

File No. SR-NSCC-2003-18

Securities and Exchange Commission  
Washington, D.C. 20549

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Form 19b-4

Proposed Rule Change

By

NATIONAL SECURITIES CLEARING CORPORATION

Pursuant to Rule 19b-4 under the  
Securities Exchange Act of 1934

1. Text of Proposed Rule Change.

(a) The proposed rule change consists of an enhancement to the Insurance Processing Service (“IPS”) of the National Securities Clearing Corporation (“NSCC”). The enhancement will allow Members, Insurance Carrier Members and Data Services Only Members of NSCC to transmit data and information relating to life insurance and annuities applications and, where applicable, settle payments relating thereto, all as further described below. NSCC’s Rule 57, Section 1 is proposed to be amended as set forth in Exhibit A hereto.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization.

(a) Not applicable.

(b) Contact regarding questions and comments:

Jeffrey T. Waddle (212) 855-3260.

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

(a) The purpose of the proposed rule change is to propose an enhancement to IPS.

The enhancement is referred to herein as the life and annuity portal, or the “Portal”.

Unlike other parts of the financial services industry, such as in the equity and mutual fund markets, the life insurance and annuity industries rely heavily on manual processing and one-off

communications links to process the sale of their products. The lack of technology, absence of standards and resulting lengthy delays in the process contribute to a typical lag, for example, 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 has many existing services that have added to automation and standardization in 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 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 is proposing to introduce the Portal. The Portal will handle both annuities and life insurance, and therefore as part of this filing, NSCC proposes to amend its rules to allow APP to accommodate life insurance as well as annuities. The functioning of APP for life insurance will be substantially similar to the functioning of APP for annuities.

In addition, users of the Portal will access the Portal using a software package available to users from NSCC. The Portal software package will also allow users to more easily access certain IPS functionality without undertaking all of the internal programming that they would otherwise

typically have to do.

Finally, there are other functions that distributors of life insurance and annuity products must perform between sale of the product and its issuance. As part of the Portal, NSCC is contracting with third party service providers that offer these functions in the life insurance and annuities markets. These functions include producer (i.e., registered representatives who work for Members or Data Services Only Members) education (helps distributors to help their 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 (tele-underwriting – 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 users for use of the Portal through the NSCC settlement system.<sup>1</sup> The users will be subject to the service standards offered to NSCC by these service providers.

The Portal will be subject to the same liability standard as others features of IPS.<sup>2</sup>

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder, since it will facilitate the prompt and accurate processing of transactions.

4. Self-Regulatory Organization's Statement on Burden on Competition.

NSCC does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, in the public interest, and for the protection of investors.

5. 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 Securities and Exchange Commission (the "Commission") of any

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1 Proposed fee schedule for users of the Portal is being developed and will be filed with the Commission shortly.

2 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."

written comments received by NSCC.

6. Extension of Time Period for Commission Action.

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2).

(a) The proposed rule change is to take effect pursuant to paragraph (A) of Section 19(b)(3) of the Act.

(b) The proposed rule change effects a change that does not significantly affect the protection of investors or the public interest; and does not impose any significant burden on competition. NSCC requests that the Commission designate that this change may become operative on or before October 10, 2003.

(c) Not applicable.

(d) Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission.

The proposed rule change is not based on a rule either of another self-regulatory organization or of the Commission.

9. EXHIBITS

Exhibit A Text of Proposed Rule Change to NSCC Rule 57, Section 1.

Exhibit B Notice of the proposed rule change for publication in the Federal Register.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the self-regulatory organization has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL SECURITIES CLEARING CORPORATION

By: Richard B. Nesson  
Richard B. Nesson  
Managing Director

**Exhibit A**

**Underlined, boldface** text indicates additions

~~[Bracketed, struck out]~~ text indicates deletions

**Modify NSCC's Rule 57, Section 1 as follows:**

Rule 57. SEC 1. The Corporation may provide a service to enable (i) Members, Insurance Carrier Members and Data Services Only Members to transmit such data and information as the Corporation may determine from time to time (the "IPS Data"), including, but not limited to, information related to insurance applications and initial premium payments ("Application Information")<sup>[3]</sup>, subsequent premium payments ("Subsequent Premium Information"), and events and/or transactions occurring in respect of existing insurance contracts ("Financial Activity Information"); and (ii) Members and Insurance Carrier Members to settle payments relating to insurance products between themselves. Such services shall be known as the Insurance Processing Service ("IPS") and will be accomplished in accordance with the provisions of this Rule.

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~~[<sup>2</sup> The Corporation does not currently offer members the ability to submit Application Information, or settle premium payments with respect to, life insurance products.]~~

**Exhibit B**

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- ; File No NSCC-2003-18)

Proposed rule change by NATIONAL SECURITIES CLEARING CORPORATION ("NSCC") regarding an enhancement to the Insurance Processing Service ("IPS").

Comments requested within days after the date of this publication.

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"), 15 U.S.C. 78s(b)(1), notice is hereby given that on , 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 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 consists of an enhancement to IPS. The enhancement will allow Members, Insurance Carrier Members and Data Services Only Members of NSCC to transmit data and information relating to life insurance and annuities applications and, where applicable, settle payments relating thereto, all as further described below. NSCC's Rule 57, Section 1 is proposed to be amended as set forth in Exhibit A hereto.



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.

(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 propose an enhancement to IPS. The enhancement is referred to herein as the life and annuity portal, or the "Portal".

Unlike other parts of the financial services industry, such as in the equity and mutual fund markets, the life insurance and annuity industries rely heavily on manual processing and one-off communications links to process the sale of their products. The lack of technology, absence of standards and resulting lengthy delays in the process contribute to a typical lag, for example, 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 has many existing services that have added to automation and standardization in 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 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 is proposing to introduce the Portal. The Portal will handle both annuities and life insurance, and therefore as part of this filing, NSCC proposes to amend its rules to allow APP to accommodate life insurance as well as annuities. The functioning of APP for life insurance will be substantially similar to the functioning of APP for annuities.

In addition, users of the Portal will access the Portal using a software package available to users from NSCC. The Portal software package will also allow users to more easily access certain IPS functionality without undertaking all of the internal programming that they would otherwise typically have to do.

Finally, there are other functions that distributors of life insurance and annuity products must perform between sale of the product and its issuance. As part of the Portal, NSCC is contracting with third party service providers that offer these functions in the life insurance and annuities markets. These functions include producer (i.e., registered representatives who

work for Members or Data Services Only Members) education (helps distributors to help their 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 (tele-underwriting – 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 users for use of the Portal through the NSCC settlement system.<sup>1</sup> The users will be subject to the service standards offered to NSCC by these service providers.

The Portal will be subject to the same liability standard as others features of IPS.<sup>2</sup>

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1 Proposed fee schedule for users of the Portal is being developed and will be filed with the Commission shortly.

2 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

(b) The proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (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 19(b)(3) of the

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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."

Act and subparagraph (f) of Securities Exchange Act rule 19b-4. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments.

Interested persons are invited to submit written data, views and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the rule filing that are filed with the Commission, and all written communications relating to the rule filing between the Commission and any person, other than those that may be withheld from the public in accordance with provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room in Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All submissions should refer to the file number in the caption above and should be submitted within days after the date of this publication.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.

Jonathan G. Katz  
Secretary

Dated: