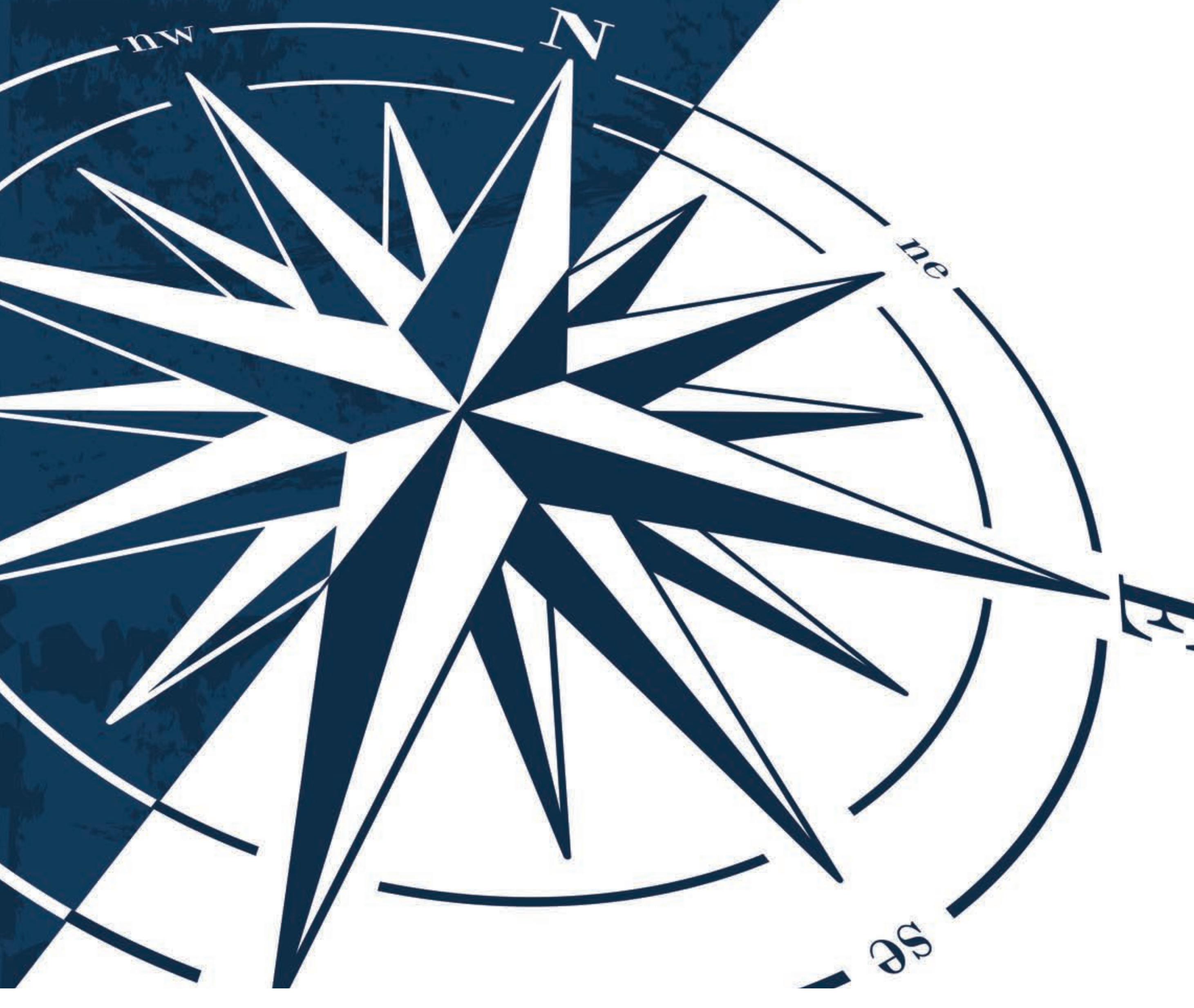
INSURANCE COMPACT

# 2019 ANNUAL REPORT



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# INSURANCE COMPACT COMPASS

On December 9, 2019, the Insurance Compact adopted its three-year strategic plan – the Insurance Compact Compass. The Compass was developed with input from all constituents – Commissioners and state regulators, state legislators, consumer advocates, company representatives, and filers. The Compass has three overarching priorities, each with three objectives and several action items, for a total of 28 action items. As the Insurance Compact proceeds in achieving the action items identified in the Compass, updates will be published on the Insurance Compact website.


## PRIORITY I: Uniform Standards States Support and Companies Willingly Use

***Objective 1:*** Robust – Reflect strong consumer protections

***Objective 2:*** Relevant – Reflect product offerings available in Compacting States

***Objective 3:*** Reasonable – Reflect product requirements that are not unduly prescriptive

## PRIORITY II: Nationally Recognized Regulatory Review Process

***Objective 1***: Responsive – Provide prompt review and turnaround times

***Objective 2:*** Reliable – Provide consistent, thorough quality reviews

***Objective 3***: Regulatory Collaboration – Provide information and processes working with Compacting States to facilitate their state market and financial regulatory functions with respect to Compact-approved products



## PRIORITY III: Resource for Compacting States, Regulated Entities and Consumers

***Objective 1***: Responsible – Provide excellent and accountable information and services

***Objective 2***: Respected – Retain qualified and experienced staff

***Objective 3***: Ready – Provide proactive information on Compact activities and be an accessible source of information

# THE INSURANCE COMPACT TODAY

https://www.insurancecompact.org

## UNIFORM PRODUCT STANDARDS AND APPROVAL

The Interstate Insurance Product Regulation Compact (Insurance Compact) is an innovative, state-based agreement to modernize the regulatory approval of asset-based insurance products. Through the collective efforts of 46 Compacting States, the Insurance Compact develops detailed and comprehensive uniform product standards containing balanced and strong consumer protections. Companies submit one product for thorough review by an experienced regulatory team of reviewers and actuaries.

The Insurance Compact serves the need for uniformity, speed-to-market and regulatory compliance in a national state-regulated insurance marketplace.

### COMPACT STATES

44 States, plus the District of Columbia and Puerto Rico have adopted the Insurance Compact legislation to date, representing 75% of the premium volume nationwide.

## MULTI-STATE PUBLIC BODY

The Insurance Compact established a multi-state public body, the Commission, which serves as an instrumentality of the Compacting States. Each Compacting State is an official member – usually the Insurance Commissioner/Director/Superintendent – of the Commission.

### CURRENT PRODUCT LINES:

- Individual **Life**
- Individual **Annuity**
- Individual **Long-Term Care**
- Individual **Disability Income**
- Employer Group **Term Life**
- Employer Group **Disability Income**
- *Employer Group **Annuity** (coming in 2020!)*

Nearly 100 uniform product standards have been implemented so far through an open, transparent rulemaking process that requires adoption by a minimum two-thirds or "supermajority" of the entire membership.

Once a Uniform Standard is adopted, the Insurance Compact serves as the central point of electronic filing, review, and approval for these insurance products. The Insurance Compact is revenue-neutral for state budgets. State filing fees are collected and remitted electronically for all Compact filings. The Insurance Compact is funded by separate fees from filing companies.

## COMPACT BENEFITS

The Insurance Compact has defined speed-to-market by providing product approval in less than 60 days, with a thorough and transparent upfront review process.

Compact States retain sovereign authority over their insurance marketplace and actively participate in ensuring uniform standards provide insurance consumers with strong and established protections.

Consumers benefit from ensuring these mobile-borne products are subject to thorough prior review using consistent, detailed standards.

Companies benefit from getting a form/product to market in a competitive, efficient, cost-effective, and streamlined manner across the Compacting States.

# LETTER FROM THE OFFICERS

We can look back at 2019 as a turning point for the Interstate Insurance Product Regulation Commission (Insurance Compact) in many meaningful ways. Our strategic planning initiative, when coupled with unprecedented filing activity, growing participation of member states, and tremendous progress on uniform standards development, has set a path for sustainability and continuous improvement in service to the Compacting States and the policyholders they protect and the entities they regulate.

For the first time in organizational history, the Compacting States adopted a formal strategic plan titled The Insurance Compact Compass: 2020 – 2022. Through the engagement of members and interested stakeholders, the strategic planning process generated interactive discussion and the exchange of ideas to set the priorities and objectives for the organization in the coming years. We encourage you to navigate the strategic plan, review the 3 overarching priorities, 9 objectives and 28 measurable action items as well as be part of its implementation and achievement.

In 2019, the Insurance Compact stepped up to the challenge of handling an unprecedented number of product filings from a record number of filing companies. Against the backdrop of a deadline to convert life insurance products to new mortality tables in advance of the January 1, 2020 implementation of principles-based reserving, the Insurance Compact saw a 15% increase in both registered companies and product submissions over 2018 and ended the year with its largest increase in net assets since its inception.

The Insurance Compact's financial success has resulted in triggering repayment to the NAIC of an outstanding line of credit last utilized in 2012 and in deferral since 2010. The leadership of both organizations worked together to develop a practicable framework for repayment which is expected to be finalized in early 2020.

We were pleased to bring on board the District of Columbia as the 46th member to join the Insurance Compact. In addition, we saw existing Compacting States enact legislation last year to lift their respective opt outs of certain Uniform Standards with Hawaii lifting the opt-out of long-term care insurance and Connecticut lifting the disability income insurance opt out.

We cannot reflect on 2019 without recognizing the remarkable work by the members of the Product Standards Committee as well as all regulators and interested parties actively engaged in the uniform standards development process. The PSC brought forward amendments to four individual life insurance uniform standards and drafted five new uniform standards including for the new product line of group annuities.

Special thanks to Commissioners and their staff as well as members of the Legislative Committee, Consumer and Industry Advisory Committees, company filers and everyone who offered input, suggestions and encouragement as we set the Insurance Compact's strategic course. We invite you to stay engaged as we put our strategic plan into action.

# OFFICERS

Superintendent
Elizabeth Kelleher Dwyer
Chair, Rhode Island

Commissioner
Mark Afable
Vice Chair, Wisconsin

Director
Robert H. Muriel
Treasurer, Illinois

# PAST OFFICERS IN 2019

Director
Jillian Froment
Chair, Ohio

Director
Chlora Lindley-Myers
Treasurer, Missouri

# LETTER FROM THE EXECUTIVE DIRECTOR

Strategic planning was the overarching theme for the Insurance Compact in 2019. The valued input of Commissioners, regulators, state legislators, consumer and industry representatives and company filers resulted in the adoption of the Insurance Compact Compass, a strategic plan to guide the organization for the next three years and beyond.

A review of the Compass validates the priorities which have always been the foundational guideposts for the organization. Through the drafting of the Compass, these priorities have been put in the context of clear objectives and achievable action items. From making it easier to follow and participate in the Insurance Compact's activities, to reviewing current procedures and governance, the Compacting States, working through their Commissioners and staff, have set 28 pragmatic and attainable goals with many of them already or soon-to-be underway.

The Insurance Compact completed the strategic planning process during another transformative year. We welcomed the 46th Compacting State as the District of Columbia joined 44 other states and Puerto Rico in embracing this state-based collaborative vehicle for strong, detailed product regulation. In terms of Uniform Standards development, the Commission adopted Uniform Standards for a brand-new product line, employer group annuities. The Product Standards Committee, and the many regulators and others engaging in the process, deserve credit for not only diligently drafting these new standards but completing work on several existing Uniform Standards to address a gap analysis performed by the Management Committee in 2018.

The Insurance Compact had another record year in its product operations. The number of registered companies jumped by 33 over the previous year to its largest number yet of 266, representing 84% of the nationwide premium volume written for the authorized product lines. In response to the anticipated volume, the Insurance Compact added two new full-time positions including an actuary and form reviewer.

The product filing activity was also exceptionally strong in 2019 with product filing fee revenue growing by $351,335 or 25%. While companies of all sizes continued to file a diversity of products, most of the unprecedented volume was from companies updating previously-approved Compact products or making new product filings to convert to the 2017 Commissioners Standards Ordinary (CSO) Mortality Table which Compacting States required by January 1, 2020. Another indicator of more companies moving more components of their product portfolio under the Compact's Uniform Standards (i.e., application, policy/contract, riders and endorsements) is the continued and consequential decrease in Mix and Match of Compact-approved forms with state-approved forms, i.e., 27% in 2019 compared to 55% five years ago.

With appreciation to the Commissioners, their dedicated regulators, the Legislative Committee, Consumer and Industry Advisory Committees, company filers and other interested parties, the Insurance Compact is poised to enter 2020 and beyond with thoughtful navigation to continue and grow in our purpose, mission and vision through joint and cooperative action of the Compacting States.

Karen Z. Schutter

Karen Z. Schutter

Executive Director

## COMMITTEE ACTIVITIES

The Insurance Compact relies upon the regulatory expertise in the member states to develop, adopt, and oversee implementation of Uniform Standards, Rules, and Operating Procedures, as well as the annual budget. 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 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.

2019: Bruce R. Ramge (NE), Chair; Scott A. White (VA), Vice Chair

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The Finance Committee monitors the finances of the Insurance Compact. In 2019, the Finance Committee prepared the annual budget, including monitoring the actual and projected revenues and expenses, as well as resource levels. In 2019, the Finance Committee recommended a new position for a Member Service Coordinator which is in line with the development of the Insurance Compact's Strategic Plan.

2019: Chlora Lindley-Myers (MO), Chair; James A. Dodrill (WV), Vice Chair

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The Product Standards Committee reviews and recommends Uniform Standards to the Management Committee. In 2019, the Product Standards Committee reviewed and adopted the first Uniform Standards for group annuity products. Additionally, the Committee reviewed and developed Uniform Standards as identified in the Priority List for Uniform Standards Development adopted by the Management Committee in August 2018.

2019: Chlora Lindley-Myers (MO), Chair; Steve Kelley (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 2019, the Rulemaking Committee worked on procedures for meetings of Other Committees.

2019: Scott A. White (VA), Chair; Glen Mulready (OK), Vice Chair

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In 2019, at the recommendation of the Insurance Compact Officers, the Management Committee voted to disband both the Communications and Technology Committees.

# MEMBERSHIP (AS OF DECEMBER 31, 2019)

Jim L. Ridling
Commissioner, Alabama
Department of Insurance

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

Keith Schraad
Director, Arizona
Department of Insurance

Allen W. Kerr
Commissioner, Arkansas
Insurance Department

Michael Conway
Commissioner, Colorado
Division of Insurance

Andrew N. Mais
Commissioner,
Connecticut Insurance
Department

Stephen C. Taylor
Commissioner, District of
Columbia Department of
Insurance, Securities and
Banking

John F. King
Commissioner, Georgia
Office of Insurance &
Safety Fire Commissioner

Colin M. Hayashida
Commissioner, Hawaii
Insurance Division

Dean L. Cameron
Director, Idaho
Department of Insurance

Robert H. Muriel
Director, Illinois
Department of Insurance

Stephen W. Robertson
Commissioner, Indiana
Department of Insurance

Doug Ommen
Commissioner, Iowa
Insurance Division

Vicki Schmidt
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 D. Anderson
Commissioner, Massachusetts
Division of Insurance

Anita G. Fox
Director, Michigan
Department of Insurance &
Financial Services

Steve Kelley
Commissioner, Minnesota
Department of Commerce

Mike Chaney
Commissioner, Mississippi
Insurance Department

Chlora Lindley-Myers
Director, Missouri Department
of Commerce & Insurance

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

Bruce R. Ramge
Director, Nebraska
Department of Insurance

Barbara D. Richardson
Commissioner, Nevada
Division of Insurance

John Elias
Commissioner,
New Hampshire
Insurance Department

Marlene Caride
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

Glen Mulready
Commissioner, Oklahoma
Insurance Department

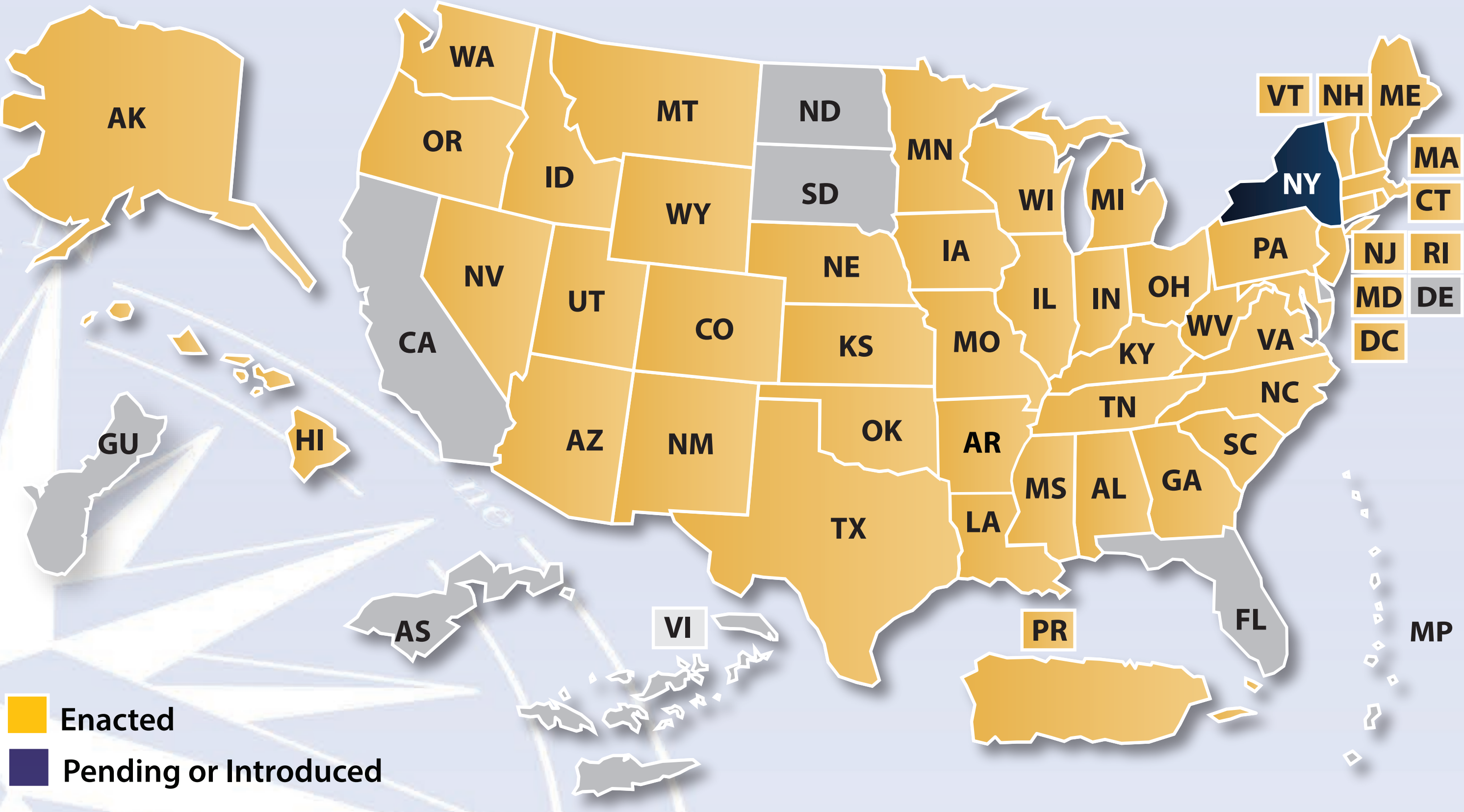
**Andrew R. Stolfi**
Commissioner, Oregon
Division of Financial Regulation

Jessica K. Altman
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




Hodgen Mainda
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

Scott A. White
Commissioner, Virginia State Corporation Commission, Bureau of Insurance

Mike Kreidler
Commissioner, Washington Office of the Insurance Commissioner

James A. Dodrill
Commissioner, West Virginia Offices of the Insurance Commissioner

Mark Afable
Commissioner, Wisconsin Office of the Commissioner of Insurance

Jeff Rude
Commissioner, Wyoming Insurance Department

2019 Past Members Who Served

Carter Lawrence, Tennessee
Julie Mix McPeak, Tennessee
Tom Glause, Wyoming

# 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 Compacting 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 represents 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, 2019 – 2020

Elizabeth Kelleher Dwyer, Rhode Island, Chair
Mark Afable, Wisconsin, Vice Chair
Robert H. Muriel, Illinois, Treasurer
Vicki Schmidt, Kansas
Gary D. Anderson, Massachusetts
Anita G. Fox, Michigan
Steve Kelley, Minnesota
Marlene Caride, New Jersey
Jillian Froment, Ohio
Jessica K. Altman, Pennsylvania
Hodgen Mainda, Tennessee
Kent Sullivan, Texas
James A. Dodrill, West Virginia
Jeff Rude, Wyoming

## Management Committee, 2018 - 2019

Jillian Froment, Ohio, Chair
Elizabeth Kelleher Dwyer, Rhode Island, Vice Chair
Chlora Lindley-Myers, Missouri, Treasurer
John F. King, Georgia
Dean L. Cameron, Idaho
Robert H. Muriel, Illinois
Doug Ommen, Iowa
Anita G. Fox, Michigan
Steve Kelley, Minnesota
Marlene Caride, New Jersey
Mike Causey, North Carolina
Jessica K. Altman, Pennsylvania
Kent Sullivan, Texas
James A. Dodrill, West Virginia

# 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
  Yvonne Hunter
- Consumer Liaison Representative
  Fred Nepple
- Consumer Liaison Representative
  Roger Sevigny
- NAIC Consumer Liaison Representative
  Peter Kochenburger
- National Alliance on Mental Illness
  Andrew Sperling, Director,
  Federal Legislative Advocacy

## Industry Advisory Committee

- American Council of Life Insurers (ACLI)
  Wayne Mehlman, Senior Counsel,
  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
- Allianz Life Insurance Company of North America
  Anne Correia, Principal Product Contract
  Associate, Actuarial Product Development
- Mutual of Omaha Insurance Company
  Shawn Pollock, Director, Regulatory
  Risk Management
- Nationwide Life Insurance Company
  Charles Perin, Senior Consultant,
  **Office of Government Relations**
- Pacific Life Insurance Company
  Michael Hitchcock,
  Product Compliance Director

## Legislative Committee

Representative Matt Lehman, Chair
State of Indiana

Senator Dan "Blade" Morrish, Vice Chair
State of Louisiana

Senator Bob Duff
State of Connecticut

Representative Matt Dollar
State of Georgia

Representative Laura Fine
State of Illinois

Assemblywoman Maggie Carlton
State of Nevada

Representative James Dunnigan
State of Utah

# ORGANIZATIONAL CHART

# INSURANCE COMPACT MILESTONES

## 2019

- Adopted first Group Annuity Standards, adopted ROP Standards for IDI products, and amended two Uniform Standards
- 46 Compacting States with Mix and Match percentage = 27%
- 266 companies registered; 1,639 products submitted and 1,617 products approved with an average review time of 33 days
- 80 filings amended
- Implemented the Expedited Review Pilot Program

## 2018

- Completed the Five-Year Review of the Individual Disability Income Uniform Standards and began the review of Group Annuity Uniform Standards with Mix and Match percentage = 34%
- Washington, DC enacted the Compact legislation making it the 46th Compacting State
- 233 companies registered; 1,439 products submitted and 1,226 products approved with an average review time of 25 days
- 109 filings amended

## 2017

- Completed the Five-Year Review of the Individual LTC Uniform Standards and began the Five-Year Review process of the Individual Disability Income Uniform Standards with Mix and Match percentage = 42%
- Connecticut became the 45th Compacting State effective for filing
- 228 companies registered; 1,132 products submitted and 1,159 products approved with an average review time of 20 days
- 137 filings amended

## 2016

- Adopted Group Disability Income Uniform Standards; 100 Uniform Standards adopted
- 45 Compacting States with Mix and Match percentage = 50%
- 226 companies registered; 1,059 products submitted and 981 products approved with an average review time of 30 days
- 229 filings amended

## 2015

- 44 Compacting States with Mix and Match percentage = 50%
- 205 companies registered; 863 products submitted and 829 products approved with an average review time of 33 days
- 197 filings amended

## 2014

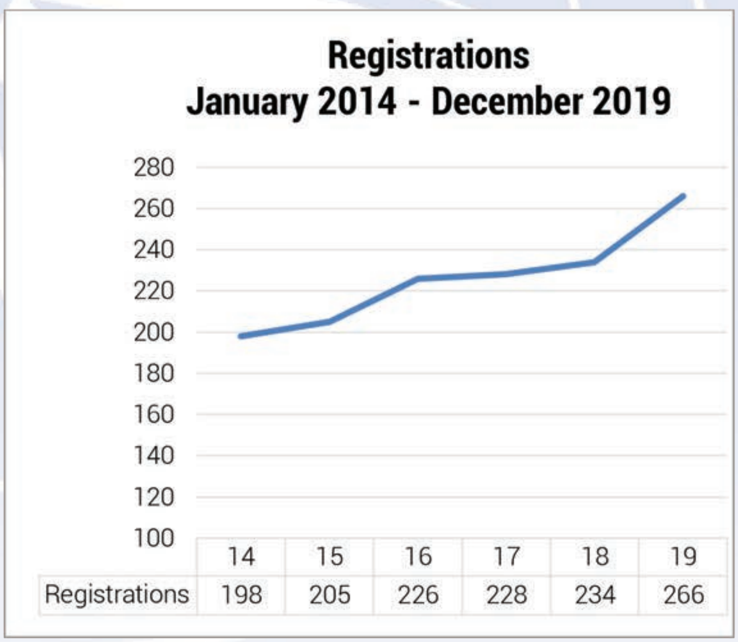
- 44 Compacting States with Mix and Match percentage = 55%
- 198 companies registered; 999 products submitted and 808 products approved with an average review time of 27 days
- 220 filings amended

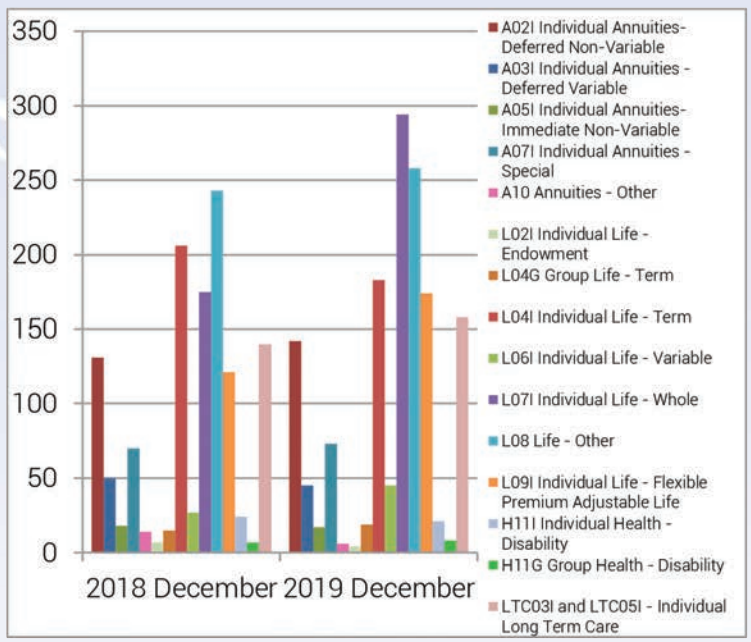
# PRODUCT FILING STATISTICS

The tables below provide statistics on the product filings submitted to the Insurance Compact from January 1, 2014 through December 31, 2019.

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| Companies Registered | 266 | 233 | 228 | 226 | 205 | 198 |
| Products Received | 1,639 | 1,438 | 1,132 | 1,059 | 863 | 999 |
| Forms Submitted | 3,879 | 4,163 | 4,130 | 3,835 | 3,326 | 3,205 |
| Amended Filings | 80 | 109 | 137 | 229 | 197 | 220 |
| Products Approved | 1,617 | 1,226 | 1,158 | 976 | 829 | 876 |
| Transactions* | 57,397 | 42,862 | 37,925 | 31,455 | 26,016 | 26,164 |
| Approval Time (avg)** | 33 | 25 | 20 | 30 | 33 | 27 |
| States/Filing (median)*** | 43 | 42 | 41 | 40 | 40 | 41 |
| Mix & Match | 27% | 34% | 44% | 50% | 51% | 55% |
| State Filing Fees Collected | $3,441,481 | $3,142,679 | $2,639,337 | $2,439,645 | $2,077,363 | $2,302,532 |
| Compact Filing Fees | $1,571,121 | $1,390,576 | $1,057,246 | $1,086,736 | $681,045 | $749,452 |

## Historical Filing Data (2008–2019)




* "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".

# 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. The Insurance Compact marked its 12th full year of revenue-generating operations in 2019. The Insurance Compact's 2019 Annual Report includes the independent auditors report with information on the actual financial results of the organization. This Management Discussion & Analysis report is not a part of the annual external audit examination and 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 $1,967,347 as of December 31, 2019. This is an increase of $864,766 compared to the prior year. The Insurance Compact saw a marked increase in filing volume due to companies updating products previously approved by the Insurance Compact or filing new products to use the 2017 Commissioners Standards Ordinary (CSO) Mortality Table which was regulatorily required by January 1, 2020. Operating revenues were $3,155,495 representing a 31.89% increase over 2018 operating revenues and an actual-to-budget revenue ratio for 2019 of 114.42%. Operating expenses of $2,509,291 were under budget by $5,641 and $258,152 above last year's operating expenses.

Due to the significant increase in its cash balance, total current assets grew by $884,158 over 2018 to $2,008,060. The Insurance Compact ended the year with accounts receivable of $33,974, which is $19,498 less than 2018. This is a function of revenue received on the last day of December 2019 that was satisfied by electronic payments on the first day of January 2020 and fluctuates each year. Prepaid expenses were roughly even between 2019 and 2018 with 2019 being $106 less.

Total current liabilities are $1,458,546 or $435,216 over 2018 primarily due to the growth in deferred revenue as well as the current portion of the note payable to the NAIC. In 2019, the Insurance Compact received $869,750 in deferred revenues which was $39,900 more than in 2018. Deferred revenue represents the annual registration fee paid in 2019 for the 2020 annual registration period. Even though the number of companies submitting their 2020 annual registrations by December 31, 2019 remained the same as the previous year, there were more companies in a higher fee-paying category. As explained in more detail below, the Insurance Compact has triggered repayment of the note payable to the NAIC which has been in deferred status since 2010. For this reason, the anticipated payment for 2020 in the amount of $274,013 has been moved to current liabilities thus reducing long-term liabilities by an equal amount. In 2019, the amounts for accounts payable and accrued expenses are due to timing of payments to vendors, employees, and consultants and fluctuates each year.

In 2019, the Insurance Compact collected and remitted $3,441,481 to states in applicable state filing fees, which was an increase of $298,802 over the amount of state filing fees remitted in 2018. This increase is due to a marked increased filing volume in 2019 when compared to 2018.

The change in net assets equaled $646,204 for 2019 compared to $141,269 in 2018. This is the second consecutive year the Insurance Compact ended the reporting period with a decrease in the net deficit and by far the largest reduction in operational history. The decrease in 2019 is due to the aforementioned increase in filing volume due to the CSO Updates required by January 1, 2020 as well as keeping operating expenses in check. The net asset deficit presents a cumulative loss on operations of $2,629,340 in 2019 as compared to $3,275,544 in 2018 and is the result of all revenues and expenses since inception. The Insurance Compact did not request an available line of credit from the NAIC in 2019 and in fact, triggered repayment of the outstanding amount owed to the NAIC as its change in net assets far exceeded the threshold amount for repayment of $250,000.

## 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 on a per transaction basis 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 the NAIC's System for Electronic Rate and Form Filing (SERFF). The *IIPRC Terms and Procedures for IIPRC Filing Fees* provides that the Insurance Compact adopt its Schedule of Fees in conjunction with the adoption of its annual budget.

The Insurance Compact requires an annual registration fee which provides access to the filing platform. For 2019, changes were made to the annual registration fee schedule creating two new categories and increasing the annual registration fee for companies with $1 billion or more in asset-based premium volume. A company's asset-based premium volume is 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. As of October 1st, all companies were eligible to register at the pro-rated rate of 50% of their applicable registration fee.

For 2019, a new filing fee was established for those filing submissions requiring a rate review. Companies submitting a filing requiring a rate review with a reported premium volume greater than $50 million would be required to pay $2,000; companies with less than $50 million would pay $1,000. Regional companies licensed to do business in 12 or fewer compacting states pay a reduced registration and per-filing fee.

In addition to the new annual registration and rate review fees, the Insurance Compact introduced three new service fees. The first was the Expedited Review Pilot program. Upon approval, companies entering the expedited review process pay double the required product filing fee and receive initial review in an expedited time frame. This program was only available for certain types of filings. Over the course of the year, 41 companies took advantage of this process and made 136 submissions paying $160,625 in filing fees. In 2019, the Commission adopted an extension of this program for the 2020 calendar year.

The second filing fee adopted was the Advance Filing Calculation. This is a service fee of $100 paid per submission. Upon receipt of this filing fee, the Insurance Compact provides the filing company written guidance as to the proper filing fees to be paid. Over 100 companies employed this service in 2019 generating $9,600. Seven submissions included more than one company.

The third of the new filing fees adopted was the EFT Return fee. This fee was assessed to companies who had an electronic funds transfer (EFT) that failed. When a filing is submitted to the Insurance Compact, the indicated state fees on the filing are automatically pushed to the states included in the filing submission. If there is a failed transmission, the fees are still paid from the Insurance Compact's banking accounts. The EFT Return fee is equal to 5% of the total EFT failure and is assessed to the company for any EFT return after their first failure. In 2019, $565 was collected in EFT Return fees which indicated companies are performing additional due diligence to minimize EFT returns.

Product filing fees were $1,741,911 in 2019, compared to $1,390,576 in 2018, an increase of $351,335 or 25%. Overall, the Insurance Compact experienced a 14% increase in product filings year over year. Part of this increase included a 47% increase in actuals over budgeted volume for filing submissions that require an actuarial review and are associated with a higher fee. Products submitted increased from 864 in 2018 to 997 in 2019 in this category. The increase in product filing activity was also accompanied by a continued decrease in the number of mix and match filings from 34% in 2018 to 27% in 2019 as more companies file their entire product portfolios with the Insurance Compact.

# MANAGEMENT'S DISCUSSION & ANALYSIS

Annual registration fees of $1,385,188 for 266 companies were earned in 2019, compared to $992,775 for 233 companies in 2018 demonstrating a 40% increase year-over-year. Eighteen companies registered for the first time in 2019 compared to 12 new companies in 2018. In 2019, companies and fraternals of all sizes, including the top premium writers as well as small regional carriers, experienced the uniformity and speed-to-market benefits of having a Compact-approved product.

Expenses of $2,509,291 ended the year at budget for 2019 compared to expenses of $2,251,139 in 2018. The Insurance Compact was under budget in all line items except salaries which was $32,434, or 2%, over budget. While actual salaries were under budget, the accrued vacation liability of the organization in the amount of $34,793 attributed to this line item exceeding budget. The organization has implemented a vacation buy-back program to address this accrual. Actual travel expenses of $108,707 were $38,414 under budgeted travel. The decrease in travel expenses year over year is due to the budgeted travel costs for the Compact Team, 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. In 2018, the Insurance Compact's net revenue of $141,269 triggered, for the first time, a provision in the Services Agreement requiring an additional fee to the NAIC for services, facilities and equipment. This provision provides for an adjustable administrative fee equal to 7.5% of every $25,0000 of net revenue in excess of expenses earned by the Commission. The Commission triggered the adjustable administrative fee in 2019 in the amount of $50,625 based on the net revenue of $646,204 which is reflected under the professional services category of expenses for 2019.

## Debt

The note payable to the NAIC totals $3,452,867 as of the end of 2019. This is a $76,751 increase over the prior year due to the capitalization of interest on the outstanding loan amount. From 2007 through 2018, the NAIC has provided lines of credit to the Insurance Compact to fund operational needs. In 2019, the Insurance Compact did not request an available line of credit.  Further, the Insurance Compact has not borrowed from the NAIC since 2012.

In 2010, the NAIC and Insurance Compact entered into a note payable for all outstanding and future borrowing with an interest rate of 2.25% equal to the prime rate of 3.25% at January 1, 2010, less 1%. Principal and interest payments were 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 of December 31, 2019, the Insurance Compact has triggered the repayment of principal and interest by achieving a net positive revenue of $646,204, which exceeds the $250,000 threshold. Under the 2010 note payable, the Insurance Compact is to begin making quarterly payments over 60 months and bear interest at 2.5%.

Due to the success of the Compact in 2019, the aforementioned trigger was met, and discussions of repayment were initiated. The Commission plans to adopt the terms for repayment in the spring of 2020.

## Economic Factors

The Insurance Compact accepted its first product filings in June 2007 and completed its twelfth full calendar year of product filing review operations in 2019. The Insurance Compact has approved a total of 9,160 products which would have translated into more than 300,628 individual state filing transactions. In 2019, the District of Columbia became an effective Insurance Compact member bringing the number of Compacting States to 46, including 44 states, the District of Columbia and Puerto Rico.

The Insurance Compact generated $3,127,099 in 2019 and $2,383,351 in 2018 in fee-for-service revenue; 58% and 56%, respectively, coming from transactional product filing fees. The Insurance Compact also collected and remitted state filing fees in the amount of $3,441,481 in 2019 and $3,142,679 in 2018.

The actual product filings were above budgeted product filings in all categories, except for regional companies with more than $50,000,000 in premium volume. The Insurance Compact budgeted for significant filing activity resulting from companies required to update or file new life insurance products to comply with state regulatory requirements with respect to the 2017 Commissioners Standards Ordinary (CSO) Mortality Table by or before January 1, 2020. Existing and new filers made more full product filings signaling the transition of their product portfolio to Compact-approved forms.

In 2019, the Insurance Compact received a record 266 company registrations from large, medium, and small insurance companies and fraternals representing a combined 84% of the nationwide premium volume written for asset-based insurance products. Further, 95% of these 266 companies registered under the full registration schedule with the remainder registering after October 1st when the registration fee is prorated. This trend demonstrates 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 1,639 products for 2019, 14% more than the 1,439 product filings received in 2018. The Insurance Compact was well-positioned to accept those filings providing quick turnaround after a thorough review with an average turnaround time of 33 review days.

The operating expenses of the Insurance Compact grew by 11% between 2018 and 2019. 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 $1,411,078 in 2019 compared to $1,276,018 in 2018. The 11% increase was due to the retention of two new professionals – an actuary and a product reviewer. Additionally, tenured employees were recognized with promotions and increases in salary. Professional services were $468,442 in 2019 compared to $432,969 in 2018. The increase in professional services is due to the payment of the adjustable administrative fee to the NAIC. The Insurance Compact continues to incur outside counsel expenses associated with federal third-party litigation questioning the constitutionality of the Insurance Compact and enforceability of a Compact-approved product. The Insurance Compact Office participated as an *amicus curiae* twice in 2019 – at the United States Court of Appeals for the Tenth Circuit and the Colorado State Supreme Court. For 2019, outside counsel expenses were 35% under budget.

Due to the exceptional filing activity in 2019, the Insurance Compact far exceeded its budgeted revenue while keeping its operating expenses even with budget. This performance resulted in triggering the repayment of the outstanding line of credit amount to the NAIC starting in 2020. With concern that the current terms of repayment, i.e., repayment of $3,452,867 within 60 months, would negatively affect the Insurance Compact's operations and cash balance, the NAIC and Insurance Compact leadership are working to adopt a more sustainable and restructured repayment arrangement by the Spring of 2020.

## 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 2019 and 2018. Questions about this report and requests for additional financial information should be directed to Karen Schutter, Insurance Compact Executive Director, at (202) 471-3962.

# AUDIT REPORT

## INDEPENDENT AUDITOR'S REPORT

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, which comprise the statements of financial position as of December 31, 2019 and 2018, 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 Interstate Insurance Product Regulation Commission as of December 31, 2019 and 2018, 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.

### Emphasis of Matter

As discussed in Note 1 to the financial statements, the Interstate Insurance Product Regulation Commission adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Our opinion was not modified with respect to this matter.

RSM US LLP
Kansas City, Missouri
March 9, 2020

# AUDIT REPORT

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

### STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | **$ 1,967,347** | $ 1,102,581 |
| Accounts receivable | **33,974** | 14,476 |
| Prepaid expenses | **6,739** | 6,845 |
| **Total assets** | **$ 2,008,060** | $ 1,123,902 |
| **Liabilities and Net Deficit** | | |
| Current liabilities: | | |
| Accounts payable | **$ 105,538** | $ 53,399 |
| Accrued expenses | **209,245** | 140,081 |
| Deferred revenue | **869,750** | 829,850 |
| Current portion of note payable to the NAIC (Note 3) | **274,013** | - |
| **Total current liabilities** | **1,458,546** | 1,023,330 |
| Long-term liabilities: | | |
| Note payable to the NAIC (Note 3) | **3,178,854** | 3,376,116 |
| **Total liabilities** | **4,637,400** | 4,399,446 |
| Net deficit: | | |
| Without donor restrictions | **(2,629,340)** | (3,275,544) |
| **Total liabilities and net deficit** | **$ 2,008,060** | $ 1,123,902 |

See notes to financial statements.

# AUDIT REPORT

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

### STATEMENTS OF ACTIVITIES

December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Revenues: | | |
| Annual registrations | **$ 1,385,188** | $ 992,775 |
| Product filing fees | **1,741,911** | 1,390,576 |
| Interest income | **28,396** | 9,057 |
| **Total revenues** | **3,155,495** | 2,392,408 |
| Expenses: | | |
| Salaries | **1,446,997** | 1,276,016 |
| Employee benefits | **361,888** | 331,872 |
| Professional services | **468,442** | 432,969 |
| Travel | **108,443** | 93,920 |
| Rental and maintenance | **7,215** | 7,601 |
| Interest expense | **76,751** | 75,045 |
| Insurance | **15,499** | 14,667 |
| Office services | **16,493** | 13,134 |
| Meeting expenses | **7,563** | 5,915 |
| **Total expenses** | **2,509,291** | 2,251,139 |
| **Changes in net deficit without donor restrictions** | **646,204** | 141,269 |
| Net deficit, beginning of year | **(3,275,544)** | (3,416,813) |
| Net deficit, end of year | **$ (2,629,340)** | $ (3,275,544) |

See notes to financial statements.

# AUDIT REPORT

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

### STATEMENTS OF CASH FLOWS

December 31, 2019 and 2018

| | **2019** | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Changes in net deficit without donor restrictions | **$ 646,204** | $ 141,269 |
| Adjustments to reconcile changes in net deficit without donor restrictions to net cash provided by operating activities: | | |
| Interest expense included in note payable | **76,751** | 75,045 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(19,498)** | 8,274 |
| Prepaid expenses | **106** | (995) |
| Accounts payable | **52,139** | 20,364 |
| Accrued expenses | **69,164** | 16,085 |
| Deferred revenue | **39,900** | 226,950 |
| **Net cash provided by operating activities** | **864,766** | 486,992 |
| **Net increase in cash** | **864,766** | 486,992 |
| Cash: | | |
| Beginning | **1,102,581** | 615,589 |
| Ending | **$ 1,967,347** | $ 1,102,581 |

See notes to financial statements.

# AUDIT REPORT

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Operations and 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 46 and 45 member states as of December 31, 2019 and 2018, respectively.

Basis of accounting for revenues: The IIPRC earns revenue predominately through annual registration and product filing fees. 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 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard replaced most existing revenue recognition guidance under accounting principles generally accepted in the United States of America. This standard also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The IIPRC adopted the new standard effective for the year ended December 31, 2019, using the modified retrospective transition approach. Based on the IIPRC's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. See below for additional disclosures.

As noted above, revenue from contracts with customers is derived primarily from annual registration fees and product filing fees.

The IIPRC's annual registration revenue arrangements are recognized over time and consist of performance obligations that are satisfied ratably over a period of no more than one year. Prices are specific to a distinct performance obligation and do not consist of multiple transactions. As of December 31, 2019 and 2018, annual registration revenue was $1,385,188 and $992,775, respectively.

The IIPRC's product filing fees revenue is recognized at a point in time and consists of performance obligations that are satisfied when insurance companies process filings through the National Association of Insurance Commissioners' (the NAIC) System for Electronic Rate and Form Filing (SERFF) and in accordance with the standards established by the IIPRC for its member states. The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. Prices are distinct to a performance obligation. As of December 31, 2019 and 2018, product filing fees revenue was $1,741,911 and $1,390,576, respectively.

The IIPRC records deferred revenue in situations when amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues for revenue from contracts are classified as current liabilities on the statements of financial position and as of December 31, 2019 and 2018, were $869,750 and $829,250, respectively. Associated accounts receivable for revenue from contracts as of December 31, 2019 and 2018, were $33,974 and $14,476, respectively. There were no changes in annual registrations and product filing fees that would affect economic seasonality of the statements of financial position.

The IIPRC did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
### NOTES TO FINANCIAL STATEMENTS

**Note 1. Nature of Operations and Summary of Significant Accounting** Policies (Continued)

Basis of accounting and presentation: The IIPRC presents its financial statements based on FASB Accounting Standards Codification (ASC) Topic 985, Presentation of Financial Statements. Net assets, revenues and gain and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the IIPRC and changes therein are classified and reported as follows:

***Net assets (deficit) without donor restrictions:*** Net assets are not subject to donor-imposed restrictions but may be subject to board designations. At December 31, 2019 and 2018, net deficit consisted entirely of net deficit without donor restrictions.

***Net assets with donor restrictions:*** Net assets are subject to donor-imposed restrictions that may or will be met either by actions of the IIPRC and/or the passage of time. Also included within this category are net assets subject to donor-imposed restrictions to be maintained permanently by the IIPRC. Generally, the donors of these assets permit the IIPRC to use all of part of the income earned on related investments for general or specific purposed. At December 31, 2019 and 2018, the IIPRC does not have any net assets with donor restrictions.

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.

Functional expenses: The Not-for-Profit Entities topic of the ASC requires nonprofit organizations to disclose expenses by functional classification. The IIPRC presents expenses only by their natural classification on the December 31, 2019 and 2018, statements of activities, as there is only one program (member services) with multiple service offerings. Therefore, management does not allocate expenses between multiple programs and supporting expenses. 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, 2019 or 2018.

# AUDIT REPORT

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

### Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncement: 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 2021. 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, if any, of the pending adoption of the new standard on the financial statements.

### Note 2. Liquidity and Availability of Resources

The IIPRC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2019 and 2018, the following financial assets are available to meet annual operating needs of the subsequent fiscal year:

| | 2019 | 2018 |
|---|---|---|
| Financial assets at year-end: | | |
| Cash | **$ 1,967,347** | $ 1,102,581 |
| Accounts receivable, net | **33,974** | 14,476 |
| Total financial assets | **$ 2,001,321** | $ 1,117,057 |

The IIPRC has various sources of liquidity at its disposal, including cash, and accounts receivable.

### Note 3. 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%, compounded monthly.

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%, 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.

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
### NOTES TO FINANCIAL STATEMENTS

### Note 3. Line of Credit From and Notes Payable to the NAIC (Continued)

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.

A $100,000 line-of-credit agreement for 2018, effective January 1, 2018, was executed with the NAIC. No advances were drawn during 2018.

The total outstanding principal and interest balance of the note payable and lines of credit as of December 31, 2019 and 2018, is $3,452,867 and $3,376,116, respectively. As is customary, both the note and line of credit described above contain certain events of default that, if triggered, allow the NAIC to call the remaining principal balance and all accrued interest for immediate payment.

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, 2019, the trigger date was achieved as the IIPRC achieved an increase in net assets of at least $250,000. Under the terms of the agreement, following the trigger date, the note will mature in 60 months and bear interest at 2.25%, compounded monthly. Quarterly principal and interest payments will be due through maturity.

During 2019, the IIPRC began negotiations with the NAIC to modify and restructure the aforementioned promissory note in anticipation of the trigger date being achieved. The IIPRC does not expect to be able to service the full amount of the note payable over five years without causing a negative cash balance. The proposed modifications will extend the repayment term from five to 10 years with the first payment due in 2020 and the final payment due in 2029. Repayment will be made only on the principal balance of $2,740,134. Payments of $274,013 will be made no later than March 31 of each year. There is no accrued interest during the repayment period including any extended periods beyond the initial 10-year repayment period. If during the 10-year repayment period the IIPRC's cash balance is less than $250,000 as reflected in the annual audited financial statements, the required payment for the year following the financial statement date will be deferred and the repayment period extended accordingly. Upon the final payment that completely repays the principal balance, the imputed interest balance of $712,733 will be treated as a contribution to the IIPRC. The NAIC Executive (EX) Committee approved the modifications to the note agreement in January 2020. It is anticipated that the IIPRC Management Committee will approve the modified terms in March 2020.

# AUDIT REPORT

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

### Note 4. 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 and an annual license and maintenance fee in the amount of $25,000 for the use of SERFF. The IIPRC also pays an adjustable administrative fee of every $25,000 of net revenue in excess of expenses. This fee was 7.5 percent and 5.0 percent for the years ended December 31, 2019 and 2018, respectively. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

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

| | **2019** | 2018 |
|---|---|---|
| Administrative services provided by and paid to the NAIC | **$ 125,000** | $ 125,000 |
| License fee paid to the NAIC | **$ 25,000** | $ 25,000 |
| Adjustable administrative fee | **$ 50,625** | $ 6,250 |
| Amounts payable to the NAIC | **$ 97,555** | $ 36,536 |

### Note 5. 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, 2019 and 2018, the IIPRC agreed to match up to 3.5% of compensation of employees who contribute to the plan and contributed 2.0% of all employees' annual compensation. The IIPRC made contributions of $67,755 and $63,937 for the years ended December 31, 2019 and 2018, respectively.

### Note 6. Subsequent Events
Management has performed an evaluation of events that have occurred subsequent to December 31, 2019, through March 9, 2020. Other than what is noted in Note 3 related to the note payable to the NAIC, 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, 2019.

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## HIGHLIGHTS

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