

**INTERSTATE INSURANCE PRODUCT
REGULATION COMMISSION**

INDEPENDENT BUSINESS ASSESSMENT

REPORT OF FINDINGS AND RECOMMENDATIONS

BY RECTOR & ASSOCIATES, INC.

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ARTICLE I. EXECUTIVE SUMMARY

The RFP pursuant to which Rector & Associates, Inc. (R&A) was engaged described what we were to do as follows:

To perform a review and analysis of [the Interstate Insurance Product Regulation Commission's (the IIPRC's)] financial, budget, fee, and operational structure, processes and practices to recommend revisions or improvements to enhance [the IIPRC's] financial effectiveness and sustainability over the next five to ten years and to comply with financial and business best practices for comparable organizations.

In performing our work, we reviewed numerous documents and conducted approximately 50 interviews with a wide range of stakeholders, including IIPRC Officers and Management Committee Members, additional Commissioners and senior state insurance regulators, IIPRC staff, NAIC senior management, various IIPRC committees, and industry filers of various sizes and product types. We believe our work gave us a sufficient basis to make the judgments and recommendations called for by the RFP.

SUMMARY FINDINGS

IIPRC Financial Model and Sustainability

Following our review and analysis of the IIPRC's financial and budget structure, processes and practices, we concluded that, on balance, the IIPRC financial model allows for positive financial results, and that appropriate financial systems, controls, and procedures are in place. Although the IIPRC has only generated positive net revenue in its last two years of operations, we believe the IIPRC's current financial model will allow it to remain financially sustainable over the next five to ten years.

We believe that the single biggest risk to the IIPRC's financial sustainability is the potential effect of the recent Colorado Supreme Court decision in *Amica Life Insurance Company v. Wertz*. If the uncertainty surrounding the effects of the *Amica v. Wertz* decision is allowed to persist so that insurance industry members begin to discontinue using the IIPRC Platform, the IIPRC's future viability will be threatened. If, however, the IIPRC is able to successfully resolve the issues raised by *Amica v. Wertz*, we believe the IIPRC is positioned to be financially self-sufficient and sustainable for the next five to ten years.

IIPRC Operational and Business Model

Following our review and analysis of the IIPRC's operational structure, processes and practices, we concluded that, on balance, the IIPRC successfully performs its operations and employs a business model that allows it to accomplish its key goal: serving as a speed to market vehicle for uniform product reviews within a state-based regulatory system.

The insurance industry product filers that utilize the IIPRC filing platform uniformly have high praise for IIPRC staff's knowledge, expertise, and service to industry filers. IIPRC staff generally have successful working relationships with all other IIPRC stakeholders as well, including IIPRC Officers and Committee members, Insurance Commissioners, other state insurance department regulators, and insurance industry and consumer advocates.

KEY FINDINGS AND RECOMMENDATIONS

Although we concluded that the IIPRC, on balance, has appropriate financial, budget, fee, and operational structures, processes and practices in place, the following are our key findings and recommendations for enhancements to the IIPRC's operational and financial structure.

IIPRC Operational and Business Model

Strategic Planning Focus – We recommend that the IIPRC increase its focus on a strategic planning process that proactively identifies financial and operational threats to its future and creates solution to those threats before they can affect IIPRC operations.

Demarcation Between NAIC and IIPRC – Although we recognize that many overlaps necessarily and appropriately exist between the NAIC and the IIPRC, we recommend that there be clearer lines of demarcation between the two entities.

Revision to Five-Year Uniform Standards Review Process – We recommend that rather than continue the IIPRC's current five year uniform standards review process, the IIPRC pursue development of an identification and prioritization process that allows stakeholders to request consideration of amendments to existing uniform standards at any time.

Use of Designees as Compacting State Representatives – We recommend that Compacting States continue the use of designees for all IIPRC matters, including having such designees serve on IIPRC committees and vote on IIPRC matters on behalf of Compacting States.

Development of Uniform Standards for Additional Products and Features – We recommend that the IIPRC consider the development of uniform product standards for additional products, including nonemployer group products, group life products, accelerated death benefit features for additional product lines, Medicare Supplement products, and certain property/casualty lines of business.

Development of Process for Allowing Innovative Product Features – We recommend that the IIPRC consider the development of a process that would allow industry members to include

innovative product features that are of benefit to consumers but are not specifically allowed by current uniform product standards.

Adoption of Permanent Expedited Review Program – We recommend that the IIPRC consider the adoption of the Expedited Review Program as a permanent service offered to companies that use the IIPRC Platform.

Improved Communication Between Insurance Commissioners and IIPRC Staff – We recommend that IIPRC staff strive for more appropriate and effective communications with Insurance Commissioners to better understand and listen to Commissioners’ consumer and policy issues confronting the Commissioners.

Effective Collaboration On Uniform Standards Development Between IIPRC Staff and Insurance Department Staff – We recommend that IIPRC staff increase collaboration with Insurance Commissioners and their staff to identify appropriate uniform standards for development.

Coordination of IIPRC Meetings and Distribution of Materials – We recommend that the IIPRC consider improved coordination of schedules for IIPRC and NAIC Committee meetings and similar methods for the preparation and distribution of materials.

Development of Cross Training Program for Product Reviewers – We recommend that the IIPRC consider the development of a formal cross training program for its product reviewers so that all reviewers receive training on the review of all types of product lines.

Consideration of Appropriate Use of Independent Contractors – We recommend that the IIPRC consider whether the two independent contractors who are members of the IIPRC’s personnel meet the indicia for independent contractor designation, as set forth in appropriate federal and state taxation and workers compensation guidelines.

IIPRC Financial Model

Assessment of NAIC License and Services Agreement – We recommend that the IIPRC and NAIC revisit the NAIC License and Services Agreement to have it more accurately reflect the services currently being provided and, once those services are agreed upon, to determine whether the fee structure relative to those services should be revised accordingly.

Consideration of Revisions to Annual Registration and Product Filing Fee Structure – We recommend that the IIPRC consider increases to its current annual registration and product filing fee charges, including fees for its advance filing fee calculation. In addition, we recommend the IIPRC consider charging a lower annual registration fee for the first year that a company registers with the IIPRC in order to attract more new users.

Development of Improved Budget Process For Future Expenditures – We recommend that IIPRC Officers and senior management consider and agree on a uniform approach to expense budgeting so that the IIPRC budget is presented to Members and other stakeholders in a consistent and coordinated manner.

OVERVIEW OF STRUCTURE OF R&A REPORT

The remainder of this R&A Report – Articles II through VI – is structured in the following manner:

Article II – Overview of Independent Business Assessment Process describes the process by which our R&A team was selected and the manner in which we performed this Independent Business Assessment.

Article III – Overview of IIPRC Operations and Business and Model and **Article IV – Overview of IIPRC Financial Model and Operations** describe the IIPRC operational and business model (Article III) and the IIPRC financial model (Article IV). These Articles do not draw conclusions or make recommendations with respect to the IIPRC operations – they only are intended to describe our understanding of the IIPRC operations that is the basis of our assessment.

Article V – Assessment of IIPRC Operations and Business and Model and **Article VI – Assessment of IIPRC Financial Model and Operations** describe our assessment – our findings and recommendations – with respect to the IIPRC operational and business model (Article V) and the IIPRC financial model (Article VI).

ARTICLE II. OVERVIEW OF INDEPENDENT BUSINESS ASSESSMENT PROCESS

A. INDEPENDENT BUSINESS ASSESSMENT REQUEST FOR PROPOSAL AND SELECTION PROCESS

1. Request for Proposal Process.

On April 9, 2020, the Interstate Insurance Product Regulation Commission (IIPRC) released RFP #12 – Business Assessment to the public to solicit proposals (RFP) for a consultant to perform an independent business assessment of the IIPRC (Business Assessment). The RFP requested proposals from consultants so that the IIPRC can:

Engage a consultant to perform a review and analysis of its financial, budget, fee, and operational structure, processes and practices to recommend revisions or improvements to enhance the Insurance Compact’s financial effectiveness and sustainability over the next five to ten years and to comply with financial and business best practices for comparable organizations.¹

In addition to the engagement goals of the Business Assessment, as set forth above and in the RFP, the RFP also set forth the Scope of Work for the Business Assessment, including specific steps to be performed by the selected consultant (Scope of Work). Attached to this Report as **Exhibit A** is the Scope of Work, as set forth in the RFP, to which we have added a summary of each of the required steps and the actions we took to perform those required steps.

2. Selection Process.

On June 3, 2020, Rector & Associates, Inc. (R&A) submitted its Proposal in response to the RFP. On July 7, 2020, the members of the IIPRC Governance Review committee interviewed Sarah Schroeder, President and Neil Rector, Founder & Senior Consultant.

On July 10, 2020, we were notified that R&A had been selected to perform the Business Assessment. On July 15, 2020, the IIPRC and R&A entered into the Interstate Insurance Product Regulation Commission Consultant Agreement (Consultant Agreement), which sets forth the terms of R&A’s engagement. On September 30, 2020, the IIPRC and R&A entered into the First Addendum to the Consultant Agreement, which extended both the term of the Consultant Agreement to December 31, 2020 and revised specific deliverable dates with respect to certain provisions in the Scope of Work.

¹ See **Exhibit A** – Scope of Work.

B. OVERVIEW OF R&A INDEPENDENT BUSINESS ASSESSMENT PROCESS AND ANALYSIS

Throughout the performance of our Business Assessment, the IIPRC staff was extraordinarily helpful with our requests for information and with assistance in establishing the necessary interview schedule with IIPRC stakeholders. The IIPRC staff's invaluable assistance was crucial to our performance of this Business Assessment.

1. R&A Document Analysis.

In order to perform the Business Assessment and as required by the Scope of Work, our team reviewed and analyzed a significant number of documents pertaining to the IIPRC's current and historical financial position and its financial, budget, and operational structure, processes, and practices. Attached to this Report as **Exhibit B** is a listing of the key documents reviewed by our team.

2. R&A Interview Process.

As set forth in item 6 of the Scope of Work, our team was expected to consult with various IIPRC stakeholders to gather information and feedback. The Scope of Work anticipated we would consult with IIPRC Officers and Management Committee members; NAIC senior management; the IIPRC Audit Committee Chairperson; IIPRC senior management; company filers; and other stakeholders as deemed advisable.

During our Business Assessment, our team members conducted approximately 50 total interviews of IIPRC stakeholders. A number of our interviews involved more than one person being interviewed. The following are the categories of stakeholders and, where appropriate, the individuals with whom we spoke:

a. IIPRC Officers and Management Committee Members.

- Superintendent Elizabeth Kelleher Dwyer (RI Department of Business Regulation), Management Committee Chairperson
- Director Robert Muriel (IL DOI), Management Committee Treasurer and Finance Committee Chairperson
- Commissioner Kent Sullivan (TX DOI), Member of Management Committee and Governance Review Committee (accompanied by Doug Slape, Chief Deputy Commissioner)
- Commissioner Andrew Stolfi (OR Division of Financial Regulation), Chair of Rulemaking Committee and Member of Governance Review Committee (accompanied by TK Keen, Deputy Commissioner and Tashia Sizemore, Life and Health Program Manager)
- Director Bruce Ramge (NE DOI), Chairperson of Audit Committee
- Director Chlora Lindley-Myers (MO DOI), Vice Chairperson of Audit Committee

b. Additional Senior State Insurance Regulators.

R&A team members conducted additional interviews with current or former senior state insurance regulators (involving five different insurance departments) who have significant experience with IIPRC's financial structure and operational matters.

c. IIPRC Staff.

R&A team members interviewed the following IIPRC staff:

- Senior IIPRC staff: Karen Schutter, Executive Director; Becky McElduff, Director & Counsel, Product Operations; and Sara Dubsky, Assistant Director, Administrative Operations
- IIPRC product review staff
- IIPRC actuarial review staff

d. NAIC Senior Management.

Andrew Beal, NAIC Chief Operating Officer & Chief Legal Officer

e. IIPRC Committees.

R&A team members participated in Committee meetings for the following Committees during which team members discussed IIPRC operations with Committee members:

- Finance Committee
- Audit Committee
- Rulemaking Committee
- Legislative Committee
- Industry Advisory Committee
- Consumer Advisory Committee

Our team conducted additional interviews with members of the Industry Advisory and Consumer Advisory Committees.

f. Industry Filers.

Our team conducted interviews with 14 different industry members who utilize the IIPRC for product filings. Several of the industry members interviewed represent numerous insurers, so the number of insurer viewpoints received during the interviews was significantly greater than the number of interviews conducted. During the selection process for the industry members to be interviewed, our team ensured that we included industry members who have filed all of the product types that the IIPRC accepts for review. In addition, we ensured that we included at least one industry member from each of the categories of filers for IIPRC annual registration fee purposes based on filers' asset-based premium volume.

3. Distinction Between R&A Independent Business Assessment and IIPRC Corporate Governance Review.

Simultaneously with its release of the RFP pertaining to the Business Assessment, the IIPRC also released RFP #11 – Governance Review, which sought proposals to engage a consultant:

to perform a review of its governing documents, organizational structure, management, decision-making and reporting processes and recommend revisions or improvements to comply with best practices for comparable organizations and to enhance the Insurance Compact's effectiveness of the current structure, procedures, communications and opportunities for improvement. The review will focus on the roles of the: Management Committee; the Officers; the Executive Director and management; the Audit Committee; Other Committees; and individual Members.²

Squire Patton Boggs (SPB) was selected to perform the Governance Review. To create efficiencies in our respective assessments, R&A and SPB team members worked collaboratively on certain aspects of our engagements. For example, some interviews were conducted jointly by R&A and SPB.

However, notwithstanding those collaborative aspects of our work, we were always mindful that the tasks and goals of the Business Assessment are quite different from those of the Governance Review. At its core, what we are to do in the Business Assessment is to evaluate and comment on the IIPRC's financial, operational and business model, whereas, at its core, what SPB is to do in the Governance Review is to evaluate and comment on how the IIPRC is governed.

There are certain areas of overlap between the two assessments, of course, the most significant of which pertains to the recent Colorado Supreme Court decision in *Amica Life Insurance Company v. Wertz* (*Amica v. Wertz*). We believe that the RFPs make clear that the primary responsibility for assessing third-party litigation and recent court rulings, such as *Amica v. Wertz*, lies with SPB's Governance Assessment. However, *Amica v. Wertz* also has the potential to impact the IIPRC's financial, operational and business model because its holding could cause some current or potential filers to question whether IIPRC product approval can provide the national uniformity that is at the heart of the IIPRC's business model. If such questions are allowed to persist, and if, in response, industry filers were to limit their use of the IIPRC, the IIPRC's finances and operations could be significantly impacted. For these reasons, our Business Assessment considered how *Amica v. Wertz* has the potential to impact the IIPRC's financial, operational and business model even though (as set out in the respective RFPs) the responsibility for the more comprehensive review of *Amica v. Wertz*—including what steps might be taken to address the issues presented by it—rests with SBP and the Governance Review.

² See IIPRC RFP #11 – Governance Review.

ARTICLE III. OVERVIEW OF IIPRC OPERATIONS AND BUSINESS MODEL

A. IIPRC FORMATION

1. Historical Perspective On IIPRC Formation.

It would not be an exaggeration to say that the IIPRC was created, in significant part, to help preserve the state-based insurance regulatory system. Prior to the formation of the IIPRC, the regulation of the U.S. insurance industry was at a crossroads. Many supported a continuation of the state-based insurance regulatory system while others sought to replace that system with a regulatory approach run by the federal government. A key concern raised by those favoring a federal approach was that the state-by-state product review and approval process added costs and delays to the introduction and use of new insurance products. That concern was exacerbated by the 1999 enactment of the Gramm-Leach-Bliley Act, a sweeping piece of financial modernization legislation that allowed (among other things) for certain affiliations among banking, insurance and securities firms. As a result of those modernization efforts, insurers began to more directly face competition from financial institutions and securities firms. Increasingly, some U.S.-based insurers believed that they were being left behind those competitors, many of which were operating under federal charters and were regulated by a single, federal regulator.

As noted above, the state-based insurance regulatory system faced particular criticism with respect to its ability to allow consumers to have swift access to competitive insurance products in an ever-changing global marketplace. The U.S. insurance industry and regulatory community began to search for more efficient and effective methods pursuant to which insurance products could be brought to market quickly. The NAIC began to talk increasingly of developing a “speed to market” initiative. After much consideration, a general consensus began to form around the development of a uniform product review system that would include three key features: a single point of product filing and review; national standards for insurance products; and a more efficient state-based procedure for processing and filing insurance products.

2. NAIC Involvement With IIPRC Formation.

In response to the concerns described above, the NAIC, in 2000, adopted *The Statement of Intent: The Future of Insurance Regulation* and formed a Speed-to-Market Working Group.

By 2002, the NAIC, its members, and insurance industry stakeholders determined that an interstate compact would serve as the most appropriate vehicle to accomplish the speed to market goals pertaining to a uniform product review system.

In 2002, the NAIC formed a working group – the Interstate Compact Working Group – that was charged with identifying key issues in creating an interstate compact and developing draft interstate compact legislation. In 2002, the NAIC also adopted an initial Interstate Insurance Compact Model that served as a starting point for discussion with stakeholders. In July 2003, the NAIC adopted eight amendments to the initial Interstate Insurance Compact Model. The

resulting NAIC Model Interstate Insurance Product Regulation Compact (Model Law 692) (Compact Model Law) serves as the current version of the interstate compact model law.³

3. IIPRC Formation.

Under the terms of the Compact Model Law, the IIPRC was “effective and binding” upon adoption of the Compact Model Law by at least two jurisdictions.⁴ A jurisdiction that adopts the Compact by legislative enactment is considered a Compacting State. In 2004, the States of Colorado and Utah enacted the Compact Model Law, thereby prompting the formal creation of the IIPRC as a “joint public agency” and a “body corporate and politic, and an instrumentality of the Compacting States.”⁵

Although the IIPRC came into existence in 2004 upon the adoption of the Compact Model Law by Colorado and Utah, the Compact Model Law also provided that the IIPRC could not begin its operations (i.e., adopt uniform standards and approve products filed with the IIPRC) until at least 26 states adopted the Compact Model Law or, alternatively, the Compact Model Law was adopted by states representing at least 40% of the premium volume for life insurance, annuity, disability income and long-term care insurance products.⁶ In accordance with those adoption requirements, the IIPRC became operational in May of 2006 when both of the operational thresholds were met.

Other key dates in the IIPRC’s formation process and commencement of its operations were:

- Adoption of Bylaws and key operating rules – November 2006
- Adoption of first set of Uniform Standards – December 2006
- Commencement of product review and approval operations– June 2007

4. Purposes of the IIPRC.

According to Article I of the Compact Model Law, the purposes of the IIPRC include:

- a. To promote and protect the interest of consumers of individual and group annuity, life insurance, disability income, and long term care products;
- b. To develop uniform standards for the products;
- c. To establish a central clearinghouse to receive, review, and give approval to product filings and LTC advertisements; and
- d. To improve coordination of regulatory resources and expertise between state insurance departments with respect to the uniform standards and review.⁷

³ It is important to note that we do not consider our Scope of Work to include an analysis of the appropriateness of the approach taken to the formation of the IIPRC or the continued viability of the IIPRC’s organizational structure in light of *Amica v. Wertz* and other recent court rulings. In Article I (Executive Summary), we identify as a key business risk for the IIPRC the continued viability of the IIPRC’s organizational structure.

⁴ See Article XIII, Section 2 of the Compact Model Law.

⁵ See Article III, Sections 1 & 2 of the Compact Model Law.

⁶ See Article XIII, Section 2 of the Compact Model Law.

⁷ See Article I of the Compact Model Law.

B. IIPRC ORGANIZATIONAL STRUCTURE

1. IIPRC Members.

Each Compacting State is represented on the IIPRC by one individual, called a member (Member), and may select its Member in whatever manner it deems fit.⁸ In other words, a Compacting State's Member does not necessarily have to be that state's Insurance Commissioner. Each Member has one vote on any matter that comes before the IIPRC.⁹

Any Member may designate a person or persons to serve in place of the Member as a designee. The designee can serve on IIPRC committees, attend meetings, and vote on behalf the Member.

2. Committee and Officer Structure and Responsibilities.

a. Management Committee.

The IIPRC Management Committee consists of 14 Members selected as follows:

- One Member from each of the six Compacting States with the largest premium volume for select products for the prior year;
- Four other Members selected on a rotating basis from Compacting States with at least 2% of the market based on premium volume; and
- Four other Members from those Compacting States with less than 2% of the market with one Member chosen from each of the four NAIC zones.¹⁰

b. IIPRC Officers.

A Chair, Vice Chair, and Treasurer are selected by the Members from among the members of the Management Committee. The IIPRC's Executive Director serves as the IIPRC Secretary (although not considered a member of the Management Committee).¹¹

c. IIPRC Executive Director.

Subject to the approval of a majority of the Members, the Management Committee has authority to appoint or retain an Executive Director. The Executive Director serves as the IIPRC's principal administrator and Secretary for the Management Committee.¹²

d. Legislative Committee.

The Legislative Committee is comprised of eight state legislators or their designees, as selected by the National Conference of State Legislatures and the National Conference of Insurance Legislators. The Legislative Committee is tasked with monitoring the operations of and making recommendations to the IIPRC.¹³

⁸ See Article V, Section 1.a. of the Model Compact Law.

⁹ See Article V, Section 1.b. of the Model Compact Law.

¹⁰ See Article V, Section 1.b. of the Model Compact Law and Article III, Section 1 of the Bylaws.

¹¹ See Article V, Section 2.c. of the Model Compact Law and Article IV, Section 1 of the Bylaws.

¹² See Article V, Section 2.d. of the Model Compact Law.

¹³ See Article V, Section 3.a. of the Model Compact Law and Article VIII, Section 1 of the Bylaws.

e. Advisory Committees.

The IIPRC is required to establish a consumer advisory committee and an insurance industry advisory committee.¹⁴

- i. The *Consumer Advisory Committee* consists of eight consumer representatives independent of the insurance industry, as nominated by consumer organizations and appointed by the Management Committee.¹⁵
- ii. The *Industry Advisory Committee* consists of eight representatives of the insurance industry, as nominated by insurers, producers and insurance industry membership organizations and appointed by the Management Committee.¹⁶

f. Audit Committee.

The Audit Committee consists of at least three Members, none of whom may be members of the Management Committee. The Audit Committee is directly responsible for the appointment, compensation, and oversight of the independent CPA that is engaged to conduct the IIPRC's annual audit.¹⁷

g. Other Committees.

Finally, the IIPRC and the Management Committee have authority to establish other committees as deemed necessary to carry out the IIPRC's objectives. Under this authority, the IIPRC established the *Finance Committee, Product Standards Committee and Rulemaking Committee*. These Committees do not have specific charters, but the Product Standards Committee and Rulemaking Committee have established 2020 Work Agendas.

C. IIPRC OPERATIONAL MODEL

1. Use and Development of IIPRC Uniform Standards.

During the development of the Compact Model Law, NAIC members and insurance industry stakeholders determined that it was most appropriate to focus on specific types of insurance products that were most conducive to the development of national uniform standards. Accordingly, products that were included within the purview of the Compact Model Law and that are subject to IIPRC review and approval today are individual or group annuity, life insurance, disability income (DI), or long-term care (LTC) insurance products.

In order to enact a Uniform Standard, the IIPRC requires the affirmative vote of 2/3 of the Management Committee and 2/3 of the Members.¹⁸

¹⁴ See Article V Section 3.b. of the Model Compact Law.

¹⁵ See Article VIII, Section 2.A.(1) of the Bylaws.

¹⁶ See Article VIII, Section 2.A.(2) of the Bylaws.

¹⁷ See Article IX, Section 5 of the Bylaws.

¹⁸ See Article V Section 1.b. of the Model Compact Law.

2. Opt Out Structure.

At the time a new Uniform Standard is adopted, a Compacting State can decide not to adopt or participate in that Uniform Standard through an “opt out” procedure that requires the adoption by the state of either a state law or regulation. If a Compacting State chooses to opt out by adopting a state regulation, the Compacting State must:

- Give notice to the IIPRC of the Compacting State’s intent to opt out within 10 days of the date the Uniform Standard is adopted; and
- Find that the Uniform Standard does not provide reasonable protections to the Compacting State’s citizens, given the conditions in the Compacting State.”¹⁹

In addition, at the time a Compacting State becomes a Member of the IIPRC, the Compacting State can prospectively opt out of all Uniform Standards involving LTC insurance products.

Currently, six Compacting States have opted out of all Uniform Standards involving LTC insurance products, and two Compacting States have opted out of all Uniform Standards involving DI products.

D. IIPRC STAFFING AND RESPONSIBILITIES

Currently, the IIPRC staff consist of **13 total staff members** (11 employees and two independent contractors) with **three additional open staff positions** that are included in the IIPRC’s 2020 budget, but currently are not filled.

1. Staff Classifications.

Currently, IIPRC staff consists of the following four classifications:

a. Senior Management Staff

IIPRC senior management consists of:

- ***Karen Schutter, Executive Director***
Karen manages all of the IIPRC operations, including:
 - Significant communication with IIPRC officers, members, and industry stakeholders
 - Implementing the IIPRC Strategic Plan 2020 – 2022
 - All personnel decisions and functions
- ***Becky McElduff, Director & Counsel, Product Operations***
Becky is responsible for the following functions:
 - Oversight of all product operations and review functions, including product review assignments
 - Oversight of the IIPRC pre-filing communication process and assistance with IIPRC expedited product review process
 - Preparation of training and webinar sessions and website materials

¹⁹ See Article VII of the Compact Model Law.

- Assisting with third party litigation and recent court ruling matters
- **Sara Dubsky, Assistant Director, Administrative Operations**
Sara is responsible for the following functions:
 - Assistance with product submission intake and filing fee oversight
 - Coordination of IIPRC financial reporting, including comparison of actual to budgeted results
 - Establishing platforms for IIPRC Committee teleconferences
 - Distributing IIPRC materials and producing minutes with respect to IIPRC Committee meetings

b. Product Review Staff.

Currently, IIPRC product review staff consists of five *full-time staff members*. The number of staff assigned to review of specific IIPRC products are as follows²⁰:

- **Annuity Product Review** – one staff member with future assistance from a second staff member
- **Life Product Review** – three staff members
- **Long Term Care Product Review** – one staff member
- **Disability Income Product Review** – one staff member

In addition to the current product review staff, the IIPRC has one additional product review position that currently is open, although IIPRC senior management indicated it is not currently attempting to fill that position.

During our discussions, we learned that the product review staff who are assigned to review specific IIPRC products do not have a formal cross-training program so that they can readily assist with reviewing other product lines, if necessary. With the current workload for product reviewers, we also learned that it is difficult for informal cross-training to take place among product reviewers.

c. Actuarial Review Staff.

Currently, IIPRC actuarial review staff consists of *three full-time staff members*. Although two staff members focus on life, DI, and LTC products and one staff member focuses on annuity products, all of the actuarial review staff are capable of reviewing all of the IIPRC products.

d. Additional Support Staff.

Two additional IIPRC staff consisting of a **Regulatory Coordinator Consultant** and an **Administrative Assistant** provide support to members and assist with product intake and coordination, among other administrative responsibilities on behalf of the IIPRC.

²⁰ Some product review staff review more than one type of product so that even though there are five product reviewers, more than one reviewer is assigned to the various types of products.

e. Communications and Member Coordinator Open Staff Positions.

Currently, the IIPRC has two open positions consisting of an *Administrative Assistant/Communications Coordinator* and a *Member Coordinator*. IIPRC senior management believes these positions are crucial to allow the IIPRC to gain further knowledge of the industry's product development needs and to assist with customer service and marketing functions.

2. Staff Employment Status.

Currently, two IIPRC staff members – *its Regulatory Coordinator Consultant* and *one product review staff member* – are independent contractors and, accordingly, are not IIPRC employees. Although IIPRC senior management's approach to staffing positions is to use full-time employees, strategic and personal reasons relating to these two staff members and positions result in the IIPRC's preference that these positions remain independent contractor relationships.

ARTICLE IV. OVERVIEW OF IIPRC FINANCIAL MODEL AND OPERATIONS

A. PRINCIPALS OF IIPRC FINANCIAL MODEL AND NAIC FINANCIAL SUPPORT

1. Core Principals of IIPRC Financial Model.

According to the Compact Model Law, the IIPRC is required to collect a filing fee from insurers “to cover the cost of the operations and activities of the Commission and its staff in a total amount sufficient to cover the Commission’s annual budget.”²¹ Each year, the IIPRC is required to adopt a budget for the following fiscal year after appropriate consideration of the proposed budget in accordance with IIPRC oversight requirements.²²

2. NAIC Historical Financial Support for IIPRC.

At the time the formation of the IIPRC was considered, the NAIC and its members recognized that the IIPRC would require financial assistance to commence its operations. Accordingly, the Model Compact Law states:

To fund the cost of its initial operations, the Commission may accept contributions and other forms of funding from the National Association of Insurance Commissioners, Compacting States and other sources. Contributions and other forms of funding from other sources shall be of such a nature that the independence of the Commission concerning the performance of its duties shall not be compromised.²³

In order to fund the IIPRC’s operations, the NAIC provided financial support to the IIPRC commencing in 2007 and continuing for several years thereafter in the following manner:

a. 2006 NAIC Grant.

In 2006, the NAIC provided a \$500,000 grant to the IIPRC to fund its initial operations.

b. Lines of Credit and Promissory Notes – 2007 Through 2009.

In the first three years of the IIPRC’s operations, the NAIC and the IIPRC entered into three Lines of Credit Agreements and Promissory Notes relating to those Lines of Credit Agreements:

- Promissory Note effective as of June 1, 2007 in the original principal amount of \$550,000 (2007 Note);
- Promissory Note effective as of February 29, 2008 in the original principal amount of \$850,000 (2008 Note); and

²¹ Article XII, Section 2 of the Model Compact Law

²² Article IX, Section 2 of the Bylaws.

²³ Article XII, Section 1 of the Model Compact Law.

- Promissory Note effective as of January 1, 2009 in the original principal amount of \$550,000 (2009 Note) (collectively, the Original Notes).

c. 2010 Consolidation of Notes Payable and Line of Credit Agreement.

As of January 1, 2010, the outstanding balances of the Original Notes, including accrued interest, equaled \$387,348.90 for the 2007 Note; \$751,882.63 for the 2008 Note; and \$554,799.75 for the 2009 Note. Accordingly, the total outstanding balance of the Original Notes as of January 1, 2010 totaled \$1,694,031.28.

Effective January 1, 2010, the NAIC and the IIPRC agreed to consolidate the Original Notes and allow the IIPRC to borrow additional funds for its operations. Accordingly, the NAIC and the IIPRC entered into the follow two agreements effective January 1, 2020:

- An Amended, Consolidated, and Restated Promissory Note (2010 Consolidated Promissory Note); and
- A Line of Credit Agreement (2010 LOC).

Under the terms of the 2010 Consolidated Promissory Note, the IIPRC was required to repay the outstanding balance of the Original Notes (\$1,694,031.28) (Original Notes Balance) and any advances under the 2010 LOC, plus accrued interest. Interest accrued on the Original Notes Balance and on advances under the 2010 LOC at the fixed rate of 2.5% (as defined in the 2010 Consolidated Promissory Note as the prime rate as of March 15, 2010 minus 100 basis points).

Under the terms of the 2010 LOC, the NAIC made available to the IIPRC up to \$850,000 evidenced by a new Promissory Note (2010 New Promissory Note).

Repayment of amounts due under the 2010 Consolidated Promissory Note were deferred until the IIPRC reached one of two specified financial conditions, referred to as the “trigger date” for loan repayment purposes (Trigger Date). The Trigger Date is the date as of which an IIPRC annual independent auditor's report reflects that one or both of the following conditions has occurred:

- The IIPRC achieves a “change in net assets” of at least \$250,000²⁴; or
- The IIPRC has an accumulated cash balance from operations, excluding funds from line of credit draws, of \$500,000.

²⁴ We noted that the 2010 Consolidated Promissory Note used the quoted “change in net assets” language to define one of the events that results in a Trigger Date. The literal meaning would seem to require the IIPRC’s net assets to increase by \$250,000 in one year, but based on our review of relevant documents, it seems clear that the parties instead meant that the IIPRC would need to achieve annual net revenue of \$250,000, as indicated in an annual auditor’s report.

Once the Trigger Date is achieved, the IIPRC is required to begin making principal and interest payments as of the last day of the calendar quarter following the Trigger Date.

d. Additional IIPRC Draws on 2010 LOC – 2011 Through 2012.

Following the execution of the 2010 Consolidated Promissory Note and 2010 LOC, the NAIC advanced \$650,000 in additional funds to the IIPRC in accordance with the following:

- \$250,000 advance in August 2011
- \$150,000 advance in November 2011
- \$250,000 advance in October 2012

The 2011 and 2012 requests for advances made clear that the amounts advanced were subject to the terms of the 2010 LOC. Accordingly, the 2011 and 2012 advances are subject to repayment in accordance with the terms of the 2010 Consolidated Promissory Note.

3. 2020 NAIC and IIPRC Debt Restructuring Arrangement.

Effective as of December 31, 2019, RSM US LLP (RSM) issued its Independent Auditors Report for the IIPRC (2019 Audit Report), in which RSM indicated: “As of December 31, 2019, the trigger date was achieved as the IIPRC achieved an increase in net assets of at least \$250,000.” Accordingly, the Trigger Date set forth in the 2010 Consolidated Promissory Note was attained such that the IIPRC was expected to begin making principal and interest payments as of March 31, 2020 (the last day of the calendar quarter following the Trigger Date).²⁵

As of December 31, 2019, the total outstanding IIPRC indebtedness, as determined under the 2010 Consolidated Promissory Note and taking into account all LOC draws since 2010, equaled \$3,452,867 comprised of principal of \$2,740,134 and accumulated interest of \$712,732.

Because of the significant financial and operational burdens that the debt repayment terms set forth in the 2010 Consolidated Promissory Note would place on the IIPRC, the NAIC and the IIPRC agreed to restructure the debt repayment terms. Accordingly, the NAIC and IIPRC entered into the Debt Restructure and Repayment Agreement (Debt Restructure Agreement) effective May 31, 2020 with the following terms:

- The IIPRC is required to repay \$2,740,134 (the principal due as of December 31, 2019 under the 2010 Consolidated Promissory Note).
- The IIPRC will make annual payments to the NAIC of \$274,013.40 over a 10 year period. No interest will accrue on the principal balance during the repayment period.

²⁵ Although the IIPRC was required under the terms of the 2010 Consolidated Promissory Note to begin repayment as of March 31, 2020, the NAIC agreed to extend the due date of the first payment to May 31, 2020.

- If during the repayment period the IIPRC’s cash balance falls below \$250,000, the required payment for the following year will be deferred and the repayment period extended accordingly.
- When the final principal payment is made, the NAIC will account for the \$712,732 accumulated interest balance under the 2010 Consolidated Promissory Note as a contribution by the NAIC to the IIPRC.

B. SUMMARY OF CURRENT IIPRC FINANCIAL POSITION

The following summarizes the IIPRC’s Statements of Activities in 2019 and 2018, as reported by RSM in its 2019 Audit Report.

Statements of Activities		
	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)	\$(3,4416,813)
Net Deficit, End Of Year	\$(2,629,340)	\$(3,275,544)

C. IIPRC REVENUE SOURCES

IIPRC’s revenue is generated almost entirely from two types of fees paid by insurance industry members that wish to take advantage of the IIPRC’s product filing and review platform (IIPRC Platform): annual registration fees and product filing fees.

1. Annual Registration Fees.

Insurance industry members that wish to take advantage of the IIPRC Platform are subject to annual registration fees. In 2019, 266 companies registered with the IIPRC, and **the IIPRC’s total revenues from annual registration fees equaled \$1,385,188.**

Annual registration fees are determined in accordance with the following:

	Premium Volume Category ²⁶			
	Filers over \$1 billion	Filers between \$1 billion & \$50 million	Filers between \$50 million & \$10 million	Filers under \$10 million
Annual Registration Fee 1/01/2020 – 9/30/2020	\$10,000	\$5,000	\$2,500	\$1,250
Annual Registration Fee 10/01/2020 – 12/31/2020	\$5,000	\$2,500	\$1,250	\$625
Regional Filer²⁷	50% of applicable fee			
Update-Only Registration Fee	\$1,500		\$750	

2. Product Filing Fees.

Companies that wish to take advantage of the IIPRC Platform (Filers) also are subject to various types of product filing fees, as described below. In 2019, **the IIPRC’s total revenues from all types of product filing fees equaled \$1,741,911.**

a. Product Filing Submissions.

All product filings submitted to the IIPRC for review are subject to a filing fee per product that is paid to and retained by the IIPRC. In addition, a Filer also must include with its IIPRC filing the appropriate filing fee charged by each of the departments of insurance (DOIs) for the states in which the Filer is requesting product approval. The IIPRC collects that fee on behalf of the DOIs and then forwards that portion of the fee to the appropriate DOIs.

²⁶ Asset-based premium volume is defined as total asset-based premium volume based on Schedule T-Part 2 of Annual Statement for reporting year prior to current annual registration period.

²⁷ Regional Filer is defined as an insurer licensed to do business in 12 or fewer states that participates in the IIPRC throughout the course of an annual registration period.

In 2019, product filing submission fees that were retained by the IIPRC totaled \$1,214,398. The following summarizes the 2019 IIPRC product filing fee structure:

	Filers With More Than \$50 Million Asset-Based Premium Volume	Filers With Less Than \$50 Million Asset-Based Premium Volume
Product Filing Submissions Requiring Actuarial Review	\$1,250	\$625
Product Filing Submissions Requiring Rate Review²⁸	\$2,000	\$1,000
Product Filing Submissions	\$600	\$300
Regional Filer	50% of applicable filing fee	

In addition to these product filing fees for typical product filings, the IIPRC charges the following additional filing fees for the following nonstandard types of product filings:

Forms Permitted for Self-Certification	\$100
Annual Certification of Rates	\$500
Amendments to Product Filing Submissions	50% of current filing fee to reopen and amend the filing

b. Expedited Review Pilot Program Submissions.

In 2019, the IIPRC introduced the expedited review pilot program (Expedited Review Program) that allows a Filer to request the IIPRC review and approval of a product filing on an expedited timeframe. The Expedited Review Program requires that Filers pay double the filing fee otherwise required for the product submission.

In 2019, 41 Filers took advantage of the Expedited Review Program with respect to 136 product submissions, thus generating \$160,625 in additional filing fees (fees beyond what would have been generated if there was no expedited review).

Due to the success of the Expedited Review Program, the IIPRC extended the Expedited Review Program as a pilot program for 2020.

c. Advance Fee Calculation Services.

In 2019, the IIPRC introduced the advance filing fee calculation program (Advanced Filing Program) that allows a Filer to request that the IIPRC provide the Filer with written guidance as to the applicable state filing fees to be paid with respect to a particular product filing. The IIPRC charges \$100 per submission for its Advance Filing Program services.

In 2019, over 100 Filers took advantage of the Advance Filing Program, thus generating \$9,600 in additional filing fees.

²⁸ Product filings requiring rate review consist of LTC and DI product filings that include rate schedules.

d. EFT Return Service Fees.

In 2019, the IIPRC introduced an EFT (electronic funds transfer) return service fee program under which a Filer is assessed a fee in situations where an EFT fails. At the time of a product filing, the IIPRC automatically transfers the applicable state filing fees to the appropriate state DOIs. Even if a Filer’s EFT transmission fails, the state filing fees still are transferred from the IIPRC banking account to the appropriate state DOI. Accordingly, the IIPRC began in 2019 to charge Filers an EFT return service fee. The IIPRC charges an EFT return service fee equal to 5% of the total EFT failure.

In 2019, the IIPRC collected \$565 in EFT return service fees.

D. IIPRC EXPENSE CATEGORIES

1. IIPRC Staff Compensation and Employee Benefits.

The following summarizes the total IIPRC staff compensation and employee benefits expenses for the following time periods:

	2020 To Date 01/01/2020 – 08/31/2020	2019	2018
Employee Salaries	\$1,209,814	\$1,446,997	\$1,276,016
Employee Benefits	\$270,837	\$361,888	\$331,872
Independent Contractor Compensation	\$148,750	\$211,830	\$212,053
TOTALS	\$1,629,401	\$2,020,715	\$1,819,941

In both 2019 and 2018, staff compensation and employee benefits expenses equaled 81% of the IIPRC’s total expenses.

Employee benefits offered IIPRC employees consist of coverage under an IIPRC employee retirement plan and coverage under group health, life and disability programs offered by the NAIC under which IIPRC employees are allowed to participate.

2. NAIC License and Services Agreement.

Effective June 1, 2007, the NAIC and the IIPRC entered into a License and Services Agreement (NAIC Agreement) under which the NAIC provides certain technical and administrative services and license rights to the IIPRC. As discussed below, in 2019, the total amounts paid by the IIPRC to the NAIC in accordance with the NAIC Agreement equaled \$200,625. Based on the documentation provided to us, the amount paid by the NAIC to its staff to provide those services to the IIPRC appears to be approximately \$11,000.

Under the NAIC Agreement, the NAIC provided the following services and license to the IIPRC:

a. NAIC Technical and Administrative Services.

- i. Description of Technical and Administrative Services.** Section 1 of the NAIC Agreement states that the NAIC will provide technical and administrative services that will include, but are not limited to:

...technical infrastructure support, database, administration, systems design, telecommunications network support, web services, back-up services, desktop services, quality assurance testing, help desk support, and budget analysis...

...accounting, budgeting, financial reporting, communications, website support, human resources, legal ... meeting planning, general office operations, secretarial and clerical assistance....

Staff support to the Commission's committees...

Section 2 of the NAIC Agreement indicates that:

...the NAIC will make the following facilities and equipment available to the Commission for its reasonable use: office space, office equipment, office furniture, data line services, record storage and retention, and internet access.

During our discussions with IIPRC senior management, we requested documentation of the manner in which NAIC staff accounts for the services provided to the IIPRC under the NAIC Agreement. We received an accounting of time records spent on IIPRC matters in 2019 and 2018 by specific NAIC staff by service category, as well as their 2019 and 2018 annual salaries.

We were told by IIPRC staff that the NAIC timekeeping system allows NAIC staff to record their hours spent on various projects, including IIPRC support. IIPRC staff also indicated that based on review of the reports we were provided, it does not appear that all NAIC staff who provide services to the IIPRC are properly recording their hours spent on IIPRC support. At the same time, the only documentation we were provided to analyze the services provided by the NAIC to the IIPRC are the NAIC time records.

For purposes of our analysis, we assumed that these NAIC staff members are employed on a full-time basis and calculated their equivalent hourly rate of compensation based on 2,080 hours of employment per year (40 hours/week x 52 weeks/per year).

Based on these calculations, we calculated the NAIC's costs for providing services to the IIPRC – in effect, the amount of compensation paid to NAIC staff for the work

they performed on behalf of the IIPRC. The following summarizes the NAIC costs by service category, as provided by the NAIC:

	2019		2018	
	Hours	Compensation Value	Hours	Compensation Value
Communications	26.50	\$1,186.36	32.25	\$1,172.53
Finance	247.35	\$8,686.83	279.73	\$9,112.36
Human Resources	6.00	\$192.78	3.00	\$94.50
Legal	0	0	1.00	\$58.00
Member Services	28.00	\$782.04	29.50	\$808.30
TOTAL	307.85	\$10,848.01	345.48	\$11,245.60

- ii. **Compensation for Technical and Administrative Services.** In 2019, the IIPRC paid the NAIC a total of \$175,625 for its technical and administrative services – the \$125,000 base administrative fee and an adjustable administrative fee of \$50,625. In 2018, the IIPRC paid the NAIC \$125,000 for the base administrative fee for its technical and administrative services.

Section 6.a.i. of the NAIC Agreement provides the IIPRC will pay the NAIC a \$125,000 base administrative fee for its services.²⁹ In addition, Section 6.a.ii. of the NAIC Agreement indicates the following:

In addition to the Base Administrative Fee, the Commission shall share a portion of its Net Revenue in Excess of Expenses with the NAIC (‘Adjustable Administrative Fee’) ... In year one, the Commission shall pay an Adjustable Administrative Fee of 5% of every \$25,000.00 of Net Revenue in Excess of Expenses earned by the Commission. In year two, the Commission shall pay an Adjustable Administrative Fee of 7.5% of every \$25,000.00 of Net Revenue in Excess of Expense earned by the Commission. ‘Net Revenue in Excess of Expenses’ is defined as transaction fees collected by the Commission, including any fee per filing or registration or subscription fee, less any state insurance department filing fees, SERFF Transaction Fees, operating expenses, returns adjustments, and bad debt expense.

- b. **NAIC SERFF License.** Section 3 of the NAIC Agreement provides for a grant by the NAIC to the IIPRC of a non-exclusive, non-transferable license to access and use the System For Electronic Rates & Forms Filing (SERFF) – a product filing platform developed and maintained by the NAIC. In return, Section 3 of the NAIC Agreement states that the **IIPRC will pay the NAIC an annual license and maintenance fee of \$25,000**, as well as the following:

²⁹ Section 6.a.i. of the NAIC Agreement states the IIPRC will pay the NAIC a \$100,000 base administrative fee “for the first year of this Agreement” and that “[i]n the second year, the Administrative Fee shall automatically increase to \$125,000.” We understand that the parties intended that the \$125,000 annual base administrative fee was intended to remain at \$125,000 for all future years of the NAIC Agreement.

For payment of the License Fee, the Commission will receive general support of the SERFF System and up to 250 hours of technical support specifically for SERFF System enhancements desired by the Commission.... Additional hours required for SERFF programming changes will be billed at the rate of \$100/hr.

During our discussions with IIPRC senior management, we requested documentation of the hours of technical support provided by NAIC staff for SERFF system enhancements. We received an accounting of these hours that is summarized, below.

	2017	2018	2019	2020
Allocated Hours	250.00	250.00	250.00	250.00
Carry Over Hours	561.33	730.33	980.33 ³⁰	1,070.68
Total Available Hours	811.33	980.33	1,230.33	1,320.58
Hours Spent	81.00	81.00	159.75	20.50
Total Remaining Hours	730.33	899.33	1,070.58	1,300.08

3. Other IIPRC Expenses.

IIPRC expenses, other than the categories of staff compensation and amounts paid to the NAIC under the NAIC Agreement, equaled 11% and 12%, respectively, in 2019 and 2018. The following are the three largest types of additional expenses in 2019 and 2018, with consist of the following categories (in order of size):

- Travel expenses – \$108,443 (2019) and \$93,920 (2018)
- Accrued interest with respect to the 2010 Consolidated Promissory Note – \$76,751 (2019) and \$75,045 (2018)
- Legal services – \$39,425 (2019) and \$32,337 (2018)

Finally, each other category of expenses, other than outlined above, equaled less than \$20,000 per year.

³⁰ Based on the logic of the document we received, we would expect this entry would be 899.33 – the remaining hours left at the end of 2018. However, because the documentation we received indicates the hours carried over to 2019 were 980.33, we chose to use the figures provided in the documentation.

ARTICLE V. ASSESSMENT OF IIPRC OPERATIONS AND BUSINESS MODEL

A. IIPRC OPERATIONAL RISKS ARISING FROM RECENT THIRD PARTY LITIGATION AND COURT RULINGS

As indicated in Article II.B.3 (Distinction Between R&A Independent Business Assessment and IIPRC Corporate Governance Review), Squire Patton Boggs (SPB) has conducted an IIPRC Governance Assessment at the same time that we have been conducting our Business Assessment. As discussed there, although the RFPs for the assessments make clear that the primary responsibility for assessing recent court rulings, such as *Amica v. Wertz*, lies with SPB's Governance Assessment, we considered as part of our Business Assessment the potential impact that such court rulings might have on the IIPRC's financial, operational and business model.

In our interviews with various IIPRC stakeholders, it was very apparent that all IIPRC participants – Filers, IIPRC officers and staff, and state insurance regulators – are quite concerned by recent court rulings and believe that, if not resolved, such rulings have the potential to negatively impact the IIPRC's viability. However, the Filers with which we spoke did not indicate they intend, at least as of now, to discontinue using the IIPRC for product filings. Those Filers expressed confidence that the IIPRC will find appropriate solutions to these issues.

B. IIPRC FOCUS ON STRATEGIC PLANNING AND INITIATIVES

During our interviews with various IIPRC stakeholders, we consistently heard concerns regarding the IIPRC's commitment to and true understanding of an appropriate strategic planning process. We heard that the IIPRC is reactive to issues and events that significantly impact its operations, rather than anticipating problems and proactively addressing them and creating solutions before operations are negatively impacted.

After completing our assessment, we agree that the IIPRC should increase its focus on a strategic planning process that proactively identifies financial and operational threats to the IIPRC's future and creates solutions to those threats before they can affect IIPRC operations.

As examples of the current reactive approach to financial and operational risks to the IIPRC's future, we took into account the following:

- Currently, the IIPRC is attempting to address the risks and implications arising from *Amica v. Wertz* and other recent court rulings. As we have indicated in this Report, we believe these recent court rulings raise significant concerns with the IIPRC's future viability that is dependent on the resolution of the issues raised in *Amica v. Wertz*.

Despite the importance of *Amica v. Wertz* and other recent court rulings to its future viability, we found that the IIPRC has reacted to litigation and rulings after they occur, rather than

formulating a cohesive and well-thought out strategic plan for addressing the threats to the IIPRC's future. The *Amica v. Wertz* decision should not have caught the IIPRC completely by surprise: earlier court rulings foreshadowed the possibility that such a ruling might someday be issued. Although we understand the IIPRC is making efforts now to consider its response to the issues raised by recent court rulings, those efforts only seem to be in reaction to the most recent court rulings when we would expect the IIPRC to have moved more promptly to address such an important issue.

- At the time the IIPRC 2020 budget was presented to the IIPRC for final approval, the 2020 budget did not include an estimate of the costs of the Governance Review and of our Business Assessment. Accordingly, certain Commissioners expressed concern with adopting an IIPRC budget that did not reflect expenses relating to strategic planning matters that the IIPRC expected it would incur in 2020 – the costs associated with the Governance Review and Business Assessment.
- In early 2019, the IIPRC was experiencing revenue growth that indicated that it would likely reach sufficient net revenue to trigger the repayment provisions of the 2010 Consolidated Promissory Note. Under those repayment provisions, the IIPRC would be required to make its first payment to the NAIC no later than March 31, 2020. However, we understand these negotiations did not conclude until November of 2019 and that the Debt Restructure Agreement was not formally executed until June 1, 2020.

We recognize that throughout 2019, the IIPRC developed the Strategic Plan 2020 – 2022 (Strategic Plan), and we commend the IIPRC for its development. We do not discount the effort that went into the development of the Strategic Plan and do not suggest that it be abandoned. However, we recommend that the IIPRC's strategic planning go further. In this regard, we note that the Strategic Plan does not address the most significant risk to the IIPRC that we have identified – the effects of *Amica v. Wertz*.

C. IIPRC STAFF COMMUNICATIONS WITH IIPRC STAKEHOLDERS

Throughout our assessment, we heard from Filers that that IIPRC staff are very helpful and work hard to assist Filers so that their products can be approved, even if staff need to spend significant time communicating with and assisting Filers with IIPRC Platform and product standard issues. Filers were consistently appreciative of IIPRC staff's communication efforts throughout the product filing process.

However, we heard concerns from some stakeholders other than Filers regarding staff's communication with those IIPRC stakeholders with respect to various aspects of IIPRC operations, including the following:

- We heard concerns that IIPRC staff do not adequately seek out and listen to the positions of Commissioners with respect to IIPRC product development matters. Those with concerns are seeking more collaboration with Commissioners and DOI staff to identify Uniform

Standards for development that Commissioners and DOI staff believe are of benefit to their consumers.

- We heard concerns that communication between IIPRC staff and Commissioners often is strained due in part to the IIRPC staff's perception that their operations and service to the industry is under attack. Those with concerns are seeking better communication efforts by IIRPC staff of Commissioner's concerns or questions that arise from consumer issues or policy concerns facing the Commissioner in his or her state.
- We heard concerns that state insurance regulators and other stakeholders are not sufficiently informed of upcoming Committee meetings, particularly meetings at which decisions or crucial discussions will be held regarding uniform standard development matters.
- We heard concerns that industry members with a large presence in specific IIPRC product lines have too much influence in the early development of uniform standards – sometimes without sufficient input from other IIPRC stakeholders, including consumer advocates and state insurance regulators. Because of the technical nature of some of the uniform standards, stakeholders believe it is important that new standards be developed (i.e., “vetted”) by all stakeholders, rather than primarily (in their view) following the industry position as to what constitutes appropriate standards.

Based on these concerns, we believe that IIPRC staff should strive for more appropriate and effective communications with Commissioners and DOI staff. IIPRC staff should make efforts to work collaboratively with Commissioners and DOI staff to identify uniform standards for development that Commissioners and DOI staff believe are of benefit to their consumers. Further, IIPRC staff should listen to the concerns expressed by Commissioners and their staff as expressions of the consumer and policy issues confronting the Commissioners and staff, not as a criticism of or reflections on the IIPRC or its staff.

To assist in more effective communication efforts, we also believe that IIPRC Officers and senior management should better collaborate to address Commissioners' concerns and questions regarding uniform standard development matters. Because IIPRC Officers are Commissioners themselves, IIPRC Officers can assist in resolving other Commissioners' concerns with IIPRC operations and product development matters.

Further, we believe that the IIPRC should improve its communication efforts with regard to uniform standard developments and upcoming Committee meetings. We believe it is critical that all types of IIPRC stakeholders have input into and fully understand the ramifications of proposed uniform standards, particularly because of the technical nature of certain standards that require thoughtful analysis by state insurance regulators and advisory committee members.

Finally, we recommend that the IIPRC explore collaborative efforts with state DOIs to educate insurance industry filers on the scope and requirements of specific Uniform Standards. If a state DOI receives a product filing that also has been filed through the IIPRC Platform, we recommend that the state DOI ask why the Filer did not utilize the IIPRC Platform in the particular state. By encouraging this discussion, the Filer might discover that the Uniform

Standards for the product are appropriate for the filing so that a state-specific filing is not necessary.

D. IIPRC COMMITTEE STRUCTURE AND USE OF COMMISSIONER DESIGNEES

As previously indicated in Article III.B.1. (IIPRC Members) of this Report, any Compacting State's Member (typically the Insurance Commissioner for the Compacting State) can designate a person to serve in place of the Member as a designee. The designee can serve on IIPRC committees, attend meetings, and vote on behalf of the Member.

During our interviews, we learned that different IIPRC stakeholders have varying opinions on the use of designees:

- One view is that designees can be very helpful in developing and implementing IIPRC goals and initiatives for the following reasons:
 - Designees tend to be senior insurance department staff who have spent their careers gaining significant subject matter expertise in IIPRC matters.
 - Since Commissioners have great demands on their time, designees can devote thoughtful time and effort to IIPRC.
 - Commissioners' tenures at insurance departments sometimes are relatively short, or at least short in relation to the tenures of persons named as designees, such that some Commissioners do not have the longevity needed to thoroughly understand the regulatory goals, business structure, and operations of the IIPRC.
- On the other hand, we learned that there are situations in which designees might take positions with respect to IIPRC matters that are not in accordance with Commissioners' more comprehensive view of the effects certain positions might have on matters affecting consumers.

After taking into account these varying views on the use of designees, we believe that with appropriate communication with their Commissioners, designees serve a valuable role as a source of knowledge and expertise on IIPRC matters. Accordingly, we encourage Compacting States to consider the continued use of designees for all IIPRC matters, including serving on IIPRC committees and voting on IIPRC matters on behalf of Compacting States.

E. IIPRC STAFF ASSESSMENT

1. IIPRC Staff Overall Expertise and Competency.

Throughout our Business Assessment, we found the IIPRC staff to be very knowledgeable with respect to IIPRC operations and their specific responsibilities. We found that prior to joining the IIPRC, most of the current IIPRC staff had extensive experience with the IIPRC Platform, product standards, and product review and approval process. As a result, the IIPRC staff already had and continue to develop extensive working knowledge of all IIPRC operations.

Our assessment of the IIPRC staff's knowledge and expertise was confirmed in our interviews with Filers and IIPRC officers and other stakeholders. In particular, Filers uniformly confirmed that the IIPRC staff are extraordinarily knowledgeable regarding IIPRC operations and staff's specific responsibilities.

In addition to IIPRC staff's expertise, we found the IIPRC staff to be extraordinarily helpful to Filers and other members of the insurance industry. IIPRC staff clearly see part of their mission as assisting Filers so that their products can be approved, even if staff need to spend significant time assisting Filers with IIPRC Platform and product standard issues.

2. IIPRC Senior Management -- Strategic and Business Initiatives.

Overall, we found that the IIPRC senior management team is very knowledgeable of the IIPRC's organizational goals, all aspects of the IIPRC operations, and the financial and operational risks facing the IIPRC. However, we believe that senior management could improve its approach to strategic and business initiatives through a more proactive and thoughtful approach to these initiatives.

We also heard concerns with IIPRC senior management's appropriate evaluation of IIPRC business initiatives, using measurement tools and processes that can gauge whether initiatives are successful from a financial and operational standpoint. As a result, we were told that changes to existing operations or the commencement of new business initiatives are not thoughtfully reviewed and considered.

As indicated in Article V.B. (IIPRC Focus On Strategic Planning and Initiatives), we recommend that the IIPRC increase its strategic planning efforts to proactively address its future financial and operational risks. To do that, senior management needs to develop strategic planning and leadership skills necessary for comprehensive and proactive strategic thinking.

3. Adequacy of IIPRC Staffing Levels.

As described in Section III.D.1. (Staff Classifications), IIPRC staff generally consist of four staffing categories. The following is our assessment of adequacy of each staffing category.

a. Senior Management.

IIPRC senior management consist of three staff members who have significant managerial responsibilities for all aspects of IIPRC operational and financial matters. Although senior management devote exceptional time and energy to their responsibilities, IIPRC stakeholders indicated concerns with IIPRC senior management's ability to give thoughtful attention to appropriate strategic planning matters. Accordingly, we believe the IIPRC should consider reallocation of its existing resources and/or filling its open communications and administrative staff positions to allow senior management to focus on implementation of the IIPRC's existing strategic plan, as well as consideration of additional planning matters.

b. Product Review Staff.

Based on our assessment, we believe that the IIPRC product review staffing levels are appropriate for current staffing needs. We note that the IIPRC maintains product review

staffing levels that require maximum effort by current staff to maintain appropriate product review timelines. Depending on future increases in IIPRC product filings, it will be appropriate to consider increased product review staffing levels.

As previously indicated, we noted that the product review staff who are assigned to review specific IIPRC products do not have a formal cross-training program in place to be able to assist with reviewing other product lines, if necessary. With the current workload for product reviewers, it also is difficult for informal cross-training to take place among product reviewers.

Because of the relatively small number of product review staff and the possible need for staff to perform reviews of product lines other than the lines for which they currently are responsible, we recommend that a formal cross-training program be established. Given the time constraints on product review staff, we understand that it might be difficult to implement formal cross-training, but we believe it is essential that additional cross-training efforts be made.

c. Additional Support Staff.

Based on our assessment, we believe that current support staff levels are appropriate for current staffing needs.

d. Communications Staff.

As previously indicated in Article III.D.1.d. (Communications and Member Coordinator Open Staff Positions), the IIPRC has two open communications staff positions consisting of an Administrative Assistant/Communications Coordinator and a Member Coordinator. Based on our understanding of the intended responsibilities of these communications positions and the assistance additional staff could provide to current senior management, we believe it would be very helpful and appropriate for the communications positions to be filled.

4. Appropriate IIPRC Staff Compensation and Benefit Structure.

We found that the compensation levels and benefit structure for IIPRC staff are appropriate based on insurance industry standards and organizations that are comparable to the IIPRC. During the interview process, one stakeholder noted that the IIPRC might want to consider coordinating compensation levels for product review staff to the prompt review of product filings. Although we did not note issues with compensation levels for product review staff, the concept might be worth exploring by IIPRC senior management.

5. Appropriate Use of Independent Contractors.

As previously indicated Article III.D.2. (Staff Employment Status), two IIPRC personnel currently are independent contractors, rather than IIPRC employees. Although IIPRC senior management's general approach is to utilize full-time employees, the IIPRC currently utilizes two contractors for strategic and personal reasons relating to these specific individuals.

In evaluating the IIPRC senior management's decisions to utilize two independent contractors, our primary focus is on the effect of these employment decisions on IIPRC's operations. Based

on our discussions with IIPRC senior management, we understand that the two independent contractors perform integral functions on behalf of the IIPRC and are highly trained, skilled and responsible personnel. Because these contractors are capable of performing their functions on the IIPRC's behalf without extensive supervision or direction, we believe it is appropriate from an operational standpoint for senior management to engage these two individuals as independent contractors.

At the same time, we recognize that there are various business risks that could result from the IIPRC engaging these two individuals as independent contractors. Certain government agencies, including the Internal Revenue Service (IRS) and state taxation and workers compensation agencies, have established guidelines to determine whether an individual should be characterized as an independent contractor or as an employee. In situations where the IRS or state taxation or workers compensation agencies characterize an individual as an employee rather than an independent contractor, the employer could be subject to, among other things, federal income tax withholding, required payment of the employer share of Social Security, Medicare, and unemployment taxes, and workers compensation coverage issues.

Accordingly, we believe it would be helpful and appropriate for IIPRC senior management to consult with its legal counsel and/or benefit experts to compare IRS and state taxation and workers compensation agency guidelines to the IIPRC's relationship with its two independent contractors. Through this analysis, IIPRC senior management can consider whether its independent contractors meet the indicia of independent contractors set forth in appropriate guidelines.

F. RELATIONSHIP BETWEEN IIPRC AND NAIC

The NAIC and its members have had a long relationship with the IIPRC that extends back to the very formation of the IIPRC. As described above, not only was the regulatory "speed to market" initiative the impetus for the creation of the IIPRC, but the NAIC was the source of the funds used by the IIPRC to commence operations. Further, the NAIC has consistently provided the IIPRC throughout its history with crucial financial and operational support.

During our discussions with various IIPRC stakeholders, we heard differing perspectives on the current relationship between the NAIC and IIPRC. On one hand, some stakeholders believe that the NAIC and IIPRC should continue their current collaborative method of operations because of synergies in their goals: uniformity in insurance regulation within a state-based system. On the other hand, several believe that the NAIC exercises too much control and direction over the IIPRC, including the IIPRC's decision-making processes and operations, and that the IIPRC should have more independence from the NAIC with clearer lines of demarcation between the two entities.

Our view is somewhat between these two points of view. For example, we believe the NAIC and the IIPRC should continue to have a close contractual relationship pursuant to which the NAIC provides the IIPRC with technical and administrative services (although perhaps with some alterations, as discussed below at Articles IV.D.2. (NAIC License and Services Agreement) and VI.C.2. (Analysis of NAIC License and Services Agreement)). As to matters

other than technical and administrative services, we believe certain adjustments to the current relationship should be considered, as follows:

1. Recognition of Separate Status of IIPRC and NAIC Entities and Operations.

We agree with the point of view that there should be clearer lines of demarcation between the NAIC and the IIPRC. Notwithstanding the many overlaps that necessarily and appropriately exist between the NAIC and the IIPRC, they are—legally as well as operationally—two distinct entities. However, we found that the distinctions are often blurred and that it is not always clear where the boundary of one entity ends and where the boundary of the other begins.

In many ways, this lack of clarity is a function of the IIPRC’s complex governance and committee structure: something we anticipate SPB will discuss as part of its Governance Assessment. However, we also believe that it is caused in part by the IIPRC’s lack of focus on a robust strategic planning process, as discussed in Article V.B. (IIPRC Focus on Strategic Planning and Initiatives). It could be said that, historically, the IIPRC has done a good job of making its own operational decisions, yet it appears to have relied on the NAIC more than perhaps it should with respect to strategic or other such “big picture” matters.

2. Coordination of IIPRC Meetings and Distribution of IIPRC Materials.

Although we believe there should be clearer delineation between the NAIC and IIPRC, we also recognize that the two entities utilize a similar committee structure that often involves the same state insurance regulators. During our interviews with various regulators, we heard concerns expressed over the large number of committee meetings to attend and voluminous materials to review for both NAIC and IIPRC matters. In addition, we heard that regulators often are confused by the IIPRC committee structure, including identifying current Management Committee members for purposes of appropriate voting on pertinent matters. Again, we are aware that these matters are primarily within the purview of the Governance Review being conducted by SPB; however, we also deal with them to a limited extent here since they also impact the IIPRC’s operations.

We are aware that the IIPRC has a difficult task in coordinating meetings and preparing and distributing meeting materials for all of the IIPRC committees. As is noted elsewhere in this Report, some stakeholders – and especially some regulators – would like to have a more robust involvement in such things as the development of uniform product standards. Accordingly, we believe the following efforts would be beneficial for the IIPRC and its stakeholders:

- We recommend that the IIPRC make additional attempts to coordinate schedules for NAIC and IIPRC Committee meetings that will involve insurance regulators with IIPRC involvement. In addition to ensuring that meetings do not conflict, we also recommend that when IIPRC and NAIC in person meetings resume, they be held at times that allow regulators to attend IIPRC and NAIC committee meetings involving similar subject matters on the same day or dates that are in close proximity.
- We recommend that the IIPRC and NAIC coordinate the manner in which materials are prepared and the format for distribution to state insurance regulators and other stakeholders so that the format and distributions methods are similar.

- We recommend that the IIPRC make clearer to Compacting States which Members serve on various Committees and the manner in which various Committee members are chosen, particularly with respect to the Management Committee.

G. PRODUCT STANDARD DEVELOPMENT AND REVIEW PROCESS

1. Product Standard Development Process.

a. Competing Interests Pertaining To Uniform Standard Development.

Throughout our assessment of the product standard development process, we were struck by the difficult balance faced by the IIPRC pertaining to the goals of its product development process:

- On one hand, the goal of the process is to develop and implement as many uniform standards as possible.
- On the other hand, the IIPRC recognizes that, practically, a new uniform standard can only be adopted with approval of 2/3 of the Compacting States. Accordingly, the IIPRC sometimes must adapt a new standard to a consensus version that might not end up being acceptable either to Filers or to one or more particular Compacting States.

In these situations, Filers might choose not to utilize the IIPRC Platform to avoid a uniform standard that is more stringent than certain states' standards and instead make product filings on a state by state basis. If a newly adopted uniform standard is less stringent than a Compacting State wants, however, the Compacting State might opt out of the new standard. In both situations, the IIPRC's goals of developing uniform state standards and encouraging use of its Platform are not met.

Based on our discussions with IIPRC staff, Officers, and Committee members, we believe these stakeholders are acutely aware of this difficult balance to strike in the development of uniform standards. We encourage all interested parties in this process to continue to strive to develop uniform standards that allow for the greatest number of Filers to take advantage of the IIPRC Platform, while recognizing the Compacting States' interest in appropriate uniform regulation of product standards.

b. Five-Year Uniform Standards Review Process.

Under the IIPRC operating rules, the IIPRC is required to review each of its uniform standards every five years after the adoption of the standard.³¹ The scope of review is to determine whether it is appropriate to continue, repeal, or amend the uniform standard primarily based on whether circumstances or underlying assumptions have changed since the standard was adopted or previously reviewed.

³¹ See Section §119 of the Adoption, Amendment and Repeal of Rules for the Interstate Insurance Product Regulation Commission.

During our discussions with various stakeholders, we heard concerns that the five-year period between reviews of a uniform standard is too lengthy a time to address industry developments that occur more often than every five years. We understand that the five-year review period was adopted to follow typical administrative rule review procedures, but it is not required that the IIPRC follow such review standards.

We also understand that in accordance with the Strategic Plan, the Product Standards Committee is developing a recommendation to the Management Committee for an annual identification and prioritization process for the development of new and amendments to existing Uniform Standards. The process would allow for any stakeholder to request the consideration of an amendment to an existing Uniform Standard.

We recommend that the IIPRC continue the development of its annual identification and prioritization process to allow any stakeholder to request consideration of amendments to an existing Uniform Standard, rather than the current five year review process.

c. Development of Uniform Standards For Additional Product Lines and Features

During our discussion with various stakeholders, we had several conversations regarding the development of uniform standards for the following additional types of products that are within the scope of the IIPRC's organizational documents (individual or group annuity, life insurance, disability income (DI), or long-term care (LTC) insurance products):

- ***Nonemployer Group Products*** – Nonemployer group life and DI insurance products (i.e., group products issued to an association);
- ***Group Life Products*** – Group universal life, group term and permanent group life products; and
- ***Accelerated Death Benefits*** – An accelerated death benefit to be included in appropriate additional products.

We also heard from various stakeholders that there is interest in developing uniform standards for products that currently are not within the scope of the IIPRC's organizational documents. We recognize that the IIPRC's organizational documents would need to be amended to allow for uniform standards to be developed, but are including these additional products for which stakeholders expressed interest:

- *Medicare Supplement Products;* and
- *Certain Property/Casualty Products.*

d. Development of Process for Approval of Innovative Product Features.

Several stakeholders expressed strong interest in the development of a process that would allow Filers to include innovative product features that are of benefit to consumers but are not set forth in current product standards. For example, Filers expressed interest in including features in life insurance products that would allow for additional triggers for waiver of premiums that currently are not listed in the Uniform Standards for life products. Currently, the IIPRC Platform does not allow a mechanism to make a product filing that deviates in any way from the uniform standards, even if the product contains a feature that benefits consumers.

In order to allow for the development of these innovative product features, we recommend that the process currently under development to allow any stakeholder to request consideration of amendments to an existing Uniform Standard also allow for the consideration of innovative product features. Through this process, an existing Uniform Standard can be amended to include innovative product features as well.

2. Assessment of Product Filing Process and Recent Initiatives.

a. IIPRC Product Review Statistical Information.

Attached as **Exhibit C** are the IIPRC Product Filing Statistics for 2014 – 2019, as contained in the IIPRC 2019 Annual Report, and Insurance Compact Product Filing Statistics as of August 31, 2020. Exhibit C sets forth relevant and helpful statistics regarding the IIPRC's product review process, some of which are highlighted below:

- i. *Product Approval Volume*** – The IIPRC approved 1,617 products in 2019 and 830 products between 01/01/2020 and 08/31/2020. We found it particularly significant to note that since *June of 2007, the IIPRC has approved 9,990 products which equates to over 329,840 transactions.*

- ii. **Product Review Timelines** – Over the last three years and for the 01/01/20 – 08/31/2020 time period, the average number of days that the IIPRC staff required to review products has been the following:
- 20 days – 01/01/2020 – 08/31/2020;
 - 33 days – 2019;
 - 25 days – 2018; and
 - 20 days – 2017.³²

b. Expedited Review Process.

In 2019, the IIPRC introduced the Expedited Review Program that allows a Filer to ask the IIPRC to review a product filing on an expedited timeframe. Due to the success of the Expedited Review Program, the IIPRC extended the Expedited Review Program as a pilot program for 2020.

We found that Filers uniformly are very appreciative of and are pleased with the Expedited Review Program. Based on its financial success and enthusiastic support from Filers, we strongly recommend the Expedited Review Program be continued as a permanent feature of the IIPRC Platform.

During discussions with Filers, we found interest in expanding the Expedited Review Program to additional products. Currently, only individual life and annuity and group annuity product filings are eligible for expedited review; LTC and DI and group life insurance product filings are not eligible for expedited review.

Based on discussions with IIPRC product review staff, we heard that due to staff resources, it is not practicable to consider LTC product filings for inclusion in the Expedited Review Program. We recommend, however, that the IIPRC consider the inclusion of DI and group life insurance product filings in the Expedited Review Program.

c. Pre-Filing Communication Process.

The IIPRC has instituted a process by which a Filer can submit a written form (Pre-Filing Form) describing questions regarding a potential product filing. Once IIPRC staff receive a Pre-Filing Form, staff will discuss the questions with the Filer and/or provide a written response addressing the questions and providing guidance, as appropriate.

Based on our discussions with Filers, we recommend the pre-filing communication process be continued. We found that Filers uniformly are very appreciative of and are pleased with the process. Filers indicated that they frequently are presented by colleagues with unique product design ideas, and the pre-filing communication process is very helpful in exploring these ideas. Filers particularly appreciated the IIPRC staff's written responses, which provides documentation of the IIPRC's response for future use.

³² The IIPRC calculated these timeframes for product approval by utilizing business days and excluding Filers' response time to objection letters.

d. Technology Assessment.

For purposes of assessing the technology utilized for the IIPRC Platform, we considered both the technology needs of IIPRC staff and of Filers and other stakeholders who utilize the Platform.

It is important to note that the IIPRC Platform relies heavily on the SERFF product filing system, as developed and maintained by the NAIC. In other words, a Filer makes IIPRC product filings by utilizing the SERFF system – not a separate filing system that is specific to the IIPRC. Because an assessment of the SERFF system is outside the scope of our work, we have not considered the effectiveness of the SERFF system.

- i. *NAIC Technology Assistance Services*** – During our discussions with stakeholders, we heard that the NAIC help desk staff generally was helpful with standard technology issues that arise with respect to IIPRC product filing matters. However, we heard that on issues involving more complex matters, it sometimes is difficult to find staff who can solve such complex issues in a timely manner.
- ii. *IIPRC Website Materials*** – During our discussions with stakeholders, we heard that materials contained on the IIPRC website are complete and easily found on various substantive topics.

ARTICLE VI. ASSESSMENT OF IIPRC FINANCIAL MODEL AND OPERATIONS

A. ASSESSMENT OF IIPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

1. Analysis of Actual to Expected Revenue.

Throughout its 13 years of complete operations (commencing with its first complete year of operation in 2007 through and including 2019), the IIPRC’s actual revenue fell short of its projected revenue by a total of \$1.5 million, or 8.1% of projected revenue. As would be expected, the biggest shortfalls pertained to the earliest years, before the IIPRC had much actual history to use when developing projections. We noted that in five of the last eight years of complete operations, the percentage difference between IIPRC’s actual and projected revenue decreased to less than 5% of projected revenue.

Below is our analysis of the IIPRC’s actual revenue, as compared to projected revenue, for its first 13 years of complete operations.

Year	Actual Revenue	Projected Revenue	Difference Between Actual and Projected Revenue	Percentage Difference Between Actual and Projected Revenue
2007	\$24,749	\$50,000	\$(25,251)	-50.5%
2008	\$226,264	\$475,000	\$(248,736)	-52.4%
2009	\$423,497	\$1,125,000	\$(701,503)	-62.4%
2010	\$691,462	\$807,000	\$(115,538)	-14.3%
2011	\$870,401	\$1,363,930	\$(493,529)	-36.2%
2012	\$1,115,511	\$1,100,500	\$15,011	1.4%
2013	\$1,369,911	\$1,373,725	\$(3,814)	-0.3%
2014	\$1,550,333	\$1,538,925	\$11,408	0.7%
2015	\$1,498,107	\$1,760,750	\$(262,643)	-14.9%
2016	\$2,015,869	\$2,020,000	\$(4,131)	-0.2%
2017	\$2,001,706	\$2,192,000	\$(190,294)	-8.7%
2018	\$2,392,408	\$2,293,325	\$99,083	4.3%
2019	\$3,155,495	\$2,757,773	\$397,723	14.4%
Total	\$17,335,714	\$18,857,928	\$(1,522,214)	-8.1%

2. Analysis of Actual to Budgeted Expenses.

We also analyzed the IIPRC’s actual expenses, as compared to budgeted expenses, through its first 13 years of complete operations. We noted that for each of these 13 years, the IIPRC’s actual expenses were consistently lower than budgeted expenses. For the entire 13-year period, actual expenses were 10.8% less than budgeted expenses. As with the revenue projections, we noted that in recent years, the variance between actual and projected expenses has decreased.

Below is our analysis of the IIPRC’s actual expenses, as compared to budgeted expenses, for its first 13 years of complete operations.

Year	Actual Expenses	Budgeted Expenses	Difference Between Actual and Budgeted Expenses	Percentage Difference Between Actual and Budgeted Expenses
2007	\$533,010	\$947,518	\$(414,508)	-43.7%
2008	\$1,155,572	\$1,409,753	\$(254,181)	-18.0%
2009	\$1,010,802	\$1,509,898	\$(499,096)	-33.1%
2010	\$1,131,988	\$1,375,512	\$(243,524)	-17.7%
2011	\$1,327,837	\$1,691,374	\$(363,537)	-21.5%
2012	\$1,414,601	\$1,508,444	\$(93,843)	-6.2%
2013	\$1,350,712	\$1,515,785	\$(165,073)	-10.9%
2014	\$1,578,736	\$1,714,378	\$(135,642)	-7.9%
2015	\$1,820,605	\$1,902,545	\$(81,940)	-4.3%
2016	\$2,075,331	\$2,123,656	\$(48,325)	-2.3%
2017	\$2,088,151	\$2,197,790	\$(109,639)	-5.0%
2018	\$2,251,139	\$2,292,906	\$(41,767)	-1.8%
2019	\$2,509,291	\$2,514,932	\$(5,641)	-0.2%
Total	\$20,247,775	\$22,704,491	\$(2,456,716)	-10.8%

3. Analysis of Actual to Projected Change in Net Revenue/Deficit.

For the first 13 complete years of its operations, the IIPRC projected a net deficit from operations in 10 out of 13 years.³³ For the entire 13 year period, the IIPRC’s actual net revenue/deficit was 24.3% lower than its projected net revenue/deficit. In other words, the IIPRC’s actual financial results were 24.3% better than its projected financial results over the entire 13 year period.

As indicated in Article IV.A.1 (Core Principals of IIPRC Financial Model), the IIPRC financial model is to collect sufficient revenue to cover the costs of its operations – a net neutrality approach to its financial results. We noted that the IIPRC did achieve positive net revenue of \$646,204 and \$141,269 in 2019 and 2018, respectively. We also note, however, that the IIPRC consistently projected and attained a net deficit in all other years of complete operations – financial results that are not in keeping with its core model of net neutrality for its financial operations.

We recommend that the IIPRC be mindful of the basis for its financial model and continue to strive to collect sufficient revenue to cover the costs of its operations.

³³ The IIPRC projected net revenue for the years 2013, 2018 and 2019. For 2013, the IIPRC actually experienced a net deficit of \$142,060 but experienced net revenue in 2018 and 2019.

Below is our analysis of a comparison of the IIPRC’s actual net revenue/deficit, as compared to projected net revenue/deficit, for its first 13 years of complete operations.

Year	Actual Net Revenue/Deficit	Projected Net Revenue/Deficit	Difference Between Actual and Projected Net Revenue/Deficit	Percentage Difference Between Actual and Projected Revenue/Deficit
2007	\$(508,261)	\$(897,518)	\$389,257	-43.4%
2008	\$(929,308)	\$(934,753)	\$5,445	-0.6%
2009	\$(587,305)	\$(384,898)	\$(202,407)	52.6%
2010	\$(440,526)	\$(568,512)	\$127,986	-22.5%
2011	\$(457,436)	\$(327,444)	\$(129,992)	39.7%
2012	\$(299,090)	\$(407,944)	\$108,854	-26.7%
2013	\$19,199	\$(142,060)	\$161,259	-113.5%
2014	\$(28,403)	\$(175,453)	\$147,050	-83.8%
2015	\$(322,498)	\$(141,795)	\$(180,703)	127.4%
2016	\$(59,462)	\$(103,656)	\$44,194	-42.6%
2017	\$(86,445)	\$(5,790)	\$(80,655)	1,393.0%
2018	\$141,269	\$419	\$140,850	33,615.8%
2019	\$46,204	\$242,841	\$403,364	166.1%
Total	\$(2,912,061)	\$(3,846,564)	\$934,502	-24.3%

B. ASSESSMENT OF CURRENT REVENUE STRUCTURE

1. Appropriateness of Current Filer Fee Structure.

During our discussions with Filers, we uniformly heard that Filers are very comfortable with the amount of the IIPRC’s annual registration and product filing fees. We found that once Filers begin to use the IIPRC Platform, they recognize the significant savings in both time and effort gained by using its Platform.

We did not hear any concern from Filers with the current size of the IIPRC’s annual registration or product filing fees, and we got the sense that Filers would be willing to pay more, if needed to support the IIPRC.

Accordingly, we recommend that the IIPRC consider increases in its annual registration and product filing fees, including its Advance Filing Program fees, to more appropriately reflect the value the IIPRC provides to Filers.

At the same time, we understand that the IIPRC’s challenge to increasing the number of companies using the IIPRC Platform is to convince companies to devote resources to learning how to use the IIPRC Platform – in other words, getting new companies “through the IIPRC door.” Once companies realize the savings in time and effort gained by using the Platform, companies rarely move back to making product filings on a state-by-state basis. Accordingly, we have included recommendations, below, to incentivize companies to commit to the IIPRC Platform.

We noted that the IIPRC recently added two categories of Filers for annual registration fee purposes – companies with premium volume between \$10 million and \$50 million and companies with premium volume under \$10 million. We commend the IIPRC for this decision since the lower registration fees for these two company categories could encourage companies to decide to attempt using the IIPRC Platform.

We recommend that, in addition, the IIPRC consider providing a lower annual registration fee for the first year that a company registers with the IIPRC. We hope that an initial annual registration fee might incentivize companies to commit to the IIPRC Platform for a year and, after realizing the benefits of the Platform, continue its use in future years.

2. Alternative Pricing Methodologies and Strategies.

One of the tasks in our Scope of Work is to consider alternatives to the IIPRC’s current pricing methodologies. As previously indicated, we considered and have made recommendations with respect to the IIPRC’s current sources of revenue – annual registration fees and product filing fees. Based on our discussions with IIPRC staff and stakeholders, we found that the current pricing methodology – charging an annual registration fee to access the IIPRC Platform and a filing fee for each product filing – has strong support among Filers and is an appropriate approach.

3. Assessment of Voluntary Nature of Product Filings.

For purposes of making filings with the IIPRC Platform, a Filer is encouraged to file its entire product portfolio through the Platform for all states that are Compacting Members in which the Filer intends to offer the product. However, a Filer also is allowed to only file certain components of its entire product portfolio – for example, a policy, application or endorsement – through the IIPRC Platform. In addition, a Filer can choose to file a product portfolio or components of a portfolio with the IIPRC Platform only for certain states that are Compact Members.

This concept typically is referred to by stakeholders as the “mix and match” system. In other words, instead of requiring that a Filer file its entire product portfolio through the Platform for all states that are Compacting Members, the Filer can elect what product components it wants to file through the Platform.

The mix and match concept originally was created to encourage companies to use the IIPRC Platform before all uniform standards for a product portfolio were in effect. As the IIPRC implemented uniform standards for an entire product portfolio, the expectation was that Filers would no longer need to use a mix and match approach to product filings.

However, the IIPRC now faces situations where a Filer might consider uniform standards for a product component – for example, an application – to be too stringent so that the Filer will file the application on a state-by-state basis, rather than through the IIPRC Platform. In these situations, the IIPRC is faced with the tension that exists between adopting uniform standards that can garner sufficient support to be enacted by Compacting States while still being acceptable to Filers.

We noted that the IIPRC's statistics indicate that the percentage of these mix and match filings currently comprise 23% of all IIPRC filings in 2020 and has consistently decreased over the last five years.³⁴ Accordingly, it appears that the IIPRC has been steadily successful in encouraging Filers to include all of a product's components in its IIPRC filing and finding the appropriate balance with respect to its uniform standard requirements.

Given that the current mix and match approach seems to be acceptable to Filers and the number of mix and match filings is decreasing, we do not recommend changes at this time in the IIPRC's current approach to this filing methodology. At the same time, we do recommend that the IIPRC monitor Filers' use of the mix and match approach as part of its ongoing strategic planning process.

C. ASSESSMENT OF CURRENT EXPENSE STRUCTURE

1. Analysis of Staff Compensation and Employee Benefits.

As indicated in Article IV.D.1. (IIPRC Staff Compensation and Employee Benefits), we found that in both 2019 and 2018, staff compensation and employee benefits expenses equaled 81% of the IIPRC's total expenses. We believe that it is appropriate for staff compensation and employee benefits to equal such a significant proportion of the IIPRC's total expenses for two primary reasons:

- In a nutshell, the IIPRC is a service organization whose primary purpose is to review and approve complex insurance product filings – a labor intensive effort that relies on its staff to provide services to Filers and other industry stakeholders.
- The product review and approval services provided by the IIPRC staff require a high level of knowledge of and expertise with the IIPRC's uniform product standards and Platform. In order to attract staff with the skills necessary to perform the required product review and approval services, the IIPRC needs to compensate its staff at appropriate levels.

In addition, we believe the current compensation levels for IIPRC staff are appropriate for the industry and services performed by staff. Our conclusion is based on our analysis of the IIPRC's use of industry benchmarking to its IIPRC staff's compensation and benefit structure.

Based on our discussions with IIPRC senior management, we understand that for purposes of IIPRC staff positions (other than the Executive Director), the Human Resources Division of the NAIC (HR Division) is able to locate comparable industry benchmarking compensation and benefit information for each category of IIPRC staff, particularly with respect to the IIPRC's actuarial and administrative positions. With respect to the product reviewer positions, the HR Division typically relies on industry compensation information for compliance manager positions with an emphasis on insurance and regulatory compliance expertise and project management.

³⁴ The percentage of mix and match filings of total IIPRC filings for recent time periods are: 23% (01/01/2020–08/31/2020); 27% (2019); 34% (2018); 42% (2017); and 50% (2016).

With respect to the IIPRC Executive Director position, the HR Division performs an annual market compensation study on behalf of IIPRC officers. The market compensation study uses various market data sources for benchmarking purposes, including several comparable professional associations and state organizations. The comparable organizations and methodology used to determine comparable Executive Director compensation levels appear appropriate.

2. Analysis of NAIC License and Services Agreement.

Although we believe the NAIC and IIPRC need to recognize their separate statuses for organizational and operational purposes, we believe that it continues to be appropriate for the NAIC to provide specific technical and administrative services to the IIPRC. We recommend, however, that the parties assess the appropriateness of the financial terms and extent of the services provided under the NAIC Agreement. For purposes of our assessment, we are evaluating the NAIC Agreement from the perspective of an appropriate arms length transaction between unaffiliated parties. We recognize the extensive support – financial and otherwise – that the NAIC has provided to the IIPRC for many years.

The following are our comments regarding the current arrangement for technical and administrative services between the parties:

a. Update/Restatement of NAIC Administrative Services.

The NAIC Agreement is effective as of June 10, 2007 and has never been amended. At the time the parties entered into the NAIC Agreement, the IIPRC still was in the startup phase of its operations. We believe that the administrative services listed in the NAIC Agreement reflect the startup nature of the IIPRC's operations – not the current services that would be required for its ongoing operations with experienced staff in place.

Accordingly, we believe it is appropriate for the NAIC Agreement to be reexamined and restated to better reflect the specific services currently performed by NAIC staff.

b. Consideration of Appropriate Technical and Administrative Services Fee.

In 2019, the IIPRC paid the NAIC a total of \$175,625 for its technical and administrative services – a \$125,000 base administrative fee and \$50,625 “adjustable administrative fee”. In 2018, the IIPRC paid the NAIC the \$125,000 base administrative fee.

We have two comments regarding the manner in which the administrative services fee is calculated:

- Based on our analysis of the documentation provided to us (see Article IV.D.2.a. (NAIC Technical and Administrative Services)), the out of pocket personnel cost to the NAIC of providing the covered services appear to be substantially less than the amount paid by the IIPRC for those services. Of course, there are factors other than purely cost allocation factors that could determine an appropriate fee. However, the extent of the difference between the amount paid by the IIPRC and the NAIC's staff

cost is such that we recommend that the fees set forth in the NAIC Agreement be reconsidered.

- It also is unclear why the IIPRC would pay an additional administrative fee for services based on the size of the IIPRC's net revenue. Based on the documentation we received, the NAIC actually provided fewer services in 2019 (307.85 hours) than in 2018 (345.48 hours), yet it received an additional \$50,625 for its services.

Based on questions regarding the administrative services fee, we believe it is appropriate for the parties to reassess the appropriate amount of compensation paid to the NAIC for its administrative services.

c. Consideration of Appropriateness of SERFF License and Maintenance Fee

As indicated in Article IV.D.2.b. (NAIC SERFF License), the IIPRC pays the NAIC an annual \$25,000 fee for a license to use the SERFF system and for up to 250 hours of technical support specifically for SERFF system enhancements. In the 2020 IIPRC Budget, an additional \$25,000 was budgeted for anticipated additional fees to be paid to the NAIC for SERFF upgrades “for work related to artificial intelligence enhancements proof of concept.”

At the same time, we received documentation that seems to indicate that, currently, the IIPRC is entitled to 1,300.08 total hours of technical support for SERFF system enhancements. These hours have accumulated from 2017 to date based on carryovers of previously unused hours.

We have two comments regarding the SERFF license and maintenance fee and the accumulated unused hours of technical support for SERFF system enhancements:

- It is not clear whether the \$25,000 fee for the SERFF license and up to 250 hours of technical support for system enhancements is reasonable and fair compensation for what the IIPRC receives. First, it is not clear what portion of the fee is attributable to the license to use the SERFF system and whether that amount is the appropriate value of such a license. In addition, based on the very low number of hours used each year for technical support for system enhancements, it is not clear that the IIPRC currently needs the amount of technical support for which it appears to be paying the NAIC.
- Second, the IIPRC's 2020 budget includes \$25,000 for additional fees to be paid to the NAIC for SERFF upgrades. It is not clear why the IIPRC would need to pay additional fees for these hours when it appears it has 1,300 hours as a “credit” towards these services.

Based on our comments regarding the appropriateness of the SERFF license and maintenance fee, we recommend that the parties reassess the appropriate amount of compensation paid to the NAIC for the SERFF license and services.

3. Analysis of Additional Expenses.

IIPRC expenses, other than the categories of staff compensation and employee benefits and amounts paid under the NAIC Agreement, equaled 11% and 12% in 2019 and 2018, respectively. Based on our review of these other expenses, we believe these expenses are appropriately managed and are appropriate for the size and maturity of IIPRC operations.

D. ASSESSMENT OF 2020 DEBT RESTRUCTURE AGREEMENT

As indicated in Article IV.A.3 (2020 NAIC and IIPRC Debt Restructuring Arrangement), the Debt Restructure Agreement provides for the IIPRC to repay the \$2,740,134 of the amount due under the 2010 Consolidated Promissory Note.

Based on our analysis of the 2020 debt restructuring, we believe that the terms of the Debt Restructure Agreement are fair and reasonable for the IIPRC, while still taking into account the NAIC's interests.

E. ASSESSMENT OF IIPRC FINANCIAL METRICS, CONTROLS, AND PRACTICES

Overall, we found that the IIPRC financial metrics and controls and the practices that the IIPRC uses to address its organizational and financial objectives are appropriate and in accordance with best industry practices. We also found that the IIPRC generally has in place well-developed policies and procedures to achieve the IIPRC's organizational and financial goals and objectives.

In our analysis, we compared the IIPRC's current practices to best practices appropriate for organizations similar in size and maturity to the IIPRC. Further, we recognized that the IIPRC – regardless of the size of its operations – should have appropriate financial controls and practices in place to address risks that are common to all business organizations.

The following is our analysis of each of the IIPRC financial metrics, controls and practices we evaluated:

1. Effectiveness of IIPRC Mission.

Best practices should include the IIPRC's accountability to its stakeholders – its Compacting States, Management Committee and IIPRC officers, Filers, and other interested parties – regarding the effectiveness of the IIPRC mission. Accordingly, the manner in which the IIPRC effectively meets its mission and objectives should be appropriately measured and communicated to its stakeholders.

To satisfy this criteria, the IIPRC publishes comprehensive and detailed reports regarding its product filing and review process – the primary mission of the IIPRC. The IIPRC continuously tracks detailed product filing and approval information, which is available to stakeholders upon request. On an annual basis, the IIPRC issues a report that includes detailed product filing statistics such as the number of products and forms submitted to the IIPRC; the number of products approved; the average approval time; and filing fee collection information. Attached as

Exhibit C is the 2020 Report of Insurance Compact Product Filing Statistics and Insurance Compact Filing Trends reports.

2. Identification of Operational and Financial Risks.

Best practices should include the implementation of appropriate internal controls that identify and address operational and financial risks to the organization, including both internal and external risks.

To satisfy this criteria, the IIPRC leverages and adheres to NAIC policies and procedures for internal controls relating to financial and operational matters. We found these policies and procedures to be appropriately extensive and comprehensive and applicable to the following matters:

- Cash accounting, purchasing decisions, expense report management, and accounts payable receivable accounting and tracking;
- Contract approval procedures;
- Payroll functions; and
- Employee management, including employee conduct and conflict of interest matters; code of ethics and confidentiality requirements; employee safety and anti-harassment policies; and drug and alcohol policies.

In addition, the IIPRC makes use of NAIC information technology and computer security policies, including policies pertaining to electronic information security and use of online networks and electronic communication.

Finally, the IIPRC receives protection on other security matters through actions of the NAIC Internal Security Oversight Committee and other NAIC security measures.

3. External Audit Functions.

Best practices should include an annual audit of the IIPRC's financial position to be performed by an independent auditor.

To satisfy this criteria, the IIPRC engages RSM US LLP (RSM) to perform an independent annual audit of the IIPRC's financial position. As part of its annual audit, RSM also reviews the IIPRC's financial reporting systems and internal control systems.

In January of each year, RSM presents its IIPRC audit plan to the IIPRC Audit Committee. In addition, RSM staff meet with the Chairperson of the IIPRC Audit Committee and IIPRC Executive Director to further discuss the audit plan. RSM's fieldwork is conducted from late January through mid-February, with the audit report completed by late February.

The RSM annual audit is included in the IIPRC Annual Report, which includes the entire audit report, as well as Management's Discussion and Analysis that is prepared by IIPRC staff. In the spring of each year, the IIPRC Annual Report is published and presented to the IIPRC at a regularly scheduled meeting.

4. Budget Considerations.

a. IIPRC Budget Development Process.

Best practices should include the development of an annual budget that includes appropriate input, oversight and approval from IIPRC leadership. In addition, best practices should include periodic comparisons of actual to budget financial results that are communicated to IIPRC leadership.

Subject to the current budgeting process for IIPRC expenses described below, the IIPRC has a thorough, well defined, and timely annual budgeting process that includes appropriate input, oversight, and approval from the IIPRC Finance Committee and Management Committee. In addition, the IIPRC prepares periodic actual to budget financial reports that are provided to appropriate IIPRC stakeholders.

With respect to the IIPRC budget process, the IIPRC begins its internal budgeting process in June of each year. In August or September, IIPRC management presents its proposed budget to the Finance Committee. In September, the Finance Committee recommends a final proposed budget to the Management Committee, allowing for a minimum 30-day written comment period. In November or December, the IIPRC holds a hearing to adopt the final budget.

In addition, monthly actual to budget variance reports are prepared that analyze activity for each IIPRC functional area and highlight account variances that exceed specified benchmarks. The IIPRC prepares monthly financial reports that include account variance information that are distributed to the IIPRC Treasurer and members of the Finance Committee and Audit Committee. Further, the IIPRC prepares quarterly financial reports that are distributed to the Management Committee.

Finally, we found that the IIPRC is transparent with respect to its budget development and communication processes. All of the IIPRC's annual budgets are readily available on the IIPRC website.

b. IIPRC Expense Development Process.

We noted that at the time the IIPRC 2020 budget was presented to the IIPRC for final approval, the 2020 budget did not include an estimate of the costs of the Governance Review and of our Business Assessment. Accordingly, certain Commissioners expressed concern with adopting an IIPRC budget that did not reflect expenses that the IIPRC expected it would incur in 2020 – the costs associated with the Governance Review and Business Assessment.

We believe this issue arose due to conflicting views on the methodology the IIPRC should use in the budget development process. On the one hand, the IIPRC currently does not include in its budget those expenses that are not yet known, even if a particular project – for example, an item from the Strategic Plan – will require expenditures. In other words, if the IIPRC does not yet believe it has a specific funding amount needed to

accomplish an objective, the IIPRC does not include an expenditure for that item in its budget.

On the other hand, stakeholders – as evidenced by concerns expressed when the IIPRC 2020 budget was approved – believe that expenses set forth in the IIPRC budget should include an estimate of anticipated expenditures that the IIPRC knows will be made for a particular project, even if specific expense amounts to complete the project are not yet identified.

Although we see merit in both positions, we believe that it is crucial that IIPRC Officers and senior management come to a consensus on which approach to follow in the development of future IIPRC budgets. From our perspective, we believe that for budgeting purposes, it makes most sense to include the amount of anticipated expenditures in the IIPRC budget, even if an exact dollar amount is not yet identified. At the same time, we understand the IIPRC senior management have concerns with budgeting expense amounts for expenditures that are not yet known that should be explored.

Most importantly, though, we believe that IIPRC Officers and senior management should agree on an approach to expense budgeting so that the IIPRC budget is presented to Members and other stakeholders in a consistent and coordinated manner.

5. Staff Performance Assessments.

Best practices should include staff performance assessments that are linked to the IIPRC's mission, as well as to the satisfaction, retention and growth of industry members that use the IIPRC Platform.

In order to measure productivity and workload assignments for staff responsible for product review functions, the IIPRC utilizes the following reports that are automatically generated from SERFF:

- ***Company Filing Synopsis Report*** — Report displays detailed objection and response data at the filing level and on a per Filer basis during a specified date range.
- ***Filing Workflow Report*** — Report displays filing workflow data for all open filings.
- ***Overall Reviewer Status Summary Report*** — Report displays list of open filings grouped by primary reviewer with detailed aging information.
- ***Productivity Report*** — Report displays the count of filings that are grouped by state/SERFF status that currently are open or submitted during a specified date range.
- ***Status Summary Report*** — Report displays the count of open filings and total days open grouped by status on a per reviewer basis.

- ***Types of Insurance Quarterly Report*** — Report displays the count of filings grouped by type of insurance (TOI) and Sub-TOI that are submitted during a specified date range.
- ***Turnaround Report*** — Report displays filing turnaround data, at the state level for filings closed during a specified date range.
- ***21-Day Actuarial Report*** — Report of filings requiring actuarial review that are 21 days or older.
- ***Expedited Review Report*** — Report that tracks and balances expedited review workload.
- ***Pre-Filing Communication Report*** — Report that tracks responses to pre-filing communication requests.

F. COMPARISON OF FINANCIAL METRICS, CONTROLS, AND PRACTICES TO COMPARABLE ORGANIZATIONS

Part of our Scope of Work was to make certain comparisons between the IIPRC and other organizations that would seem to be comparable to it. This proved to be quite difficult because of the uniqueness of the IIPRC and its mission. Our team spent considerable time attempting to identify organizations that are comparable to the IIPRC with respect to their financial and operational models. As part of our analysis, we reviewed several organizations that are similarly organized as interstate compacts. Because of the unique nature of the IIPRC’s financial position, funding sources, and operational model, it was extremely challenging to identify comparable organizations of a similar size that serve a large number of states.

After considerable analysis, we identified the Interstate Commission for Adult Offender Supervision (ICAOS) as the most comparable organization we could locate, particularly based on its financial position and state participation. The ICAOS provides its member states with the authority, accountability, and resources to track the supervision of offenders who move across state lines, thereby enhancing public safety and offender accountability. All 50 states and three U.S. jurisdictions are members of the ICAOS – similar to the number of Compacting States that participate in the IIPRC. Conversely, almost all of the ICAOS’s revenue is generated from dues charged its member states for the ICAOS’s services to supervise offenders who move across state lines.

Similar to the IIPRC, the ICAOS engages an independent auditor to prepare an independent auditors report regarding its annual financial position. Because the entire auditors’ reports for the ICAOS are not publicly available, it is difficult to compare specific financial results for the IIPRC and ICAOS.

Although some financial information regarding the ICAOS’s financial position is available on its website, the ICAOS financial information does not provide detail that is comparable to IIPRC’s publicly available information regarding financial position. For 2019, we noted that following available ICAOS financial information, as compared to IIPRC’s financial position:

- **Total Revenues**
 - **IIPRC** – \$3,155,495 (99% derived from annual registrations and product filing fees and 1% derived from earnings income)
 - **ICAOS** – \$1,609,209 (96% derived from annual dues from member states and 4% derived from earnings income)
- **Total Expenses**
 - **IIPRC** – \$2,509,291 (81% attributable to staff compensation and employee benefit expenses)
 - **ICAOS** – \$1,504,584 (47% attributable to administrative expenses, 35% attributable to technology expenses, and 18% attributable to program expenses)

As part of our comparison of the financial position of the IIPRC and ICAOS, we noted that the ICAOS appears to have historically better funding sources that allow for earnings income that is not currently available to the IIPRC. As of 12/31/2019, the ICAOS had a cash balance of \$1,519,695 and investments of \$1,887,104.

Finally, we noted that the ICAOS appears to have more predictable revenues as a result of relatively predictable dues charged to member states that are based on state population statistics. In contrast, a large portion of the IIPRC’s revenue is variable, based on the number of product filings made by its Filers in any given year.

G. FUTURE FINANCIAL SELF-SUFFICIENCY OF IIPRC

As a starting point to the consideration of the IIPRC’s future financial self-sufficiency, we believe that the single biggest risk to its financial sustainability is the potential effect of *Amica v. Wertz* on the IIPRC’s future operations. If the uncertainty surrounding the effects of the *Amica v. Wertz* decision is allowed to persist so that Filers begin to discontinue using the IIPRC Platform, the IIPRC’s future viability will be threatened. If, however, the IIPRC is successfully able to resolve the issues raised by *Amica v. Wertz*, we believe the IIPRC is positioned to be financially self-sufficient and sustainable for the next five to ten years.

Throughout our Report, we have identified several measures that the IIPRC can take to increase its sources and amount of revenue and consider expense reductions to be financially self-sufficient. The following summarizes our suggested measures:

- **Assessment of NAIC License and Services Agreement** – The IIPRC should consider assessing the appropriateness of the financial terms and extent of the services provided by the NAIC under the current NAIC License and Services Agreement.
- **Revisions to Annual Registration and Product Filing Fee Structure** – The IIPRC should consider increases to its current annual registration and product filing fee charges, including its Advance Filing Program fees.

EXHIBIT A

SCOPE OF WORK

<p>1. Review of key organizational documents including:</p> <ul style="list-style-type: none">a. Insurance Compact Law (state enactments);b. Insurance Compact Bylaws;c. Insurance Compact Terms and Procedures for IIPRC Filing Fees;d. Committee structure and organizational chart;e. Rules, Operating Procedures, Uniform Standards, as applicable;f. Commission-adopted guidelines;g. Minutes, Annual Reports, Annual Budgets, as applicable;h. Outside counsel legal opinions and tax exemption correspondence, as applicable; andi. Internal financial documentation, as applicable.	<p>Our R&A team reviewed and analyzed all of the documents set forth in the Scope of Work, as well as additional documents set forth in Exhibit B – Listing of Documents.</p>
<p>2. Assessment of the Insurance Compact's current operational model including its relationships with Compacting States, third-party filers, company filers. Assessment of the Insurance Compact's fee structure, committee structure, organizational structure, expense structure and its debt obligation structure. Compare the Insurance Compact's current operational model with industry standards and organizations and businesses that are comparable.</p>	<p>Our R&A team performed a detailed assessment of the Insurance Compact's current operational model, including its relationships with Compacting States, third-party filers, and company filers, as set forth in Article V (Assessment of IIPRC Operations and Business Model).</p> <p>In addition, our team spent considerable time attempting to identify organizations that are comparable to the Insurance Compact with respect to their financial and operational models. After considerable analysis, we identified the Interstate Commission for Adult Offender Supervision (ICAOS) as the most comparable organization, particularly based on its financial position and state participation. Our comparison of the IIPRC and the ICAOS is set forth in Article VI.E. (Comparison of</p>

	Financial Metrics, Controls, and Practices to Comparable Organizations.
<p>3. Assessment of the performance, management and financial metrics, controls and practices of the Insurance Compact's program operations including whether the metrics, controls and practices are effective in setting and measuring achievement of performance, management and financial goals of the program operations. Assessment of whether appropriate financial considerations are given prior to Commission action on policy initiatives. Identify where improvements can be made to better align with best practices of comparable organizations.</p>	<p>Our R&A team performed a detailed assessment of the performance, management and financial metrics, controls and practices of the Insurance Compact's program operations, including all required elements of our assessment, as set forth in Article VI.E. (Assessment of IIPRC Financial Metrics, Controls and Practices).</p>
<p>4. Assessment of the Insurance Compact's revenue-generating model, and its operating expense structure, including performance of actual to projection since inception, and assessment of whether the Insurance Compact is adequately funded and resourced to be financially sustainable to fulfill its statutory purposes to its member states over the next five to ten years. Identify possible risks to financial sustainability under the current model and identify opportunities for alternative or supplemental revenue generation or expense savings.</p>	<p>Our R&A team performed a detailed assessment of the Insurance Compact's revenue-generating model and operating expense structure performance, including all required elements of our assessment, as set forth in Article VI (Assessment of IIPRC Financial Model and Operations).</p>
<p>5. Assessment of the Insurance Compact's current fee structure, including the voluntary nature of filing with the Insurance Compact and the contemporaneous collection and remittance of member state filings fees which are part of the Insurance Compact law enacted by the Compacting States. Provide guidance or alternatives to current pricing methodologies and strategies to achieve the objectives of financial self-sufficiency and sustainability over the next five to ten years in order to meet the Insurance Compact's statutory obligations to the Compacting States.</p>	<p>Our R&A team performed a detailed assessment of the Insurance Compact's current fee structure, including all required elements of our assessment, as set forth in Article VI.B. (Assessment of IIPRC Current Revenue Structure).</p>

<p>6. Consultation with the Insurance Compact Officers, members of the Management Committee, chair of the Audit Committee, Insurance Compact senior management, NAIC senior management, and up to 20 company filers, as well as other stakeholders, as deemed advisable, for the purpose of gathering information and feedback to complete the analysis and assessment described in the scope of work.</p>	<p>During our Business Assessment, our team members conducted approximately 50 total interviews with all of the required IIPRC stakeholders described in the Scope of Work, as described in Article II.B.2. (R&A Interview Process).</p>
<p>7. Development of a report regarding its findings and recommendation of its assessment of the effectiveness and sustainability of the current operational / financial / business structure, process and practices and opportunities for improvements.</p>	<p>On October 26, 2020, our R&A team provided our draft written report that summarizes our scope of work, approach to our assessment, our findings, and our recommendations with respect to our assessment.</p>
<p>8. Presentation of this report and response to questions during the Annual Meeting of the Insurance Compact and performance of any follow up work as necessary and agreed to by the parties.</p>	<p>Our R&A team will present our final written report and respond to any questions at the December 2020 Annual Meeting of the Insurance Compact and perform any follow up work, as necessary and agreed to by the parties.</p>

EXHIBIT B

LISTING OF KEY DOCUMENTS REVIEWED

1. Key IIPRC Organizational Documents
 - a. NAIC Model Insurance Product Regulation Compact (Model Law 692)
 - b. Bylaws of the IIPRC;
 - c. Insurance Compact Terms and Procedures for IIPRC Filing Fees
 - d. IIPRC Committee Structure and Organizational Chart
 - e. Rules and Operating Procedures
 - f. IIPRC Guidelines;
 - g. IIPRC Committee Minutes

2. IIPRC Financial Documents
 - a. Annual Reports
 - b. Annual Budgets
 - c. Independent Auditors Reports
 - d. NAIC License and Services Agreement Financial Information
 - e. IIPRC Staff Compensation Information
 - f. Actual to Budget Historical Information
 - g. Documentation of NAIC Historical Financial Support
 - h. Documentation of NAIC Historical Services to IIPRC

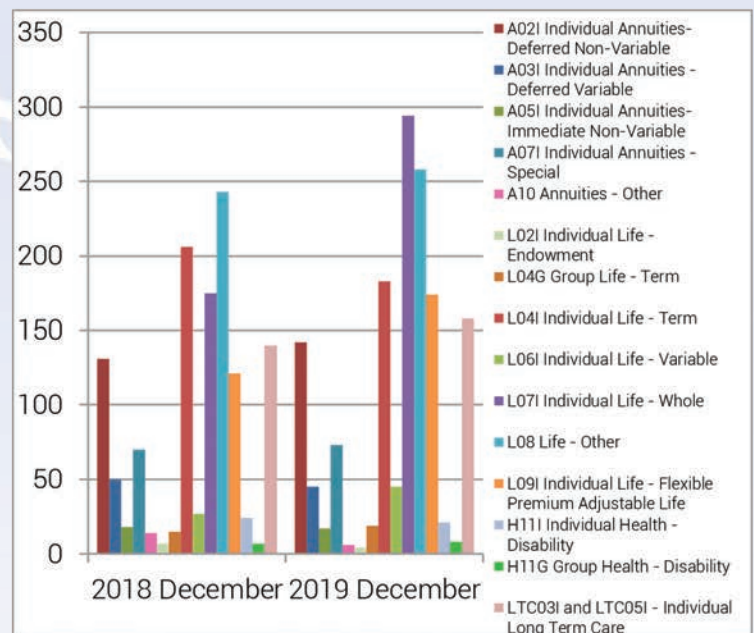
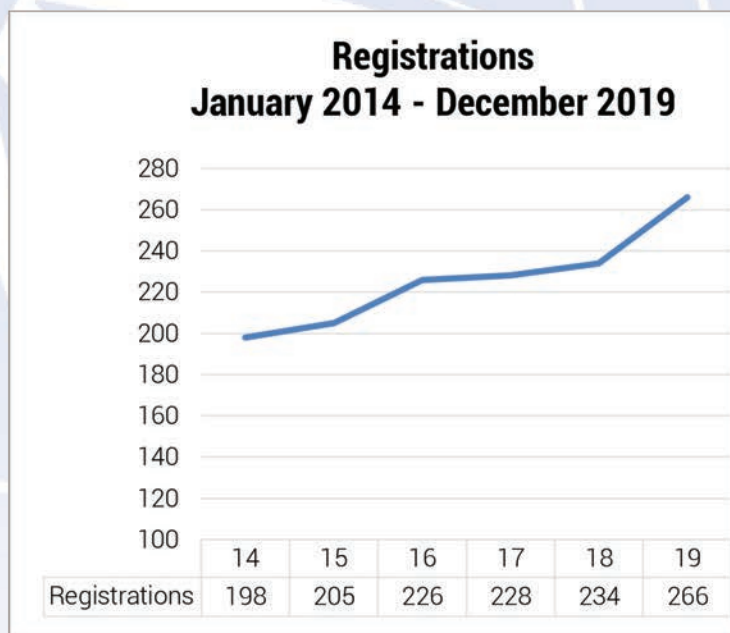
3. IIPRC Operational Documents
 - a. Product Filing Statistics
 - b. IIPRC Staff Organizational Chart and Responsibilities
 - c. IIPRC Strategic Plan 2020 – 2020

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".



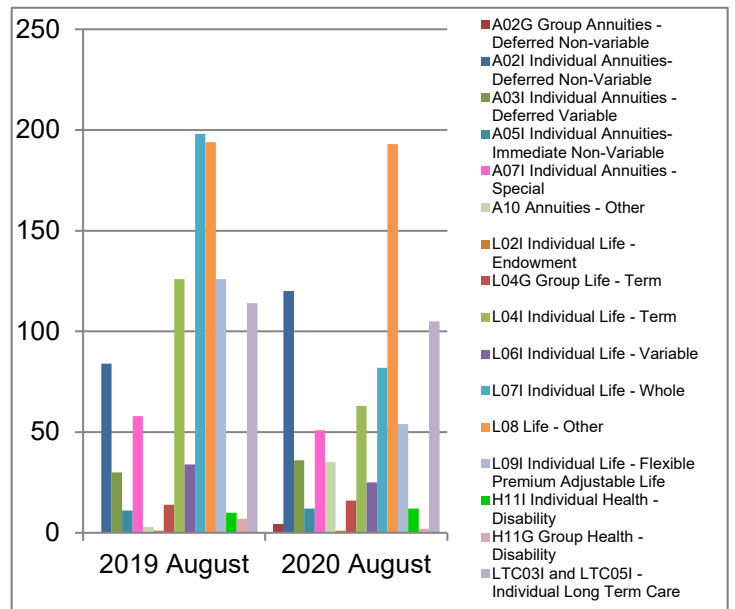
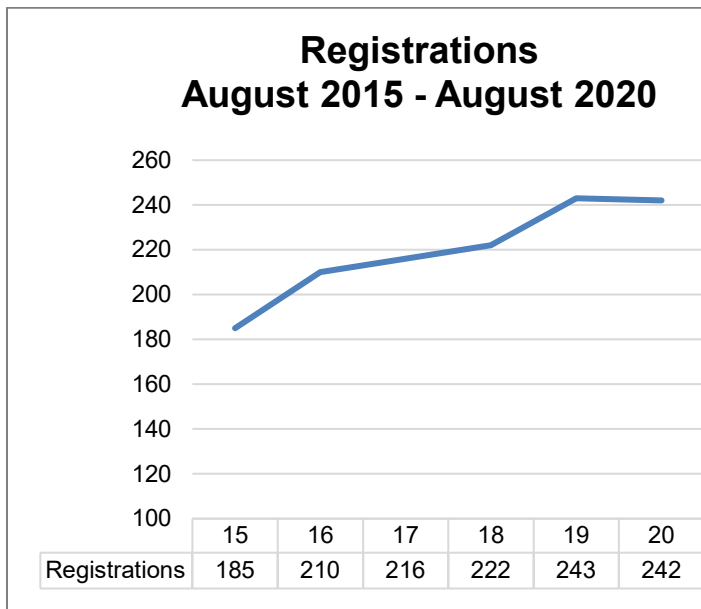
Insurance Compact Product Filing Statistics

As of August 31, 2020

The tables below provide statistics on the product filings submitted to the Insurance Compact January 1, 2015 through August 31, 2020.

	2020 YTD	2019	2018	2017	2016	2015
Companies Registered	242	266	233	228	226	205
Products Received	886	1,639	1,439	1,132	1,059	863
Forms Submitted	1,931	3,879	3,640	3,148	3,354	2,637
Amended Filings	35	80	109	137	229	197
Products Approved	830	1,617	1,226	1,159	981	829
Transactions*	29,221	57,397	42,862	37,925	32,456	26,059
Approval Time (avg)**	20	33	25	20	30	33
States/Filing (median)	43	43	42	41	40	40
Mix & Match	23%	27%	34%	42%	50%	50%
State Filing Fees Collected & Remitted	\$1,970,294	\$3,441,481	\$3,142,679	\$2,639,337	\$2,439,645	\$2,077,363
Compact Filing Fees Collected	\$750,839	\$1,571,121	\$1,390,576	\$1,057,246	\$1,086,736	\$681,045

Historical Filing Data



* "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".

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION (INSURANCE COMPACT)

444 North Capitol Street, NW • Hall of the States Suite 700 • Washington, DC 20001

(202) 471-3962 • comments@insurancecompact.org • www.insurancecompact.org • @InsCompact



2020 Insurance Compact Product Filing Trends

As of August 31, 2020

- ★ There are over 22 Types of Insurance (TOIs) available for filing using the 100 adopted Uniform Standards with 130 various sub-TOIs available.
- ★ 9,990 products have been approved by the Insurance Compact to date since June 2007; which equates to over **329,840 SERFF transactions**.
- ★ The TOIs for the Product Filings submitted through SERFF for Compact Filings 2020:
 - LIFE (53% of all products received):
 - 44% have been Life – Other (generally application filings)
 - 19% have been Whole Life Products
 - 15% have been Term Life Products
 - 12% have been Flexible Premium Adjustable
 - 6% have been Variable Life
 - 3% have been Group Life Term
 - 1% have been Endowment
 - ANNUITIES (32% of all products received):
 - 46% have been Deferred Non-Variable Annuity
 - 20% have been Annuity – Special
 - 14% have been Deferred Variable Annuity
 - 14% have been Annuity – Other (generally application filings)
 - 5% have been Immediate Non-Variable Annuity
 - 1% have been Group Deferred Non-Variable Annuity
 - LONG-TERM CARE (13% of all products received)
 - DISABILITY INCOME (2% of all products received)
 - 86% have been Individual Disability
 - 14% have been Group Disability
- ★ Of all the Registered Companies who have submitted filings since 2007:
 - 8% have filed more than 75 times
 - 7% have filed 50 or more times
 - 25% have filed 20 or more times
 - 18% have filed 10 or more times
 - 35% have filed more than twice
 - 7% have filed once; of the 2020 Registered Companies 5% are first time filers
- ★ There have been 30,278 forms submitted with product filing submissions. The average number of forms per filing is 2. The largest single submission consisted of 103 forms (filed in 2013); and in 2020, the largest single submission consisted of 49 forms.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION (INSURANCE COMPACT)

444 North Capitol Street, NW • Hall of the States Suite 700 • Washington, DC 20001

(202) 471-3962 • comments@insurancecompact.org • www.insurancecompact.org • [@InsCompact](https://twitter.com/InsCompact)