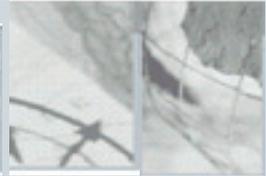


NAIC BUDGET 2008

National Association of Insurance Commissioners



Proposed 2008 Budget and Business and Fiscal Impact Statements

**NAIC Fall 2007 National Meeting
September 2007**

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PROPOSED 2008 NAIC BUDGET

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2008 Proposed Consolidated Budget Overview

Introduction

The National Association of Insurance Commissioners (NAIC) is a voluntary, membership-based organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, and the five U.S. territories. The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members to:

- ❖ Protect the public interest;
- ❖ Promote competitive markets;
- ❖ Facilitate the fair and equitable treatment of insurance consumers;
- ❖ Promote the reliability, solvency and financial solidity of insurance entities; and
- ❖ Support and improve state regulation of insurance.

The NAIC provides a forum for state insurance regulators to work together to protect insurance consumers and supervise the financial solvency and market conduct of entities engaged in the business of insurance. The NAIC operates under a committee structure designed to facilitate timely regulatory analysis of emerging issues and interstate coordination on an array of regulatory matters. The NAIC offers its members programs, publications, electronic systems and data, and many services to assist them in achieving their fundamental insurance regulatory goals in a responsive, efficient and cost-effective manner. The professional staff of the Association provides support services in the areas of law, actuarial science, accounting and finance, government policy, information technologies, research and insurance market economics, among others.

The annual budget of the NAIC reflects the wide-range of valuable services and benefits the NAIC provides to its members. The operations of the NAIC provide immeasurable value to the states by alleviating the significant investment and ongoing costs for each state insurance department to create the regulatory tools and resources as well technical infrastructure available through the NAIC. The accompanying *Services to Members* publication offers an in-depth look at the services provided by the NAIC.

The NAIC's Future

The NAIC continues to focus on the modernization of state insurance regulation in a manner that benefits both insurance consumers and industry participants. State regulators have demonstrated through several national initiatives that they possess the technical expertise, resources, and problem-solving experience to continue to implement national regulatory standards that will achieve the highest levels of marketplace safety and efficiency, while maintaining a competitive marketplace with the strong consumer protections that are the hallmark of state regulation.

Beginning in early 2007, with the leadership of President Walter Bell, the NAIC undertook a critical review of the NAIC's existing regulatory initiatives. The initial review led to a synthesis of and focus

on the strategic issues confronting the NAIC, its members, and the state-based system of insurance regulation. Through a process of strategic management, the members are able to focus on key priority issues and initiatives through setting, measuring and achieving meaningful improvements. During the first half of 2007, in order to address the effectiveness of the model law development process, the NAIC made several improvements to the manner in which model laws are produced, adopted and implemented. More recently, the membership renewed its focus on making the licensing process for agents and brokers more uniform. The NAIC's radar screen in 2008 will include issues focusing on enhancement of collaborative efforts in the area of market regulation and enhancing state insurance regulators' role in health care reform. Looking forward, the NAIC will continue its work to remove any unnecessary impediments to insurers bringing new insurance products to market, and participation in international forums regarding convergence of accounting, reinsurance and solvency standards. In this regard, the NAIC's proposed budget for 2008 has specifically accounted for these and other key initiatives that will further support improved effectiveness and greater efficiency throughout the state insurance regulatory system.

The Budget Process

In June of each year, a zero-based budget proposal is developed by each individual NAIC department, ultimately consolidating into 12 NAIC Divisions. During this time, each department projects its current year results and begins to build its proposal for the coming year, focusing closely on variances between the current year budget, current year projected results and the proposed budget for the coming year.

The budget process has also undergone a strategic evaluation and management process to evaluate the ongoing and proposed projects of the Association in terms of their relation to the strategic priorities and initiatives identified by the membership and tied to the NAIC's mission. The NAIC's executive staff, comprised of the CEO, CFO, Deputy EVP and Chief Strategic Business Officer review each budget in detail with the respective Division Directors and make adjustments according to the strategic and financial needs of the Association. In the 2008 budget, a budgetary commitment to the important initiatives of the membership is reflected through the Market Regulatory Support Services Fiscal and the NAIC Seconded to the IAIS Fiscal, among others.

Following an extensive development and internal review process, the proposed budget is presented in detail to the NAIC Officers, and subsequently the Internal Administration Subcommittee, for consideration. At the Fall National Meeting, the proposed budgeted is presented to the full NAIC membership and then released to the public for comment. A special public hearing will be held in early November to receive any such comment, before final consideration and adoption by the Executive Committee at the winter national meeting.

2007 Consolidated Projections

The 2007 budget expected a net profit of \$155,000. As described below, the projected 2007 net profit should approximate \$2,750,000, with roughly 40% due to unplanned capital gains from investment holdings. In this regard, actual revenues for 2007 are projected to exceed plan by approximately \$2,200,000, or 3.4%. Aside from the aforementioned investment returns, the NAIC has experienced higher usage fees related to the System for Electronic Rates and Forms (SERFF) and the Securities Valuation Office (SVO), as well as higher database filing fees derived from industry premium growth. Other revenue lines, such as state assessments, publications and financial data sales, education courses, the International Insurers Department and National Insurance Producer Registry (NIPR) fees are expected to perform in-line with the 2007 budget.

Actual expenses for 2007 are projected to fall below budget by approximately \$570,000. The primary cause for this below-budget figure relates to the collection of outstanding prior year database filing fees resulting in reduced bad debt expense, as well as the timing of capital purchases and associated maintenance expense and the engagement of consulting resources on the State Producer Licensing Re-engineering Project and the State-Based System application. Higher travel expenses related to international and interim meeting activities, as well as higher national meeting expenses will offset the foregoing budget savings.

Additional details of 2007 projected variances are included throughout the 2008 budget proposal.

2008 Consolidated Base Budget

The NAIC base consolidated budget (before adding fiscal impact proposals) includes total revenues of \$68,240,000 and total expenses of \$66,350,000, which represent a 4.9% and 2.3% increase, respectively, from the 2007 consolidated budget, for a projected \$1,900,000 in excess revenue over expense. Viewed in relation to the 2007 projected totals, the 2008 proposal represents an increase of 1.5% and 3.2%, respectively. However, it is important to note 2007 projected revenues include IAIS registration fee revenue of \$776,000, and investment capital gains of \$1,100,000, neither of which will occur in 2008. Viewed on an operations basis, revenues are forecasted to increase by 4.9%, over 2007 projected revenues from operations.

As noted above, 2008 revenues are forecasted to be above 2007 projected revenues by 1.5%, or \$1,065,000. In this regard, the significant changes from the 2007 projected revenue items include growth in the number of states utilizing the NAIC's State-Based Systems application (\$770,000), growth in SERFF usage fees (\$740,000), new financial data distributors (\$600,000), growth in database filings fees due to continued industry premium growth (\$260,000), a 10% increase to the royalty base regarding annual statement electronic specifications (\$107,000), and a new Automated Valuation Services pricing schedule (\$100,000). Offsetting these increases include a significant drop in securities filings with the SVO "carried over" to 2008 versus 2007 (\$377,000), IAIS meeting registration fees, which will not occur in 2008 (\$776,600), and investment gains (\$1,100,000).

The 2008 expenses are budgeted at 3.2%, or \$2,100,000 greater than 2007 projected expenses. The salary expense associated with the NAIC's 423.5 employees accounts for \$1,675,000 of the change. This increase is based on an average 3.7% merit increases versus an U.S. industry average forecast of 3.9%. Additionally, IT infrastructure expenses and higher employee benefits are required for 2008. This expense growth is partially offset by the relative decrease in consulting services, and the IAIS conference.

As noted above, these comparisons represent the NAIC's base budget prior to the addition of revenues and expenses associated with the individual Business and Fiscal Impact Statements, which are reviewed individually by the Internal Administration (EX1) Subcommittee. Such additional revenues and expenses net to \$68,000 and \$144,000 respectively, producing an overall net impact of \$76,000. Upon adding these proposals, the NAIC consolidated budget includes total revenues of \$68,310,000 and total expenses of \$66,496,217, which represent a 5.1% and 2.6% increase, respectively, from the 2007 consolidated budget, and a 1.7% and 3.4% increase from 2007 projected revenues and expenses, respectively.

NAIC Operating Reserve

The NAIC's operating reserve policy provides for a targeted ratio reserve of 80% of the next calendar year's expense budget. The policy also contemplates the reserve ratio will be calculated on a "liquid" reserve basis, which excludes fixed assets and other non-liquid asset balances from net assets. In this regard, the NAIC's reserve policy has undergone extensive review and consideration since 2005, and has been validated by an independent professional services firm with financial expertise in the field of non-profit associations. Maintaining such a reserve helps ensure the financial stability of the NAIC, in the event of emerging business risks and uncertainties, as well as to absorb new priority initiatives adopted by the NAIC membership. As such, the Association's reserve status is of paramount consideration in the budgeting process, as well as the on-going financial management of the NAIC's assets.

As of December 31, 2006, the NAIC maintained a liquid reserve ratio of 73%. Based upon 2007 projected results, and the 2008 budget proposal, prior to Business and Fiscal Impact Statements, the liquid reserve is projected to drop to 65% and 68%, respectively. The significant decline is primarily due to a one-time non-cash pension plan adjustment, pursuant to FAS 158, and continued financing of the Interstate Insurance Product Regulation Commission.

Regulatory Modernization and Initiatives Fund

In 2005, the NAIC established a Regulatory Modernization and Initiatives Fund (the Fund) to constrain new budget requests that arise following the adoption of this budget. The Fund is based on 1.5% of the projected net assets, or \$845,000 for 2008. Through July 2007, there have been no requests.

Business and Fiscal Impact Statements

The 2008 consolidated budget includes several Business and Fiscal Impact Statements. These proposals describe the purpose and scope of the proposal, its impact on the NAIC's business, operations and finances, a description of the proposals benefits to key stakeholders and a risk assessment. Business and Fiscal Impact Statements are proposed for key policy and business initiatives at the NAIC, including:

- ❖ *Education and Training Programs* – There are proposals for three new education programs, representing a total of \$17,750 and \$16,150 in revenues and expenses, respectively. Two regulator only NAIC Designation courses entitled, "Fraud Investigation 101" and "Risk-Based Capital." The NAIC Designation Program Advisory Board, chaired by Iowa Commissioner Susan Voss is its sponsor. The third program is another regulator only program entitled, "Examiner Advanced Technical Control and Management Assessment." Virginia Commissioner Gross, chair of the Financial Condition Committee is its sponsor.
- ❖ *IAIS Secondee* – This proposal envisions the NAIC providing the funding for an NAIC secondee to the IAIS in Basel, Switzerland. The proposal involves a new full-time employee position for an individual that would be placed on sabbatical during a secondment to the IAIS. The secondee will work closely with IAIS leadership, providing support and enhancing IAIS internal administration and transparency, among other duties, related to the NAIC. Funding for the secondee is estimated at \$225,000 in 2008.
- ❖ *Market Regulatory Support Services* -- This proposal focuses on enhancing the support services provided by the NAIC's Market Regulation Division to members in helping them carry out important modernization initiatives and reforms in the area of market regulation. This fiscal

request is for two staff positions to provide needed and focused support to the members in the areas of interstate collaborative market regulation coordination and market analysis training. Members have identified this area as a priority strategic issue, specifically, the need to address duplicative efforts and the need for uniformity among states in the areas of market examinations and analysis.

- ❖ *Online Fraud Referral System (OFRS) Enhancements* – This proposal does not involve a request for funding but rather involves the allocation of IT resources and as such, a fiscal request is not included in the budget materials but will be reviewed by the Information Resources Management (H) Committee. This project involves enhancing the functionality of the OFRS to facilitate the reporting by group code as well as company code. As states begin to mandate OFRS and companies as well as trade association are looking at increasing their usage of OFRS, this project will make improvements necessary to enhance user administration.
- ❖ *Market Analysis Review System (MARS) Enhancements* – This proposal is also an allocation of existing IT resources without a funding request and is not included as a fiscal request. This proposal focuses on enhancing the Level 1 Analysis functionality of MARS and automation of Level 2 Analysis. This project will have tremendous benefits for the states’ market analysts as it provides a uniform electronic system for market analysis through enhanced reporting and easier access to market and financial data.

Details of the above new initiatives are presented in the various “Business and Fiscal Impact Statement” tabs of this budget package.

During the budgeting process, two particular areas of the NAIC’s operations were identified by staff for a full review with an aim toward potentially eliminating such services.

- ❖ *NAIC Annual Statement Collection* – This proposal recommends disbanding the annual process of collecting and maintaining hard copy annual statements and supplements at the NAIC headquarters in Kansas City. The NAIC will continue to collect and maintain the PDF version of the annual statement and savings are estimated at approximately \$75,000 in 2008 and approximately \$102,000 each year thereafter. The proposal also recommends referral to and consideration by the Financial Condition Committee and its Examination Oversight Task Force to help ensure a complete understanding of the proposal’s impact.
- ❖ *NAIC State Network* – This proposal recommends dropping the NAIC’s private telecommunications network. Savings are estimated at \$195,000 for 2008 and approximately \$566,000 each year thereafter. The proposal also recommends referral to and consideration by the Information Resource Management Committee and its IS Task Force to help ensure a complete understanding of the proposal’s impact.

Please feel free to contact Jeff Johnston, NAIC CFO at 816.783.8001 or Carol Hartley, NAIC Senior Controller, at 816.783.8038 should you have any questions or need additional information.

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2008 Proposed Budget

September 30, 2007

Prepared by:

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2008 Proposed Budget: Sections

- ❖ Highlights
- ❖ Comparison to Projected 2007
- ❖ Revenue Increases (Decreases)
- ❖ Expense Increases (Decreases)
- ❖ Headcount
- ❖ Business & Fiscal Impact Statements



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2008 Proposed Budget: Highlights

- ❖ **Revenues up 4.9%, or \$3.2m, over '07 budget: \$68.2m**
 - ❖ Growth Drivers: SERFF, New Data Redistributors, State Based System and new State Producer Licensing System (SPLR)
 - ❖ No Database Filing Fee Cap Increase
 - ❖ Note: High Realized & Unrealized Cap. Gains (\$1.3m) and IAIS conference revenues in '07 (\$777,000) distort '07 proj. comparison
- ❖ **Expenses up 2.3%, or \$1.5m, over '07 budget: \$66.4m**
 - ❖ Salary Budget up 3.7% versus 3.9% U.S. Average
 - ❖ IT Costs up \$580,000 (SPLR/SERFF/SBS)
 - ❖ Depreciation/Amortization up 6.8%, or \$314,000 (SPLR)
 - ❖ Consulting Services & Royalty Payments down \$592,000
 - ❖ Note: One-time IAIS Conference Expenses in 2007
- ❖ **Net Profit Before BFIS = \$1.9m**



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2008 Proposed Budget: Highlights

- ❖ **Projected Operating Reserve Ratio**
 - ❖ 75% Before FAS 158 (Pension) & IIPRC loans
 - ❖ 68% Afterwards...
- ❖ **Business & Fiscal Impact Statements**
 - ❖ 6 Proposals w/ net impact of **(\$76,000)**
- ❖ **3 New FTE Requests**
 - ❖ IAIS Secondee (1)
 - ❖ Market Regulatory Support Staff (2)



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2008 Budget v. 2007 Projected

(\$ in millions)

	<u>2008</u>	<u>2007P</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Revenues:				
Operations	\$ 66.2	\$ 63.1	\$ 3.1	4.9%
Investments	2.0	3.3	(1.3)	-39.4%
IAIS	-	0.8	(0.8)	NA
Subtotal	68.2	67.2	1.0	1.5%
Expenses:				
Operations	66.1	63.3	2.8	4.5%
Investments	0.3	0.3	-	0.0%
IAIS	-	0.8	(0.8)	NA
Subtotal	66.4	64.3	2.0	3.2%
Net Revenue	\$ 1.9	\$ 2.9	\$ (1.0)	-35.1%



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2008 Budget v. 2007 Budget

(\$ in millions)

	<u>2008</u>	<u>2007B</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Revenues:				
Operations	\$ 66.2	\$ 63.0	\$ 3.2	5.1%
Investments	2.0	1.4	0.6	42.9%
IAIS	-	0.6	(0.6)	NA
Subtotal	68.2	65.0	3.2	4.9%
Expenses:				
Operations	66.1	64.0	2.1	3.3%
Investments	0.3	0.3	-	0.0%
IAIS	-	0.6	(0.6)	NA
Subtotal	66.4	64.9	1.5	2.2%
Net Revenue	\$ 1.9	\$ 0.2	\$ 1.7	1133.3%



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Revenue Increases (Decreases)

(2008 Budget versus 2007 Projected)

Increase from 2007 Projected	\$ 1,065,000
SBS	770,000
SERFF Usage Fees	740,000
New Data Distributor Contracts	600,000
✓ SVO	413,000
Database Filing Fees	260,000
Net, Misc. Balances	151,600
Annual Statement Specification Royalties	107,000
New AVS Pricing Structure	100,000
IAIS Meeting Registration Fees	(776,600)
Investment Income	(1,300,000)
Increase from 2007 Projected	\$ 1,065,000

✓ 2nd Installment Unplanned in 2007: \$790,000



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2008 Revenue Composition

(\$ in millions)

	Revenue Amounts	% Comp.
Database Filing Fees	\$ 25.1	38.6%
Publications/InsData	15.9	24.5%
Services (SERFF, SBS, SVO, IID)	13.2	20.3%
NIPR Administrative/License Fees	6.7	10.3%
National Meetings	2.2	3.4%
State Assessments	2.1	3.2%
Investments	2.0	3.1%
Education & Training	0.9	1.4%
IIPRC Administrative/License Fees	0.1	0.2%
	<u>\$ 68.2</u>	



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Expense Increases (Decreases)

(2008 Budget versus 2007 Projected)

Increase from 2007 Projected	\$ 2,100,000
Compensation (3.7% increase)	1,675,000
IT (Hardware, Software, Depr., Amort.)	895,000
Employee Benefits (Pension, Health, L/Disab. Ins.)	325,000
Bad Debt Reserve	250,000
International & Domestic Travel & Interim Meetings	180,000
Net, Misc. Balances	143,600
Consulting Services	(262,000)
Royalty Payments	(330,000)
IAIS Conference	(776,600)
Increase from 2007 Projected	\$ 2,100,000



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2008 Expense Composition

(\$ in millions)

	Expense Amounts	% Comp.
Salaries, Taxes & Benefits	\$ 41.0	63.1%
Lease & Office Equipment	7.6	11.7%
Depreciation & Amortization	5.0	7.7%
Professional Services	4.7	7.2%
Travel	3.2	4.9%
Administrative & Operational	2.2	3.4%
National Meetings	1.5	2.3%
Education/Training	0.7	1.1%
Zones	0.5	0.8%
	<u>\$ 66.4</u>	



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Department Headcount (Authorized FTE: 423.5)

Education & Training 10	Market Regulation 11	Research 14
State Based Systems 25	Government Relations 16	SERFF 20
Securities Valuation Office 46	Insurance Products & Services 29	Financial Data Repository 31
Corporate (Legal, HR, Finance, Meetings etc.) 72.5	Financial Regulatory Services 50	Information Technology 99

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Approved FTEs (2004-2007)

Year	Total	IAIS	SBS	SERFF	Producer System	Market Reg.	SVO	IT
2008	3	1				2		
2007	18		8	3	5			2
2006	5					2	2	1
2005	10		7	3				
2004	5		1	2		1		1

“The additional headcount above only reflects part of the picture regarding the use of NAIC human resources. NAIC management employs an on-going assessment process of staffing needs and will reallocate vacated positions to help ensure adequate and quality support for NAIC priorities and its mission.”

Cathy Weatherford, EVP/CEO

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2008 Business & Fiscal Impact Statements

#	Business & Fiscal Impact Statements	2008 Net Amount	2009 Net Amount
1	IAIS Secondee (includes 1 FTE)	\$ (225,000)	\$ (236,250)
2	Market Regulatory Services (2 FTEs)	(122,643)	(128,300)
3	Advanced Risk Assessment Training	(7,276)	-
4	NAIC Designation Program Additions	8,875	-
5	Elimination of NAIC Private Data Network	194,626	566,502
6	Discontinuation of Annual Statement Collections	74,911	101,962
	Net Impact	<u>\$ (76,507)</u>	<u>\$ 303,914</u>

#5 – Seeking review by “H” Committee

#6 – Seeking review by “E” Committee



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NAIC – IAIS Secondee

Position Title:	International Insurance Program Manager
Duties:	<ul style="list-style-type: none"> - Works on-site in Basel, Switzerland with IAIS leadership, providing support and enhancing IAIS internal administration and transparency. - Provides Committee Staff Support to IAIS Committees, and indirect support to NAIC International initiatives. - Interacts with NAIC International Counsel and Financial Regulatory Services Staff to facilitate and/or advance NAIC policy views. - Facilitates information exchanges, including with the European Union.
Qualifications:	<ul style="list-style-type: none"> - Outstanding political, communication and diplomatic skills. - Understanding of domestic and international insurance regulatory systems and industry, and insurance company operations.
More Info.:	See formal BFIS for details.

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Market Regulatory Support Staff

Objective:	To address duplicate efforts and the lack of uniformity among states in the areas of market conduct examinations and off-site analysis.
Staff Additions:	Collaborative Actions Coordinator ⁽¹⁾ Market Regulation Trainer ⁽²⁾
Roles:	⁽¹⁾ Assist in coordinating multi-state examination on insurers identified by the Market Analysis (D) Working Group. ⁽²⁾ Design, develop and deliver educational materials and training on the subject of market analysis.
Benefits:	<ul style="list-style-type: none"> ✓ Enhance interstate collaborative efforts and coordinate on regulatory actions. ✓ Facilitate regulatory communications and information exchanges. ✓ Develop new training centered on making effective use of NAIC market analysis procedures, tools and databases.
More Info:	See formal BFIS for details.

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Advanced Risk Assessment Training

Program Scope:	Examiners training in the areas of internal control testing, company management assessments and interviewing.
Format:	Conducted initially on a pilot basis, with 3 regional classroom programs envisioned in 2008.
Sponsor:	Commissioner Al Gross (VA), Chair, Financial Condition Committee; Dave DelBiondo (PA) Chair, Risk Assessment Implementation Subgroup.
Impact:	To be developed and presented by NAIC FRS staff at a cost of \$7,276 - primarily travel expenses.
More Info.:	See formal BFIS for details.

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New NAIC Designation Courses

Courses:	Fraud Investigation 101 (classroom) Risk-Based Capital (on-line)
Sponsor:	Commissioner Susan Voss (IA), Chair Designation Advisory Board
Impact:	To be developed and presented by NAIC staff, with a net financial benefit of \$8,875.
More Info.:	See formal BFIS for details.

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Elimination of NAIC State Private Data Network

What:	The Network provides private connectivity between the NAIC and the state insurance departments, and facilitates transmission of data and access to NAIC applications and systems.
Why:	Because of increased reliance on the Internet and the changing demographics of state IT support.
Cost Savings:	<ul style="list-style-type: none"> ✓ Est. \$144,000 in 2008, and \$567,000 per year thereafter. ✓ Opportunity to reallocate technical staff support time. ✓ Est. \$53,000 salvageable value of IT hardware.

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Discontinue Annual Statement (hard copy) Collection Process at NAIC Executive Headquarters

Proposal:	Discontinue collection, management and retention of past and future hard copy annual and quarterly financial statements, as well as supplemental documents.
Response:	In lieu of hard copy statements, the NAIC will make available the PDF version of financial statements electronically filed with NAIC.
Benefits:	<ul style="list-style-type: none"> ✓ Eliminates a very time consuming, paper intensive process. ✓ Significant cost savings from temporary staffing, supplies and physical storage. ✓ Insurers save staffing, mailing and other administrative costs. ✓ Users will have easier access to PDF versions. ✓ PDF version more closely resembles actual financial data filed.
Savings:	Projected annual savings of nearly \$104,000.
More Info.:	See formal BFIS for details.

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The Next 4 Months...

- ✓ Sept. 17th - EX1 Review
- ✓ Sept. 30th - Commissioner Roundtable (WDC)
- ✓ Nov. 6th - Public Hearing (Teleconference)
- ✓ Dec. 2nd - EX Committee Adoption (Houston)

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**Revenue and
Expense Summaries**

**NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
2008 CONSOLIDATED BUDGET
REVENUE AND EXPENSE SUMMARY**

Description	2007			2008					
	2006 Actual	12/31/2007 Projected	2007 Budget	2007 Projected Variance	2008 Budget	Increase (Decrease) from 2007	%		
						Budget	Projected		
Operational Revenues	\$ 60,635,679	\$ 63,105,961	\$ 62,959,315	\$ 146,646	\$ 66,220,390	\$ 3,261,075	\$ 3,114,429	5.18%	4.94%
Operational Expenses	58,884,570	63,246,728	63,945,069	(698,341)	66,100,941	2,155,872	2,854,213	3.37%	4.51%
Operational Revenues Over/(Under) Expenses	\$ 1,751,109	\$ (140,767)	\$ (985,754)	\$ 844,987	\$ 119,449	\$ 1,105,203	\$ 260,216	(112.12%)	(184.86%)
Investment Revenue	\$ 3,545,470	\$ 3,294,324	\$ 1,397,162	\$ 1,897,162	\$ 2,021,382	\$ 624,220	\$ (1,272,942)	44.68%	(38.64%)
Investment Expenses	239,058	252,139	256,755	(4,616)	250,848	(5,907)	(502,987)	(2.30%)	(199.49%)
Investment Revenues Over/(Under) Expenses	\$ 3,306,412	\$ 3,042,185	\$ 1,140,407	\$ 1,901,778	\$ 1,770,534	\$ 630,127	\$ (769,955)	55.25%	(25.31%)
IAIS Annual Conference Revenues	\$ -	\$ 776,600	\$ 642,775	\$ 133,825	\$ -	\$ (642,775)	\$ (776,600)	(100.00%)	(100.00%)
IAIS Annual Conference Expenses	-	776,600	642,775	133,825	-	(642,775)	(776,600)	(100.00%)	(100.00%)
IAIS Annual Conference Revenues Over/(Under) Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	0.00%
Total Revenues before Business and Fiscal Impact Statements	\$ 64,181,149	\$ 67,176,885	\$ 64,999,252	\$ 2,177,633	\$ 68,241,772	\$ 3,242,520	\$ 1,064,887	4.99%	1.59%
Total Expenses before Business and Fiscal Impact Statements	59,123,628	64,275,467	64,844,599	(569,132)	66,351,789	1,507,190	2,076,322	2.32%	3.23%
Total Revenues Over/(Under) Expenses before Business and Fiscal Impact Statements	\$ 5,057,521	\$ 2,901,418	\$ 154,653	\$ 2,746,765	\$ 1,889,983	\$ 1,735,330	\$ (1,011,435)	1122.08%	(34.86%)
Business and Fiscal Impact Statement Revenues					\$ 68,305				
Business and Fiscal Impact Statement Expenses					144,812				
Business and Fiscal Impact Statement Revenues Over/(Under) Expenses					\$ (76,507)				
Total Proposed Revenues after Business and Fiscal Impact Statements	\$ 64,181,149	\$ 67,176,885	\$ 64,999,252	\$ 2,177,633	\$ 68,310,077	\$ 3,310,825	\$ 1,133,192	5.09%	1.69%
Total Proposed Expenses after Business and Fiscal Impact Statements	59,123,628	64,275,467	64,844,599	(569,132)	66,496,601	1,652,002	2,221,134	2.55%	3.46%
Total Proposed Revenues Over/(Under) Expenses after Business and Fiscal Impact Statements	\$ 5,057,521	\$ 2,901,418	\$ 154,653	\$ 2,746,765	\$ 1,813,476	\$ 1,658,823	\$ (1,087,942)	1072.61%	(37.50%)

**NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
2008 CONSOLIDATED BUDGET
DETAIL REVENUES AND EXPENSES**

Description	Reference	2007				2008				2008		
		Actual	6/30/2007 Actual	12/31/2007 Projected	2007 Budget	Actual	6/30/2007 Actual	12/31/2007 Projected	2007 Budget	Budget	%	
											Increase (Decrease) from 2007 Budget	Increase (Decrease) from 2007 Projected
State Assessments	R1	\$ 1,968,635	\$ 1,000,476	\$ 2,015,610	\$ 2,015,609	\$ 1	\$ 2,063,932	\$ 48,323	\$ 48,322	2.40%	\$ 48,322	2.40%
Database Fees	R2	23,916,180	24,842,245	24,842,245	24,470,912	371,333	25,100,000	629,088	257,755	2.57%	257,755	1.04%
Publications and Insurance Data Products	R3	14,895,371	6,373,707	15,141,432	15,088,796	52,636	15,937,237	848,441	795,805	5.62%	795,805	5.26%
Services	R4	10,691,709	6,363,543	11,331,689	11,753,178	(421,489)	13,255,136	1,501,958	1,923,447	12.78%	1,923,447	16.97%
National Meeting Registration Fees	R5	2,103,199	1,099,075	2,904,950	2,780,791	124,159	2,165,473	(615,318)	(739,477)	(22.13%)	(739,477)	(25.46%)
Investment Income	R6	3,545,470	2,377,738	3,294,324	1,397,162	1,897,162	2,021,382	624,220	(1,272,942)	44.68%	(1,272,942)	(38.64%)
Education and Training	R7	988,993	418,102	980,887	1,013,990	(33,103)	972,780	(41,210)	(8,107)	(4.06%)	(8,107)	(0.83%)
Administrative Services	R8	5,676,642	3,185,306	6,361,378	6,185,823	175,555	6,648,758	462,935	287,380	7.48%	287,380	4.52%
Other Income	R9	394,950	171,318	304,370	292,990	11,380	145,379	(147,611)	(158,991)	(50.38%)	(158,991)	(52.24%)
Total Revenues		64,181,149	45,831,510	67,176,885	64,999,252	2,177,634	68,310,077	3,310,826	1,133,192	5.09%	1,133,192	1.69%
Salaries	E1	26,777,330	14,532,167	29,775,591	29,907,972	(132,381)	31,776,152	1,868,180	2,000,561	6.25%	2,000,561	6.72%
Temporary Personnel	E2	536,496	266,416	529,715	551,658	(21,943)	513,731	(37,927)	(15,984)	(6.88%)	(15,984)	(3.02%)
Payroll Taxes	E3	1,974,585	1,217,988	2,204,153	2,163,736	40,417	2,265,006	101,270	60,853	4.68%	60,853	2.76%
Employee Benefits	E4	5,839,480	3,012,619	5,658,536	5,677,617	(19,081)	5,989,782	312,165	331,246	5.50%	331,246	5.85%
Employee Development	E5	500,838	377,958	587,314	582,091	5,223	621,386	39,295	34,072	6.75%	34,072	5.80%
Professional Services	E6	2,549,039	1,667,142	3,243,809	3,454,456	(210,647)	2,965,445	(489,011)	(278,364)	(14.16%)	(278,364)	(8.58%)
Computer Services	E7	1,899,598	902,316	2,047,983	1,852,298	195,685	1,588,837	(263,461)	(459,146)	(14.22%)	(459,146)	(22.42%)
Travel	E8	2,416,093	1,109,944	2,174,335	2,019,175	155,160	2,370,399	351,224	196,064	17.39%	196,064	9.02%
Analyst Team	E9	79,180	74,302	78,822	87,509	(8,687)	78,917	(8,592)	95	(9.82%)	95	0.12%
Occupancy	E10	4,619,616	2,379,515	4,842,887	4,810,544	32,343	4,886,083	75,539	43,196	1.57%	43,196	0.89%
Equipment Rental and Maintenance	E11	2,228,064	1,207,097	2,305,767	2,514,281	(208,514)	2,757,870	243,589	452,103	9.69%	452,103	19.61%
Depreciation and Amortization	E12	3,913,125	2,125,743	4,639,554	4,864,706	(225,152)	4,955,920	91,214	316,366	1.88%	316,366	6.82%
Insurance	E13	421,584	223,488	450,766	452,045	(1,279)	476,123	24,078	25,357	5.33%	25,357	5.63%
Telephone	E14	391,005	194,129	352,014	314,661	37,353	317,246	2,585	(34,768)	(9.88%)	(34,768)	(9.88%)
Supplies	E15	846,751	341,650	625,861	658,236	(32,375)	494,630	(163,606)	(131,231)	(24.86%)	(131,231)	(20.97%)
Mail Services	E16	108,448	22,778	77,768	116,071	(38,303)	130,169	14,098	52,401	12.15%	52,401	67.38%
Reference Materials	E17	537,252	278,275	527,803	525,769	2,034	532,834	7,065	5,031	1.34%	5,031	0.95%
Printing and Production	E18	226,484	114,433	186,898	227,698	(40,800)	210,465	(17,233)	23,567	(7.57%)	23,567	12.61%
National and Interim Meetings	E19	1,241,708	900,624	2,212,760	2,007,643	205,117	1,490,652	(516,991)	(722,108)	(25.75%)	(722,108)	(32.63%)
Education and Training	E20	553,800	278,276	679,262	698,149	(18,887)	733,752	25,603	44,490	3.67%	44,490	6.55%
State and General Training	E21	664,615	333,702	791,253	784,894	6,359	815,786	30,892	24,533	3.94%	24,533	3.10%
Other Expenses	E22	798,537	46,177	282,618	573,391	(290,773)	535,416	(37,975)	252,798	(6.62%)	252,798	89.45%
Total Operating Expenses		59,123,628	31,606,739	64,275,467	64,844,599	(569,131)	66,496,601	1,652,001	2,221,132	2.55%	2,221,132	3.46%
Revenues Over (Under) Expenses		\$ 5,057,521	\$ 14,224,771	\$ 2,901,418	\$ 154,653	\$ 2,746,765	\$ 1,813,476	\$ 1,658,825	\$ (1,087,940)	1072.61%	\$ (1,087,940)	(37.50%)

**NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
2008 CONSOLIDATED BUDGET
SUMMARY BY FUND**

Description	Reference	General Fund	Zones	International Education		Headquarters	Consolidated Total
				Fund	Repository		
State Assessments	R1	\$ 2,063,932				\$	2,063,932
Database Fees	R2	25,100,000					25,100,000
Publications and Insurance Data Products	R3	15,937,237					15,937,237
Services (1)	R4	13,255,136					13,255,136
National Meeting Registration Fees	R5	2,036,003	\$ 129,470				2,165,473
Investment Income	R6	1,989,897	31,485				2,021,382
Education and Training	R7	972,780					972,780
Administrative Fees	R8	6,648,758					6,648,758
Other Income	R9	145,379					145,379
Total Revenues		68,149,122	160,955				68,310,077
Salaries	E1	31,776,152					31,776,152
Temporary Personnel	E2	513,731					513,731
Payroll Taxes	E3	2,265,006					2,265,006
Employee Benefits	E4	5,989,782					5,989,782
Employee Development	E5	621,386					621,386
Professional Services	E6	2,963,195		\$ 2,250			2,965,445
Computer Services	E7	1,588,837					1,588,837
Travel	E8	2,276,377		94,022			2,370,399
Analyst Team	E9	78,917					78,917
Occupancy	E10	4,886,083					4,886,083
Equipment Rental and Maintenance	E11	2,757,870					2,757,870
Depreciation and Amortization	E12	3,903,123			\$ 598,471	\$ 454,326	4,955,920
Insurance	E13	476,123					476,123
Telephone	E14	314,526		2,720			317,246
Supplies	E15	494,630					494,630
Mail Services	E16	129,169		1,000			130,169
Reference Materials	E17	532,834					532,834
Printing and Production	E18	210,465					210,465
National and Interim Meetings	E19	1,490,652					1,490,652
Education and Training	E20	723,752					723,752
State and General Training	E21	538,428	\$277,358				815,786
Other Expenses	E22	535,416					535,416
Total Expenses		65,066,454	277,358	99,992	598,471	454,326	66,496,601
Revenues Over/(Under) Expenses		\$ 3,082,668	\$ (116,403)	\$ (99,992)	\$ (598,471)	\$ (454,326)	\$ 1,813,476

(1) Services revenue consists of SVO, SERFF, SBS, and IID Fees. See Detail Revenues R-4: Services.

**NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
CONSOLIDATED EXPENSE BUDGET BY FUNCTION
PROPOSED 2008 BUDGET**

Description	Reference	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services	General Fund Total
Salaries	E1	\$ 8,126,489	\$ 6,487,749	\$ 1,431,749	\$ 8,114,947	\$ 3,081,354	\$ 4,533,864	\$ 31,776,152
Temporary Personnel	E2	8,464	405,730	90,447	2,250		6,840	513,731
Payroll Taxes	E3	628,736	407,503	112,465	551,544	223,338	341,420	2,265,006
Employee Benefits	E4		5,981,762		5,620	2,400		5,989,782
Employee Development	E5	143,526	258,618	28,539	52,545	53,581	84,577	621,386
Professional Services	E6	229,598	1,291,032	603,885	2,000	155,495	683,435	2,965,445
Computer Services	E7	880,429	32,628	49,646	459,775	166,359	166,359	1,588,837
Travel	E8	93,888	856,591	165,009	326,526	470,791	457,594	2,370,399
Analyst Team	E9				78,917			78,917
Occupancy	E10	10,195	3,827,220	770	619,421	397,272	31,204	4,886,082
Equipment Rental/Maintenance	E11	2,366,347	362,259	4,703	19,975	4,284	302	2,757,870
Depreciation and Amortization	E12		4,587,456				368,464	4,955,920
Insurance	E13		476,123					476,123
Telephone	E14	19,432	30,294	66,476	71,470	87,399	42,175	317,246
Office Services	E15	222,278	178,516	19,442	25,935	17,712	30,747	494,630
Mail Services	E16	3,866	28,075	52,695	16,880	11,764	16,889	130,169
Library Materials	E17	2,581	4,601	247,221	259,220	16,409	2,802	532,834
Printing	E18		1,680	9,980		150	198,655	210,465
National and Interim Meetings	E19		1,490,652					1,490,652
Education and Training	E20		379,764	379,764	226,873		117,115	723,752
State & General Training	E21	32,372	698,462	53,060			31,892	815,786
Other Expenses	E22		531,416				4,000	535,417
Total Operating Expenses		\$ 12,768,201	\$ 26,447,715	\$ 4,806,503	\$ 10,833,898	\$ 4,521,949	\$ 7,118,334	\$ 66,496,601

BUDGET ITEM: State Assessments

Item Description: Assessments from all members which are used to fund the activities of the NAIC offices. Members are assessed based upon the relative premium volume of their respective domiciled companies to total premium volume.

<u>Description</u>	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
State Assessments (1)	\$ 1,968,635	\$ 1,000,476	\$ 2,015,610	\$ 2,015,609	\$ 2,063,932	\$ 48,323	2.40%

(1) State assessments reflect no increase from 2007 in the \$7,725 minimum assessment per state. The minimum level of assessment was approved by the Internal Administration (EX1) Subcommittee in September 2001. The \$48,323 increase is a result of the redistribution of the total assessment based on premium volume and the reapplication of the minimum assessment. The budgeted amount is based on four months of the May 2007 - April 2008 assessment and eight months of the May 2008 - April 2009 assessment. The May 2008 - April 2009 state assessments are illustrated in Exhibit R1-One. Exhibit R1-Two illustrates state assessments as a percentage of total NAIC revenue.

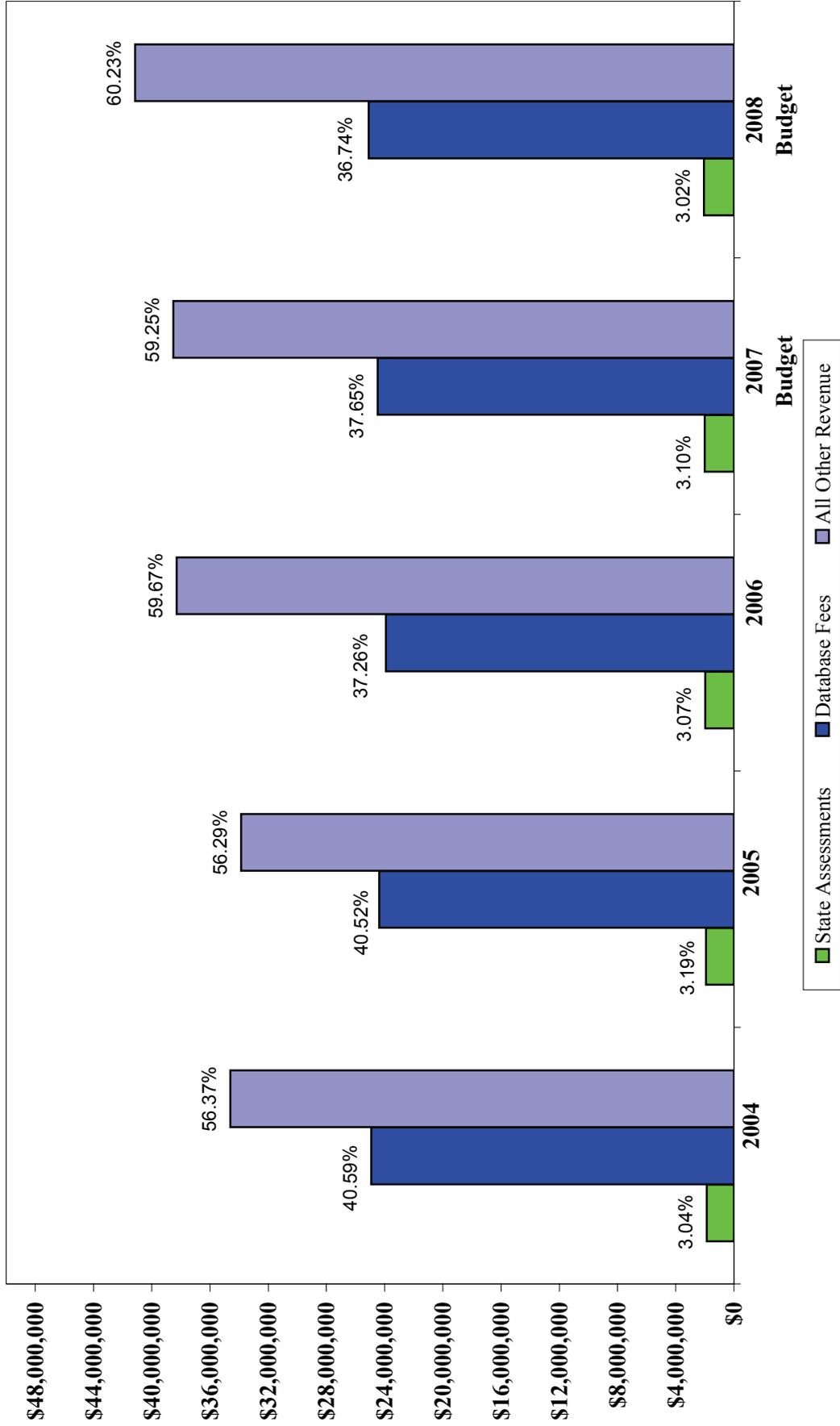
NAIC STATE ASSESSMENTS

State	Total Premiums	Percent To Total	Assessment	\$7,725 Minimum 2008/09 Amount	\$7,725 Minimum 2007/08 Amount	\$7,725 Minimum 2006/07 Amount
Alabama	\$ 17,996,583,165	1.23%	\$ 24,966	\$ 24,966	\$ 23,873	\$ 22,314
Alaska	2,998,941,907	0.20%	4,160	7,725	7,725	7,725
Arizona	25,416,676,991	1.74%	35,260	35,260	36,876	46,769
Arkansas	9,419,901,653	0.64%	13,067	13,067	12,587	12,277
California	131,362,071,605	8.98%	182,231	182,231	181,176	180,804
Colorado	25,432,835,488	1.74%	35,282	35,282	36,967	34,950
Connecticut	30,864,175,342	2.11%	42,816	42,816	46,652	46,742
Delaware	24,786,616,287	1.69%	34,385	34,385	33,964	30,943
District of Columbia	7,897,786,971	0.54%	10,955	10,955	10,764	10,585
Florida	101,737,931,798	6.95%	141,134	141,134	135,062	125,712
Georgia	36,109,477,274	2.47%	50,093	50,093	46,940	45,796
Hawaii	8,052,765,208	0.55%	11,171	11,171	10,774	10,202
Idaho	5,875,263,049	0.40%	8,149	8,149	7,731	7,725
Illinois	59,425,754,696	4.06%	82,437	82,437	82,900	78,466
Indiana	26,340,270,398	1.80%	36,541	36,541	35,243	34,601
Iowa	16,278,390,902	1.11%	22,583	22,583	22,626	20,551
Kansas	15,753,127,219	1.08%	21,854	21,854	19,845	17,394
Kentucky	15,188,293,406	1.04%	21,070	21,070	21,541	20,986
Louisiana	20,613,911,819	1.41%	28,596	28,596	25,881	25,094
Maine	5,635,296,413	0.39%	7,817	7,817	7,739	7,725
Maryland	31,599,689,206	2.16%	43,835	43,835	41,222	38,896
Massachusetts	40,237,130,094	2.75%	55,818	55,818	58,653	59,844
Michigan	50,102,621,931	3.42%	69,504	69,504	72,323	70,547
Minnesota	28,548,080,612	1.95%	39,602	39,602	38,306	37,280
Mississippi	9,348,297,111	0.64%	12,967	12,967	12,172	11,797
Missouri	27,282,320,622	1.86%	37,846	37,846	36,889	36,426
Montana	3,593,741,081	0.25%	4,986	7,725	7,725	7,725
Nebraska	9,448,260,278	0.65%	13,107	13,107	12,651	12,423
Nevada	11,101,646,207	0.76%	15,400	15,400	14,983	13,694
New Hampshire	6,194,624,051	0.42%	8,594	8,594	9,095	8,998
New Jersey	62,254,521,588	4.25%	86,361	86,361	80,058	80,095
New Mexico	7,613,515,693	0.52%	10,561	10,561	10,065	9,744
New York	128,323,851,497	8.77%	178,016	178,016	169,904	171,872
North Carolina	35,136,819,872	2.40%	48,743	48,743	47,061	44,588
North Dakota	3,353,812,696	0.23%	4,653	7,725	7,725	7,725
Ohio	49,709,869,807	3.40%	68,960	68,960	69,032	68,418
Oklahoma	13,182,411,729	0.90%	18,287	18,287	17,688	17,239
Oregon	17,945,306,051	1.23%	24,895	24,895	24,030	23,312
Pennsylvania	75,652,779,732	5.17%	104,949	104,949	103,911	100,345
Rhode Island	6,537,452,265	0.45%	9,069	9,069	9,069	9,160
South Carolina	16,060,638,395	1.10%	22,280	22,280	20,657	19,990
South Dakota	3,745,640,706	0.26%	5,195	7,725	7,725	7,725
Tennessee	24,342,807,419	1.66%	33,769	33,769	31,089	30,343
Texas	91,283,224,811	6.24%	126,632	126,632	119,984	116,169
Utah	9,805,591,852	0.67%	13,603	13,603	12,939	12,019
Vermont	2,927,260,210	0.20%	4,061	7,725	7,725	7,725
Virginia	35,925,304,982	2.45%	49,837	49,837	45,764	43,621
Washington	29,016,881,355	1.98%	40,254	40,254	39,323	37,472
West Virginia	7,032,677,666	0.48%	9,755	9,755	8,436	8,501
Wisconsin	28,401,264,955	1.94%	39,399	39,399	38,286	37,481
Wyoming	2,070,566,390	0.14%	2,873	7,725	7,725	7,725
American Samoa	3,734,585	0.00%	6	7,725	7,725	7,725
Guam	288,325,130	0.02%	400	7,725	7,725	7,725
Nothern Mariana Islands	18,954,859	0.00%	26	7,725	8,134	7,725
Puerto Rico	7,978,785,134	0.55%	11,069	11,069	9,876	9,135
U.S. Virgin Islands	282,194,531	0.02%	392	7,725	7,725	7,725
Total State Assessments	\$ 1,463,536,676,694	100.00%	\$ 2,030,271	\$ 2,080,769	\$ 2,030,266	\$ 1,986,295

Four months of the May 2007-April 2008 assessment \$ 676,753
Eight months of the May 2008-April 2009 assessment 1,387,179

Total calendar year 2008 assessment \$ 2,063,932

State Assessments as Compared to Database Fees and All Other Consolidated NAIC Revenue



*All Other Revenue includes publications and subscriptions, services, national meeting registration fees, investment income, education programs and other income.

BUDGET ITEM: Database Fees

Item Description: Fees from all of the insurance companies filing with the NAIC's Financial Data Repository. Fees are based on each filing companies' premium volume.

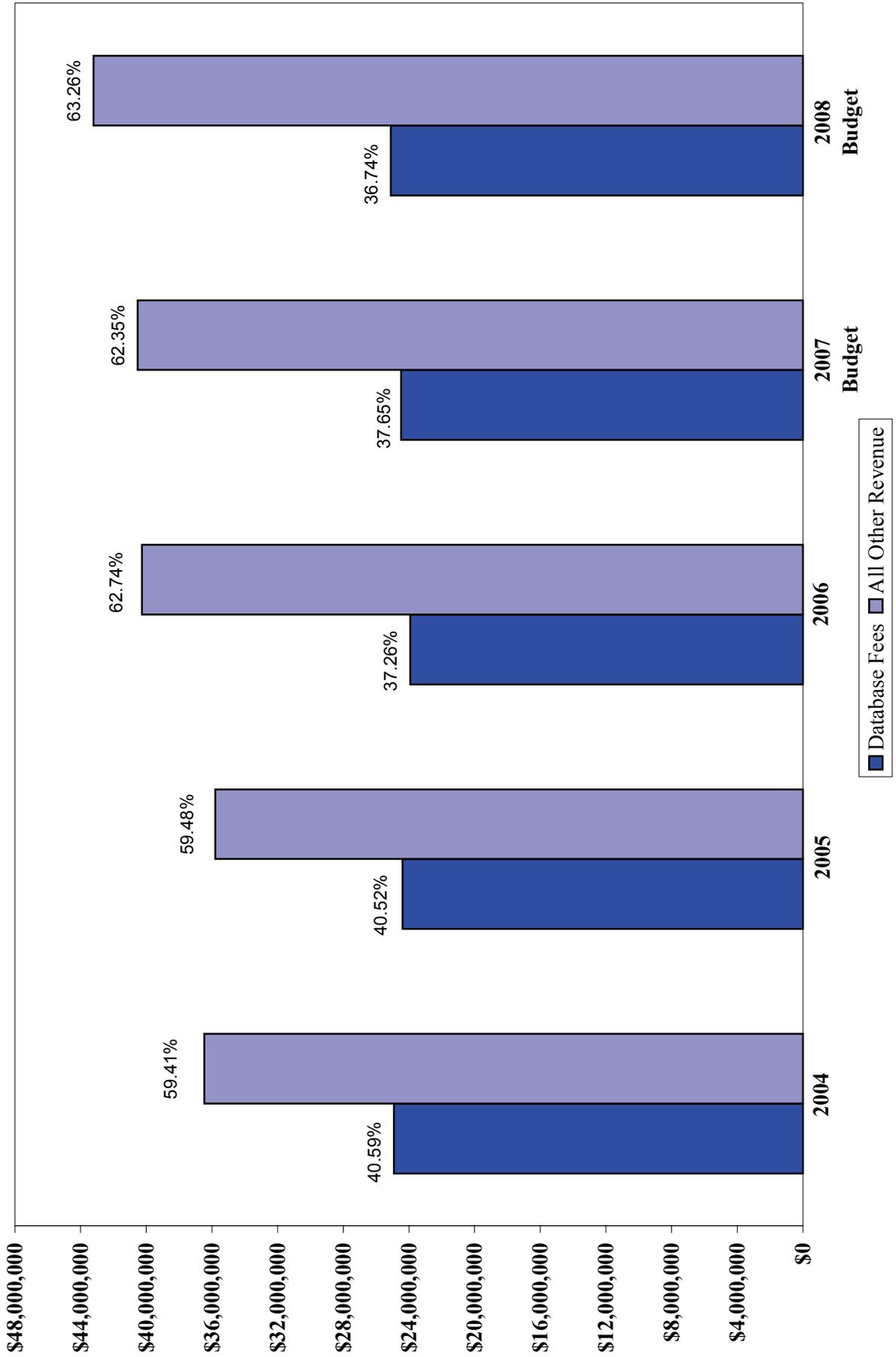
<u>Description</u>	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Database Fees (1)	\$ 23,916,180	\$ 24,842,245	\$ 24,842,245	\$ 24,470,912	\$ 25,100,000	\$ 629,088	2.57%

(1) The current filing fee structure was approved by the Internal Administration (EX1) Subcommittee in September 2001. The filing fee structure is unchanged from the previous year. The projection for 2007 is based on actual filings received and reflects a growth in industry premium volume that is slightly higher than the 2% assumed in the 2007 budget. The 2008 budget assumes a 2% increase in premium growth over the 2007 projection. The complete filing fee structure is included as Exhibit R2-One. Exhibit R2-Two illustrates database filing fees as a percentage of total NAIC revenues.

**NAIC Database Filing Fee Structure
As of January 1, 2007
For 2007 Data Year Filings filed in March 2008**

			2008 Fee Structure
Premium Base Levels:			
0	to	100,000	247
100,001	to	1,000,000	484
1,000,001	to	2,500,000	722
2,500,001	to	7,500,000	1,444
7,500,001	to	25,000,000	2,403
25,000,001	to	100,000,000	3,600
100,000,001	to	200,000,000	5,035
200,000,001	to	300,000,000	6,289
300,000,001	to	400,000,000	7,723
400,000,001	to	500,000,000	9,167
500,000,001	to	600,000,000	11,039
600,000,001	to	700,000,000	12,958
700,000,001	to	800,000,000	14,877
800,000,001	to	900,000,000	17,271
900,000,001	to	1,000,000,000	19,674
1,000,000,001	to	1,100,000,000	22,068
1,100,000,001	to	1,200,000,000	24,472
1,200,000,001	to	1,300,000,000	26,866
1,300,000,001	to	1,400,000,000	29,269
1,400,000,001	to	1,500,000,000	31,663
1,500,000,001	to	1,600,000,000	34,067
1,600,000,001	to	1,700,000,000	36,461
1,700,000,001	to	1,800,000,000	39,339
1,800,000,001	to	1,900,000,000	42,218
1,900,000,001	to	2,000,000,000	45,096
2,000,000,001	to	2,100,000,000	47,975
2,100,000,001	to	2,200,000,000	50,853
2,200,000,001	to	2,300,000,000	53,732
2,300,000,001	to	2,400,000,000	56,610
2,400,000,001	to	2,500,000,000	59,489
2,500,000,001	to	2,600,000,000	62,367
2,600,000,001	to	2,700,000,000	65,246
2,700,000,001	to	2,800,000,000	69,428
2,800,000,001	to	2,900,000,000	69,428
2,900,000,001	to	3,000,000,000	69,428
3,000,000,001	to	3,100,000,000	69,428
3,100,000,001	to	3,200,000,000	69,428
3,200,000,001	or	greater	69,428
Combined Filing Fee			685
Group Filing Fee			208,284

Database Fees as a Percentage of Consolidated NAIC Revenue



* All Other Revenue includes state assessments, publications and subscriptions, national meeting registration fees, investment income, education programs and other income.

BUDGET ITEM: Publications and Insurance Data Products

Item Description: Revenues generated from the sale of various reference materials, handbooks and subscriptions, and information stored on the NAIC's financial database.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Publications (1)	\$ 4,608,016	\$ 2,652,787	\$ 4,883,100	\$ 4,963,412	\$ 4,913,682	\$ (49,730)	(1.00%)
Insurance Data Products (2)	10,287,355	3,720,920	10,258,332	10,125,384	11,023,555	898,171	8.87%
Total	\$ 14,895,371	\$ 6,373,707	\$ 15,141,432	\$ 15,088,796	\$ 15,937,237	\$ 848,441	5.62%

(1) Publications revenue is generated from the sale of hardcopy and CD-ROM publications and reference materials and royalties from the sale of these products by outside vendors. This decrease represents a change in the delivery method for some publications. Beginning in 2008, infrequently purchased publications will be moved to the website for download at no cost. While this approach eliminates approximately \$50,000 in revenue, it also eliminates the fulfillment process for the most labor intensive products and supply costs.

(2) Revenues generated from the sale of insurance data products are budgeted at \$5,143,644, representing contracts with numerous vendors who use, market and sometimes redistribute financial data from the NAIC Financial Data Repository. It also includes royalties generated from the sale of RBC products (\$1,498,000) and the Annual Statement Filing Support Product (ASFSP) (\$1,177,000) by six business partners. A change to the ASFSP pricing structure is included in the 2008 budget to bring the pricing of this product more in line with the pricing of the RBC product, generating an increase in revenue of \$107,000. Additionally, an increase in data distribution contracts accounts for \$570,000 in increases to the 2008 budget.

Also included in this line is \$3,204,911 for Automated Valuation Service (AVS) fees and access the AVS database. The AVS database is a system for the delivery of security designations assigned by the Securities Valuation Office via electronic data feeds to meet the specific needs of any customer investment portfolio and is utilized heavily by companies when preparing their Schedule D filings. A revision to the pricing structure for this product will be released in 2008. The \$220,000 increase in 2008 is based on utilization of this service by AVS customers in 2007 and the addition of an alert service scheduled for release in 2008.

BUDGET ITEM: Services

Item Description: Fees for services from the Securities Valuation Office (SVO), System for Electronic Rate and Form Filings (SERFF), State Based Systems (SBS), and the International Insurers Department (IID).

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
SVO Fees (1)	\$ 7,543,668	\$ 4,069,827	\$ 7,310,462	\$ 7,639,230	\$ 7,723,550	\$ 84,320	1.10%
SERFF Fees (2)	1,997,466	1,324,791	2,675,604	\$2,080,135	3,411,425	1,331,290	64.00%
SBS Fees (3)	611,120	471,935	839,633	1,591,813	1,614,161	22,348	1.40%
IID Fees (4)	539,455	496,990	505,990	442,000	506,000	64,000	14.48%
Total	<u>\$ 10,691,709</u>	<u>\$ 6,363,543</u>	<u>\$ 11,331,689</u>	<u>\$ 11,753,178</u>	<u>\$ 13,255,136</u>	<u>\$ 1,501,958</u>	12.78%

(1) Since 2004, SVO revenues have included a blend of the historical fee-for-service revenue structure and a fee assessment model. This approach is the result of work by the Revenue Considerations (EX1) Working Group, with the assistance of interested parties, on a proposal to ultimately exempt from filing with the SVO all NRSRO rated securities, on a "revenue neutral" basis. The Working Group's revenue blend approach was approved by the NAIC membership in September 2003 and was effective January 1, 2004. The 2008 budget includes \$6,143,550 in fees and \$1,580,000 for the assessment. The assessment is allocated, on a proportionate basis, to those insurers that hold \$1 billion or more of non-government and preferred stock investments. The increase in this budget line is due to the increased number of securities being filed with the SVO.

An SVO listing provides an insurer with an annual security analysis and a value, or price, for the security. Budgeted revenue for this service is (1) \$5,045,350 for nonrated security filings; (2) \$400,000 for the processing of subsidiary valuation filings; and (3) \$100,000 for advance rating services. Additionally, this line includes: (1) \$140,000 in services provided to banks that wish to be placed on the "Approved Bank List" maintained by the SVO; (2) \$140,000 in service fees for the review of money market funds; (3) \$10,000 in service fees for the review of counterparty derivatives; (4) \$2,000 in SVO appeals fees, representing an offset to the cost of the additional effort by the SVO staff when requested to conduct a face-to-face meeting on an appeal by a company that disagrees with the original credit assessment from the SVO; (5) \$100,200 in SVO sovereign fees, representing an offset to the cost of the SVO's requirement to conduct a Sovereign analysis on the initial submission of issuing debt in a foreign country, and (6) \$206,000 in Portfolio Analysis Management (PAM) fees. Non-rated securities revenue is illustrated in Exhibit R4-One.

(2) SERFF filing volumes continue to grow as a result of a combination of factors, (1) the release of SERFF v5 enabling users to leverage the SERFF interface without requiring the use of a remote hoster; (2) incorporated efficiencies in an electronic filing process, (2) growth in state implementations of the Uniform Product Coding Matrices, and (3) the mandated use of SERFF by a growing number of states.

(3) The accounting treatment for state implementation funding in 2007 will differ from that presented in the 2007 budget. Based on the final language in the agreement between NAIC and NIPR, the funding assistance received for the implementation of states will be shown on the balance sheet as a payable to NIPR rather than revenue for SBS as reflected in the 2007 budget accounting for \$400,000 of the 2007 projected variance. The remainder of the variance is due to SBS licensed states not promoting OLS to the degree anticipated in the budget and the decision not to use the SBS online resident licensing service by one state. However, in mid-2007 the transaction fee collection for resident licensing and resident renewals for SBS states will transition to NIPR with an increase in the revenue share allocations, which will result in an increase in SBS revenues in the latter part of 2007 and 2008.

(4) IID revenues are generated from processing applications for listing with the IID and processing annual financial filings from companies listed in the Quarterly Listing of Alien Insurers. The budget is based on 118 filings from companies and Lloyd's Syndicates, four new listings, and two late fees. The increase in budgeted revenues for 2008 is the result of an increase in the number of filings and applications received in 2007.

Securities Valuation Office
Non-Rated Securities Revenues

Product Description	2006 Filing Fee	2007 Filing Fee	2008 Filing Fee	2006 Actual Volumes	Budgeted 2007 Volumes	Projected 2007 Volumes	Projected 2008 Volumes	2006 Actual Revenue	2007 Budgeted Revenue	Projected 2007 Revenue	2008 Budgeted Revenue	Increase (Decrease) from 2007 Budget	Percentage
Corporates													
Corp. Initial Filing Non-Rated	\$ 2,300	\$ 2,600		608	240	400	385	\$ 1,399,216	\$ 624,000	\$ 1,040,000	\$ 1,001,000	\$ 377,000	60.42%
Corp. Annual Update Non-Rated	750	850		2,341	2,530	2,400	2,306	1,755,750	2,150,500	2,040,000	1,960,100	(190,400)	(8.85%)
Corp. Initial Filing NRSAR (Issuer in VOS)	1,000	1,100		841	640	930	836	841,000	704,000	1,023,000	919,600	215,600	30.63%
Foreign Equity	100	125		403	520	600	544	40,300	65,000	75,000	68,000	3,000	4.62%
Domestic Equity	100	125		465	400	420	417	46,500	50,000	52,500	52,150	2,150	4.30%
Municipals													
Municipal Initial Filing Issue Non-Rated	2,300	2,600		48	10	4	24	110,400	26,000	10,400	62,400	36,400	140.00%
Municipal Annual Update Non-Rated	750	850		668	555	495	382	501,500	471,750	420,650	324,700	(147,050)	(31.17%)
Muni. Initial Filing NRSAR (Issuer in VOS)	1,000	1,100		88	49	20	77	88,000	53,900	22,000	84,700	30,800	57.14%
Structured													
Bond CTL Initial Filing	1,000	1,100		29	28	30	31	29,000	30,800	33,000	34,100	3,300	10.71%
Lease CTL Initial Filing	1,000	1,100		42	30	20	36	42,000	33,000	22,000	39,600	6,600	20.00%
Struct. Res. Mortgage-Backed Initial	1,000	1,100		3				3,000					
Structured Annual Update	750	850		44	25	25	24	33,000	21,250	21,250	20,400	0.00%	
Replication Initial Filing (Synthetic Asset)	1,000	1,100		431	310	275	268	431,000	341,000	302,500	294,800	(46,200)	(13.55%)
Structured Initial Filing Non-Rated	1,000	1,100		1	39	27	57	1,000	42,900	29,700	62,700	19,800	46.15%
Structured Initial Filing Rated	200	250		125	83	120	114	25,000	20,750	30,000	28,500	7,750	100.00%
Structured Replication Annual Update Rated	100	125		683	900	800	700	68,300	112,500	100,000	87,500	(25,000)	100.00%
Canadian													
Initial Filing Non-Rated	2,300	2,600		6	2	4	2	4,700	1,700	3,400	1,700		0.00%
Annual Update Non-Rated	750	850											
Canadian Initial NRSAR (Issuer in VOS)	1,000	1,100											
Government													
Government Issuer Not in VOS	2,300	2,600											
Government Annual Update Non-Rated	750	850		7	4	10	4	5,250	3,400	8,500	3,400		0.00%
Government Initial Non-Rated	1,000	1,100		4				4,000					
Totals				6,837	6,365	6,580	6,207	\$ 5,428,916	\$ 4,752,450	\$ 5,233,900	\$ 5,045,350	\$ 293,750	6.18%

BUDGET ITEM: Meetings Registration Fees

Item Description: Fees received from attendees at NAIC National Meetings, net of revenue sharing with the four NAIC Zones and the 14th Annual International Association of Insurance Supervisors (IAIS) Conference and Committee Meeting in 2007.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
National Meetings Registration Fees (1)	\$ 1,909,743	\$ 1,046,379	\$ 2,002,314	\$ 1,941,585	\$ 2,036,003	\$ 94,418	4.86%
National Meeting Revenue Sharing (2)	193,456	52,696	126,036	196,431	129,470	(66,961)	(34.09%)
IAIS Annual Conference (3)			776,600	642,775		(642,775)	(100.00%)
	<u>\$ 2,103,199</u>	<u>\$ 1,099,075</u>	<u>\$ 2,904,950</u>	<u>\$ 2,780,791</u>	<u>\$ 2,165,473</u>	<u>\$ (615,318)</u>	<u>(22.13%)</u>

- (1) National meeting registration fees are projected based on Exhibit R5-One. The registration fees are charged on a multi-tier basis such that early registrations receive a discount and certain incentives are offered to first-time and local attendees. In September 2001, the Internal Administration (EX1) Subcommittee approved the current revenue sharing arrangement with the NAIC Zones. The arrangement distributes 25% of revenues over expenses for each of the NAIC National Meetings, \$153,540 in the 2007 budget and \$129,472 in the 2008 budget, equally to each of the four NAIC Zones. The increase in revenues for 2008 can be attributed to reduced revenue sharing with the Zones as a result of the higher cost to produce national meetings at the selected sites for 2008. Revenue sharing that is to be transferred to the Zone budgets is presented as a reduction to the national meeting revenue line and therefore, a reduction in this offset to national meeting revenues creates an increase in total revenues.
- (2) National meeting revenue sharing represents the transfer of 25% of national meeting revenues over expenses to the four NAIC Zones. As discussed above, an increase in the cost to produce national meetings has decreased revenue share transferred to the Zones.
- (3) The NAIC has been selected to host the International Association of Insurance Supervisors (IAIS) 14th Annual Conference in the United State for 2007. This is a one-time event for the NAIC and will not be included in subsequent budget proposals. Revenues generated through attendee registrations will offset conference expenses.

National Meeting Registrations

Fee	Orlando		San Francisco		Washington, DC		Grapevine		Total	
	Registrants	Total	Registrants	Total	Registrants	Total	Registrants	Total	Registrants	Total
\$ 550	781	\$ 429,550	784	\$ 431,200	788	\$ 433,400	771	\$ 424,050	3,124	\$ 1,718,200
650	166	107,900	167	108,550	167	108,550	164	106,600	664	431,600
275	30	8,250	29	7,975	30	8,250	29	7,973	118	32,450
	977	\$ 545,700	980	\$ 547,725	985	\$ 550,200	964	\$ 538,623	3,906	\$ 2,182,250
275	(17)	(4,675)	(15)	(4,125)	(15)	(4,125)	(14)	(3,850)	(61)	(16,775)
	960	\$ 541,025	965	\$ 543,600	970	\$ 546,075	950	\$ 534,773	3,845	\$ 2,165,473
		(29,648)		(36,456)		(32,591)		(30,777)		(129,470)
		\$ 511,377		\$ 507,144		\$ 513,484		\$ 503,996		\$ 2,036,003

Advance Registration

Registration after 30 Days Prior

First Time, Local Registrants

Subtotal

Cancellations

Total Projected Paid Attendance and Revenues

Zone Revenue Sharing

Total Revenue

2008 attendance projections were determined by taking into consideration location and past attendance.

Prior Year Paid Attendance Statistics:

	Spring		Summer		Fall		Winter	
2007	1,064	New York City	925	San Francisco	890	DC	1,032	Houston
2006	882	Orlando	980	Wash., DC	(cx'l'd)	St. Louis	1,039	San Antonio
2005	838	Salt Lake City	1,059	Boston	564	New Orleans	999	Chicago
2004	819	New York City	950	San Francisco	892	Anchorage	821	New Orleans
2003	877	Atlanta	1,052	New York City	797	Chicago	963	Anaheim
2002	894	Reno	998	Philadelphia	(cx'l'd)	New Orleans	1,076	San Diego
2001	892	Nashville	950	New Orleans	942	Boston	1,105	Chicago
2000	997	Chicago	1,043	Orlando	4,085	Dallas	7,035	Boston
	6,199		7,032					
	846		996		727		1,023	

Average attendance 2004-2006

BUDGET ITEM: Investment Income

Item Description: Interest, dividends, and realized and unrealized gains/losses on the NAIC investment portfolio and cash equivalents.

<u>Description</u>	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Interest Income	\$ 913,589	\$ 592,434	\$ 1,035,171	\$ 920,314	\$ 1,071,080	\$ 150,766	16.38%
Dividend Income	577,821	317,016	790,865	476,848	950,302	473,454	99.29%
Realized Gain/(Loss)	744,584	1,093,399	1,093,399				
Unrealized Gain/(Loss)	1,309,476	374,889	374,889				
Total	\$ 3,545,470	\$ 2,377,738	\$ 3,294,324	\$ 1,397,162	\$ 2,021,382	\$ 624,220	44.68%

(1) The investment policy of the NAIC was approved by the Internal Administration (EX1) Subcommittee in December 2003 and revised in March 2006. The NAIC does not budget for realized or unrealized gains and/or losses in the investment portfolio due to the uncertainty of future fluctuations in capital markets. The budget is based on interest income on the long-term fixed income portfolio and short-term investments as well as dividend income from the equity portfolio. The increase from the 2007 budget is based on experience since the preparation of the 2007 budget in mid-2006 and is related to an improvement in interest rates, an increase in the portfolio value, and a diversification of long-term investments yielding additional dividend income.

It is important to note that the \$1,468,288 in realized and unrealized gains at June 30, 2007 will change based on the overall performance of the capital markets for the remainder of 2007. Because the NAIC does not project market performance, actual results could differ significantly by December 31, 2007.

BUDGET ITEM: Education and Training

Item Description: Revenue from NAIC education programs.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Commissioners Forum	\$ 20,400		\$ 22,000	\$ 22,000	\$ 22,000		0.00%
Insurance Department Staff Education (5)	15,300	11,990	11,990	15,805		(15,805)	(100.00%)
Financial Examiners	20,700	26,360	26,360	21,800	21,800		0.00%
Commissioners Symposium (2)	46,452	41,637	41,637	47,625		(47,625)	(100.00%)
Legal CLE Workshops (4)	22,740		48,375	48,375	39,600	(8,775)	(18.14%)
Regulation For Solvency (4)	10,650		14,370	14,370	13,080	(1,290)	(8.98%)
Surplus Lines Regulation (3)	13,750				11,125	11,125	100.00%
HMO Annual Statement	31,260		26,810	26,810	27,255	445	1.66%
P&C Annual Statement (3)			30,300	30,300		(30,300)	(100.00%)
Advanced Fraud (1)	34,675		23,040	23,040	25,455	2,415	10.48%
Onsite Programs (6)	106,160	16,850	81,250	72,000	72,500	500	0.69%
Market Conduct Examiners Handbook	32,410		27,680	27,680	28,580	900	3.25%
Statutory Accounting Principles (4)	53,425	25,450	25,450	33,890	22,300	(11,590)	(34.20%)
IMR/AVR Online (3)			10,995	10,995		(10,995)	(100.00%)
Online Investment Schedules (4)	37,315		42,215	42,215	40,430	(1,785)	(4.23%)
Online Introduction To Financial Regulation (1)	24,400		17,850	17,850	19,040	1,190	6.67%
Online ISQ Training (1)	6,000		5,445	5,445	7,920	2,475	45.45%
Online Schedule P (1)	15,400		8,925	8,925	15,575	6,650	74.51%
Online Core Legal Issues	7,105		8,850	8,850	8,260	(590)	(6.67%)
Online Reinsurance (1)	22,635		15,990	15,990	19,570	3,580	22.39%
Current Legal Issues (3)	20,250				20,415	20,415	100.00%
Online Health Annual Statement Preparation	33,945		17,490	17,490	17,385	(105)	(0.60%)
Regional Market Conduct Training (4)	15,888	17,335	17,335	18,625	12,535	(6,090)	(32.70%)
Online Financial Regulation & Staff Education (1)	6,750		8,925	8,925	10,710	1,785	20.00%
Online Market Analysis Techniques (4)	12,400		19,800	19,800	12,375	(7,425)	(37.50%)
Statutory Accounting 101 Program (3)	52,860				50,330	50,330	100.00%
Insurance Investment Program (5)	7,513						
SAP Webinars (1)	52,360		40,880	40,880	48,000	7,120	17.42%
Basic Insurance Self Study (1)	22,655	11,880	17,700	14,300	26,400	12,100	84.62%
How to Analyze Insurer Portfolios (4)	5,455	5,925	5,925	8,300	5,925	(2,375)	(28.61%)
How to File Securities with the SVO Online (1)	24,425	7,140	16,065	17,850	24,990	7,140	40.00%
Consumer Assistance Training Online (1)			7,080	7,080	8,850	1,770	25.00%
Model Laws Webinar (1)	7,720		3,200	3,200	7,680	4,480	140.00%
Bundles of Learning		3,450	5,970	5,000	5,000		0.00%
Producer Licensing Online Training (4)	13,200		8,850	8,850	5,015	(3,835)	(43.33%)
Health Insurance Rate Filing Reviews (3)		13,035	13,035	9,875		(9,875)	(100.00%)
Management and Leadership Effectiveness Regulatory Overview of a Principles-Based Valuation System (4)		35,211	35,211	43,600	35,590	(8,010)	(18.37%)
What's Going on with Health Insurance (4)		28,970	28,970	59,000	26,700	(32,300)	(54.75%)
Regulation of Insurance Products Online (4) (7)	11,200	11,090	11,090	11,385	8,415	(2,970)	(26.09%)
Fraud Investigation 101 (9)					11,850	11,850	100.00%
Risk-Based Capital Training (9)					5,900	5,900	100.00%
Professional Designation Program	1,600	5,050	5,050	6,000	7,200	1,200	20.00%
Financial Summit (8)	59,120		58,375	83,500	70,000	(13,500)	(16.17%)
Risk Assessment Training	7,150	14,950	16,250		16,250	16,250	100.00%
Royalty Revenues					15,500	15,500	100.00%
NAIC/NASSA Joint Conference (3)		29,125	29,125	19,000		(19,000)	(100.00%)
E-Regulation Conference (1)	113,725	112,654	112,654	104,990	112,900	7,910	7.53%
Total	\$ 988,993	\$ 418,102	\$ 980,887	\$ 1,013,990	\$ 972,780	\$ (41,210)	(4.06%)

(1) Increased registrations are expected for this program.

(2) Symposiums are held at the request of the NAIC President.

(3) These programs are offered every other year.

(4) Decreased registrations are expected for this program.

(5) These programs will not be offered in 2008 as part of an association-wide review of services.

(6) The NAIC offers insurers the opportunity of holding its Annual Statement Investments Schedules and its Health Annual Statement Preparation programs onsite. The insurer provides the location and participants, the NAIC provides the instructors, materials, and administration of the program for a fee.

(7) This program will be converted from a classroom setting to an online format for 2008.

(8) This program anticipates reduced vendor sponsorship in 2008, based on 2007 actuals.

(9) These are new programs for 2008 (see Fiscal Impact 4).

BUDGET ITEM: Administrative Services/License Fees

Item Description: Revenues received from the services agreements with NIPR and IIPRC.

<u>Description</u>	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Administrative Fees (1)	\$ 5,676,642	\$ 3,185,306	\$ 6,361,378	\$ 6,185,824	\$ 6,648,758	\$ 462,934	7.48%

(1) Administrative Services/License Fees income includes \$6,536,258 for administrative service/license fees from the National Insurance Producer Registry (NIPR) and \$112,500 for administrative service fees from the Interstate Insurance Product Regulation Commission (IIPRC). Pursuant to a services agreement, the NAIC receives 30% of certain NIPR revenues, which represents a license for the NIPR to use the NAIC's producer data. In addition, NAIC receives \$1,000,000 from NIPR and \$112,500 from IIPRC as administrative fees for services, facilities, and equipment provided by the NAIC.

The increase in this line is for the addition of the IIPRC administrative fee and the addition of phase one of a per-transaction usage fee on NIPR transactions processed through the reengineered State Producer License System (SPLR) to help represent NIPR's long-term commitment and support for this system. This increase is offset by a reduction in the 30% revenue share from NIPR as a result of decreases in their product pricing effective July 2007. The 2007 projected variance from budget is the result of NIPR revenues in excess of budget and the addition of the administrative fee with the IIPRC for which the contract was still under negotiation during the preparation of the 2007 budget.

BUDGET ITEM: Other Income

Item Description: Revenues received from other miscellaneous sources.

<u>Description</u>	2006 Actual	6/30/07 Actual	12/31/2007 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Other Income (1)	\$ 394,950	\$ 171,318	\$ 304,370	\$ 292,990	\$ 145,379	\$ (147,611)	(50.38%)

(1) The 2007 budget and projection includes equipment rental payments from NIPR. This arrangement will not carry forward into 2008, thus creating a \$198,166 variance from the 2007 budget. Infrastructure costs will be recouped via a transaction fee with the reengineering of the state producer licensing system as discussed in the Administrative Service/License fee section.

Also included in other income is \$87,875 for charges to vendors with telecommunication links to certain states via the NAIC's State Insurance Technology Enhancement Network, or Frame Relay. This network, established in 1993, will be discontinued in the latter part of 2008 due to a strong decline in the benefits and use of this network in the current technology environment (see Fiscal Impact 5). The strategic management decision will reduce the 2008 revenue from vendors by \$2,445, offset by an estimated \$53,000 from the sale of the equipment used to support this network. As a result of this elimination the NAIC will generate cost savings of more than \$500,000 annually.

BUDGET ITEM: Salaries

Item Description: Includes salary and overtime for all NAIC employees.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Salaries - Existing Employees (1)	\$ 26,697,422	\$ 14,492,260	\$ 29,571,393	\$ 30,188,251	\$ 31,591,617	\$ 1,403,366	4.65%
Turnover Factor (2)				(478,857)	(511,973)	(33,116)	6.92%
Salaries - New Employees (3)					102,190	102,190	100.00%
Salaries - Promotions & Adjustments (4)			140,150	145,373	315,912	170,539	100.00%
Secondment (5)					225,000	225,000	100.00%
Overtime (6)	79,908	39,907	64,048	53,205	53,406	201	0.38%
Total	\$ 26,777,330	\$ 14,532,167	\$ 29,775,591	\$ 29,907,972	\$ 31,776,152	\$ 1,868,180	6.25%

(1) The NAIC bases its annual salary increase on national salary surveys such as the William Mercer Compensation Planning Survey and the World at Work Salary Budget Survey. The World at Work survey shows 2008 salary increases to be budgeted at 3.9% and advanced data from Mercer and Hewitt indicate increases in the 3.8% to 3.9% range. Though slightly lower than these indicators, the NAIC is comfortable with the 3.7% increase from the previous year. The remaining 0.95% of the increase is for the adjustment of positions added throughout 2007 to a full year of salary. Salaries are under budget in 2007 due to a high number of vacancies, some of which were open for longer than the average seven week duration in the higher salary ranges. As of June 30, 2007 the NAIC has 423.5 approved full-time equivalent positions assigned to the following functions.

Technology Systems and Support	130.0
Business Operations	58.5
Services to Members	28.0
Financial Solvency Services	93.0
Market Regulatory Services	43.0
Products and Services	74.0
Total Headcount	426.5

- (2) The turnover factor anticipates a turnover percentage of 12% with an average vacancy duration of seven weeks. This reflects no change from the 2007 budget.
- (3) The proposed 2008 budget includes three new staff positions, one secondee to the IAIS as discussed below (see Fiscal Impact 1) and two to enhance the support services provided to members by the NAIC's Market Regulation Division (see Fiscal Impact 2).
- (4) The NAIC began using a promotions and adjustments line equal to 1% of salaries in 2007 for the purpose of attracting and retaining qualified individuals for employment with the NAIC. While the NAIC's annualized employee turnover rate for 2006 was only 12.8%, separations resulting from growth and opportunity and compensation base exceeded 21%. As of mid-2007 the rate of separations tied to growth and opportunity has increased to 28%. This rate of turnover has begun to affect the completion of projects and initiatives due to the loss of continuity in the project and the amount of management time consumed by the hiring process. Given the current job market and the unique qualifications required by the NAIC for the majority of positions, it continues to be difficult to fill valuable positions at current NAIC salary rates. In the past, the NAIC has been able to manage increases for top performers and hard to fill positions, it continues to find skill sets, but this practice has depleted all availability within the current salary allocation process. The Association has stayed within budget while giving these increases due to high turnover. The ability to grant promotions and adjustments will give the NAIC an advantage in the market place and reduce turnover while retaining valuable resources.
- (5) The 2008 budget contemplates funding to support an NAIC Secondee to the International Association of Insurance Supervisors (IAIS) (see Fiscal Impact 1). This arrangement will allow the NAIC to play an important role in the IAIS Secretariat by improving the administration and transparency of the organization and ensuring the proper representation of US interests in IAIS activities.
- (6) The 2007 projected amount is a reflection of the amount of overtime required to support NAIC functions, but efforts will continue to control and reduce overtime hours in 2008.

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Salaries - Existing Employees (1)	\$ 8,239,339	\$ 6,042,866	\$ 1,429,862	\$ 8,247,375	\$ 3,029,758	\$ 4,602,417
Turnover Factor (2)	(133,096)	(97,609)	(23,097)	(133,228)	(50,594)	(74,349)
Salaries - New Employees (3)					102,190	
Salaries - Promotions & Adjustments (4)		315,912				
Secondment		225,000				
Overtime (6)	20,246	1,580	24,984	800		5,796
Total	\$ 8,126,489	\$ 6,487,749	\$ 1,431,749	\$ 8,114,947	\$ 3,081,354	\$ 4,533,864

BUDGET ITEM: Temporary Personnel

Item Description: Fees paid to outside agencies and wages paid to interns for additional personnel during peak work periods.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Annual Database Project (1)	\$ 63,166	\$ 38,747	\$ 59,303	\$ 70,000	\$ 8,464	\$ (61,536)	(87.91%)
National Meetings (2)	66,270	27,786	71,762	84,573	90,447	5,874	6.95%
Interns (3)	344,408	187,190	377,557	373,480	394,230	20,750	5.56%
Other (4)	62,652	12,693	21,093	23,605	20,590	(3,015)	(12.77%)
Total	\$ 536,496	\$ 266,416	\$ 529,715	\$ 551,658	\$ 513,731	\$ (37,927)	(6.88%)

- (1) The annual database project expense includes temporary services support of the annual and quarterly financial filings; specifically, the receipt, logging and filing of these statements. The 2007 variance is based on efficiencies gained through automation. The significant decrease in 2008 is related to the elimination of the collection of hard-copy annual statements (see Fiscal Impact 6).
- (2) Temporary resources at the national meetings are used for security and door monitoring. The 2007 variance from budget is attributable to cost saving measures applied at the national meetings. The 2008 budgeted amount is calculated based on the site location, hotel configuration, and bids secured for those sites.
- (3) The NAIC will continue its internship program in 2008, to help find qualified, temporary resources, in a competitive marketplace. Some of the projects that are slated for intern assignment are system upgrade testing; Web development; customer support; special projects; product development; help desk assistance; and legal research. The use of interns allows for more stability and continuity and has been a very successful program for the NAIC with respect to identifying and retaining qualified candidates for full-time positions. The increase in this line is based on utilization of these resources.
- (4) Temporary personal is budgeted to provide additional resources during brief periods of increased demand.

2008 Budget by Function

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Annual Database Project (1)	\$ 8,464					
National Meetings (2)			\$ 90,447			
Interns (3)		\$ 394,230				
Other (4)		11,500		\$ 2,250		\$ 6,840
Total	\$ 8,464	\$ 405,730	\$ 90,447	\$ 2,250	\$ -	\$ 6,840

BUDGET ITEM: Payroll Taxes

Item Description: FICA and unemployment compensation costs incurred for all NAIC employees and interns.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
FICA (1)	\$ 1,885,111	\$ 1,144,012	\$ 2,126,508	\$ 2,123,752	\$ 2,223,804	\$ 100,052	4.71%
FICA Turnover (2)				(36,427)	(35,932)	495	(1.36%)
Unemployment Compensation (3)	89,474	73,976	77,645	76,411	77,134	723	0.95%
Total	\$ 1,974,585	\$ 1,217,988	\$ 2,204,153	\$ 2,163,736	\$ 2,265,006	\$ 101,270	4.68%

- (1) The increase in FICA is related to a projected increase in the FICA wage base, the increase in total salaries projected for the NAIC, and the addition of three staff positions in 2008.
- (2) The turnover factor that is applied to salaries is also applied to the taxes related to those salaries.
- (3) Unemployment compensation has been budgeted on the first \$11,000 of each individual salary in Missouri and the first \$9,000 in Washington, D.C. New York unemployment compensation is paid as claims are filed.

2008 Budget by Function

Description	Technology Systems and and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
FICA (1)	\$ 614,686	\$ 394,465	\$ 109,396	\$ 551,718	\$ 220,873	\$ 332,666
FICA Turnover (2)	(9,931)	(6,382)	(1,765)	(8,912)	(3,566)	(5,376)
Unemployment Compensation (3)	23,981	19,420	4,834	8,738	6,031	14,130
Total	\$ 628,736	\$ 407,503	\$ 112,465	\$ 551,544	\$ 223,338	\$ 341,420

BUDGET ITEM: Employee Benefits

Item Description: Includes all pension, life and health insurance costs paid by the NAIC for its employees.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Pension (1)	\$ 3,805,765	\$ 1,947,600	\$3,458,203	\$ 3,478,707	\$ 3,683,776	\$ 205,069	5.89%
Health Benefits (2)	1,685,668	917,810	1,893,054	1,890,026	1,969,122	79,096	4.18%
Group Life and Disability (3)	151,878	84,815	167,015	182,584	193,008	10,424	5.71%
Employee Relations (4)	196,169	62,394	140,264	126,300	143,876	17,576	13.92%
Total	\$ 5,839,480	\$ 3,012,619	\$ 5,658,536	\$ 5,677,617	\$ 5,989,782	\$ 312,165	5.50%

- (1) The net periodic pension cost for the defined benefit plan is based on actuarial assumptions and is calculated for the NAIC by an independent actuarial consulting firm. The projected cost for this plan will decrease by \$21,000 in 2008 while fees paid for the actuarial services will increase by \$33,000. This fee increase, deemed necessary by the NAIC Audit Committee in mid-2007, is for the engagement of a different firm and an in-depth review of the underlying assumptions in this fund. A defined contribution plan to which the NAIC makes a 2% discretionary match of each employee's annual salary and matches an employee's contribution up to 3.5% is budgeted to increase \$144,000 based on staffing additions in 2007 and budgeted salary increases in 2008.
- (2) Employee health benefits are based upon current employees and their benefit selections. The increase in expense for 2008 is due to a 5% premium increase slated for the August 2008 renewal period based on the current claims to premium ratio and the addition of three staff positions in 2008.
- (3) Group life and disability benefits are based upon current employees. The increase in 2008 is related to a small change in disability benefits, an increase in business travel coverage for employees, and the addition of three staff positions in 2008.
- (4) Employee relations includes performance recognition programs, incidental employee functions, such as Employee Appreciation Week, and the annual holiday party. The 2007 projection reflects an increase in the utilization of the performance recognition programs. The 2008 budget includes this utilization increase and a slight increase in the maintenance costs of these programs.

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Pension (1)		\$ 3,683,776				
Health Benefits (2)		1,969,122				
Group Life and Disability (3)		193,008				
Employee Relations (4)		135,856		\$ 5,620	\$ 2,400	
Total	\$ -	\$ 5,981,762	\$ -	\$ 5,620	\$ 2,400	\$ -

BUDGET ITEM: Employee Development

Item Description: Includes fees for seminars, training courses and professional association memberships paid by the NAIC.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Education Reimbursements (1)	\$ 38,428	\$ 18,912	\$ 44,217	\$ 53,446	\$ 46,033	\$ (7,413)	(13.87%)
Professional Training (2)	253,114	138,144	302,422	306,293	315,785	9,492	3.10%
Professional Association Dues (3)	209,296	220,902	240,675	222,352	259,568	37,216	16.74%
Total	\$ 500,838	\$ 377,958	\$ 587,314	\$ 582,091	\$ 621,386	\$ 39,295	6.75%

- (1) Educational reimbursements carry an annual cap per employee, are only available to those employees who are actively pursuing college degrees or professional designations, and only apply toward tuition for those courses that specifically relate to and enhance the employee's job responsibilities. The 2007 variance reflects fewer reimbursements than anticipated in the 2007 budget. This trend is a factor of the 2008 budget.
- (2) Professional training represents the registration fees for professional seminars, trade workshops, and education programs attended by NAIC employees. The increase in the 2008 budget is related to the staff additions in the SERFF and SBS areas in 2007 and the need for the acquisition of additional skill sets for staff dedicated to the state producer licensing reengineering project.
- (3) Professional association dues include \$177,000 for the NAIC's annual membership in the International Association of Insurance Supervisors (IAIS), representing an increase of \$15,400 over the dues paid in 2007 and \$28,300 over the 2007 budget. The budget also includes employee memberships in various professional associations, such as the American Society of Association Executives, American Bar Association, local and state bar associations, the American Institute of Certified Public Accountants, and state CPA associations, among others.

2008 Budget by Function Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Education Reimbursements (1)	\$ 8,400	\$ 5,271	\$ 3,360	\$ 8,405	\$ 9,800	\$ 10,797
Professional Training (2)	129,942	31,889	18,419	33,570	32,282	69,683
Professional Association Dues (3)	5,184	221,458	6,760	10,570	11,499	4,097
Total	\$ 143,526	\$ 258,618	\$ 28,539	\$ 52,545	\$ 53,581	\$ 84,577

BUDGET ITEM: Professional Services

Item Description: Fees paid to outside consultants for legal, actuarial, information technology, and other consulting services.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Legal (1)	\$ 82,011	\$ 101,157	\$ 146,157	\$ 90,000	\$ 120,008	\$ 30,008	33.34%
Accreditation Team (2)	467,503	304,682	637,752	621,110	765,610	144,500	23.26%
Other Professional Services (3)	1,999,525	1,261,303	2,459,900	2,743,346	2,079,827	(663,519)	(24.19%)
Total	\$ 2,549,039	\$ 1,667,142	\$ 3,243,809	\$ 3,454,456	\$ 2,965,445	\$ (489,011)	(14.16%)

- (1) The outside counsel budget reflects anticipated legal expenses to assist the Legal Division in the following: (1) needed expertise to assist in complex and specialized regulatory issues, (2) litigation and subpoenas, (3) labor and employment issues, (4) corporate matters relating to contracts, tax, and benefits, and (5) amicus briefs filed at the request of NAIC members. The overage in 2007 is related to an increase in rates charged by outside counsel and an increase in the need for outside consultation on several intellectual property and employment issues. The 2008 budget reflects the increased rate charged for legal services.
- (2) In June 1990, the Internal Administration (EX1) Subcommittee authorized the NAIC to compensate independent teams who conduct reviews of insurance departments seeking accreditation under the NAIC Financial Regulation Standards and Accreditation program. The budget is composed assuming the number of examinations to be conducted, which fluctuates from year to year. The 2008 budget assumes 13 states undergoing full reviews, compared to 11 reviews in 2007; 13 states undergoing prereviews, down from 14 in 2007, and three states undergoing rereviews, up one from 2007. This line also includes funding for an annual training session, hosted for the independent team members, to discuss program guidelines, standards, review team practices, and changes to the program and NAIC tools that the states use to comply with the program. The increase in the budget for 2008 is due to an increased number of full reviews, additional hours to cover the New York Part B review, and the possible expense to translate Puerto Rico work papers to English.

- (3) The 2008 budget for other professional services includes: (1) \$106,950 in fees for the administration, lease, and oversight of the co-location facility and services; (2) \$109,000 in consulting for technology performance monitoring and validation, all budgeted in the technology systems and support areas.

In business operations the 2008 budget includes: (1) \$250,850 in service fees to the NAIC's investment managers and advisor; (2) \$36,600 in annual financial statement audit fees; (3) \$59,200 in banking fees; (4) \$13,950 in facility services; and (5) \$42,000 for the NAIC's insurance broker.

Another concentration of professional services expense (1) \$542,500 in public relations consulting services to support consumer awareness and education media campaigns; (2) \$32,800 in professional keynote speaker fees for the NAIC National Meetings, all budgeted under services to members; and (3) \$152,000 to support the federal liaison activities of the Government Affairs (EX) Task Force, in the market regulatory services area.

Finally, the 2008 budget includes (1) \$38,800 in consulting services to enhance systems used by the Securities Valuation Office; (2) \$29,968 in services fees to the editor of the Journal of Insurance Regulation; (3) \$25,000 in consulting services for Interstate Insurance Product Regulation Commission (IIPRC) requested enhancements to SERFF per the services agreement; (4) \$37,089 in royalty payments related to the SERFF Programming Interface (SPI) development; and (5) \$548,000 for State Based Systems state implementation, budgeted Products and Services areas.

2008 Budget by Function Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Legal (1)		\$ 120,008				
Accreditation Team (2)		765,610				
Other Professional Services (3)	\$ 229,598	405,414	\$ 603,885	\$ 2,000	\$ 155,495	\$ 683,435
Total	\$ 229,598	\$ 1,291,032	\$ 603,885	\$ 2,000	\$ 155,495	\$ 683,435

BUDGET ITEM: Computer Services

Item Description: Fees paid to outside providers for computer processing, payroll processing, credit card processing, and SVO security data feeds.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	Percentage
	Actual	Actual	Projected	Budget	Budget	(Decrease)	
Database Network (1)	\$ 855,626	\$ 385,754	\$ 909,471	\$ 908,228	\$ 850,429	\$ (57,799)	(6.36%)
SVO (2)	509,258	187,763	477,473	467,223	459,775	(7,448)	(1.59%)
Credit Card Fees (3)	143,985	110,828	146,197	164,983	89,945	(75,038)	(45.48%)
Other (4)	390,729	217,971	514,842	311,864	188,688	(123,176)	(39.50%)
Total	\$ 1,899,598	\$ 902,316	\$ 2,047,983	\$ 1,852,298	\$ 1,588,837	\$ (263,461)	(14.22%)

- (1) Database Network expenses represent: (1) the cost and maintenance of frame relay circuits to all state insurance departments; (2) Internet connectivity; (3) SVO/DC backup circuits; (4) data teleconferencing; and (5) backend connectivity for data replication and synchronization between the NAIC's co-location site and the Executive Headquarters data center in Kansas City. The decrease in 2008 is related to the elimination of the telecommunications connection or State Insurance Technology Enhancement Network. Established in 1993, this frame relay network will be discontinued in the latter part of 2008 due to a strong decline in the benefits and use of this network in the current technology environment (see Fiscal Impact 5). The strategic management decision will generate cost savings of more than \$500,000 annually. This decrease is partially offset by additional expense in 2008 to increase connectivity speed between the NAIC headquarters and the co-location site to afford real time fail over to like kind equipment. While this move is necessary in light of the state producer licensing reengineering project it also generates savings in maintenance cost by reducing the number of pieces of equipment necessary to support this function.
- (2) SVO expense represents the purchase of NRSRO rating data feeds used to provide assistance in the rating of securities, including municipal bond pricing, corporate bond pricing, Bloomberg, Moody's and CUSIP. These data feeds are also used to populate the AVS database with NRSRO ratings for use by AVS customers in preparing certain investment schedules. The continued decrease from this expense is based on extensive annual analysis of these services and their value to the association.
- (3) Credit card fees include the cost charged by vendors and banks to settle credit card transactions and deposit the funds in the NAIC bank account. The proposed decrease in 2008 relates to the business decision to push external transactions through NIPR rather than SBS interfaces. The variance from budget in 2007 is related to decreased revenue generation through SBS.
- (4) Other expenses for the 2008 budget include a subscription to an independent technology and market research company that provides research and advice in the area of business technology (\$30,000); cost of outsourcing the preparation of NAIC's payroll (\$27,936); fees for processing online registrations for national meetings (\$12,434); CUSIP and ISID royalty payments (\$103,462); and FOLIO royalty payments (\$11,604). These royalties are paid as a result of NAIC sales of products that leverage CUSIP, ISID, and FOLIO data and/or technology. The 2007 activity includes maintenance fee royalty payments to the SBS business partner and is projected to exceed budget as a result of the buyout of the agreement with this business partner.

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Database Network (1)	\$ 850,429					
SVO (2)				\$ 459,775		
Credit Card Fees (3)		\$ 1,440	\$ 37,212			\$ 51,293
Other (4)	30,000	31,188	12,434			115,066
Total	\$ 880,429	\$ 32,628	\$ 49,646	\$ 459,775	\$ -	\$ 166,359

BUDGET ITEM: Travel

Item Description: Includes airfares, lodging, meals, and incidental travel expenses incurred by the NAIC staff, commissioners and their representatives, and funded consumer representatives.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Staff Travel (1)	\$ 859,131	\$ 426,857	\$ 925,707	\$ 749,076	\$ 958,548	\$ 209,472	27.96%
Non-Staff Travel (2)	169,754	45,277	188,126	205,924	198,278	(7,646)	(3.71%)
Staff Travel-Sales & Marketing (3)	103,414	51,667	124,701	96,517	127,754	31,237	32.36%
National Meetings Travel (4)	62,455	28,085	71,709	86,161	69,752	(16,409)	(19.04%)
Commissioner Travel (5)	588,427	315,977	390,977	352,710	445,928	93,218	26.43%
International Travel (6)	563,612	196,840	389,874	441,907	483,259	41,352	9.36%
Consumer Funding (7)	69,300	45,241	83,241	86,880	86,880		0.00%
Total	\$ 2,416,093	\$ 1,109,944	\$ 2,174,335	\$ 2,019,175	\$ 2,370,399	\$ 351,224	17.39%

- Staff travel includes travel to NAIC meetings for committee staff support, interim committee meetings, NAIC education programs, state visits, and staff travel to professional seminars and training programs. The majority of the increase in staff travel for the 2007 projection (\$113,445) and the 2008 budget (\$184,336) relate to travel by the SBS team for to state implementations, requirements gathering site visits, and the incorporation of SBS Education Days at each state where producers are invited to come to the state to learn more about the services offered by SBS.
- The non-staff travel budget includes \$84,590 for travel expenses for international regulators as part of the international internship program, \$10,280 for SBS Product Steering Committee meetings, \$11,000 for the Internal Administration (EX1) Subcommittee Retreat, \$20,760 for SERFF Product Steering Committee meetings, \$7,500 for the annual Public Information Officer (PIO) Forum, \$19,200 for hosting SVO Oversight Working Group meetings at the Securities Valuation Office in New York, and \$12,350 for costs associated with working group support for the Financial Regulatory Services Division. The remainder is related to general non-staff travel in the other divisions of the NAIC.
- Sales and marketing travel represents travel and trade show expenses related to the sale of NAIC publications, insurance data products, SERFF, and SBS. The increases in 2007 and 2008 are related to an increase in marketing and promotional activity related to SBS, and includes promotional items to commemorate the fifth anniversary of this product.
- Travel cost for administrative support staff at national meetings. The decreases in 2007 and 2008 are related to the negotiation of additional complementary room nights that have been assigned to this area.
- This line includes: (1) \$118,500 for commissioner travel for such events as Congressional testimony and speaking engagements; (2) \$147,345 to sponsor regulator attendance at the 2008 NAIC E-Regulation Conference; (3) \$128,872 to sponsor regulator attendance at the 2008 Commissioners Conference; and (4) \$31,500 to sponsor one PIO's attendance from each state at the annual NAIC PIO Forum; (4) \$11,000 for expenses for the annual Internal Administrative (EX1) Subcommittee Retreat, and (5) \$13,395 for expenses for the annual SBS Product Steering Committee Summit.

The E-Regulation Conference sponsorship represents three of four regulator attendees sponsored in 2008. The NAIC budget includes sponsorship for one regulator for the general IT track, one regulator for a market regulation track, and one regulator for the rate and form filing track. The NIPR budget includes sponsorship for one regulator for the producer licensing track. This sponsorship level is consistent with previous budgets. The variance from the 2007 budget is due to the additional funding in the areas of Congressional testimony and speaking engagements, NAIC Officer engagements, attendance at the Commissioners Conference, and the addition of the SBS Product Steering Committee Summit. The 2006 balance include hurricane assistance that is not included in subsequent years.
- International travel includes \$200,000 for regulator travel to activities such as the International Association of Insurance Supervisors (IAIS), the Organization for Economic Cooperation and Development (OECD), the International Accounting Standards Board (IASB), and the Joint Forum, among others. The remainder is for NAIC staff travel to support regulators during these events. The budget for 2008 was prepared to accommodate increased participation in the international financial arena, specifically insures contract reserve accounting and general solvency oversight, as progress on several important position papers is expected.
- The consumer funding budget is allocated to sponsor national meeting and interim meeting travel and participation in conference calls for the NAIC's funded consumer representatives and luncheons for the NAIC Consumer Board of Trustees. Consistent with 2007, the travel budget is allocated at \$5,000 for each of the 16 funded consumer representatives, with an additional \$6,880 to cover the general cost of conference calls and luncheons.

Description	Technology		Services to Members	Financial		Market		Products and Services
	Systems and Support	Business Operations		Solvency Services	Regulatory Services			
Staff Travel (1)	\$ 93,018	\$ 181,479	\$ 87,757	\$ 117,527	\$ 193,019	\$ 285,748		
Non-Staff Travel (2)	870	22,000	7,500	31,550	92,266	44,092		
Staff Travel-Sales & Marketing (3)						127,754		
National Meetings Travel (4)			69,752					
Commissioner Travel (5)		439,612			6,316			
International Travel (6)		213,500		177,449	92,310			
Consumer Funding (7)					86,880			
Total	\$ 93,888	\$ 856,591	\$ 165,009	\$ 326,526	\$ 470,791	\$ 457,594		

BUDGET ITEM: Analyst Team

Item Description: Includes certain salaries and travel expenses paid for the annual team of analysts to support the NAIC's Analyst Team System project.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Expenses (1)	\$ 43,346	\$ 38,679	\$ 40,229	\$ 48,504	\$ 43,361	\$ (5,143)	(10.60%)
Transportation (1)	22,085	22,687	24,187	22,835	19,550	(3,285)	(14.39%)
Salaries (1) (2)	13,749	12,936	14,406	16,170	16,006	(164)	(1.01%)
Total	\$ 79,180	\$ 74,302	\$ 78,822	\$ 87,509	\$ 78,917	\$ (8,592)	(9.82%)

- (1) The Analyst Team System expenses represent expenses for up to 14 analysts for two sessions, as well as a minor amount of miscellaneous expenses. The decrease in expense for 2007 is related to fewer than anticipated participants needed for the third and fourth week of the project due to improved financial results of insurers.
- (2) The salaries expense represents the salaries paid for analysts from those states that require salary reimbursement for analysts participating in the Analyst Team System project. The salaries are reimbursed at a rate not to exceed the Senior Insurance Examiner CFE rate. The decrease in the 2007 budget is based on the reduction of three analysts salaries in 2007.

2008 Budget by Function

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Expenses (1)				\$ 43,361		
Transportation (1)				19,550		
Salaries (1) (2)				16,006		
Total	\$ -	\$ -	\$ -	\$ 78,917	\$ -	\$ -

BUDGET ITEM: Occupancy

Item Description: Includes all rent, building maintenance fees, cleaning and warehouse fees incurred by the three NAIC offices.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	Percentage
	Actual	Actual	Projected	Budget	Budget	(Decrease)	
Rent (1)	\$ 4,079,105	\$ 2,107,395	\$4,235,186	\$ 4,254,378	\$ 4,303,928	\$ 49,550	1.16%
Utilities & Parking (2)	458,824	226,830	521,650	466,504	496,155	29,651	6.36%
Warehouse	81,687	45,290	86,051	89,662	86,000	(3,663)	(4.08%)
Total	\$ 4,619,616	\$ 2,379,515	\$ 4,842,887	\$ 4,810,544	\$ 4,886,083	\$ 75,539	1.57%

- (1) Currently base rent for the Kansas City leasehold is \$285,866 monthly for a 132,518 square foot office space at 2301 McGee Street (\$25.88 per square foot average) with a lease expiration of January 31, 2012. This leasehold was expanded in May 2007 to include an additional 5,952 square feet on the 5th floor of 2301 McGee to support affiliate growth.

In July 2004, the SVO relocated to a new office space at 48 Wall Street. Base rent is \$43,362 monthly for a 18,726 square foot office space (\$27.79 per square foot average) and the lease expires in July 2014. With the relocation of the New York office to the financial district after the destruction of 7 World Trade Center on September 11, 2001, the NAIC has benefited from several incentive, credit, and abatement programs including:

- **Industrial and Commercial Incentive Program** - This program offers an exemption from additional real estate assessments for capital improvements. The NAIC was accepted for this rebate program and reflects reduced rent expense for the SVO leasehold.
- **World Trade Center Small Firm Attraction and Retention Grant Program** - This program offered \$5,000 per employee to assist in the payment of salaries. One half available 30 days after taking occupancy and the remainder payable 18 months later. The payment of the first half of this program, \$97,500, was earned in 2004 and the second half in 2006. These amounts were shown as reductions to salary expense.
- **Lower Manhattan Commercial Revitalization Program** - This program offers a real property tax abatement for five years. This has benefitted the NAIC in the form of reduced operating costs charged by the landlord. The first abatement was received in February 2005.
- **Lower Manhattan Energy Program** - This program represents 12 years of electrical usage rebates equal to 30% for years 1-8, 24% for year 9, 18% for year 10, 12% for year 11, and 6% for year 12. The landlord was accepted for this incentive program and began passing the applicable exemptions to the NAIC in the form of reduced operating costs in late 2005.

Base rent for the Washington, D.C. office space in the Hall of the States is \$28,801 monthly for a 7,212 square foot office space (\$47.92 per square foot). The current lease expires in January 2014.

In accordance with Generally Accepted Accounting Principles (GAAP), the total cost of each lease is spread evenly throughout the life of the lease. The annual budget amount is arrived at by calculating the total cost of the lease including scheduled increases in rental payments and dividing that by the number of years covered by the lease.

Fluctuations in amounts charged to the NAIC for annual operating expenses for these three leaseholds cause the variance in 2007. The 2008 budget increase relates to a full year of operating cost on the additional square footage for the Kansas City leasehold and increases in operating costs for the Washington, D.C. office space.

- (2) The increase in 2008 is related to the additional square footage for the Kansas City leasehold and an increase in parking costs due to the additional staff in mid-2007, the addition of three staff positions in 2008, and an increase in the number of interns for 2008.

2008 Budget by Function

Description	Technology	Business	Services to	Financial	Market	Products
	Systems and Support	Operations	Members	Solvency Services	Regulatory Services	and Services
Rent (1)		\$ 3,445,092		\$ 475,544	\$ 383,292	
Utilities & Parking (2)	\$ 75	338,603	\$ 520	143,577	13,380	
Warehouse	10,120	43,525	250	300	600	\$ 31,204
Total	\$ 10,195	\$ 3,827,220	\$ 770	\$ 619,421	\$ 397,272	\$ 31,204

BUDGET ITEM: Equipment Rental and Maintenance

Item Description: Rental and maintenance fees for office equipment, hardware, and software, including personal computers, printers, copiers, etc.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Equipment Rental (1)	\$ 327,676	\$ 151,159	\$ 211,058	\$ 246,724	\$ 201,701	\$ (45,023)	(18.25%)
National Meeting Equipment Rental	4,320	644	\$4,612	5,920	3,936	(1,984)	(33.51%)
Equipment, Hardware & Software Maintenance (2)	1,896,068	1,055,294	2,090,097	2,261,637	2,552,233	290,596	12.85%
Total	\$ 2,228,064	\$ 1,207,097	\$ 2,305,767	\$ 2,514,281	\$ 2,757,870	\$ 243,589	9.69%

- (1) Equipment rental includes the cost to rent copiers for the NAIC copy centers and certain computer equipment and other rentals where a capital purchase is not as cost effective. The decrease in expense for 2008 is related to the continued return of leased computer equipment due to technology and application upgrades and the replacement of leased copiers with purchased machinery.
- (2) Equipment, hardware and software maintenance includes maintenance on hardware, software, and other equipment owned or rented by the NAIC. The NAIC generally secures maintenance and service agreements on the office equipment, hardware and software that have exceeded the initial warranty period when the cost and risk of equipment failures exceeds the cost of the service agreement. Examples of such include copiers, printers, computer hardware (e.g., routers, switches, servers, etc.) and support agreements for heavily used software products, among others. The increase is due to maintenance needed to support proposed 2008 projects, enhancements, and capital purchases, offset slightly by maintenance on equipment planned for retirement in 2008. The 2007 variance is the result of delays in 2007 capital spending, which in turn delay related maintenance expenditures.

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Equipment Rental (1)	\$ 8,100	\$ 169,173	\$ 767	\$ 19,975	\$ 3,384	\$ 302
National Meeting Equipment Rental			3,936			
Equipment, Hardware & Software Maintenance (2)	2,358,247	193,086			900	
Total	\$ 2,366,347	\$ 362,259	\$ 4,703	\$ 19,975	\$ 4,284	\$ 302

BUDGET ITEM: Depreciation and Amortization

Item Description: Includes depreciation for all furniture and equipment owned as of June 30, 2007 with projected purchases through December 31, '2007, and depreciation for budgeted 2008 capital outlays.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Depreciation (1)	\$ 2,774,216	\$ 1,460,257	\$3,262,575	\$ 3,476,450	\$ 3,570,166	\$ 93,716	2.70%
Amortization (2)	1,138,909	665,486	1,376,979	1,388,256	1,385,754	(2,502)	(0.18%)
Total	\$ 3,913,125	\$ 2,125,743	\$ 4,639,554	\$ 4,864,706	\$ 4,955,920	\$ 91,214	1.88%

- (1) Depreciation is calculated on a straight-line basis over the useful life of the capital assets owned by the NAIC, which is five years for furniture and equipment, three years for computer hardware and software, and three years for personal computers. The decrease in expense in 2007 is due to delays in capital spending during 2007. The 2008 budget includes additional purchases for the state producer licensing reengineering project.
- (2) Amortization is also computed on a straight-line basis for those capitalized assets such as leasehold improvements and consulting services on major computer application projects and system upgrades. The useful lives of these assets are approximately ten years, but are assigned to specific assets based on each asset's useful life.

The projection of 2007 capital expenditures will be under the 2007 budget. The furniture and equipment variance stems from the completion of the 5th floor build out of the Kansas City leasehold at a significant cost savings, while the computer software underage is the result of the negotiation of a favorable discount for software license purchases.

See Exhibit E12-One and Exhibit E12-Two for details of proposed capital purchases with a unit cost \$25,000 or greater.

Budget Requests:	2008 Budget	Depreciation Expense	2007 Budget	2007 Projection
Furniture and Equipment	\$ 10,400		\$ 473,856	\$ 297,408
Computer Hardware	1,085,948		2,794,903	2,790,996
Computer Software	631,100		2,448,335	2,372,841
Total Requests	<u>\$ 1,727,448</u>	\$ 454,952	<u>\$ 5,717,094</u>	<u>\$ 5,461,245</u>
Depreciation on Prior Year Purchases		<u>3,115,214</u>		
Total Depreciation		<u>\$ 3,570,166</u>		

Budget Requests:	2008 Budget	Amortization Expense	2007 Budget	2007 Projection
Leasehold Improvements			\$ 342,905	\$ 320,940
Consulting			1,371,032	1,368,677
Total Requests	<u>\$ -</u>	\$ -	<u>\$ 1,713,937</u>	<u>\$ 1,689,617</u>
Amortization on Prior Year Expenditures		<u>1,385,754</u>		
Total Amortization		<u>\$ 1,385,754</u>		

2008 Budget by Function Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Depreciation (1)		\$ 3,384,458				\$ 185,708
Amortization (2)		1,202,999				182,756
Total	\$ -	\$ 4,587,456	\$ -	\$ -	\$ -	\$ 368,464

**2008 Proposed Capital Expenditures
Unit Cost \$25,000 or Greater**

Maintaining the technical infrastructure falls into four primary categories (cost or labor saving, technology trend, useful life, and high availability or disaster recovery). A technology trend is not as obvious as the other three areas. A technology trend is a project that would increase the usability of NAIC data to business partners (e.g., separation of business rules from code) or that addresses a current issue (e.g., security). Frequently the definition of whether an asset has reached its useful life or needs to be replaced due to cost or labor savings is subjective. In many cases a useful life decision results in a cost savings in the technology arena.

Cost/Labor Saving

- **NetMRI Appliance – 6000 Ports (\$25,000)** – This line item represents the cost of a network appliance that detects issues for a range of technologies and applications, including routing, subnets, Voice over IP (VoIP), and Virtual Local Area Network (VLANs). The NetMRI appliance takes configuration, performance, security, compliance and change into consideration when performing its analysis and generates a high-level Scorecard showing overall network performance.
- **CSM Module for Co-Location (\$51,994)** – This cost represents a new content switching module for the core switch at the co-location facility and a shelf spare for the headquarters to minimize downtime. The co-location switch module is required to load balance internal network traffic across multiple servers in the event of a network outage at the headquarters location. These spare modules will be used to reduce downtime if the NAIC loses one of the production modules. Failure of a production module at the headquarters or co-location results in a complete loss of web presence for that location. Current replacement time would be next business day.
- **Integration Schema in DVLP (\$29,819) (\$2,631)** – Currently, applications in the integration environment access one of the quality assurance databases. The integration environment is generally used for business user acceptance testing, which occurs after the development team has completed their testing and prior to the application being submitted for quality assurance (QA) testing.

The Security Framework initiative restricts developers from promoting code to the QA environment and requires a reduced level of authority in QA. In the future code/applications will point to an integration schema within the develop (Dvlp) database. This request is for storage to build the integration schema because there are multiple code iterations in process in develop schemes and occasions when database objects are modified during the development process. These modifications could in turn “break” the integration code.

An integration schema will require that some applications be modified to support this new environment. The estimated cost to create a separate database versus a schema is \$107,540.

- **Legacy Servers – SBS (\$24,000) (\$25,000)** – The State Based Systems (SBS) application is currently in the process of migrating from Microsoft Windows based server to HP-UX servers. This cost is to maintain additional states that sign up for the SBS application before the migration is complete. This money will only be spent if more than 12 states sign up for SBS before the migration is complete.

Useful Life

- **RP3600 Server (\$30,570) (\$11,024)** – The current media server is a two-processor PA-RISC server that has been in service for over six years. With this purchase the NAIC data center will continue to move away from PA-RISC processors to Itanium based servers and lower overall maintenance costs. This

server controls all communication between the Veritas Master Server and the tape libraries. This upgrade will reduce backup window times for all database backups.

- **Itanium Blades, Blade Enclosure and Rack (\$125,812) (\$34,976)** - In late 2007, the NAIC will evaluate Intel based blade servers. These servers represent a significant potential savings in space and power consumption for the NAIC. Assuming a successful evaluation this cost is to expand this initiative to the Itanium servers running HP-UX. By deploying blade servers the numbers of servers per rack can be increased from 10 to 24 and at the same time reduce the power required for that number of servers. This will allow the NAIC to deploy more environments at co-location without having to expand beyond the square footage currently leased. Over time this will also reduce the number of racks required at the headquarters. Moving to blade technology also provides a savings in maintenance. A blade server compared to a standalone chassis of the same configuration will cost \$1,376 less in hardware maintenance over a three-year period. This cost will be for two racks and two enclosures, one for the headquarters and one for co-location. This cost is to purchase three Itanium based UNIX (HP-UX) servers. In 2006, the NAIC began the Portal and Security projects. To start these projects a minimum amount of hardware was purchased to allow for development and production environments. These projects went into production in June 2007 and now require additional hardware to build out a highly available environment and provide for testing. To facilitate, these three additional servers will be added to the portal and security infrastructure. A QA portal server will allow for an isolated area for testing code and a stable environment for demonstrating new functionality to end users. An additional production portal server will be deployed at co-location providing redundancy for the portal as well as disaster recovery. An additional production LDAP server will also be deployed at Co-Location to ensure all enterprise applications can still authenticate successfully in the event of a disaster.
- **Migration Servers – SBS (\$83,984) (\$100,976)** – The State Based Systems (SBS) project was originally deployed on Microsoft Windows servers using the SunOne Java Application Server to deliver the application. While SBS continues to use that model for its application it has proven to not scale (one state per CPU) thereby proving more costly to maintain. In 2007 a single HP-UX server running Oracle Application Server (OAS) was purchased to begin migrating the application to this new environment. This will bring SBS under the same technology already used by other NAIC web based applications. This cost is to migrate the rest of the SBS application from the current environment to HP-UX servers using OAS to deliver the application. This environment has a proven history of better scalability and more manageable costs. This will reduce the hardware requirements of SBS from 10 servers to four servers while still providing for disaster recovery at the co-location.
- **DASD Growth (1.5 UTB) (\$60,696) (\$1,485)** - This provides for 1.5 TB of annual growth of NAIC databases and application environments that are used by the NIPR. These environments are all hosted on a Hewlett Packard storage array and this cost will purchase an additional 1.5 TB of usable space for that array.
- **DASD Growth (3.5 UTB) (\$161,349) (\$5,510)** - This provides for 1.5 TB of annual growth of NAIC databases, applications, messaging, and file sharing, which is all hosted on a Hewlett Packard array. Listed below are the breakouts for 3.5 TB of growth for both production and non-production environments.

BUDGET ITEM: Insurance

Item Description: Includes expenses for all general business and liability insurance policies owned by the NAIC.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	Percentage
	Actual	Actual	Projected	Budget	Budget	(Decrease)	
General Business Insurance (1)	\$ 260,024	\$ 145,194	\$298,728	\$ 288,043	\$317,586	\$ 29,543	10.26%
Professional Liability (2)	90,549	45,133	89,933	93,620	92,587	(1,033)	(1.10%)
Errors and Omissions (3)	71,011	33,161	62,105	70,382	65,950	(4,432)	(6.30%)
Total	<u>\$ 421,584</u>	<u>\$ 223,488</u>	<u>\$ 450,766</u>	<u>\$ 452,045</u>	<u>\$ 476,123</u>	<u>\$ 24,078</u>	5.33%

- (1) General business insurance is projected to be over budget for 2007. The increase at the May 2007 renewal was greater for some coverages than the 5% projection included in the 2007 budget. Based on current surveys the 2008 budget assumes an increase of 5% over existing coverages and premium amounts at the May 2008 renewal.
- (2) Professional liability insurance is projected to be under budget for 2007. The increase at the May 2007 renewal was less than the 5% projection included in the 2007 budget. Based on current surveys the 2008 budget assumes an increase of 5% over existing coverages and premium amounts at the May 2008 renewal.
- (3) The renewal of errors and omissions coverage was at a lower rate than anticipated in the 2007 budget. The 2008 budget is based on the actual rate paid in 2007 and a 5% increase at the May renewal date.

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
General Business Insurance (1)		\$ 317,586				
Professional Liability (2)		92,587				
Errors and Omissions (3)		65,950				
Total	<u>\$ -</u>	<u>\$ 476,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BUDGET ITEM: Telephone

Item Description: Includes conference calls and local and long-distance charges for staff, the four officers, and at national meetings.

<u>Description</u>	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Telephone (1)	\$ 391,005	\$ 194,129	\$ 352,014	\$ 314,661	\$ 317,246	\$ 2,585	0.82%

(1) The increase in telephone expense in 2007 is primarily due to an increase in the number of conference calls. Only a portion of this increase is expected to continue into 2008.

2008 Budget by Function

<u>Description</u>	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Telephone (1)	\$ 19,432	\$ 30,294	\$ 66,476	\$ 71,470	\$ 87,399	\$ 42,175

BUDGET ITEM: Supplies

Item Description: Includes computer hardware and software and furniture and equipment purchases under \$2,000, computer supplies, copy paper, diskettes, stationery, perforated invoice paper, business cards, and other supplies.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	
	Actual	Actual	Projected	Budget	Budget	(Decrease)	Percentage
Copier Supplies (1)	\$ 100,343	\$ 50,727	\$ 115,533	\$ 97,335	\$ 94,950	\$ (2,385)	(2.45%)
Other Supplies (2)	266,434	153,915	293,589	265,537	268,186	2,649	1.00%
Non-Capital Equipment (3)	479,974	137,008	216,739	295,364	131,494	(163,870)	(55.48%)
Total	\$ 846,751	\$ 341,650	\$ 625,861	\$ 658,236	\$ 494,630	\$ (163,606)	(24.86%)

- (1) The increase in 2007 copier supplies is related to an increase in paper costs. The reduction in 2008 is related to the business decision to move infrequently purchased publications to the website for download at no cost. While this creates a decrease in revenue it also creates savings in supply costs and resource hours.
- (2) Other supplies will increase in 2008 due to increased consumption of miscellaneous office supplies based on 2007 experience. The reduction to the 2008 budgeted amount from the current level in 2007 is related to the elimination of the collection, management, and retention of hard-copy annual statements saves approximately \$22,000 in annually in supply costs (see Fiscal Impact 6).
- (3) Non-capital equipment purchases planned for 2008 include minor software upgrades and purchases as well as minor office and computer supplies. The under budget variance for 2007 is related to the association records management initiative, which is under going a complete review prior to implementation. The decrease in 2008 is attributable to the completion of several projects in 2007 and a decrease in new initiatives for inclusion in the 2008 budget.

2008 Budget by Function

Description	Technology	Business	Services to	Financial	Market	Products
	Systems and Support	Operations	Members	Solvency Services	Regulatory Services	and Services
Copier Supplies (1)		\$ 94,950				
Other Supplies (2)	\$ 116,855	69,218	\$ 17,950	\$ 25,935	\$ 14,542	\$ 23,686
Non-Capital Equipment (3)	105,423	14,348	1,492		3,170	7,061
Total	\$ 222,278	\$ 178,516	\$ 19,442	\$ 25,935	\$ 17,712	\$ 30,747

BUDGET ITEM: Mail Services

Item Description: Includes meter mail, UPS, express, and other carrier charges.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Mail Services (1)	\$ 351,197	\$ 168,088	\$ 331,249	\$ 367,694	\$ 320,974	\$ (46,720)	(12.71%)
Shipping Billed To Customers (2)	(242,749)	(145,310)	(253,481)	(251,623)	(190,805)	60,818	(24.17%)
Total	\$ 108,448	\$ 22,778	\$ 77,768	\$ 116,071	\$ 130,169	\$ 14,098	12.15%

- (1) Mail services expense continues to decrease due to the movement toward electronic methods of communication and delivery of products and a reduction in mass mailings. The 2008 budget is based on 2007 experience and the decision to offer infrequently purchased publications via the website for download at no cost.
- (2) The budget for shipping costs billed to customers represents the amount of shipping and handling costs reimbursed by the customer. The decrease in the 2008 is related to the increase in electronic delivery of products to customers.

2008 Budget by Function

Description	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Mail Services (1)	\$ 3,866	\$ 28,075	\$ 52,695	\$ 16,880	\$ 11,764	\$ 207,694
Shipping Billed To Customers (2)						(190,805)
Total	\$ 3,866	\$ 28,075	\$ 52,695	\$ 16,880	\$ 11,764	\$ 16,889

BUDGET ITEM: Reference Materials

Item Description: Includes costs for books, periodicals, and on-line reference services.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	Percentage
	Actual	Actual	Projected	Budget	Budget	(Decrease)	
Reference Materials (1)	\$ 279,290	\$ 186,050	\$ 333,315	\$ 314,159	\$ 333,916	\$ 19,757	6.29%
Periodicals (2)	67,239	30,668	56,049	53,757	60,479	6,722	12.50%
Loose Leaf Services	23,167	17,093	21,686	25,281	21,686	(3,595)	(14.22%)
On-Line Researching (3)	167,556	44,464	116,753	132,572	116,753	(15,819)	(11.93%)
Total	\$ 537,252	\$ 278,275	\$ 527,803	\$ 525,769	\$ 532,834	\$ 7,065	1.34%

- (1) Statistical reference materials include reference sources on CD-ROM and subscription services for resources used in performing the services of the NAIC Library and Securities Valuation Office. The reference collection is a vital source of up-to-date information on insurance, business, finance and technology-related issues and supports the Library's fulfillment of research questions from the NAIC members, NAIC staff, interested parties and the Securities Valuation Office. The 2007 increase primarily relates to the increased costs for reference materials for the Securities Valuation Office.
- (2) Periodicals are also used in performing the services of the Research Library and Securities Valuation Office as well as other divisions of the NAIC. The expense for these services decreased after resources included in the 2007 budget were reevaluated and consolidated. The 2008 budget includes price increases for these materials.
- (3) The decrease in spending in this area in 2007 is the result of an assessment of the benefit provided by the resources and an effort by NAIC staff to decrease costs in this area. The 2008 budget is based on the continuation of this trend.

2008 Budget by Function

Description	Technology	Business	Services to	Financial	Market	Products
	Systems and Support	Operations	Members	Solvency Services	Regulatory Services	and Services
Reference Materials (1)	\$ 2,581	\$ 4,601	\$ 59,918	\$ 247,605	\$ 16,409	\$ 2,802
Periodicals (2)			48,864	11,615		
Loose Leaf Services			21,686			
On-Line Researching (3)			116,753			
Total	\$ 2,581	\$ 4,601	\$ 247,221	\$ 259,220	\$ 16,409	\$ 2,802

BUDGET ITEM: Printing and Production

Item Description: Outside costs incurred for printing books, subscription updates, CD-Roms, marketing materials, and other publications.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	Percentage
	Actual	Actual	Projected	Budget	Budget	(Decrease)	
National Meetings	\$ 6,525	\$ 2,559	\$ 4,799	\$ 4,640	\$ 4,480	\$ (160)	(3.45%)
Publications (1)	208,980	106,004	171,654	206,333	191,280	(15,053)	(7.30%)
Outside Printing (2)	10,979	5,870	10,445	16,725	14,705	(2,020)	(12.08%)
Total	\$ 226,484	\$ 114,433	\$ 186,898	\$ 227,698	\$ 210,465	\$ (17,233)	(7.57%)

- (1) Publications printing expense represents the cost of all publication inventory items sold, including the cost of special paper and other supplies used to produce a publication and the cost of external printing and binding services. The decrease for 2007 is attributable to not needing special printing services for three publications as anticipated in the budget. The 2008 budget contemplates the delivery of hard copy publications for only the current (2008) and previous year (2007). All other versions will be delivered in electronic format via the website.
- (2) Outside printing includes the cost to have the NAIC Annual Report, catalogs, and other marketing materials printed by an outside vendor. In 2007, the NAIC will discontinued the mass production of hardcopy catalogs, only printing them upon request. Additional saving are generated by a reduction in brochure and CD-Rom printing. These saving will continue into 2008 but are offset by additional expense for printing SERFF marketing materials that require outside printing due to their size and paper requirement.

Description	Technology		Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
	Systems and Support	Business Operations				
National Meetings			\$ 4,480			
Publications (1)						\$ 191,280
Outside Printing (2)		\$ 1,680	5,500		\$ 150	7,375
Total	\$ -	\$ 1,680	\$ 9,980	\$ -	\$ 150	\$ 198,655

BUDGET ITEM: Meetings

Item Description: Outside costs that are directly related to conducting national and interim meetings and the 14th Annual International Association of Insurance Supervisors (IAIS) Conference and Committee meeting in 2007, that cannot be classified within other budget item categories.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Receptions (1)	\$ 223,026	\$ 113,635	\$232,134	\$ 243,100	\$ 264,750	\$ 21,650	8.91%
Hotel Services (2)	314,506	318,300	446,300	356,172	461,491	105,319	29.57%
Audio-Visual Services (3)	331,304	212,429	399,930	342,500	413,897	71,397	20.85%
Reproductions (4)	92,580	60,448	109,448	102,427	106,247	3,820	3.73%
Interim Meetings	78,407	20,279	72,815	81,250	79,750	(1,500)	(1.85%)
IAIS Conference (5)			776,600	642,775		(642,775)	(100.00%)
Commissioners Annual Conference (6)	201,885	175,533	175,533	239,419	164,517	(74,902)	100.00%
Total	\$ 1,241,708	\$ 900,624	\$ 2,212,760	\$ 2,007,643	\$ 1,490,652	\$ (516,991)	(25.75%)

- (1) Reception expenses reflect the cost of food and beverage services and service charges for the NAIC's quarterly welcoming reception. The increase in 2008 is associated with site selection for the 2008 national meeting sites, specifically Orlando and Grapevine.
- (2) Hotel services includes the cost of (1) technicians and setup support, (2) electrical support, and (3) staff and regulator breakfasts, lunches, breaks, and transportation. The overage in the 2007 projection is due to an increase in the food and beverage minimums and the cost of these and other services for the New York meeting. The increase in the budgeted amount for 2008 is related to costs associated with site and event selections for the 2008 national meetings and the associated contractual minimums.
- (3) The utilization, costs, and set up fees for audio visual services have been on the rise for several years. While several strategic alterations have been made in the national meeting format and schedule to help minimize these costs, the necessity and requests for electronic devices to facilitate meetings and deliver presentations continues to grow as technological advancements make these devices more common place.
- (4) The increase for this expense category can be directly attributed to increased reproduction usage. The 2008 budget anticipates successful efforts to control these costs.
- (5) The NAIC has been selected to host the International Association of Insurance Supervisors (IAIS) 14th Annual Conference and Committee Meeting in the United States in 2007. This is a one-time event for the NAIC and will not be included in subsequent budget proposals. Revenues generated through attendee registrations will offset conference expenses. While expenses are projected to exceed the original budget, additional revenues are anticipated to cover these costs.
- (6) This line is for the cost to present the annual NAIC Commissioners Conference. The 2007 budget anticipated higher costs for this event based on the site selection of Puerto Rico. Through collaborative efforts with the Puerto Rico Department of Insurance the total cost for this conference were held to 73% of budgeted funding. The 2008 conference is slated for southern California.

Year	Spring	Summer	Fall	Winter
2010	Denver	Seattle	Washington, DC	New Orleans
2009	San Diego	Minneapolis	Washington, DC	Honolulu
2008	Orlando	San Francisco	Washington, DC	Grapevine
2007	New York	San Francisco	Washington, DC	Miami
2006	Orlando	Washington, DC	St. Louis	San Antonio

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Receptions (1)			\$ 264,750			
Hotel Services (2)			461,491			
Audio-Visual Services (3)			413,897			
Reproductions (4)			106,247			
Interim Meetings			79,750			
Commissioners Annual Conference (4)			164,517			
Total	\$ -	\$ -	\$ 1,490,652	\$ -	\$ -	\$ -

BUDGET ITEM: Education and Training

Item Description: Expenses incurred by the NAIC for education programs.

Description	2006 Actual	6/30/07 Actual	12/31/07 Projected	2007 Budget	2008 Budget	Increase (Decrease)	Percentage
Commissioners Forum	\$ 31,280		\$ 28,837	\$ 28,837	\$ 31,832	\$ 2,995	10.39%
Insurance Department Staff							
Education (5)	5,511	\$ 4,842	4,842	5,761		(5,761)	(100.00%)
Financial Examiners (1)	4,798	6,737	6,737	5,882	7,820	1,938	32.95%
Commissioners Symposium (2)	35,067	31,543	31,543	39,010		(39,010)	(100.00%)
Legal CLE Workshops (1)	2,108	2,441	16,495	14,054	16,442	2,388	16.99%
Regulation For Solvency	2,719		5,553	5,553	6,931	1,378	24.82%
Surplus Lines Regulation (3)	(3,338)				(3,088)	(3,088)	100.00%
HMO Annual Statement	6,304	(150)	6,517	6,667	6,976	309	4.63%
Train-The-Trainer (5)	1,250						
P & C Annual Statement (3)			14,205	14,205		(14,205)	(100.00%)
Advanced Fraud	15,599		16,321	16,321	17,169	848	5.20%
Advanced Train-The-Trainer (5)	2,780						
Onsite Programs (6)	5,450	1,994	9,234	8,055	11,489	3,434	42.63%
Market Conduct Examiners							
Handbook (1)	9,009		9,339	9,339	11,942	2,603	27.87%
Statutory Accounting Principles	11,333	4,756	4,756	12,123	10,708	(1,415)	(11.67%)
IMR/AVR Online (3)			5,088	5,088		(5,088)	(100.00%)
Online Investment Schedules	12,608		10,531	10,531	11,883	1,352	12.84%
Online Introduction To Financial							
Regulation	19,670		12,768	12,768	12,123	(645)	(5.05%)
Online ISQ Training	5,406		3,840	3,840	4,560	720	18.75%
Online Schedule P (4)	5,617		4,230	4,230	7,804	3,574	84.49%
Online Core Legal Issues	4,460		6,353	6,353	5,922	(431)	(6.78%)
Online Reinsurance (4)	8,657		6,879	6,879	8,821	1,942	28.23%
Current Legal Issues (3)	9,891				10,316	10,316	100.00%
Online Health Annual Statement							
Preparation (4)	9,749		6,803	6,803	9,655	2,852	41.92%
Regional Market Conduct Training	6,712	6,294	6,294	6,994	5,565	(1,429)	(20.43%)
Online Financial Regulation & Staff							
Education (4)	6,638		5,400	5,400	7,674	2,274	42.11%
Online Market Regulation							
Antifraud (3)		1,380	1,380				
Online Market Analysis							
Techniques (7)	6,097		9,239	9,239	6,734	(2,505)	(27.11%)
Statutory Accounting 101							
Program (3)	10,336				12,459	12,459	100.00%
Insurer Investment Program (5)	2,422						
Online Facilitator Training Module (5)	3,855						
SAP Webinars	15,381		16,604	16,604	16,838	234	1.41%
Basic Insurance Self Study (1)	6,477	5,684	8,738	4,975	7,607	2,632	52.90%
How to Analyze Insurer Portfolios	1,395	2,881	2,881	2,447	3,033	586	23.95%
Professional Designation Program	49,598	14,866	39,324	47,035	47,811	776	1.65%
How to File Securities with the SVO Online (4)	11,409	5,574	8,426	5,709	8,940	3,231	56.59%
Consumer Assistance Training Online			5,007	5,007	5,430	423	8.45%
Model Laws Webinar (4)	3,245		1,894	1,894	4,419	2,525	133.32%
Bundles of Learning		3,015	5,115	1,800	1,700	(100)	(5.56%)
Producer Licensing Online Training (1)	2,098		6,578	6,578	3,646	(2,932)	(44.57%)
Health Insurance Rate Filing Reviews (5)		1,483	1,483	2,884		(2,884)	(100.00%)
Management and Leadership Effectiveness			2,802	2,802	3,790	988	35.26%
Regulatory Overview of a Principles-Based Valuation System		16,800	16,800	20,597	21,394	797	3.87%
What's Going on with Health Insurance (1)		21,940	21,940	22,336	17,958	(4,378)	(19.60%)
Regulation of Insurance Products Online (4) (8)	2,825	1,566	1,566	3,293	6,586	3,293	100.00%
Fraud Investigation 101 (11)					2,383	2,383	#DIV/0!
Risk-Based Capital Training (11)					6,492	6,492	#DIV/0!
NAIC/NASSA Joint Conference (3)		15,828	15,828	15,100		(15,100)	(100.00%)
Financial Summit (9) (10)	81,931	191	139,097	138,906	159,601	20,695	14.90%
Risk Assessment Training Program (12)	35,736	28,731	52,115	60,000	67,272	7,272	12.12%
E-Regulation Conference (4)	101,717	99,880	99,880	96,250	117,115	20,865	21.68%
Total	\$ 553,800	\$ 278,276	\$ 679,262	\$ 698,149	\$ 723,752	\$ 25,603	3.67%

- (1) The cost of these programs are expected to increase based on 2007 experience.
- (2) Symposiums are held at the request of the NAIC President.
- (3) These programs are offered every other year.
- (4) Increased registrations are expected for these programs.
- (5) These programs will not be offered in 2008 as part of an association-wide review of services.
- (6) The NAIC offers insurers the opportunity of holding its Annual Statement Investments Schedules and its Health Annual Statement Preparation programs onsite. The insurer provides the location and participants; the NAIC provides the instructors, materials, and administration for the program for a fee. The decrease in this account is based on historical costs related to these training events.
- (7) The cost of these programs are expected to decrease based on 2007 experience and the 2008 venue.
- (8) These programs were converted from a classroom setting to an online format for 2008.
- (9) The expenses for this program were partially covered by the NAIC Education Fund in 2006, which is not available in the 2007.
- (10) The cost of these programs are expected to increase based on 2007 experience and the 2008 venue.
- (11) These are new programs for 2008 (see Fiscal Impact 4).
- (12) The 2008 budget includes \$7,276 for the enhancement of this program (see Fiscal Impact 3).

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
<u>Description</u>						
Education and Training Programs			\$ 331,953			
Financial Summit				\$ 159,601		
Risk Assessment Training Program				67,272		
Professional Designation Program			47,811			
NAIC/NASSA Joint Conference						
E-Regulation Conference						\$ 117,115
Total	\$ -	\$ -	\$ 379,764	\$ 226,873	\$ -	\$ 117,115

BUDGET ITEM: State and General Training

Item Description: Utilization of grant and zone funds and expenses incurred by the NAIC for state and general NAIC training events.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	Percentage
	Actual	Actual	Projected	Budget	Budget	(Decrease)	
Grant Funds (1)	\$ 399,749	\$ 243,955	\$ 560,000	\$ 560,000	\$ 560,000	\$ -	0.00%
Zone Funds (2)	126,456	49,396	100,240	100,000	112,472	12,472	12.47%
State Training (3)	61,456	25,457	53,939	45,772	64,264	18,492	40.40%
General Training Expense (4)	76,954	14,894	77,074	79,122	79,050	(72)	(0.09%)
Total	\$ 664,615	\$ 333,702	\$ 791,253	\$ 784,894	\$ 815,786	\$ 30,892	3.94%

- (1) The grant funding level for 2008 will be continued at \$10,000 per member.
- (2) Zone funds represent the utilization of the training dollars allocated to each member of the four Zones. An increase in the spending level of these funds is anticipated during 2008.
- (3) State training costs include the cost for NAIC training staff to travel to a state insurance department, mailing expenses, and the cost of manuals delivered in the training session. In 2007 the number of unreimbursed training events is projected to exceed the number included in the 2007 budget. The increase for 2008 is related to planned SBS implementations.
- (4) The general training expense represents the costs of (1) tent cards, evaluations, badges, and other miscellaneous supplies for those education programs, (2) nationally produced training programs and instructional videos used by the Human Resources Department for association staff training events, and (3) regulator travel expenses reimbursed under the DeAngelo Scholarship program.

2008 Budget by Function	Technology Systems and Support	Business Operations	Services to Members	Financial Solvency Services	Market Regulatory Services	Products and Services
Grant Funds (1)		\$ 560,000				
Zone Funds (2)		112,472				
State Training (3)	\$ 32,372					\$ 31,892
General Training Expense (4)		25,990	\$ 53,060			
Total	\$ 32,372	\$ 698,462	\$ 53,060	\$ -	\$ -	\$ 31,892

BUDGET ITEM: Other Expenses

Item Description: Costs incurred for recruiting expenses, bad debt allowance and write-offs, zone sponsored events, and member relations.

Description	2006	6/30/07	12/31/07	2007	2008	Increase	Percentage
	Actual	Actual	Projected	Budget	Budget	(Decrease)	
Recruiting and Relocation (1)	\$ 167,719	\$ 79,303	\$ 127,994	\$ 104,241	\$ 113,480	\$ 9,239	8.86%
Bad Debt Expense (2)	(48,228)	(89,882)	10,118	320,000	250,000	(70,000)	(21.88%)
Zone Expenses (3)	150,601	55,873	137,423	135,000	164,886	29,886	22.14%
Other Expense (4)	500,075						0.00%
Research Grants (5)	2,000		4,000	4,000	4,000		0.00%
Member Relations (6)	26,370	883	3,083	10,150	3,050	(7,100)	(69.95%)
Total	\$ 798,537	\$ 46,177	\$ 282,618	\$ 573,391	\$ 535,416	\$ (37,975)	(6.62%)

- (1) The 2007 projected overage is due to unexpected expenditures to fill open positions with a unique skill set and those at the higher levels of management within the association.
- (2) Bad debt expense is a provision for future uncollectibility of receivables and is based on total accounts receivable for the NAIC. The 2007 expense for uncollectible accounts receivable is offset by actual and projected allowance reversals in 2007 resulting from collection efforts on outstanding prior year database fees. The amount of these offsets is expected to decrease in 2008 as the balance of outstanding prior year receivables decreases.
- (3) Zone expenses are funds used by each of the four NAIC Zones to support functions and meetings of the zone as a whole. These expenditures are expected to increase in 2008 with the number and selection of sites for zone retreats in 2008.
- (4) In March 2006, the Internal Administration (EX1) Subcommittee approved a \$500,000 grant to the Interstate Insurance Product Compact Commission (IIPRC) to cover start up costs of this operation. These funds were transferred to the Commission in August 2006.
- (5) The Journal of Insurance Regulation (JIR) reestablished the grant program in 2006.
- (6) The member relations account includes expenses associated with the Dineen Award recipient and recognition of NAIC members and the NAIC officers. The 2008 budget is based on volume discounts and 2007 experience.

Description	Technology		Business		Financial		Market		Products	
	Systems and Support	Operations	Services to Members	Solvency Services	Regulatory Services	and Services				
Recruiting and Relocation (1)		\$ 113,480								
Bad Debt Expense (2)		250,000								
Zone Expenses (3)		164,886								
Other Expense (3)										
Research Grants (5)								\$ 4,000		
Member Relations (6)		3,050								
Total	\$ -	\$ 531,416	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,000		

**Business & Fiscal
Impact Statement
Summary**

**NAIC 2008 Consolidated Budget
Business and Fiscal Impact Statements**

Fiscal Impact Number	Description	2008 Funding		Revenue	Expense	Net Impact 2008 Budget	Net Impact Total UNA
		Requested	Capitalized				
	NAIC Consolidated Budget Prior to Fiscal Impacts			\$ 68,241,772	\$ 66,351,789	\$ 1,889,983	\$ 57,304,821
1	NAIC Secondee to the International Association of Insurance Supervisors (IAIS)	\$ 225,000			225,000	(225,000)	(225,000)
2	Market Regulatory Support and Services	122,643			122,643	(122,643)	(122,643)
3	Examiner Advanced Technical Control and Management Assessment Program	7,276			7,276	(7,276)	(7,276)
4	NAIC Designation Courses	(8,875)		17,750	8,875	8,875	8,875
5	Elimination of the State Private Data Network	(194,626)		50,555	(144,071)	194,626	194,626
6	Discontinuation of Collection, Management and Retention of Hard-Copy Annual Statements	(68,063)	\$ 6,848		(74,911)	74,911	74,911
		\$ 83,355	\$ 6,848	\$ 68,305	\$ 144,812	\$ (76,507)	\$ (76,507)
	NAIC Consolidated Budget After Fiscal Impacts			\$ 68,310,077	\$ 66,496,601	\$ 1,813,476	\$ 57,228,314



BUSINESS AND FISCAL IMPACT STATEMENT

Date Submitted: August 2, 2007

Name of Project/Initiative: NAIC Secondee To The International Association Of Insurance Supervisors (IAIS)

Regulator/Business Sponsor: International Insurance Relations (G) Committee, Virginia Insurance Commissioner Alfred W. Gross, Chair

NAIC Staff Support Contact Information: George Brady, Counsel & Sr. Int'l Policy & Legislative Advisor, Government Relations Office, gbrady@naic.org , (202) 471-3988

For Technology Projects
Date Information Resources Management (H) Committee Approved: N/A

Requested Project Start Date: January 1, 2008

Anticipated Completion Date: January 1, 2010

Total Project IS Resource Hours: N/A

Total Revenue Amount Generated: \$0

Total Expense Amount Requested: \$225,000

I. Executive Summary

This proposal requests funding to support an NAIC Secondee to the IAIS. The NAIC is a founding member of the International Association of Insurance Supervisors (IAIS). Based in Basel, Switzerland, the IAIS is the principal international organization of insurance supervisors, engaged in creating international standards of insurance supervision, and implementing the standards in the member jurisdictions. The IAIS invites all members to take part in the secondee program, allowing them to play an important role in the IAIS Secretariat. As part of the NAIC International Relations: Action Plan, Section 3(b)(iii) recommends that the “NAIC will sponsor a ‘secondee’ (state insurance dept. staff or NAIC staff) to the IAIS to improve the administration and transparency of the organization and to ensure the proper representation of US interests in IAIS activities.”

Under the terms of the agreement required by the IAIS, the NAIC Secondee will become an employee of the Bank for International Settlements (BIS), which is the international organization that hosts the IAIS. The agreement states that the NAIC cannot make any direct remuneration to the Secondee during the term of the agreement.

The NAIC proposes to post for a new full-time employee position of International Insurance Program Manager. During the term of the secondment, the NAIC would place this employee in the employment status as being on sabbatical. In June 2007, the Internal Administration (EX1) Subcommittee approved the funding of an NAIC Secondee and gave authority of up to \$225,000 for this project. Working with the IAIS, the NAIC has gathered additional details that are more fully provided in this proposal.

Per discussion with the International Insurance Relations (G) Committee, the Secondee's responsibilities would include:

- Working closely with the IAIS Secretary General, and Deputy Secretary General on internal administrative matters, including communications, speeches and press releases, and internal procedure manuals and practices.
- Supporting IAIS working parties by coordinating with members, attending meetings, preparing minutes and documents, and monitoring progress towards the completion of documents ("standard setting"), focusing on the NAIC's "priority" committees and the working groups chaired by the NAIC, especially the Technical Committee, which oversees the work of the technical subcommittees.
- Supporting IAIS Members from emerging markets to improve their insurance supervisory systems, mainly through the development of educational material and through the organization of seminars ("standard implementation").
- Liaising with other international organizations or forums such as the BIS, Basel Committee on Banking Supervision, IASB, IMF, IOSCO, NAIC, OECD, and World Bank ("international relations").
- Developing updated knowledge in risk management and financial stability in relation to major insurance supervisory areas ("professional development").
- Establishing a wide network of key experts in the international financial community, in particular significant contacts with insurance supervisors globally ("networking").

The NAIC has taken an active role in the IAIS for a number of years. The NAIC currently chairs four committees/subcommittees including: Executive Committee (vice chair, Commissioner Bell), Technical Committee (chair, Commissioner Gross), Reinsurance Subcommittee (chair, Commissioner Goldman) and Insurance Contracts Subcommittee (chair, Rob Esson (NAIC)), and is active in a number of other committees. With a considerable amount of resources already devoted to the IAIS through committee work, associated staff and commissioner travel costs, and annual dues, it would be beneficial to NAIC and the U.S. insurance regulatory sector to have an NAIC Secondee engaged in the support of this important international organization. The Secondee will acquire critical experience and skills with a global perspective in insurance supervision and other financial sectors, including a deeper understanding of the international regulatory environment and best practices, and the ability to compare and contrast different supervisory models.

To keep up with the ever-changing dynamics of the insurance marketplace, the NAIC must be in step with the global community in order to continue to aggressively represent its members. At the IAIS, there are a number of key initiatives currently taking place, including development of international solvency standards and international accounting standards. The NAIC Secondee will increase the NAIC's role in the standard setting process, as well as provide best practices for

internal administrative and organizational matters of the IAIS. By working with global supervisors, secondees can develop relations, which can help the NAIC's bilateral dialogues.

II. Benefits of Project/Initiative to NAIC Members

Improved representation of U.S. interests at IAIS – The interests of U.S. regulators could be greatly served by an NAIC Secondee to the IAIS headquarters. U.S. regulators were instrumental in the founding of the IAIS. The daily support of a U.S. Secondee will bring U.S. perspectives and insights into the IAIS process. It is anticipated the NAIC Secondee will give the NAIC Members a stronger voice in the area of global insurance regulation.

Improved efficiency and effectiveness of the IAIS – An NAIC Secondee would give the IAIS additional staff support in working to improve the administration of the organization. A key goal of the Secondee will be to provide best practices and guidance on improving aspects of the administration and transparency of the IAIS. In light of the substantial financial and other resources dedicated by the NAIC to the IAIS, the improved efficiency and effectiveness of the IAIS would be beneficial to U.S. regulatory interests and the interests of IAIS members in the private sector.

Enhanced ability of the IAIS to communicate effectively – An NAIC Secondee sponsored by the NAIC would greatly increase communication between the NAIC members and IAIS participants. While communication between the IAIS and NAIC members currently takes place, it is hampered by the infrequency of communication and the great distance between the IAIS (and its members) and the U.S.

An NAIC Secondee stationed in Basel would provide a direct conduit for information to flow freely between the IAIS and the NAIC. The Secondee would also be able to communicate the perspectives and opinions of NAIC members as well as the U.S. insurance regulatory framework and practices and provide a bridge between NAIC members and staff and other IAIS members and staff.

Increased access to international information and proposals – By nature of an NAIC Secondee being in Basel, NAIC members would have more direct access to a host of information from the IAIS in a timely manner. The Secondee would also be able to immediately contact NAIC Members and staff when U.S. regulatory interests were involved in the global regulatory standard-setting and implementation processes. This access would allow NAIC Members to respond more quickly and decisively than is currently possible.

III. Stakeholders

All NAIC members benefit from the Association's international activities. The NAIC's involvement in the development of international supervisory standards will be greatly enhanced by having a Secondee at the IAIS. Specific benefits will inure to NAIC Members active in the international process in the form of increased access to information and more efficient communication and support on IAIS matters. U.S.-based companies will also benefit from increased coordination with the IAIS and the promulgation of insurance regulations that are consistent with U.S. standards.

IV. Business and Operational Impact

The business and operational impact of having an NAIC Secondee at the IAIS will be quite manageable. The Finance Department will need to make a monthly transfer of funds to the IAIS but once it is set up, this should be an easy and routine transaction. Human Resources and Legal staff have already identified most of the issues related to placing a Secondee in Basel. The NAIC will retain the Secondee, but place this employee on a sabbatical during the secondment. Since the Secondee will become an employee of the BIS, the BIS will handle all of the daily administration of paying and providing benefits to the Secondee. A job description, pay, benefits, insurance, work permits and other matters have already been resolved.

The proposed implementation plan for this position is expected to take up to eight to 10 weeks with the following steps:

- Post job opening for the International Insurance Program Manager position.
- Interview candidates.
- Select candidate and make offer.
- Notify IAIS of the candidate selected and send the IAIS the resume of the candidate.
- Draft agreement between the NAIC and the IAIS regarding the terms of the secondment.
- Work with the BIS to negotiate a letter agreement between the NAIC and the BIS regarding the terms of the secondment.
- Draft letter agreement between the NAIC and the secondee regarding the terms of the arrangement including the duration of the secondment and the secondee's return among other items.
- Notify NAIC's insurance broker/carrier regarding a separate life policy for the Secondee since BIS benefits do not include life insurance.
- Work with the BIS regarding how the monies will be transferred from the NAIC to the BIS including a schedule for such transfers.
- Work with the BIS regarding a letter agreement between the BIS and the secondee and other documents the BIS will need including medical clearance, confidentiality agreement and code of conduct.

V. Financial Impact

The proposed costs include salary, benefits, and expenses related to the location of the position outside the U.S. Benefit costs for the position take into account the health and welfare program provided under the BIS program, costs associated with continued participation in the U.S. Social Security system and equivalent pension costs for the time spent outside the U.S. The total cost of the program is approximately \$225,000 and will be billed to the Association on a monthly basis. The benefit of having an NAIC Secondee stationed at the IAIS is quite cost effective given the high cost of international travel from the U.S., the enhanced efficiency of the IAIS, and the increased effectiveness of communication with the IAIS.

The NAIC will have an agreement with the IAIS and the BIS regarding funding for the NAIC Secondee. The proposed first year budget for the NAIC Secondee is as follows:

Item	Description	Yearly Rate
Salary	132,385 CHF (.83091 conversion)	\$110,000
Benefits	40%	\$44,000
Life Insurance		\$1,255
Rent/Utilities	1 BR: \$1,100 – \$1,800 2/3 BR: \$1,800 – \$3,000 Average: \$2,000 a month Utilities: \$1,200 annually	\$25,200
Travel (personal)	US to Basel two trips	\$4500
Travel (IAIS)	\$21,000	\$21,000
Retirement	6% of salary	\$6,600
Moving costs		\$4,600
Employer share of U.S. Social Security (7.65%)		\$7,845
TOTAL		\$225,000

VI. Alternatives or Partnerships

The primary alternative is the status quo. The problem with this strategy is that information flow from the IAIS to the NAIC is somewhat limited because of distance and infrequency of face-to-face meetings. Also, the ability of the NAIC and its members to influence the internal administration and transparency of the IAIS would not be as effective if the status quo continued.

VII. Risk Management

Risks associated with this program primarily revolve around any liability associated with NAIC's Secondee, during the secondment when the employee is on sabbatical. These are minimal given the strong benefit programs offered by the BIS and the Association's International Commercial Liability coverage. This coverage will be in addition to any coverage offered by the BIS and will substantially insulate the NAIC from liability while also providing the secondee with an effective benefit/insurance program.

Business and Fiscal Impact Statement Project Cost Analysis
 Revenues, Expenses and Capital Expenditures

ATTACHMENT 1

Project/Initiative: NAIC Secondee to the International Association of Insurance Supervisors (IAIS)
 2008 Budget

Business Entity (NAIC, NIPR, or HIPRC): NAIC

Description	2008 Budget Spread												2008 Total	2009 Budget	2010 Budget
	January	February	March	April	May	June	July	August	September	October	November	December			
Revenues:															
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses:															
Secondee Fee	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	228,167	241,142
Total Expenses	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	228,167	241,142
Revenues Over (Under) Expenses	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(18,750)	(228,167)	(241,142)
Capital:															
Total Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-



BUSINESS AND FISCAL IMPACT STATEMENT

DATE SUBMITTED: SEPTEMBER 30, 2007

NAME OF PROJECT/INITIATIVE: MARKET REGULATORY SUPPORT SERVICES

REGULATOR/BUSINESS SPONSOR: COMMISSIONER MIKE KREIDLER, WASHINGTON
CHAIR OF THE MARKET REGULATION & CONSUMER
AFFAIRS (D) COMMITTEE

**NAIC STAFF SUPPORT
CONTACT INFORMATION:** TIM MULLEN, DIRECTOR OF MARKET REGULATION

**FOR TECHNOLOGY PROJECTS
DATE INFORMATION RESOURCES
MANAGEMENT (H) COMMITTEE APPROVED:** N/A

REQUESTED PROJECT START DATE: JANUARY 1, 2008

ANTICIPATED COMPLETION DATE: ONGOING

TOTAL PROJECT IS RESOURCE HOURS: N/A

TOTAL REVENUE AMOUNT GENERATED: N/A

TOTAL EXPENSE AMOUNT REQUESTED: \$122,643

I. Executive Summary:

This proposal for membership consideration involves a request for two full-time employees to enhance the support services provided by the NAIC's Market Regulation Division to members in helping them carry out important modernization initiatives and reforms in the area of market regulation. Members have identified this area as a priority strategic issue, specifically, the need to address duplicative efforts and the lack of uniformity among states in the areas of market examinations and analysis. The full-time staff would enable the NAIC to be more responsive to member needs in the areas of coordination of interstate collaborative actions as well as market analysis and other market-related training. This staffing request is the initial step in a longer-term vision to focus the resources of the NAIC in assisting its members with implementing meaningful reforms and efficiencies and ensuring a strong system of state-based market conduct oversight and consumer protection.

The NAIC and its members have achieved significant progress towards meeting the market regulation goals set forth in the NAIC's Regulatory Modernization Action Plan. Specifically, these goals included:

- Create a common set of standards for a uniform market regulatory oversight program that will include all states and assess the quality of every insurer's conduct in the marketplace;
- Enhance electronic, centralized market regulation data collection and data quality;
- Implement structured and uniform market analysis, which includes the implementation of automated market analysis techniques;

- Develop uniform procedures for the broader continuum of regulatory responses and an electronic system to track these responses; and
- Enhance interstate collaboration of regulatory responses.

To help accomplish these goals, the NAIC hired one data administrator and two market analysts in 2005 and one market regulation specialist in 2006. Since the addition of this staff, the following improvements have been made:

Market Information System Participation

- Market Systems Participation Report to Display Each State's Information Regarding Frequency, Completeness, and Accuracy of Data Submissions to the Market Information System Database
- MIS Participation Subgroup Coordination with States to Address Data Submission Issues
- On-Line and Classroom Training on Market Information Systems
- Adoption of Core Competencies for Data Submission and State Certification of Compliance with Standards
- Upon Request, NAIC Audits of State Data Submission

Structured and Collaborative Market Analysis

- Market Analysis Handbook
- Market Analysis Review System (MARS)
- Market Analysis Priorities Tool (MAPT)
- Market Analysis Coordinator Identified in Each State
- Market Conduct Annual Statement
- Market Analysis Training – Classroom and Online
- Adoption of Core Competencies for Market Analysis and State Certification of Compliance with Standards
- Process for Input and Receipt of Suggested Changes for Data Collection and Analysis Structure
- Feasibility Study – The Future of Market Data

Collaboration

- Created Exam Tracking System, MARS, MITS and PICS to Alert States of Market Issues
- Established Market Analysis Working Group (“MAWG”), including the MAWG Referral Process and MAWG Procedures
- Documented Collaborative Procedures in Market Regulation Handbook
- Created Core Competencies for Multi-State Collaboration and State Self Certification Compliance with Standards

Recent Executive Committee discussions have focused on needs for additional NAIC resources in the area of collaborative examination activity and market analysis training. Both of these support needs could be readily addressed in the short-term through the addition of a Collaborative Actions Coordinator and Market Regulation Trainer.

The Collaborative Actions Coordinator would assist states in coordinating collaborative actions for the continuum of regulatory actions, with a primary emphasis on coordinating multi-state examinations of companies formally referred to the Market Analysis Working Group. The Coordinator would facilitate the administration support involved in multi-state examinations and actions including setting up conference calls, distributing materials, and implementing practices, procedures, and policies that encourage efficiencies and uniformity in the market conduct examination process.

The Market Regulation Trainer would design and maintain market regulation training programs with specific emphasis on market analysis training programs, including the development of course curriculums, PowerPoint presentations, user guides, on-line help files and tutorials, brochures and other

materials needed to support the state training of market analysts. The Trainer would provide training at state insurance departments, at the NAIC headquarters, and through on-line training as well as be available to make presentations at appropriate NAIC and industry seminars.

II. Benefits of Project/Initiative to NAIC Members:

The overall benefit of this project is to provide needed and focused support to the members in the areas of interstate collaborative market regulation coordination and market analysis training. This project will address many of the concerns expressed by regulators, industry, and consumers to improve and strengthen the market conduct process and minimize duplicative examinations and analysis. A Collaborative Actions Coordinator will increase the efficiency in the administration and coordination of multi-state efforts and the Trainer will increase the uniformity and standardization in market regulation areas, especially market analysis. This project will help create a more efficient and effective regulatory system through the following:

- Provide support to enhance state collaborative regulatory efforts, which flow out of market analysis efforts.
- Facilitate communication among states as well as with NAIC market regulation staff.
- Facilitate the flow of information between market and financial regulators.
- Assist, through coordination, in the elimination of duplicative market regulatory actions among multiple states;
- Design and provide market analysis training programs to ensure state regulators are aware of how the new market analysis tools may be utilized;
- Provide on-site state training to state insurance departments, as requested; and
- Increase understanding and use of the NAICs' Market Information Systems.

III. Stakeholders:

The stakeholders associated with this initiative include: (1) NAIC members, (2) NAIC staff, (3) consumers, and (4) insurance companies.

NAIC Members: State insurance departments seek support from the NAIC in facilitating improvements to the effectiveness and efficiency of market analysis and interstate collaboration for market regulatory efforts. NAIC members will benefit as NAIC staff are able to provide a higher level of administration and training to the states for the new market analysis tools and processes developed over the past several years. In addition, the NAIC members will have better coordination for the growing collaborative activities under MAWG.

NAIC Staff: NAIC staff will be better positioned to provide the level of support required and demanded by state regulators for multi-state regulatory efforts.

Consumers: Consumers will benefit from a more effective regulatory system. In 2003, the General Accounting Office published its report *Common Standards and Approved Coordination Need to Strengthen Market Regulation* in September of 2003 finding consumers were being harmed because of gaps in consumer protection due to inconsistency among the states in performing market conduct examinations and proper market analysis. These new resources will address two of the key areas referred to by the GAO as they will lead to coordinated multi-state efforts and the better identification of market issues on a proactive basis. State insurance departments will also be positioned to take the appropriate regulatory action to protect consumers in multiple jurisdictions.

Insurance Companies: Through the facilitation of multi-state actions, insurance companies are expected to experience a more streamlined and comprehensive market regulatory approach and the elimination of duplicative regulatory efforts among multiple states.

IV. Business and Operational Impact:

This proposal involves the hiring of two new positions in the Market Regulation Division, bringing the total number of NAIC employees in this specific area to thirteen (13) and will increase the responsiveness of the NAIC to the members in this area. This activity will impact the Human Resources Department and the Accounting Department since the employee recruitment process will need to be initiated and new salary expenses will be incurred. In addition, appropriate work space will need to be arranged for new staff.

V. Financial Impact:

The total cost of hiring a Collaboration Actions Coordinator and Market Regulation Trainer would be \$122,643. These costs include annual expenses for two (2) new employees. The Market Regulation & Consumer Affairs (D) Committee is expected to prepare a long-term strategic plan for enhancing the effectiveness of the NAIC's role in providing market regulatory support to its members.

VI. Alternatives or Partnerships:

An alternative to hiring additional NAIC staff in the short-term is to hire consultants. The hiring of consultants to perform training and collaboration is not considered a viable alternative because of the long-term and sensitive nature of this initiative. In addition, locating consultants that possess the scarce market regulation skill sets required would be difficult.

VII. Risk Management:

The NAIC Executive Committee has identified market regulation reforms as a key strategic issue for 2008. While this proposal addresses the short-term needs of the membership in this area, the Executive Committee will continue to discuss its long-term strategy for allocating additional financial and human resources to future market regulation reform initiatives.

Business and Fiscal Impact Statement Project Cost Analysis
Revenues, Expenses and Capital Expenditures

ATTACHMENT I

Project/Initiative: Market Regulatory Support Services
2008 Budget

Business Entity (NAIC, NIPR, or HPRC): NAIC

Description	2008 Budget Spread												2008 Total	2009 Budget	2010 Budget		
	January	February	March	April	May	June	July	August	September	October	November	December					
Revenues:																	
Revenue Line																	
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses:																	
Salaries	108,231	9,019	9,019	9,019	9,019	9,019	9,019	9,019	9,019	9,019	9,019	9,019	9,019	9,019	9,019	112,766	116,939
Benefits	13,900	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	1,158	13,900	13,900
Depreciation (PCs)	512	43	43	43	43	43	43	43	43	43	43	43	43	43	43	512	512
Total Expenses	122,643	10,220	127,178	131,351													
Revenues Over (Under) Expenses	(122,643)	(10,220)	(127,178)	(131,351)													



BUSINESS AND FISCAL IMPACT STATEMENT

Date Submitted: June 7, 2007

Name of Project/Initiative: Examiner Advanced Technical Control and Management Assessment Training Program

Regulator/Business Sponsor: Risk Assessment Implementation Subgroup- Dave Delbiondo- PA Chair and Todd Sells, FRS Director

NAIC Staff Support Contact Information: Sherry L. Flippo, Financial Program Manager

For Technology Projects
Date Information Resources Management (H) Committee Approved: N/A

Requested Project Start Date: February 2008

Anticipated Completion Date: December 2008

Total Project IS Resource Hours: 0 Hours

Total Revenue Amount Generated: \$0

Total Expense Amount Requested: \$7,276

I. Executive Summary

This proposal involves development and implementation of an advanced examiner program offered through NAIC's Financial Regulatory Services Division as an enhancement to the NAIC's Risk Assessment Training program. This proposal provides for an initial roll-out of three classroom training sessions. After these initial sessions, an assessment will be performed regarding the effectiveness of the classes based on the class evaluations and the comments of the Risk Assessment Implementation (E) Subgroup.

The project's scope is to provide examiners with technical control and management assessment tools and advanced interviewing skills training for the solvency regulator to facilitate and enhance the Risk Assessment approach.

The Risk Assessment Training program was rolled out in 2006. The challenge for the examiner in implementing this program is that the examiner will need to understand the total risk assessment approach. In order to accommodate this goal, the Risk Assessment Implementation (E) Subgroup proposes to utilize this program to cover in detail some of the tools available to the examiners such as: Schedule M - Corporate Governance, Schedule Z – Federal Compliance, and Schedule Y – Interviewing or more specifically, technical interviewing skills related to the

controls of the insurer. An underwriting example and Teammate workpapers using the revised risk assessment approach have also been included.

II. Benefits of Project/Initiative to NAIC Members

Several benefits of the Risk Assessment Training program have been identified including: 1) further promoting the Regulatory Modernization Action Plan Initiatives; 2) improving the application of risk-focused examination procedures; and 3) enhancing various elements of financial solvency oversight. Some of the benefits of this program include:

- Strengthen regulatory understanding and examination of the insurer's corporate governance function.
- Enhance evaluation of risks through assessment of inherent risks and risk management processes regarding the accuracy of financial statements and/or the strength and weaknesses of management's ability to identify, control and evaluate risk.
- More effective use of regulatory tools and resources through better training in risk-focused areas.
- Increase regulatory understanding of the insurer's quality of management, the characteristics of the insurer's business and the risks it assumes.
- Enhance value of the surveillance work, including interviewing skills, and establishment of risk assessment benchmarks performed by insurers and regulators, who both have common interest in ensuring that risks are properly identified and that adequate and effective control systems are established to monitor and control risks.

III. Stakeholders

Examiners and other insurance department solvency monitoring professionals in all 50 states and the District of Columbia are the primary stakeholders as they will benefit from this advanced training in these technical areas of risk assessment. This program will provide additional training required to successfully implement the Risk-Assessment method when performing examinations. These stakeholders will benefit from advanced risk assessment training in anticipation of this method becoming an Accreditation standard in January 2010.

IV. Business and Operational Impact

The operational impact of this proposal will be minimal as the course will be offered by existing staff. In 2006, the Financial Program Manager became responsible for helping implement the risk assessment training program.

V. Financial Impact

The projected expense for three training programs in 2008 is \$7,276 as detailed in Attachment 1. State or NAIC training facilities have been planned for these programs to hold down the costs. Training will be conducted by NAIC staff, which will further limit the costs.

VI. Alternatives or Partnerships

The regulators have indicated these areas as their greatest need for training, so it does not seem appropriate to suggest they should develop their own training without the NAIC as an alternative. While it would be possible for each state department of insurance to outsource training from other resources, it would most likely cost a significant amount more than the cost of the NAIC providing the training. Since it is in everyone's best interest that the risk assessment approach succeed, suggesting that no training is an alternative does not seem a valid option. It is possible the NAIC could partner with one of the regional or national accounting firms to help with some of this training, but that would incur additional costs for the content as well as the delivery of the training.

VII. Risk Management

The risks associated with approving this request is that the programs could be scheduled at times or locations where it is not convenient for a large group of regulators to attend. This risk will be minimized by trying to schedule during times and at convenient locations that will work for examiners from a variety of states.

The risk of not providing this program outweighs any risks associated with conducting the program as solvency regulators are continuing to enhance their knowledge and skills in this risk assessment area in anticipation of it becoming an accreditation standard in January 2010. By not having this advanced training, a key component of the risk assessment training program would be missing.

VII. Technology Project Information:

This Section is not applicable as the proposal does not involve a technology project.

Business and Fiscal Impact Statement Project Cost Analysis
 Revenues, Expenses and Capital Expenditures

ATTACHMENT 1

Project/Initiative: Examiner Advanced Technical Control and Management Assessment Training Program

2008 Budget

Business Entity (NAIC, NIPR, or HIPRC): NAIC

Description	2008 Budget Spread												2008 Total	2009 Budget	2010 Budget	
	January	February	March	April	May	June	July	August	September	October	November	December				
Revenues:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses:																
Travel			\$ 1,500			\$ 1,692		\$ 1,624							\$ 4,816	
Food			400			400		400							1,200	
Supplies			30			30		30							90	
Program Maintenance			390			390		390							1,170	
Total Expenses	-	-	2,320	-	-	2,512	-	2,444	-	-	2,444	-	-	7,276	-	-
Revenues Over (Under) Expenses	\$ -	\$ -	\$ (2,320)	\$ -	\$ -	\$ (2,512)	\$ -	\$ (2,444)	\$ -	\$ -	\$ (2,444)	\$ -	\$ -	\$ (7,276)	\$ -	\$ -



BUSINESS AND FISCAL IMPACT STATEMENT

Date Submitted: June 11, 2007

Name of Project/Initiative: New NAIC Designation Courses -- Fraud Investigation 101 (Classroom Regulator-only Course) and Risk-Based Capital Training (Online Regulator-only Course)

Regulator/Business Sponsor: NAIC Designation Program Advisory Board, Commissioner Susan Voss, Chair

NAIC Staff Support Contact Information: Jennifer Passariello, Designation Program Manager, 816-783-8203 /jpassari@naic.org; Alan Haskins, Antifraud Coordinator, Market Reg., (816) 783-8322, ahaskins@naic.org; Kris DeFrain, Chief Managing Actuary, FRS, 816-783-8229 kdefrain@naic.org; Dan Swanson, Sr. Insurance Reporting Analyst, FRS, 816-783-8412/ DSwanson@naic.org

For Technology Projects
Date Information Resources Management (H) Committee Approved: N/A

Requested Project Start Date: January 1, 2008

Anticipated Completion Date: Ongoing Courses

Total Project IS Resource Hours: 0 hours

Total Revenue Amount Generated: \$17,750 (\$11,850 for Fraud Training and \$5,900 for RBC Training)

Total Expense Amount Requested: \$8,875 (\$2,383 for Fraud Training and \$6,492 for RBC Training)

I. Executive Summary

This proposal is for funding to develop and implement two designation-qualified, regulatory-only courses through the NAIC Education Department. Fraud Investigation 101 would be a new classroom course and the Risk-Based Capital (RBC) Training would be designed as a new online course.

The Fraud Investigation 101 program is designed to provide investigative skills for investigating criminal, civil and administrative insurance fraud crimes. States have been requesting a basic training program for their new investigators. With state budget constraints, state departments of insurance continue to seek ways in which to maximize resources and train new investigators in one central location. This program taught at NAIC Headquarters in Kansas City will help states achieve this goal. This initiative directly relates to the overall NAIC mission and supports the Insurance Regulatory Modernization Action Plan.

The primary objectives of the Risk-Based Capital Training course would be to provide regulators with an overview of RBC, a method to determine the regulatory capital requirements that takes into account numerous risks of a company. Specific areas of instruction would include:

- Value of a risk-based capital methodology vs. set dollar capital requirements
- Formula overview—risks accounted for within the formula
- Differences between the formulas: life, health and property casualty
- NAIC Model law components and reason form main provisions
- NAIC process—Capital Adequacy, Life RBC Working Group, Property/Casualty RBC Working Group and Health RBC Working Group
- Tools of Use—I-SITE, forecasting, RBC manual instructions
- Case study—using Health RBC

II. Benefits of Project/Initiative to NAIC Members

Fraud Investigation 101 is designed to enhance and give the investigator skills in investigating criminal, and civil insurance fraud crimes. Upon completion of the course, the investigator will have a solid working knowledge of criminal law, rules of evidence, interviewing and interrogating witnesses and suspects, case format, report writing, the use of standard forms, and the legal-practical application in investigating insurance fraud crimes. Benefits of this proposed course are that:

- The investigator will have a solid comprehension of criminal/civil law and the rules of evidence, including the elements of a crime.
- The investigator will learn how to effectively and efficiently review an insurance claim file and identify the crime alleged by the reporting party.
- The investigator will learn how to develop a logical and concise investigative plan.
- The investigator will learn the investigation report format, the use of standard forms, and review how to write an accurate and effective investigation report.

RBC is one of the main solvency tools available to regulators. Proficient utilization of this methodology will increase the effectiveness with which financial regulators monitor the solvency of companies. Benefits of this proposed course are that:

- Regulators will be more skilled in the use of the RBC methodology.
- Addition of the course (and the competencies it will be designed to teach) will “fill a hole” in the existing curriculum. This course will provide one more opportunity for regulators to come to NAIC for their professional development needs.

- Regulators will be able to access this course without incurring travel costs or without taking time away from work. They will be able to learn and use the information immediately.

III. Stakeholders

Primary stakeholders for these new courses are insurance department staff (especially fraud investigators for the Fraud course and financial examiners and analysts for the RBC course). The NAIC Antifraud (D) Task Force and the Market Regulation division will be involved in the Fraud Investigation 101 course development and implementation. The Financial Regulatory Services Division will be involved in the course development and implementation of the RBC Training course. The Education & Training department will oversee the development and implementation of both courses.

IV. Business and Operational Impact

The proposed courses will be developed and facilitated by existing NAIC staff. The RBC Training Course will entail the use of resources from the Financial Regulation Division's RBC team and Education and Training Department. The Fraud course will entail the use of resources from the Market Regulation Division and Education and Training Department. Current state training materials and instructors will be utilized to develop and implement these programs to the extent possible.

Financial Impact

Attached is the project cost analysis for these two courses. (See Attachment 1). The Fraud Investigation 101 course is expected to generate \$11,850 in projected revenue, with an offsetting \$2,383 in projected expenses. The RBC Training Course is expected to generate \$5,900 in projected revenue, with an offsetting \$6,492 in projected expenses. The RBC Training course is expected to achieve less than break-even status by the end of its first year, which is attributable to two factors: 1) the start up of a new online course requires higher-than-average eCollege development costs; and, 2) since this would be a new course, a conservative number of attendees were estimated. In addition, while the RBC online course is not expected to generate a profit in its first year, there is a strong possibility that this offering could drive residual sales of other Designation Program courses. The projected combined revenue for both these courses will exceed the projected combined expenses by \$8,875.

VI. Alternatives or Partnerships

Three alternatives to offering these programs could be: 1) not offering the programs; 2) offering the program in another format (online for Fraud or classroom for RBC); or 3) rely on outside organizations to offer this curriculum and train state insurance regulators. Not offering these programs would free up resources for other NAIC projects but would not eliminate staff expenses. Offering the Fraud program through a traditional classroom setting would allow regulators to obtain hands on experience and first hand knowledge for them to accomplish their jobs back in the states. Also, the NAIC's customer feedback shows the strongest potential for offering an online RBC training course.

VII. Risk Management

One risk with approving this initiative would be that enrollment for the program could fall below the enrollment number needed to cover the expenses incurred to develop the program. Another risk for the classroom course may be that with limited state funds available for training, many states may lack the funds to send investigators to class held in Kansas City. Alternatively, having this program in Kansas City allows us to keep program expenses low to accommodate state budgets. The NAIC experience has shown there is a need for these programs and hopefully, the low cost of tuition will attract the requisite number of attendees.

The risks associated with *not* developing these courses include:

- Regulators remain unskilled on these important regulatory insurance topics;
- A NAIC designation course requirement remains unavailable;
- Regulators may seek to acquire these skills from alternate sources.

VIII. Technology Project Information

This Section is not applicable as the proposal does not involve a technology project.

Business and Fiscal Impact Statement Project Cost Analysis
Revenues, Expenses and Capital Expenditures

ATTACHMENT 1

Project/Initiative: New NAIC Designation Courses: Fraud Investigation 101 and Risk-Based Capital Training
2008 Budget

Business Entity (NAIC, NIPR, or IIPRC): NAIC

Description	2008 Annual Budget	2008 Budget Spread												2008 Total	2009 Budget	2010 Budget		
		January	February	March	April	May	June	July	August	September	October	November	December					
Revenues:																		
Tuition	\$ 11,850								\$ 5,900							\$ 17,750		
Total Revenues	11,850								5,900						17,750			
Expenses:																		
Telephone	270															270		
Food	200															200		
Printing/Production	948								785							1,733		
Postage/Freight	575								700							1,275		
Online Fees									900							900		
Program Maintenance									4,107							4,107		
Supplies	390															390		
Total Expenses	2,383								6,492						8,875			
Revenues Over (Under) Expenses	\$ 9,467								\$ (592)						\$ 8,875			



BUSINESS AND FISCAL IMPACT STATEMENT

Date Submitted: August 15, 2007

Name of Project/Initiative: Elimination of the NAIC State Private Data Network

Business Sponsor/
Staff Support Contact Information: Forrest Mohn Advanced Technologies Manager
(816) 783-8545 fmohn@naic.org

For Technology Projects
Date Information Resources Management (H) Committee Approved: N/A

Requested Project Start Date: October 1, 2008

Anticipated Completion Date: On-going

Total Project IS Resource Hours: <1,950> Hours to be Reallocated
110 Programming Hours Needed

Total Revenue Amount Generated: N/A

Total Expense Amount Requested: 2008: \$ 194,626 expense reduction
2009 and beyond: \$566,502/year expense reduction

I. Executive Summary

This proposal for membership consideration involves discontinuation of the NAIC's State Insurance Technology Enhancement Network (the "Network"). The Network provides private connectivity between the NAIC and its member state insurance departments and facilitates transmission of data and access to NAIC applications and systems. With the increasing reliance on the Internet and the changing demographics of state information technology support¹, the original benefits for maintaining the Network are diminishing. The NAIC's contract with its telecommunication provider for the Network is expiring in September 2008. It is a good time to examine the cost savings associated with discontinuation of the Network compared to its benefits in today's technology environment.

The original Network was piloted in six states in 1993 and fully implemented in 1994. At the time, each state setup consisted of a server, router and a personal computer. This equipment facilitated the transmission of data to a local area and the personal computer was used for the Common User Interface (CUI) application. With the Network implementation, the NAIC and

¹The general trend is that states are moving towards statewide information technology support offices taking the infrastructure and primary function outside the insurance department.

state insurance departments moved from a mainframe environment to a client-server based environment. Over the years, the Network has seen many changes including at least five different telecommunications service providers. The transport mechanism has also changed from Frame Relay to Multi-Protocol Label Switching (MPLS) as well as increased port speeds with the router platform being upgraded three (3) times.

The Network was put into place to enable a quicker, more secure pipeline between the NAIC and state insurance departments for not only the transmission of data but also for access to NAIC tools and information. The Network was also intended to supplement the state insurance departments' technical infrastructure by dedicating a separate connection to accommodate the traffic between the NAIC and the department. This dedicated Network has allowed the NAIC to work closely with the state insurance departments to route traffic and troubleshoot hardware and connectivity problems. The Network was also intended to assure a private, "trusted" and secure connection with a state insurance department's systems. Also, in the event of a national disaster that could impair the Internet, the Network would very likely still be available for communication between the NAIC and state insurance departments.

The Network involves a significant annual investment for the NAIC as it shoulders all the costs associated with the routers located in the state insurance departments (currently 53) as well as the maintenance, equipment depreciation and physical network.

As the NAIC and the state insurance departments have moved from a client-based environment to a web-based environment, the Internet has become a strongly viable, and increasingly preferable, method of transmission. The NAIC has developed its applications so that they can be easily accessed in a secure manner via the Internet. Most insurance departments "outsource" the technology infrastructure support to an outside state agency or third-party provider. The NAIC is seeing a significant trend towards states moving the NAIC's router to the "non-trusted" side of their state network for security and support reasons. The NAIC Technical Services staff spends significant time working with state personnel that are not located in the insurance department and have little understanding of the NAIC and the benefits of this separate pipeline.

The telecommunications contract for the Network expires in September 2008. If the NAIC were to discontinue its Network, there would be an estimated savings of \$ 194,626 in 2008 and \$566,502 per year thereafter. This costs savings will include the elimination of maintenance, equipment depreciation, and physical network as well as the salvage value of the routers. The NAIC would likely see an increase in Internet traffic as states move away from the Network to the Internet, and as such, the NAIC would purchase additional bandwidth for \$20,400 in 2008 and \$81,600 per year thereafter. There is also a possibility some states will need to acquire additional bandwidth to accommodate this redirected traffic. Finally, the NAIC would ensure all its applications are properly encrypted for Internet connectivity as there are a few such as ad hoc queries (currently performed through the Network) that require encryption.

Many of the reasons and benefits for establishing the State Insurance Technology Network are outdated especially in light of the emergence of the Internet and the NAIC's enhanced security framework. In addition, many states are no longer treating the Network as a trusted provider in their technology infrastructure. The major risk or consideration associated with this proposal is the elimination of the point-to-point connection, whereas Internet connectivity is not point-to-point (multiple hops), and will now make troubleshooting these types of issues more difficult for the NAIC by eliminating most of its control over connectivity and hardware. The issue for

consideration is whether the costs savings outweigh the remaining benefits of a private network between the NAIC and the states. This proposal is being referred to the Information Resources Management (H) Committee in order to allow states to assess the impact of this proposal on their processes and provide comment.

II. Benefits of Project/Initiative to NAIC Members

The NAIC and its members will also experience tangible benefits through significant cost savings from discontinuation of the Network. The NAIC, as well as the states, will have to spend less staff time troubleshooting connectivity problems between each other as a result of the Network. The NAIC receives calls each week requiring a significant amount of time communicating with the states' telecommunications department which is often located in an area outside the insurance department. Many times, the Network issues are not a priority for the state technology support staff as the Network is not part of the statewide infrastructure. These issues associated with supporting the Network's router connection would also be eliminated.

Many of the benefits of reliance on the Network have been weakened over the years by the growing reliance upon performance, speed and security of the Internet. In addition, the Network is a complex system for both the states and the NAIC. States are required to support a third-party connection and NAIC is required to handle connections to more than 50 third-party locations. This type of complexity would not exist if all state traffic moved through the Internet. Moreover, in most cases, performance will increase because Internet connections are larger and faster than the private network connections.

III. Stakeholders

States will no longer be required to support their respective Network connection which should reduce the staff and other resources devoted to troubleshooting connectivity problems associated with the Network. Conversely, the Network gives the NAIC the necessary control in troubleshooting and correcting these problems and it would become very difficult for the NAIC to troubleshoot problems on the state side in an Internet environment. The NAIC will work with state IT departments as well as NAIC internal business areas to ensure a seamless transition from the Network to the Internet.

The Internet affords several advantages in terms of performance and speed for state users when compared to the Network. However, while unlikely, states may need to acquire additional bandwidth to accommodate for increased, redirected Internet traffic. In moving from the Network to the Internet, states may also need to make programming changes for any ad hoc queries to NAIC databases

There may also be an impact to third-party vendors for state insurance departments that utilize the Network to transmit and access information. The NAIC will be working with these vendors to minimize the impact to the states and ensure a smooth transition. The NAIC charges vendor access in the amount of \$9,780 per year, which would go away once the Network is discontinued.

IV. Business and Operational Impact

The NAIC and its members will experience significant cost savings from discontinuation of the Network in terms of reducing direct technical infrastructure expenses by \$566,502 annually. The NAIC will also receive value for the trade-in of the existing routers that is estimated at \$53,000. From a long-term perspective, the organization would be saving a significant amount in terms of not having to upgrade the telecommunications equipment (projected to cost the NAIC \$370,446 in 2011). This proposal would also free up staff resources that are now devoted to supporting the Network and troubleshooting connectivity and other hardware problems associated with the telecommunications equipment (one full-time employee would be reallocated).

V. Financial Impact

The chart below shows the relative cost savings in the initial year and in years thereafter associated with eliminating the Network:

Item	Quantity	Monthly Cost	Extended Monthly	2008 Savings Oct. – Dec.	Annual On-Going
Router Maintenance	53	\$ (35.84)	\$ (1,899)	\$ (5,699)	\$ (22,794)
MPLS Network ¹	1	\$ (53,537.00)	\$ (53,537)	(160,611)	(642,444)
PIX Maintenance	2	\$ (179.00)	\$ (358)	(1,074)	(4,296)
SSO T-3 ² (delta)	1	\$ 6,800.00	\$ 6,800	20,400	81,600
SVO/DC Primary (delta)	1	\$ 971.00	\$ 971	2,913	11,652
Other Revenue ⁴	2	\$ 407.50	\$ 815	2,445	9,780
Router Trade-In ^{3,5}	1			\$ (53,000)	
NET Savings				\$ (194,626)	\$ (566,502)
¹ Existing MPLS contract with third party vendor does not expire until 9/2008.					
² Additional Internet bandwidth for increased state traffic.					
³ Estimate provided by third party companies.					
⁴ This assumes a third party vendor keeps connectivity to NIPR databases from WI and IL.					
⁵ In year 2011, state routers will be six years old and require a refresh at an estimated amount of \$370,446.					

VI. Alternatives or Partnerships

If the decision is made to keep the private state network, the following assumptions apply:

- State routers for the private network will require a refresh in 2011 since they will be six years old. The estimated cost for this refresh is \$370,446.
- Estimated network cost of \$642,444 per year to continue using MPLS network connectivity with minimal increase in capacity.
- Approximate maintenance cost of \$27,090 per year to carry maintenance on the associated network hardware.

- PIX firewalls for the private network will require a refresh in 2010 since they will be six years old. The approximate cost for this refresh is \$20,788.

VII. Risk Management

The Network has allowed the NAIC to maintain a separate, private connection with its state insurance departments. This proposal will eliminate this connection and the Internet will be relied upon for connectivity between the NAIC and its members. While the Internet can offer high performance as well as secured access, the Network would offer a fail-safe alternative if something were to happen to the Internet.

The landscape has changed for the Network in that many members look outside the insurance department for their technology infrastructure support and many states have located the NAIC's router to the "non-trusted" side of their network. While these changes have made troubleshooting connectivity problems a bit more difficult, the elimination of the Network will dramatically reduce the NAIC's control over connectivity with the insurance departments and the NAIC's ability to troubleshoot these problems.

The NAIC will continue to devote resources to working with states to achieve smooth connectivity over the Internet and intends to increase bandwidth as part of this proposal.

VIII. Technology Project Information

1. Description of Existing Business Process

The vast majority, although not all, of state traffic accesses NAIC and NIPR applications via the private network.

2. Business Process Changes to be Introduced through Technology

All state traffic accessing NAIC or NIPR applications will go through the Internet once the Network is no longer available.

3. Impact to Existing Systems or Projects

Application development to replace ad hoc functionality, additional database and firewall work will be required by the NAIC one-time. The states will also be required to make a one-time change.

4. Projected Resources

The chart shows the overall savings in terms of Resource Hours and Costs associated with this project:

NAIC Resource	Estimated Hours	Estimated Costs
Existing NAIC IS Staff (110 programming hours will be needed to ensure proper encryption for ad hoc reporting)	<1,950> hrs per year	N/A
New NAIC IS Employee	N/A	N/A
Outsourced IS Staffing (Consulting)	N/A	NA
Travel (Staff or Consultant)		N/A
NAIC Hardware (new purchases only)		\$397,832
NAIC Software (new purchases only)		N/A
MPLS – Network		\$556,462
Grand Total		\$954,294

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Business and Fiscal Impact Statement Project Cost Analysis
Revenues, Expenses and Capital Expenditures

ATTACHMENT I

Project/Initiative: Elimination of the State Private Data Network

2008 Budget

Business Entity (NAIC, NIPR, or HPRC): NAIC

Description	2008 Budget Spread												2008 Annual Budget	2009 Budget	2010 Budget		
	January	February	March	April	May	June	July	August	September	October	November	December				Total	
Revenues:																	
Other Income									(815)	(815)	(815)	(815)	(2,445)	(9,780)	(9,780)		
Other Income									53,000				53,000	(9,780)	(9,780)		
Total Revenues									52,185				50,555	(9,780)	(9,780)		
Expenses:																	
Cost Savings																	
Computer Services										(53,537)	(53,537)	(53,537)	(160,611)	(642,444)	(642,444)		
Equipment Maintenance										(1,900)	(1,900)	(1,900)	(5,699)	(22,794)	(22,794)		
Equipment Maintenance										(358)	(358)	(358)	(1,074)	(4,296)	(4,296)		
Total Cost Savings										(55,795)	(55,795)	(55,795)	(167,384)	(669,534)	(669,534)		
Offsetting Expenses																	
Computer Services										7,771	7,771	7,771	23,313	93,252	93,252		
Total Offsetting Expenses										7,771	7,771	7,771	23,313	93,252	93,252		
Total Expenses										(48,024)	(48,024)	(48,024)	(144,071)	(576,282)	(576,282)		
Revenues Over (Under) Expenses										100,209	48,024	48,024	194,626	566,502	566,502		



BUSINESS AND FISCAL IMPACT STATEMENT

Date Submitted: August 15, 2007

Name of Project/Initiative: Discontinue the Collection, Management and Retention of the Annual & Quarterly Financial Statement Hard Copies and Associated Supplemental Documents Associated with the Financial Data Repository (FDR) Project

Business Sponsor: Todd Sells, Director Financial Regulatory Services

NAIC Staff Support Contact Information: Diane Shruga, DShruga@naic.org, 816 783-8601

For Technology Projects

Date Information Resources Management (H) Committee Approved: N/A

Requested Project Start Date: January 1, 2008

Anticipated Completion Date: N/A

Total Project IS Resource Hours: 0

Total Revenue Amount Generated: \$0

Total Expense Amount Requested: 2008: \$74,911 expense reduction, 2009 and beyond: \$101,962/year expense reduction

I. Executive Summary

This proposal for membership consideration involves discontinuation of the collection, management and retention of past and future hard-copy annual & quarterly financial statements, along with supplemental documents. Since 1983, the NAIC has collected and retained hard-copy financial statements filed by insurers in conjunction with their Internet filing. In lieu of the hard-copy statements, the NAIC proposes using and making available the PDF-version of the annual and quarterly financial statements electronically filed with the NAIC.

The NAIC would realize cost savings associated with eliminating hard-copy collection and retention. It would also benefit insurers in that they would not have a hard-copy filing with the NAIC separate from the electronic filing. Members would continue to benefit from easy access to the electronic version of the financial statement.

For the most part, insurers are statutorily required to file their annual and quarterly statements with the NAIC. Prior to electronic filing, the NAIC only collected the hard-copy of these statements. For calendar year 1990, the NAIC began to accept electronic filings using diskettes. In 1998, through the Financial Data Reengineering Project directed by the Financial Data

Repository (E) Working Group, the NAIC launched its very successful Internet filing initiative whereby insurers, using vendor software, are able to submit their annual and quarterly statements via the Internet. In calendar year 2001, the NAIC began to capture the PDF-version of the statements for all statement types via the Internet filing. The PDF version reflects the data submitted to the NAIC in the electronic filing whereas the hard-copy filing is usually generated before the electronic filing increasing the risk of discrepancy of data.

The hard-copy annual and quarterly statements have historically been used to support both the regulatory and business operations of the NAIC. The Financial Regulatory Services Division and the annual Analyst Team (ATS) generally refer to the hard-copy statements when performing financial analysis. The Research Division also utilizes the hard-copy annual statement for verification of statistical analysis. The NAIC also makes these hard-copy annual statements available for sale through its Insurance Products & Services Division and the Education & Training Department utilizes the hard-copy in course materials and case studies. These internal areas have indicated they will utilize the PDF-version of the financial statements in the event the hard-copy collection is discontinued.

The state departments of insurance are responsible for collection and maintenance of the official executed Jurat page with original signatures. While the hard-copy version sent to the NAIC should include a signed Jurat page¹, the PDF version does not have the signature. At least nine (9) states have state laws requiring insurers to file with the NAIC their annual and quarterly statements in both electronic and hard-copy format. The NAIC Legal Division will be working with these states to determine and minimize the impact of this proposal as well as analyzing whether the PDF-version of the annual statements filed with the NAIC satisfy the hard-copy filing requirement.

Another consideration is that the NAIC does not currently capture the Risk-Based Capital Annual Statement in PDF version even though this proposal would include eliminating the hard-copy collection of this statement. The Blanks (E) Working Group will be asked to consider this proposal and whether any changes need to be made to the Annual Statement Instructions and Specifications.

II. Benefits of Project/Initiative to NAIC Members

This proposal for the NAIC to discontinue the collection, management and retention of hard-copy annual & quarterly financial statements, along with supplemental documents, would have the following benefits:

- Eliminate a very time-consuming, paper-intensive process associated with the collection and retention of the hard copy version of the annual and quarterly statements in favor of relying on the PDF-version of these statements.
- The NAIC will save significant costs in terms of temporary staffing, supplies and physical storage.
- Users of the annual and quarterly statements (whether NAIC members, staff, Analyst Team or customers) will continue to have easy access to the PDF-version of these statements.

¹ In the intake process, the NAIC does not verify a signature on the hard-copy.

- The PDF-version of the annual and quarterly statements is a more accurate reflection of the data submitted in the insurer's electronic filing as compared to the hard-copy filing, given the timing of submissions.
- This proposal is in line with the mission of the NAIC to leverage technology to support state-based regulation while reducing the costs associated with the Financial Data Repository project.

Other efficiencies and benefits gained from this proposal include:

- NAIC staff resources that would otherwise be devoted to collection of hard-copy filings would be available for priority projects.
- The 7th floor file room could be reallocated for other uses.
- Fourteen cubicles could be freed up and made available to NAIC staff or Interns. (These are the cubicles currently used by contingent staff that helps support this service.)
- Fourteen PCs in the Data Services area could be reallocated elsewhere within the NAIC or made available to Interns.
- The NAIC could provide a printed PDF version of the company's financial filing instead of incurring a Corporate Records Systems (CRS) charge to retrieve and deliver a file from off-site storage in response to subpoena requests.
- Eliminating the thousands of pieces of mail the NAIC must open and scan barcodes as received during the following filing periods: March 1, April 1, May 1, May 15, June 1, August 15, and November 15.

III. Stakeholders

The primary stakeholders include NAIC staff, state insurance regulators and insurers.

The NAIC will need to change its procedures as it moves away from the hard-copy versions to the PDF version of the annual and quarterly financial statements. The IS Division will change its processes associated with management of the tremendous volume of hard-copy filings each quarter and will no longer need to hire temporary staffing. Office Services will no longer maintain in excess of 8,000 boxes representing ten years worth of hard-copy annual and quarterly statements. Several NAIC Divisions and the Analyst Team will save time and effort by retrieving these statements electronically rather than waiting for the hard-copy to be delivered from off-site storage.

There will be a one-time effort for both the NAIC and annual statement vendors associated with changing the annual statement specifications, and related security settings, to capture a PDF version of the Risk-Based Capital Statement in order to offset the impact of eliminating hard-copy collection of this statement.

The PDF version of these statements will be more accurate representations of the insurer's electronic filing and as such provide to NAIC customers the most up-to-date information that the insurer has provided to the NAIC.

NAIC members and state insurance regulators in general, will be able to rely upon the PDF-version of the annual statement collected by the NAIC and made available through I-SITE. While this functionality has been available for quite a few years, use of the PDF version in lieu

of the hard-copy version will increase the accessibility and ease of use for regulators as well as be a more accurate representation of insurer information available through the Financial Data Repository.

IV. Business and Operational Impact

The chart below outlines areas impacted by the discontinuation of the financial statement hard copy collection and management along with supplemental documents.

AREAS OF IMPACT

Area of Impact	Impact of Discontinuation	Current Usage
Risk-Based Capital	This is the only financial document not filed as a PDF today. Collection of an RBC PDF would need to be approved by Capital Adequacy (E) Task Force & Blanks (E) Working Group and adequate advance notice provided to the software vendors.	Financial analysts rely on the hard copy RBC report currently stored with the annual financial statement.
Financial Regulatory Services	<u>Accounting & Reporting Unit:</u> Analyst would need to rely on the PDF version of the same documents. <u>FAWG:</u> Supplemental hard copies would not be available for financial analysts to use when the electronic filing is missing a component. This may require additional resources to follow-up with individual insurers.	<u>Accounting & Reporting Unit:</u> Primary financial analysts refer to the hard copies as part of their financial review. <u>FAWG:</u> Financial analysts rely on the hard copy when a company fails to file their organizational chart as part of the PDF.
Insurance Products & Services	IPSD would no longer use the hard-copy annual statements for the generation of revenue. This impact is viewed as minimal as IPSD would provide the PDF version.	2006 photocopy sales totaled \$39,272. Total photocopy sales as of July 2007 totaled \$29,737.
Research	With hard copy no longer available, users would have to rely on the PDF version of the same document.	Staff uses hard copies as part of their financial review and research.

Area of Impact	Impact of Discontinuation	Current Usage
Education & Training	With hard copy no longer available, users would have to rely on the PDF version of the same document.	Staff use hard copy to prepare training and education programs.
Analyst Team Project (ATS)	<p>With hard copy no longer available, users would have to rely on the PDF version.</p> <p>Dedicated printers would be needed to allow the regulator to print off PDF versions of financial statements and other reports.</p> <p>A technology solution would be needed to address viewing financials on-line while completing tasks (i.e., analysis) in another document or application at the same time.</p>	Approximately 900 hard copy annual financial statements are provided to the regulators, along with printouts of IRIS ratios, scoring system and profile reports that are used in the analysis process.
NAIC Legal	<p>With hard copy no longer available, Legal would have to rely on the PDF version of the same document.</p> <p>A method of electronic documentation retention for insolvent companies would need to be developed. Currently the method is to copy and store the financial data to DVD. The same process could be used for the PDF data.</p>	Hard copy financial statements are produced when responding to subpoenas.

Other operational impacts include reducing the amount of time spent by the Human Resources staff in overseeing the specifics involved in obtaining and maintaining contingent staffing. It will also reduce the amount of time the Data Services staff spend training, coaching, counseling the contingent staff.

The NAIC, working with the applicable working groups, would develop procedures associated with using the PDF version of the annual and quarterly statements as the filing of record with the NAIC including a manner to determine the date of receipt as well as associated I-SITE and ad hoc queries.

V. Financial Impact

This proposal to discontinue the hard-copy collection and retention of annual statements is expected to have a positive multi-year impact by reducing the expenses associated with providing this service.

The chart below outlines the annual expenses associated with the collection and management of the financial statement hard copies along with supplemental documents. If this service was eliminated these expenses would represent annual cost savings.

BUDGET IMPACT

Resources	Comments	Annual Cost
Contingent Staff	Costs included: <ul style="list-style-type: none"> • 3,496 hours @ the current bill rate of \$13.51 to support file management, including opening the mail. • 356 hours @ the current bill rate of \$13.51 to support the Analyst Team project 	\$52,040
Supplies	Items included: <ul style="list-style-type: none"> • File jackets that hold the annual statement and related hard copy documents. • File jackets that hold 3 quarterly statements and related hard copy documents. 	\$21,907
Corporate Records Annual Charges	Items included: <ul style="list-style-type: none"> • Annual expense for Corporate Records staff to pick up the files for off-site storage. • Annual expense for off-site storage of 8,116 boxes of annual & quarterly statements. 	\$17,357
Corporate Records Annual Charge to Destroy Boxes	In calendar year 2006, Corporate Records systems (CRS) destroyed a total of 800 boxes of annual and quarterly financial statements and associated documents.	\$2,400
Insurance Products & Services	Items included: <ul style="list-style-type: none"> • IPSD would eliminate \$5,000 of warehouse expense associated with pulling in hard copy, from warehouse storage to fulfill orders. 	\$5,000
Mail Services	Items included: <ul style="list-style-type: none"> • \$1,100 in annual Postmaster fee for PO Box 417009 • \$982 in annual fees for direct messenger to pick up and deliver PO Box mail 	\$2,082
Smeadlink File Room Express/IAccess	Annual maintenance contract for the 3 rd party vendor software used to scan documents received.	\$2,024
Kronos	Annual maintenance contract for 3 rd party software and hardware used by contingent staff for tracking work time.	\$1,144
	Potential Annual Savings	\$103,954

In addition to dollar savings, as outlined above, there would be approximately 80% of a full-time employee directly freed up to work on other projects for an estimated impact of \$32,000.

It is important to note that in the first several months, there will be expenses associated with implementing this proposal that would offset the initial year's cost savings. These expenses include:

ONE-TIME EXPENSES OFFSETTING FIRST YEAR COST SAVINGS

Expenses associated with destruction of annual and quarterly statements for data years 1996 - 2006 (8,120 boxes at \$3.00 per box)	\$24,348
Expenses associated with enabling PDF Accessibility for the Analyst Team Project ² : 1 Printer @ \$3,584 * 17 Video Cards @ \$159 ea = \$2,703 17 Monitors @ \$192 ea = \$3,264 * *These costs would be amortized over three to four years.	\$9,551
Estimated IT resource hours to change annual statement specifications to capture PDF version of Risk-Based Capital Annual Statements	80 hours
TOTAL OFFSETTING EXPENSES	\$33,899

VI. Alternatives or Partnerships:

An alternative would be to maintain the status quo. The NAIC would continue the collection, management and retention of the annual & quarterly statement hard copies and associated supplemental documents. The NAIC would incur the direct and indirect costs associated with this activity including maintaining temporary staffing and physical storage of the hard-copy. The NAIC may still consider fulfilling customer requests with the PDF version of the annual and quarterly statements as it increases its electronic delivery of its data products.

VII. Risk Management

At least nine (9) states have specified in their law that insurers file their annual and quarterly statements in both electronic and hard-copy format with the NAIC. Also, states may rely upon the NAIC's collection and retention of the hard-copy annual statement. This proposal is being referred to the Financial Conditions (E) Committee in order to allow states to review the impact of this proposal on their processes as well as provide comments and a recommendation whether to move forward with this cost-saving proposal. The Legal Division will also reach out to those states with laws that reference an NAIC hard-copy filing requirement.

The original and raw electronic form of each company's financial filing, including PDF, for a ten year period is stored on the database which is backed up onto a separate medium on a daily basis

² These expenses may be reduced through reallocation of existing equipment that would no longer be used if this proposal were approved.

for disaster recovery purposes. Elimination of the hard copy statement would reduce a potential form of verification for the PDF version of these statements.

The Risk-Based Capital annual and quarterly statements are not currently collected in PDF format so that it would not replace the elimination of the hard-copy RBC statement. If this proposal were approved, this issue would need to be addressed by the Blanks (E) Working Group as it would require a change to the Annual Statement specifications in order to capture the PDF.

VIII. Technology Project Information

Not Applicable.

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Business and Fiscal Impact Statement Project Cost Analysis
Revenues, Expenses and Capital Expenditures

ATTACHMENT I

Project/Initiative: Discontinuation of Collection, Management and Retention of Hard-Copy Annual Statements
2008 Budget

Business Entity (NAIC, NIPR, or HPRC): NAIC

Description	2008 Budget Spread												2008 Total	2009 Budget	2010 Budget		
	January	February	March	April	May	June	July	August	September	October	November	December					
Revenues:																	
Revenue Line	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses:																	
Cost Savings																	
Contingent Staffing	(52,040)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(4,337)	(52,040)	(52,040)
Supplies	(21,907)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(1,826)	(21,907)	(21,907)
Corporate Records Storage	(19,757)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(1,646)	(19,757)	(19,757)
Order Fulfillment Charges	(5,000)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(417)	(5,000)	(5,000)
Mailing Services	(2,082)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(174)	(2,082)	(2,082)
Maintenance (Smeadlink/Kronos)	(3,168)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(264)	(3,168)	(3,168)
Total Cost Savings	(103,954)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(8,663)	(103,954)	(103,954)
Offsetting Expenses																	
Corporate Records Destruction	24,048	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24,048	-
Equipment	2,703	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,703	-
Depreciation	2,292	191	191	191	191	191	191	191	191	191	191	191	191	191	191	2,292	-
Total Offsetting Expenses	29,043	26,942	191	29,043	-												
Total Expenses	(74,911)	18,279	(8,472)	(74,911)	(103,954)												
Revenues Over (Under) Expenses	74,911	(18,279)	8,472	74,911	103,954												
Capital:																	
Monitors	3,584															3,584	-
Printer	3,264															3,264	-
Total Capital	6,848	6,848	-	6,848	-												

**Unrestricted
Net Assets**

2008 Consolidated Budget Unrestricted Net Assets

	<u>Total</u>	<u>Allocated (4)</u>	<u>Unallocated (4)</u>	<u>Regulatory Modernization and Initiatives Fund (5)</u>
2001 Ending Balance	\$ 34,928,249	\$ 32,876,165	\$ 2,052,084	
2002 Revenues Over/(Under) Expenses	4,968,653			
Minimum Pension Liability Adjustment (1)	<u>(2,909,696)</u>			
2002 Ending Balance	\$ 36,987,206	\$ 32,134,539	\$ 4,852,667	
2003 Revenues Over/(Under) Expenses	4,129,526			
Minimum Pension Liability Adjustment (1)	<u>709,133</u>			
2003 Ending Balance	\$ 41,825,865	\$ 36,943,205	\$ 4,882,660	
2004 Revenues Over/(Under) Expenses	6,157,565			
Minimum Pension Liability Adjustment (1)	<u>2,200,563</u>			
2004 Ending Balance	\$ 50,183,993	\$ 49,375,106		\$ 808,887
2005 Revenues Over/(Under) Expenses	4,453,238			
Minimum Pension Liability Adjustment (2)	<u>(283,714)</u>			
2005 Ending Balance	\$ 54,353,517	\$ 53,524,074		\$ 829,443
2006 Revenues Over/(Under) Expenses	4,976,189			
Minimum Pension Liability Adjustment (2)	<u>(677,226)</u>			
2006 Ending Balance	\$ 58,652,480	\$ 57,770,373		\$ 882,107
2007 Projected Revenues Over/(Under) Expenses	2,901,418			
Minimum Pension Liability Adjustment (2)	(839,060)			
Funding status obligation under FAS 158 (PBO basis) (3)	<u>(5,300,000)</u>			
2007 Projected Ending Balance	\$ 55,414,838	\$ 54,583,615		\$ 831,223
2008 Proposed Revenues Over/(Under) Expenses	<u>1,889,983</u>			
2008 Proposed Ending Balance Before Business and Fiscal Impact Statements	\$ 57,304,821	\$ 56,445,249		\$ 859,572
2008 Proposed Business and Fiscal Impact Statements	<u>(76,507)</u>			
2008 Proposed Ending Balance After Business and Fiscal Impact Statements	<u>\$ 57,228,314</u>	\$ 56,369,889		\$ 858,425

(1) On December 31, 2002, the NAIC recorded a minimum pension liability in compliance with Statement of Financial Accounting Standards (FAS) No. 87, Employers' Accounting for Pensions. The reporting of this adjustment as a separate component of unrestricted net assets is required under Generally Accepted Accounting Principles (GAAP). The minimum pension liability improved at December 31, 2003, and ultimately reduced to \$0 at December 31, 2004.

(2) On December 31, 2005, the NAIC recorded another minimum pension liability in compliance with Statement of Financial Accounting Standards (FAS) No. 87, Employers' Accounting for Pensions. This liability increased at December 31, 2006 and is projected to increase again at the end of 2007.

(3) Statement of Financial Accounting Standards (FAS) No. 158 Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans requires plan sponsors to reflect the funded status of their defined benefit plans on a company balance sheet on a projected benefit obligation basis. This is accomplished through a one time adjustment to unallocated net assets, or net equity of the Association.

(4) On March 8, 2003, the Internal Administration (EX1) Subcommittee designated 60% of General Fund operating expenses as allocated unrestricted net assets. During 2004, the subcommittee revised its operating reserve policy to target a 100% allocation of the next years budgeted operating expenses and requested a formal review of the appropriateness of the reserve level. In August 2005, as a result of analysis of the operating reserve performed by an independent consultant to evaluate the NAIC's reserve policy, review the risks and uncertainties facing the NAIC, and make a recommendation for a prudent operating reserve policy, the NAIC Executive Committee adopted a revised operating reserve policy, representing an 80% liquid reserve target. The NAIC defines this liquid reserve target as the ratio of consolidated net assets less fixed assets to consolidated operating expenses for the upcoming year.

(5) The NAIC instituted the Regulatory Modernization and Initiatives Fund in 2004 during the 2005 budget process to manage spending beyond the proposed budget by establishing spending guideline for new initiatives and proposals submitted subsequent to the annual budget presentation. The fund balance was established at 1.5% of budgeted consolidated net assets.

Services to Members



Summer 2007



National Association of Insurance Commissioners

Services to Members

Summer 2007



**National Association
Of Insurance Commissioners**

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NAIC Profile

Communication and collaboration with our members are ongoing priorities for the NAIC. Our mission is to support you in ways that enhance state insurance regulation. Inside this brochure you will find the many ways NAIC staff strives to provide responsive, efficient, and cost-effective resources that go hand-in-hand with you and your staff's efforts to achieve your state insurance regulatory goals.



Headquartered in Kansas City, Missouri, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia, American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the Virgin Islands.



As a 501(c) 3 non-profit association, the NAIC provides its members a forum for discussing common interests and working cooperatively on insurance regulatory matters that transcend the boundaries of their own jurisdictions. The NAIC's prevailing objective is to assist state insurance regulators in protecting consumers and helping maintain the financial stability of the insurance industry by offering a wide array of expertise.

Formed in 1871, the NAIC is the oldest association of state officials. For more than 135 years, state-based insurance supervision has served the needs of consumers, industry and the business of insurance at-large by ensuring hands-on, frontline protection for consumers, while providing insurers the uniform platforms and coordinated systems needed to compete effectively in an ever-changing marketplace.

Information about NAIC officers, Annual Report and financial highlights can be found on our Web site at www.naic.org/index_about.htm.

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Member Role, Committee System and Zones



Vice President and CEO (EVP/CEO) to learn first-hand the breadth of services and resources available to members.

A complete list of the NAIC membership can be found on our Web site at, http://www.naic.org/documents/members_membershiplist.pdf. You may also go to http://www.naic.org/members_com_list.htm to view photos and biographies of any member.

2 The NAIC committee system is the primary means for commissioners to become actively involved in the association. Each commissioner serves, or delegates a state insurance department staff member to serve on various NAIC committees, task forces and working groups. Each November, the NAIC EVP/CEO surveys commissioners regarding their committee participation preferences for the following calendar year.

The annual NAIC commissioner conference is a vital component of our committee system. The conference provides a forum for reviewing our strategic plan for the upcoming year and setting goals and priorities for the NAIC. During the conference, the NAIC Executive Committee adopts the charges assigned to the committees, subcommittee and task forces for the calendar year.

To accomplish the purposes of the NAIC in a timely and efficient manner, the membership is divided into four zones. Each zone consists of a group of at least eight states, located in the same geographical area, with each state being contiguous to at least one other state in the group so far as practicable, plus any territory or insular possession that may be deemed expedient, all as determined by majority of the Executive Committee. Members of each Zone annually elect a chairman, a vice chairman, and a secretary from amongst themselves by the Winter National Meeting. These officers of each zone shall be members of the Executive Committee of the NAIC. Each zone may hold zone meetings for such purposes as may be deemed appropriate by members of the zone. A listing of zone members can be found at http://www.naic.org/index_members.htm.

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Executive Department

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Sr. Executive Administrator
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Committee Structure

The standing committees and task forces of the NAIC meet at least twice a year at national meetings, and as often as required to complete their charges. Except for the change in membership each year to the standing committees, these committees continue from year to year.



The task forces of the NAIC that have not been designated standing task forces terminate at the end of the last national meeting of the calendar year, unless the parent committee recommends continuing the task force for another year and is adopted by the Executive Committee. Additionally, the

Executive Committee may adopt a recommendation of the parent committee that a task force be designated a standing task force.

Working groups of the NAIC terminate at the end of the last national meeting of the calendar year and may be reappointed by the chair of the committee or task force to which they report, after the Executive Committee adopts the committee, subcommittee, and task force charges for the upcoming year.

A complete listing of the membership of all committees, task forces, working groups and subcommittee, and their charges can be viewed at www.naic.org/index_committees.htm. Proceedings, Synopsis, and Minutes for all committee work can be found at our regulator-only Web site at, http://www.naic.org/meetings_minutes.htm.

The following depicts the current structure of the NAIC Committees, Task Forces, and Executive Committee Working Groups. Each November, members have an opportunity to request their committees of interest for the following year. NAIC officers use this information to appoint members for each group.

Member Services and Initiatives Division

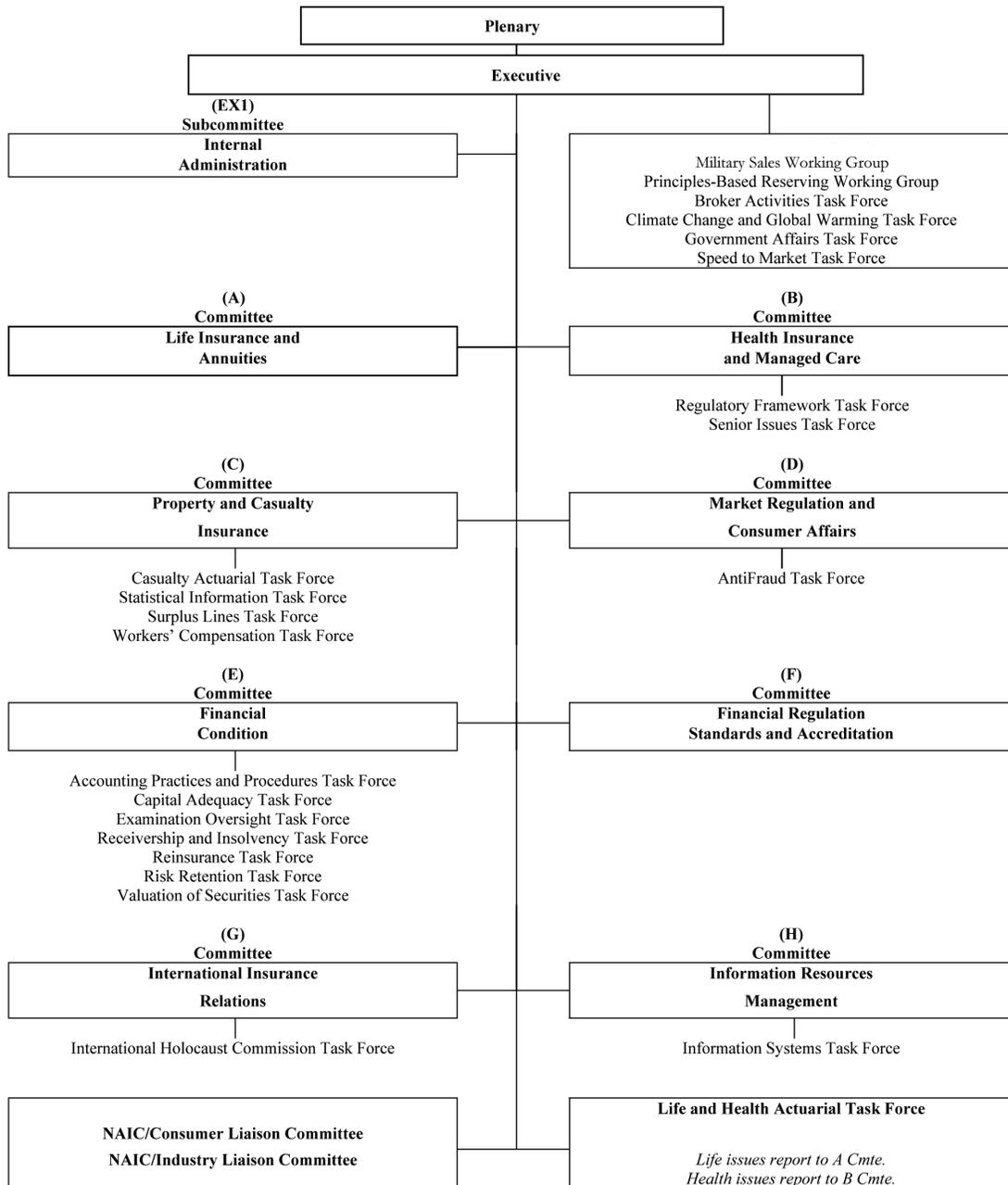
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Committee Structure

NAIC Committee Structure



NAIC Quarterly National Meetings

NAIC members travel to the NAIC quarterly national meetings, where committees, task forces and working groups convene in over 100 separate public and executive sessions. National meetings typically open Saturday and conclude Monday. In a joint voting session of Executive/Plenary, the membership adopts actions from the previous quarter's national meeting, among other agenda items. Working groups and task forces with a considerable number of charges or time certain deadlines may also hold interim meetings between quarterly national meetings.

The national meeting location, including the hotel headquarters, is determined four to five years in advance. Meeting registration and hotel accommodations for commissioners and state insurance department staff are arranged by the NAIC Meetings Department.

In addition, the Meetings Department will handle the arrangements for the various interim NAIC meetings. The Meetings Department also offers meeting planning support for states or NAIC zones hosting other NAIC events.

The NAIC is committed to conducting its business openly, subject to the discretion of the chairpersons and in accordance with the NAIC's adopted open meetings policy.

A current quarterly national meetings schedule and information can be found at http://www.naic.org/meetings_home.htm. A resource notebook containing detailed information is also provided to members in advance of each quarterly national meeting and a synopsis is published after each meeting.

NAIC Meetings Department

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Meetings Calendar

YEAR	SPRING	SUMMER	FALL	WINTER
2007	March 9-12, 2007 New York, NY Hilton New York	June 1-4, 2007 San Francisco, CA San Francisco Marriott	Sept. 28 - Oct. 1, 2007 Washington, D.C. Marriott Wardman Park	Nov. 30- Dec. 3, 2007 Houston, TX Hilton Americas
2008	March 28 - April 1, 2008 Orlando, FL Gaylord Palms Resort	May 31 - June 3, 2008 San Francisco, CA San Francisco Marriott	Sept. 20-23, 2008 Washington, D.C. Gaylord National Resort	Dec. 6-9, 2008 Grapevine, TX Gaylord Texan Resort
2009	March 14-17, 2009 San Diego, CA Manchester Grand Hyatt	June 13-16, 2009 Minneapolis, MN Hilton Minneapolis	Sept. 19-22, 2009 Washington, D.C. Gaylord National Resort	Dec. 5-8, 2009 Honolulu, HI Hilton Hawaiian Village

For National Meeting registration forms and interim meeting information, visit www.naic.org.

Awards and Scholarships



ROBERT DINEEN AWARD

The members of the NAIC created the Robert Dineen Award in 1989 to honor a state insurance department employee for his or her outstanding contributions to state insurance regulation. A former Superintendent of the New York Insurance Department, Robert Dineen was the “founder” of the modern day NAIC. Today, the Dineen Award Hall of Fame showcases over 20 regulators who have achieved this high standard of excellence.

Executive Department

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PAUL DeANGELO PROFESSIONAL DEVELOPMENT SCHOLARSHIP

In May 2000, the NAIC Education and Research Foundation established a scholarship in memory of Paul DeAngelo, formerly with the New Jersey Insurance Department, in recognition of his contributions in the area of market conduct insurance regulation. This professional development scholarship enables insurance regulators to attend NAIC-sponsored education programs. More information regarding this scholarship may be found at: www.naic.org/index_members.htm.

ESPRIT DE CORPS AWARD

NAIC leadership bestowed its first Esprit de Corps Award in 2006 to recognize a state insurance department’s outstanding service to the NAIC and the demonstration of a spirit of cooperation with its members. The name of the award was chosen because “Esprit de Corps” is defined as “a common spirit of comradeship, enthusiasm and devotion to a cause among the members of a group.”

GRANT & ZONE FUNDS

Each year NAIC allocates funds that can be used by state insurance department regulators to help offset costs associated with attending NAIC-sponsored education and training programs.



Accreditation Program

Amicus Briefs / Compendiums / Model Laws / Annual Statement Filings



ACCREDITATION PROGRAM

The Accreditation Program establishes requirements under which a state insurance department may seek accreditation, based on the Financial Regulation Standards adopted by the membership in 1990. Additionally, the program establishes guidelines for states already accredited, to maintain their accredited status. Additional details about this program can be found at our Web site at, www.naic.org/frs_home.htm.

AMICUS BRIEFS / COMPENDIUMS / MODEL LAWS

The NAIC Legal Division, with the consent and direction of the Executive Committee, participate as Friend of the Court in cases of nationwide impact and significance.

They also maintain a three-volume Compendium, which is a compilation of legislative and regulatory data. It consists of more than 100 issue-specific charts, combining states' statutes and regulations on various insurance topics in a concise and clear format.

Attorney staff maintains and updates all NAIC Model Laws, Regulations and Guidelines, as well as monitor the enactment of model laws by the states. Updates of relevant case law are also prepared for the model laws.

To receive copies of NAIC Model Laws, Compendiums or other NAIC Legal information, please contact the Legal Division or find more information at www.naic.org/legal_home.htm.

ANNUAL & QUARTERLY INSURANCE COMPANY FINANCIAL STATEMENT FILING AND DATA REPOSITORY

The NAIC Official Annual Statement Blank publications are the templates for statutory financial statements filed by insurers with the NAIC on behalf of state insurance departments. The NAIC Annual Statement Instructions manuals provide explanatory guidance for completing the entries into the annual statement blanks. The content of these two publications is managed by the Blanks (E) Working Group, which reports to the Accounting Practices and Procedures (E) Task Force and ultimately to the Financial Condition (E) Committee. Information about the procedures of this Working Group and their current items is available on the NAIC Web site at www.naic.org/committees_e_app_blanks.htm.

The insurance company financial statement electronic filings are submitted to the NAIC quarterly, where data is stored and made available for analysis by all state insurance regulators online. Combined with the codified body of accounting guidance in the NAIC Accounting Practices and Procedures Manual, the annual statement continues to be an essential tool that allows regulators to understand and compare statutory financial statements from insurers in differing state jurisdictions. This comparability is also a key benefit that allows the NAIC to provide several automated financial analysis and prioritization tools for regulators.

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Dan Daveline
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Education and Training Programs



The NAIC Education & Training Department offers more than 50 insurance education courses and seminars annually. Topics include market regulation, financial solvency, legal seminars, statutory accounting and reporting, annual statement preparation, reinsurance, and fraud investigation. Classes are offered in a variety of formats including the traditional classroom setting, online facilitated courses, webinars and self-study.

INSURANCE REGULATOR PROFESSIONAL DESIGNATION PROGRAM

In October 2006, the NAIC launched the Insurance Regulator Professional Designation Program for state insurance regulators at all professional levels. The mission of this program is to provide professional growth opportunities for state insurance regulators and promote improved regulators' knowledge, skills and best practices in the areas of consumer protection, market conduct and insurer solvency regulation. To learn more about NAIC Education & Training courses and Professional Designation Program, go to our Web site www.naic.org/education_home.htm.

E-REGULATION CONFERENCE

The NAIC's E-Regulation conference provides regulators and insurers the opportunity to learn about new technology and modernization efforts available for state insurance regulation. In addition, the conference offers a forum for regulators and insurers to collaborate on issues of common interest and develop solutions that are effective in meeting the needs of government and business.

FINANCIAL SUMMIT

The Financial Regulatory Services Division of the NAIC hosts an annual Financial Summit, which features more than 30 sessions highlighting the latest in regulatory financial initiatives. The Summit targets regulators who are directly involved in the accreditation process and oversight of their domestic companies' key financial solvency issues. It also provides industry participants with updated information on NAIC's financial initiatives.

COMMISSIONERS FORUM

The annual Commissioners Forum is held at the NAIC Headquarters and is designed to enhance skills that will improve effectiveness in state insurance regulation. Intended for chief insurance regulators and their senior staff, this SPIR-level Designation course includes instruction on critical regulatory initiatives; best practices for working with legislatures, consumers, government agencies, and other organizations; tools available to increase the efficiency and effectiveness of insurance regulation and a media/communications workshop.

Detailed information regarding any of these programs can be requested from the Education and Training Department or by visiting the www.naic.org.

EXPENSE REPORTING

When attending various NAIC training programs, regulator expenses may be reimbursable by the NAIC through grant funds, zone funds or scholarships. To learn more about which programs may qualify for reimbursement, or to learn how to submit the appropriate NAIC expense reimbursement form, contact the NAIC Accounting Department.

Education & Training Department

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Federal and International Government Relations Office



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The NAIC Government Relations office is the point of contact for the NAIC and state departments of insurance on federal legislative, regulatory and international issues. The office prepares and circulates the Federal Affairs Capitol Report to keep members briefed on key issue developments. This office works closely with key federal regulatory bodies to ensure coordination on regulatory matters and facilitate effective communication among federal and state regulators.

CAPITOL HILL

The NAIC serves as the primary liaison between state insurance departments and the U.S. government. Besides monitoring federal activity that may affect the states' jurisdiction over the insurance industry, the NAIC advises members and helps them to develop national regulation strategies and new policies. A legislative update is distributed to all members monthly.

TESTIMONIES

As part of our ongoing efforts, the NAIC coordinates with members to offer testimony to the U.S. House and Senate. NAIC members who are participating in committees, subcommittees or working groups within the association that address key regulatory and policy issues usually present this congressional testimony. One of the primary goals in testifying is to ensure states continue to have the ability to exercise their full range of powers to regulate insurance for the benefit of consumers.

Federal and International Government Relations Office



FEDERAL RELATIONS

Government Relations staff continually monitors congressional and federal regulatory interest and action on matters related to (non-health) insurance supervision and products; prepares and circulates legislative summaries and reports to insurance commissioners and state departments; recommends and implements legislative and regulatory strategies; prepares testimony, correspondence and briefing materials; and facilitates communication with and technical assistance to Congress and the federal agencies to advance and preserve state insurance supervision and consumer protections.

STATE GOVERNMENT RELATIONS

Staff provides support for the NAIC Government Affairs (EX) Task Force and the NAIC Industry Liaison Committee. They coordinate NAIC interactions with state government associations and groups, including the National Governors' Association (NGA), the National Conference of State Legislatures (NCSL), National Conference of Insurance Legislators (NCOIL), and the State Financial Regulators Roundtable (SFRR).

HEALTH POLICY & LEGISLATION

This department is the point of contact on all federal legislative and regulatory activities impacting health insurance and for all health insurance model laws and regulations.

INTERNATIONAL RELATIONS

This department actively engages in regulatory cooperation with international insurance regulators through Memoranda of Understandings (MOU's) and support individual members in providing developing regulatory agencies with technical assistance. The NAIC is a founding and active member of the International Association of Insurance Supervisors (IAIS). Staff provides research and assistance for members who participate in these international working groups. Starting in 1997, the NAIC began an international internship program, hosting insurance regulators in several countries enhance their insurance regulatory expertise. To date, the NAIC has hosted 36 interns from around the world.

Communications and Consumer Education

The NAIC Communications Division manages external and internal communications for the organization. The department strives to improve internal communications and works with external media to present a positive message about the process of, and consumer benefits provided by, state insurance regulation. Through news releases, articles, speeches and other written materials, the department tells the story of the NAIC and state regulation.

INSURE U — CONSUMER EDUCATION PROGRAM

The NAIC has created the Insure U – Get Smart About Insurance program to help consumers make educated decisions about insurance. The Web site provides insurance information specific to each life stage - Young Single, Young Family, Established Family and Empty Nester. Consumers can also take quizzes and print a diploma upon successful completion. Information on the Insure U program can be found at www.InsureUonline.org.



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PIO TOOLKIT

The Public Information Officer (PIO) Toolkit is a selection of information specifically designed to help state insurance department PIO's with years of experience, or who are new to their post. The toolkit provides a sample of all the publications provided by the NAIC Communications/Media Division, as well as tips for using these publications to gain positive exposure for the state insurance department. The toolkit includes tips for effectively dealing with the media in crises situations, as well as on a day-to-day basis. A toolkit can be obtained by contacting the Communications Division

CONSUMER ALERTS

The NAIC develops and distributes consumer alerts that cover a wide range of topics. These include timely weather-related alerts; financial considerations such as protecting yourself against identity theft; looking out for small businesses, and helping explain complicated issues such as Medicare Part D. The NAIC also offers auto, health, home and life insurance guides—available at no cost to consumers. Consumer alerts may be found at www.naic.org/consumer_home.htm.

DAILY CLIPS

Communications and Consumer Education

The NAIC Communications Division provides a service of distributing clippings of important NAIC/Insurance news from the national mainstream and trade publications. These clips represent the best and most informative press coverage of the NAIC and state departments. The clips are distributed daily via e-mail to regulators.

E-NEWS

Electronically published each week, E-News is a collection of news from the member states and territories of the NAIC. It is distributed via e-mail and posted on the NAIC Web site at www.naic.org/press_home.htm.

NAIC NEWS

Published monthly, NAIC News is a printed publication that highlights the activities of the NAIC. It also includes columns written for subscribers by members and regulators. Copies of the NAIC News are provided free of charge to each state department.

DAILY NEWS

The Communications staff reports on key events occurring at the quarterly NAIC national meetings through the NAIC Daily News. This timely publication contains news announcements and information on the very latest actions of NAIC committees and other meetings.



Publications and Data Products

The NAIC is the authoritative source for insurance information. Our expert solutions support the efforts of regulators, insurers and researchers by providing detailed and comprehensive insurance data. The Insurance Products and Services Division also markets and maintains the System for Electronic Rate and Form Filing (SERFF) and State Based Systems (SBS) which are used by state insurance departments to provide electronic, uniform solutions for regulatory functions.

Following are the top-five most requested NAIC publications products:

Insurance Department Directory contains a complete listing of the 55 insurance departments that are members of the NAIC. The directory provides biographical and contact information for each regulator, as well as important information concerning key personnel, including titles, telephone numbers, Web sites and e-mail addresses.

The Synopsis is a brief, handy overview of the activity from each NAIC national meeting. It also includes summaries of interim meetings, task force updates, progress reports, issue debates and new business discussions. The Synopsis is available on our regulator-only Web site that can be found at: http://www.naic.org/meetings_minutes.htm.

Accounting Practices and Procedures Manual—This annually updated manual includes all statutory accounting guidance that has been adopted by the NAIC as of March of the current year. Appendices contain excerpts of applicable NAIC model laws, interpretations of the Emerging Accounting Issues Working Group, actuarial guidelines, GAAP to SAP cross-reference chart, issue papers and policy statements. The manual is available on CD-ROM, providing instantaneous search capabilities.

Annual and Quarterly Statement Blanks—To be used with its companion products, this annually updated publication provides the appropriate electronic format for filing quarterly and annual statement data with the NAIC on behalf of state insurance departments.

Annual and Quarterly Statement Instructions—Includes an annually updated summary of changes to the financial statement instructions. When used with its companion products, it allows for proper preparation of annual and quarterly statements, including all supplemental information that must also be filed to remain in compliance with NAIC mandates. Instructions provide guidance for completing the various pages of the statements when line descriptions may not be self-explanatory.

Financial Condition Examiners Handbook—This handbook provides a guide to assist state insurance departments in establishing an effective examination system. It provides an overview of the entire examination process and then offers specific instructions and suggestions for carrying out each individual phase of examination. This handbook is also available on CD-ROM, providing search capabilities. Single user and network versions are available.

Members have electronic access to these and 100+ other NAIC publications free-of-charge from our regulator-only Web site.

Insurance Products & Services Division

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Research and Statistical Analysis

RESEARCH DEPARTMENT

The NAIC Research Department is committed to providing insurance regulators, consumers, academics, industry and government entities and other interested persons with insurance statistical, financial and market conduct information for both economic analysis and regulatory monitoring of the insurance marketplace.

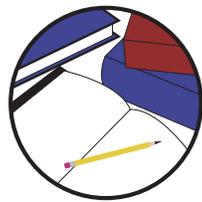
The Research department staff distributes the Research Quarterly, which provides a forum for discussing current regulatory issues, financial topics and market trends, while featuring NAIC research and statistical analysis. This publication contains information regarding projects, programs and products developed by NAIC committees and working groups, packaged in feature-length and shorter articles of interest to regulators and non-regulators alike.

The Insurance Department Resources Report provides key statistics on the resources and regulatory activities of the 55 NAIC-member jurisdictions. Comparative reports include a variety of information including number of departmental staff, annual budgets, revenues collected, premium volume, number of insurers and producers, and number of consumer complaints filed. Data is displayed for easy reference and comparison.

RESEARCH LIBRARY

The mission of the NAIC Research Library is to provide timely and relevant reference and research services to state insurance departments and NAIC support staff. The library contains a specialized collection of over 12,000 books, studies and reports, dating back to the first

Your Information Source



NAIC Research Library

published NAIC Proceedings in 1871. The periodicals collection contains over 250 insurance industry and legal publications. Back issues of insurance journals and magazines are available in hard copy and microfilm for reference and research. Online sources such as Dun & Bradstreet, Lexis/Nexis, Westlaw, Factiva/DowJones, and numerous Internet resources also provide information to assist with a variety of insurance-related research requests.

The Research Library catalog is available online at <http://bibliotech2naic.org/library/frame/htm>. The catalog can provide real-time access to a variety of resources such as, insurance industry news from the Insurance Journal, news from your home state, or a synopsis of the “Top 10” industry issues. Information can be provided in full text documents currently linked to the catalog, as well as the ability to search its full collection.

Insurance departments are encouraged to call the library for any of their research requests needs. Their contracts with the Copyright Clearance Center and the Insurance Information Institute include state regulatory offices, and permit research and document delivery from a variety of resources.

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Securities Valuation Office

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In 1907, the NAIC recognized the need for standardization of securities valuation among the states. The NAIC established the Committee on Valuation of Securities and published the first volume of Valuation of Securities in 1908. From 1908 until the 1930s, most of the securities purchased by insurance companies were public and ratings were obtained from private statistical rating organizations. It became clear, however, by 1940 that a growing number of investments were being made in private and public companies for which no valuations could be obtained. The Securities Valuation Office (SVO) was created two years later to provide uniform values for all securities owned by insurance companies. Located in New York City, the SVO staff also has the responsibility for valuing insurance company investments in subsidiary, controlled and affiliated companies, responding to specific requests for assistance from the NAIC's Valuation of Securities (E) Task Force and for conducting a number of other related activities.

The Valuation of Securities Database contains approximately 225,000 securities with close to 28,000 issuers. Each security is assessed and/or valued when it is initially filed with the SVO and is subject to an annual review. The securities in the database include government, municipal and corporate bonds, common and preferred stocks and a variety of structured securities. The information in the database is compiled quarterly and published in the Valuation of Securities on CD-ROM. Those portions of the database showing NAIC designations and unit prices are also available, prior to publication on an on-line basis through our Automated Valuation Service.

The SVO Research Quarterly is designed for insurance regulatory professionals. It provides financial market reviews, credit market trends, overviews of noteworthy securities transactions and analysis of new investment vehicles from the experienced team of seasoned analysts at the SVO, as well as, default trends, market data trends and recent rating agency actions for insurance companies.

For more information about the SVO and its service visit our Web site at www.naic.org/svo.htm.

Technology: Computer Systems And Databases

The NAIC provides information technology services in support of the NAIC mission and our state regulatory members. These services include capture of company financial and company and producer licensing and market conduct information used by state regulators, development and delivery of applications that provide access to a reporting of this information, provision of a hardware and software infrastructure that facilitates connectivity among the state regulators and the NAIC, and training and help desk assistance on the use of these tools.



The NAIC maintains a state-of-the-art technology center. Using multiple Oracle database engines on Hewlett Packard servers we house the world's largest insurance financial, market conduct, and producer licensing databases. With over two terabytes of information, the financial data repository contains 10 years of financial history for over 5,200 insurance companies, while the market regulation databases contain the collective insurance department's closed consumer

complaints, adjudicated regulator actions, rate and form filings and over three million insurance agent licensing records - all accessible to more than 12,000 state insurance regulators across the country via the Internet or our secure, high-speed frame relay network.

I-SITE is an Internet browser-based application used to provide regulators access to national financial, market conduct and producer information stored in NAIC databases, while StateNet gives access to confidential tools and documents that are made available to members-only. You can contact the NAIC Data Processing Coordinator within your state department to obtain an I-SITE user name and password, or call the NAIC Help Desk for assistance.

Some of the key data repositories maintained by the NAIC are:

The Financial Data Repository is the world's largest U.S. domestic financial insurance database. This data warehouse contains 10 years of annual and quarterly financial statement filings on five different insurer types, including management analysis, actuarial opinions and CPA audit reports in both raw data and PDF formats. The data captured for over 4,800 individual insurers represents over 98 percent of the premiums written in the country. Financial solvency monitoring tools including the Global Receivership Information Database provides a database of all insurance companies currently identified as "troubled company/receivership."

The Market Information Systems Database contains over 1.9 million closed consumer complaints, 164,000 regulatory actions in addition to special activities regarding various insurers and producers.

The Consumer Information Source provides free public access to online complaints ratios, key financial statement PDFs for over 4,800 domestic insurers as well as summary company consumer profiles for life, property, and health insurers.

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Technology: Computer Systems And Databases

The Examination Tracking System, first launched in 1985, supports best practice processes for company financial, market conduct, and combined examinations including automated methods for calling examinations, reporting options, and notifications that improve coordination between states, and allows regulators to target specific areas for review on examinations, reducing the cost and time to conduct them.

The Uniform Certificate of Authority Application was introduced in late 2001 to allow insurers to obtain licensing approval in one or multiple foreign jurisdictions and to submit changes to their certificate of authority for expansion and corporate amendment filings.

The State Producer Licensing Database (SPLD) is a central repository of producer licensing information updated daily by participating state insurance departments. The SPLD is designed to assist NAIC members in exercising due diligence in monitoring producers. Functions of the SPLD include tracking current licensing, appointment and termination information on all licensed producers in the nation; electronic notification of regulatory actions; and tracking certification and clearance information. In addition, the SPLD links to other external databases such as the Regulatory Information Retrieval System (RIRS).

System for Electronic Rate and Form Filing

The NAIC staff can provide assistance with methods and procedures being used by members in the rate and form review process. Various NAIC committees, task forces and working groups have initiated discussions on issues of common regulatory concern that transcend territorial boundaries. These include auto insurance, property insurance, workers' compensation and catastrophe issues.



Providing flexibility, promoting uniformity

Additionally, the System for Electronic Rate and Form Filing (SERFF) is available to facilitate the rate and form review process in a paperless electronic environment. The SERFF project is governed by a SERFF Board of Directors, both regulators and insurance industry volunteers.

Technology: Computer Systems And Databases

State Based Systems (SBS)

The State Based Systems (SBS) project is a long term solution for state insurance departments to support their licensing and consumer service functions.

The purpose of SBS is to provide a comprehensive Web-based application that will be used by state regulators to provide more efficient and expeditious licensing processes of producers, companies and related concerns.

The SBS application is a cost-effective way for states to further modernize their regulatory technology and is certified to meet ongoing National Uniformity and Reciprocity initiatives for all SBS modules. Currently, the SBS application includes a Producer and Company Licensing module and will include Complaints and Continuing Education modules in future releases. Long term plans include expansion into Fraud, Regulatory Actions, Relationships, Fee Assessment, and Rate and Form Filing modules, and integration with existing NAIC systems such as the Uniform Certification of Authority Application (UCAA) and I-SITE.



NAIC Resource CD

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News Release

FOR IMMEDIATE RELEASE

NAIC RELEASES 2006 COMPENSATION INFORMATION FOR SELECT STAFF

KANSAS CITY, Mo. (Dec. 29, 2006) — Since 1994, the National Association of Insurance Commissioners (NAIC) has released the names and salaries of its five staff members with the highest annual compensation. For the 2006 calendar year (based on 26 biweekly pay periods), they are as follows:

Catherine J. Weatherford is the NAIC's Executive Vice President and Chief Executive Officer. She joined the Association in July 1996. A native of Oklahoma, Weatherford previously served as Commissioner for the Oklahoma Department of Insurance from 1991–1995. Her 2006 compensation is \$350,000.

Chris Evangel has served as Managing Director of the NAIC's Securities Valuation Office (SVO) in New York City since November 1999. He directs the NAIC's efforts to monitor the credit quality of insurer investments in order to provide the Association's members with a source of uniform prices and quality ratings. Prior to joining the NAIC, Evangel was a Senior Vice President for Moody's Investors Service. His 2006 compensation is \$286,026.

Andy Beal is the Deputy Executive Vice President and Chief Legal Officer for the NAIC. He is responsible for providing the association with legal advice on a variety of issues and assisting Weatherford with the day-to-day management of the NAIC. Previously, Beal served as General Counsel for the Association. Prior to joining the NAIC, he had a private practice in Oklahoma City, specializing in the areas of corporate and insurance regulatory law. His 2006 compensation is \$250,000.

Brett Palmer is the Director of Government Relations in the NAIC's Washington, D.C. office. He oversees the NAIC's government relations, international relations and health policy issues. Prior to joining the NAIC, Palmer most recently served as Assistant Secretary for Congressional and Intergovernmental Affairs at the U.S. Department of Commerce. His 2006

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compensation is \$234,000.

Bob Carcano is the NAIC's Senior Counsel for the SVO. He is the primary legal representative and legal support to SVO analytical, research, regulatory, administrative and business operations, identifying and managing legal risk associated with the SVO function and SVO operations. He has served in this capacity since 1991. Carcano has held a number of legal positions and, prior to joining the NAIC, was Senior Analyst in the Structured Finance Group of Moody's Corporate Department. His 2006 compensation is \$186,250.

About the NAIC

Headquartered in Kansas City, Missouri, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and the five U.S. territories. The NAIC's overriding objective is to assist state insurance regulators in protecting consumers and helping maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, the NAIC is the oldest association of state officials. For more than 135 years, state-based insurance supervision has served the needs of consumers, industry and the business of insurance at-large by ensuring hands-on, frontline protection for consumers, while providing insurers the uniform platforms and coordinated systems they need to compete effectively in an ever-changing marketplace. For more information, visit NAIC on the Web at: http://www.naic.org/press_home.htm

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TO: Commissioners, Directors and Superintendents
Interested Parties

FROM: Noreen K. Vergara
Staff Attorney

DATE: December 27, 2006

RE: **NAIC Action on Model Laws and White Papers During the 2006
4th Quarter National Meeting**

Following is a brief description of the NAIC's action on model laws and white papers.

Model Laws and Regulations Adopted by the Executive Committee/Plenary

1. Long-Term Care Insurance Model Act (# 640) (Draft: 9/9/06)

The Health Insurance and Managed Care (B) Committee adopted revisions to this model during the 2006 Fall National Meeting. These revisions address producer training requirements and require an initial (8) hours of training and four (4) hours of ongoing training for producers who sell, solicit or negotiate long-term care insurance. These revisions also address the requirement placed on state insurance departments under the federal Deficit Reduction Act of 2005 (DRA) as well as the guidance provided by the Centers for Medicare & Medicaid Services (CMS) with respect to producer training.

2. Long-Term Care Insurance Model Regulation (# 641) (Draft: 8/30/06)

The Health Insurance and Managed Care (B) Committee adopted revisions to this model during the 2006 Fall National Meeting. These revisions address the "cross-border" issue – how insureds access benefits when they purchase a policy in one state and later move to a state that does not have the same provider licensing requirements.

3. Unauthorized Transaction of Insurance Criminal Model Act (Draft: 9/10/06)

The Antifraud (D) Task Force and the Market Regulation and Consumer Affairs (D) Committee adopted this model during the 2006 Fall National Meeting. This model establishes criminal penalties for unlawful insurance or health coverage transactions. The Executive/Plenary added references to the Liability Risk Retention Act of 1996 in both Section 3 and a drafting note before adopting the model.

Model Bulletins Adopted by the Executive/Plenary

1. Producer Training – Policies Issued Under Qualified State Long-Term Care Insurance Partnership (“Qualified Partnership”) (Draft: 9/9/06)

The Health Insurance and Managed Care (B) Committee adopted this bulletin during the 2006 Fall National Meeting. The purpose of this bulletin is to inform producer about the producer training requirements regarding policies issued under qualified state long-term care insurance partnership programs. This bulletin addresses resident producers because, presumably, it will be sent by a state’s insurance commissioner to that state’s producers. The federal Deficit Reduction Act (DRA) requires every producer to know about long-term care insurance and its relationship to their state’s Medicaid program.

Model Laws to be Considered for Adoption by the Executive/Plenary at the 2007 Spring National Meeting in New York, NY

1. Group Health Insurance Standards Model Act (# 100) (Draft: 12/10/06)

The Regulatory Framework (B) Task Force discussed revisions made during a conference call held on November 8, 2006. The first revision was that the words “directly or indirectly” were added after “maintained” in Section 4E(1) to be consistent with Section 4A. The Task Force deleted the definition of “direct response solicitation” in Section 6D. Several revisions were made to Section 8 including adding language that permits an insurer to rescind coverage for intentional fraud after the policy had been in force for two (2) years. The Task Force also revised Section 8F to permit a 24-month look forward and a 24-month look backward for disability income policies when applying any preexisting condition exclusion provision. In addition, the revised Group Health Insurance Standards Model Act contains new provisions related to true group associations that help ensure that these associations are legitimate entities. The Task Force adopted the revised model on December 10, 2006 and forwarded it on to the Health Insurance and Managed Care (B) Committee. The B Committee also adopted the revised model and the Executive/Plenary Committee will consider adopting these revisions at the 2007 Spring National Meeting.

2. Insurer Receivership Model Act (IRMA) (# 555) (Draft: 10/17/06)

The Financial Condition (E) Committee adopted a proposed Section 712 that would permit guaranty associations to directly receive reimbursements on payments of large deductible claims. The Committee adopted what is referred to as the “Delaware Proposal.” Under this proposal, large deductible reimbursements remain part of the receivership estate but the guaranty association(s) have early access to these funds. When the E Committee moved to adopt these amendments they considered whether the Task Force had fully vetted interested parties’ comments. The Executive/Plenary Committee will consider adopting Section 712 during the 2007 Spring National Meeting.

3. Insurer Receivership Model Act (IRMA) (# 555) (Draft: 7/11/06)

The Receivership and Insolvency Task Force adopted an amendment to Section 801. This amendment affects mortgage guaranty and financial guaranty insurance policies. When the Task Force moved to adopt this amendment they considered whether the Task Force had fully vetted interested parties’ comments. The Executive/Plenary Committee will consider adopting this amendment during the 2007 Spring National Meeting.

4. Model Regulation to Implement the Small Employer Health Insurance Availability Model Act (Prospective Reinsurance With or Without an Opt-Out) (# 119) (Draft: 8/15/06)

The Regulatory Framework (B) Task Force adopted revisions to this model. This regulation was amended to account for the final HIPAA group portability regulations. This model was also amended to reflect the rating provisions in # 118 – Small Employer Health Insurance Availability Model Act. The Task Force adopted these revisions on December 10, 2006 and forwarded it on to the Health Insurance and Managed Care (B) Committee. The B Committee also adopted the revised model and the Executive/Plenary Committee will consider adopting these revisions during the 2007 Spring National Meeting.

5. Small Employer Health Insurance Availability Model Act (# 118) (Draft: 11/21/06)

The Regulatory Framework Task Force adopted proposed revisions to the Small Employer Health Insurance Availability Model Act. This model is being revised for consistency with the final Health Insurance Portability and Accountability Act of 1996 (HIPAA) group portability regulations. The current Subsection 7C(8)(d) prohibits a small employer carrier from increasing any requirements for minimum employee participation or modifying any requirement for minimum employer contribution applicable to any small employer at any time after the small employer was accepted for coverage. These revisions provide an exception to this prohibition by permitting a small employer carrier to modify any requirement for minimum employee participation at the time of renewal of coverage provided the new minimum participation requirements apply to all small employers with the same number of employees. There were no comments submitted on these revisions. The Task Force adopted these revisions on December 10, 2006 and

forwarded the model to the Health Insurance and Managed Care (B) Committee. The B Committee also adopted these revisions. The Executive/Plenary Committee will consider adopting the revisions to this model during the 2007 Spring National Meeting.

6. Viatical Settlements Model Act (# 697) (Draft: 12/10/06)

The Life Insurance and Annuities (A) Committee adopted an amended version of this model. These revisions are intended to address the stranger-originated life insurance (STOLI) issue and to tighten up the regulation of the life settlement industry. The Committee amended Section 2 to address a Gramm-Leach Bliley Act (GLBA) Concern. The Committee also added a new subsection to Section 15 to specify that Section 15's enforcement provisions do not apply to a viator unless the viator committed a fraudulent viatical settlement act. In addition, the Committee added a drafting note to Section 3 to clarify that the requirements of Subsections 3A(3)(a) and (b) only apply to states that do not require the viatical settlement broker to obtain a separate license or registration. The Executive/Plenary Committee will consider adopting these revisions during the 2007 Spring National Meeting.

New Drafts of Models Released for Comment

1. Actuarial Guideline DIS – Documentation and Disclosure Requirements when Determining Reserves Based on the Principles-Based Life Reserves Model Regulation (Draft: 12/7/06)

The Life and Health Actuarial Task Force discussed several proposed changes to this Actuarial Guideline. This Guideline provides documentation and disclosure requirements for establishing reserves for policies subject to the Principles-Based Reserves for Life Products Model Regulation. The Task Force considered several recommendations from the American Academy of Actuaries (AAA) Life Reserves Work Group (LRWG). Examples of these recommendations include deleting the Stochastic Modeling Exclusion from Section III and simplifying Subsection A – General Documentation Requirements in Section IV. The Task Force is accepting comments on this draft.

2. Actuarial Guideline PBR-VAL – Determining Valuation Assumptions for Principles-Based Life Insurance Products (Draft: 12/7/06)

The Life and Health Actuarial Task Force considered several proposed changes to this Actuarial Guideline. This Guideline sets out the requirements that an actuary must follow for setting margin assumptions. The Task Force discussed several recommendations suggested by the American Academy of Actuaries (AAA) Life Reserves Work Group (LRWG). Examples of these recommendations include revising Section II – Definitions, Section III – General Considerations, adding a new Section IX – Guidance and Requirements for Setting Reinsurance Assumptions and deleting Section X – Guidance and Requirement for Revenue Sharing. The Task Force is accepting comments on this draft.

3. Automobile Insurance Fraud Model Act (Draft: 9/27/06)

The Antifraud Liaison Working Group introduced this proposed model during the 2006 Winter National Meeting. This Act relates to the use of runners and police accident reports in an attempt to fraudulently assert a claim against an insured or an insurance carrier. Several states “Runners” and “Cappers” laws were used in drafting this model including language on prohibition of solicitation and the release of an accident report for a specific amount of days. The Working Group is accepting comments on this draft.

4. Independent Adjuster Model Act (Draft: 12/10/06)

The Independent Adjuster Model Act Subgroup of the Producer Licensing (D) Working Group discussed a draft of this proposed model. This model is designed to help address the following questions: (1) which states require an appointment; (2) which states will not accept a letter of certification from a person licensed in a state other than their home state; (3) which states require non-residents to take a license exam even when the non-resident applicant passed the exam in his or her home state and can produce a letter of certification; (4) which states will only license non-residents who are licensed in an adjoining state and whose principal place of business is located within fifty (50) miles of the state; (5) which states will not license non-residents under any circumstances; (6) which states require a non-resident independent adjuster to maintain a physical business location within the state; and (7) which states require that applicants provide signed affidavits from five (5) “reputable citizens” of the community? The Independent Adjuster Model Act Subgroup is accepting comments on this draft until January 26, 2007.

5. Life and Health Insurance Guaranty Association Model Act (# 520) (Draft: TBD)

The Receivership Model Act Revision (E) Working Group discussed several proposed revisions to this model. These issues included: conforming the reinsurance provisions to those of the Insurer Receivership Model Act (IRMA); determining not to delete the purpose and construction sections of the model; changing the maximum non-pro rata assessment amount to \$300; and adding language to allow for the removal of directors in conflict of insurance situations. The Group is preparing a new draft of this model that will be posted at a later date. The Working Group will hold a conference call in late January to consider suggestions for needed data elements and possible survey questions to gather information about a potential increase in the claim caps under Section 3C.

6. Medical Malpractice Closed Claim Reporting Model Law (Draft: 11/13/06)

The Statistical Information (C) Task Force discussed this proposed model law and received preliminary comments from several interested parties. This model arose out of the states’ need to collect data from various entities. The intent of this model is to allow for the collection of closed claim data. The Task Force anticipates that another model will be developed later concerning open claims. The Task Force discussed the need to expand the scope of confidentiality as well as protect personally identifiable information during a conference call held on November 28, 2006. The Task Force continued discussing the

issue of confidentiality during the December National Meeting. In addition, the members discussed economic versus non-economic damages and the jury's role in ascertaining damages. The Task Force is accepting written comments on this model until January 17, 2007.

7. Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (# 651) (Draft: TBD)

The Senior Issues Task Force discussed proposed new sections to this model that would modernize the lineup of Medicare Supplement benefits and benefit plan designs. The proposal includes the elimination of unnecessary and duplicative plans (E, H, I, and J), the addition of new benefit plan options (M and N) and the modernization of offered benefits (eliminated at-home recovery in favor of a new hospice benefit, eliminated the preventive care benefit, etc.). The Task Force will expose these revisions for a 30-day comment period beginning in January, 2007.

8. Prepaid Limited Health Service Organization Model Act (# 68) (Draft: 12/10/06)

The Regulatory Framework (B) Task Force discussed proposed revisions to this model. These revisions include changes to Section 2 specifying that this model applies to Medicare prescription drug plans (PDPs). Section 19 was revised to require prepaid limited health service organizations to maintain a minimum tangible net equity equal to the greater of \$100,000 or the amount necessary as required under the NAIC Risk-Based Capital for Health Care Organizations Model Act or the required risk-based capital for Medicare Prescription Drug Plans. The Task Force is accepting comments from interested parties until January 31, 2007.

9. Principles-Based Reserves for Life Products Model Regulation (Draft: 12/7/06)

The Life and Health Actuarial Task Force discussed several proposed changes to this model. The purpose of this regulation is to define the minimum valuation standard under a principles-based approach for individual life products, including individual certificates issued under a group contract. In particular, the Task Force discussed whether specific prescription approaches were needed and how to allow for actuarial discretion. The Task Force is accepting comments on this draft.

10. Property and Casualty Insurance Guaranty Association Model Act (# 540) (Draft: 9/21/06)

The Receivership Model Act Revision Working Group adopted a draft of this model during a conference call held on October 27, 2006. The Working Group could not resolve all the outstanding issues and prepared a memorandum for the Receivership and Insolvency (E) Task Force. This model was previously known as the Post Assessment Property and Liability Insurance Guaranty Association Model Act. The Task Force decided to seek comments from interested parties on both the model draft and the memorandum.

11. Unfair Trade Practices Act (# 880) (Draft: 12/15/06)

The Travel to Foreign Countries (A) Working Group discussed the comments received on the revisions to this model. These revisions address the issue of life underwriting based on past and future lawful travel. In particular, the Working Group discussed the language of Section 4G. The Group also considered the concerns of interested parties that the Unfair Trade Practices Act is too restrictive. The Working Group will develop and distribute for comment a new draft based on this discussion.

12. Uniform External Review Model Act (Draft: 12/10/06)

The Regulatory Framework (B) Task Force discussed the proposed Uniform External Review Model Act. Although this will be a new model, the Task Force considered a draft that identified the differences between the proposed model and the current Health Carrier External Review Model Act (# 75). The regulatory scheme for establishing an external review process in the proposed model was based on # 75's Option 3. The Task Force discussed several sections of this proposed model and decided to hold a public hearing during the 2007 Spring National Meeting. The purpose of this hearing will be to discuss: (1) the use of evidence-based medicine in reaching external review decisions; and (2) the process of approving independent review organizations (IROs) to conduct external reviews.

13. Workers' Compensation Coverage for Professional Employer Organization Arrangements Model Regulation (Draft: 12/6/06)

The Professional Employer Organization Model Law (C) Working Group adopted this draft model regulation and forwarded it on to the Workers' Compensation (C) Task Force. The purpose of this model is to ensure that professional employer organizations (PEOs) and their clients properly obtain workers' compensation insurance coverage for all of their employees and that the premium paid is commensurate with the anticipated claims experience. The scope of this model is limited to issues related to workers' compensation insurance and is not intended to be a comprehensive regulatory framework for the PEO industry. Four changes were made to the draft before it was adopted: (1) Section 11 was divided into two sections. "Statistical Reporting and Experience Rating" remained the title of Section 11 and a new Section 12 was created and titled "Rating Methodology. The purpose of this split was to separate the statistical reporting elements from those of an underwriting nature. The Task Force will consider adopting these revisions during the 2007 Spring National Meeting.

New Drafts of White Papers Released for Comment

1. Natural Catastrophe Risk: Creating A Comprehensive National Plan (Draft: 10/5/06)

The Catastrophe Insurance (C) Working Group discussed several remaining issues during a conference call held on September 18, 2006. The Working Group removed the coverage checklist and any reference to it in the white paper. The Group also amended the white paper to address concerns about whether regulators have authority over building codes and land use policies. The Working Group reviewed comments from the National Conference of Insurance Legislators (NCOIL) during the 2006 Winter National Meeting.

2. Personal Lines Regulatory Framework White Paper (Draft: 9/8/06)

The Personal Lines Market Regulatory Framework (Ex) Working Group reviewed comments received on this white paper. The purpose of this paper is to discuss the choices state legislatures face when developing an appropriate regulatory framework for personal lines insurance products. The Working Group considered a suggestion that the regulatory framework should not abandon the concept of front-end regulation of rates and forms. In addition, the Group discussed whether to implement flex-rating as well as maintain multiple options for legislatures to consider. The Working Group intends to hold a conference call in January of 2007 to discuss this white paper in depth.

No Further Versions of These Drafts Released

Model Laws and Regulations:

1. Fiduciary Responsibility of Insurance Producers Model Act (Draft: 11/7/05)

The Producer, Company and Unauthorized Entities Unlawful Activity Working Group of the Antifraud (D) Task Force developed this model to define a producer's fiduciary responsibility to hold funds received or collected as a producer in a separate account. It should be helpful to states that do not have a law that prohibits producers from commingling funds. This model is intended to assist law enforcement and be a criminal deterrent in the producer community. The Task Force adopted this model in September 2004. The parent Market Regulation and Consumer Affairs (D) Committee received the model and referred it to the Producer Licensing (D) Working Group for further review. This Working Group adopted the model during a November 2005 interim meeting and forwarded it on to the D Committee. The Market Regulation and Consumer Affairs (D) Committee should begin discussing this model at the 2007 Spring National Meeting.

2. Insurance Regulatory Class Action Reform Model Act (Draft: 8/17/06)

The Class Action Insurance Litigation (C) Working Group of the Property and Casualty Insurance (C) Committee did not discuss this proposed model during the 2006 Winter National Meeting. The purpose of this model is to provide guidance regarding the certification of class actions as well as motions arguing that the court lacks jurisdiction because either the state insurance commissioner has exclusive or preliminary jurisdiction or the party seeking certification failed to exhaust the available administrative remedies. The Working Group voted to discharge itself at the Winter Meeting and it is not anticipated that work will continue on this proposed model.

3. Principles-Based Valuation Review Opinion Draft Model Regulation (Draft: 9/8/06)

The Life and Health Actuarial Task Force discussed this proposed model during a conference call held on October 23, 2006. The purpose of this regulation is to prescribe requirements for a review opinion of a valuation performed under a principles-based approach (PBA) per the Standard Valuation Law and application. This regulation will also prescribe the rules applicable to the appointment of a PBA review actuary. The Task Force received comments from interested parties and discussed its preferences on certain issues. These issues included: (1) whether the reviewing actuary can work for the independent auditors; (2) whether the reviewing actuary's opinion should be confidential; and (3) whether there should be one (1) consolidated review that covers all principles-based business issued by the company. The Task Force did not take any further action on this proposed model during the 2006 Winter National Meeting.

4. Standard Valuation Law (Draft: 10/20/06)

The Life and Health Actuarial Task Force discussed revisions to the Standard Valuation Law II (SVL) during a conference call that was held on October 20, 2006. During this conference call, the SVL Subgroup agreed to expose a draft for comment until November 29, 2006. During the 2006 Winter National Meeting, the SVL Subgroup heard comments from interested parties on this draft. Interested parties expressed concern on issues such as finding a reasonable approach to address health insurance products as well as tax consequences and regulatory transparency. The Task Force did not take any further action on these revisions during the 2006 Winter National Meeting.

5. Third Party Administrator Model Act (# 90) (Draft: 6/30/2006)

The Large Deductible Study Implementation (C) Working Group discussed previous changes to this model. In particular, the Working Group discussed Sections 3 and 11 as the proposed revisions allow agreements between third party administrators and employers as long as a master services agreement between the third party administrator (TPA) and the insurer are in place. The Working Group will make additional revisions and release a new draft for comments in either January or February, 2007.

Actuarial Guidelines:

1. Actuarial Guideline TAB – The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities (Draft: 10/16/06)

The Life and Health Actuarial Task Force received comments on this proposed Guideline. The recommended changes are intended to: (1) address situations where policies do not have ten (10) years of remaining life expectancy; and (2) correct a reference in the first paragraph to add the residual standard smoker table to the exemption for the residual standard non-smoker table. The Task Force agreed to discuss these suggestions during a conference call to be held at a later date.

2. Actuarial Guideline VACARVM – CARVM for Variable Annuities Redefined (Draft: 9/7/06)

The Life and Health Actuarial Task Force discussed several recommended changes to this Guideline. The purpose of this Guideline is to interpret the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. The Task Force considered various outstanding issues including: (1) sensitivity testing; (2) aggregate v. individual margins; (3) conceptual ideals v. practical capacities; (4) consistency with the Standard Valuation Law II; and (5) recognition of revenue-sharing. The Task Force considered comments given by interested parties and decided to defer releasing a new draft of the Guideline.

White Papers:

1. Class Action Insurance Litigation White Paper (Draft: 12/2/06)

The Class Action Insurance Litigation (C) Working Group reviewed a preliminary draft of this white paper. The Working Group discussed whether it should continue into 2007. Given the results from a study conducted by the RAND Institute for Civil Justice, the Working Group voted to disband itself. The results of this study suggested that the Working Group had served its purpose. Therefore, it is not anticipated that there will be any further drafts of this proposed white paper.

2. NAIC Disclosure Lines and Process (Draft: 9/6/06)

The Consumer Protections (Ex) Working Group agreed to move forward with this white paper. Prior to the Winter National Meeting, the Working Group was undecided as to whether this paper would develop into a white paper. The Group decided to review other materials and disclosures as examples for this white paper.



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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TO: Commissioners, Directors and Superintendents
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FROM: Noreen K. Vergara
Staff Attorney

DATE: March 21, 2007

RE: **NAIC Action on Model Laws and White Papers During the 2007 1st
Quarter National Meeting**

Following is a brief description of the NAIC's action on model laws and white papers.

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Model Laws and Regulations Adopted by the Executive Committee/Plenary

**1. Group Health Insurance Standards Model Act (# 100) (Draft:
12/10/06)**

The Health Insurance and Managed Care (B) Committee adopted several revisions to this model on December 10, 2006. Previously this model was titled "Group Health Insurance Definition and Group Health Insurance Standard Provisions Model Act. Section 8 was revised to permit an insurer to rescind coverage for intentional fraud after the policy had been in force for two (2) years. In addition, Subsection 8F was amended to permit a 24-month look forward and 24-month look backward for disability income policies when applying a preexisting condition exclusion provision. The amended model also contains new provisions related to group associations that help ensure that these associations are legitimate entities.

**2. Insurer Receivership Model Act (IRMA) (# 555) (Section 712) (Draft:
10/17/06)**

During the December 2006 National Meeting, the Financial Condition (E) Committee adopted new section that permits guaranty associations to directly receive reimbursements on payments of large deductible claims. This section was referred to as the "Delaware Proposal." Under this proposal, large deductible reimbursements remain part of the receivership estate but guaranty associations have early access to these funds.

3. Insurer Receivership Model Act (IRMA) (# 555) (Section 801) (Draft: 7/11/06)

During the December 2006 Meeting, the Financial Condition (E) Committee amended Section 801. This amendment affects mortgage guaranty and financial guaranty insurance policies. The E Committee considered whether the Receivership and Insolvency Task Force fully vetted interested parties comments prior to adopting the amendment.

4. Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (# 651) (Draft: 2/26/07)

The Health Insurance and Managed Care (B) Committee approved amendments to this model during a conference call held on Feb. 26, 2007. These amendments modernize the lineup of Medicare Supplement and benefit plan designs. The amended model eliminates unnecessary and duplicative plans (E, H, I and J), adds new benefit plan options (M and N), eliminates at home recovery in favor of a new hospice benefit and eliminates the preventive care benefit.

5. Model Regulation to Implement the Small Employer Health Insurance Availability Model Act (Prospective Reinsurance With or Without an Opt-Out) (# 119) (Draft: 8/15/06)

The Health Insurance and Managed Care (B) Committee adopted amendments to this model during the December 2006 National Meeting. This regulation was amended to account for the final Health Insurance Portability and Accountability Act (HIPAA) group portability regulations. This model was also amended to reflect the rating provisions in the NAIC's Small Employer Health Insurance Availability Model Act (# 118).

6. Small Employer Health Insurance Availability Model Act (# 118) (Draft: 11/21/06)

The Health Insurance and Managed Care (B) Committee adopted amendments to this model during the December 2006 National Meeting. These revisions are consistent with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) group portability regulations. The previous Subsection 7C(8)(d) prohibited a small employer carrier from increasing requirements for minimum employee participation or modifying requirements for minimum employer contributions. These revisions provide an exception to this prohibition by permitting a small employer carrier to modify any requirement for minimum employee participation at the time of renewal of the coverage provided the new minimum participation requirements apply to all small employers with the same number of employees.

Model Laws to be Considered for Adoption by the Executive/Plenary at the 2007 Summer National Meeting in San Francisco, CA

1. Prepaid Limited Health Service Organization Model Act (# 68) (Draft: 3/11/07)

The Health Insurance and Managed Care (B) Committee and the Regulatory Framework (B) Task Force adopted revisions to this model during the Spring 2007 National Meeting. These revisions specifically apply to Medicare Prescription Drug Plans (PDPs). The amendments also change financial requirements so that prepaid limited health service organizations are required to maintain a minimum tangible net equity equal to the greater of \$100,000 or the amount required under the NAIC Risk Based Capital for Health Organizations Model Act.

2. Reporting Requirements for Licensees Seeking to do Business with Certain Unauthorized Multiple Employer Welfare Arrangements (MEWAs) Model Regulation (# 220) (Draft: 3/11/07)

The Health Insurance and Managed Care (B) Committee adopted the *Reporting Form – Unauthorized MEWA or Health Coverage Program*. This form will be a new appendix to the model.

3. Viatical Settlements Model Act (# 697) (Draft: 3/16/07)

The Executive/Plenary Committee referred this model back to the Life Insurance and Annuities (A) Committee for additional revisions. Specifically, the A Committee was instructed to consider amendments offered by the Office of the Comptroller of the Currency (OCC). The A Committee will consider these amendments at a one-day interim meeting to be held in April. Although the main purpose of this interim meeting will be to consider the OCC's proposed amendments, the Committee may consider other revisions.

4. Workers' Compensation Coverage for Professional Employer Organization Arrangements Model Regulation (Draft: 3/11//07)

The Workers' Compensation (C) Task Force and the Property and Casualty (C) Committee adopted this draft model regulation during the 2007 Spring National Meeting. The purpose of this model is to ensure that professional employer organizations (PEOs) and their clients properly obtain workers' compensation insurance coverage for all of their employees and that the premium paid is commensurate with the anticipated claims experience. The scope of this model is limited to issues related to workers compensation insurance and is not intended to be a comprehensive regulatory framework for the PEO industry.

New Drafts of Models Released for Comment

1. Automobile Insurance Fraud Model Act (Draft: 2/28/07)

The Antifraud Liaison Working Group discussed and received comments on a new draft of this proposed model. The purpose of this model is to address the use of runners and police accident reports in an attempt to fraudulently assert a claim against an insured or insurance carrier. The Group considered changing the name of this model to the “Runners and Cappers Model Act” or the “Unlawful Solicitation Model Act.” After receiving several comments, the Working Group decided to open the model up for a second comment period before the 2007 Summer National Meeting.

2. Independent Adjuster Model Act (Draft: 2/28/07)

The Independent Adjuster Model Act Subgroup of the Producer Licensing (D) Working Group discussed a new draft of this proposed model. This model is intended to address the following questions: (1) Which states require an appointment; (2) Which states will not accept a letter of certification from a person licensed in a state other than their home state; (3) Which states require non-residents to take a license exam even when the non-resident applicant passed the exam in his or her home state and can produce a letter of certification; (4) Which states will only license non-residents who are licensed in an adjoining state and whose principal place of business is located within fifty (50) miles of the state; (5) Which states will not license non-residents under any circumstances; (6) Which states require a non-resident independent adjuster to maintain a physical business location within the state; and (7) Which states require applicants to provide signed affidavits from five (5) “reputable” citizens of the community? The Subgroup removed all references to company adjusters and added language found in the Producer Licensing Model Act in several areas. The Subgroup is accepting comments on this draft until April 7, 2007 will discuss any comments received during a conference call to be held on April 13, 2007.

3. Life and Health Insurance Guaranty Association Model Act (# 520) (Draft: 3/10/07)

The Receivership Model Act Revision Working Group discussed revisions to Section 17 – Immunity, to clarify the extent of immunity in relation to contract and tort claims outside the association’s performance of its powers and duties. The Working Group also agreed to establish a subgroup to address the issue of whether, and to what extent, it is appropriate to include claimants under structured settlement annuities.

4. Medical Malpractice Closed Claim Reporting Model Law (Draft: 2/12/07)

The Statistical Information (C) Task Force discussed the Feb. 12, 2007 draft of this model. This model is intended to allow states to collect closed claim data. The Task Force anticipates that another model concerning open claims will be developed at a later date. The Task Force distributed information from the National Practitioner Data Bank

regarding Medical Malpractice Act of Omission Codes and Allegation Codes. The Task Force will continue discussion of this draft during its next conference call.

5. Military Sales Practices Model Regulation (Draft: 3/28/07)

The purpose of this regulation is to set forth standards to protect active duty service members of the United States Armed Forces from dishonest and predatory insurance sales practices by declaring certain identified practices to be false, misleading, deceptive or unfair. The Working Group is accepting comments on this draft until April 12, 2007 and will discuss these comments during a conference call to be held April 19.

6. Recognition of the 2005 Group Term Life Waiver Mortality and Recovery Table for Use in Determining Reserve Liabilities for Group Life Waiver of Premium Disabled Life Reserves Model Rule (Draft: 2/2/07)

The Life and Health Actuarial Task Force presented this model for discussion during a conference call held on Feb. 2, 2007. The Task Force discussed several basic points concerning waiver reserves including the appropriate method for computing waiver reserves. The Task Force is accepting comments on this proposed model.

7. Standard Valuation Law (Draft: 2/13/07)

The Life and Health Actuarial Task Force discuss several changes to this model. In particular, the SVL-II Subgroup requested direction on whether to incorporate a minimum reserve standard as well as include credit life into the model. The Task Force discussed whether these requirements should be placed in the Standard Valuation Law or the Valuation Manual. The Task Force did not take any further action on these proposed changes during the 2006 Spring National Meeting.

8. Third Party Administrator Model Act (# 90) (Draft: 3/3/07)

The Large Deductible Study Implementation (C) Working Group made several minor changes to the most recent draft of this model. The Working Group's discussion centered on home state certificate of authority, fiduciary/insurer account/banking requirements and the legality of third party administrator-employer agreements. The Group added a new Subsection 11H. This new Subsection arose from a discussion with the International Association of Industrial Accident Boards and Commissions (IAIABC). This addition states that the insurance carrier is not required to accept an employer/TPA agreement if it is turned down within a reasonable amount of time.

9. Unfair Trade Practices Act (# 880) (Draft: 3/11/07)

The Life Insurance and Annuities (A) Committee discussed an amendment offered by the Alabama Department of Insurance (ALDOI) as a substitute for the revisions offered by the Travel to Foreign Countries (A) Working Group. ALDOI's amendments would add a new paragraph under Section 4G stating, "Making or permitting any unfair discrimination

between individuals of the same class and equal expectation of life by refusing life insurance to, refusing to continue life insurance to, limiting the amount, extent or kind of life insurance available to an individual, or determining the premium of life insurance based on the individual's past lawful travel experiences or future lawful travel plans, unless such action is the result of the application of sound underwriting and actuarial principles related to actual or reasonably anticipated loss experience." The A Committee discussed adopting the model including ALDOI's amendment, however, the Committee decided to hold off and continue further discussions at a later date.

New Drafts of Actuarial Guidelines Released for Comment

1. Actuarial Guideline TAB – The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities (Draft: 1/31/07)

The Life and Health Actuarial Task Force discussed the possibility of converting to an underwriting scoring system. The Task Force believed that it was possible to create a reasonable process for developing an underwriting score for a split of the 2001 CSO. The Task Force will combine the recommended changes and discuss them further during a conference call to be held at a later date.

New Drafts of White Papers Released for Comment

1. Natural Catastrophe Risk: Creating A Comprehensive National Plan (Draft: 12/12/06)

The Catastrophe Insurance (C) Working Group discussed several of the underlying principles of this plan. The Working Group noted that this proposal has been quite controversial and debated and amended considerably since it was originally drafted. The Working Group clarified that the intention of this white paper is to: (1) Promote personal responsibility among policyholders; (2) Support reasonable building codes, development plans and other mitigation tools; (3) Maximize the risk-bearing capacity of the private markets, and; (4) Provide quantifiable risk management to the federal government.

No Further Versions of These Drafts Released

Model Laws and Regulations:

1. Principles-Based Valuation Review Opinion Draft Model Regulation (Draft: 9/8/06)

The purpose of this regulation is to prescribe requirements for a review opinion of a valuation performed under a principles based approach. This regulation will also prescribe the rules applicable to the appointment of a review actuary. During the 2007 Spring National Meeting, the Life and Health Actuarial Task Force discussed whether a PBR reviewer would be of use to the insurance commissioners. The Task Force was concerned with possible constitutional issues related to the commissioner's responsibility

of ensuring that companies are following the law based on actuarial certifications produced by company-chosen entities. The Task Force did not take any action on this regulation and will continue discussions at a later date.

2. Property and Casualty Insurance Guaranty Association Model Act (# 540) (Draft: TBD)

The Receivership and Insolvency (E) Task Force heard comments from interested parties on this model. The Task Force did not make any decisions on this model during the meeting and agreed to discuss this model further at the 2007 Summer National Meeting.

3. Standard Nonforfeiture Law for Life Insurance (# 808) (Draft: 1/30/07)

The Life and Health Actuarial Task Force briefly discussed this model. The Task Force noted that no comments were received on the proposed amendments to this model. These amendments are intended to facilitate conversion to a principles-based system. The Task Force believes that additional changes may be needed relative to nonforfeiture improvements before considering adopting these amendments.

4. Uniform Health Carrier External Review Model Act (Draft: TBD)

The Regulatory Framework (B) Task Force heard oral testimony from interested parties on this proposed model. The oral testimony centered on the use of evidence-based medicine in reaching external review decisions. The Task Force also received written testimony on this issue as well as the issue of the appropriate regulatory process for conducting external reviews.

Actuarial Guidelines:

1. Actuarial Guideline VACARVM – CARVM for Variable Annuities Redefined (Draft: TBD)

The Life and Health Actuarial Task Force discussed changes proposed by the AAA Variable Annuity Reserves Work Group. The purpose of this Guideline is to interpret the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. The proposed change is intended to prevent volatility in reserves and prevent companies from lowering reserves through a mismatch in the interest rates of the variable annuities and reinsurance contracts. The Task Force will consider the proposal and decide whether to accept comments at a later date.

White Papers:

1. Personal Lines Regulatory Framework White Paper (Draft: 9/8/06)

The Personal Lines Market Regulatory Framework (Ex) Working Group met by conference call on Feb. 22, 2007. During the call, the Working Group learned of an alternative recommendation to the white paper. This recommendation involved conducting a pilot project to test pricing freedom for insurance in exchange for greater transparency for insurance consumers. The Working Group is accepting comments on the proposed pilot project. At this time, the pilot project proposal is not intended to replace the white paper.

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TO: Commissioners, Directors and Superintendents
Interested Parties

FROM: Noreen K. Vergara
Staff Attorney

DATE: June 18, 2007

RE: **NAIC Action on Model Laws and White Papers During the 2007 2nd
Quarter National Meeting**

Following is a brief description of the NAIC's action on model laws and guidelines.

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Adopted Model Laws and Regulations

1. Military Sales Practices Model Regulation (# 568) (Draft: 3/28/07)

The Plenary adopted the Military Sales Practices Model Regulation during the Executive/Plenary joint session held on June 4, 2007. The purpose of this regulation is to establish standards that will protect active duty service members of the United States Armed Forces from dishonest and predatory insurance sales practices. This regulation identifies certain sales practices as false, misleading, deceptive or unfair. The Executive Committee previously decided on June 3, 2007 that this regulation met the necessary criteria to become a NAIC model regulation.

**SECURITIES
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2. Viatical Settlements Model Act (# 697) (Draft: 4/2/07)

The Plenary adopted the amendments to the Viatical Settlements Model Act during the Executive/Plenary joint session held on June 4, 2007. The Executive Committee decided on June 3, 2007 that this act met the necessary criteria to become a NAIC model law. The amendments to this model address a new type of life settlement called stranger-originated life insurance (SOLI). SOLI is a type of life insurance policy entered into by an applicant with a prearranged agreement and intent to sell the policy to a third party who has no insurable interest in the applicant after the two-year incontestability period ends. Other revisions tighten up the regulation of the life settlement industry as a whole by requiring additional meaningful disclosures for consumers seeking to settle an existing life insurance policy in the secondary market. The model also provides additional

regulatory tools to ensure that whenever a consumer is harmed by the acts of a viatical settlement broker or provider doing business in any state, the consumer can be made whole.

Adopted Guidelines

1. Guidelines for Regulation and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements (# 1950)

The Plenary adopted this guideline during the Executive/Plenary joint session held on June 4, 2007. The purpose of this guideline is to ensure that professional employer organizations (PEOs) and their clients properly obtain workers' compensation insurance coverage for all of their employees and that the premium paid is commensurate with the anticipated claims experience. The scope of this guideline is limited to issues related to workers' compensation insurance and is not intended to be a comprehensive regulatory framework for the PEO industry.

2. Guideline Amendments: Prepaid Limited Health Service Organization Model Act (# 68)

The Plenary adopted amendments to this model as a guideline on June 4, 2007. These amendments specifically apply to Medicare Prescription Drug Plans (PDPs). These amendments also change financial requirements so that prepaid limited health service organizations are required to maintain a minimum tangible net equity equal to the greater of \$ 100,000 or the amount required under the NAIC Risk Based Capital for Health Organizations Model Act.

3. Guideline Amendments: Prevention of Illegal Multiple Employer Welfare Arrangements (MEWAs) and Other Illegal Health Insurers Model Regulation (# 220)

The Plenary adopted the *Reporting Form – Unauthorized MEWA or Health Coverage Program* as a guideline on June 4, 2007.

Model Law and Regulation Concepts Approved for Development by the Executive Committee

1. Long-Term Care Insurance Model Act (# 640)

The Executive Committee approved the Request for Model Law Development on June 3, 2007. The Senior Issues (B) Task Force of the Health Insurance and Managed Care (B) Committee recommended making technical revisions to Section 9. This model requires that producers are properly trained and lists the topics the training should cover. To better protect consumers interested in purchasing this product, it is imperative that there be uniformity across the states to ensure that this training occurs.

2. Medical Malpractice Closed Claim Reporting Model Law

The Executive Committee approved the Request for Model Law Development on June 3, 2007. The Statistical Information (C) Task Force of the Property and Casualty Insurance (C) Committee argued that uniformity benefits insuring entities that report data in more than one state. Uniformity also enables the states to produce studies of similar data that can be compared among states. In the absence of a uniform law, most commissioners do not have the authority to collect medical malpractice closed claim data from entities outside the commissioners' jurisdiction.

3. Uniform Health Carrier External Review Model Act

The Executive Committee approved the Request for Model Law Development on June 3, 2007. The Regulatory Framework (B) Task Force of the Health Insurance and Managed Care (B) Committee was charged to review issues surrounding external review with respect to regulatory modernization. The Task Force, Parent Committee and Executive Committee agree that the most appropriate way to achieve a national standard and uniform approach to external review is through the development of a model law. This will ensure that consumers will have the same regulatory protections available to them regardless of where they reside.

Model Laws to be Considered for Adoption by the Executive/Plenary at the 2007 Fall National Meeting in Washington D.C.

1. Long-Term Care Insurance Model Act (# 640) (Draft)

The Health Insurance and Managed Care (B) Committee and the Senior Issues (B) Task Force adopted amendments to this model during the 2007 Summer National Meeting. The Executive Committee approved these amendments for presentation to the Plenary Committee on June 3, 2007. These amendments are technical revisions to the recently adopted producer training requirements. Section 9 gives licensed agents a year-long grace period to comply with the model's requirements. These revisions clarify the original intent of Section 9, which was to require that all agents receive the initial 8-hour training and 4-hour ongoing training. The Plenary will consider adopting these revisions during the 2007 Fall National Meeting.

Guidelines and Resolutions to be Considered for Adoption by the Executive/Plenary at the 2007 Fall National Meeting in Washington D.C.

1. Actuarial Guideline TAB – The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities (Draft: 5/2/2007)

The Life Insurance and Annuities (A) Committee adopted this Actuarial Guideline during the 2007 Summer National Meeting. The adoption of this guideline completes the Life and Health Actuarial Task Force's charge related to the interim solution adopted by the

NAIC in 2006. This guideline provides guidance on when and how to select the split of the mortality table in order to provide for a uniform and appropriate application of the model regulation. The Plenary will consider adopting this guideline at the 2007 Fall National Meeting.

2. Resolution in Support of Recognizing September 2007 as Life Insurance Awareness Month

The Life and Health Insurance Foundation for Education (LIFE), the National Association of Insurance and Financial Advisors (NAIFA) and a coalition representing hundreds of leading life insurance companies and organizations have designated September 2007 as “Life Insurance Awareness Month.” The goal of this campaign is to make consumers more aware of their life insurance needs, encourage them to seek professional advice and take the actions necessary to achieve security of their loved ones. The Life Insurance and Annuities (A) Committee adopted this resolution and the Plenary will consider adopting it during the 2007 Fall National Meeting.

New Drafts of Models Approved for Development

1. Medical Malpractice Closed Claim Reporting Model Law (Draft: 6/12/07)

The Statistical Information (C) Task Force discussed a Feb. 12, 2007 draft before the changes to NAIC model procedures became effective. The Task Force discussed the potential benefits and drawbacks in making the medical malpractice data as publicly available as possible with identifying data being removed. The Task Force also discussed the need to include non-economic damages data and data from surplus lines insurers. The Executive Committee approved the development of this model during the 2007 Summer National meeting.

2. Uniform Health Carrier External Review Model Act (Draft: 5/22/07)

The Regulatory Framework (B) Task Force discussed a new draft of the proposed Uniform Health Carrier External Review Model Act. The Executive Committee approved the development of this model during the 2007 Summer National Meeting. The discussion centered on whether the consumer, the Department of Insurance or the health carrier should select the independent review organization (IRO). The Task Force also discussed the proposed deemer approval process for nationally accredited IROs and the proposed standard approval process for non-accredited IROs. The Task Force is accepting written comments until June 29, 2007 and will hold one or more conference calls prior to the 2007 Fall National Meeting.

Updates on Previously Reported Models and Guidelines

1. Actuarial Guideline VACARVM – CARVM for Variable Annuities Redefined

The AG VACARVM Subgroup of the Life and Health Actuarial Task Force discussed the survey responses that have been received to date. The Subgroup set a cut-off date of July 1, 2007 for survey responses. The Subgroup will send a follow-up letter to the companies that have not yet responded.

2. Automobile Insurance Fraud Model Act

The Antifraud Liaison Working Group decided that this model did not meet the criteria for a NAIC model law and discussed redrafting this model as a guideline. The Working Group discussed comments requesting a specific carve out for insurers or their agents from the requirement of providing photo identification and a sworn statement in order to obtain a report within sixty (60) days of an accident. The Working Group will provide members and interested parties with an opportunity to comment before the 2007 Fall National Meeting. To view a copy of this draft, please visit:

www.naic.org/committees_d_antifraud.htm.

3. Financial Guaranty Insurance Model Act (# 626) (Draft)

The Financial Guaranty Model Act Revisions (E) Working Group discussed Section 1A (2)(b-K) for surety provisions, Section 3A(6)(b) for release of contingency reserves; Section 4B(2) for insured municipal obligations; and Section 7 for transition provisions. The Working Group agreed that these changes do not meet the criteria to become a model law and will advance this model and its revisions as a guideline. The Working Group will present this guideline to the Financial Condition (E) Committee at the 2007 Fall National Meeting.

4. Guidelines for the Filing of Workers' Compensation Large Deductible Policies and Programs (Large Deductible Filing Guidelines)

The Large Deductible Study Implementation (C) Working Group determined that the adoption of the Large Deductible Filing Guidelines, although very mature, should be delayed until a clear sense of direction had been established for the draft Third Party Administrator Guidelines. This is to assure that the draft Large Deductible Filing Guidelines will work in tandem with the draft TPA Guidelines in regard to TPA issues. Both guideline drafts were derived from recommendations made in the March 2006 Workers' Compensation Large Deductible Study. To view a copy of this guideline, please visit:

http://www.naic.org/committees_c_wctf_large_deductible.htm.

5. Independent Adjuster Model Act

This Act is address the following: (1) Which states require an appointment; (2) Which states will not accept a letter of certification from a person licensed in a state other than their home state; (3) Which states require non-residents to take a license exam even when the non-resident applicant passed the exam in his or her home state and can produce a letter of certification; (4) Which states will only license non-residents who are licensed in an adjoining state and whose principal place of business is located within (50) miles of the state; (5) Which states will not license non-residents under any circumstances; (6) Which states require a non-resident independent adjuster to maintain a physical business location within the state; and (7) Which states require applicants to provide signed affidavits from five (5) “reputable” citizens of the community? The Independent Adjuster Model Act Subgroup of the Producer Licensing (D) Working Group decided that this Act is more appropriate as a guideline. The Subgroup will proceed with redrafting this Act as a guideline. To view a copy of this draft, please visit:

www.naic.org/committees_e_receivership.htm.

6. Life and Health Insurance Guaranty Association Model Act (# 520)

The Receivership Model Act Revision (E) Working Group discussed whether the proposed amendments met the criteria for a NAIC model law. The proposed amendments address issues such as claim coverage caps and the treatment of structure D settlements. The Working Group voted to recommend that the proposed amendments satisfy the model law criteria. To view a copy of the current draft, please visit:

www.naic.org/committees_c_wctf_large_deductible.htm.

7. Model Regulation to Define Standards and Commissioners’ Authority for Companies Deemed to be in Hazardous Financial Condition (# 385)

The Examination Oversight (E) Task Force discussed whether the proposed changes to this model meet the new model law criteria. The Task Force plans to solicit feedback on the issue at the chief financial regulator’s forum before taking additional action.

8. Property and Casualty Insurance Guaranty Association Model Act (# 540)

The Receivership Model Act Revision (E) Working Group discussed whether the proposed amendments met the criteria for a NAIC model law. The Working Group’s primary concern was whether absolute uniformity was necessary for the functioning of the guaranty fund acts. The Working Group and the Receivership and Insolvency (E) Task Force voted to recommend that these amendments be incorporated into the model law. To view a copy of the current draft, please visit:

www.naic.org/committees_e_receivership.htm.

9. Recognition of the 2005 Group Term Life Waiver Mortality and Recovery Table for Use in Determining Reserve Liabilities for Group Life Waiver of Premium Disabled Life Reserves Guideline

The Life and Health Actuarial Task Force discussed a comment letter received from ACLI. LHATF included a provision for use of credibility weighted company experience. The Task Force agreed to expose this guideline for comment. To view a copy of this draft, please visit:

www.naic.org/documents/committees_lhatf_recognition_group_term_life.doc

10. Standard Nonforfeiture Law for Life Insurance (# 808)

The Life and Health Actuarial Task Force (LHATF) discussed the continued development of this law under the new model law process. LHATF is amending this model in order to facilitate conversion to a principles-based system. LHATF, Life Insurance and Annuities (A) Committee and the Executive Committee agreed that the Task Force should continue work on this Law. LHATF will update the Executive Committee on its progress at the 2007 Fall National Meeting.

11. Standard Valuation Law (# 820)

The Life and Health Actuarial Task Force (LHATF) discussed the continued development of this law under the new model law process. LHATF, the Life Insurance and Annuities (A) Committee and the Executive Committee agreed that LHATF should continue work on this law. During the 2007 Summer National Meeting, LHATF discussed whether valuation reports should be filed into a confidential, regulatory-only database, the scope of commissioner authority and the qualification standards for valuation actuaries. LHATF will update the Executive Committee on its progress at the 2007 Fall National Meeting.

12. Third Party Administrator Model Guidelines (# 90)

The Large Deductible Study Implementation (C) Working Group decided on May 22, 2007 that the revisions to the NAIC Third Party Administrator Statute should be classified as a guideline. These revisions principally pertain to the inclusion of workers' compensation. During the 2007 Summer National Meeting, the Working Group discussed the wording of several sections including Sections 7, 8 and 11. To view a copy of this draft, please visit:

http://www.naic.org/committees_c_wctf_large_deductible.htm.

13. Title Insurers Model Act (# 628)

The Title Insurance Issues (C) Working Group discussed whether potential changes to this model meet the new model law criteria. The Working Group intends to schedule a conference call to discuss whether changes to this model are warranted.

14. Title Insurance Agent Model Act (# 230)

The Title Insurance Issues (C) Working Group discussed whether potential changes to this model meet the new model law criteria. The Working Group intends to schedule a conference call to discuss whether changes to this model are warranted.

15. Unfair Trade Practices Act (# 880)

The Large Deductible Study Implementation (C) Working Group discussed distributing a new draft of proposed travel amendments to model # 880. The Committee decided to advance these amendments as a guideline. The new draft of proposed revisions to Model # 880 was distributed on June 12, 2007. These revisions would prohibit insurers to exclude or limit the amount of coverage under a life insurance policy, declining coverage, or charging a different rate for life insurance, based upon future lawful travel plans when the action is based on sound actuarial principles or is related to the actual or reasonably anticipated experience. The revisions, however, prohibit insurers from excluding or limiting the amount of coverage under a life insurance policy or declining life insurance or differing in the rate for life insurance solely on the basis of a travel destination's inclusion on the United States Department of State Warning List. The Committee is accepting comments until July 9, 2007. To view a copy of this draft, please visit: www.naic.org/committees_a.htm.

16. Uniform Individual Health Insurance Underwriting Application Form Model Law

The Health Insurance and Managed Care (B) Committee discussed whether this proposed model meets the new model law criteria. This new charge stems from the lack of uniformity and consumer confusion about the types of questions and information requested for medical underwriting on an individual health insurance application. The purpose of this charge is to review the issues concerning the development of a uniform individual health insurance underwriting application form and, if appropriate, develop such a form. The B Committee voted to recommend model law development.

Financial Regulation Standards and Accreditation Program

June 2007



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Revised Edition

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Printed in the United States of America

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THE NAIC FINANCIAL REGULATION STANDARDS AND ACCREDITATION PROGRAM

(Note: The official standards, policies and procedures of the NAIC Financial Regulation Standards and Accreditation Program are contained in the Proceedings of the NAIC and should be consulted for complete, accurate and up to date information on the Program.)

This pamphlet contains only general information about the NAIC Financial Regulation Standards and Accreditation Program and is not a comprehensive statement of the official standards, policies and procedures of the Program. Although this pamphlet is periodically updated to reflect changes in the Program, the reader is advised that it may not reflect the current Program requirements.)

Introduction

A system of effective solvency regulation provides crucial safeguards for America's insurance consumers. Insurance consumers benefit when the insurance industry is strong enough financially to be able to pay and settle claims in a timely manner, to provide diverse and competitively priced products and to provide meaningful customer service.

An effective system of solvency regulation has certain basic components. It requires that regulators have adequate statutory and administrative authority to regulate an insurer's corporate and financial affairs. It requires that regulators have the necessary resources to carry out that authority. Finally, it requires that insurance departments have in place organizational and personnel practices designed for effective regulation.

To guide state legislatures and state insurance departments in the development of effective solvency regulation, the NAIC began, in 1988, the process which led to the adoption of the Financial Regulation Standards (Standards) in June 1989. These Standards, discussed in greater detail below, establish baseline requirements for an effective regulatory system in each state.

To provide guidance to the states regarding the baseline Standards and an incentive to put them in place, the NAIC adopted in June 1990 a formal certification program. Under this plan, each state's insurance department will be reviewed by an independent review team whose job is to assess that department's compliance with the Standards. Departments meeting the Standards will be publicly acknowledged, while departments not in compliance will be given guidance by the NAIC to bring the department into compliance.

The objective of the accreditation program is to provide a process whereby solvency regulation of multi-state insurance companies can be enhanced and adequately monitored with emphasis on the following:

- 1) Adequate solvency laws and regulations in each accredited state to protect insurance consumers.
- 2) Effective and efficient financial analysis and examination processes in each accredited state.
- 3) Appropriate organizational and personnel practices in each accredited state.

As of June 2007, fifty departments—Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming—are accredited.

Moreover, since the program began, all 50 states and the District of Columbia have adopted laws and regulations designed to bring them closer to meeting the NAIC's accreditation standards.

The Financial Regulation Standards and Accreditation Committee of the NAIC (formerly known as the Financial Regulation Standards and Accreditation Subcommittee), consisting of regulators from across the country, decides whether a state meets the requirements set forth in the Standards. The meetings in which matters of state accreditation are discussed are held in executive session to protect the states, regulators, and in some instances, insurers from disclosure of confidential information.

How The Accreditation Program Works

The Accreditation Program establishes requirements under which a state insurance department may seek accreditation. Additionally, the Program establishes guidelines for states already accredited to maintain their accredited status.

Accreditation Review Process

Procedures in Preparation for an Accreditation Review

1. A state requests an accreditation review by contacting the Executive Headquarters of the NAIC.
2. NAIC requests that the state submit a Self-Evaluation Guide. This Guide provides the state with the detailed requirements of the Standards including laws and regulations that must be adopted, financial analysis and examination procedures that must be in place and organizational and personnel practices that must be established.
3. NAIC notifies the chair of Financial Regulation Standards and Accreditation Committee (FRSAC) that the state has requested an accreditation review and provides the chair with a list of qualified Review Team candidates, comprised of experts in insurance regulation.
4. The Chair of FRSAC approves the Review Team and the Review Team Leader and appoints at least one NAIC Observer. Review Teams generally consist of three to six individuals depending upon the size of the state; however the Chair of FRSAC may determine that a lesser number is sufficient when the size of the state's insurance industry and scope of the department's responsibilities are notably limited. The Review Team should include at least one disinterested former executive level regulator.
5. NAIC notifies the state of the selection of the Review Team. The state is given the opportunity to object to any of the Review Team members.
6. NAIC notifies the Review Team members. The Review Team members are paid by the NAIC at a set hourly rate for time spent on the accreditation review plus reasonable actual expenses incurred.
7. NAIC works with the state to schedule the site visit and notifies the Review Team of the dates. Generally, a site visit requires three to five days depending upon the size of the state.
8. NAIC sends copies of the state's completed Financial Regulation Standards Self-Evaluation Guide with any applicable supporting documentation to the Review Team.

9. NAIC notifies the state of the data, documentation, staff interviews, and other needs of the Review Team for its on-site review.
10. The NAIC Legal Division reviews the Part A responses and other pertinent information received from the State, and to the extent necessary, may analyze the State's laws, to determine whether the State is in compliance with the Part A Standards and to confirm whether the citations provided by the State accurately identify the extent to which the State's laws and regulations evidence compliance with the Part A Standards. Questions or concerns are forwarded to the NAIC Accreditation Staff and, if not resolved, are discussed with the state and, in addition, may be brought to the attention of an accreditation review team leader.
11. The Report of the NAIC Legal Division on the Part A Standards (The Part A Report) provides the findings of the NAIC Legal Division and includes the NAIC Legal Division's conclusion on the state's compliance with the Part A: Laws and Regulations Standards. A management comments portion may highlight concerns, if any are noted during the review, together with recommendations for the state to consider enhancements to its laws and regulations providing for sound insurance regulation.
12. The Part A Report is made part of the documentation for the accreditation review. It is delivered to the Department and the Review Team no later than the commencement of the On-Site Review, and is included in the materials submitted to each member of FRSAC at the conclusion of the On-Site Review.

On-Site Accreditation Review Procedures

1. The Review Team conducts the on-site review following a general outline of procedures to be performed to allow for uniformity in the evaluation process among the states. In addition, an NAIC staff representative is an observer on each site visit to help ensure uniformity and consistency in the on-site reviews. Before the on-site review, there is an initial meeting of the team members to discuss comments and concerns from review of the Financial Regulation Standards Self-Evaluation Guide and supporting documentation.
2. The on-site review consists of the following:
 - a. Review of examination reports and supporting work papers and analytical reviews.
 - b. Inspection of financial analysis and regulatory files for selected companies.
 - c. Interviews with department personnel.
 - d. Review of organizational and personnel practices.
 - e. Walk-through of the department to gain an understanding of document and communication flows.
 - f. Meetings of the Review Team to discuss comments and findings from the review.
 - g. Team members vote using a scoring system to determine whether a state is in compliance with the accreditation standards.
 - h. Closing conference with the state to discuss findings.
 - i. Draft copies of the compliance report and management letter comments are provided to the state, along with a copy of the scores.
3. As a result of the site visit, a review team report, compliance report and management letter comments are prepared by the Review Team and submitted to the FRSAC by the Team Leader. The reports summarize the scope of the procedures performed during the site visit, document the findings on an exception basis, highlight major recommendations as a result of the review, and conclude with the Review Team's recommendation as to whether the state should be accredited by the FRSAC.

Committee Evaluation Process

1. FRSAC meets, normally at the NAIC National Meetings, to discuss the Review Team's reports. FRSAC also has copies of the state's Financial Regulation Standards Self-Evaluation Guide and supporting documentation available. In addition, the Team Leader and the NAIC observer are present at the meeting as needed. Representatives of the state are in attendance to respond to questions from FRSAC or to comment upon the Review Team's reports and recommendation.
2. Representatives of the state are then excused. Based on the recommendation of the Review Team and as a result of this meeting, the FRSAC makes a decision as to whether or not the state should be accredited or, if the state is already accredited, whether or not the state should retain its accreditation.
3. FRSAC informs the state of its decision.
 - a) If the decision is favorable, the state receives recognition at the Opening Session of the NAIC National Meeting, and a press release acknowledging the accreditation will be issued.
 - b) If the decision is unfavorable, and the state is currently not accredited, the state has three options: withdraw its request for accreditation; ask FRSAC to hold its decision in abeyance pending legislative or other corrective action to bring the state into compliance with the standards; or appeal the decision of FRSAC. These options are available only if the state is not currently accredited.
 - c) If the decision is unfavorable, and the state is currently accredited, the state may either accept the decision or choose to appeal the decision of FRSAC. In case of an appeal, the state retains its accredited status during the appeals process.

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4. Accreditation is for a five-year period, subject to annual reviews of the state's Financial Regulation Standards Self-Evaluation Guide. Once accredited, a state is subject to a full accreditation review every five years. If information comes to the attention of FRSAC that suggests that a state may no longer meet the Standards, a special review may be conducted. If FRSAC concludes that the state's accreditation should be suspended or revoked, the specific reasons are documented in a report to the state. The state would have a right to appeal the decision of FRSAC utilizing previously established procedures.

Interim Annual Reviews

1. Annually, on the anniversary of the state's accreditation, the state shall submit an updated Financial Regulation Standards Self-Evaluation Guide (Interim Annual Reviews) to the NAIC Executive Headquarters.
2. The state's report in the first year after an on-site accreditation review shall also respond to all recommendations made in the Review Team's report and/or management letter.
3. NAIC staff will review the Interim Annual Review report and supporting documentation submitted by the state and summarize the information for presentation to FRSAC.
4. After hearing the report from the NAIC staff, FRSAC will determine whether the state remains in compliance with the Standards. (FRSAC may request that a representative of the state be present to answer questions, if desired.)
5. If FRSAC finds the state to be out of compliance with the Standards, the specific reasons will be documented in a letter to the state and the state's accreditation will be suspended or revoked. The state would have the right to appeal the decision of FRSAC utilizing the procedures outlined in the following section entitled "Appeal Procedure for the NAIC Financial Regulation Standards and Accreditation Program."

A Closer Look At The Standards

The Standards have been divided into three major categories: laws and regulations (Part A); regulatory practices and procedures (Part B); and organizational and personnel practices (Part C).

Preamble

The purpose of the Part A Law and Regulation Standards is to assure that an accredited state has sufficient authority to regulate the solvency of its multi-state domestic insurance industry in an effective manner. The Part A standards are the product of laws and regulations that are believed to be basic building blocks for sound insurance regulation. A state may demonstrate compliance with a Part A standard through a law, a regulation, an established practice which implements the general authority granted to the state, or any combination of laws, regulations or practice which achieves the objective of the standard.

The Part A standards apply to traditional forms of “multi-state domestic insurers.” This scope includes life/health and property/casualty/liability insurers and reinsurers which are domiciled in the accredited state and licensed, accredited or operating in at least one other state. This scope also includes insurers which are domiciled in the accredited state and operating or accepting business on an exported basis in at least one other state as excess and surplus lines insurers or as risk retention groups; except that the term does not include risk retention groups incorporated as captive insurers. It also does not include those insurers that are licensed, accredited or operating in only their state of domicile but are assuming business from insurers writing that business that is directly written in a different state. The terms “insurer” and “insurers” used in the Part A standards fall within the definition of “multi-state domestic insurers.” For the purpose of this definition, the term “state” is intended to include any NAIC member jurisdiction, including U.S. territories.

1. Examination Authority

The Department should have the authority to examine companies whenever it is deemed necessary. Such authority should include complete access to the company’s books and records and, if necessary, the records of any affiliated company, agent, and/or managing general agent.

Such authority should extend not only to inspect books and records but also to examine officers, employees, and agents of the company under oath when deemed necessary with respect to transactions directly or indirectly related to the company under examination. The NAIC Model Law on Examinations or substantially similar provisions shall be part of state law.

2. Capital and Surplus Requirement

The Department should have the ability to require that insurers maintain a minimum level of capital and surplus to transact business. The Department should have the authority to require additional capital and surplus based upon the type, volume and nature of insurance business transacted. The Risk Based Capital (RBC) for Insurers Model Act or provisions substantially similar shall be included in state laws and regulations.

3. NAIC Accounting Practices and Procedures

The Department should require that all companies reporting to the Department file the appropriate NAIC annual statement blank, which should be prepared in accordance with the NAIC's instructions handbook and follow those accounting procedures and practices prescribed by the NAIC's *Accounting Practices and Procedures Manual*.

4. Corrective Action

State law should contain the NAIC's Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in a Hazardous Financial Condition or a substantially similar provision which authorizes the Department to order a company to take necessary corrective action or cease and desist certain practices which, if not corrected, could place the company in a hazardous financial condition.

5. Valuation of Investments

The Department should require that securities owned by insurance companies be valued in accordance with those standards promulgated by the NAIC's Securities Valuation Office. Other invested assets should be required to be valued in accordance with the procedures promulgated by the NAIC's Financial Condition (E) Committee.

6. Holding Company Systems

State law should contain the NAIC Model Insurance Holding Company System Regulatory Act or an Act substantially similar, and the Department should have adopted the NAIC's model regulation relating to this law.

7. Risk Limitation

State law should prescribe the maximum net amount of risk to be retained by a property and liability company for an individual risk based upon the company's capital and surplus. This limitation should be no larger than 10% of the company's capital and surplus.

8. Investment Regulations

State statute should require a diversified investment portfolio for all domestic insurers both as to type and issue and include a requirement for liquidity. Foreign companies should be required to substantially comply with these provisions.

9. Liabilities and Reserves

State statute should prescribe minimum standards for the establishment of liabilities and reserves resulting from insurance contracts issued by an insurer; including life reserves, active life reserves, and unearned premium reserves and liabilities for claims and losses unpaid and incurred but not reported claims. The NAIC's Standard Valuation Law and Actuarial Opinion and Memorandum Regulation or substantially similar provisions shall be in place.

10. Reinsurance Ceded

State law should contain the NAIC Model Law on Credit for Reinsurance, the NAIC's Credit for Reinsurance Model Regulation and the 1992 NAIC Life and Health Reinsurance Agreements Model Regulation or substantially similar laws.

11. CPA Audits

State statute or regulation should contain a requirement for annual audits of domestic insurance companies by independent certified public accountants, based on the December 1990 version of the NAIC's Model Rule Requiring Annual Audited Financial Reports.

12. Actuarial Opinion

State statute or regulation should contain a requirement for an opinion on reserves and loss and loss adjustment expense reserves by a qualified actuary or specialist on an annual basis for all domestic insurance companies.

13. Receivership

State law should set forth a receivership scheme for the administration, by the insurance commissioner, of insurance companies found to be insolvent as set forth in the NAIC's Insurers Rehabilitation and Liquidation Model Act.

14. Guaranty Funds

State law should provide for a regulatory framework such as that contained in the NAIC's model acts on the subject, to ensure the payment of policyholders obligations subject to appropriate restrictions and limitations when a company is deemed insolvent.

15. Filings with NAIC

State statute, regulation or practice should mandate filing of annual and quarterly statements with the NAIC in a format acceptable to the NAIC except states may exempt from this requirement those companies that operate only in their state of domicile.

16. Producer Controlled Insurers

States should provide evidence of a regulatory framework, such as that contained in the NAIC's Model Law for Business Transacted with Producer Controlled Property/Casualty Insurer Act or similar provisions.

17. Managing General Agents Act

States should provide evidence of a regulatory framework, such as that contained in the NAIC Managing General Agents Model Act or similar provisions.

18. Reinsurance Intermediaries Act

States should provide evidence of a regulatory framework, such as that contained in the NAIC Reinsurance Intermediaries Model Act or similar provisions.

Note: If a state can provide evidence that none of the entities contemplated in above standards 14, 16, 17 or 18, is either present or allowed to operate in the state, it will not need to demonstrate compliance with that standard.

Regulatory Practices and Procedures Preamble

The purpose of Part B is to identify base-line regulatory practices and procedures required to supplement, and support enforcement of, the states' financial solvency laws for the states to attain substantial compliance with the core standards established in Part A. Part B identifies standards that are to be applied in the regulation of all forms of multi-state insurers.

Part B sets out standards required to ensure adequate solvency regulation of multi-state insurers. Each state must make an appropriate allocation of its available resources to effectively address its regulatory priorities. In addition to a domestic state's examination and analysis activities, other checks and balances exist in the regulatory environment. These include other states' regulation of licensed foreign companies, the appropriate application of FAST and IRIS ratios, the analyses by NAIC's staff, the NAIC Financial Analysis Working Group, the NAIC Analyst Team System, and to some extent the evaluation by private rating agencies.

The scope of Part B is broader than the scope of Part A. "Multi-state insurer" as used in Part B encompasses all forms of insurers domiciled or chartered in the accredited state and licensed, registered, accredited or operating in at least one other state. This scope also includes insurers which are domiciled in the accredited state and operating or accepting business on an exported basis in at least one other state as excess and surplus lines insurers. It does not include those insurers that are licensed, accredited or operating in only their state of domicile but are assuming business from insurers writing that business that is directly written in a different state. The term "insurer" in Part B includes traditional insurance companies as well as, for instance, health maintenance organizations and health service plans, captive risk retention groups, and other entities organized under other statutory schemes. While the unique organizational characteristics of some of these entities may require specialized laws, their multi-state activity demands solvency oversight that employs the base-line regulatory practices and procedures identified in Part B. For purposes of this definition, the term "state" is intended to include any NAIC member jurisdiction, including U.S. territories.

The accreditation program recognizes that complete standardization of practices and procedures across all states may not be practical or desirable because of the unique situations each state faces. States differ with respect to staff and technology resources that are available as well as the characteristics of the domestic industry regulated. For example, states may choose to emphasize automated analysis over manual or vice versa. Reliable results may be obtained using alternative, yet effective, financial solvency oversight methodologies. The accreditation program should not emphasize form over substance in its evaluation of the states' solvency regulation.

[NOTE: FRSAC has adopted Review Team Guidelines that provide detailed guidance to the review teams regarding how compliance with the Part B, Regulatory Practices and Procedures Standards should be assessed. These guidelines can also assist states in preparing for the accreditation review of their Department.]

1. Financial Analysis

(a) Sufficient Qualified Staff and Resources

The Department should have the resources to review effectively on a periodic basis the financial condition of all domestic insurers.

(b) Communication of Relevant Information To/From Financial Analysis Staff

The Department should provide relevant information and data received by the Department which may assist in the financial analysis process to the financial analysis staff and ensure that findings of the financial analysis staff are communicated to the appropriate person(s).

(c) Appropriate Supervisory Review

The Department's internal financial analysis process should provide for appropriate supervisory review and comment.

(d) Priority-Based Review

The Department's financial analysis procedures should be priority-based to ensure that potential problem companies are reviewed promptly. Such a prioritization scheme should utilize appropriate factors as guidelines to assist in the consistent determination of priority designations.

(e) Appropriate Depth of Review

The Department's financial analysis procedures should ensure that domestic insurers receive an appropriate level or depth of review commensurate with their financial strength and position.

(f) Documented Analysis Procedures

The Department should have documented financial analysis procedures and/or guidelines to provide for consistency and continuity in the process and to ensure that appropriate analysis procedures are being performed on each domestic insurer.

(g) Reporting of Material Adverse Findings

The Department's procedures should require that all material adverse indications be promptly presented to the commissioner or an appropriate designee for determination and implementation of appropriate regulatory action.

(h) Action on Material Adverse Findings

Upon the reporting of any material adverse findings from the financial analysis staff, the Department should take timely action in response to such findings or adequately demonstrate the determination that no action was required.

2. Financial Examinations

(a) Sufficient Qualified Staff and Resources

The Department should have the resources to effectively examine all domestic insurers on a periodic basis in a manner commensurate with the financial strength and position of each insurer.

(b) Communication of Relevant Information To/From Examination Staff

The Department should provide relevant information and data received by the Department which may assist in the examination process to the examination staff and ensure that findings of the examination staff are communicated to the appropriate person(s).

(c) Use of Specialists

The Department's examination staff should include specialists with appropriate training and/or experience or otherwise have available qualified specialists which will permit the Department to effectively examine any insurer. These specialists should be utilized where appropriate given the complexity of the examination or identified financial concerns.

(d) Appropriate Supervisory Review

The Department's procedures for examinations should provide for supervisory review of examination workpapers and reports to ensure that the examination procedures and findings are appropriate and complete and that the examination was conducted in an efficient and timely manner.

(e) Use of Appropriate Guidelines and Procedures

The Department's policies and procedures for the conduct of examinations should generally follow those set forth in the NAIC's Examiners Handbook. Appropriate variations in methods and scope should be commensurate with the financial strength and position of the insurer.

(f) Scheduling of Examinations

In scheduling financial examinations, the Department should follow procedures such as those set forth in the NAIC's Examiners Handbook that provide for the periodic examination of all domestic companies on a timely basis. This system should accord priority to companies which exhibit adverse financial trends or otherwise demonstrate a need for examination.

(g) Examination Reports

The Department's reports of examination should be prepared in accordance with the format adopted by the NAIC and should be sent to other states in which the insurer transacts business in a timely fashion.

(h) Reporting of Material Adverse Findings

The Department's procedures should require that all material adverse findings be promptly presented to the commissioner or an appropriate designee for determination and implementation of appropriate regulatory action.

(i) Action on Material Adverse Findings

Upon the reporting of any material adverse findings from the examination staff, the Department should take timely action in response to such findings or adequately demonstrate the determination that no action was required.

3. Information Sharing and Procedures for Troubled Companies

(a) Information Sharing

States should allow for the sharing of otherwise confidential documents, materials, information, administrative or judicial orders, or other actions with the regulatory officials of any state, federal agency or foreign countries providing that the recipients are required, under their law, to maintain its confidentiality. States also should allow for the sharing of otherwise confidential documents, materials, information, administrative or judicial orders, or other actions with the NAIC providing that the NAIC demonstrates by written statement the intent to maintain its confidentiality. The Department should have a documented policy to cooperate and share information with respect to domestic companies with the regulatory officials of any state, federal agency or foreign countries and the NAIC directly and also indirectly through committees established by the NAIC which may be reviewing and coordinating regulatory oversight and activities. This policy should also include cooperation and sharing information with respect to domestic companies subject to delinquency proceedings.

(b) Procedures for Troubled Companies

The Department should generally follow and observe procedures set forth in the NAIC's Troubled Insurance Company Handbook. Appropriate variations in application of procedures and regulatory requirements should be commensurate with the identified financial concerns and operational problems of the insurer.

Organizational and Personnel Practices

1. Professional Development

The Department should have a policy which encourages the professional development of staff involved with financial surveillance and regulation through job-related college courses, professional programs, and/or other training programs.

2. Minimum Educational and Experience Requirements

The Department should establish minimum educational and experience requirements for all professional employees and contractual staff positions in the financial regulation and surveillance area which are commensurate with the duties and responsibilities of the position.

3. Retention of Personnel

The Department should have the ability to attract and retain qualified personnel for those positions involved with financial surveillance and regulation.

Evolving Standards: The Impact of Changes in the Financial Regulation Standards

As insurance industry practices evolve, so must solvency regulation. Therefore, the NAIC has anticipated that the Standards, outlined above, would not be static, but would be dynamic.

In March 1998, the NAIC adopted a more flexible process when adding new standards or modifying existing standards. The process seeks extensive input from public officials, consumers, academics, regulators and industry representatives when changes in the Financial Regulation Standards and Accreditation Program are considered.

The procedures identify three ways in which the solvency standards may be modified:

1. The development of new models or amendment of existing models;
2. Additional or more specific requirements to Parts B and C of the standards; or
3. Indirect modification of current requirements through changes in manuals or books incorporated by reference in the standards, such as modification of the annual statement blank required to be filed by all companies.

The process uses a set schedule to complete the deliberation process which allows all interested parties to clearly understand the decision timetable.

With regard to the development of new models or amendment of existing models, the proposal would be discussed at the Spring National Meeting by FRSAC with public testimony taken at the Summer National Meeting. FRSAC will notify all interested parties including all regulators, industry, consumer groups, the National Conference of State Legislatures (NCSL), National Governors' Association (NGA), National Conference of Insurance Legislators (NCOIL), and others, both of the potential change in the model and the process for public comment.

Additionally, any suggested addition or change to the accreditation standards will be accompanied by the following:

1. A statement and explanation of how the standard is directly related to solvency surveillance and why the proposal should be included in the Standards.

2. A statement as to why ultimate adoption by every jurisdiction may be desirable.
3. A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date.
4. A statement as to the provisions needed to meet the minimum requirements of the standard. That is, whether a state would be required to have “substantially similar” language or rather a regulatory framework. If it is being proposed that “substantially similar” language be required, the referring committee, task force or working group shall recommend those items that should be considered significant elements.
5. An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it, if reasonably quantifiable.

After consideration of the testimony, FRSAC will determine whether the proposal should be exposed as a potential standard. At the Fall National Meeting, Executive Committee and Plenary will vote on the proposal.

If the proposal is adopted by Plenary, a one-year exposure period, commencing the following January 1, for law and regulation standards will commence during which time all interested parties will evaluate the effectiveness of the proposal.

After the exposure period has ended, FRSAC will review the proposal at the Spring National Meeting to see what action, if any, should be taken to formally adopt the new proposal. At the Summer National Meeting, a public hearing will be held and FRSAC will decide whether to add the proposal to the standards with a 60% majority vote needed to adopt. At the Fall National Meeting, Executive Committee and Plenary would also take action with 60% required to adopt. Once adopted by Plenary, the standard will become effective two years immediately following the next January 1. This provides a total of at least four full years for all parties to consider amendments or additions to the law and regulation standards.

For additional or more specific requirements to Parts B and C of the standards or indirect modification of current requirements through changes in manuals or books incorporated by reference in the standards, no seasoning period is required, and these changes become effective two years following the next January 1.

If FRSAC determines that a waiver of the above procedures is necessary to expeditiously consider modification or alteration of the Standards, it may upon a three-fourths (3/4) majority vote, move to recommend adoption of changes or modifications to the Executive Committee. The Report of FRSAC shall fully explain the necessity for expeditious action and attempt to summarize in an objective manner, the positions of the various interested parties. The Executive Committee and Plenary would vote on the Report, with a 60% majority required for adoption.

In June 1997, the NAIC adopted significant changes to the accreditation standards. These changes increase the flexibility of states in meeting the Guaranty Funds, Producer Controlled Insurer, Managing General Agents and Reinsurance Intermediaries Standards by requiring a “regulatory framework” showing that basic regulatory tools are available and exercised by states. Strict adherence to NAIC model laws on these matters is not needed. However, states that have already enacted NAIC models on these matters are encouraged to retain them. Furthermore, if a state can provide evidence that none of the entities contemplated in the above standards are either present or allowed to operate in the state, it will not need to demonstrate compliance with that standard. Additionally, two standards—the Disclosure of Material Transactions Model Act and the Risk Retention Model Act have been deleted from the standards. These revisions have been implemented and published herein. Revised standards in Part B, Regulatory Practices and Procedures and in Part C, Organizational and Personnel Practices were also adopted.

What The Future Holds: A Strong System Of Solvency Regulation

The regulation of the insurance industry for solvency stands as a unique example of how an effective regulatory system can be built. The strength of that system resides in the interdependence of independent state regulators, each responsible to his or her own constituencies, yet jointly responsible for the financial health of an entire industry. At every step along the way, state insurance regulators bear in mind their duty to safeguard consumers.

Governors, legislators and state insurance regulators, not content to rest on past success, have devised in the Financial Regulation Standards Accreditation Program, a powerful means of achieving the necessary degree of consistency among states without sacrificing the multi-state diversity that has been instrumental to that success. Since 1990, every state and the District of Columbia have adopted legislative packages designed to bring their departments of insurance into compliance with the Standards. The partnership among state government officials has been key to the success of the accreditation program, solvency regulation, and effective consumer protection.

NAIC Policy Statement on Open Meetings

The NAIC is a private, voluntary nonprofit corporation comprised of state insurance regulators. Although the NAIC essentially is not a governmental agency charged by state or federal law to perform governmental regulatory activities, its members are responsible in their respective states with implementation and enforcement of state laws, regulations and public policy in the best interests of the insurance consumers. Accordingly, the NAIC is committed to conducting its business openly subject to the discretion of the chairpersons of committees, subcommittees, task forces and working groups in those situations in which public discussions would not be appropriate, which might include but is not intended to be limited to the following situations:

1. Potential or pending litigation or administrative proceedings which may involve the NAIC, any NAIC member, or their staffs, in any capacity involving their official or prescribed duties, requests for briefs of *amicus curiae*, or legal advice;
2. Pending investigations which may involve either the NAIC or any member in any capacity;
3. Specific companies, entities or individuals;
4. Internal or administrative matters of the NAIC or any NAIC member, including budget, personnel and contractual matters, and including consideration of internal administration of the NAIC/SSO by the Internal Administration (EX1) Subcommittee or any subgroup appointed thereunder;
5. Elections of officers of the NAIC;
6. Consultations with NAIC staff members;
7. Consideration of individual state insurance department's compliance with NAIC financial regulation standards by the Financial Regulation Standards and Accreditation (F) Committee or any subgroup appointed thereunder;
8. Consideration of strategic planning issues relating to legislative matters; or
9. Any other subject required to be kept confidential under any state or federal law or under any judicial or administrative order.

Because not all situations can always be anticipated by the chairpersons, they shall retain the ability to exercise reasonable judgment in other situations in which public discussions would be inadvisable or inappropriate.

At the beginning of any executive session, the chairperson of the committee, subcommittee, task force or working group shall indicate the reason for the executive session.

This policy statement shall take effect and apply to meetings after the end of the NAIC fall National Meeting in Minneapolis, Minnesota, Sept. 18-20, 1994.

[NOTE: (Effective Jan. 1, 1996, conference call meetings are included in the application of the policy statement, by action of the NAIC on June 4, 1995). Roundtable discussions, zone retreats and meetings, commissioners' conferences, other like meetings of the members, and NAIC education programs of the NAIC are not subject to this policy statement.]



NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

October 1, 2007

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Re: National Association of Insurance Commissioners Report of Activities

Dear Commissioner Watters, Representative Smith, and Senator Richardville:

The National Association of Insurance Commissioners (NAIC) is pleased to submit the attached information in response to the requirements set out in Michigan Insurance Code § 500.478. We have arranged the material in the order set out in the statute and have provided the supporting documents on a CD Rom for your convenience. I will be happy to provide any additional information you require or answer any questions you have concerning the information provided.

(a) A summary of the activities of the NAIC during the preceding year.

The members of the NAIC conduct the business of the association through a committee structure that is quasi-legislative in nature. The system is designed to allow specific regulatory attention to virtually every area of the insurance business. The NAIC conducts quarterly national meetings of its members, which are also attended by

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insurance industry representatives, consumer advocates and other interested parties. A synopsis of each meeting is prepared based on a review by NAIC staff of the minutes of each NAIC committee, subcommittee, working group and task force. These summary documents contain information on all significant activities conducted by NAIC membership during each quarter. Included with this report are the synopsis documents from the NAIC National Meetings held from September of 2006 through June of 2007. Due to the timing of the 3rd quarter 2007 National Meeting, which is presently underway, that synopsis is not yet available. Additional information about the activities of the NAIC is contained in the 2006 Annual Report of the NAIC, which is also included. This document outlines the activities of the NAIC related to the implementation of the Interstate Insurance Product Regulation Compact and the launch of InsureUOnline for increased consumer awareness. The Report also addresses activities related to financial solvency, market regulation, modernization and technology, government affairs, and consumer outreach and education. The 2006 Annual Report also contains financial information, which is discussed in more detail below.

- (b) A fiscal report, in accordance with the generally accepted accounting principles and on a form approved by the commissioner, stating each category of person, operating, and capital expenditures, and each category of revenue from all sources for the NAIC's preceding fiscal year, and anticipated expenses and revenues for the current and succeeding fiscal years. The fiscal report shall include for each fiscal year statements of expenditures by major program; an audit opinion of the association's fiscal report; the salaries and other compensation for the association's officers; the salaries and other compensation of the professional and managerial employees receiving the highest 5 salaries; the salary range and other compensation of all other professional and managerial employees; and other information as may be requested on or before August 1 of each year by the commissioner or the senate and house of representatives standing committees on insurance issues.**

The NAIC 2006 Annual Report, which includes the 2005 and 2006 year-end financial statements, is included herewith. I have been informed that, as required, the Commissioner has approved the form of the NAIC fiscal report as submitted. The Annual Report includes the required categorization of expenditures and revenues beginning on page 17.

Also included with this report are the 2007 budget and the recently released proposed budget for 2008. The NAIC's budget process is governed by the NAIC Officers, the Internal Administration (EX1) Subcommittee, and the Executive Committee. Ultimately, all NAIC members are asked to participate in the development and review of the NAIC's annual budget proposal. Once implemented, budget performance is reported to all NAIC members to supplement management's oversight and governance of the annual budget.

In June of each year, a zero-based budget proposal is developed by each individual NAIC department, ultimately consolidating into each NAIC Division. During this time, each department projects its current year results and begins to build its proposal for the coming year, focusing closely on variances between the current year budget, current year projected results and

the proposed budget for the coming year. Significant analysis is performed by NAIC management regarding the essential services provided to NAIC members, the insurance industry, and consumers. An association-wide review of services is conducted to identify services that are no longer essential to the membership or the NAIC's business operations. This effort results in the reduction of costs and/or the reallocation of human and budget resources from less essential to more essential projects and services. Upon review and approval by the Internal Administration (EX1) Subcommittee, the Annual Budget is released to the general public for review and comment. The public hearing on the 2008 budget is scheduled for November 6, 2007.

Beginning on page 29 of the 2007 budget is a very detailed projection of 2006 revenue and expenses, as well as the 2007 budget by line item. The remainder of the budget presentation provides a significant level of detail regarding each line item of the budget. Page 31 of the 2007 budget includes a summary of expenditures by "Fund" (i.e., General Fund, Education Fund, SERFF, SBS, International Education Fund, FDR, and 2301 McGee). These separate funds were established to better track specific NAIC projects/initiatives separate from the NAIC General Fund. You will also find a breakdown of expenses by NAIC Division (located with the Detailed Revenues and Detailed Expenses Footnotes beginning at pages 125 and 149, respectively).

The required audit opinion can be found on page 16 of the 2006 Annual Report.

NAIC officers do not receive any salary or benefits as compensation for their positions.

A press release detailing the salaries of certain NAIC employees is included in response to the request for information concerning the "salaries and compensation of highest-paid employees."

- (c) **A list of each proposed or required NAIC standard, identified by name and version, to be enacted, adopted, or followed in order for a state to receive or continue its status as an NAIC accredited states, including a detailed explanation of how the NAIC standard benefits the public interest and why alternative means, less restrictive of state sovereignty and innovation, would not accomplish an equal or greater benefit to the public interest.**

To guide state legislatures and state insurance departments in the development of effective solvency regulation, the NAIC began, in 1988, the process which led to the adoption of the Financial Regulation Standards (Standards) in June 1989. These Standards, discussed in greater detail below, establish baseline requirements for an effective regulatory system in each state.

To provide guidance to the states regarding the baseline Standards and an incentive to put them in place, the NAIC adopted a formal certification program in June of 1990. Under this program, each state's insurance department is reviewed by an independent review team whose job is to assess that department's compliance with the Standards. Departments meeting the Standards will be publicly acknowledged, while departments not in compliance will be given guidance by the NAIC to bring the department into compliance.

The objective of the accreditation program is to provide a process whereby solvency regulation of multi-state insurance companies can be enhanced and adequately monitored with emphasis on the following:

- 1) Adequate solvency laws and regulations in each accredited state to protect insurance consumers.
- 2) Effective and efficient financial analysis and examination processes in each accredited state.
- 3) Appropriate organizational and personnel practices in each accredited state.

As of September, 2007, forty-nine states and the District of Columbia are accredited under the NAIC's Financial Regulation and Accreditation Program.

The Financial Regulation Standards and Accreditation Committee of the NAIC (FRSAC), consisting of regulators from across the country, decide whether a state meets the requirements set forth in the Standards. The meetings in which matters of state accreditation are discussed are held in executive session to protect the states, regulators, and in some instances, insurers from disclosure of confidential information.

The Standards have been divided into three major categories: laws and regulations (Part A); regulatory practices and procedures (Part B); and organizational and personnel practices (Part C).

The purpose of the Part A Law and Regulation Standards is to assure that an accredited state has sufficient authority to regulate the solvency of its multi-state domestic insurance industry in an effective manner. The Part A standards are the product of laws and regulations that are believed to be basic building blocks for sound insurance regulation. A state may demonstrate compliance with a Part A standard through a law, a regulation, and an established practice which implements the general authority granted to the state or any combination of laws, regulations or practice which achieves the objective of the standard.

The Part A standards apply to traditional forms of "multi-state domestic insurers." This scope includes life/health and property/casualty/liability insurers and reinsurers which are domiciled in the accredited state and licensed, accredited or operating in at least one other state. This scope also includes insurers which are domiciled in the accredited state and operating or accepting business on an exported basis in at least one other state as excess and surplus lines insurers or as risk retention groups; except that the term does not include risk retention groups incorporated as captive insurers. It also does not include those insurers that are licensed, accredited or operating in only their state of domicile but are assuming business from insurers writing that business that is directly written in a different state. The terms "insurer" and "insurers" used in the Part A standards fall within the definition of "multi-state domestic insurers." For the purpose of this definition, the term "state" is intended to include any NAIC member jurisdiction, including U.S. territories.

Each Part A Standard is described below, including the name and version of any specific NAIC Model included in the standard. The process for adopting or revising accreditation standards, including the required showing, follows this discussion.

1. Examination Authority

The Department should have the authority to examine companies whenever it is deemed necessary. Such authority should include complete access to the company's books and records and, if necessary, the records of any affiliated company, agent, and/or managing general agent.

Such authority should extend not only to inspect books and records but also to examine officers, employees, and agents of the company under oath when deemed necessary with respect to transactions directly or indirectly related to the company under examination. The NAIC Model Law on Examinations (1991 Version) or substantially similar provisions shall be part of state law.

2. Capital and Surplus Requirement

The Department should have the ability to require that insurers maintain a minimum level of capital and surplus to transact business. The Department should have the authority to require additional capital and surplus based upon the type, volume and nature of insurance business transacted. The Risk Based Capital (RBC) for Insurers Model Act (1994 Version) or provisions substantially similar shall be included in state laws and regulations.

3. NAIC Accounting Practices and Procedures

The Department should require that all companies reporting to the Department file the appropriate NAIC annual statement blank, which should be prepared in accordance with the NAIC's instructions handbook and follow those accounting procedures and practices prescribed by the NAIC's Accounting Practices and Procedures Manual.

4. Corrective Action

State law should contain the NAIC's Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in a Hazardous Financial Condition (1985 Version) or a substantially similar provision which authorizes the Department to order a company to take necessary corrective action or cease and desist certain practices which, if not corrected, could place the company in a hazardous financial condition.

5. Valuation of Investments

The Department should require that securities owned by insurance companies be valued in accordance with those standards promulgated by the NAIC's Securities Valuation Office. Other invested assets should be required to be valued in accordance with the procedures promulgated by the NAIC's Financial Condition (E) Committee.

6. Holding Company Systems

State law should contain the NAIC Model Insurance Holding Company System Regulatory Act (1986 Version- Revisions made 1993-1997 accepted but not required) or an Act substantially similar, and the Department should have adopted the NAIC's model regulation (1986 or 1993 version) relating to this law.

7. Risk Limitation

State law should prescribe the maximum net amount of risk to be retained by a property and liability company for an individual risk based upon the company's capital and surplus. This limitation should be no larger than 10% of the company's capital and surplus.

8. Investment Regulations

State statute should require a diversified investment portfolio for all domestic insurers both as to type and issue and include a requirement for liquidity. Foreign companies should be required to substantially comply with these provisions.

9. Liabilities and Reserves

State statute should prescribe minimum standards for the establishment of liabilities and reserves resulting from insurance contracts issued by an insurer; including life reserves, active life reserves, and unearned premium reserves and liabilities for claims and losses unpaid and incurred but not reported claims. The NAIC's Standard Valuation Law (1992 Version) and Actuarial Opinion and Memorandum Regulation (1993 Version) or substantially similar provisions shall be in place.

10. Reinsurance Ceded

State law should contain the NAIC Model Law on Credit for Reinsurance (1993 Version- 1996 revisions accepted but not required), the NAIC's Credit for Reinsurance Model Regulation (1991 Version- 1996 revisions accepted but not required) and the NAIC Life and Health Reinsurance Agreements Model Regulation (1992 Version) or substantially similar laws.

11. CPA Audits

State statute or regulation should contain a requirement for annual audits of domestic insurance companies by independent certified public accountants, based on the December 1990 version of the NAIC's Model Rule Requiring Annual Audited Financial Reports.

12. Actuarial Opinion

State statute or regulation should contain a requirement for an opinion on reserves and loss and loss adjustment expense reserves by a qualified actuary or specialist on an annual basis for all domestic insurance companies.

13. Receivership

State law should set forth a receivership scheme for the administration, by the insurance commissioner, of insurance companies found to be insolvent as set forth in the NAIC's Insurers Rehabilitation and Liquidation Model Act (1989 Version or Later).

14. Guaranty Funds

State law should provide for a regulatory framework such as that contained in the NAIC's model acts on the subject (Life/Health Insurance Guaranty Association Model Act (1988 Version or Later) and Post-Assessment Property & Liability Insurance Guaranty Association Model Act (1987 Version or Later), to ensure the payment of policyholders obligations subject to appropriate restrictions and limitations when a company is deemed insolvent.

15. Filings with NAIC

State statute, regulation or practice should mandate filing of annual and quarterly statements with the NAIC in a format acceptable to the NAIC except states may exempt from this requirement those companies that operate only in their state of domicile.

16. Producer Controlled Insurers

States should provide evidence of a regulatory framework, such as that contained in the NAIC's Model Law for Business Transacted with Producer Controlled Property/Casualty Insurer Act (1991 Version or Later) or similar provisions.

17. Managing General Agents Act

States should provide evidence of a regulatory framework, such as that contained in the NAIC Managing General Agents Model Act (1993 Version or Later) or similar provisions.

18. Reinsurance Intermediaries Act

States should provide evidence of a regulatory framework, such as that contained in the NAIC Reinsurance Intermediaries Model Act (1993 Version or Later) or similar provisions.

As insurance industry practices evolve, so must solvency regulation. Therefore, the NAIC has anticipated that the Standards, outlined above, would not be static, but would be dynamic.

In March 1998, the NAIC adopted a more flexible process when adding new standards or modifying existing standards. The process seeks extensive input from public officials, consumers, academics, regulators and industry representatives when changes in the Financial Regulation Standards and Accreditation Program are considered.

The procedures identify three ways in which the solvency standards may be modified:

1. The development of new models or amendment of existing models;
2. Additional or more specific requirements to Parts B and C of the standards; or
3. Indirect modification of current requirements through changes in manuals or books incorporated by reference in the standards, such as modification of the annual statement blank required to be filed by all companies.

The process uses a set schedule to complete the deliberation process which allows all interested parties to clearly understand the decision timetable.

With regard to the development of new models or amendment of existing models, the proposal would be discussed at the Spring National Meeting by FRSAC with public testimony taken at the Summer National Meeting. FRSAC will notify all interested parties including all regulators, industry, consumer groups, the National Conference of State Legislatures (NCSL), National Governors' Association (NGA), National Conference of Insurance Legislators (NCOIL), and others, both of the potential change in the model and the process for public comment.

Additionally, any suggested addition or change to the accreditation standards will be accompanied by the following:

1. A statement and explanation of how the standard is directly related to solvency surveillance and why the proposal should be included in the Standards.
2. A statement as to why ultimate adoption by every jurisdiction may be desirable.
3. A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date.
4. A statement as to the provisions needed to meet the minimum requirements of the standard.
5. An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it.
6. An explanation of the potential or likely impact on insurance consumers should such proposal not be included in the standards.

After consideration of the testimony, FRSAC will determine whether the proposal should be exposed as a potential standard. At the Fall National Meeting, Executive Committee and Plenary will vote on the proposal.

If the proposal is adopted by Plenary, a two-year exposure period for law and regulation standards will commence during which time all interested parties will evaluate the effectiveness of the proposal.

During the final year of the exposure period, FRSAC will review the proposal at the Spring National Meeting to see what action, if any, should be taken to formally adopt the new proposal. At the Summer National Meeting, a public hearing will be held and FRSAC will decide whether to add the proposal to the standards with a 60% majority vote needed to adopt. At the Fall National Meeting, Executive Committee and Plenary would also take action with 60% required to adopt. Once adopted by Plenary, the standard will become effective two years immediately following the next January 1. This waiting period, combined with the two-year exposure period, provides a total of at least four full years for all parties to consider amendments or additions to the law and regulation standards.

For additional or more specific requirements to Parts B and C of the standards or indirect modification of current requirements through changes in manuals or books incorporated by reference in the standards, no seasoning period is required, and these changes become effective two years following the next January 1.

If FRSAC determines that a waiver of the above procedures is necessary to expeditiously consider modification or alteration of the Standards, it may upon a three-fourths (3/4) majority vote, move to recommend adoption of changes or modifications to the Executive Committee. The Report of FRSAC shall fully explain the necessity for expeditious action and attempt to summarize in an objective manner, the positions of the various interested parties. The Executive Committee and Plenary would vote on the Report, with a 60% majority required for adoption.

In June 1997, the NAIC adopted significant changes to the accreditation standards. These changes increase the flexibility of states in meeting the Guaranty Funds, Producer Controlled Insurer, Managing General Agents and Reinsurance Intermediaries Standards by requiring a “regulatory framework” showing that basic regulatory tools are available and exercised by states. Strict adherence to NAIC model laws on these matters is not needed. However, states that have already enacted NAIC models on these matters are encouraged to retain them. Furthermore, if a state can provide evidence that none of the entities contemplated in the above standards are either present or allowed to operate in the state, it will not need to demonstrate compliance with that standard. Additionally, two standards—the Disclosure of Material Transactions Model Act and the Risk Retention Model Act have been deleted from the standards. These revisions have been implemented and published herein. Revised standards in Part B, Regulatory Practices and Procedures and in Part C, Organizational and Personnel Practices were also adopted.

- (d) A list of each NAIC standard adopted or proposed to be adopted during the preceding calendar year, identified by name and version, that is not required or proposed to be required for a state to receive or continue its status as an NAIC accredited state.**

At the 2nd quarter meeting in June of 2007, the NAIC instituted a new Model Law Development Framework to streamline the process and better align it with membership priorities and

initiatives. The new Framework calls for the parent committee and Executive Committee to approve the development of a Model Law before drafting begins. For approval, the Model Law must involve a national standard that requires uniformity among all states and must receive the commitment of significant regulator and association resources to educate, communicate, and support its state implementation.

This Framework injects enhanced discipline at all phases of the Model Law process, including identification, development, adoption and state implementation. It also provides greater relevance to the Model Law. At the same time, it expands the membership's ability to evaluate options and alternatives in the states' approaches to addressing local issues.

If the issue or matter does not meet the Model Law criteria, it will be developed as a Guideline, and will range in scope from laws, regulations, best practices, bulletins and other guiding principles that states may use. A Guideline does not necessarily require uniform adoption.

NAIC staff prepares a memorandum each quarter summarizing actions taken on Model Laws, Regulations, Actuarial Guidelines or White Papers. The memoranda for September of 2006 through June of 2007 are attached hereto. Due to the timing of the 3rd quarter 2007 National Meeting, which is presently underway, that memorandum is not yet available.

- (e) A description of the policies and procedures in effect with the NAIC that are designed to ensure that a State's accreditation status is determined solely based on the merits of a state's regulatory effectiveness, a statement on whether the NAIC has complied with those policies and procedures, and a detailed explanation of any noncompliance with those policies and procedures.**

Please see the response to item (c) above and the document entitled Financial Regulation Standards and Accreditation Program, June 2007 which is included with this report. This pamphlet contains general information about the NAIC Financial Regulation Standards and Accreditation Program and a summary of the official standards, policies and procedures of the Program. The NAIC complies with these policies and procedures and is not aware of any instances of noncompliance.

- (f) A description of the policies and procedures designed to ensure that the NAIC conducts its deliberations and makes its decisions in meetings that are open to the public and in a manner that provides fair notice and a fair opportunity for all affected persons to be heard; a statement on whether the NAIC has complied with these policies and procedures; and a detailed explanation of any noncompliance with those policies and procedures.**

The NAIC Policy Statement on Open Meetings is included with this report. The NAIC complies with these policies and procedures and is not aware of any instances of noncompliance.

I hope that the information provided meets your needs. Please feel free to contact me with any questions or comments and any additional information you require.

Thank you,

Andrew Beal

A handwritten signature in black ink, appearing to read 'A. Beal', with a stylized flourish at the end.

Chief Legal Officer and Deputy Executive Vice President
NAIC

APPENDIX

The following documents are included on the CD Rom:

1. NAIC Meeting Synopsis - 4th quarter 2006
2. NAIC Meeting Synopsis - 1st quarter 2007
3. NAIC Meeting Synopsis - 2nd quarter 2007
4. NAIC 2006 Annual Report
5. NAIC 2007 Budget
6. NAIC Proposed 2008 Budget
7. NAIC Press Release re: Salaries
8. Model Laws Memorandum - 4th quarter 2006
9. Model Laws Memorandum - 1st quarter 2007
10. Model Laws Memorandum- 2nd quarter 2007
11. Financial Regulation Standards and Accreditation Program, June 2007
12. NAIC Policy Statement on Open Meetings

**The
2007
Fall
National
Meeting**

Synopsis

Washington, D.C.
September 28-October 1, 2007



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Printed in the United States of America

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Drafted: 10/15/07

**Synopsis of the NAIC Committee, Subcommittee and Task Force Meetings
2007 Fall National Meeting
Washington, D.C.
September 28 – October 1, 2007**

To: Members of the NAIC
From: The Staff of the NAIC

Committee Action

The NAIC staff has reviewed the reports of the various committees, subcommittees and task forces. Below is an outline of major actions taken during the NAIC Fall National Meeting in Washington, D.C. The staff hopes this outline will provide the NAIC members with assistance in reviewing the meeting reports.

PLENARY

Oct. 1, 2007—Washington, DC

1. Adopted the Oral Report of the Executive (EX) Committee of Sunday, September 30, 2007.
2. Adopted by consent the Committee, Subcommittee, and Task Force minutes of the 2007 Summer National Meeting, June 1-4, 2007, except for Items 3-11 on this Agenda.
3. Adopted the Report of the Life Insurance and Annuities (A) Committee.
4. Adopted the Actuarial TAB The Application of the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities.
5. Adopted the Report of the Health Insurance and Managed Care (B) Committee.
6. Adopted the Long-Term Care Insurance Model Act – Section 9 Producer Training Requirements.
7. Adopted the Report of the Property and Casualty Insurance (C) Committee.
8. Adopted the Report of the Market Regulation and Consumer Affairs (D) Committee.
9. Adopted the Report of the Financial Condition (E) Committee.
10. Adopted the Report of the Financial Regulation Standards and Accreditation (F) Committee.
11. Adopted the Report of the International Insurance Relations (G) Committee.
12. Adopted the Report of the Information Resources Management (H) Committee.

June 4, 2007—San Francisco, CA

1. Adopted the June 3, 2007 oral report of the Executive (EX) Committee.
2. Adopted by consent the Committee, Subcommittee, and Task Force minutes of the 2007 Spring National Meeting, March 10-12, 2007, except for items 3-12 referenced below.
3. Adopted the report of the Life Insurance and Annuities (A) Committee, which included adoption of amendments to the Viatical Settlements Model Act (#697). The amendments include addressing the issue of stranger-originated life insurance, requiring enhanced disclosure and clarifying bonding requirements.

4. Adopted the report of the Health Insurance and Managed Care (B) Committee, which included adoption of the Prepaid Limited Health Service Organization Model Act (#68), and Prevention of Unauthorized Multiple Employer Welfare Arrangements (MEWAs) and Other Unauthorized Insurers Model Regulation (Model #220) New Appendix.
5. Adopted the report of the Property and Casualty Insurance (C) Committee, which included adoption of the Guidelines for Regulations and Legislation on Workers' Compensation Coverage for Professional Employer Organization Arrangements.
6. Adopted the report of the Market Regulation and Consumer Affairs (D) Committee.
7. Adopted the report of the Financial Condition (E) Committee, which included a new Charge to create a Disaster Reporting (E) Working Group.
8. Adopted the report of the Financial Regulation Standards and Accreditation (F) Committee.
9. Adopted the report of the International Insurance Relations (G) Committee.
10. Adopted the report of the Information Resources Management (H) Committee.
11. Adopted the report of the Military Sales (EX) Working Group, which included adoption of the Military Sales Practices Model Regulation.
12. Adopted the report of the Principles-Based Reserving (EX) Working Group.
13. Adopted the report of the Broker Activities (EX) Task Force.
14. Adopted the report of the Climate Change and Global Warming (EX) Task Force.
15. Adopted the report of the Government Relations Leadership Council (EX) Task Force.
16. Adopted the report of the Speed to Market (EX) Task Force.

EXECUTIVE (EX) COMMITTEE

Sept. 30, 2007—Washington, DC

1. Heard and adopted reports from its working groups and task forces. (Military Sales Working Group, Principles-Based Working Group, Broker Activities Task Force, Climate Change and Global Warming Task Force, Government Relations Leadership Council Task Force, and Speed-to-Market Task Force).
2. Adopted recommendations from Executive Committee Retreat as follows:
 - Continue to focus on model laws that represent national issues and need commissioner-level commitment. Highlighted producer licensing uniformity as a key initiative this year, and have organized a Coalition of regulators and national producer trade associations to partner on this very important work.
 - Through the work of the Coalition, the Executive Committee is driving a number of meaningful activities: reviewing options to simplify the licensing of business entities, with plans to simplify this process for business entity applicants: embarking on a national on-site assessment of the states' compliance with the reciprocity requirements of the Gramm-Leach-Bliley Act and progress toward full implementation of the national uniform licensing standards, and developing more uniform practices in the reporting and approval of continuing education standards across the states.
 - The Committee outlined its plans in the coming year to focus on:
 - (1) Continued reforms in market regulation processes.
 - (2) Reforms in the nation's health care regulation.
3. Determined that the following models met the criteria for development as a Model Act:
 - Model Regulation to Implement the NAIC Medicare Supplement Minimum Standards Model Act (#651)
 - Standard Nonforfeiture Law for Life Insurance (#808)

- Standard Valuation Model Law (#820)
 - Life and Health Guaranty Association Model Act (#520)
 - Property and Casualty Insurance Guaranty Association Model Act (Model #540)
 - Determining Reserve Liabilities for Pre-need Life Insurance Model Regulation
4. Deferred consideration of the Uniform Individual Health Insurance Underwriting Application Form Model Law for development of a Model Act.
 5. Heard Oral Quarterly Reports on Model Law Development Efforts for the following:
 - Medical Malpractice Closed Claim Reporting Model Law
 - Long-Term Care Insurance Model Act – Section 9 Producer Training Requirements
 - Uniform Health Carrier External Review Model Act
 6. Adopted a new Charge for the Market Conduct and Consumer Affairs (D) Committee to charge the Producer Licensing Working Group with developing a national handbook of best practices in the producer licensing process.
 7. Adopted the report of the Internal Administration (EX1) Subcommittee of Sept. 29, 2007.
 8. Received the report of the NIPR Board of Directors.
 9. Received and ratified the report of the SERFF Board of Directors.

June 3, 2007—San Francisco, CA

10. Heard an overview of the new model law development framework, discussed criteria, and answered questions.
11. Determined that the following models met the criteria for development of a model act:
 - Military Sales Practices Model Regulation
 - Viatical Settlements Model Act (#697)
 - Standard Nonforfeiture Law for Life Insurance (#808)
 - Standard Valuation Model Law (#820)
 - Medical Malpractice Closed Claim Reporting Model Law
 - Long Term Care Insurance Model Act – Section 9 Producer Training Requirements
 - Uniform Health Carrier External Review Model Act

12. Adopted the report of the Internal Administration (EX1) Subcommittee of June 2, 2007.

13. Received the report of the NIPR Board of Directors.

14. Received the report and ratified the election results of the SERFF Board of Directors.

Principles-Based Reserving (EX) Working Group

Sept. 30, 2007—Washington, DC

1. Established a Corporate Governance Subgroup.
2. Voted to recommend to the Executive (EX) Committee that Life Health Actuarial Task Force be permitted to work on the Securities Valuation Law and the nonforfeiture model as requested.

June 3, 2007—San Francisco, CA

3. Released for a 60-day comment period the draft principles and action items document.

4. Adopted a memo to send to the various NAIC task forces and working groups impacted in the exposed principles and action items document.
5. Adopted a revised Charge for the Life and Health Actuarial Task Force to develop forms and requirements for a statistical agent with consideration for more than just Model Regulation No. 815.

Climate Change and Global Warming (EX) Task Force

Oct. 1, 2007—Washington, DC

1. Adopted 2008 proposed Charges.

June 4, 2007—San Francisco, CA

1. Heard discussions on the need for disclosures by insurance companies on the impact of global warming on their businesses from representatives of the National Association of Mutual Insurance Companies, the National Resources Defense Council, CERES, the American Insurance Association and the Center for Economic Justice. The parties discussed whether enhances disclosures are necessary and if so, what information should be disclosed by insurers and what form such disclosures should take. The invited participants discussed the pros and cons of requiring insurers to report data on climate change and global warming risks through potential interrogatories in NAIC annual statement filings.

Government Relations Leadership Council (EX) Task Force

Oct. 1, 2007—Washington, DC

1. Adopted 2008 proposed Charges.
2. Heard that the Task Force will receive a detailed report in a few weeks regarding the findings from Florida Governor Crist's recent Climate Change Summit.
3. The Task Force continued its discussions on whether to request or require disclosures from insurers related to recognition of the impact of climate change on its operations. Comments were heard from the American Insurance Association, the Natural Resources Defense Council, CERES and Center for Economic Justice.
4. The Task Force distributed a draft outline of its white paper on *Potential Insurance-Related Impacts of Climate Change on Insurance Regulators*. A draft of the white paper is anticipated shortly with a conference call to be held before the 2007 Winter National Meeting. The white paper will include the Task Force's recommendation on disclosures.

June 4, 2007—San Francisco, CA

1. Received an update on the activities of the Coalition Opposed to a Federal Insurance Regulator (COFIR). The COFIR representative expressed their opposition to any optional federal charter (OFC) for insurance and encouraged the NAIC to work to oppose an OFC.
2. Commissioner Cline reported that the Council of State Governments (CSG) is taking up a resolution opposing an OFC. She will be taking part in the CSG meeting later in June.
3. NAIC staff reported that an OFC bill was introduced in the Senate. No major action on the OFC is imminent.
4. NAIC staff reported on status of health related hearings. Staff reported that there have been a number of hearings on Medicare Advantage plans and on state health insurance innovations.
5. NAIC staff reported on the status of the TRIA legislation. Staff reported that a bill is expected soon, but that activity on the bill has been slower than expected.
6. NAIC staff reported on the status of legislation to handle natural catastrophes. Staff reported that there are a number of proposals being worked on in both the House and Senate, but no action is imminent.

7. NAIC staff reported on the status of the Surplus Lines/Reinsurance bill. Staff reported that this bill has been introduced in both the House and Senate and could advance at any time in the House.
8. Commissioner Ario reported that the B Committee has prepared recommendations for increased flexibility from federal laws and regulations regarding health insurance.

Speed to Market (EX) Task Force

Oct. 1, 2007—Washington, DC

1. Adopted Chapter Five of the Product Filing Examiners Handbook as part of its adoption of the report of the Operational Efficiencies Working Group.
2. Received a report from the Personal Lines Market Regulatory Framework Working Group.
3. Received a report from the Interstate Compact National Standards Working Group.
4. Adopted proposed Charges for 2008.

June 4, 2007—San Francisco, CA

1. Adopted the report of the Interstate Compact National Standards (EX) Working Group which adopted the Standards for Guaranteed Insurability Benefits recommended by the Life Subgroup.
2. Adopted the report of the Operational Efficiencies (EX) Working Group.
3. Adopted the report of the Personal Lines Market Regulatory Framework (EX) Working Group in which the working group established a June 13, 2007 deadline for written comments on its most recent draft of the white paper.
4. The Task Force adopted the Standards for Guaranteed Insurability Benefits recommended by the Interstate Compact National Standards (EX) Working Group.

INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE

Sept. 29, 2007—Washington, DC

1. Adopted interim meeting minutes of June 3, 2007 and Sept. 17, 2007, regarding a secondee to the IAIS and adoption of the proposed 2008 budget, respectively. In particular, the Subcommittee adopted a proposal to provide an NAIC secondee to the IAIS for a two-year term.
2. Adopted non-substantive edits to its proposed Charges for 2008.
3. Received a report from the Audit Committee, which included a report on an actuarial review of the NAIC's closed defined benefit plan, as well as the financial results and related investment performance of the NAIC through August. The Committee reported on 2 recommendations from the Association's outside investment advisor regarding reallocation of certain equity holdings and authorization to apportion a specific amount of fixed income holdings to a convertible bond fund. In this regard, the Subcommittee adopted each of the Committee's recommendations. The Committee also received a status report on a Request for Proposal (RFP) for the annual audit of the NAIC, NIPR and IIPRC's financial statements. The Chair of the Committee, Commissioner Cline, reported on a teleconference held with NAIC staff regarding the Association's Risk Management and Compliance Program, as well.
4. Received a report from Cathy Weatherford, NAIC Executive Vice President/CEO regarding various administrative, operational and management activities of the NAIC since the 2007 Summer National Meeting in San Francisco, CA.
5. Received an update from Jeff Johnston, NAIC Chief Financial Officer on the 2008 budgeting process, noting the NAIC membership was scheduled to receive a short presentation from Commissioner Praeger (KS) during Roundtable. Mr. Johnston also noted a public hearing was scheduled for Nov. 6, 2007, and that staff is planning an outreach to industry trade and consumer representatives to cover key aspects of the budget.

6. Authorized the NAIC Officers to sign a corporate resolution to allow the NAIC to enter a Procurement Card Agreement with its current financial institution.
7. Received a status report from Denise Matthews, NAIC IT Director on the progress of the State Producer Licensing Re-engineering Project (SPLR).
8. Reconstituted an EX1 working group to revisit the SVO Industry Assessment structure.
9. Commissioner Jane Cline (WV), in her capacity as Chairperson of the Interstate Insurance Products Regulation Commission (IIPRC), reported on recent, current and future financial concerns of the Commission, including prospective financial needs from the NAIC to support 2008 calendar year operations. The Subcommittee communicated its continued support of the success of the Commission and expects to receive a specific request for additional funding at its winter national meeting.

June 2, 2007—San Francisco, CA

1. Reviewed the planning schedule for the 2008 budget.
2. Received a report from Cathy Weatherford, NAIC Executive Vice President/CEO regarding various administrative, operational and management activities of the NAIC since the 2007 Spring National Meeting.
3. Received a report from Cathy Weatherford regarding the results of the NAIC's renewal of employee benefit coverages, and general insurance coverages.
4. Received a report from Kay Noonan, NAIC General Counsel regarding developments on the proposed Line of Credit Agreement and Administrative Services Agreement for the Interstate Insurance Product Regulation Commission (IIPRC). In this regard, Counsel reported the agreements had been approved by the IIPRC's Management Committee and the Commission's membership, without exceptions. The Subcommittee authorized Cathy Weatherford to execute the agreements.
5. Considered potential quarterly meeting sites for the year 2012 and ultimately selected Phoenix, Indianapolis and Orlando for the spring, summer and winter meetings, respectively. Following a prior decision, the 2012 fall quarterly meeting will be held in Washington D.C.
6. Authorized the NAIC officers to sign a corporate resolution authorizing Jeffrey C. Johnston, in addition to Catherine J. Weatherford, as a signatory on NAIC investment accounts.
7. The Subcommittee did not receive a report from the Audit Committee, as the group was scheduled to meet following the Executive Committee meeting June 3, 2007. Commissioner Jane Cline, Audit Committee Chair, indicated a formal report would be submitted subsequent to their meeting.

LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

Sept. 30, 2007—Washington, DC

1. Adopted its Aug. 28, 2007 conference call minutes.
2. Adopted its 2008 proposed Charges.
3. Adopted the report of the Life and Health Actuarial Task Force.

June 3, 2007—San Francisco, CA

1. Adopted a resolution supporting September 2007 as Life Insurance Awareness Month.
2. Adopted its April 2, 2007 and May 16, 2007 conference call minutes.
3. Adopted a report of the Life and Health Actuarial Task Force.

HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE

Oct. 1, 2007—Washington, DC

1. Adopted its 2008 proposed Charges.
2. Adopted the Regulatory Framework Task Force and Senior Issues Task Force reports.
3. Adopted the Accident and Health Working Group report, which included approving the Working Group's paper "An Exploration of Potential Regulatory Measures Intended To Prevent Individuals At Later Durations of Non-Group Major Medical Products From Receiving Higher Rate Increases Than Those At Early Durations."

June 4, 2007—San Francisco, CA

4. Adopted its May 23, 2007 conference call minutes.
5. Adopted a new Charge to review issues concerning the development of a uniform individual health insurance underwriting application form and, as appropriate, develop a uniform individual health insurance underwriting application form as a model law or as an amendment to an existing model law. The Committee also approved requesting model law development for this Charge.
6. Adopted the Regulatory Framework (B) Task Force report, which included adopting the NAIC staff recommendations for retaining the NAIC models: Nondiscrimination in Health Insurance Coverage in the Group Market Model Regulation; and Group Coverage Discontinuance and Replacement Model Regulation.
7. Adopted the Senior Issues (B) Task Force report, which included adopting the technical revisions to Section 9 – Producer Training Requirements of the Long Term Care Insurance Model Act.
8. Adopted the Accident and Health Working Group report, which included approving model law development for revisions to the Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (Model 651).

REGULATORY FRAMEWORK (B) TASK FORCE

Sept. 30, 2007—Washington, DC

1. Adopted its 2008 proposed Charges.
2. Discussed HIPAA implementation issues with Department of Labor and Centers for Medicare and Medicaid Services (CMS) representatives.
3. Discussed its new Charge to review issues concerning the development of a uniform individual health insurance underwriting application form and, as appropriate, develop a uniform individual health insurance underwriting application form as a model law or as an amendment to an existing model law. The Task Force decided that it would first focus on the issues related to developing such a form before moving forward with a model law or regulation.
4. Discussed a new draft of the proposed Uniform Health Carrier External Review Model Act and the comments received on that draft. The new draft incorporates suggestions from comments received on the previous draft. NAIC staff noted significant changes from the previous draft related to who would select the independent review organization (IRO) and who would conduct the preliminary review of the external review request to determine whether the request is eligible for a full external review. The Task Force intends on distributing a new draft based on the discussion at the meeting within the next few weeks. The Task Force plans on holding a conference call prior to the 2007 Winter National Meeting to adopt the model and then present it to the Health Insurance and Managed Care (B) Committee for its consideration.
5. Received a report from the ERISA Subgroup. The Subgroup met in a Regulator-to-Regulator Session to discuss ongoing investigations. The Subgroup plans on developing two advisory alerts in response to recent Department of Labor Advisory Opinions regarding what is a fully-insured MEWA and the single-employer status of PEOs.

June 3, 2007—San Francisco, CA

1. Adopted the NAIC staff recommendations for retaining the Nondiscrimination in Health Insurance Coverage in the Group Market Model Regulation (Model #107); and Group Coverage Discontinuance and Replacement Model Regulation (Model #110).

SENIOR ISSUES (B) TASK FORCE

Sept. 30, 2007—Washington, DC

1. The Task Force adopted 2008 Charges.
2. The Task Force approved language that would be included in the NAIC Medicare Supplement Model Regulation Compliance Manual, and forwarded this language to the Life and Health Actuarial Task Force's Accident and Health Working Group.

June 3, 2007—San Francisco, CA

3. The Task Force adopted technical corrections to the Long Term Care Insurance Model Act to clarify that the producer training requirements apply to newly licensed agents, as well as currently licensed agents.
4. The Task Force adopted the following motion: "Under the current regulatory structure, state insurance departments do not have sufficient regulatory authority over MMA plans to adequately protect their Medicare-eligible population from the marketing and sales abuses currently experienced in this market. It is therefore moved that the NAIC take the position that greater regulatory authority be given to state insurance departments over MMA plans using the Medicare supplement regulatory model contained in 1395 ss., as a template to implement such regulatory authority. It is further moved that the NAIC offer its resources to work with Congress and the CMS to consider such a regulatory approach."

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

Sept. 28, 2007—Washington, DC

1. Approved a public hearing at the 2007 Winter National Meeting by the Catastrophe Insurance Working Group to focus on the impact that financial rating agencies have on catastrophe insurance markets.
2. Adopted proposed Charges for 2008.
3. The Statistical Information (C) Task Force approved the publication of the *2004/2005 Auto Insurance Database Report*.
4. The Statistical Information (C) Task Force approved the publication of the *2005 Commercial Lines Competition Database Report*.
5. The Statistical Information (C) Task Force exposed a June 11, 2007 draft of the *Medical Malpractice Closed Claim Reporting Model Law*.
6. The *Title Insurance Agent Model Act* and the *Title Insurer Model Act* are currently outdated and need to be updated, and the models should be addressed as guidelines by the Title Insurance Issues Working Group.

June 4, 2007—San Francisco, CA

1. Adopted the May 23, 2007 conference call minutes.
2. Adopted a revision to its 2007 Charges by adding: "Hold a public hearing at the 2007 Fall National Meeting to gather information on the appropriate regulatory framework for monitoring the activities of catastrophe risk modelers. Explore whether laws and regulations governing rating or advisory organizations are broad enough to be applied to catastrophe modeling vendors. Investigate recent changes by catastrophe modelers to shorten the time period used in hurricane models and consider whether scientific evidence supports these methodology changes. Explore whether a public model would be beneficial to assist insurance regulators in monitoring the activities of catastrophe modeling vendors and insurers that use the catastrophe loss cost information in their rating systems. Make recommendations regarding the

appropriate regulatory framework, the appropriateness of the use of a reduced experience period in hurricane models, regulatory best practices for monitoring the activities of modelers and insurers' use of modeled output and whether a public model should be developed by the 2007 Winter National Meeting.”

3. Adopted the Crop Insurance (C) Working Group request to distribute to all members its model letter and accompanying bulletin for state regulators to use as guidance for requests from cooperatives and trade associations to participate in the Risk Management Agency's (RMA) Cooperative and Trade Association Rebate Program.
4. Adopted Governance Standards for Risk Retention Groups to be presented to the Financial Condition (E) Committee for the *Financial Condition Examiners Handbook*.
5. Exposed the Casualty Actuarial (C) Task Force potential change to Schedule P instructions regarding discounting for 30 days.
6. The Profitability (C) Working Group published the *Report on Profitability By Line By State in 2005*.
7. Adopted the Statistical Information (C) Task Force recommendation for the development of a Medical Malpractice Closed Claim Reporting Model Law.

CASUALTY ACTUARIAL (C) TASK FORCE

Oct. 1, 2007—Washington, DC

1. Adoption of conference call minutes which included recommendations to the Blanks (E) Working Group and a letter to the Principles-Based Reserving Working Group.

June 4, 2007—San Francisco, CA

1. Exposed a potential change to Schedule P instructions regarding discounting for 30 days.
2. Agreed to complete an industry risk transfer survey.
3. The Profitability (E) Working Group published the Profitability Report using 2005 data.

STATISTICAL INFORMATION (C) TASK FORCE

The Statistical Information (C) Task Force met via conference call September 18, 2007.

The Statistical Information (C) Task Force met via conference call March 20, April 17, and May 15, 2007.

1. The Task Force adopted a motion for the development of a *Medical Malpractice Closed Claim Reporting Model Law*. The request was forwarded to the Property and Casualty Insurance (C) Committee for consideration.
2. The Task Force adopted the March 20, 2007 and April 17, 2007 conference call minutes.

SURPLUS LINES (C) TASK FORCE

The Surplus Lines (C) Task Force did not meet at the Fall National Meeting.

June 4, 2007—San Francisco, CA

1. Commissioner Jim Donelon (LA) indicated that he would request an interim conference call of the Task Force and also request a meeting at the NAIC 2007 Fall National Meeting as this issue has potentially significant impact on the future regulation of the excess and surplus lines industry.

WORKERS' COMPENSATION (C) TASK FORCE

Sept. 29, 2007—Washington, DC

1. Received the annual “State of the Line” report from the National Council on Compensation Insurance (NCCI). Among statistics reported by the advisory organization were the following: Workers’ compensation private carriers calendar year combined ratio for 2006 (preliminary) of 96.5% is the best in at least 30 years. Workers’ compensation medical losses are more than half of total losses (all claims—NCCI states: 59% Medical, 41% Indemnity).
2. Received an update from the Large Deductible Study Implementation (C) Working Group which reported that efforts continue on drafting its Third Party Administrator (TPA) Guidelines and Guidelines for the Filing of Workers’ Compensation Large Deductible Policies & Programs (Large Deductible Guidelines). It was mentioned that one key area remaining to resolve under the draft TPA Guidelines involves how much oversight should be required regarding bank accounts held by TPAs for their carriers. The draft Large Deductible Guidelines were reported as becoming very mature, but with possible revision remaining in regards to recommendations pertaining to TPAs.
3. Received an update from the NAIC/IAIABC Joint Working Group which reported that it met Sept. 19, 2007 in Phoenix, AZ during the International Association of Industrial Accident Boards & Commissions (IAIABC) 93rd Annual Convention. Work on an Independent Contractor White Paper was reported to be progressing, with remaining issues pertaining primarily to “if any” workers’ compensation policies and state pre-certifications (e.g., certificate of non-coverage). It was also mentioned that during the Sept. 19 Working Group meeting an IAIABC presentation was made regarding clean bill criteria for medial bills to workers’ compensation payers.
4. Received an update from the Professional Employer Organization Model Law (C) Working Group which reported that the *Guidelines for Regulations and Legislation on Workers’ Compensation Coverage for Professional Employer Organization Arrangements* (NAIC PEO Guidelines) adopted by the NAIC on June 4, 2007, recently received two technical only amendments to correct the Table of Contents and to correct a subsection reference. A motion was made to also add a drafting note under Section 12 and to amend language to broaden its Subparagraph 12A. The Task Force adopted these two suggested Section 12 changes with the caveat that they should receive wider circulation to regulators and interested parties before next going before the Property and Casualty Insurance (C) Committee for consideration of adoption.
5. The Working Group is to soon focus its attention on development of a paper to be of assistance to states in implementation of the NAIC PEO Guidelines.
6. It was announced that the NAIC NCOIL PEO Model Focus Group of the Professional Employer Organization Model Law (C) Working Group met by conference call on July 10, 2007 to consider providing comments to the National Conference of Insurance Legislators (NCOIL) on that organization’s June 20, 2007 draft PEO Model Act. A letter addressing NAIC concerns was submitted to NCOIL on July 13, 2007. NCOIL now plans to consider a later revised draft and review comments received during its interim meeting to be held Oct. 27, 2007.
7. Received an update from the Settlement Review (C) Working Group which reported that a second amendment to the New York/American International Group Settlement was recently filed which extended the document’s release deadline from Sept. 1, 2007 to Nov. 30, 2007.

June 4, 2007—San Francisco, CA

1. Received a report from the Large Deductible Implementation (C) Working Group, which reported that Working Group members will proceed with developing guidelines with regard to large deductibles instead of a model law in light of the NAIC’s recent changes to the model law development procedures.
2. Received a report from the NAIC/IAIABC Joint (C) Working Group, which reported that work on an Independent Contractor White Paper is in progress and discussions were held about cross-border coverage for emergency workers.
3. Received a report from the Professional Employer Organization Model Law (C) Working Group, which reported that the *Guidelines for Regulations and Legislation on Workers’ Compensation Coverage for Professional Employer Organization Arrangements* had been recently adopted by the NAIC Executive and Plenary and that the Working Group would now begin to focus on developing implementation guidelines.
4. Received a report from the Settlement Review (C) Working Group, which informed the Task Force of recently filed lawsuits involving the National Workers’ Compensation Reinsurance Pool (NWCRP) and the American Insurance Group (AIG) in Illinois and New York.

MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE

Oct. 1, 2007—Washington, DC

1. Adopted coding and dispensation coding changes to CDS, as well as identified duplicative codes analysis.
2. Adopted revisions to the definition of “complaint” in various sections of the *Market Regulation Handbook*.
3. Adopted a new Market Conduct Sampling Utility (MCSU) program and accompanying Help Documentation.
4. Adopted revisions to Standard 9 of Chapter 19 and Standard 10 of Chapter 19—Conducting the Life and Annuity Examination.
5. Adopted new Market Analysis Chief (MAC) and Collaborative Action Designee (CAD) Core Competencies.
6. Adopted 2008 Charges.

June 4, 2007—San Francisco, CA

1. Adopted the certification language which will be required of all companies filing data with states for the Market Conduct Annual Statement.
2. Adopted a new subsection, titled Consumer Complaints, to the Continuum Core Competency.
3. Adopted the addition of multi-state language to Chapter 15—Writing the Examination Report.
4. Appointed an Insurance Marketplace Standards Association (IMSA) Assessment Ad Hoc Working Group.

ANTIFRAUD (D) TASK FORCE

Oct. 1, 2007—Washington, DC

1. Adopted Automobile Insurance Fraud Guidelines.
2. Adopted 2008 Antifraud (D) Task Force Charges.

June 4, 2007—San Francisco, CA

1. Received reports from its Working Groups. The Task Force adopted the reports and received a presentation from Dan Risley, Executive Director (Society of Collision Repair Specialists) on educating consumers on selecting a collision repair shop and how they can work with the state departments of insurance.
2. The Automobile Insurance Fraud Model Act is to be redrafted as a guideline.

FINANCIAL CONDITION (E) COMMITTEE

Oct. 1, 2007—Washington, DC

1. Adopted the Report of the Accounting Practices and Procedures Task Force.
2. Adopted the Report of the Capital Adequacy Task Force.
3. Adopted the Report of the Examination Oversight Task Force.
4. Adopted the Report of the Receivership and Insolvency Task Force, and decided to accomplish the Charge to review solvent schemes of arrangement and other similar restructuring mechanisms through a joint Subgroup of Financial Condition Committee members and Receivership and Insolvency Task Force members.

5. Adopted the Report of the Reinsurance Task Force, including the additional exposure time for the current reinsurance regulatory modernization proposal and notice of an interim meeting of the Task Force in conjunction with the NAIC Financial Summit in Atlanta, GA on the afternoon of Nov. 7 and the entire day of Nov. 8.
6. Adopted the Report of the Risk Retention Group Task Force.
7. Adopted the Report of the Valuation of Securities Task Force.
8. Adopted the Report of the Disaster Reporting Working Group, including the intention of the Working Group to finalize the implementation plan and present it along with the framework to the Financial Condition Committee in December.
10. Adopted the report of the Financial Guaranty Model Law Revision Working Group, including revisions to the model as a guideline.
11. Adopted the Report of the Hybrid RBC Working Group.
12. Adopted the Report of the International Solvency and Accounting Working Group.
14. Adopted the Report of the National Treatment and Coordination Working Group.
15. Adopted the Report of the Risk Assessment Working Group.
16. Adopted an Appendix A request for Model Regulation 385 (“Hazardous Financial Condition”).
17. Asked for comments on an NAIC Reverse Fiscal Impact Study regarding cessation of collection hard copy statements at the NAIC.
19. Directed NAIC staff to find out the intent behind the referral on RRG corporate governance standards from the Property and Casualty Committee.

June 4, 2007—San Francisco, CA

1. Adopted the report of the Accounting Practices and Procedures Task Force.
 - Adopted the report of the Emerging Accounting Issues Working Group in which two Consensus Positions were adopted as final: (1. Updated INT 00-26 INT 00-26 (EITF 98-3 Nonmonetary Transaction) to remove reference to SSAP No. 68; (2. Removed the disclosure requirement from INT 03-17 as the disclosure is now in SSAP No. 55 (losses).
 - Adopted the report of the Statutory Accounting Principles Working Group and the following Nonsubstantive changes:
 - a. Changes to Issue Paper No. 99, rejecting FSP FAS 126-1 (Reporting for Obligors of Conduit Debt Securities) and FAS 131 (Segment Disclosures) as not applicable to statutory accounting.
 - b. Movement of disclosure on extra contractual obligations from INT 03-17 to SSAP No. 55. In addition staff was directed to make a minor change to the blanks proposal.
 - c. Rejected a proposed change to SSAP 9 (Subsequent Events).
 - Adopted the report of the Blanks Working Group and the following blanks proposals which were previously exposed for comment:
 - a. 2006-56BWG—Change Schedule T, columns 6 and 9 reporting from “received” to “written” for consistency in the Health blank.
 - b. 2006-58BWG—Change wording of Separate Accounts instruction for “Aggregate of All Other Lines of Business” column on the Analysis of Operations by Line of Business to be consistent for Life and Fraternal.
 - c. 2007-02BWG—Delete lines 11.1 and 11.2 from the quarterly general interrogatories blank regarding changes in stock.
 - d. 2007-03BWG—Delete “amounts from ordinary income are to be reported as investment income and realized capital gains are to be reported as a capital gain or loss” from Schedule D Part 1. Modify the language in Schedule D Part 4 and Part 5 to be consistent with Part 1.

- e. 2007-04BWG—Replace the current column 1 of Schedule T (Is Insurer Licensed) with an “Active Status” column which indicates the status of the insurer in each state or territory.
- f. 2007-05BWG—Delete “Do not report loss adjustment expenses reported by and assumed from the reinsured” from the Underwriting and Investment Exhibit Part 2A.
- g. 2007-06BWG—Add “Net of Reinsurance” below the main heading of the Annual and Quarterly Medicare Part D Supplement blanks and in the instructions.
- h. 2007-08BWG—Add a new disclosure to Note 14 of the Annual Statement Notes for Extra Contractual Obligations.
- i. 2007-09BWG—Add “Less Capital Gains Tax of” to line 30 of the Fraternal Summary of Operations page for consistency between the Life and Fraternal statements.
- j. 2007-11BWG—Delete Note 20 – September 11 Events.
- k. 2007-13BWG—Add a Medicare line under “Group Business” in the Accident and Health Policy Experience Exhibit.
- l. 2007-14BWG—Add instruction to Summary of Operations to Aggregate Write-ins line 27 for Life and line 25 for Fraternal to include reserve adjustments for reinsurance assumed for modified coinsurance.
- m. 2007-15BWG—Revise columns and rows in Schedule A Verification and Schedule A, Part 1, 2, and 3 to be consistent with the other investment schedules.
- n. 2007-16BWG—Add instruction to Asset page for “Details of Write-ins Aggregate at Line 9 for Invested Assets” to include receivables resulting from the sale of invested assets other than securities.
- o. 2007-17BWG—Add instruction to Investment Schedules General Instructions addressing reporting of securities by lot.
- p. 2007-18BWG—Require the Government Affairs contact person on the Jurat page and the Policyholders contact person to be captured in electronic format only.
- q. 2007-19BWG—Delete the “XXX” in column 2, line 16, of Schedule S, Part 6. Add a new line 34, Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers.
- r. 2007-21BWG—Change line names and insert instructions for lines 11, 12, and 13 in the Summary of Operations for consistency between the Fraternal and Life statements.
- s. 2007-22BWG—Add actuarial opinion and certification interrogatories to the Supplemental Exhibits and Schedules Interrogatories and instructions for filing.

- Received the report of the Property and Casualty Reinsurance Study Group.

2. Adopted the report of the Capital Adequacy Task Force.
3. Adopted the report of the Examination Oversight Task Force.
4. Adopted the report of the Receivership and Insolvency Task Force, postponing consideration of the Appendix A requests to continue work on the two guaranty fund model acts until a conference call to be held at a later date.
5. Adopted the report of the Reinsurance Task Force.
6. Adopted the report of the Risk Retention Group Task Force.
7. Adopted the report of the Valuation of Securities Task Force.
8. Received the report of the Disaster Reporting Working Group.
9. Received the report of the Financial Analysis Working Group.
10. Received the report of the Financial Guaranty Model Law Revision Working Group.
11. Adopted the report of the Hybrid Risk-Based Capital (RBC) Working Group.
12. Adopted the report of the International Solvency and Accounting Working Group.
13. Received the report of the NAIC/AICPA Working Group.
14. Adopted the report of the National Treatment and Coordination Working Group, including discussion of industry concerns regarding sensitive data submitted in the Biographical Affidavit form.

15. Adopted the report of the Risk Assessment Working Group.

Capital Adequacy (E) Task Force

Sept. 30, 2007—Washington, DC

1. Adopted the Sept. 10, Aug. 14, and June 21, 2007 conference call minutes.
2. Received the July 23, 2007 conference call minutes.
3. Adopted the Life RBC Working Group report which included the adoption of the 2007 life RBC formula and instructions, releasing for comment the July AAA C-3 Phase III report.
4. Received the Property RBC Working Group report.
5. Adopted the Health RBC Working Group report which included the adoption of the 2007 health RBC formula and instructions, releasing for comment a vision proposal.
6. Released for comment a Securities Lending Subgroup proposal for RBC, and annual statement reporting of securities lending transactions.
7. Adopted the 2008 Task Force Charges.

June 3, 2007—San Francisco, CA

1. Received April 24, 2007 minutes, which discussed the International Association of Insurance Supervisors' (IAIS) draft risk management standard and internal models guidance paper.
2. Adopted the Life Risk-Based Capital Working Group report, which included the adoption of an American Council of Life Insurers (ACLI) proposal for 2007 C-3 RBC instructions and referring a memo from New York regarding C-3 Phase II to the American Academy of Actuaries (AAA).
3. Adopted the Property Risk-Based Capital Working Group report, which included adoption of the minutes from its May 30, 2007 conference call.
4. Received the Health Risk-Based Capital Working Group report, which included adoption of the minutes from its May 3, 2007 conference call.
5. Received the Securities Lending Subgroup report, which included an update from its April 26, 2007 conference call.
6. Released for comment a 2007 instructions proposal on Medicare Part D premium stabilization reserves.
7. Allowed consideration for 2007 an instructions proposal on modified coinsurance dividend adjustments to total adjusted capital.

Examination Oversight (E) Task Force

Sept. 30, 2007—Washington, DC

1. Adopted the report of the Audit Software Working Group.
2. Adopted the report of the Analyst Team System Oversight Working Group.
3. Adopted the report of the Financial Analysis Handbook Working Group.
4. Adopted the report of the Financial Analysis Research and Development Working Group.
5. Adopted the report of the Financial Examiners Handbook Technical Group.

6. Adopted the report of the Financial Examiners Qualifications and Compensation Technical Group.
7. Received the report of the Hazardous Financial Condition Model Revisions Subgroup.
8. Approved the Attachment A recommending a formal revision to Model Law #385.
9. Adopted the report of the FHLB Custodial Subgroup.
10. Adopted 2008 Charges for the Task Force.

June 3, 2007—San Francisco, CA

1. Adopted the report of the Audit Software Working Group.
2. Adopted the report of the Analyst Team System Oversight Working Group.
3. Adopted the report of the Financial Analysis Handbook Working Group.
4. Adopted the report of the Financial Analysis Research and Development Working Group.
5. Adopted the report of the Financial Examiners Handbook Technical Group.
6. Adopted the report of the Financial Examiners Qualifications and Compensation Technical Group.
7. Instructed NAIC staff to work with the states that have concerns about the confidentiality of information shared within the NAIC Form A Database.

Reinsurance (E) Task Force

Sept. 29, 2007—Washington, DC

1. The Task Force adopted the 2008 Charges.
2. Additional comments will be received concerning the reinsurance regulatory modernization proposal until Oct. 19, 2007.
3. The Task Force will hold an interim meeting in conjunction with the NAIC Financial Summit in Atlanta, GA on the afternoon of Nov. 7 and the entire day of Nov. 8.

June 2, 2007—San Francisco, CA

1. Received a summary of the SVO Approved Bank List Working Group's activities. Adopted the minutes from the Working Group's May 25, 2007 conference call.
2. Heard an update on the reinsurance and mutual recognition activities taking place at the International Association of Insurance Supervisors (IAIS).
3. Discussed the two Financial Condition (E) Committee Charges concerning the Reinsurance Evaluation Office (REO) proposal and the reinsurance regulatory framework Charge.
4. Heard a summary and promoted international cooperation concerning the final report on the proposed Hague Choice of Courts Convention.
5. Received an update on the new NAIC model law development framework, which would address potential changes to the Credit for Reinsurance Model Law and Regulation.
6. Agreed to provide a progress update and an overall feasibility update to the Financial Condition (E) Committee at the Fall National Meeting.

Risk Retention (E) Task Force

Sept. 29, 2007—Washington, DC

1. Adopted proposed Charges for 2008.

June 2, 2007—San Francisco, CA

1. Approved a motion to add the following sentence to the current significant element (a) of the Reinsurance Ceded standard: “If the reinsurer is licensed as a risk retention group, then the ceding risk retention group or its members must qualify for membership with the reinsurer.”
2. Approved a motion that the sixth Credit for Reinsurance significant element should be included in the Part A standards applicable to risk retention groups (RRGs) incorporated as captives.
3. Agreed to schedule an interim conference call to continue discussions as to whether significant element (g) should be included in the Part A standards that apply to RRGs incorporated as captives.

Receivership and Insolvency (E) Task Force

The Receivership and Insolvency (E) Task Force did not meet at the 2007 Fall National Meeting in Washington, D.C.

The Receivership and Insolvency (E) Task Force did not meet at the 2007 Summer National Meeting in San Francisco, CA.

Valuation of Securities (E) Task Force

Sept. 30, 2007—Washington, DC

1. Adopted the minutes of an interim Task Force meeting held on July 18, 2007.
2. Adopted a recommendation from the Derivatives Market Study Working Group that:
 - a. The Capital Adequacy Task Force consider implementing a credit for effective derivatives hedging, referring the recommendation to the Capital Adequacy Task Force for its consideration.
 - b. The Financial Examiner Handbook Technical Group develop language for interrogatories to identify derivatives risks assumed by insurance companies outside Schedule DB, referring the recommendation to that Financial Examiners Handbook Technical Group. (The Derivatives Market Study Working Group agreed to work with the Technical Group to draft appropriate interrogatory language.)
3. Adopted the minutes of an interim meeting of the Derivatives Market Study Working Group held on Sept. 5, 2007.
4. Adopted the minutes of the interim Working Group meeting held on Aug. 29, 2007. Received the report of the Invested Asset Working Group which discussed the projects it is considering in connection with its review of existing NAIC procedures for determining regulatory treatment for new investments.
5. Adopted Charges for 2008.
6. Adopted an amendment to the *Purposes and Procedures Manual* to clarify that as part of the routine discharge of assigned duties, the SVO will direct insurance companies on the proper schedule on which to report a transaction.
7. Adopted an amendment to the *Purposes and Procedures Manual* to permit issuers and/or their investment bank representatives to request an SVO analysis of probable regulatory treatment of new securities without insurance company sponsorship of the request. The Task Force also adopted amendments to the *Purposes and Procedures Manual* to:
 - a. Clarify instructions to and expectations of SVO relative to classification of securities.
 - b. Expand and thereby disclose references to the classification process.
 - c. Disclose the role of the SVO in assisting NAIC members to assess investment risk in new securities and develop appropriate recommendations as to an NAIC regulatory response.
 - d. Authorize NAIC and SVO staff to develop a proposal for a comprehensive pre-packaged but temporary reporting framework for securities under regulatory review.

- e. Specify the relationship of the filing exempt rule to the classification of securities.
8. Adopted a joint New York and SVO proposal to reorganize the SVO valuation of securities function. The proposal permits insurance companies to self-report values from a number of identified sources, including the SVO, but requires that insurers identify the source of the value in a new annual statement blank column. The SVO will continue to provide valuations to serve as benchmarks for regulator comparison of reported values, and NAIC staff will develop systems to identify when insurers report different values for the same securities.
9. Received and released for a 30-day comment period the proposed agenda of the SVO Research Units for 2008.
10. Heard a report from interested parties and the SVO concluding that insurance companies do not issue financial instruments with characteristics of liabilities and equity and instructed the SVO to prepare a memorandum from the Task Force to the Statutory Accounting Principles Working Group relaying this finding in response to the latter's request for research on this topic.
11. Received and released for a 30-day comment period a request from the Statutory Accounting Principles Working Group for an opinion whether it should adopt a request from AIG that the market valuation option for subsidiary, controlled and affiliated (SCA) investments be expanded to permit the use of values reported on any stock exchange. The SVO was instructed to work with staff of the Statutory Accounting Principles Working Group to study and report back on the issue.
12. Confirmed that there are no securities currently subject to the **NR*/Z*** process identified in the *Purposes and Procedures Manual* for year-end 2007 and that insurance companies should continue to report hybrid securities in accordance with the "short-term" solution implemented for year end 2006 by the Hybrid RBC Working Group.

June 3, 2007—San Francisco, CA

1. Received and adopted: the report of the Invested Asset Working Group on constant proportion debt obligations (CPDOs), recommending their treatment as Schedule D bonds but instructing the SVO to monitor developments in the market and in NRSRO methodologies; the minutes of the May 15, 2007 meeting of Working Group; and a proposal to charge the Invested Asset Working Group to consider improvements to the process by which risks in new invested assets are evaluated, communicated and monitored and how the annual statement instructions could be made more transparent.
2. Received and exposed the report of the Filing Procedures Working Group for a 30-day comment period. The Working Group has: concluded that there are no current alternatives to the SVO business model that would more efficiently address current regulatory needs and also address future regulatory needs; recommended to refer to the Internal Administration (EX1) Subcommittee to ask that a subgroup be formed to review regulatory needs for investment risk analysis and for guidance on how best to fulfill those needs; and recommended that the Task Force create a new group to assist the EX1 subgroup.
3. Heard a report of the Derivatives Market Study Working Group, which received and adopted its April 4, 2007 minutes and received and released proposed changes to Schedule DB for a 30-day comment period.
4. Heard a staff report that it has completed the Charge that it publishes a series of articles explaining how classification methodology is applied to hybrid securities. Received and released for comment staff proposals that would permit broker-dealers to access the SVO to assess probable regulatory treatment of new investments without requiring insurance company sponsorship and clarify portions of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* related to the treatment of hybrid securities.
5. Received a staff report on a survey of chief examiners and financial analysts on the joint New York–SVO proposal to adopt an alternative process for valuation of securities. Agreed to schedule a conference call to discuss the alternative proposal and the results of the survey. Adopted a motion to have the SVO staff forward the proposed blanks changes necessary to implement the valuation alternative to the Blanks (E) Working Group.
6. Heard a report from the SVO staff that the private nature of the life settlement contract transactions and the proprietary nature of trade-related data make it impossible for the SVO to assess the liquidity of the market. Directed the SVO staff to draft a report to the Statutory Accounting Principles (E) Working Group to this effect and to continue to study whether life settlement contracts should be reported as private placement securities and whether they should be accounted for under the market or investment methods.

7. Adopted a staff proposal to require insurance companies that report troubled restructuring under SSAP No. 36 to coordinate the valuation reported for those transactions with the SVO to permit the SVO to provide post default credit quality designations for the issuer's securities.
8. Extended the comment period on a proposed amendment to the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* to clarify: that the SVO can direct an insurance company on the proper schedule for reporting a security when the company has filed a security for analysis under rules applicable to a schedule for which the security is ineligible; the referral from the Statutory Accounting Principles (E) Working Group pertaining to accounting for certain financial investments with characteristics of both liabilities and equities to permit industry trade groups to survey their members regarding whether insurance companies are issuing such transactions.
9. Heard an introductory report from SVO staff expressing concern that the inability of insurance companies to obtain hedge accounting for portfolio hedges might be leading insurance companies to create alternative transactions that are less efficient than amending the derivatives framework to permit credit for effective hedging.

FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE

Sept. 29, 2007—Washington, DC

1. Adopted its 2008 proposed Charges.
2. Adopted proposed revisions to the review team guidelines effective Jan. 1, 2008, related to three key issues impacting financial condition examinations and the accreditation standards. These issues were considered by a subgroup of the Committee that was formed after the Summer National Meeting and charged with addressing a referral received by the Committee from the Financial Examination Modernization (E) Working Group (the Working Group). The proposed revisions from the Working Group's referral were modified slightly by the subgroup and related to: 1) examinations of redomesticated companies; 2) possible exceptions to the 18-month timeliness requirement; and 3) review and reliance on lead-state workpapers. The Committee also voted to adopt the scenarios regarding possible exceptions to the 18-month timeliness guideline proposed by the Working Group as an additional accreditation interlineation. In addition, the Committee voted to refer the adopted revisions to the review team guidelines regarding review and reliance on a lead-state's workpapers to the Financial Examiners Handbook (E) Technical Group for their consideration of the language into the Examiners Handbook.

June 2, 2007—San Francisco, CA

1. Adopted the 2003 revisions to the Annual Financial Reporting Model Regulation (Model Audit Rule) as acceptable, but not required, for purposes of compliance with the Part A accreditation standards. These revisions were intended to strengthen the Model Audit Rule to emphasize the auditor's consideration and use of the *Financial Condition Examiners Handbook*. The change will be made immediately upon Executive (EX) Committee and Plenary approval in September 2007.
2. Adopted the Property and Casualty Actuarial Opinion Model Law as a Part A accreditation standard. This model law requires an insurer to annually file with its domestic state an Actuarial Opinion Summary on March 15 and allows other states in which the company is licensed to also request this summary. The Committee determined this model should be judged on a "substantially similar" basis for accreditation purposes and concluded that sections 2A, 2B, 3A and 3B(1) of the model should become significant elements of the Part A standards. This change is proposed to become effective Jan. 1, 2010.
3. Took no action on the proposed addition of the Model Act and Regulation on Custodial Agreements and the Use of Clearing Corporations. In doing so, the Committee determined that the model provides a useful solvency regulation tool, but should not be required for accreditation purposes.
4. Voted to expose the 2006 revisions to the Risk-Based Capital for Insurers Model Act as a significant element of the Part A accreditation standards. The model was revised to incorporate a new "trend test" for property/casualty companies and to include the trend test as a way for the company action level to be triggered. Language for a life trend test was already included in the model act. This public exposure is proposed to commence Jan. 1, 2008, for a period of one year ending Dec. 31, 2008.

5. Voted to expose the IRMA as a replacement to the current reference to the Insurers Rehabilitation and Liquidation Model Act (IRLMA) within the Part A accreditation standards. This action will effectively continue to require a “regulatory scheme” similar to IRMA rather than the same required pursuant to IRLMA today. This public exposure is proposed to commence Jan. 1, 2008, for a period of one year ending Dec. 31, 2008.
6. Voted to expose the 2006 revisions to the Annual Financial Reporting Model Regulation (Model Audit Rule) as a significant element of the Part A accreditation standards. The model was revised to require that insurers comply with certain “best practices” related to auditor independence, corporate governance and internal controls over financial reporting. This public exposure is proposed to commence Jan. 1, 2008, for a period of one year ending Dec. 31, 2008.

INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

Oct. 1, 2007—Washington, DC

1. Adopted Charges for 2008.
2. The Committee endorsed International Strategy document as a “living document” to be delivered to full NAIC membership for endorsement.

June 4, 2007—San Francisco, CA

1. Heard an update from the International Regulatory Cooperation Working Group on the 2007 Spring International Internship Program.
2. Heard a report on the NAFTA Trilateral Insurance Working Group meeting on April 19, where discussions continued on insurance issues involving cross-border commercial traffic in Mexico, Canada and the United States.
3. Heard an update on the Joint Forum and continuing work on customer suitability issues.
4. Heard a report on IAIS activities and meetings in Basel, Switzerland, including from Commissioner Bell as vice chair of the IAIS Executive Committee, Commissioner Goldman as chair of the Reinsurance Subcommittee and Commissioner Gross, newly elected as chair of the Technical Committee. The committee also discussed the 2007 IAIS Annual Conference, which is being hosted by the NAIC in Florida Oct. 16-19, 2007.
5. Heard a report on a meeting that took place with financial regulators from the United States (Arizona, Connecticut, California, Iowa, Maryland, New Jersey, New York, Ohio, Washington and Wisconsin) and Europe (Germany, Norway, U.K. and Spain). These regulators discussed implementation of the model memorandum of understanding (MOU) on information-sharing related to members of insurance groups. The goal is to complete information-sharing agreements between U.S. regulators and their European counterparts with regard to all transatlantic groups. On June 5, the California and German insurance regulators signed the first MOU on information-sharing based on the draft developed by the NAIC and EU.
6. Participated in a discussion of a draft NAIC International Relations Action Plan. The Action Plan, accompanied by guiding principles, is a process for the Committee to consider all the activities for the year, identify the NAIC’s international priorities and reinforce the Committee’s role in developing policy recommendations for the various international issues the NAIC is involved in.

INFORMATION RESOURCES MANAGEMENT (H) COMMITTEE

Sept. 29, 2007—Washington, DC

1. The committee adopted a recommendation to approve the technology request.
2. The committee appointed Delaware to fill a vacancy on the Technical Consulting Working Group.

June 2, 2007—San Francisco, CA

1. Heard a status update on six ongoing IT projects: Security Infrastructure, the National Portal Framework, SERFF Enhancements, State Producer Licensing Reengineering, Market Web Services and Enhancements to a Regulatory Solvency Tool.
2. Heard a status update on the roll out of Phase III of the National Portal project. The Financial Analyst and Financial Examiner roles will be released to 15 volunteer states at the end of June. General availability is scheduled for Sept. 28, 2007. The Market Regulation role will be ready for limited production release Sept. 28, 2007, with general availability Jan. 4, 2008. Tentatively scheduled for Jan. 4, 2008, is the Producer Licensing regulator role. Project Requests for the 2008 budget are under way for the next portal phase and a project to combine NAIC contact information.
3. The Committee is gearing up to support the upcoming NAIC budget process and to review proposed projects for IT resources.

Information Systems (H) Task Force

Sept. 29, 2007—Washington, DC

1. Adopted minutes from Aug 15, 2007 Information Systems (H) Task Force meeting.
2. Adopted a report from the Technical Consulting Working Group. The Working Group reported that it had reviewed project requests concerning the proposed elimination of the State Private Network and enhancements to the Online Fraud Reporting System (OFRS), communicated questions seeking additional information on these project requests, and received and reviewed the responses for the OFRS project. A report will be provided to the Information Resources Management (H) Committee. It was announced that Christie Borchin (CA) has been appointed as chair of this Working Group.
3. Adopted a report from the Strategic Systems Planning Working Group. It was reported that the NAIC will participate at the American Council of Life Insurers (ACLI) annual conference to promote the Portal offering. The status of several Business Fiscal Impact Statements (BFIS) was provided, indicating that they are not included in the 2008 budget. A recommendation was received from the Working Group to postpone demonstrations of the National Portal until the Winter National Meeting to allow inclusion of enhancements being implemented as a result of limited release pilot feedback.
4. Adopted the final report from the XML-Web Services Working Group indicating that the Charges have been completed and providing an overview of the Working Group's work product. A recommendation that the Working Group be disbanded, having completed their Charge, was approved.
5. Adopted the 2008 Charges for the Task Force. The Task Force discussed potentially adding a privacy and security Charge in the future following additional discussion by the Task Force. The Charges were adopted as presented.

June 2, 2007—San Francisco, CA

1. Reviewed and adopted minutes from its May 9, 2007 meeting.
2. Heard and adopted a report from the Technical Consulting Working Group regarding work on security and privacy issues within the context of distributed and interoperable state systems. There were no project requests on which to report.
3. Heard and adopted a report from the Strategic Systems Planning Working Group that development on the National Portal is progressing. James Winningham (AR), Denise Matthews (NAIC) and Dan Oas (NAIC) presented at the ACORD LOMA conference in May.
4. Heard and adopted a report from the XML-Web Services Working Group that they had made significant progress with the Charges made to this group through Webinars, conference calls and the NAIC TechEx Conference. A final report outline has been drafted and NAIC staff should complete a draft report by the next meeting. Once the report is accepted, it is being recommended the Working Group be disbanded.
5. Heard that Phase III of the National Portal project would release the Financial Analyst and Financial Examiner roles to 15 volunteer states on June 28. General availability is scheduled for Sept. 28, 2007. The Market Regulation role will be

ready for limited production release on Sept. 28, 2007, with general availability Jan. 4, 2008. Tentatively scheduled for Jan. 4, 2008, is the Producer Licensing regulator role. Project Requests for the 2008 budget are under way for the next portal phase and a project to combine NAIC contact information.

6. Heard that the Security Infrastructure project would go to production in mid-June, 2007. Training will be available for the Data Processing Coordinator staff. Efforts are under way to eliminate the need for everyone to change passwords.
7. Heard that SERFF v5.1—which included functionality to submit and review filings, changes to Uniform Transmittal documents and other minor issues—was released April 4. SERFF v5.2 development is complete and in testing, with production scheduled later this summer. New features include Message Suppression, Public Access Confidentiality Mechanism, expanded Quick Text, Online Help and Quick Export. SERFF v5.3 is under construction, with a Most Recently Viewed list, an EFT filing indicator, new navigation function and Objection Letter tools for states. The product steering committee started considering 2008 enhancements.
8. Heard that Florida began using ClaimNet in April and 79% of claims to date have been made using the system. Training is scheduled for Sept. 20 – 21 in Tallahassee, FL.
9. Heard that the State Producer Licensing Reengineering Project is on track from budget, business, technology and development perspectives. Several pieces of the technology infrastructure have been selected, and acquired Extract/Transform/Load (ETL) analysis is under way and data mart definition is almost done. Iteration I, scheduled for January 2008 release, will include Business Rules Framework, Reporting Framework, Monitoring and Auditing and the Data Model and Database Strategy.
10. Distributed the security infrastructure training schedule.
11. For NIPR, provided a report on when notice is given for transaction format changes, what the notification process is, how different third-party partners are notified and the level of state participation in the process.

LIFE AND HEALTH ACTUARIAL TASK FORCE

Sept. 28, 2007—Washington, DC

1. Voted to have current LHATF members and existing subgroups of LHATF to continue working on Task Force assignments during the period between the election of NAIC officers and the appointment of LHATF by the Executive Committee and the subsequent appointment of subgroups.

June 1-2, 2007—San Francisco, CA

1. Requested that the Life Insurance and Annuity (A) Committee work on revising the Standard Valuation Law and the Standard Nonforfeiture Law. These were submitted for immediate approval by the Executive (EX) Committee.
2. Approved the request from the Accident and Health Working Group to forward to the Health Insurance and Managed Care (B) Committee a referral to work on the Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act.
3. Adopted Actuarial Guideline TAB.

NAIC/CONSUMER LIAISON COMMITTEE

Sept. 29, 2007—Washington, DC

1. Received a presentation on the health insurance needs of the chronically ill. Particular focus was given to the health insurance needs of individuals with cancer. Consumer advocates indicated health insurance reforms for consumers with cancer should focus on health insurance adequacy, availability, affordability and administrative simplicity. In addition, the Committee received a presentation on what health insurers and regulators should know about the needs of the bleeding disorder community.

2. Received a presentation on the Federal Mental Health Parity Legislation. Consumer advocates stressed that state-based consumer rights should be protected. In addition, consumer advocates stressed that any Federal legislation should not impose a Federal ceiling.
3. Received comments from consumer advocates about their desire to have the NAIC revisit the NAIC's Model Law Procedures as follows: (1) revise the criteria for model laws to include the establishment of strong consumer protection standards and eliminate the criteria that national uniformity is essential; (2) eliminate the second-class product of "guidelines;" (3) revise the criteria for adoption of model laws to either a simple majority or create a system of weighted voting based on state population; and (4) exclude model regulations from the procedures for model laws.
4. Received an update from the Center for Insurance Research regarding its Insurers Tracking Service. This system is being developed to help individuals find "orphaned" life insurance policies.
5. Received comments from consumer advocates regarding the FTC study on insurance credit scoring. Consumer advocates questioned the validity of the data used for the FTC study and urged the NAIC to take a leadership role for the FTC study on how insurance credit scoring impacts the availability and affordability of homeowners insurance.

June 2, 2007—San Francisco, CA

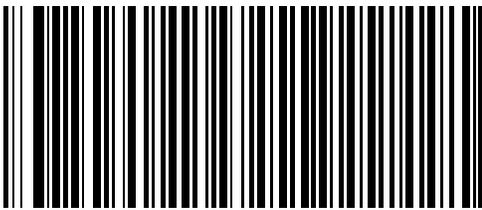
1. Received an update regarding Medicare Part D. Consumer representatives suggested the states should ensure they enforce oversight of marketing practices of companies selling Medicare Part D. They suggested the states use market conduct examinations to review the marketing policies and procedures regarding Medicare Part D.
2. Received an update regarding state and federal health care reforms. Consumer representatives recommended that state regulators ensure they are involved in the placement of applicants in private insurers. Consumer representatives suggested state regulators have the knowledge and experience to oversee the market activities of private companies. In addition, consumer representatives provided a summary of the Indiana House Enrolled Act 1678, which was recently signed into law. The plan provides that chronic high-risk applicants will be referred to the Indiana Comprehensive Health Insurance Association (ICHIA), the state's high-risk pool for administration of their health plan benefits. The plan must offer dental and vision and pay at least 50% of the costs. In addition, the plan may not permit treatment limitations or financial requirements on mental health and substance abuse services that are not imposed on medical/surgical services. To be eligible for the plan, applicants must be 18-65 years old; a U.S. citizen; a resident of Indiana for 12 months; an income at 200% of the poverty level or below; no available employer-sponsored health insurance; and no insurance for previous six months. The consumer representatives expressed concern over the plan not including applicants under the age of 18. The consumer representatives requested that the NAIC continue to fight federal proposals that cause harm to consumers and that each state become more involved in the health care reforms occurring in their respective jurisdictions.
3. Received an overview of consumer disclosures. Consumer representatives suggested that consumer disclosures are not always an efficient and effective way to educate consumers. They stated that while consumers need information, it is possible that providing too much information has a detrimental effect on consumers.
4. Heard concerns regarding the revised NAIC model law procedures. Consumer representatives expressed concerns over what they consider a fundamental change to the NAIC model law process.

NAIC/INDUSTRY LIAISON COMMITTEE

The NAIC/Industry Liaison Committee did not meet during the 2007 Fall National Meeting.

June 2, 2007—San Francisco, CA

1. Discussed the Insurance Industry Competition Act. Industry pressed the NAIC to take a stronger stance against the bill.
2. Commissioners Praeger and Cline explained the new model law process.
3. Discussed the protection of sensitive data. Industry asked the NAIC and Information Resources Management (H) Committee to work on best practices.



SYN- ZS- 07 - 03

10/23/2007