

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-48896; File No. SR-NSCC-2003-18]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to an Enhancement to the Insurance Processing Service

December 9, 2003.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on September 22, 2003, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by NSCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change will modify NSCC's Rule 57, Section 1, to allow NSCC's members, insurance carrier members, and data services-only members to submit application information and to settle premium payments with respect to life insurance products by adding a new service called Portal.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NSCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.<sup>2</sup>

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to enhance NSCC's Insurance Processing Service ("IPS") by allowing

NSCC's members, insurance carrier members, and data services only members to submit application information and to settle premium payments with respect to life insurance products.

Unlike other parts of the financial services industry, the life insurance and annuity industries rely heavily on manual processing and one-off communications to process the sale of their products. The lack of technology, absence of standards, and resulting lengthy delays in the sales process contribute to a typical lag of 30 to 90 days between the initial sale by the sales person or distributor and the issuance by the insurance carrier of a life insurance policy.

IPS currently offers many services that help automate and standardize certain aspects of the processing of annuities and life insurance. However, there are many aspects of this processing that fall outside of current IPS capabilities. For example, IPS currently allows its users to transmit information through IPS regarding annuities applications as part of the Initial Application Information ("APP") function, but the APP function does not accommodate life insurance applications. In addition, not all potential users of IPS have programmed their systems to allow full access to existing IPS services.

To remedy some of the problems outlined above, NSCC proposes to introduce a system called "Portal" that will handle annuities and life insurance applications through APP. Users will access Portal through a software package provided by NSCC that will allow users to more easily access certain IPS functions without undertaking all of the internal programming that they would otherwise have to do.

In addition, because there are other functions that distributors of life insurance and annuity products must perform between the sale of the product and its issuance, NSCC is contracting with third party service providers that offer these functions. These functions include producer education (*i.e.*, registered representatives who work for members or data services only members who help distributors and producers fulfill their educational requirements for offering products under state law); producer licensing (helps to streamline the licensing process for distributors to have their producers become licensed by states and facilitates the exchange of information relating to licensees); product profile repository (provides a database of generic details regarding individual life insurance and annuity products); electronic submission of new

business (provides electronic application forms of various insurance carriers that can be filled out and transmitted electronically); call center (teleunderwriting that gathers data required for an annuity or life insurance application provided by applicants); requirements ordering (arranges with third parties for medical examinations, review of driving records, credit history check, etc.); and case management (manages the case, including obtaining all necessary information for the electronic application prior to the underwriting process, oversees the integration of information from the call center and requirements outsourcing processes, and performs quality assurance functions).

NSCC will charge Portal users through the NSCC settlement system.<sup>3</sup> The users will be subject to the service standards offered to NSCC by these service providers. Portal will be subject to the same liability standard as with other features of IPS.<sup>4</sup>

NSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act and the rules and regulations thereunder since it will facilitate the prompt and accurate processing of transactions.

##### B. Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change will have an impact on or impose a burden on competition.

##### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

No written comments relating to the proposed rule change have been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

#### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section

<sup>3</sup> The proposed fee schedule for Portal users is being developed and will be filed with the Commission at a later date.

<sup>4</sup> NSCC's Rule 57, Section 6 states: "[NSCC] will not be responsible for the completeness or accuracy of the IPS Data received from or transmitted to an Insurance Carrier Member, Member or Data Services Only Member through IPS nor for any errors, omissions or delays which may occur in the absence of gross negligence on [NSCC]'s part, in the transmission of such IPS Data to or from an Insurance Carrier Member, or Data Services Only Member."

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> The Commission has modified the text of the summaries prepared by NSCC.