

Rector
& **A**ssociates, Inc.

**Interstate Insurance Product
Regulation Commission**

Independent Business Assessment

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SCOPE OF R&A INDEPENDENT BUSINESS ASSESSMENT

- Perform a review of IIPRC's financial, budget, fee and operational structure, processes and practices
- Make recommendations for improvements that will:
 - Enhance IIPRC's financial effectiveness and sustainability over the next five to 10 years; and
 - Comply with financial and business best practices for comparable organizations

OVERVIEW OF R&A PROCESS AND ANALYSIS FOR PERFORMANCE OF INDEPENDENT BUSINESS ASSESSMENT

- Extensive Document Analysis
- Interview Process
 - IIPRC Officers & Management Committee Members
 - Additional Senior State Insurance Regulators
 - IIPRC Staff
 - NAIC Senior Management
 - IIPRC Committee Members
 - Industry Filers

DISTINCTION BETWEEN R&A BUSINESS ASSESSMENT AND SPB CORPORATE GOVERNANCE REVIEW

Tasks and Goals

- R&A Business Assessment – evaluate and comment on IIPRC’s financial, operational and business model
- SPB Corporate Governance Review – evaluate and comment on IIPRC governance matters

Evaluation of *Amica v. Wertz* Decision

SUMMARY FINDINGS

IIPRC Financial Model and Sustainability

- Current financial model allows for positive financial results
- Appropriate financial systems, controls and procedures are in place
- Single biggest risk to financial sustainability is potential effect of *Amica v. Wertz* decision



SUMMARY FINDINGS

IIPRC Operational and Business Model

- Successful operations and employment of business model that allows IIPRC to accomplish key goal of serving as a speed to market vehicle for uniform product reviews
- Insurance industry product filers are very appreciative of IIPRC staff's efforts
- Successful working relationships with other IIPRC stakeholders

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KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

- **Strategic Planning Focus** – increase focus to proactively identify financial and operational threats to future and create solutions
- **Demarcation Between NAIC & IIPRC** – while recognizing necessary and appropriate overlaps, develop clearer lines of demarcation between the two entities

KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

- **Improved Communication Between Insurance Commissioners and IIPRC Staff** – increase IIPRC staff’s understanding of consumer and policy issues confronting Commissioners
- **Collaboration on Uniform Standards Development** – increase collaboration between IIPRC staff and Commissioners and staff to identify uniform standards for development



KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

- **Revision to Five-Year Uniform Standards Review Process** – development of identification and prioritization process for amendment of existing uniform standards at any time
- **Develop Process for Allowing Innovative Product Features** – development of process for including innovative product features not specifically allowed by uniform product standards

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KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

- **Use of Designees as Compacting State Representatives** – continue use of designees for all IIPRC matters
- **Coordination of IIPRC Meetings and Distribution of Materials** – improve coordination of IIPRC & NAIC Committee meetings and preparation & distribution of materials



KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

- **Cross Training Program for Product Reviewers** – develop crossing training program for IIPRC product reviewers
- **Evaluate Use of Independent Contractors by IIPRC** – evaluate use of independent contractors for IIPRC staff under appropriate federal & state guidelines



KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

- **Adopt Permanent Expedited Review Program** – adopt expedited review program as a permanent service



KEY FINDINGS AND RECOMMENDATIONS

IIPRC FINANCIAL MODEL

- **Develop Improved Budget Process for Future Expenditures** – consider and reach consensus on approach to expense budgeting before presentation of IIPRC budget



KEY FINDINGS AND RECOMMENDATIONS

IIPRC FINANCIAL MODEL

- **Consider Revisions to Annual Registration & Product Filing Fee Structure** – consider changes to annual registration & product filing fee structure, including:
 - Increase annual registration & product filing fees
 - Charge lower annual registration fee for first year filers
 - Charge fee for advance filing fee calculation services



KEY FINDINGS AND RECOMMENDATIONS

IIPRC FINANCIAL MODEL

- **Assess NAIC License And Services Agreement –** revise NAIC License & Services Agreement so it more accurately reflects services provided and appropriate fee structure



ASSESSMENT OF IIPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

- Assessment of 13 Years of Complete Operations
- Assessment of:
 - Actual to Expected Revenue
 - Actual to Budgeted Expenses
 - Actual to Projected Change in Net Revenue/Deficit



ASSESSMENT OF IPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

Actual to Expected Revenue

- Actual revenue below projected revenue by total of \$1.5 million, or 8.1% of projected revenue, for 13 years of operations
- Positive revenue in 4 of 13 years, including 2018 & 2019
- \$397,723 positive revenue in 2019



ASSESSMENT OF IPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

Actual to Budgeted Expenses

- Actual expenses below budgeted expenses by 10.8% for 13 years of operations
- Variance between actual and projected expenses has decreased over time



ASSESSMENT OF IPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

Actual to Projected Change in Net Revenue/Deficit

- Projected net deficit for 10 of 13 years of operations
- Actual financial results were 24.3% better than projected financial results over entire 13 years of operations
- Positive net revenue in 2019 of \$646,204 & \$141,269 in 2018

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ASSESSMENT OF IIPRC FINANCIAL METRICS, CONTROLS AND PRACTICES

Overall Findings

- Appropriate IIPRC financial metrics, controls & practices in accordance with best industry practices
- Well-developed policies and procedures to achieve organizational & financial goals and objectives
- Single biggest risk to financial operations is potential effect of *Amica v. Wertz* decision

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