INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

COMPACT

2017

ANNUAL REPORT

2017

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LETTER FROM THE OFFICERS

The Insurance Compact continued to showcase its transformative effect on state-based product regulation for annuities, life, long-term care, and disability income insurance products in a time where innovation in design, delivery, and demand is rapidly evolving. The Insurance Compact is the innovative regulatory paradigm for state-based product approval allowing insurers to dramatically reduce the time and costs involved in rolling out an asset protection insurance product. At the same time, Compacting States receive the direct benefit that these products have been thoroughly reviewed under strong and detailed consumer protection standards.

2017 was a year of forward momentum for the Insurance Compact growing in many areas including the number of registered companies, product filing submissions and approvals. We also grew in terms of members when Connecticut officially became the 45th Compacting State. Companies can now receive one approval on behalf of Compacting States that collectively represent more than three-quarters of the nationwide premium volume in an average turnaround time of 20 review days – now that is Speed-to-Market!

The Insurance Compact members tackled several substantive matters in 2017 including the Five-Year Review of individual Uniform Standards across all product lines. These efforts considered amendments to several Uniform Standards to reflect changes in NAIC models and state regulation as well as the evolving marketplace for these products. The Insurance Compact also solicited input on new product development and innovation and its impact on developing new Uniform Standards, an initiative which will continue into 2018 along with the development of group annuity Uniform Standards.

For the second time in the past five years, the U.S. Treasury Department issued a report where it recognized the Insurance Compact as a premier example of states working together to agree upon and embrace uniformity and efficiency in insurance regulation. This mutual recognition in different legislatures and administrations is testament to the power of collaboration and cooperation among the Compacting States to agree to detailed product requirements with stringent, yet balanced, consumer protections. Through the Insurance Compact, uniform product forms can be issued across the Compacting States and at the same time, each State maintains sovereign authority over what and how these products are sold in their marketplace. The state-based result is increased consumer choice, competitive speed-to-market in the financial services sector, and overall decreased costs for insurers and their consumers.

The Insurance Compact Bylaws were updated for the first time in 10 years to better align with a maturing tax-exempt organization. The membership adopted *Guidelines for Input by the Office of the Interstate Insurance Product Regulation Commission in Third-Party Litigation*, which was timely as the Insurance Compact Office submitted an amicus curiae or “friend of the court” brief, for the first time in its history, to the federal court in the District of Colorado with respect to application of the principles of compact and constitutional law to the Interstate Insurance Product Regulation Compact and the Uniform Standards.

We invite you to review the Insurance Compact’s 2017 achievements, which reflect the commitment of Commissioners, regulators, legislators, consumer representatives, company filers, and industry representatives to engage constructively in order to develop balanced and detailed product standards to protect insurance-buying consumers – the hallmark of state-based insurance regulation. We look forward to working together in 2018 to continue the Compact’s mission and momentum.

OFFICERS

Director
Jillian Froment
Chair

Superintendent
Elizabeth Kelleher Dwyer
Vice Chair

Director
Dean L. Cameron
Treasurer

PAST OFFICERS IN 2017

Commissioner
Jacqueline K. Cunningham
Chair

Superintendent
Eric A. Cioppa
Vice Chair

LETTER FROM THE EXECUTIVE DIRECTOR

On behalf of the Insurance Compact Office, I wish to thank the dedicated Commissioners, regulators, state legislators, consumer representatives, industry representatives, and company filers who have supported the activities and success of the organization. It is never lost on the Insurance Compact Office that the Commission is not a separate, isolated body but an extension of each of our Compacting States serving both the executive and legislative branches of our member states to ensure the purpose and mission of the Compact is fulfilled in a transparent, consumer-focused manner.

In 2017, the Insurance Compact marked the tenth anniversary of its first product approval. Since July 2007, the Insurance Compact has approved close to 6,500 insurance products filed by more than 250 insurance companies for use in up to 45 Compacting States. The breadth of the Compact's product approval process is better appreciated when realizing the number of state-by-state transactions would have equaled at least 200,000 separate product filings.

The transformative effect of the Insurance Compact delivers quantifiable cost and time savings and efficiencies for Compacting States, insurance companies and consumers. Through the collaboration of Commissioners, regulators, legislators, and industry and company representatives, insurance companies can use 100 Uniform Standards to file products for individual life, annuities, long-term care, and disability income insurance and group term life and disability income insurance product lines. Companies that regularly use the Insurance Compact report that all aspects of product development and administration are positively impacted by being able to prepare, file, program, test, deploy, and administer standard product forms across the Compacting States. As of July 2017, the Compacting States include Connecticut, representing over three-quarters of the nationwide premium volume.

While the Product Standards Committee kept busy with Five-Year Review of adopted Uniform Standards – primarily for individual long-term care insurance and disability income insurance - the Insurance Compact Office handled its first in-force rate increase request for a Compact-approved individual long-term care insurance product. Since the request exceeded 15%, the Insurance Compact Office performed a detailed, analytical advisory review for the purpose of assisting Compacting States in their review of this request for a uniform rate increase.

A fully-staffed Insurance Compact Office increased its efficiency in product filing review handling a record 1,132 products submitted and more than 260 formal pre-filing communications. Most impressively, the number of transactions that would have been required state-by-state increased by the largest amount in the Insurance Compact's operational history demonstrating that more companies have their full suite of products filed and approved through the Insurance Compact. The percentage of mix and match filings dropped to 44% from 50% the previous year, another indication that companies continue to convert their new business portfolios to the Insurance Compact. In 2017, the Compact Office published and implemented filing guidance allowing limited revision of approved products in a streamlined fashion, leading to greater transparency, additional product filings, and shorter review time.

Thank you for supporting the achievements and continued development of the Insurance Compact. We look forward to continuing this work in 2018.

Karen Z. Schutter

Karen Z. Schutter

Executive Director

COMMITTEE ACTIVITIES

The Insurance Compact relies upon the regulatory expertise in the members' states to develop, adopt, and oversee implementation of Uniform Standards, Rules, and Operating Procedures as well as the budget, technology platform, and the Insurance Compact's outreach efforts. The Management Committee is charged with managing the affairs of the Commission and looks to the following Insurance Compact committees to formulate recommendations and solicit public comments on a variety of rulemaking and operational matters.

The **Communications Committee** handles the outreach agenda for the Insurance Compact and oversees the informational webinars offered to member regulators and industry filers; as well as promote dialogue between regulators, companies, legislators, and others.

2017: Ted Nickel (WI), Chair; Ralph T. Hudgens (GA), Vice Chair

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The **Finance Committee** monitors the finances of the Insurance Compact. In 2017, the Finance Committee prepared the annual budget, including monitoring the actual and projected revenues and expenses, as well as resource levels. In 2017, update to the Filing Fee Structure was proposed and adopted as well as amendments to the Filing Fee Rule – *IIPRC Terms and Procedures for IIPRC Filing Fees*.

2017: Jillian Froment (OH), Chair; Dean L. Cameron (ID), Vice Chair

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The **Product Standards Committee** reviews and recommends uniform standards to the Management Committee. In 2017, the Product Standards Committee reviewed and amended 20 Uniform Standards, 16 under the Five-Year Review process. Additionally, the Product Standards Committee began the Five-Year Review process for the individual disability income Uniform Standards.

2017: Chlora Lindley-Myers (MO), Chair; Jessica Looman (MN), Vice Chair

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The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto. In 2017, the Rulemaking Committee reviewed and proposed amendments to the Compact Bylaws and developed procedures for third-party litigation.

2017: Jacqueline K. Cunningham (VA), Chair; Elizabeth Kelleher Dwyer (RI), Vice Chair

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The **Technology Committee** reviews and recommends any enhancements to the Insurance Compact filing platform within the NAIC's System for Electronic Rate and Form Filing (SERFF) as well as monitors the technology needs for the Insurance Compact.

2017: Mike Causey (NC), Chair; John D. Doak (OK), Vice Chair

The **Audit Committee** regularly reviews the Insurance Compact's financial accounts and reports and oversees the independent audit process including retaining and working with the independent auditors.

2017: Bruce R. Ramge (NE), Chair; Roger A. Sevigny (NH), Vice Chair

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MEMBERSHIP (AS OF DECEMBER 31, 2017)

Jim L. Ridling
Commissioner, Alabama
Department of Insurance

Lori K. Wing-Heier
Director, Alaska
Division of Insurance

Leslie R. Hess
Interim Director, Arizona
Department of Insurance

Allen W. Kerr
Commissioner, Arkansas
Insurance Department

Marguerite Salazar
Commissioner, Colorado
Division of Insurance

Katharine L. Wade
Commissioner,
Connecticut Insurance
Department

Ralph T. Hudgens
Commissioner, Georgia
Office of Insurance & Fire
Safety Commissioner

Gordon I. Ito
Commissioner, Hawaii
Insurance Division

Dean L. Cameron
Director, Idaho
Department of Insurance

Jennifer Hammer
Director, Illinois
Department of Insurance

Stephen W. Robertson
Commissioner, Indiana
Department of Insurance

Doug Ommen
Commissioner, Iowa
Insurance Division

Ken Selzer
Commissioner, Kansas
Insurance Department

Nancy G. Atkins
Commissioner, Kentucky
Department of Insurance

James J. Donelon
Commissioner, Louisiana
Department of Insurance

Eric A. Cioppa
Superintendent, Maine
Bureau of Insurance

Al Redmer, Jr.
Commissioner, Maryland
Insurance Administration

Gary Anderson
Commissioner,
Massachusetts
Division of Insurance

Patrick M. McPharlin
Director, Michigan
Department of Insurance
& Financial Services

Jessica Looman
Commissioner, Minnesota
Department of Commerce

Mike Chaney
Commissioner, Mississippi
Insurance Department

Chlora Lindley-Myers
Director, Missouri
Department of Insurance

Matthew M. Rosendale
Commissioner, Montana
Commissioner of Securities
& Insurance

Bruce R. Ramge
Director, Nebraska
Department of Insurance

Barbara D. Richardson
Commissioner, Nevada
Division of Insurance

Roger A. Sevigny
Commissioner, New Hampshire
Insurance Department

Richard J. Badolato
Commissioner, New Jersey
Department of Banking &
Insurance

John G. Franchini
Superintendent, New Mexico
Office of Superintendent of
Insurance

Mike Causey
Commissioner, North Carolina
Department of Insurance

Jillian Froment
Director, Ohio
Department of Insurance

John D. Doak
Commissioner, Oklahoma
Insurance Department

Cameron Smith
Acting Director, Oregon
Division of Financial Regulation

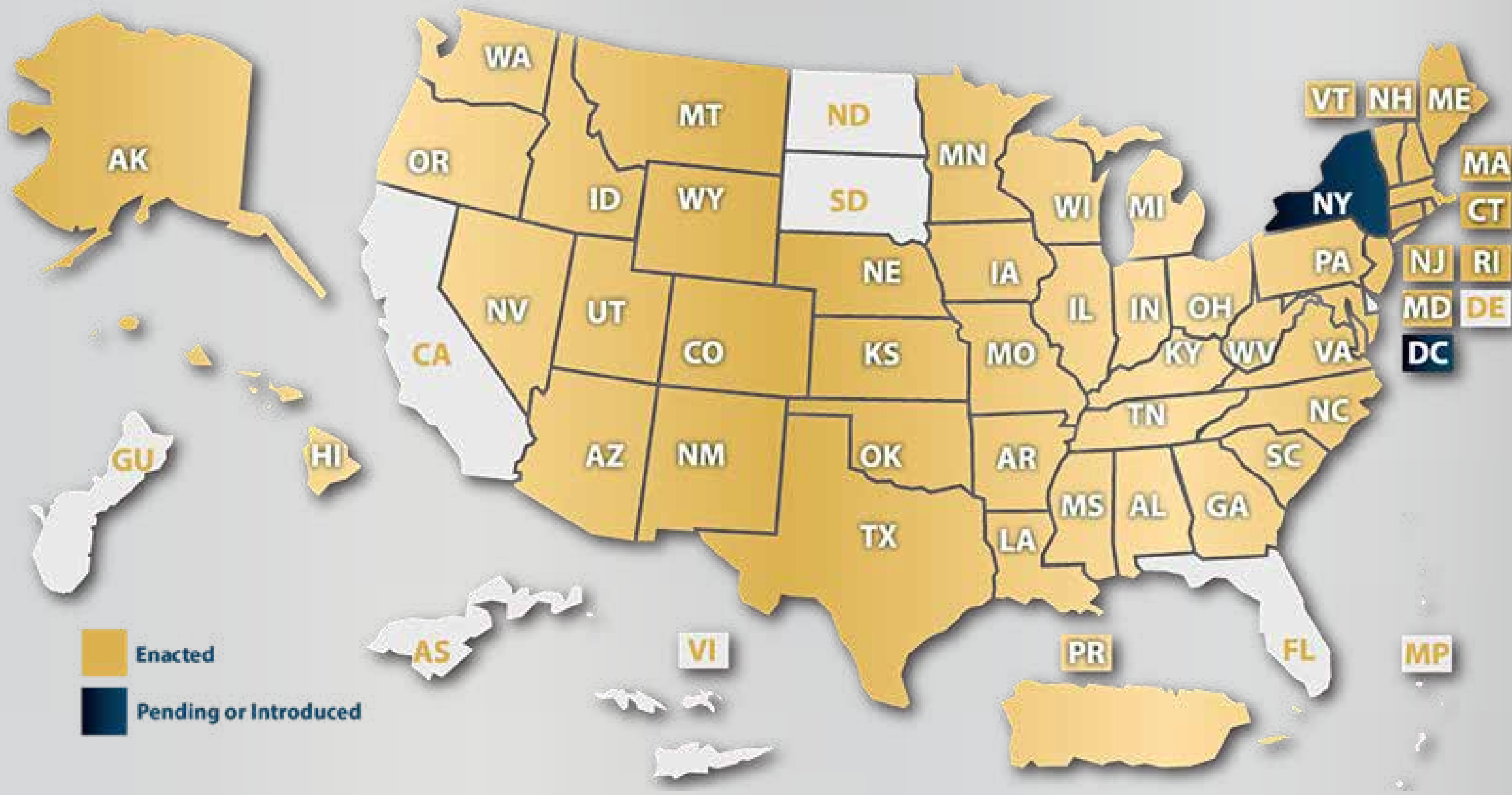
Jessica K. Altman
Acting Commissioner,
Pennsylvania
Insurance Department

Javier Rivera Rios
Commissioner, Puerto Rico
Office of the Commissioner of
Insurance

Elizabeth Kelleher Dwyer
Superintendent, Rhode Island
Division of Insurance

Raymond G. Farmer
Director, South Carolina
Department of Insurance

COMPACT



Julie Mix McPeak
Commissioner, Tennessee Department of Commerce and Insurance

Kent Sullivan
Commissioner, Texas Department of Insurance

Todd E. Kiser
Commissioner, Utah Insurance Department

Michael S. Pieciak
Commissioner, Vermont Department of Financial Regulation

Jacqueline K. Cunningham
Commissioner, Commonwealth of Virginia State Corporation Commission, Bureau of Insurance

Mike Kreidler
Commissioner, Washington Office of the Insurance Commissioner

Allan L. McVey
Commissioner, West Virginia Offices of the Insurance Commissioner

Ted Nickel
Commissioner, Wisconsin Office of the Commissioner of Insurance

Tom Glause
Commissioner, Wyoming Insurance Department

2017 Past Members Who Served

Anne Melissa Dowling, Illinois

Brian Maynard, Kentucky

Daniel R. Judson, Massachusetts

Mike Rothman, Minnesota

John M. Huff, Missouri

Mary Taylor, Ohio

Laura Cali Robison, Oregon

Jean M. Straight, Oregon

Teresa D. Miller, Pennsylvania

Angela Weyne, Puerto Rico

David Mattax, Texas

Michael D. Riley, West Virginia

MANAGEMENT COMMITTEE

The Management Committee is formed on an annual basis during the Annual Meeting and is comprised of fourteen members representing three tiers of the premium volume. The Compact State's premium volume, as calculated by the National Association of Insurance Commissioners (NAIC) based on the records of the preceding year, determines which tier a member may represent. The first tier members are from the six Compacting States with the largest premium volume. The second tier is comprised of four members from Compacting States with at least 2% of the market share based on the premium volume. These four members are selected on a rotating basis. The third tier is four members elected from each of the four NAIC Zones and represent Compacting States with less than 2% of the premium volume. The Officers are selected by the Commission from the membership of the Management Committee during the Annual Meeting to serve in the following calendar year.

Management Committee, 2017 - 2018

Jillian Froment, Ohio, Chair
Elizabeth Kelleher Dwyer, Rhode Island, Vice Chair
Dean L. Cameron, Idaho, Treasurer
Ralph T. Hudgens, Georgia
Jennifer Hammer, Illinois
Stephen W. Robertson, Indiana
Doug Ommen, Iowa
Al Redmer, Jr., Maryland
Patrick M. McPharlin, Michigan
Richard J. Badolato, New Jersey
Mike Causey, North Carolina
Jessica K. Altman, Pennsylvania
Kent Sullivan, Texas
Allan L. McVey, West Virginia

Management Committee, 2016 - 2017

Jacqueline K. Cunningham, Virginia, Chair
Eric A. Cioppa, Maine, Vice Chair
Jillian Froment, Ohio, Treasurer
Dean L. Cameron, Idaho
Jennifer Hammer, Illinois
Gary D. Anderson, Massachusetts
Patrick M. McPharlin, Michigan
Mike Chaney, Mississippi
Chlora Lindley-Myers, Missouri
Richard J. Badolato, New Jersey
John D. Doak, Oklahoma
Jessica K. Altman, Pennsylvania
Kent Sullivan, Texas
Ted Nickel, Wisconsin

COMPACT

LEGISLATIVE COMMITTEE

Senator Travis Holdman, Chair
State of Indiana

Representative Sam Kito III, Vice Chair
State of Alaska

Senator Jason Rapert
State of Arkansas

Senator Rosalyn H. Baker
State of Hawaii

Representative Steve Riggs
Commonwealth of Kentucky

Senator Delores Kelley
State of Maryland

Senator Robert D. Hackett
State of Ohio

Representative Bill Botzow
State of Vermont

ADVISORY COMMITTEES

Consumer Advisory Committee

- AARP
  James McSpadden, Senior Legislative Representative
- Autism Speaks
  Angela Lello, Director, Housing and Community Living
- Center for Insurance Research
  Brendan Bridgeland, Policy Director and Staff Attorney
- Consumer Liaison Representative
  Fred Nepple
- NAIC Consumer Liaison Representative
  Sonja Larkin-Thorne
- National Alliance on Mental Illness
  Andrew Sperling, Director, Federal Legislative Advocacy

Industry Advisory Committee

- American Council of Life Insurers (ACLI)
  Rod Perkins, Vice President, Insurance Regulation
- America's Health Insurance Plans (AHIP)
  Amanda Matthiesen, Senior Policy Director
- Insured Retirement Institute (IRI)
  Jason Berkowitz, Vice President and Counsel, Regulatory Affairs
- National Association of Insurance and Financial Advisors (NAIFA)
  Steve Kline, Director, State Government Relations
- MassMutual Financial Group
  Hugh Barrett, Assistant Vice President, Government Relations
- Northwestern Mutual Life Insurance Company
  Angela Schaaf, Assistant Director - Product Compliance
- Nationwide
  Charles Perin, Senior Consultant, Office of Government Relations
- Pacific Life
  Michael Hitchcock, Product Compliance Director

2017

INSURANCE COMPACT MILESTONES

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- Completed the Five-Year Review of the Individual LTC Uniform Standards and began the Five-Year Review process on the adopted Individual Disability Income Uniform Standards
- Connecticut became the 45th Compacting State effective for filing with Mix and Match percentage = 44%
- 228 companies registered with 1,132 products submitted and 976 products approved with an average review time of 20 days
- 137 filings amended

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- Adopted Group Disability Income Uniform Standards; 100 Uniform Standards adopted
- 45 Compacting States with Mix and Match percentage = 50%
- 226 companies registered with 1,059 products submitted and 976 products approved with an average review time of 30 days
- 229 filings amended

15

- 44 Compacting States with Mix and Match percentage = 51%
- 205 companies registered with 863 products submitted and 829 products approved with an average review time of 33 days
- 197 filings amended

14

- 44 Compacting States with Mix and Match percentage = 55%
- 198 companies registered with 999 products submitted and 879 products approved with an average review time of 27 days
- 220 filings amended

13

- Adopted Group Term Life Uniform Standards (Employer Group); 93 Uniform Standards
- 43 Compacting States with Mix and Match percentage = 57%
- 182 companies registered with 806 products submitted and 769 products approved with an average review time of 28 days
- 251 filings amended

12

- Adopted 4 Group Term Uniform Standards; 86 Uniform Standards
- 41 Compacting States with Mix and Match percentage = 62%
- 167 companies registered with 744 products submitted and 625 products approved with an average review time of 23 days
- 157 filings amended

INSURANCE COMPACT MILESTONES

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- Adopted 9 DI Uniform Standards; 82 Uniform Standards
- 41 Compacting States with Mix and Match percentage = 63%
- 133 companies registered with 464 products submitted and 436 products approved with an average review time of 38 days
- 361 filings amended

10

- Adopted Individual LTC Uniform Standards; 69 Uniform Standards
- 38 Compacting States with Mix and Match percentage = 63%
- 113 companies registered with 368 products submitted and 320 products approved with an average review time of 42 days
- 233 filings amended

09

- 54 Uniform Standards
- 36 Compacting States with Mix and Match percentage = 75%
- 75 companies registered with 244 products submitted and 279 products approved with an average review time of 28 days
- 185 filings amended

08

- 49 Uniform Standards
- 33 Compacting States with Mix and Match percentage = 75%
- 39 companies registered with 106 products submitted and 126 products approved with an average review time of 25 days
- 59 filings amended

07

- 31 Uniform Standards
- 30 Compacting States with Mix and Match percentage = 100%
- 36 products submitted and 29 products approved; first Insurance Compact filing submitted June 22nd and approved in under 30 days
- 11 filings amended

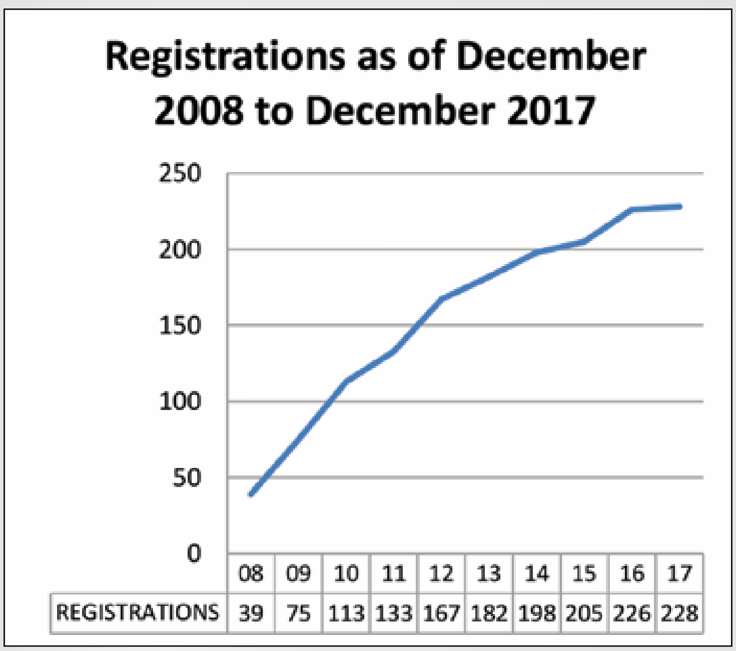
2017

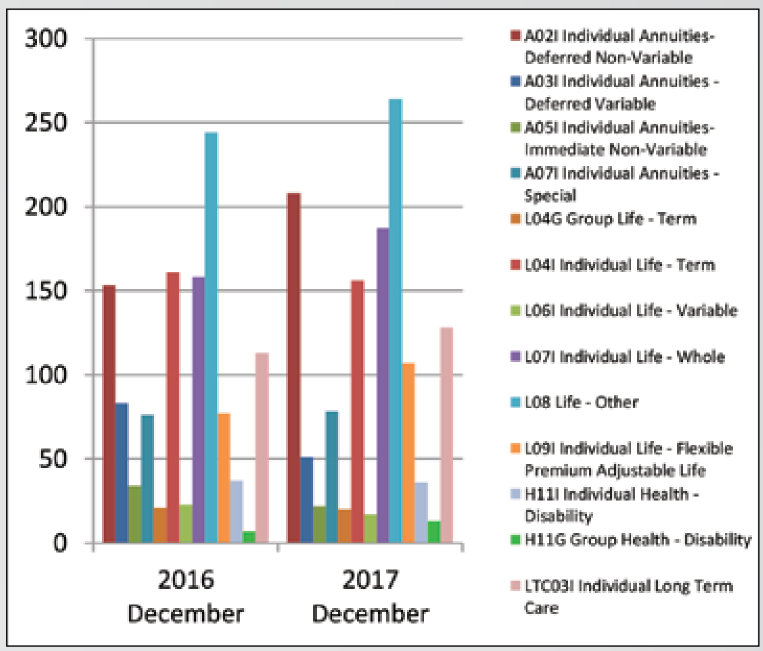
PRODUCT FILING STATISTICS

The tables below provide statistics on the product filings submitted to the Insurance Compact since first accepting product filings in June 2007 through December 31, 2016.

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Companies Registered	228	226	205	198	182	167	133	113	75	39
Products Received	1,132	1,059	863	999	806	744	464	368	244	106
Forms Submitted	4,130	3,835	3,326	3,205	2,657	2,595	1,588	1,456	1,314	395
Amended Filings	137	229	197	220	251	157	78	40	185	59
Products Approved	1,158	976	829	876	769	625	436	320	279	126
Transactions*	37,925	31,455	26,016	26,164	24,066	19,063	13,685	8,446	7,494	3,063
Approval Time (avg)**	20	30	33	27	28	23	38	42	28	25
States/Filing (median)***	41	40	40	41	39	39	37	34	33	30
Mix & Match	44%	50%	51%	55%	57%	62%	63%	63%	75%	75%
State Filing Fees Collected	$2,639,337	$2,439,645	$2,077,363	$2,302,532	$1,856,432	$1,728,081	$992,506	$735,683	$499,942	$139,910
Compact Filing Fees	$1,057,246	$1,086,736	$681,045	$749,452	$649,929	$407,788	$274,127	$225,442	$130,900	$68,730

Historical Filing Data (Year To Date)





* "Transactions" refers to the total number of SERFF transactions that have been made through the Insurance Compact.

** The time for product approval is calculated utilizing business days and excludes the company response time to objection letters, as defined in §105 of the "Product Filing Rule".

***This metric has changed from average to median to reflect 75% of Insurance Compact filings include more than a majority of the states on approval.

PRODUCT FILING TRENDS

There are over 22 Types of Insurance (TOIs) available for filing using the 100 adopted Uniform Standards with 130 various sub-TOIs available.

6,423 products have been approved by the Insurance Compact to date since June 2007; which equates to over 197,925 SERFF transactions.

The TOIs for the Product Filings submitted through SERFF for 2017 Compact Filing:

LIFE (55% of all products received):

- 40% have been TOI – Other (generally application filings)
- 22% have been Whole Life
- 22% have been Term Life
- 13% have been Flexible Premium Adjustable
- 1% have been Variable Life
- 2% have been Group Life Term

ANNUITIES (31% of all products received):

- 54% have been Deferred Non-Variable Annuity
- 23% have been Annuity – Special
- 13% have been Deferred Variable Annuity
- 7% have been Immediate Non-Variable Annuity
- 3% have been TOI – Other (generally application filings)

LONG-TERM CARE (10% of all products received)

DISABILITY INCOME (4 % of all products received)

- 71% have been Individual Disability
- 29% have been Group Disability

Of all of the Registered Companies who have submitted filings since 2007:

- 4% have filed more than 75 times
- 5% have filed 50 or more times
- 22% have filed 20 or more times
- 19% have filed 10 or more times
- 37% have filed more than twice
- 13% have filed once; of the 2017 Registered Companies 5% are first time filers

There have been over 24,610 forms submitted with product filing submissions. The average number of forms per filing is 5. The largest single submission consisted of 103 forms (filed in 2013); and in 2017, the largest single submission consisted of 40 forms.

MANAGEMENT'S DISCUSSION & ANALYSIS

Please Note: *The Interstate Insurance Product Regulation Commission's management discussion and analysis is separate from and not a part of its basic financial statement nor included in its Independent Auditors' Report. RSM US LLP has not audited this information and expresses no opinion on the information contained herein.*

Introduction

The Interstate Insurance Product Regulation Commission (Insurance Compact) is a public entity and instrumentality of its member states charged with carrying out regulatory insurance product reviews for asset-based insurance products under Uniform Standards adopted by its membership. While the Insurance Compact's 2017 Annual Report includes the independent auditors report with information on the actual financial results of the organization, this report, which is not a part of the annual external audit examination, is included to provide management's analysis of the organization's financial performance in relation to the previous year.

Financial Highlights

The Insurance Compact's financial statements are prepared using the accrual basis of accounting. Revenues, expenses, assets, and liabilities are recognized during the period in which the activity occurs rather than when it is received or paid.

Balance Sheet

Normal operating activities have resulted in cash and cash equivalents balance of $615,589 as of December 31, 2017. This is a decrease of $21,496 compared to the prior year as the Insurance Compact had a flat year in terms of revenue growth when compared to 2016 although the number of companies and product filing volumes were higher in 2017. The Insurance Compact actual-to-budget revenue ratio for 2017 was 91.4%, driven by a gap of 15% between budgeted and actual revenue for product filing fees. Operating expenses of $2,088,151 were under budget by $109,639 and were only $12,820 above last year's operating expenses.

The Insurance Compact ended the year with accounts receivable of $22,750, which is $1,473 more than 2016. This is a function of revenue received on the last day of December 2017 that was satisfied by electronic payments on the first day of January 2018 and fluctuates each year. Prepaid expenses are $5,850 which is $437 more than one year ago.

Total current liabilities are $759,931, a decrease of $8,469 compared to 2016 due in large part to the lower total amounts in accounts payable and accrued expenses. In 2017, the Insurance Compact received $602,900 in deferred revenues which was $1,650 more than in 2016. Deferred revenue represents the annual registration fee paid in 2016 for the 2017 annual registration period and demonstrates a continued commitment by a repeat number of filing companies to ensuring uninterrupted access to the Insurance Compact's filing platform. The amounts for accounts payable and accrued expenses are due to timing of payments to vendors, employees, and consultants.

In 2017, the Insurance Compact remitted $2,653,687 to states in applicable state filing fees, which was an increase of $216,842 over the amount of state filing fees remitted in 2016. Over the past five years, state filing fees collected and remitted have grown 70% while Insurance Compact per-product filing fees collected have grown 61%.

The change in net deficit for 2017 was $84,594 compared to $59,462 which was a result of 2017 revenues being slightly lower and expenses slightly higher than 2016 operating revenues and expenses. The net asset deficit presents a cumulative loss on operations of $3,416,813 in 2017 as compared to $3,332,219 in 2016 and is the result of all revenues and expenses since inception. For the fifth consecutive year, the Insurance Compact did not draw upon the line of credit that was approved by the NAIC during the 2017 Spring National Meeting. Management forecasts that the Commission will generate sufficient revenue to cover its operating expenses in 2018.

Statement of Revenues, Expenses, and Changes in Net Assets

The Insurance Compact is a public entity and an instrumentality of its member states, it generates its revenue transactionally and not under any specific taxing authority. Revenue is earned when an insurance company registers with the Insurance Compact and submits product filings to the Insurance Compact through SERFF. The *IIPRC Terms and Procedures for IIPRC Filing Fees* was adopted in September 2007 and provides that the Insurance Compact adopt its Schedule of Fees in conjunction with the adoption of its annual budget. In 2013, the Insurance Compact modified its fee schedule to attract small premium volume companies to register and to more accurately reflect the resources and operating costs associated with product filings requiring an actuarial review. In 2016, the Insurance Compact further adjusted its per-filing fee to account for five additional resources added over the past five years.

The Insurance Compact requires an annual registration fee which provides filer access to the filing platform. The annual registration fee has not changed since it was set in 2008 and is $5,000 per company and pro-rated to $2,500 per company as of July 1. For companies with less than $50 million in asset-based premium volume based on the Schedule T-Part 2 of the Annual Statement filed with the NAIC for the reporting year prior to the current annual registration period, the annual registration fee is $2,500 per company and prorated to $1,250 per company as of July 1. In 2016, the Insurance Compact increased its per-filing fee by an average of 25% with filing fees for product filing submissions ranging from $300 to $1,250, depending on the type of filing and the premium-volume size of the filer. Regional companies licensed to do business in 12 or fewer compacting states pay a reduced registration and per-filing fee.

Product filing fees were $1,057,246 in 2017, compared to $1,086,736 in 2016, representing a 1% decrease in product filing fee revenue from year to year. This small difference is due, in large part, to non-refundable overpayments and waived fees being a higher amount of $26,881 in 2016 than the amount of $11,471 in 2017. Otherwise, the revenue between the two years would be even closer. Transactions grew by 6,470 in 2017 which is a measure of how many state-by-state filings would have been required for the Compact submission(s). Products submitted increased from 1,059 in 2016 to 1,132 in 2017. The increase in product filing activity was also accompanied by a dramatic decrease in the number of Mix and Match filings from 50% in 2016 to 44% in 2017 as more companies file their entire product portfolios with the Insurance Compact.

Annual registration fees of $943,226 for 228 companies were earned in 2017, compared to $928,525 for 226 companies in 2015. Twelve companies registered for the first time in 2017. In 2017, companies and fraternals of all sizes, including the top premium writers as well as small regional carriers, realized the uniformity and speed-to-market benefits of having a Compact-approved product.

Expenses ended the year under budget by $109,639, or 5%, for 2017. The Insurance Compact was under budget in all line items except salaries which was $7,575 or less than 1% over budget. While the Insurance Compact had savings in the salaries line in the amount of $9,962, the accrued vacation liability of the organization in the amount of $17,433 caused this line item to exceed budget. Actual travel expenses of $82,700 were $36,925 under budgeted travel and $15,084 lower than $97,784 incurred for travel expenses in 2016. The decrease in travel expenses year over year is due to budgeted travel expenses for member Commissioners and regulators as well as members of the Legislative Committee and Consumer Advisory Committee not being fully realized.

On June 1, 2007, the Insurance Compact signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the Insurance Compact. The NAIC receives an annual administrative fee of $125,000 for these services. The Insurance Compact also pays an annual license/maintenance fee in the amount of $25,000 for the use of SERFF. Since inception, the Insurance Compact has engaged outside legal counsel, on an as-needed basis, for the establishment of its structural entity, preparation of bylaws, implementation of employee benefit plans, contractual agreements, and litigation-related matters. The Insurance Compact experienced some savings in the budget line for professional services due to a part-time actuary not being retained as budgeted and not having to utilize the full amount budgeted for outside counsel expenses.

MANAGEMENT'S DISCUSSION & ANALYSIS

Debt

The note payable to the NAIC totals $3,301,071 as of the end of 2017. This is a $73,377 increase over the prior year due to the capitalization of interest on the outstanding loan amount. For the fifth consecutive year, the Insurance Compact did not draw upon the line of credit available from the NAIC. Since 2007, the NAIC has provided lines of credit to the Insurance Compact to fund operational needs. The resulting note payable carries an interest rate of 2.25% equal to the prime rate of 3.25% at January 1, 2010, the effective date of the debt restructure, less 1%. Principal and interest payments are deferred until the year following the year in which the Insurance Compact achieves a profit of $250,000 or an accumulated cash balance from operations of $500,000 excluding funds from draws. Outstanding interest is capitalized monthly. As a matter of prudent governance, the Insurance Compact will request a line of credit be made available in the amount of $100,000 for 2018 which will be considered by the NAIC at its Spring National Meeting.

Economic Factors

The Insurance Compact accepted its first product filings in June 2007, and completed its tenth full calendar year of product filing review operations in 2017. The Insurance Compact has approved a total of 6,423 products which would have translated into more than 200,000 individual state filing transactions. The Insurance Compact generated $2,015,869 in 2016 and $2,003,557 in 2017. The Insurance Compact also collected and remitted state filing fees in the amount of $2,653,687 in 2016 and $2,436,845 in 2017. While more companies registered to file with the Insurance Compact than in previous years and product filing volumes exceed previous year totals, the Insurance Compact did not experience the level of revenue growth anticipated.

The actual product filings were below budgeted product filings in all categories except for regional companies with less than $50 million in premium volume. The Insurance Compact budgeted for significant filing activity resulting from regulatory changes that were likely in 2017 due to the Department of Labor rules and the updates for the 2017 Commissioners Standards Ordinary (CSO) Mortality Table requirements which did not occur at the level projected. Several companies report that CSO updates will be filed with the Insurance Compact in the latter half of 2018 and 2019. Five-year review changes to the individual Long-Term Care Insurance Uniform Standards also changed the due date for annual long-term care insurance rate certification filings from December 31, 2017 to May 1, 2018 which impacted actual-to-budget. Further, amended filings were far below the anticipated number in the 2017 budget due in part, to the Compact Office updating its filing procedure to limit the reasons for amending a previously-approved filing.

In 2017, the Insurance Compact received a record 228 company registrations from large, medium, and small insurance companies and fraternals representing a combined 85% of the nationwide premium volume written for asset-based insurance products. Twelve of these companies registered for the first time joining the returning companies whose total number (216) exceeded the number of companies registered in all of 2015 (205). Further, 87% of these 228 companies registered under the full registration schedule with the remainder registering after July 1 when the registration fee is prorated. This trend demonstrates that companies are continuously filing with the Insurance Compact preferring its one-stop review and approval process to the traditional state-by-state filing process.

The Insurance Compact received 1,132 products for 2017, more than the 1,059 product filings received in 2016. The Insurance Compact was well-positioned to accept those filings providing quick turnaround after a thorough review with an average turnaround time of 20 review days improving over 2016 average turnaround time of 30 review days.

The operating expenses of the Insurance Compact grew by approximately 1% between 2016 and 2017. The primary driver of the Insurance Compact's significant growth in operational costs over the past 10 years of product operations is scaled growth in human resources as the Insurance Compact has expanded over time as the number of member states, registered companies, product lines, Uniform Standards, and product filing volume and activity has expanded. Salaries were $1,213,707 in 2017, compared to $1,162,620 in 2016, which reflected converting a part-time employee to full-time and having a full year with a full-time staff of 11 resources. Professional services were $386,910 in 2017 compared to $436,299 in 2016 with a large portion of the variance due to a part-time actuarial consultant not being retained in 2017. The travel and meetings expense lines for 2017 were below 2016 amounts by 8% due primarily to the Commission not holding an in-person meeting at the NAIC's 2017 Fall National Meeting.

Companies are able to file a wide variety of products and benefit features using 100 adopted Uniform Standards for all individual product lines and for group term life and disability income product lines. As of December 31, 2017, the Insurance Compact has approved 6,423 insurance products on behalf of the Compacting States since its first product approval in July 2007, which would have translated into more than 200,000 individual state filing transactions.

With careful management of its operating budget, the Insurance Compact has not utilized the available NAIC Line of Credit since 2012. As a matter of prudent governance and in order to respond to unanticipated losses or circumstances, the Insurance Compact is again requesting an available Line of Credit from the NAIC in 2018 and believes if its revenue budget is achieved in 2018, it will not need to draw on the line of credit as the Insurance Compact budgets to meet operational expense in the coming annual period.

Contacting the Insurance Compact's Financial Management

This financial report is designed to provide a general overview of the Insurance Compact's finances and to show accountability for the funds received in 2017 and 2016. Questions about this report and requests for additional financial information should be directed to Karen Schutter, Insurance Compact Executive Director, at (202) 471-3962.

RSM

INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
Interstate Insurance Product Regulation Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Interstate Insurance Product Regulation Commission (the IIPRC), which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IIPRC as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
March 12, 2018

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

		2017		2016
Assets				
Current assets:				
Cash and cash equivalents	$	**615,589**	$	637,085
Accounts receivable		**22,750**		21,277
Interest receivable		**-**		102
Prepaid expenses		**5,850**		5,413
Total assets	$	**644,189**	$	663,877
Liabilities and Net Deficit				
Current liabilities:				
Accounts payable	$	**33,035**	$	59,435
Accrued expenses		**123,996**		107,715
Deferred revenue		**602,900**		601,250
Total current liabilities		**759,931**		768,400
Long-term liabilities:				
Note payable to the NAIC (Note 2)		**3,301,071**		3,227,696
Total liabilities		**4,061,002**		3,996,096
Net deficit:				
Unrestricted		**(3,416,813)**		(3,332,219)
Total liabilities and net deficit	$	**644,189**	$	663,877

See notes to financial statements.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2017 and 2016

	2017	2016
Revenues:		
Annual registrations	$ 943,226	$ 928,525
Product filing fees	1,057,246	1,086,736
Interest income	3,085	608
Total revenues	2,003,557	2,015,869
Expenses:		
Salaries	1,213,707	1,162,620
Employee benefits	296,301	264,146
Professional services	386,910	436,299
Travel	82,700	97,784
Rental and maintenance	7,885	7,110
Interest expense	73,377	71,746
Insurance	15,348	14,996
Office services	9,890	11,899
Meeting expenses	2,033	8,571
Recruiting expense	-	160
Total expenses	2,088,151	2,075,331
Increase in net deficit	(84,594)	(59,462)
Net deficit, beginning of year	(3,332,219)	(3,272,757)
Net deficit, end of year	$ (3,416,813)	$ (3,332,219)

See notes to financial statements.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase in net deficit	$ **(84,594)**	$ (59,462)
Adjustments to reconcile increase in net deficit to net cash (used in) provided by operating activities:		
Interest expense included in note payable	**73,375**	71,746
Changes in operating assets and liabilities:		
Accounts receivable	**(1,473)**	14,969
Interest receivable	**102**	(91)
Prepaid expenses	**(437)**	894
Accounts payable	**(26,400)**	13,066
Accrued expenses	**16,281**	28,791
Deferred revenue	**1,650**	100,250
Net cash (used in) provided by operating activities	**(21,496)**	170,163
Net (decrease) increase in cash	**(21,496)**	170,163
Cash:		
Beginning	**637,085**	466,922
Ending	$ **615,589**	$ 637,085

See notes to financial statements.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of operations: The Interstate Insurance Product Regulation Commission (the IIPRC), formed in June 2006, is a multistate commission creating a central point of electronic filing for certain insurance products, including life insurance, annuities, disability income and long-term care insurance. The IIPRC provides its member states with the ability to collectively use its expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products. The IIPRC had 45 and 44 member states as of December 31, 2017 and 2016, respectively.

Basis of accounting for revenues: The IIPRC earns revenue predominately through annual registration and product filing fees. Product filing fees are earned when insurance companies process filings through the National Association of Insurance Commissioners (the NAIC)'s System for Electronic Rate and Form Filing (SERFF). The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. The IIPRC earns revenue when a filing received through SERFF is processed using standards established by the IIPRC for its member states. Annual registration fees are recognized as revenue at the beginning of the registration period and are assessed at year-end as deferred revenue.

Basis of accounting and presentation: The financial statements of the IIPRC have been prepared on the accrual basis of accounting.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: For purposes of the statements of cash flows, cash is considered to be cash on hand, bank checking accounts and money market funds. The IIPRC, at times, maintains deposits with banks in excess of the insured limits, but has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable are stated at the amounts billed. Delinquent and/or uncollectible receivables are written off based on individual evaluation and specific circumstances.

Net deficit: At December 31, 2017 and 2016, net deficit consisted entirely of unrestricted net deficit.

Functional expenses: The Not-for-Profit Entities topic of the FASB Accounting Standards Codification (ASC) requires nonprofit organizations to disclose expenses by functional classification. The IIPRC presents expenses only by their natural classification on the December 31, 2017 and 2016, statements of activities. Management believes that disclosing expenses by function is insignificant to the financial statements taken as a whole, and therefore, does not apply the provision of the topic as it relates to the disclosure of expenses by functional classification.

Income tax provision: The IIPRC has been organized as a joint-cooperative of the compacting states and is therefore generally exempt from federal and state income taxes pursuant to section 115(1) of the Internal Revenue Code. However, the IIPRC is subject to federal income tax on any unrelated business taxable income. The IIPRC filed a Private Letter Ruling (PLR) Request with the IRS, dated January 22, 2015, with respect to exclusion of its income from gross income pursuant to section 115(1) of the Internal Revenue Code. The IRS did not issue a ruling on the PLR Request. Uncertain tax positions, if any, are recorded in accordance with ASC Topic 740, Income Taxes. ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standards that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2017 or 2016.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries, and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU, as deferred one year by ASU No. 2015-14, is effective for annual reporting periods beginning after December 15, 2018. Therefore, this ASU will be effective for the IIPRC for the fiscal year ending December 31, 2019. The ASU permits the use of either of two methods: a full retrospective or a retrospective with the cumulative effect and additional disclosures. Management has not yet selected a transition method, as the IIPRC is currently evaluating the impact of the new standard on its sources of support and financial statements, and is reviewing its revenue recognition policies and processes for any necessary amendments.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The IIPRC has no lease obligations but is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be “net assets with donor restrictions” and “net assets without donor restrictions.” The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017. Therefore, this ASU will be effective for the IIPRC’s fiscal year ending December 31, 2018. Management is in the process of evaluating the impact of this new guidance.

Note 2. Line of Credit From and Notes Payable to the NAIC

On January 1, 2010, an Amended, Restated and Consolidated Promissory Note with the NAIC took effect. The note consolidated all previous outstanding note and line-of-credit balances and bears interest at 2.25 percent, compounded monthly. Repayment of principal and interest is deferred until the last calendar date of the first quarter following the trigger date. The trigger date is defined as the date of the independent auditor’s report related to the audited financial statements in which one or both of the following has been achieved: increase in net assets of at least $250,000, or accumulated cash balance of at least $500,000 from operations, excluding funds from draws. As of December 31, 2017, the trigger date has not been achieved, and, as a result, the outstanding interest is included in the principal balance of the note. Following the trigger date, the note will mature in 60 months and bear interest at 2.25 percent, compounded monthly. Quarterly principal and interest payments will be due through maturity.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2. Line of Credit From and Notes Payable to the NAIC (Continued)

Also on January 1, 2010, a line-of-credit agreement with the NAIC was executed. This agreement made available to the IIPRC an additional line of credit not to exceed $850,000, with an interest rate of 2.25 percent, compounded monthly. Repayment terms are identical to the Amended, Restated and Consolidated Promissory Note described above. The deferral of debt repayment reduced draws on this line of credit to $450,000.

A $400,000 line-of-credit agreement for 2011, effective January 1, 2011, was executed with the NAIC. An advance of $250,000 was drawn in August 2011 and another in the amount of $150,000 occurred in November 2011.

A $400,000 line-of-credit agreement for 2012, effective January 1, 2012, was executed with the NAIC. An advance of $250,000 was drawn in October 2012.

A $250,000 line-of-credit agreement for 2013, effective January 1, 2013, was executed with the NAIC. No advances were drawn during 2013.

A $150,000 line-of-credit agreement for 2014, effective January 1, 2014, was executed with the NAIC. No advances were drawn during 2014.

A $150,000 line-of-credit agreement for 2015, effective January 1, 2015, was executed with the NAIC. No advances were drawn during 2015.

A $250,000 line-of-credit agreement for 2016, effective January 1, 2016, was executed with the NAIC. No advances were drawn during 2016.

A $100,000 line-of-credit agreement for 2017, effective January 1, 2017, was executed with the NAIC. No advances were drawn during 2017.

The total outstanding principal and interest balance of the note payable and lines of credit as of December 31, 2017 and 2016, is $3,301,071 and $3,227,696, respectively. As is customary, both the note and line of credit described above contain certain events of default that, if triggered, allows the NAIC to call the remaining principal balance and all accrued interest for immediate payment. Management of the IIPRC does not expect the NAIC to demand payment of any portion of the outstanding balance during fiscal year 2018.

An additional line of credit estimated at $100,000, to be made available if necessary, to cover expenses of the IIPRC for 2018, is on the agenda to be considered by the NAIC at the NAIC 2018 Spring National Meeting.

Note 3. Related-Party Transactions

Effective June 2007, the IIPRC entered into a service agreement with the NAIC, whereby the NAIC provides certain administrative services to the IIPRC. The NAIC is also providing a nonexclusive license to the SERFF system. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet the IIPRC requirements (such as the collection and remission of state filing fees) in excess of the annual 250 hours of SERFF development provided under the service agreement. The NAIC received an administrative fee of $125,000 for the years ended December 31, 2017 and 2016. The IIPRC also pays an annual license and maintenance fee in the amount of $25,000 for the use of SERFF. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3. Related-Party Transactions (Continued)

Amounts charged during the year and amounts owed at year-end for the IIPRC are as follows:

	2017	2016
Administrative services provided by and paid to the NAIC	**$ 125,000**	$ 125,000
License fee paid to the NAIC	**$ 25,000**	$ 25,000
Amounts payable to the NAIC	**$ 31,294**	$ 40,032

Note 4. Defined Contribution Plan

The IIPRC has a 401(a) defined contribution plan, which covers substantially all employees who have completed one year or more of service. Each year the Management Committee determines the contribution for the next year. For the years ended December 31, 2017 and 2016, the IIPRC agreed to match up to 3.5 percent of compensation of employees who contribute to the plan and contributed 2.0 percent of all employees' annual compensation. The IIPRC made contributions of $60,240 and $33,220 for the years ended December 31, 2017 and 2016, respectively.

Note 5. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2017, through March 12, 2018. There have been no events that occurred during such period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of or for the year ended December 31, 2017.

2017 HIGHLIGHTS

COMPACT

2017

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Anne Marie Narcini
Regulatory Consultant

Maureen Hart Perry
Product Reviewer

IN MEMORIAM

The Insurance Compact members celebrate the contributions of the Honorable David Mattax, Insurance Commissioner at the Texas Department of Insurance, and their esteemed colleague and friend. Commissioner Mattax passed away while in office, on April 13, 2017. Commissioner Mattax served as the Commission Chair in 2015, and continued to serve on the Insurance Compact Management Committee until his passing in 2017. Commissioner Mattax will be deeply missed.

David Mattax
Commissioner, Texas
Department of Insurance

INSURANCE
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