule is generally well organized and does not contain unnecessary verbiage. For the most part, the language in the rule is concise and understandable.

The Department would like to improve the rule's clarity by:

- Making it consistent with current rule writing standards, such as eliminating passive voice. The Department would revise:
 - A.A.C. R20-6-407(A) from "This rule shall apply to" to "This rule applies to..."
 - A.A.C. R20-6-407(D)(2) from "All outstanding service contracts and liabilities thereunder have been assumed by a service company, in good standing, with the approval of the Director, acknowledged by the assuming service company's administrator and acknowledged by endorsement by the mechanical reimbursement insurer or surety" to : "A service company, in good standing, assumes. . ."
 - A.A.C. R20-6-407(E)(2) from "No service contract shall be approved unless it contains a provision. . ." to "The Director will not approve service contracts unless the contract includes a provision..."

- A.A.C. R20-6-407(E)(3) from “No service contract or application shall be approved unless it:” to “The Director will not approve a service contract or application unless it:”
- A.A.C. R20-6-407(E)(4) from “No service contract shall be approved if” to “The Director will not approve a service contract if:”
- Clarifying A.A.C. R20-6-407(C)(1)(g) to reflect that the Department allows electronic signatures.
- Deleting the dollar amount for the fee described in A.A.C. R20-6-407(C)(2)(d) and amending the section to reflect the fee “prescribed in section 20-167.”
- Correcting the typographical error in A.A.C. R20-6-407(E)(4)(a), to read “...to provide correct information OR their failure ...” instead of “of.”
- Amending inconsistent terminology such as “applicant” in A.A.C. R20-6-407 (C)(1).
- Deleting the obsolete references to “GM diesel auto” in A.A.C. R20-6-407(E)(4)(c)(iv).

8. **Economic, Small Business, and Consumer Impact Summary**

When the Department adopted Rule 20-6-407, an economic impact statement was not required, and therefore there is no economic impact statement available for comparison. The Department has not identified any economic impact that is significantly different from those that existed at the time the rule was enacted.

10. **Completed Course of Action from Previous Five-Year Review**

The 2010 review suggested making the use of terms like “applicant” and “service company” consistent throughout the rule, removing any subjective terms, removing language from A.A.C. R20-6-407(D)(1) that was repetitive and “editorial changes.” The Department did not undertake the changes in light of the moratorium. Upon recent review, the provisions of A.A.C. R 20-6-407(D)(1) do not repeat the statute and offer additional guidance.

11. Probable Cost Benefit Analysis

There are currently 155 service companies active in Arizona. During the past fiscal year, the Department received and approved 9 service company applications.

The Department exercises the option under A.R.S. §§ 20-142(E) and 20-1095.03(A)(2) to require biographical information for each officer, director, manager or person owning 25% or more of a service company or of an entity which owns a service company. The cost for the additional time it takes the company to complete the biographical information is minimal, especially compared to the public protection afforded by the principals' disclosure of a criminal record or record of financial misconduct.

The Department also requires each service company to refrain from using its contract forms, claims and application forms, brochures and other advertising materials until they are approved by the Director or have been on file with the Director for more than 30 days. The benefits of the review, ensuring the documents are neither misleading nor deceptive to the service-contract buying consumer, outweigh the cost of compliance and the short period during which the documents are under review. No service company has complained to the Department about any actual economic loss suffered because of these provisions, and these methods impose the least regulatory burden and cost to the service companies.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-407 predates 2010. While the rule gives guidance about the permit application process, the permit is required by A.R.S. §§ 20-1095.01 and 20-1095.03, not the rule.

14. Proposed Course of Action

Rule 20-6-407 was effective on April 30, 1981. If the Governor's Office grants an exception to the Moratorium, the Department intends to submit the above changes for the Council's approval in March 2017.

R20-6-408. Motor Vehicle Service Contract Program

1. Authorization

Under A.R.S. § 20-142, the Director has authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20. The Department adopted A.A.C. R20-6-408 under the Director's general rulemaking authority under A.R.S. § 20-143(A) and specific authority under A.R.S. § 20-1095.07(F).

2. Objective of the Rule

The purpose of Rule 20-6-408 is to regulate motor vehicle service contract programs by establishing comprehensive requirements and procedures for the application and approval of motor vehicle service contract programs where an Arizona licensed motor vehicle dealer is the obligor on motor vehicle service contracts. General requirements are set forth in A.R.S. § 20-1095 *et seq.* This rule provides supplemental details and procedures not covered by the statute.

5. Analysis of Consistency with State and Federal Statutes and Rules

Rule 20-6-408 is generally consistent with state statutes and the Department's rules. There are no federal statutes or rules that correspond to this rule.

6. Clarity, Conciseness, and Understandability of the Rule

Rule 20-6-408 contains clarifying definitions of key terms used in the controlling statutes. The citations and cross-references in this rule are accurate. This rule is generally well organized and does not contain unnecessary verbiage.

The Department believes it could improve the clarity, conciseness and understandability of the rule by:

- Defining shorthand terms such as "administrator" and "dealer."
- Deleting the reference to "GM diesel auto" in (D)(4)(c)(iv) which is obsolete.
- Eliminating terminology that is either outmoded terminology or not appropriate for rule, such as "thereon," "such," and "in accordance with" in (E).

- Eliminating “(s)” in (F)(4) to denote plural references, which is inconsistent with current stylistic requirements for rules.
- Rewriting any subsections written in the passive voice.
- Deleting and clarifying terminology and references that are subjective or unclear. For example, subsection (E)(3)(d)(vii) uses the term “large print” and should be revised to specify the required point type.
- Subsection (C)(2)(b) refers to “each form” and should instead refer to “each application.”
- Relocating subsection (C)(5) which pertains to annual filing requirements away from the heading “application to its own subsection (G).

8. Economic, Small Business, and Consumer Impact Summary

When the Department adopted Rule 20-6-408, there was no requirement for preparation of an economic impact statement, and therefore there is no economic impact statement available for comparison. The Department has not identified any economic impact that is significantly different from the impact that existed at the time the rule went into effect.

10. Completed Course of Action from Previous Five-Year Review

The previous Five-Year Review suggested the changes to “dealer;” specifying the type size in Rule 20-6-408(E)(3)(d)(vii); fixing the references to application in (C)(2)(b) and (C)(5). By way of the 2010 review, the Department also suggested repealing 20-6-50(E) because it repeats the statute. Upon further review, the detail provided in 20-6-408(E) helps clarify A.R.S. § 20-1095.09 and should be retained.

11. Probable Cost Benefit Analysis

Rule 20-6-408 and the motor service application both contemplate that the applicant will be an entity, for example, a corporation or partnership. See A.A.C. R (C)(1)(d). The entity may be an insurer, or other legal entity that administers the motor services program. The Department requires biographical information for each principal, that is, a person owning 25% or more of the administrator or insurer of a motor vehicle service contract

program. The cost to the insurer or administrator for collecting biographical information on its principals is less than the benefit to the motor vehicle service contract buying public in ascertaining whether a principal of an administrator or insurer has a criminal record or a record of financial misconduct.

The Department requires each motor vehicle service contract program administrator or insurer to refrain from using its contract forms, claims and application forms, brochures and other advertising materials until approved by the Director or they have been on file with the Director for more than 30 days. The benefits of performing an analysis to ensure these documents are not misleading or deceptive to the motor vehicle service contract-buying consumer outweigh any costs of any loss of potential business to the administrator or insurer during this short period. The Department has not been made aware of any actual economic loss to service companies resulting from this Section. There are currently two active motor vehicle service contract programs in Arizona; one is insurer-filed and the other is administrator-filed, and this rule imposes the least regulatory burden to those programs.

13. Compliance with A.R.S. § 41-1037

Although it pertains to an application for the motor vehicle service contract program, this Rule 20-6-408 predates 2010.

14. Proposed Course of Action

Rule 20-6-408 has been in effect since July 15, 1987. Provided the Department receives an exception to the Moratorium, it intends to submit the changes for the Council's approval in March 2017.

R20-6-409. Hospital, Medical, Dental, and Optometric Service Corporations

1. Authorization

Under A.R.S. § 20-142, the Director has authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20. The Department adopted this under the Director's general rulemaking authority under A.R.S. § 20-143(A) and specific authority under A.R.S. § 20-821.

2. Objective

The purpose of Rule 20-6-409 is to regulate subscription contracts issued by hospital, medical, dental, and optometric service corporations by establishing applicability of the contracts and by setting forth the rules with which the subscription contracts shall comply.

5. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-409 is generally consistent with state statutes and Department rules. As described below, cross-references in this rule need to be revised cross-referenced Section headings consistent with the actual Section headings

No federal laws correspond to this Rule 20-6-409.

6. Clarity, Conciseness, and Understandability of the Rule

The revisions suggested below will improve Rule 20-6-409's clarity, conciseness and understandability.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-409 subjects subscription contract provisions to the rules set out in other articles pertaining to advertising, gender discrimination, group coverage discontinuance and replacement, policy language, and the reasonableness of benefits in relation to the premium charged. When the Department adopted this rule, there was no requirement for preparation of an economic impact statement. Thus, there is no economic impact statement for comparison. The Department has not identified any economic impact that is significantly different from the conditions that existed at the time the rule was promulgated.

The Department does not believe that Rule 20-6-409 has resulted in any economic impact to consumers, businesses, the Department or other governmental agencies.

10. Completed Course of Action from Previous Five-Year Review

The previous Five-Year Review recommended that A.A.C. R20-6-409 continue in force and that the Department make stylistic, grammatical, and cross-reference revisions the next time the rule requires a substantive change. The Department has not sought any changes in the intervening years.

11. Probable Cost Benefit Analysis

Rule 20-6-409 notifies hospital, medical, dental and optometric service corporations of provisions and requirements that subscription contracts must include. The protection provided to consumers in the areas of advertising, discrimination, group coverage replacement and simplification of policy language outweighs the industry's burden and costs. Subjecting different health insurance products to the same prohibitions against discrimination, requirements for advertising, group coverage and policy language creates compliance efficiencies for the companies that offer more than one type of health product.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-409 predates 2010 and does not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-409 went into effect on July 9, 1982. The Department would like to:

- Correct references in Subsection "B" to rules in Article 2 of the Department's rules, where several of the rule names and citations have changed:

B. Subscription contract provision. Subscription contracts of hospital, medical, dental and optometric service corporations subject to the provisions of Article 3, Chapter 4 of Title 20, A.R.S., shall meet the requirements of the following rules:
R20-6-201. Advertisements of ~~disability~~ health insurance.
R20-6-2097. Unfair ~~sex~~ gender discrimination.
R20-6-24008. Group coverage discontinuance and replacement.
R20-6-2131. Unfair Discrimination on the basis of blindness, or partial blindness, ~~or physical disability~~.
R20-6-2163. Life and disability insurance policy language simplification.

- Delete the cross-references to R20-6-302 and R20-6-606 because those Sections are expired or repealed.
- Remove the severability clause in A.A.C. R 20-6-409(C) as it is unnecessary.

Provided the Department receives an exception to the Moratorium, it intends to submit the above changes for the Council's approval in October 2016.

ARTICLE 5. THE INSURANCE CONTRACT

A.A.C. R20-6-501. Ten-day Period to Examine Disability Insurance Policy

1. Authorization

The Department adopted this under the Director's general rulemaking authority under A.R.S. § 20-143(A) and specific authority under A.R.S. §§ 20-1110.01, 20-1111, and 20-1113. Under A.R.S. § 20-142, the Director has authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20.

2. Objective

Rule 20-6-501 establishes a requirement for policies for individual disability insurance issued for delivery in the State of Arizona by an insurance company or by a hospital or medical service corporation to have printed on the first page a notice of a 10-day period to examine and return the policy and receive a refund of premiums, charges, and fees.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-501 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-501 is consistent with state statutes and rules. There are no federal laws that correspond to Rule 20-6-501.

5. Status of Enforcement of the Rules

The Department enforces this Rule 20-6-501.

6. Clarity, Conciseness, and Understandability of the Rule

Rule 20-6-501 is generally clear, concise, and understandable, but needs stylistic changes to comply with current rule writing standards, such as active voice. The Department's suggested changes are set out below.

7. Written Criticisms of the Rule during the Past Five Years

The Department has received no written criticisms of Rule 20-6-501 during the past five years.

8. Economic, Small Business, and Consumer Impact Summary

When the Department adopted Rule 20-6-501, there was no requirement for preparation of an economic impact statement. This rule benefits consumers who purchase an insurance policy by giving them an opportunity to review the policy and decide within 10 days whether to keep the policy or return it for a refund. Insurers might have some nominal administrative costs for processing refunds to the purchaser; however, the insurers have not notified the Department that they are actually experiencing such costs. The Department expects that the number of consumers who actually request a refund within 10 days is nominal. There is no economic impact to the Department or other governmental agencies from this rule.

9. Outsider's Analysis of Business Competitiveness

The Department has not received analysis submitted by another person regarding the rule's impact on Arizona business competitiveness as compared to the competitiveness of business in other states.

10. Completed Course of Action from Previous Five-Year Review

The Department intended to submit a rulemaking to the Council in June 2013, to make "stylistic changes to comply with current rule writing standards, including active voice," but the Moratorium prevented the rulemaking.

11. Probable Cost Benefit Analysis

Although insurers might have some nominal administrative costs for processing refunds to a purchaser who elects within 10 days to return a policy for a refund, the rule imposes the least burden and costs to the regulated community.

12. Stringency

No federal laws correspond to this Rule 20-6-501.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-501 predates 2010 and does not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Moratorium permitting, the Department will make stylistic changes to comply with current rule writing standards. There does not appear to be any

passive voice corrections to make, but the sentences are too long and could be revised to make them easier to understand.

The Department would delete the introductory paragraph because it is explanatory, not regulatory.

R20-6-501. Ten-day Period to Examine Disability Insurance Policy

~~For the purpose of implementing A.R.S. §§ 20-442, 20-443, 20-826, 20-1111 and 20-1113 and to make more specific the regulation therein provided relative to policies of individual disability insurance (accident and sickness, hospitalization, medical, surgical and loss of time) issued in the State of Arizona and further to provide satisfactory public remedy against the hazards of misunderstanding by an applicant, of deception and coercion by an agent and of certain policy exclusions and limitations that cheapen the value of coverage, the Insurance Department of Arizona adopts the following rule:~~

(A)1. Each policy of individual disability insurance, except one for which no provision for renewal is made, issued for delivery in the State of Arizona on or after October 1, 1961, by an insurance company or by a hospital or medical service corporation shall include a notice. The notice will be printed on the first page of the policy thereof or attached to it thereto or appear as an endorsement thereupon in prominent style in twelve-point font, a The notice will declareing that, during a period of 10 days (or, at the insurer's option, a longer period) from the date of delivery to the policyholder, such the policy may be returned for cancellation to the insurer's at its home office (or, at the insurer's option, to its branch office or to the agent through whom it was purchased). The notice will also declare and declaring further that in the event of such return, the insurer will refund the entirety of any premium paid therefor, including any policy fees or other charges, and that the policy shall be deemed void from the beginning and that the parties shall be returned to their original position as if no policy had been issued.

~~(B)2.~~ The Insurance Department does not specify the particular language the notice shall contain but prefers usage of a phraseology approximately along the lines of either the longer (Form A) or shorter (Form B) sample below. . .

Provided the Department receives an exception to the Moratorium, it intends to submit the make the changes suggested above for the Council's approval in July 2017.

ARTICLE 6. TYPES OF INSURANCE CONTRACTS

A.A.C. R20-6-601, R20-6-602, R20-6-604, R20-6-604.01, R20-6-604.02, R20-6-604.03, R20-6-604.04, R20-6-604.05, R20-6-604.06, R20-6-604.07, R20-6-604.08, R20-6-604.09, R20-6-604.10, R20-6-607

Information That Is Identical Within Article 6 Rules

7. **Written Criticisms of the Rules during the Past Five Years**

The Department has not received any written criticisms of this Article during the past five years.

9. **Outsider's Analysis of Business Competitiveness**

The Department has not received analysis submitted by another person regarding the rules' impact on Arizona business competitiveness as compared to the competitiveness of business in other states.

R20-6-601. Regulations Governing Bail Transactions

1. Authorization

Under A.R.S. § 20-142, the Director has authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20. The Department adopted Rule 20-6-601 under the Director's general rulemaking authority under A.R.S. § 20-143(A) and specific authority under A.R.S. § 20-340.05.

2. Objective of the Rule

Rule 20-6-601 regulates bail transactions by establishing general provisions, definitions, licensing, and conduct of bail bond agents, charges, collateral, refunds, and rebates.

3. Analysis of Effectiveness in Achieving Objectives

As described below, the Rule 20-6-601 could be more effective in achieving its objective if it were more consistent with A.R.S. Title 20, Chapter 2, Article 3.5.

4. Consistency of the Rule with State and Federal Statutes and Rules

There are no federal laws that correspond Rule 20-6-601.

Rule 20-6-601 is not consistent with Arizona statutes. R20-6-601(A)(2) refers to authority for the rules being found in A.R.S. Title 20, Chapter 2, Article 3. However, Article 3.5 is the correct authority for the rule. R20-6-601(C)(2) is inconsistent with A.R.S. § 20-340.03(A)(9). Where the rule prevents association with "criminals, gamblers or persons of poor repute," the statute provides that the agent shall not "employ or assist in the employment of any person who has been convicted in any jurisdiction of theft or any felony or any crime involving carrying or the possession of a deadly weapon or dangerous instrument." The Department suggests revising R20-6-601 to be consistent with the statute.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-601 in general, but does not enforce provisions of discussed in #4 above that are vague and seem to conflict with statutory authority. Where there is a conflict between the rule and the statute, the Department enforces the statute.

6. **Analysis of Clarity, Conciseness and Understandability**

The Department can make Rule 20-6-601 more clear, concise and understandable. The Department revise the rule so that it is consistent with current rule writing standards, by:

- Removing the gender references in (C)(3), (D)(1), (D)(2), (D)(3), (D)(7), (D)(7)(b), (D)(8), (E)(1), (E)(5)
- Defining “hazard assumed” before it appears in A.A.C. R 20-6-601(E)(5) to avoid confusion
- Making the rule consistent with A.R.S. § 20-340.03(A)(9), as described above.
- Defining the term “employ” in A.A.C. R 20-6-601(D)(3) as it is in A.R.S. § 20-340.03(A)(10) for consistency.
- Correcting these instances of passive voice:
 - (A)(1) . . .no bail transaction or severable portion thereof **shall be conducted**, directly or indirectly. . .
 - (B)(3) . . . whose release on bail **is solicited or procured** or concerning whose release **negotiations are commenced** . .
 - (C)(2). A bail bond license **shall not be issued** to, renewed for or maintained by any person who associates regularly with criminals, gamblers or persons of poor repute. . .

8. **Economic, Small Business, and Consumer Impact Summary**

When the Department adopted Rule 20-6-601, there was no requirement for preparation of an economic impact statement; therefore, none is available for comparison.

Most economic impacts regarding bail transactions are a result of statutory requirements, rather than this rule. There are some requirements for maintenance of records and collateral and for refund of collateral and premiums, but the Department expects these economic impacts are minimal. The Department has not been made aware that bail bond agents are experiencing any costs resulting from this rule. There are non-quantifiable benefits to consumers who might use bail agent services in the form of requirements to prohibit inequities in bail transactions and to regulate bail bond agent conduct. There is no economic impact to other governmental agencies from this rule. There are currently 222 bail bond agents active in Arizona.

10. **Completed Course of Action from Previous Five-Year Review**

The 2010 review of Rule 20-6-601 suggested the changes to A.A.C. R20-6-601(C)(2) described above. The Department had begun drafting rule amendments and held informal meetings with stakeholders at the end of

2008. The Department ceased rulemaking activity in response to the rulemaking moratorium.

11. Probable Cost Benefit Analysis

Rule 20-6-601 imposes the least burden and costs on the 222 bail bond agents active in Arizona. The cost compliance with the provisions of the rule, including the rules of conduct; the rates and charges a bail bond agent may collect; and the delivery of documents to an arrestee are minimal compared to the protection afforded to the arrestees and those who deposit collateral on their behalf.

12. Stringency

There are no federal laws that correspond to Rule 20-6-601.

13. Compliance with A.R.S. § 41-1037

Although Rule 20-6-601 describes the licensing of bail bond agents, it predates 2010. The bail bond agent license is required by A.R.S. § 20-340.01 which also describes the requirements for an application. The rule provides additional detail.

14. Proposed Course of Action

If the Governor's Office grants an exception to the Moratorium, the Department intends to submit the above changes for the Council's approval in May 2017. This rulemaking will require a significant amount of public outreach and participation.

R20-6-602. Nationwide Inland Marine Definition

1. Authorization by Existing Statutes

The Department adopted this under the Director's general rulemaking authority under A.R.S. §§ 20-142 and 20-143.

2. Objective of the Rule

Rule 20-6-602 describes risks and coverages that may be classified as Marine, Inland Marine, or Transportation insurance by enumerating the requirements applicable to these types of risks and coverages.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-602 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-602 is consistent with state statutes and rules. There are no federal laws that correspond to Rule 20-6-602.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-602.

6. Clarity, Conciseness and Understandability of the Rule.

Rule 20-6-602 is generally clear, concise and understandable. As described below, the Department plans to revise Rule 20-6-602 so that it is consistent with current rule writing style such as removing gender references. The Department based Rule 20-6-602 on the NAIC Model Regulation 701, versions of which are in effect in 33 other jurisdictions. Any changes the Department makes to the rule should mirror the model regulation.

8. Economic, Small Business, and Consumer Impact Summary

Marine and transportation is not an insurer type per se. Rather, marine and transportation are lines of business that certain property and casualty insurers have the authority to transact. There are 725 active property and casualty insurers in Arizona. When the Department adopted Rule 20-6-602, there was no requirement for preparation of an economic impact statement; therefore, none is available for comparison.

Any economic impact companies realize from issuing Inland Marine and Transportation policy is attributed to statutes imposing various requirements, not the requirement of the rule. There is no economic impact

to consumers, small businesses, insurers filing Inland Marine and Transportation forms, the Department, or other governmental agencies.

10. Completed Course of Action from Previous Five-Year Review

In 2010, the Department suggested removing instances of passive voice and gender references from Rule 20-6-602, but the Moratorium prevented the Department from moving ahead with the changes.

11. Probable Cost Benefit Analysis

As noted above, the Department based Rule 20-6-602 on the NAIC Model Regulation 701, versions of which are in effect in 33 other jurisdictions. The uniformity of the rule lessens property and casualty insurers' regulatory burden by defining the risks and coverages identified as Marine, inland Marine or Transportations similarly in various states.

12. Stringency

No federal law corresponds to Rule 20-6-602.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-602 predates 2010 and does not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

The Department recommends that Rule 20-6-602 continue in force. If the Governor's Office grants the Department an exception to the Moratorium, the Department will submit a rulemaking to Council to remove "his" from 20-6-602(B)(6)(k) and correct the instances of passive voice in (B)(2), (B)(5)(j), (B)(5)(k), (B)(5)(p)(ii), (B)(5)(r)(1). If the Governor's Office grants an exception to the Moratorium, the Department intends to submit the above changes for the Council's approval in May 2017.

R20-6-604. Definitions

1. Authorization by Existing Statutes

The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604 contains definitions applicable to this Article.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates would make credit insurance more affordable to consumers, and that more people would elect to purchase credit insurance. This in turn could offset

any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.

11. Probable Cost Benefit Analysis

Rule 20-6-604 provides definitions applicable for Rules 20-6-604.01 through 20-6-604.10. The definitions impose no burden or cost to the regulated community.

12. Stringency

No federal law corresponds to Rule 20-6-604.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604 predate 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

The Department proposes no immediate changes to Rule 20-6-604. When there is a need to make a substantive change to the rules, the Department will number the definitions.

R20-6-604.01. Rights and Treatment of Debtors

1. Authorization by Existing Statutes

The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143. By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604.014 sets out the requirements for treatment of debtors and debtors' rights.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.014 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.014 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces this Rule 20-6-604.014.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.014 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.014 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that Rule 20-6-604.014 would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates would make credit insurance more affordable to consumers, and that more

people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.014.

11. Probable Cost Benefit Analysis

Rule 20-6-604.014 sets out the rights and treatment afforded to debtors who have credit insurance. The Department based Rule 20-6-604.014 on NAIC model regulation 370, versions of which are in effect in 46 other states. The costs and regulatory burden to credit insurers is small, especially given the uniformity of requirements in multiple jurisdictions. The efficiencies the companies gain from the uniformity among the states outweigh any costs the companies incur.

12. Stringency

No federal law corresponds to Rule 20-6-604.01.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.014 predates 2010 and does not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.014 went into effect on June 7, 2002 and the Department proposes no changes to this rule.

R20-6-604.02. Satisfying the Reasonableness Standard

1. Authorization by Existing Statutes

The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604.02 regulates components of credit insurance by establishing requirements for satisfying the reasonableness standard in credit insurance premium and insurance charges.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.02 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.02 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.02.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.02 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.02 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that Rule 20-6-604.02 would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates

would make credit insurance more affordable to consumers, and that more people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.02.

11. Probable Cost Benefit Analysis

Rule 20-6-604.02 sets forth requirements for satisfying the reasonableness standard in credit insurance transactions. The Department based the rule on NAIC model regulation 370, versions of which are in effect in 46 other states. The costs and regulatory burden on credit insurers to calculate the reasonable premium is small. The uniformity of this standard across state lines eases the costs of compliance and regulatory burden on credit insurers.

12. Stringency

No federal law corresponds to Rule 20-6-604.02.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.02 predates 2010 and does not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.02 was effective on June 7, 2002. The Department proposes no changes to this rule.

R20-6-604.03. Determination of Prima Facie Rates

1. Authorization by Existing Statutes

The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143. By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20

2. Objective of the Rule

Rule 20-6-604.03 regulates credit insurance by settings forth requirements for the Director to establish prima facie credit insurance rates.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.03 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.03 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.03.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.03 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.03 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates would make credit insurance more affordable to consumers, and that more

people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.03.

11. Probable Cost Benefit Analysis

Rule 20-6-604.03 requires the Director to issue an order establishing prima facie rates. In the event the rates require adjustment, the Director must hold a hearing. When a hearing is necessary to adjust the prima facie rates, the Department incurs the costs of mailing notices of hearing to the affected companies and other interested parties, as well as staff time to prepare the notices, conduct the hearing, and prepare and distribute the order for the new rate. The Department bears the expense associated with this rule.

12. Stringency

No federal law corresponds to Rule 20-6-604.03.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.03 predates 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.03 was effective on June 7, 2002. The Department proposes no changes to this rule.

R20-6-604.04. Credit Life Insurance Rates and Provisions

1. Authorization by Existing Statutes

The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604.04 regulates credit life insurance by setting forth requirements for the Director to establish prima facie rates and provisions for credit life insurance.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.04 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.04 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.04.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.04 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.04 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates

would make credit insurance more affordable to consumers, and that more people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.04.

11. Probable Cost Benefit Analysis

Rule 20-6-604.04 sets out the required provisions for credit life insurance. The protection offered to the public outweighs the costs of staff time for confirming policies.

12. Stringency

No federal law corresponds to Rule 20-6-604.04.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.04 predates 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.04 was effective on June 7, 2002. The Department proposes no changes to this rule.

R20-6-604.05. Credit Disability Insurance Rates and Provisions

1. Authorization by Existing Statutes

The Department adopted Rule 20-6-604.05 under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604.05 regulates credit disability insurance by setting forth requirements for the Director to establish prima facie rates for credit disability insurance.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.05 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.05 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.05.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.05 is generally clear, concise, and understandable

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.05 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates

would make credit insurance more affordable to consumers, and that more people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.05.

11. Probable Cost Benefit Analysis

Rule 20-6-604.05 sets forth the required policy provisions for credit disability insurance. The public protection outweighs the cost to the company in staff time for confirming policies meet the requirements.

12. Stringency

No federal law corresponds to Rule 20-6-604.05.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.05 predates 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.05 was made effective on June 7, 2002. The Department proposes no changes to this rule.

R20-6-604.06. Refund Methods

1. Authorization by Existing Statutes

The Department adopted Rule 20-6-604.06 under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604.06 regulates credit insurers by establishing the methods the insurer shall use for refunding premiums.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.06 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.06 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.06.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.06 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.06 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates would make credit insurance more affordable to consumers, and that more

people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.06.

11. Probable Cost Benefit Analysis

Rule 20-6-604.06 establishes the methods the insurer shall use for refunding premiums. The rule permits consumer credit insurers not to issue refunds when they are less than \$5, which saves regulatory costs and burdens on insurers issuing refunds.

12. Stringency

No federal law corresponds to Rule 20-6-604.06.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.06 predates 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

This rule was effective on June 7, 2002. The Department proposes no changes to Rule 20-6-604.06.

R20-6-604.07. Experience Reports

1. Authorization by Existing Statutes

The Department adopted Rule 20-6-604.07 under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

The Department adopted Rule 20-6-604.07 to provide the Director with information about credit insurers by requiring the insurer to file an annual experience report with the Director.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.07 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.07 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.07.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.07 is generally clear, concise, and understandable

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.07 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates

would make credit insurance more affordable to consumers, and that more people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.07.

11. Probable Cost Benefit Analysis

Rule 20-6-604.07 sets forth requirements for an insurer to file an annual experience report with the Director. Companies incur some personnel costs while preparing and filing the experience report, and the Department may impose a penalty for each day past the reporting deadline the report is late. However, the costs of compliance are low when the company meets the deadline. The value of the information provided to the Department outweighs the regulatory burden imposed on the company.

12. Stringency

No federal law corresponds to Rule 20-6-604.07.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.07 predates 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.07 was effective on June 7, 2002. The Department proposes no changes to this rule.

R20-6-604.08. Use of Prima Facie Rates; Rate Deviations

1. Authorization by Existing Statutes

The Department adopted Rule 20-6-604.08 under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

The Department Rule 20-6-604.08 to provide clarity to credit insurers by setting forth requirements for an insurer to file for approval and use of deviated rates higher than the prima facie rates.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.08 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.08 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.08.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.08 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.08 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates

would make credit insurance more affordable to consumers, and that more people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.08.

11. Probable Cost Benefit Analysis

Rule 20-6-604.08 sets forth requirements for the approval and use of rates that are greater than the prima facie rate set by the Director. There is little cost to the regulated community for the filing of a higher rate and the regulatory burden is low.

12. Stringency

No federal law corresponds to Rule 20-6-604.08.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.08 predates 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

This rule was effective on June 7, 2002. The Department proposes no changes to Rule 20-6-604.08.

R20-6-604.09. Supervision of Consumer Credit Insurance Operations

1. Authorization by Existing Statutes

The Department adopted Rule 20-6-604.09 under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604.09 regulates credit insurers by requiring the insurer to review the operations of each creditor at least once every three years. The personnel costs associated with the review of creditors is largely within the control of the insurer.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.09 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.09 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.09.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.09 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.09 was effective June 7, 2002. During the time for public comment, the Department did not receive any comments from credit insurers concerned about reviewing operations of each creditor at least once every three years.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.09.

11. Probable Cost Benefit Analysis

Rule 20-6-604.09 sets forth requirements for an insurer transacting credit insurance to review the operations of each creditor at least one every three years. The personnel costs associated with the review of creditors is largely within the control of the insurer, however the review of creditors potentially provides information that can increase profitability and market strategy.

12. Stringency

No federal law corresponds to Rule 20-6-604.09.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.09 predates 2010 and do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.09 was effective on June 7, 2002. The Department proposes no changes to this rule.

R20-6-604.10. Prohibited Transactions

1. Authorization by Existing Statutes

The Department adopted Rule 20-6-604.10 under the Director's general rulemaking authority under A.R.S. § 20-143. By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

2. Objective of the Rule

Rule 20-6-604.10 regulates credit insurers and protects consumers by enumerating the practices that are deemed unfair trade practices and clarifies that a violator is subject to penalties.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-604.10 is effective in achieving its objective.

4. Consistency of the Rule with State and Federal Statutes and Rules

Rule 20-6-604.10 is consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-604.10.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-604.10 is generally clear, concise, and understandable.

8. Economic, Small Business, and Consumer Impact Summary

Rule 20-6-604.10 was effective June 7, 2002. Pursuant to the economic, small business and consumer impact summary completed when the rule was proposed, the Department reviewed the loss experience history on credit life and credit disability insurance business for the period of 1997 through 1999. Based on that review, the Department determined that it was necessary to lower the prima facie rates to maintain the same loss ratio.

The Department predicted that the rule would not affect all 114 insurers offering credit life and disability insurance when the rule went into effect, only those with loss experience below the loss ratio standard. The Department projected that a lower rate would reduce the amount of unadjusted per annum premium, and ultimately, premium tax. The Department also thought it was possible that the lower prima facie rates

would make credit insurance more affordable to consumers, and that more people would elect to purchase credit insurance. This in turn could offset any decline in income for those companies experiencing losses below the loss ratio standard. To date, the only economic impact that the Department has identified that is significantly different from its projection is that there was no decrease in total insurance premium receipts. Instead, the Department reported increased total premium tax receipts of: \$203,896,890 in FY 2001, \$215,323,797 in FY 2002, \$251,248,001 in FY 2003, \$335,910,136 in FY 2004 and \$387,446,240 in FY 2005.

10. Completed Course of Action from Previous Five-Year Review

The 2010 Five-Year Review did not propose any changes to Rule 20-6-604.10.

11. Probable Cost Benefit Analysis

Rule 20-6-604.10 lists the practices that are deemed unfair trade practices and clarifies that a violator is subject to penalties. The Department based the rule on NAIC model regulation 370, versions of which are in effect in 46 other states. The regulatory costs associated with complying with the deposit requirements and the prohibition against providing any special advantage to creditors are low, and the protection afforded to consumers outweighs any associated regulatory burden. Insurers also gain compliance efficiencies from the uniformity among the states.

12. Stringency

No federal law corresponds to Rule 20-6-604.10.

13. Compliance with A.R.S. § 41-1037

Rule 20-6-604.10 predates 2010 and does not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action

Rule 20-6-604.10 was effective on June 7, 2002. The Department proposes no changes to this rule.

R20-6-607. Reasonableness of Benefits in Relation to Premium Charged

1. Authorization

The Department adopted Rule 20-6-607 under the Director's rulemaking authority under A.R.S. § 20- and specific authority under A.R.S. §§ 20-826(L) and 20-1342.02.

2. Objective of the Rule

Rule 20-6-607 establishes requirements regarding reasonableness of benefit in relation to premiums charged for individual disability policies. The Department based the rule on NAIC model law 134, "Guidelines for Filing of Rates for Individual Health Insurance Forms," versions of which are in effect in 29 other jurisdictions. The NAIC Model Law facilitates compliance by enhancing regulatory uniformity.

3. Analysis of Effectiveness in Achieving Objectives

Rule 20-6-607 is effective in achieving its objective

4. Consistency of the Rule with State and Federal Statutes and Rules

The Department suggests deleting R20-6-607(K) because it is not consistent with A.R.S. § 41-1032 regarding the effective date of rules.

Rule 20-6-607 is otherwise consistent with state and federal statutes and rules.

5. Status of Enforcement of the Rules

The Department enforces Rule 20-6-607.

6. Analysis of Clarity, Conciseness and Understandability

Rule 20-6-607 could be more clear, concise and understandable. As described below, the Department plans to revise Rule 20-6-607 to make it consistent with current rule writing style such as using active voice.

8. Economic, Small Business, and Consumer Impact Summary

When the Department adopted Rule 20-6-607, there was no requirement for preparation of an economic impact statement; therefore, none is available for comparison. The rule relates to how much premium an insurer should reasonably be allowed to charge. An insurer is required to provide actuarial documentation, maintain records and evaluate data, but the

Department has received no information that any economic impact results specifically from this rule. Consumers benefit from the protection resulting from the requirement that benefits be reasonable in relation to premiums charged. The Department incurs costs for the review and evaluation of filings with the Department, but the Department's costs result from statutory requirements, rather than this rule. There is no impact to other governmental agencies.

10. Completed Course of Action from Previous Five-Year Review

The Department previously recommended stylistic changes to Rule 20-6-607, but did not proceed due to the Moratorium.

11. Probable Cost Benefit Analysis

Rule 20-6-607 requires insurers to file rates and forms for individual disability insurance policies with the Department. There is a cost to company in preparing the filings, including the actuarial memorandum in support of the rates and maintaining the experience records as required. The costs of compliance are largely within the company's control. The regulatory burden is low when compared to the benefit to Arizona consumers who pay premiums that reasonable as compared to their policy benefits.

12. Stringency

The Arizona rule 20-6-607 is not more stringent than the somewhat related provisions in the federal Health and Human Services rules, which implement the Affordable Care Act, and are found in 45 CFR Part 154. Part 154 pertains to rate review related to all major medical individual and small group health insurance products. Part 154 establishes criteria for an effective rate review program (Arizona now has this designation in the individual and small group markets). Part 154, "Effective rate review," ensures review of all rate increases that meet or exceed a specified threshold (increases of 10% or more). Part 154 requires review of threshold increases by a state or the Centers for Medicare & Medicaid Services. Arizona reviews these threshold increases for Arizona products due to its effective rate review status. The federal rules also establish the criteria for review of threshold increases, the filing requirements, etc. Arizona reviews these increases to determine whether the increases are reasonable or unreasonable in relation to the benefits provided. The federal provisions also require publication of certain rate information.

Arizona's rule 607 pertains to the reasonableness of benefits in relation to the premium charged, but applies only to individual preferred provider organization products, some of which are not major medical insurance. Rule

607 requires filing of rates for these products and compliance with an Anticipated Loss Ratio, which is a different calculation from the federal Medical Loss Ratio.

13. Compliance with A.R.S. § 41-1037

Pursuant to Rule 20-6-607, the Department reviews rates and forms for approval; however, the rule predates 2010 and does not require issuance of a regulatory permit or license.

14. Proposed Course of Action

The Department recommends that Rule 20-6-607 continue in force. The Department will submit a rulemaking to delete (K) and correct passive voice in the first paragraphs of 20-6-607(E) and (H) as well as 20-60-607 (G), (H)(2), and (J). If the Governor's Office grants an exception to the Moratorium, the Department intends to submit the above changes for the Council's approval in October 2017.

ARTICLE 19. HEALTH CARE SERVICES ORGANIZATIONS OVERSIGHT

A.A.C. R20-6-1901, R20-6-1902, R20-6-1903, R20-6-1904, R20-6-1905, R20-6-1906, R20-6-1907, R20-6-1908, R20-6-1909, R20-6-1910, R20-6-1911, R20-6-1912, R20-6-1913, R20-6-1914, R20-6-1915, R20-6-1916, R20-6-1917, R20-6-1918, R20-6-1919, R20-6-1920, R20-6-1921

Information That Is Identical Within Article 19 Rules

1. **Statutory Authorization**

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143(A). By virtue of A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. The rules are specifically authorized under A.R.S. § 20-1078.

3. **Analysis of Effectiveness in Achieving Objectives**

These rules effectively achieve their objectives.

4. **Consistency of the Rule with State and Federal Statutes and Rules**

The rules are consistent with state and federal statutes and rules.

5. **Status of Enforcement of the Rules**

The Department enforces these rules as written.

6. **Clarity, Conciseness and Understandability of the Rule.**

These rules are clear, concise, and understandable.

7. **Written Criticisms of the Rules During the Past Five Years**

The Department has not received any written criticisms of these rules in Article 19 during the past five years.

8. **Economic, Small Business and Consumer Impact Summary**

This Article became effective in 2005. When the rules were proposed, the Department believed that standards were minimal and would cause little disruption to HCSO operations. During the public comment period, no HCSO notified the Department that it believed the rule would increase its costs. The network adequacy protection afforded HCSO members, employers and care providers would not increase their costs, and in the

case of consumers, would improve their access to healthcare services. To date, the Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

9. Outsider's Analysis of Business Competitiveness

The Department has not received analysis submitted by another person regarding the rules' impact on Arizona business competitiveness as compared to the competitiveness of business in other states.

10. Completed Course of Action from Previous Five-Year Review

These rules became effective in 2005. The Department did not propose any changes during the 2010 Five-Year Review.

13. Compliance with A.R.S. § 41-1037

These rules were effective in 2005. The rules do not pertain to the issuance of a regulatory permit, license or agency authorization authorized by state statute.

14. Proposed Course of Action

These rules were enacted in 2005. The rules remain clear and effective. The Department proposes no changes to the rules at this time.

R20-6-1901. Applicability

2. Objective of the Rule

Rule 20-6-1901 describes to whom and to what this Article applies.

11. Probable Cost Benefit Analysis

Rule 20-6-1901 sets out the scope and applicability of the Article. There are no associated costs of compliance or regulatory burdens associated with the rule.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1901.

R20-6-1902. Definitions

2. Objective of the Rule

Rule 20-6-1902 defines terms applicable to this Article.

11. Probable Cost Benefit Analysis

Rule 20-6-1902 defines the terms that apply to the rest of the Article. There are no associated costs of compliance or regulatory burdens associated with the rule.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1902.

R20-6-1903. Documentation

2. Objective of the Rule

Rule 20-6-1903 requires the CEO to submit certain documents and information about the HCSO in writing and to have those items readily available for inspection.

11. Probable Cost Benefit Analysis

Rule 20-6-1903 requires that the CEO ensure that policies, procedures and other items exist in writing, and be readily available for inspection. The costs of complying with the rule are largely within the company's control and should not impose any extra cost or burden to a well-run organization. There are currently 22 HCSOs active in Arizona.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1903.

R20-6-1904. Health Care Plan

2. Objective of the Rule

Rule 20-6-1904 regulates HCSOs by requiring the HCSO to provide the Department with a description of the proposed health care plan.

11. Probable Cost Benefit Analysis

Rule 20-6-1904 requires the HCSO to submit a statement to the Department describing the health plan's delivery of services, enrollment, and the plans for different types of care (emergency, inpatient, outpatient, specialty, etc.) in the area served by the HCSO. This information is fundamental to the HCSO's operations, thus, describing the plan and providing it to the Department should involve only minimal employee time. The rule does not impose a significant regulatory burden or cost on the 22 HCSOs currently active in Arizona.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1904.

R20-6-1905. Geographic Area

2. Objective of the Rule

Rule 20-6-1905 regulates HCSOs by requiring the HCSOs to provide the Department with a written description of the geographic area the HCSO serves.

11. Probable Cost Benefit Analysis

Rule 20-6-1095 requires an HCSO to describe the geographic area it serves and provide the Department with a map indicating the boundaries of the service area. The requested information is basic to the operation of the HCSO. The staff time necessary in providing this information, which is essential to the Department's assessment of network adequacy, should be minimal. The regulatory costs and burden imposed on the 22 HCSOs currently active in Arizona is very low.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1095.

R20-6-1906. Chief Executive Officer

2. Objective of the Rule

Rule 20-6-1906 regulates HCSOs by setting out qualifications, duties and responsibilities for the HCSO's chief executive officer and requiring the HCSO to notify the Department within ten days of a change in CEO.

11. Probable Cost Benefit Analysis

The rule requires the HCSO to appoint a CEO with appropriate education and experience to carry out specified duties and responsibilities. The rule also requires the HCSO to notify the Department within 10 days of a change in CEO. The regulatory costs and burden the 22 HCSOs currently active in Arizona experience in advising the Department of a change in management should be very low.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1906.

R20-6-1907. Medical Director

2. Objective of the Rule

Rule 20-6-1907 requires the HCISO to designate a physician as medical director and sets out the medical director's responsibilities.

11. Probable Cost Benefit Analysis

The designation of a medical director is essential to the operation of the HCISO and should not impose any additional regulatory burden or cost to the 22 HCISOs currently active in Arizona.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1907.

R20-6-1908. Quality Assurance

2. Objective of the Rule

Rule 20-6-1908 requires the HCSO to provide enrollees with an effective quality assurance process and sets out the minimum standards for review and evaluation of covered services.

11. Probable Cost Benefit Analysis

The rule requires the HCSO to provide enrollees with an effective quality assurance process. The rule sets forth minimum standards the HCSO must meet in the areas of reviewing and evaluating the services provided to enrollees and describes the quality assurance committee that should be in place. Confirming that the covered services provide appropriate and adequate treatment levels and that the quality meets with the HCSO's approval will involve staff time. Nevertheless, network adequacy is a constant area of concern for the 22 HCSOs currently active in Arizona and there is likely fulltime staff whose duties overlap with the monitoring the rule requires. The rule imposes a reasonable regulatory burden and cost in light of the existing business costs and the protection afforded to enrollees.

12. Stringency

There are no federal laws that corresponds to Rule 20-6-1908.

R20-6-1909. Evaluation of Network

2. Objective of the Rule

Rule 20-6-1909 requires the HCSO to have an effective process to evaluate the timeliness of its network.

11. Probable Cost Benefit Analysis

Rule 20-6-1909 requires the HCSO to evaluate that members receive services in a timely manner. Confirming that the covered services are provided within a reasonable period will involve staff time. Network adequacy is a constant area of concern for HCSOs and there is likely fulltime staff whose duties overlap with the monitoring the rule requires. Treatment delays can increase the cost of treatment, thus the rule imposes a reasonable regulatory burden and cost upon the 22 HCSOs currently active in Arizona, especially in light of the existing business costs and the protection afforded to enrollees.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1909.

R20-6-1910. Process for Referral, Prior Authorization, Pre-certification, or Network Exception

2. Objective of the Rule

Rule 20-6-1910 regulates HCSOs by requiring effective processes for referral, prior authorization, pre-certification and the handling of network exceptions.

11. Probable Cost Benefit Analysis

Rule 20-6-1910 requires the HCSO to implement a process for assisting enrollees in obtaining covered services even when a contracted provider is not accessible or available within the time and geographic boundaries. HCSOs need a process for handling network exceptions that reimburses the enrollee for out-of-network costs. Depending on the extent of the HCSO's network, the out-of-network costs will vary. To some extent, these costs are within the HCSO's control to manage, but the rule exists so that both the HCSO and the enrollee have an expectation of the costs associated with services provided outside the HCSO network. The rule imposes a reasonable regulatory burden and cost in light of the existing business costs and the protection afforded to the 22 HCSOs currently active in Arizona and their enrollees.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1910.

R20-6-1911. HCSO Communication with Providers

2. Objective of the Rule

Rule 20-6-1911 regulates HCSOs by requiring the HCSO to develop an effective process for communicating with contracted providers.

11. Probable Cost Benefit Analysis

Rule 20-6-1911 requires the HCSO to develop an effective process for communicating with contracted providers about the network, changes to enrollee access or provider availability as well as claims and grievance handling procedures. Communicating with providers is a cost of business for all health insurers, but is a function that is especially important for HCSOs. The rule does not impose any additional regulatory cost or burden on the 22 HCSOs currently active in Arizona.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1911.

R20-6-1912. Network Directories

2. Objective of the Rule

Rule 20-6-1912 requires HCSOs to publish network directories in both paper and electronic formats.

11. Probable Cost Benefit Analysis

Rule 20-6-1912 requires HCSOs to publish network directories in both paper and electronic formats. This directory is crucial to the operation of an HCSO, and may be a marketing tool for new enrollees. The time staff would need to collect the information is negligible, but it is possible there would be some staff time involved in formatting the existing information for enrollees. The existence of the information within the company, coupled with its marketing potential, means that the rule imposes very slight, if any, regulatory burden or cost on the 22 HCSOs currently active in Arizona.

12. Stringency

This rule is no more stringent than 45 CFR 156.230(B), "Network adequacy standards." Rule 20-6-1912 differs from than 45 CFR 156.230 with regard to content and publishing frequency of a provider directory. Both rules pertain to the online network directories. CMS requires that provider directories for all plans available on Healthcare.gov be "...updated at least monthly and easily accessible when the general public is able to view all of the current providers for a plan in the provider directory on the issuer's public website through a clearly identifiable link or tab without having to create or access an account or enter a policy number." Arizona requires that HCSOs update the online network directory at least monthly and that the "directory is easy to use and user friendly." A.A.C. R20-6-1912(D)(1) and (20).

R20-6-1913. Demographic Information Reports

2. Objective of the Rule

Rule 20-6-1913 sets the deadlines for HCSOs to report certain demographic information about enrollees, contracted providers, contracted physicians and/or practitioners to the Department.

11. Probable Cost Benefit Analysis

Rule 20-6-1913 requires HCSOs to provide contact information for enrollees, providers, and contracted physicians and providers. The information already exists within the HCSO, so the regulatory burden of providing the information to the Department during the year is low.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1913.

R20-6-1914. Access

2. Objective of the Rule

Rule 20-6-1914 regulates HCSOs by setting deadlines for an enrollee's access to services or appointments.

11. Probable Cost Benefit Analysis

Rule 20-6-1914 sets deadlines for an enrollee's appointment dates with a contracted primary care physician or contracted facility for these types of care services: preventive, routine, specialty, in-area urgent, and non-emergency inpatient. Delaying care can drastically increase costs, so it is in the HCSO's best interest to at least meet the deadlines specified in the rule. The rule imposes a small regulatory burden and cost on the 22 HCSOs currently active in Arizona. The benefit to the enrollees and potential savings for the HCSO outweigh the cost.

12. Stringency

Rule 20-6-1914 is no more stringent than 45 CFR 156.230, "Network adequacy standards." The federal rule, which applies only to health policies purchased on Healthcare.gov, requires that the provider network "is sufficient in number and types of providers . . . to assure that all services will be accessible without unreasonable delay." However, 45 CFR 156 does not define "sufficient," nor does it address appointment deadlines. The appointment deadlines for contracted primary and specialty care physicians and facilities in rule 20-6-1914 interprets "sufficient" for all HCSO policies sold in Arizona. Arizona provides additional detail but no additional burden on the Healthcare.gov plans.

R20-6-1915. Alternative Access

2. Objective of the Rule

Rule 20-6-1915 permits HCSOs to use alternative methods to provide enrollee access to specified services.

11. Probable Cost Benefit Analysis

Rule 20-6-1915 permits the HCSO to provide covered services from an appropriately licensed practitioner rather than a physician; an appropriately licensed facility rather than a hospital; or in a variety of ways other than in person. Allowing HCSO flexibility in practitioners and facilities imposes the least regulatory burden and costs on the 22 HCSOs currently active in Arizona.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1915.

R20-6-1916. Availability Ratios

2. Objective of the Rule

Rule 20-6-1916 requires HCSOs to maintain establish and maintain provider-to-enrollee ratios.

11. Probable Cost Benefit Analysis

Rule 20-6-1916 requires that the ratios for contracted adult primary care physicians (PCPs) to adults; pediatric PCPs to children and contracted high profile SCPs to enrollees are adequate to provide those enrollees covered services. The 22 HCSOs currently active in Arizona have input into determining what ratio is “adequate,” which lessens the regulatory burden and cost of the rule.

12. Stringency

Rule 20-6-1916 is no more stringent than 45 CFR 156.230, “Network adequacy standards.” The federal rule, which applies only to health policies purchased on Healthcare.gov, requires that the provider network “is sufficient in number and types of providers. . . to assure that all services will be accessible without unreasonable delay.” However, 45 CFR 156 does not define “sufficient,” nor does it address ratios for PCPs and SCPs to patients. Arizona requires that the ratios for contracted adult PCPs to adults; pediatric PCPs to children and contracted high profile SCPs to enrollees be “adequate” to provide those enrollees covered services. Arizona provides detail but no additional burdens on the Healthcare.gov plans.

R20-6-1917. Geographic Availability in an Urban Area

2. Objective of the Rule

Rule 20-6-1917 requires HCSOs to meet distance or travel-time standards in urban areas.

11. Probable Cost Benefit Analysis

Rule 20-6-1917 specifies the distance and travel-time standards within an urban area of the HCSO's service area. From the enrollee's home, primary care services must be available within 10 miles or 30 minutes; for high profile specialty care services it is within 15 miles or 45 minutes; and inpatient care in a contracted general hospital, or contracted special hospital, within 25 miles or 75 minutes of the enrollee's home. The HCSO determines the geographic boundaries of its service area, so to some extent, it is able to control its compliance with the rule. For this reason, the regulatory burden and cost is relatively low to the 22 HCSOs currently active in Arizona.

12. Stringency

Rule 20-6-1917 is no more stringent than 45 CFR 156.230, "Network adequacy standards." The federal rule, which applies only to health policies purchased on Healthcare.gov, requires that the provider network "is sufficient in number and types of providers. . . to assure that all services will be accessible without unreasonable delay." However, 45 CFR 156 does not define "sufficient" or specifically address distance and travel-time standards in urban areas. By describing the expectations for availability in urban areas, Arizona's rule provides detail but no additional burden on the Healthcare.gov plans.

R20-6-1918. Geographic Availability in a Suburban Area

2. Objective of the Rule

Rule 20-6-1918 requires HCSOs to meet distance or travel-time standards in suburban areas.

11. Probable Cost Benefit Analysis

Rule 20-6-1918 specifies the distance and travel-time standards within a suburban area of the HCSO's service area. From the enrollee's home, primary care services must be available within 15 miles or 45 minutes; for high profile specialty care services it is within 20 miles or 60 minutes; and inpatient care in a contracted general hospital, or contracted special hospital, within 30 miles or 90 minutes of the enrollee's home. The HCSO determines the geographic boundaries of its service area, so to some extent, it is able to control its compliance with the rule. For this reason, the regulatory burden and cost is relatively low for the 22 HCSOs currently active in Arizona.

12. Stringency

There are no federal laws that correspond to Rule 20-6-1918.

R20-6-1919. Geographic Availability in a Rural Area

2. Objective of the Rule

Rule 20-6-1919 requires HCSOs to meet distance or travel-time standards in rural areas.

11. Probable Cost Benefit Analysis

Rule 20-6-1919 requires that an HCSO provide each enrollee living in a rural area with primary care services from a contracted physician or practitioner within 30 miles or 90 minutes of the enrollee's home. The HCSO determines the geographic boundaries of its service area, so to some extent, it is able to control its compliance with the rule. For this reason, the regulatory burden and cost is relatively low for the 22 HCSOs currently active in Arizona.

12. Stringency

Rule 20-6-1919 is no more stringent than 45 CFR 156.230, "Network adequacy standards." The federal rule, which applies only to health policies purchased on Healthcare.gov, requires that the provider network "is sufficient in number and types of providers." However, 45 CFR 156 does not define "sufficient," nor does it address availability of services provided in rural areas. The mile and time standards for traveling to contracted primary care physicians and facilities in rule 20-6-1919 interprets "sufficient" for all HCSO policies sold in rural Arizona. By describing the expectations for availability in rural areas, Arizona's rule provides detail but no additional burden on the Healthcare.gov plans.

R20-6-1920. Travel Requirements

2. Objective of the Rule

Rule 20-6-1920 requires HCSOs to reimburse enrollees for travel expenses incurred when the HCSO authorizes the enrollee to travel outside the service area because the services are not available in the area.

11. Probable Cost Benefit Analysis

Rule 20-6-1920 requires HCSOs to reimburse enrollees for travel expenses incurred when the HCSO authorizes the enrollee to travel outside the service area because the services are not available in the area. The regulatory costs and burden imposed vary from HCSO to HCSO depending upon the extent to which services are available within the HCSO's service area.

12. Stringency

There no federal laws that correspond to Rule 20-6-1920.

R20-6-1921. Enforcement Consideration

2. Objective of the Rule

Rule 20-6-1921 allows the Department to consider certain documentation provided by HCSO when determining enforcement action or penalties against the HCSO.

11. Probable Cost Benefit Analysis

Rule 20-6-1921 is, in effect, a list of possible mitigating factors the Department may consider as it determines the appropriate enforcement action or penalties for an HCSO's failure to comply with these rules. There is a slight, though optional, regulatory cost to the HCSO in that it may prepare evidence in its favor, however, that evidence may save the HCSO money in penalties. There is no regulatory cost or burden to Arizona's 22 HCSOs resulting from this rule.

12. Stringency

There no federal laws that correspond to Rule 20-6-1920.

The Arizona Department of Insurance

Five-Year Review Report

A.A.C. Title 20, Chapter 6, Article 1, 2, 3, 18, 20 and 23

May 2016

ARTICLE 1. HEARING PROCEDURES AND RULEMAKING PETITIONS

A.A.C. R20-101, R20-6-102, R20-6-103, R20-6-106, R20-6-114, R20-6-115 and R20-6-160

Information that is Identical within Article 1 Rules

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority in A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. The specific authority for the rules is found in A.R.S. §§ 20-161, 41-1003, 41-1033 and A.R.S. Title 41, Chapter 6, Article 10.

2. Objective of the Rules:

R20-6-101. This rule establishes the applicability of the hearing procedures rules to contested cases before the Department and that, unless expressly authorized by rule or statute, the Arizona Rules of Civil Procedure do not apply to agency proceedings.

R20-6-102. This rule establishes who may appear before the Department, the obligations of attorneys who appear before the Department, what constitutes contemptuous conduct, and the hearing officer's authority to deal with that conduct.

R20-6-103. This rule establishes how and to whom service is to be made and documented and what constitutes a filing with the Department.

R20-6-106. This rule establishes requirements for filing an answer to a notice of hearing.

R20-6-114. This rule sets forth the procedure and grounds for rehearing or review of an order of the Director.

R20-6-115. This rule provides the manner and time frame within which a party may file a response to a request for rehearing.

R20-6-160. This rule sets forth the requirements for a person to petition the Department for a rulemaking.

3. Analysis of Effectiveness in Achieving the Objectives:

Many of the current rules, except for the rules that augment the Uniform Administrative Hearing Procedures Act found at A.R.S. Title 41, Chapter 6, Article 10 ("APA"), such as the rule for defaulting a contested case (R20-6-106) and the rules for granting a rehearing or review (R20-6-114 and R20-6-115), are duplicative of the APA.

However, Title 20 has statutes that mandate that the Director make certain findings after a hearing, for example the services customarily provided in the transaction of insurance (see

A.R.S. § 20-465) or whether a reasonable degree of price competition exists in the market (see A.R.S. § 20-383). These hearings are not appealable agency actions (as defined at A.R.S. § 41-1092(3)) or contested cases (as defined at A.R.S. § 41-1001(5)) subject to the APA but are essentially hearings for taking public comment. The Department would like to establish a procedure for conducting these mandated hearings in Article 1.

R20-6-160, the rule that allows a person to Petition for a Rulemaking has parts that are duplicative of A.R.S. 41-1033 (Title 41, Chapter 6, Article 3) and should be updated to eliminate any redundancy.

4. Analysis of Consistency with State and Federal Statutes and Rules:

There are no applicable federal statutes and rules. The rules need to be made consistent with A.R.S. Title 41, Articles 3 and 10 and to correct terminology and incorrect references. Article 1 is consistent with other Department statutes and rules.

5. Status of Enforcement of the Rules:

Because many of the rules duplicate the requirements of the APA, the Department primarily enforces only R20-6-106 (Answer to Notice of Hearing), R20-6-114 (Request for Rehearing or Review) and R20-6-115 (Response to Rehearing).

6. Clarity, Conciseness and Understandability of the Rules:

The rules are generally clear and understandable. Some rules adopted prior to 1995 should be allowed to expire specifically R20-6-111 and R20-6-1112. Other rules should be updated to be consistent with current rule writing standards in the Arizona Rulemaking Manual.

7. Written Criticisms of the Rules during the Last Five Years:

The Department has received no written criticisms of these rules during the past five years.

8. Economic, Small Business and Consumer Impact Summary:

The rules apply to persons who appear before the Department for hearing procedures, either on their own behalf or through legal counsel or a duly authorized corporate officer. The rules also apply to persons who petition the Department for rulemaking. Any economic impact would likely be as a result of statutory requirements that are the basis for these rules. For rules with an EIS, the economic impact has been consistent with that predicted when the rules were enacted.

9. Outsider's Analysis of Business Competitiveness:

The Department has not received any analysis submitted by another person regarding the rules' impact on Arizona business competitiveness as compared to the competitiveness of business in other states.

10. Completed Course of Action from Previous Five-Year Review:

The Department did not complete the course of action indicated in the two previous Five-Year Reviews. In May 2011, the Department obtained an exception to the Governor's rulemaking moratorium but failed to file the rulemaking with GRRC by its target date, March 2012. No rulemaking activity has occurred since that time due to a number of factors including the imposition of the Governor's Moratorium on Rulemaking, loss of the Department's Rules Analyst and other rulemaking activities that the Department prioritized over this rulemaking.

11. Probable Cost Benefit Analysis:

The rules, with the changes recommended in this report, will impose the least burden and costs to persons regulated by the rules, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective. The rules, as proposed, will eliminate confusion with APA procedures and provide guidance for both the Department and the regulated public.

12. Stringency:

These rules are not more stringent than a corresponding federal law because no corresponding federal law exists.

13. Compliance with A.R.S. § 41-1037:

These rules predate 2010. These rules do not require issuance of a regulatory permit, license or agency authorization.

14. Proposed Course of Action:

With a new administration in place, the Department will need to petition for an exception to the current Governor's rulemaking moratorium. However, during the current tenure of an Interim Director, the Department does not anticipate that this rulemaking will take priority over any other required rulemakings.

Analysis of Individual Rules

R20-6-101. Scope of Article; Definitions

4. Analysis of Consistency with State and Federal Statutes and Rules:

This Article is not consistent with the APA which applies to all contested cases and appealable agency actions of the Department under A.R.S. § 20-161(A).

This rule should be amended to delete certain definitions like "contested case" and "hearing officer" which already appear in the APA and include references to the APA where applicable. Further, this rule should be amended to add clarifying definitions and new definitions to achieve the Department's objective to establish procedures for conducting mandated public comment hearings.

8. Economic, Small Business and Consumer Impact Summary:

R20-6-101 became effective on February 4, 1999. The Department has not identified anything since that time in conjunction with the adoption of the rule that has an economic impact on insurers, small businesses or consumers. The Department has received no information to date stemming from operation of the rule that has included comments or suggestions of economic impacts.

R20-6-102. Appearance and Practice before the Director

4. Analysis of Consistency with State and Federal Statutes and Rules:

This rule is duplicative of A.R.S. §§ 20-161(B) and 41-1092.07(B) for hearings subject to the APA. This rule should be amended to address parties who wish to appear before the Director for the purpose of having their comment presented in a public comment hearing.

8. Economic, Small Business and Consumer Impact Summary:

R20-6-102 became effective on January 23, 1992. The Department has not identified anything since that time in conjunction with the adoption of the rule that has an economic impact on insurers, small businesses or consumers. The Department has received no information to date stemming from operation of the rule that has included comments or suggestions of economic impacts.

R20-6-103. Filing; Service

4. Analysis of Consistency with State and Federal Statutes and Rules:

This rule is duplicative of A.R.S. § 41-1092.04 and A.A.C. R2-19-108 for hearings subject to the APA. This rule should be amended to address requirements for parties who wish to appear before the Director for the purpose of having their comment recorded in a public comment hearing.

8. Economic, Small Business and Consumer Impact Summary:

R20-6-103 became effective on January 23, 1992. The Department has not identified anything since that time in conjunction with the adoption of the rule that has an economic impact on insurers, small businesses or consumers. The Department has received no information to date stemming from operation of the rule that has included comments or suggestions of economic impacts.

R20-6-106. Answer to Notice of Hearing

4. Analysis of Consistency with State and Federal Statutes and Rules:

This rule is not duplicative of any of the provisions of the APA and should be retained to allow the Department to default cases where a party has been properly served and has failed to file an Answer. However, this rule should be amended to clarify that it applies to contested cases only.

8. Economic, Small Business and Consumer Impact Summary:

R20-6-106 became effective on January 23, 1992. The Department has not identified anything since that time in conjunction with the adoption of the rule that has an economic impact on insurers, small businesses or consumers. The Department has received no information to date stemming from operation of the rule that has included comments or suggestions of economic impacts.

R20-6-114. Request for Rehearing or Review

R20-6-115. Response to Request for Rehearing

4. Analysis of Consistency with State and Federal Statutes and Rules:

These rules work in conjunction with A.R.S. § 41-1092.09 and should be amended to remove any duplicate language. The Department wishes to retain these rules to define grounds upon which a rehearing of an administrative hearing can be granted and to augment and clarify the provisions of the APA.

8. Economic, Small Business and Consumer Impact Summary:

R20-6-114 and R20-6-115 became effective on January 23, 1992. The Department has not identified anything since that time in conjunction with the adoption of the rule that has an economic impact on insurers, small businesses or consumers. The Department has received no information to date stemming from operation of the rule that has included comments or suggestions of economic impacts.

R20-6-160. Petition for Rulemaking Action

4. Analysis of Consistency with State and Federal Statutes and Rules:

This rule works in conjunction with A.R.S. § 41-1033 to specify what information a petitioner needs to provide when seeking to have the Department initiate a rulemaking under the statute. However, some provisions are duplicative of that statute and should be eliminated. The rule should retain only those sections which augment A.R.S. § 41-1033.

6. Clarity, Conciseness and Understandability of the Rules:

The rule is generally clear, concise and understandable. However, the proposed changes to the rule would help reduce confusion by eliminating definitions of terms already defined in R20-6-101.

7. Written Criticisms of the Rules during the Last Five Years:

The Department has received no written criticisms of this rule during the last five years. In addition, the Department has not received a Petition for a rulemaking since the last five-year review.

8. **Economic, Small Business and Consumer Impact Summary:**

R20-6-160 became effective on February 4, 1999. The Department has not identified anything since that time in conjunction with the adoption of the rule that has an economic impact on insurers, small businesses or consumers. The Department has received no information to date stemming from operation of the rule that has included comments or suggestions of economic impacts.

ARTICLE 2. TRANSACTION OF INSURANCE

A.A.C. R20-6-201, R20-6-201.01, R20-6-201.02, R20-6-202, R20-6-203, R20-6-204, R20-6-205, R20-6-207, R20-6-208, R20-6-209, R20-6-210, R20-6-211, R20-6-212, R20-6-212.01, R20-6-213 and R20-6-214

Information that is Identical within Article 2 Rules

1. **Authorization:**

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-207 is provided by A.R.S. § 20-448. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110. Further, authority for the adoption of R20-6-209, R20-6-210, R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. § 20-1111. Further authority for R20-6-210 and R20-6-213 is provided in A.R.S. § 20-1110.01.

2. **Objective of the Rules:**

R20-6-201. This rule contains definitions and defines the types of statements that are deceptive and misleading when used by insurers in advertisements for disability insurance.

R20-6-201.01. This rule contains requirements for maintaining a system of control over content, form and dissemination of advertisements, and sets forth recordkeeping requirements for advertisements.

R20-6-201.02. This rule contains requirements and procedures for filing advertising materials and contents to be included in transmittal forms.

R20-6-202. This rule requires the disclosure of relevant facts and defines statements and omissions that are misleading and deceptive in the advertising, solicitation of and transaction of life insurance.

R20-6-203. This rule contains requirements for filing English translations when a filed form contains verbiage in a language other than English.

R20-6-204. This rule establishes requirements and procedures for the inclusion of insurers on the Director's list of unauthorized insurers that may write surplus lines insurance.

R20-6-205. This rule describes how the Director will calculate additions to the rates of tax that must be included in retaliation calculations by foreign and alien insurers. The rule requires each addition to the rate of tax to reflect the taxes, licenses or other obligations imposed by cities, counties or other political subdivisions of each other state or foreign country on domestic insurers or their agents, with one addition to the rate of

tax calculated from data for Arizona life insurers and a separate rate calculated from data for other Arizona insurers.

R20-6-207. This rule prohibits unfair discrimination by insurers on the basis of gender or marital status in the terms and conditions of insurance contracts and underwriting criteria.

R20-6-208. This rule sets forth requirements for group coverage discontinuance and replacement.

R20-6-209. This rule requires that insurers provide to buyers of life insurance various materials and information to assist buyers in selecting appropriate policies.

R20-6-210. This rule establishes the readability standards for a variety of insurance policy types so that the insurance contract can be reasonably understood by a person without special knowledge or training in insurance.

R20-6-211. This rule prevents any unfair discrimination by insurers toward blind or partially blind persons in the rates charged, the availability of, and the terms and conditions of, insurance contracts.

R20-6-212. This rule incorporates by reference requirements of the National Association of Insurance Commissioner model regulations for forms to be used in the replacement of life insurance policies and annuities.

R20-6-213. This rule establishes minimum standards for language used in life and disability policies to facilitate ease of reading.

R20-6-214. This rule establishes requirements for coordination of benefits.

4. Analysis of Consistency with State and Federal Statutes and Rules:

Except for R20-6-206, which should be allowed to expire, these rules are consistent with state statutes and rules

5. Status of Enforcement of the Rules:

The Department enforces these rules.

9. Outsider's Analysis of Business Competitiveness:

The Department has not received analysis submitted by another person regarding the rules' impact on Arizona business competitiveness as compared to the competitiveness in other states.

10. Completed Course of Action from Previous Five-Year Review:

The Department proposed a minor typographical error change in R20-6-214 in 2011. It proposed to inquire with the Office of the Secretary of State ("SOS") whether the

typographical error could be corrected. Since the Department cannot now locate any typographical errors in the rule, it appears that the SOS corrected the error.

12. Stringency:

The rule is not more stringent than a corresponding federal law because there is no corresponding federal law.

13. Compliance with A.R.S. § 41-1037:

Not applicable.

Analysis of Individual Rules

R20-6-201. Advertisements of Health Insurance

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective

6. Clarity, Conciseness and Understandability of the Rule:

This rule should be updated to address the significant changes in the method and venue of health insurer advertising resulting from the advent of social media.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes to seek public input on the current types of advertising venues and methods to determine if and how the rule could be updated to reflect modern advertising..

R20-6-201.01. Insurer Advertising Responsibility and Records

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule is clear, concise and understandable.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes no changes.

R20-6-201.02. Procedures for Filing Advertising Materials; Transmittal Form

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

3. **Analysis of Effectiveness in Achieving Objective:**

This rule achieves its objective.

6. **Clarity, Conciseness and Understandability of the Rule:**

This rule is clear, concise and understandable.

7. **Written Criticisms of the Rules during the Last Five Years:**

The Department has not received written criticisms of this rule within the past five years.

8. **Economic, Small Business and Consumer Impact Summary:**

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. **Probable Cost Benefit Analysis:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. **Proposed Course of Action:**

The Department proposes no changes.

R20-6-202. Advertising, Solicitation, and Transaction of Life Insurance

1. **Authorization:**

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

3. **Analysis of Effectiveness in Achieving Objective:**

This rule achieves its objective.

6. **Clarity, Conciseness and Understandability of the Rule:**

This rule is clear, concise and understandable.

7. **Written Criticisms of the Rule during the Last Five Years:**

The Department has not received written criticisms of this rule within the past five years.

8. **Economic, Small Business and Consumer Impact Summary:**

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. **Probable Cost Benefit Analysis:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. **Proposed Course of Action:**

The Department proposes no changes.

R20-6-203. Form Filings; Translations

1. **Authorization:**

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. \

3. **Analysis of Effectiveness Achieving Objective:**

This rule achieves its objective.

6. **Clarity, Conciseness and Understandability of the Rule:**

This rule is clear, concise and understandable.

7. **Written Criticisms of the Rule during the Last Five Years:**

The Department has not received written criticisms of this rule within the past five years.

8. **Economic, Small Business and Consumer Impact Summary:**

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. **Probable Cost Benefit Analysis:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. **Proposed Course of Action:**

The Department proposes no changes.

R20-6-204. Surplus Lines Brokers' Filing Requirements; List of Unauthorized Insurers

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule is clear, concise and understandable.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on January 5, 2000 and was amended effective August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes to change subsection (E)(1) to replace the requirement for an original or certified certificate of compliance with a current certificate. This will allow the Department to receive more updated information and allow electronic filing.

The Department proposes to revise subsections (E)(5) and (G)(1) to only require the submission of an annual statement if it has not been filed electronically with the National Association of Insurance Commissioners. This change will reduce duplicate efforts by insurers.

R20-6-205. Local or Regional Retaliatory Tax Information

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

3. Analysis of Effectiveness in Achieving Objective:

This rule may not always achieve its objective. The rule requires the addition to the rate of tax be calculated as the quotient of the local taxes and fees actually paid to subdivisions within another state or foreign country divided by the total premiums the insurer wrote in that state or foreign country. A domestic insurer may be encouraged to overpay burdens when minimum estimated or installment payment requirements carry substantial penalties for underpayments. When domestic insurers overpay in a jurisdiction, the ratio of actual payments to premiums written increases, thereby subjecting foreign insurers domiciled in the state to higher additions to the rates of tax that must be included in retaliation calculations.

6. Clarity, Conciseness and Understandability of the Rule:

Although the Department considers this rule to be clear, concise and understandable, one insurer criticized the application of the rule as written (see section 7 below).

7. Written Criticisms of the Rule during the Last Five Years:

One insurer (Metropolitan Life Insurance Company) argued that the phrase "tax obligation paid," as set forth in A.R.S. §20-230, and the phrase "tax, license, or other obligation imposed" as set forth in A.A.C. R20-6-205(A)(9) should be interpreted to mean that each addition to the rate of tax should be based on the tax liabilities incurred from, rather than the cash-basis payments made to, political subdivisions by domestic insurers in other states, despite language in A.A.C. R20-6-205(D) that specifies the calculation as being the quotient of the local or regional taxes reported as paid divided by the premiums written in the state or foreign country.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

This rule provides questionable adequate benefit to warrant the cost to persons regulated by the rule. In particular, every domestic insurer must expend significant resources to report each payment of each tax, fee, assessment or other burden the insurer incurred by each political subdivision of each other state or foreign country so that the Director has the information required to determine the reasonableness of information filed, to aggregate information filed by all domestic insurers and to calculate correct additions to the rates of tax applicable separately to life insurers and to all other insurers for each other state and

foreign country that permits political subdivisions to impose burdens on Arizona's domestic insurers.

14. Proposed Course of Action:

The Department proposes that this rule be amended to allow the Director to determine when the calculation of the addition to the rate of tax for life insurers or for all other insurers for another state or foreign country exceeds the maximum tax liability that a domestic insurer might reasonably be expected to incur in the other state or foreign country, and in such instances, to reduce the addition to the rate of tax to that maximum tax liability.

R20-6-207. Gender Discrimination

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-207 is provided by A.R.S. § 20-448.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule conflicts with certain provisions of the Affordable Care Act which prohibit using gender as an underwriting factor in major medical health insurance policies. The rule is still applicable to other types of disability insurance policies, however.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes that this rule be amended to align the rule with the new requirements in the Affordable Care Act that prohibit the use of gender as an underwriting criteria in major medical health insurance policies. The rule is still applicable as is to a

number of types of disability and health insurance, but certain provisions in the rule can no longer be applied to major medical health insurance.

R20-6-208. Group Coverage Discontinuance and Replacement

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule is clear, concise and understandable.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes no changes.

R20-6-209. Life Insurance Solicitation

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110. Further,

authority for the adoption of R20-6-209, R20-6-210, R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. § 20-1111.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule is clear, concise and understandable.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes an amendment to this rule to make it more consistent with other rules in this Article by placing the subsection containing the definitions as the first subsection (Subsection A) of the rule. It will also alphabetize the definitions.

R20-6-210. Readable and Understandable Policy; Private Passenger Automobile, Homeowner, Personal Line Dwelling, and Mobile Homeowner

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110. Further, authority for the adoption of R20-6-209, R20-6-210, R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. § 20-1111. Further authority for R20-6-210 and R20-6-213 is provided in A.R.S. § 20-1110.01.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. **Clarity, Conciseness and Understandability of the Rule:**

This rule is clear, concise and understandable.

7. **Written Criticisms of the Rule during the Last Five Years:**

The Department has not received written criticisms of this rule within the past five years.

8. **Economic, Small Business and Consumer Impact Summary:**

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. **Probable Cost Benefit Analysis:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. **Proposed Course of Action:**

The Department proposes an amendment to this rule to alphabetize the definitions in subsection A.

R20-6-211. Discrimination on the Basis of Blindness or Partial Blindness

1. **Authorization:**

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110. Further, authority for the adoption of R20-6-209, R20-6-210, R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. § 20-1111.

3. **Analysis of Effectiveness in Achieving Objective:**

This rule achieves its objective.

6. **Clarity, Conciseness and Understandability of the Rule:**

This rule is clear, concise and understandable.

7. **Written Criticisms of the Rule during the Last Five Years:**

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 1, 1979 and last amended on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes an amendment to this rule to alphabetize the definitions in subsection A.

R20-6-212. Forms for Replacement of Life Insurance Policies and Annuities

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110. Further, authority for the adoption of R20-6-209, R20-6-210, R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. § 20-1111.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule contains references to older versions of the National Association of Insurance Commissioners' Life Insurance and Annuities Replacement Model Regulation ("NAIC Model Regulation"), but is otherwise concise and understandable.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on March 27, 1978 and last amended on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes that this rule be amended to update the references to the current version of the NAIC Model Regulation.

R20-6-212.01. Forms for Buyer's Guide for Annuities

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110. Further, authority for the adoption of R20-6-209, R20-6-210, R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. § 20-1111.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule is clear, concise and understandable.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes no changes.

R20-6-213. Life and Disability Insurance Policy Language Simplification

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20. Additional authority for the adoption of R20-6-208 through R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. §§ 20-441 through 20-460 and 20-1110. Further, authority for the adoption of R20-6-209, R20-6-210, R20-6-211, R20-6-212 and R20-6-213 is provided by A.R.S. § 20-1111. Further authority for R20-6-210 and R20-6-213 is provided in A.R.S. § 20-1110.01.

3. Analysis of Effectiveness in Achieving Objective:

This rule achieves its objective.

6. Clarity, Conciseness and Understandability of the Rule:

This rule is clear, concise and understandable.

7. Written Criticisms of the Rule during the Last Five Years:

The Department has not received written criticisms of this rule within the past five years.

8. Economic, Small Business and Consumer Impact Summary:

This rule became effective on November 21, 1977 and was last amended on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes no changes.

R20-6-214. Coordination of Benefits

1. Authorization:

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has the powers expressly conferred or reasonably implied by Title 20.

3. **Analysis of Effectiveness in Achieving Objective:**

This rule achieves its objective.

6. **Clarity, Conciseness and Understandability of the Rule:**

This rule is clear, concise and understandable.

7. **Written Criticisms of the Rule during the Last Five Years:**

The Department has not received written criticisms of this rule within the past five years.

8. **Economic, Small Business and Consumer Impact Summary:**

This rule became effective on October 26, 1979 and was last amended on August 4, 2007. The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the rulemaking.

11. **Probable Cost Benefit Analysis:**

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. **Proposed Course of Action:**

The Department proposes an amendment to the rule to make it more consistent with other rules in this Article by placing the subsection containing the definitions as the first subsection (Subsection A) of this rule.

ARTICLE 3. FINANCIAL PROVISIONS AND PROCEDURES

A.A.C. R20-6-303, R20-6-307

Information that is Identical for A.A.C. R20-6-303 and R20-6-307

1. **Authorization:**

The Department adopted these rules under the Director's general rulemaking authority pursuant to A.R.S. § 20-143. Additional authority for the adoption of R20-6-303 is provided by A.R.S. §§ 20-581 and 20-588.

2. **Objective of the Rules:**

R20-6-303. This rule provides for an orderly procedure for insurers to withdraw from the insurance business in Arizona and secure the release of deposits made pursuant to A.R.S. § 20-581 without placing policyholders, former policyholders or claimants in jeopardy.

R20-6-307. This rule and Table A, which identifies significant risks, prevents an insurer that cedes life or disability insurance from reporting an increase in assets or a decrease in liabilities as a result of a reinsurance transaction, if the reinsurance transaction does not provide for a transfer of insurance risk from the ceding insurer to the reinsurer. The rule also contains Table A which lists risk categories.

3. **Analysis of Effectiveness in Achieving Objectives:**

These rules generally achieve their objectives.

4. **Analysis of Consistency with State and Federal Statutes and Rules:**

These rules are consistent with state statutes and rules.

5. **Status of Enforcement of the Rules:**

The Department experiences no difficulty enforcing these rules.

6. **Clarity, Conciseness and Understandability of the Rules:**

These rules are well organized, do not contain unnecessary verbiage and are clear, concise and understandable in their present form. These rules are technical in nature and contain industry specific language necessary for proper enforcement of the rules and consistency with regulation in other states.

7. **Written Criticisms of the Rules during the Last Five Years:**

None.

8. **Economic, Small Business and Consumer Impact Summary:**

These rules are technical and procedural in nature. The Department has not identified anything that has happened in the past 5 years in conjunction with the adoption of the rules that has an economic impact upon the insurers, small businesses or consumers. The information received to date by the Department stemming from its enforcement of the rules has included no comments or suggestions that the rule contributes to costs different from those projected by the Department when it sought to adopt the rules.

9. **Outsider's Analysis of Business Competitiveness:**

None

10. **Course of Action from Previous Five-Year Review:**

Not applicable.

11. **Probable Cost Benefit Analysis:**

The rules' benefits outweigh, within this State, the costs of the rules and impose the least burden and costs to persons regulated by the rules, including paperwork and other compliance costs necessary to achieve the underlying regulatory objectives.

12. **Stringency:**

These rules are not more stringent than a corresponding federal law because there is no corresponding federal law.

13. **Compliance with § 41-1037:**

Not applicable.

14. **Proposed Course of Action:**

R20-6-303

This rule should remain unchanged.

R20-6-307

This rule should remain unchanged.

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ARTICLE 18. PREPAID DENTAL PLAN ORGANIZATIONS

A.A.C. R20-6-1801, R20-6-1802, R20-6-1803, R20-6-1804, R20-6-1805, R20-6-1806, R20-6-1807, R20-6-1808, R20-6-1809, R20-6-1810, R20-6-1811, R20-6-1812 and R20-6-1813

Information That is Identical Within Article 18 Rules

1. **Authorization:**

The Department adopted these rules under the Director's general rulemaking authority under A.R.S. § 20-143 and specific authority under A.R.S. §§ 20-1001 through 20-1019 and 20-2510. Under A.R.S. § 20-142, the Director has the authority to enforce Title 20 and has powers expressly conferred or reasonably implied by Title 20.

2. **Objective of the Rules:**

R20-6-1801. The purpose and objective of this rule is to establish definitions for Article 18.

R20-6-1802. This rule establishes requirements for application for a Certificate of Authority.

R20-6-1803. This rule establishes requirements for the chief executive officer.

R20-6-1804. This rule establishes the qualifications and functions of the dental director.

R20-6-1805. This rule establishes the requirements for reporting changes in the written program of compliance and the information that must be submitted to the Department quarterly or annually.

R20-6-1806. This rule establishes basic dental services.

R20-6-1807. This rule establishes the requirements for a system for delivery of services.

R20-6-1808. This rule establishes the requirements for designating the geographic areas that will be served by the Organization's prepaid dental plan.

R20-6-1809. This rule establishes the requirements for the Organization's contracts with providers.

R20-6-1810. This rule establishes the requirements for maintenance of member dental records and certain business records.

R20-6-1811. This rule establishes the standards for quality improvement.

R20-6-1812. This rule establishes the requirements for confidentiality of records.

R20-6-1813. This rule establishes the requirements for assignment of members to providers.

3. Analysis of Effectiveness in Achieving the Objectives:

These rules are effective in achieving their objectives.

4. Analysis of Consistency with State and Federal Statutes and Rules:

These rules are consistent with state statutes and the Department's rules. No Federal Statutes or Rules apply.

5. Status of Enforcement of the Rules:

The Department enforces these rules.

6. Clarity, Conciseness and Understandability of the Rules:

The rules are clear, concise and understandable.

7. Written Criticisms of the Rules during the Last Five Years:

None.

8. Economic, Small Business and Consumer Impact Summary:

The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for that rulemaking.

9. Outsider's Analysis of Business Competitiveness:

None

10. Completed Course of Action from Previous Five-Year Review:

The Department did not propose any course of action in the previous Five-Year Report in 2011.

11. Probable Cost Benefit Analysis:

The rules, with the changes recommended in this report, will impose the least burden and costs to persons regulated by the rules, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective. The rules, as proposed will eliminate confusion, reduce the requirement for

submission of duplicative information, reduce the frequency of reporting some information and will eliminate some reporting requirements altogether.

12. Stringency:

The rule is not more stringent than a corresponding federal law because there is no corresponding federal law.

13. Compliance with A.R.S. § 41-1037:

Not Applicable.

14. Proposed Course of Action:

The Department proposes changes to four rules: R20-6-1801 – Definitions; R20-6-1802 - Application for Certificate of Authority; R20-6-1805 - Required Reporting and R20-6-1811 - Quality Improvement.

The Department has no immediate plans to do this rulemaking.

Analysis of Individual Rules

R20-6-1801. Defintions

11. Probable Cost Benefit Analysis:

This rule, with the change recommended in this report, will impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

14. Proposed Course of Action:

The Department proposes a change to this rule to replace the word “Chapter” with “Article” in the opening sentence to reflect that the definitions only apply to Article 18.

R20-6-1802. Application for Certificate of Authority

11. Probable Cost Benefit Analysis:

The rule, with the changes recommended in this report, will impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective. The changes proposed will generally reduce duplicative information that the Prepaid Dental Plans must submit to the Department and reduce the regulatory burden to an applicant.

14. Proposed Course of Action:

The Department proposes deletion of the following subsections: (C), (D) and (F) because these sections are either duplicative of other A.R.S. Title 20 requirements or because they impose an unnecessary burden on the applicant. The remaining sections will need to be renumbered.

R20-6-1805. Required Reporting

11. Probably Cost Benefit Analysis:

The rule, with the changes recommended in this report, will impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective. The changes proposed will generally reduce duplicative information that the Prepaid Dental Plans must submit to the Department, change some reporting requirements from quarterly to annually and eliminate some requirements altogether.

The one proposed change from an annual reporting requirement to a quarterly reporting requirement is not expected to substantially increase the burden to Prepaid Dental Plans because they already maintain that data on a quarterly basis.

14. Proposed Course of Action:

The Department proposes changes to subsections (B)(3) and (B)(5) of this rule to more accurately reflect what it currently receives from the Prepaid Dental Plans on a quarterly basis.

The Department plans to delete subsection (B)(6) because the Department already maintains and publishes complaint data on its website.

The Department proposes to eliminate subsection (C)(2) as duplicative because the requirement for a recall system is already demonstrated in an organization's program of compliance to obtain a certificate of authority as well as through the facility reviews conducted under other rules.

The Department proposes to rewrite subsection (C)(3) to move the requirement pertaining to general dentists to the quarterly reporting requirement under subsection (B).

The Department proposes to strike subsection (C)(4) because compiling the data for this requirement has not proved to be relevant for Prepaid Dental Plan regulatory oversight.

R20-6-1808. Geographic Areas

11. Probably Cost Benefit Analysis:

The rule, with the changes recommended in this report, will impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective

14. Proposed Course of Action:

The Department proposes to rewrite subsection (B) to require a Prepaid Dental Plan to define its geographic areas only by local government jurisdictions, such as cities or counties.

R20-6-1811. Quality Improvement

11. Probable Cost Benefit Analysis:

The rule, with the change recommended in the report, will impose no new burden or cost to persons regulated under the rule.

14. Proposed Course of Action:

The Department proposes to replace the reference in subsection (E)(7)(e) from BODEX to the Council on Dental Education and Licensure, American Dental Association.

ARTICLE 20. CAPTIVE INSURERS

A.A.C. R20-6-2002

1. **Authorization:**

The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143 and specific authority under A.R.S. §§ 20-167(H), 20-1098, 20-1098.01(J), 20-1098.05, 20-1098.06, 20-1098.07 and 20-1098.08.

2. **Objective of the Rule:**

R20-6-2002. This rule establishes fees for the issuance and renewal of a captive insurer license under A.R.S. § 20-167(H) and to clarify that costs a captive insurer must pay for any examination the Director conducts are in addition to the license issuance and renewal fees.

3. **Analysis of Effectiveness in Achieving the Objective:**

This rule effectively achieves its objective.

4. **Analysis of Consistency with State and Federal Statutes and Rules:**

This rule is generally consistent with state statutes and the Department's rules. As a result of a statutory change subsequent to rulemaking in 2005, two citations to statutory subsections are incorrect. The Department will promulgate a rulemaking after the Moratorium is lifted.

5. **Status of Enforcement of the Rule:**

The Department enforces this rule.

6. **Clarity, Conciseness and Understandability of the Rule:**

The rule is clear, concise and understandable.

7. **Written Criticisms of the Rule during the Last Five Years:**

None.

8. **Economic, Small Business and Consumer Impact Summary:**

The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for this rulemaking.

9. **Outsider's Analysis of Business Competitiveness:**

None

10. Completed Course of Action from Previous Five-Year Review :

The Department had proposed to correct two citations to statutory subsections that are incorrect by requesting that the Secretary of State make those corrections. Those corrections do not appear to have been made.

11. Probable Cost Benefit Analysis:

The rule's benefits outweigh, within this State, the costs of the rule and impose the least burden and costs to persons regulated by the rule, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

12. Stringency:

The rule is not more stringent than a corresponding federal law because there is no corresponding federal law.

13. Compliance with A.R.S. § 41-1037:

Not applicable.

14. Proposed Course of Action:

The Department will promulgate a rulemaking to correct the statutory citations that have not been corrected by the Secretary of State once the Moratorium is lifted. The Department proposes to change the following incorrect statutory references in subsection A: first reference to A.R.S. § 20-1098 to A.R.S. § 20-1098.01; and second reference to A.R.S. § 20-1098 to A.R.S. § 20-1098(22).

ARTICLE 23. THRESHOLD RATE REVIEW – INDIVIDUAL HEALTH INSURANCE

A.A.C. R20-6-2301, R20-6-2302, R20-6-2303, R20-6-2304 and R20-6-2305

Information that is Identical within Article 23 Rules

1. **Authorization:**

The Department adopted this rule under the Director's general rulemaking authority under A.R.S. § 20-143 and specific authority under A.R.S. § 20-238. Additionally, 45 CFR 154.301(a)(5), a rule promulgated pursuant to the Affordable Care Act, allows a state to determine the standard for effective rate review by regulation.

2. **Objective of the Rules:**

R20-6-2301. The purpose and objective of this rule is to establish applicability of Article 23 to rates charged by health insurers for individual health insurance and to define relevant terms.

R20-6-2302. This rule establishes the requirement for the submittal of a preliminary justification when an insurer submits a threshold rate increase to the Department.

R20-6-2303. This rule establishes the timing by which an insurer must submit a preliminary justification to the Department, and establishes the Department's obligation to public portions of the preliminary justification and to provide a mechanism for public comment on proposed rate increases.

R20-6-2304. This rule gives a submitting insurer options for when the Department finds that a threshold rate increase is unreasonable.

R20-6-2305. This rule establishes the requirements for sufficient documentation the insurer must submit when it requests a threshold rate increase.

3. **Analysis of Effectiveness in Achieving the Objectives:**

These rules achieve their objectives.

4. **Analysis of Consistency with State and Federal Statutes and Rules:**

These rules are consistent with state statutes and rules and the Federal Affordable Care Act rule, 45 CFR 154.301(a)(5).

5. **Status of Enforcement of the Rules:**

The Department has no difficulty enforcing these rules.

6. **Clarity, Conciseness and Understandability of the Rules:**

These rules are generally clear and understandable.

7. **Written Criticisms of the Rules during the Last Five Years:**

None.

8. **Economic, Small Business and Consumer Impact Summary:**

The Department has not identified any economic impact that is significantly different from that projected in the economic impact statement for the original rulemaking. This is the rules' first 5 year review.

9. **Outsider's Analysis Business Competitiveness:**

None

10. **Completed Course of Action from Previous Five-Year Review:**

The rules became effective on October 3, 2012. This is the first Five-Year Report for Article 23.

11. **Probable Cost Benefit Analysis:**

The rules' benefits outweigh, within this State, the costs of the rules and impose the least burden and costs to persons regulated by the rules, including paperwork and other compliance costs necessary to achieve the underlying regulatory objective.

12. **Stringency:**

The rules are not more stringent than the corresponding federal law because the corresponding federal law requires the Department to promulgate rules.

13. **Compliance with A.R.S. § 41-1037:**

Not applicable.

14. Proposed Course of Action:

The Department will seek some minor technical corrections to these rules in the future in order to conform with changes to the federal rules.

Analysis of Individual Rules

R20-6-2301. Applicability; Definitions

14. Proposed Course of Action:

The Department proposes to update or add new definitions to reflect changes to the federal rules. Specifically to add a new definition for “Plan” and to update definitions for “Product” and “Rate Increase.”

R20-6-2302. Disclosure of Preliminary Justification

14. Proposed Course of Action:

The Department proposes to add language to subsection A to include plans within a product.

R20-6-2305. Threshold Rate Increase Documentation Requirements

14. Proposed Course of Action:

The Department proposes to add language to subsection B.3. to include actuarial values and to add three more submission requirements to reflect the impacts of geographic factors and variations, the impact of changes within a single risk pool to all products or plans within the risk pool and the impact of reinsurance and risk adjustment payments and changes.