

INTERSTATE INSURANCE  
PRODUCT REGULATION COMMISSION



*States, Strength & Speed Aligned*

**2008 Annual Report**



# TABLE OF CONTENTS

---



About the IIPRC	1
Letter from the Officers	2
Membership	4
Management Committee	6
Legislative Committee	7
Advisory Committees	7
Committee Activities	8
Uniform Standards	9
Highlights	10
Audit Report	12
Management's Discussion and Analysis	13
Balance Sheets	17
Statements of Revenues, Expenses and Changes in Net Assets	18
Statements of Cash Flows	19
Notes to Financial Statements	20
IIPRC Team	25
IIPRC Office	26



# ABOUT THE IIPRC



The Interstate Insurance Product Regulation Compact (“Compact”) is an innovative vehicle formalizing the joint and cooperative action among compacting states, leveraging regulatory resources and expertise to establish Uniform Standards that strongly protect the interest of consumers and form the foundation of a central clearinghouse for prompt review of asset-based insurance products. The Interstate Insurance Product Regulation Commission (“IIPRC”), created by the Compact, is a member-driven public entity, organized through a committee structure. The members develop and adopt the Bylaws, Budget, Uniform Standards, Rules, and Operating Procedures governing the IIPRC’s product filing operations. The IIPRC operates in an open and transparent manner encouraging state legislators, consumers, industry representatives and any interested party the opportunity to participate in the processes of the IIPRC.

**MISSION:** The mission of the IIPRC is to assist its member states in protecting their consumers and to facilitate the ability of companies doing business in member states to deliver asset-based insurance products to the marketplace in an efficient and cost-effective manner.

**BENEFITS:** Consumers have the benefit of having access to products reviewed under detailed Uniform Standards with strong consumer protections. Companies have the benefit of preparing one filing, submitting it to one place and receiving one approval in 60 days or less. States have the benefit of receiving thoroughly-reviewed product filings meeting Uniform Standards, that have generally raised the bar with regards to product filing requirements, thus allowing departments to use their resources to focus on other important regulatory aspects of their marketplace, all while maintaining state filing revenue.

**BACKGROUND:** The IIPRC held its inaugural meeting in June 2006 upon adoption of the Compact by 27 states (including Puerto Rico), representing 41% of the national premium volume for life insurance, annuities, disability income and long-term care insurance. By the end of 2008, there were 33 states who had enacted the Compact, representing approximately over one-half of the premium volume nationwide. The IIPRC initiated its product filing operations in June 2007 approving its first filings less than thirty days later. By the end of 2008, the IIPRC adopted 48 Uniform Standards, received 38 company registrations, and approved 150 product filings.

## KEY MILESTONES:

- **June 2006:** *Inaugural Meeting of the IIPRC in Washington DC*
- **December 2006:** *First Uniform Standards Adopted by IIPRC Members*
- **May 2007:** *30 Member States*
- **June 2007:** *Operations Initiated On-Target / First Filings Received*
- **July 2007:** *First Filings Approved*
- **September 2007:** *Compact Fee Structure Implemented*
- **January 2008:** *Experienced Regulators join Compact Filing Operations*
- **February 2008:** *Experienced Actuary joins Compact Filing Operations*
- **June 2008:** *33 States Enact Compact To Date*
- **December 2008:** *48 Uniform Standards Adopted to Date in Individual Life and Annuity Product Lines*

# LETTER FROM THE OFFICERS



Many of us look back at 2008 as the start of tumultuous changes in our financial markets and economy. The strength of state insurance regulation was tested and held steadfast under the weight of the collapse of numerous federally-regulated entities including financial conglomerates that own nationally-significant insurance companies. Our state-based system of strong solvency oversight and consumer protection served to safeguard the insurance industry and its policyholders. States showed they can respond effectively, collectively and collaboratively to a crisis of nationwide and global implications.

The Interstate Insurance Product Regulation Commission (IIPRC) exemplifies the collective and collaborative spirit of states working together. We are pleased to report 2008 was a successful year of expanding the IIPRC. In its second full year since its inaugural meeting in June 2006, the IIPRC focused on fortifying its product filing operations by implementing additional Uniform Standards, retaining regulatory expertise, and fully implementing a fee structure. These efforts paid off as more than three dozen companies registered and submitted filings with the IIPRC in 2008.

The IIPRC also welcomed three new members in 2008 - Wisconsin, Louisiana and South Carolina. The 33 compact jurisdictions – 32 states and Puerto Rico – as of the end of the year represent over half of the nationwide insurance premium volume for group and individual life insurance, annuity, long-term care and disability income products.

As the Officers of the IIPRC, we are mindful that this organization is still in the early stages of its development and is continuing to build a strong foundation through the collective efforts of its members, state legislators, consumer and industry representatives and the companies using the IIPRC. Through this collective effort, the full product line of Uniform Standards for individual life was implemented in 2008 along with the adoption of

several annuity Uniform Standards – for a total of 48 Uniform Standards at the end of the year. At the start of 2008, the IIPRC retained three consultants with over 45 years of combined regulatory experience to support the product filing review and approval process and implemented a registration fee for companies filing with the IIPRC.

These were some of the key building blocks that led 38 companies to register with the IIPRC in 2008, its first full year of product filing operations since accepting its first filing in June 2007. The IIPRC also received over 100 product filings in 2008 with the average turnaround time for detailed review and approval of less than 30 days. We expect both registrations and filings to continue to significantly grow as the IIPRC adopts more Uniform Standards and even more states join.

As states, we joined the Interstate Insurance Product Regulation Compact to modernize the state-by-state product filing and approval system while preserving state regulatory authority over companies and our marketplaces. We have all heard calls from the life insurance industry for a more efficient and cost-effective way to get asset-based products to consumers in a speedier manner – with some calling for a federal solution. With the focus on the lack of federal regulatory oversight in other financial sectors of our economy, it is easy to overlook that states have built the solution long-sought after by the insurance industry. The IIPRC allows companies to submit one product filing under one set of requirements and receive approval in 60 days or less for up to 33 jurisdictions. More states are expected to join in 2009.

It is through our collective efforts that many companies are already realizing the speed-to-market efficiencies and competitive advantages gained through filing with the IIPRC. We invite you to review the substantial progress made by the IIPRC in 2008 and continue to participate in and monitor the IIPRC's progress and growth in 2009.



*Jane L. Cline*

Commissioner Jane L. Cline  
Chair  
Offices of the Insurance Commissioner  
*West Virginia*



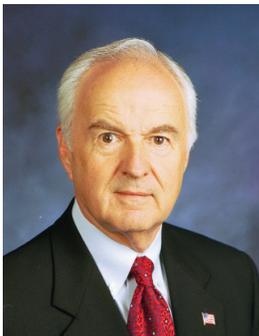
*Mary Jo Hudson*

Director Mary Jo Hudson  
Vice Chair  
Department of Insurance  
*Ohio*



*Sean Dilweg*

Commissioner Sean Dilweg  
Treasurer  
Office of the Commissioner of Insurance  
*Wisconsin*



*Glenn Wilson*

Commissioner Glenn Wilson  
Past Treasurer  
Department of Commerce  
*Minnesota*



# MEMBERSHIP (As of December 31, 2008)



Linda S. Hall  
Director, Alaska  
Division of Insurance

Ralph S. Tyler III  
Commissioner, Maryland  
Insurance Administration



Marcy Morrison  
Commissioner, Colorado  
Division of Insurance

Nonnie Burnes  
Commissioner, Massachusetts  
Division of Insurance



John W. Oxendine  
Commissioner, Georgia  
Office of Insurance & Fire Safety  
Commissioner

Ken Ross  
Commissioner, Michigan  
Office of Financial and Insurance  
Regulation



Shelley Santo  
Special Designee, Hawaii  
Insurance Division

Glenn Wilson  
Commissioner, Minnesota  
Department of Commerce



William W. Deal  
Director, Idaho  
Department of Insurance

Ann M. Frohman  
Director, Nebraska  
Department of Insurance



Jim Atterholt  
Commissioner, Indiana  
Department of Insurance

Roger A. Sevigny  
Commissioner, New Hampshire  
Insurance Department



Susan E. Voss  
Commissioner, Iowa  
Insurance Division

Jim Long  
Commissioner, North Carolina  
Department of Insurance



Sandy Praeger  
Commissioner, Kansas  
Insurance Department

Mary Jo Hudson  
Director, Ohio  
Department of Insurance



Sharon P. Clark  
Commissioner, Kentucky  
Department of Insurance

Kim Holland  
Commissioner, Oklahoma  
Insurance Department



James J. Donelon  
Commissioner, Louisiana  
Department of Insurance

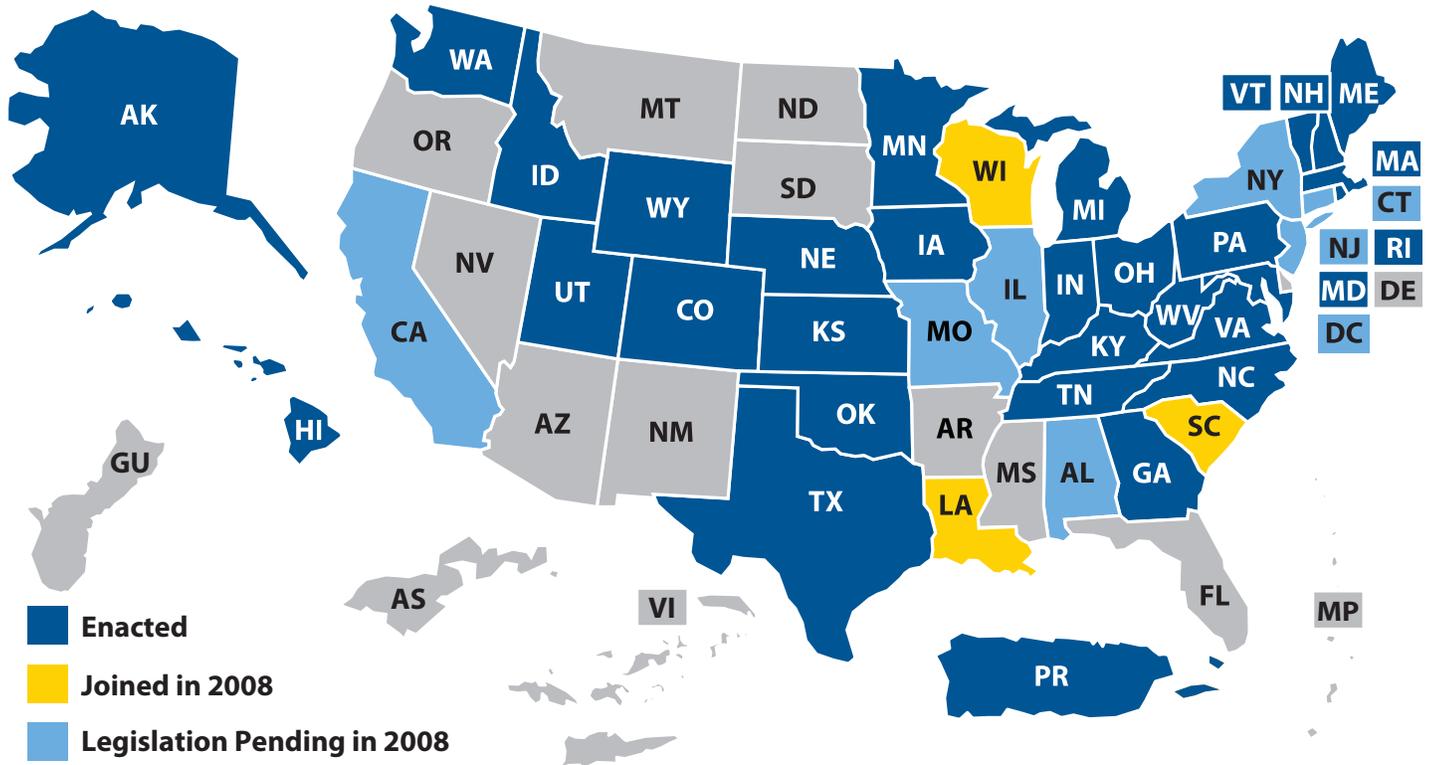
Joel Ario  
Commissioner, Pennsylvania  
Insurance Department



Mila Kofman  
Superintendent, Maine  
Bureau of Insurance

Dorelisse Juarbe Jiménez  
Commissioner, Puerto Rico  
Office of the Commissioner of  
Insurance





Joseph Torti, III  
Superintendent, Rhode Island  
Insurance Division

Scott H. Richardson\*  
Director, South Carolina  
Department of Insurance

Leslie A. Newman  
Commissioner, Tennessee  
Department of Commerce and  
Insurance

Mike Geeslin  
Commissioner, Texas  
Department of Insurance

D. Kent Michie  
Commissioner, Utah  
Insurance Department

Paulette J. Thabault  
Commissioner, Vermont  
Division of Insurance

Alfred W. Gross  
Commissioner, Virginia  
Bureau of Insurance

Mike Kreidler  
Commissioner, Washington  
Office of the Insurance Commissioner

Jane L. Cline  
Commissioner, West Virginia  
Offices of the Insurance Commissioner

Sean Dilweg  
Commissioner, Wisconsin  
Office of the Commissioner of  
Insurance

Ken Vines  
Commissioner, Wyoming  
Insurance Department



\* Legislation effective January 1, 2009.

# MANAGEMENT COMMITTEE



The Management Committee is comprised of 14 members representing three tiers of the premium volume. The compact state's premium volume, as calculated by the National Association of Insurance Commissioners (NAIC) based on the records of the preceding year, determines which tier a member may represent. The first tier members are from the six compacting states with the largest premium volume. The second tier is comprised of four members from compacting states with at least 2% of the market share based on the premium volume. These four members are selected on a rotating basis at the Annual Meeting. The third tier is four members elected from each of the four NAIC Zones and represents compacting states with less than 2% of the premium volume.

## **Management Committee, 2008 – 2009**

---

Jane L. Cline, Chair, West Virginia  
Mary Jo Hudson, Vice Chair, Ohio  
Sean Dilweg, Treasurer, Wisconsin  
John Oxendine, Georgia  
William W. Deal, Idaho  
Jim Atterholt, Indiana  
Nonnie Burnes, Massachusetts  
Ken Ross, Michigan  
Jim Long, North Carolina  
Kim Holland, Oklahoma  
Joel Ario, Pennsylvania  
Mike Geeslin, Texas  
Paulette J. Thabault, Vermont  
Alfred W. Gross, Virginia

## **Management Committee, 2007 – 2008**

---

Jane L. Cline, Chair, West Virginia  
Mary Jo Hudson, Vice Chair, Ohio  
Glenn Wilson, Treasurer, Minnesota  
John Oxendine, Georgia  
Jim Atterholt, Indiana  
Nonnie Burnes, Massachusetts  
Ken Ross, Michigan  
Jim Long, North Carolina  
Kim Holland, Oklahoma  
Joel Ario, Pennsylvania  
Mike Geeslin, Texas  
Paulette J. Thabault, Vermont  
Alfred W. Gross, Virginia  
Mike Kreidler, Washington



## LEGISLATIVE COMMITTEE

---

Representative Robert Damron, 2007-2009 Chair  
*Commonwealth of Kentucky*

Representative Mike Ripley, 2007-2008 Member  
*State of Indiana*

Senator Ralph Hudgens, 2008-2009 Vice Chair  
*State of Georgia*

Senator Ruth Teichman, 2007-2009 Member  
*State of Kansas*

Senator Delores Kelley, 2007-2008 Vice Chair  
*State of Maryland*

Senator Keith Faber, 2008-2009 Member  
*State of Ohio*

Representative Kurt Olson, 2008-2009 Member  
*State of Alaska*

Representative Brian Patrick Kennedy, 2007-  
2009 Member  
*State of Rhode Island*

Senator Brian Taniguchi, 2008-2009 Member  
*State of Hawaii*

Representative Larry Taylor, 2007-2008 Member  
*State of Texas*



## ADVISORY COMMITTEES

---

### Consumer Advisory Committee

---

Rod Bordelon\*, Office of the Public Insurance Counsel, State of Texas  
Brendan Bridgeland, Center for Insurance Research  
Ken Libertoff, Vermont Association for Mental Health  
James Wenzel, Consumer Protection & Public Health Division, Office of Attorney General, State of Texas  
T. Ryan Wilson, American Association of Retired Persons

### Industry Advisory Committee

---

Maureen Emmert Adolf#, Prudential Insurance Company of America  
Steve Buhr, AEGON  
Tom English, New York Life Insurance Company  
Michael Gerber, National Association of Insurance and Financial Advisors  
Dennis Herchel, Massachusetts Mutual Life Insurance Company  
Nancy Johnson\*, UNUM  
Michael Lovendusky, American Council of Life Insurers  
Randi Reichel, America's Health Insurance Plans  
Gary Sanders, Association of Health Insurance Advisors

\* Member in 2007 - 2008

# Member in 2008 - 2009

# COMMITTEE ACTIVITIES

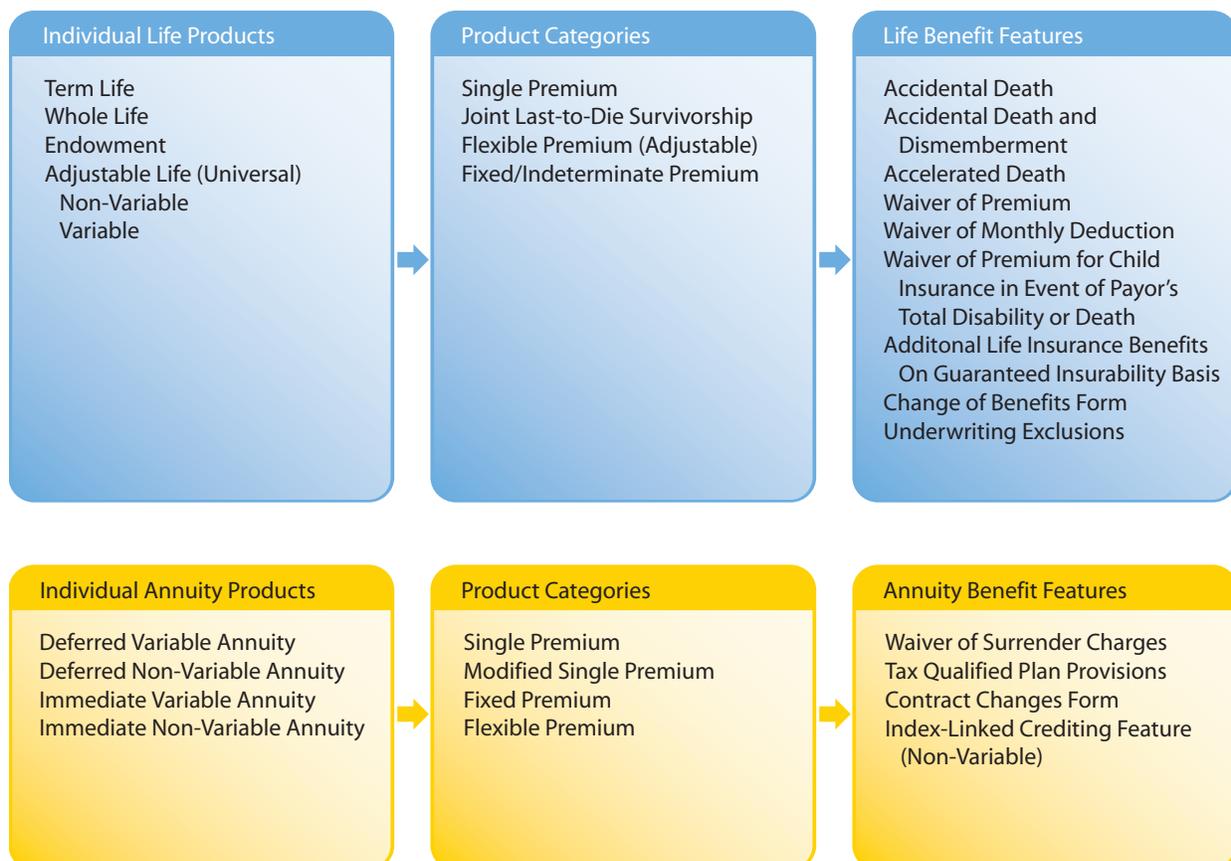


The IIPRC relies upon the regulatory expertise in the members' states to develop, adopt and oversee implementation of Uniform Standards, rules, and operating procedures as well as the budget, technology platform and IIPRC's outreach efforts. The Management Committee is charged with managing the affairs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

- The Communications Committee handles the outreach and communications agenda for the IIPRC, including outreach to the states, both members and non-members, as well as marketing of the IIPRC's "one-stop filing platform" with the insurance industry and ensuring that the IIPRC web site is up-to-date and informational.  
**Kim Holland (OK), Chair; Ralph Tyler (MD), 2007–2008 Vice Chair; James J. Donelon (LA), 2008–2009 Vice Chair**
- The Finance Committee monitors the finances of the IIPRC including preparing the annual budget; reviewing the actual and projected revenues and expenses; and making recommendations regarding the filing fee structure.  
**Ann Frohman (NE), Chair; Nonnie Burnes (MA), Vice Chair**
- The Product Standards Committee reviews, develops and recommends uniform standards to the Management Committee starting with the draft standards transmitted by the NAIC's National Standards (EX) Working Group.  
**Roger Sevigny (NH), 2007-2008 Chair; Mike Geeslin (TX), 2008-2009 Chair and 2007-2008 Vice Chair; Glenn Wilson (MN), 2008-2009 Vice Chair**
- The Rulemaking Committee develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto, prescribed in the Compact statute and IIPRC Bylaws.  
**Paulette Thabault (VT), Chair; Joel Ario (PA), Vice Chair**
- The Technology Committee reviews and recommends any enhancements to the IIPRC filing platform within the NAIC's System for Electronic Rate and Form Filing (SERFF) as well as monitors other technology needs for the IIPRC.  
**Mary Jo Hudson (OH), 2007-2008 Chair; Susan Voss (IA), 2008-2009 Chair and 2007-2008 Vice Chair; Jim Long (NC), 2008-2009 Vice Chair**
- The Audit Committee oversees the independent audit process including retaining and working with the independent auditors; and also, regularly reviews the IIPRC's financial accounts and reports.  
**Kent Michie (UT), Chair and Joseph Torti III (RI), Vice Chair**

# UNIFORM STANDARDS (Adopted as of Dec. 31, 2008)

The IIPRC establishes Uniform Standards for asset-based products filed with the IIPRC. By the end of 2008, the IIPRC has adopted a total of 48 very detailed Uniform Standards including a full suite of individual life products and several individual annuity product components. The Uniform Standards drafting process is an extremely open and inclusive process that starts at the NAIC's National Standards (EX) Working Group, comprised of members from compact and non-compact states, and after transmittal to and review by the IIPRC's Product Standards Committee, the Management Committee exposes each draft Uniform Standard for a 60-day notice and comment period. Upon adoption by the IIPRC (a minimum two-thirds vote in favor is required), a Uniform Standard is effective 90 days after promulgation. To date, none of the compacting states have opted out of any of these 48 Uniform Standards. These Uniform Standards are used by companies to prepare and submit a product filing which then undergoes an extensive, detailed review by the IIPRC's product review team.



# HIGHLIGHTS







**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm

11440 Tomahawk Creek Parkway  
Leawood, Kansas 66211  
913-234-1900 ph  
913-234-1100 fx  
www.mhm-pc.com

## INDEPENDENT AUDITORS' REPORT

To the **INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION**

We have audited the accompanying balance sheets of the Interstate Insurance Product Regulation Commission (the "IIPRC") as of December 31, 2008 and 2007 and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the IIPRC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Interstate Insurance Product Regulation Commission as of December 31, 2008 and 2007, and the changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Leawood, Kansas  
February 27, 2009

**Interstate Insurance Product Regulation Commission  
Management's Discussion and Analysis  
Years Ended December 31, 2008 and 2007**

***Introduction***

This discussion and analysis of the financial performance of the Interstate Insurance Product Regulation Commission (the "IIPRC") provides management's overview of the financial activities for the years ended December 31, 2008 and 2007. It should be read in conjunction with the accompanying financial statements. The IIPRC is a public entity and instrumentality of its member states charged with carrying out regulatory insurance product reviews for asset-based insurance products under uniform standards adopted by its membership.

***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to the IIPRC's three basic financial statements—a statement of financial position, listing assets, liabilities, and net assets (deficit); a statement of activities, showing operating performance in terms of revenues, expenses, and the resulting change in net assets; and a statement of cash flows, summarizing the use of funds. The IIPRC is accounted for as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB) and presents its financial statements using the accrual basis of accounting.

***Financial Highlights***

**Statement of Financial Position**

In June 2006, the IIPRC approved the use of the NAIC's System for Electronic Rate and Form Filing (SERFF) as the central filing point for IIPRC transactions. A capital asset of \$126,902 was established in 2006 for the costs associated with acquiring a SERFF license and enhancements to meet IIPRC requirements. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet IIPRC requirements, such as the establishment of a multistate product filing platform in conformity with the requirements of the IIPRC adopted by its member states, the required collection and remission of member state filing fees, and the submission of IIPRC fees. Amortization, the allocation of the cost of this asset over its estimated three year useful life, began in 2007 with the receipt of the first IIPRC filing reducing the stated value of this asset to \$59,926.

Accounts payable increased \$41,474 from 2007. The NAIC incurred expenditures on behalf of the IIPRC creating a liability to the NAIC for the reimbursement of these expenditures in the amount of \$51,966 at the end of 2008 compared to \$14,439 in the prior year.

In 2008, the IIPRC received \$105,000 for 2009 Annual Registration Fees. These fees are held as deferred revenue until January 1, 2009 when they will be recognized as revenue.

**Interstate Insurance Product Regulation Commission  
Management's Discussion and Analysis  
Years Ended December 31, 2008 and 2007**

Net assets present a cumulative loss on operations of \$1,156,698. Net assets are the result of all revenues and expenses since inception. Operational losses are not uncommon for an organization with less than three years of operations, including one that had a 16-month operational set-up period before the receipt of revenue generating transactions.

#### Statement of Activities

On September 10, 2007, the IIPRC adopted a \$500 fee for each product, rate, or advertisement submitted to the IIPRC for review. Even though the IIPRC is a public agency and an instrumentality of its member states, it generates its revenue transactionally and not under any specific taxing authority. Revenue is earned when an insurance company submits IIPRC filings through SERFF using standards established by the IIPRC for its member states. There was a dramatic increase in filings in 2008 due to the implementation of relevant uniform standards adopted by the IIPRC membership. In 2008, 38 companies registered with the IIPRC and 105 product filings were received.

The growth in salaries expense in 2008 represents efforts to build an operational staff. In December 2006, the Executive Director was hired, followed by a support staff person in late February 2007 and an additional support staff person in mid-June 2008. The Executive Director position was vacated in November 2008. The remaining work of the IIPRC is done through consulting arrangements.

Professional services include consulting fees, fees for services from the NAIC, outside legal counsel, and the annual independent audit. In 2007, two analysts were secured via a second arrangement with state departments of insurance at no cost to the IIPRC. This arrangement continued until January 2008 with the contracting of a development consultant, a product review consultant, and an actuarial consultant. On June 1, 2007 the IIPRC signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the IIPRC. The NAIC received an administrative fee of \$100,000 for the first year of this agreement and \$125,000 for the second. The IIPRC also pays an annual license/maintenance fee in the amount of \$25,000 for the use of SERFF. Since inception, the IIPRC has engaged outside legal counsel for the establishment of its structural entity, preparation of bylaws, implementation of employee benefit plans, the review of governance matters, and financing arrangements.

Travel was incurred in 2008 mainly for outreach visits and for the travel of members of the IIPRC Legislative Committee and Consumer Advisory Committee to IIPRC meetings. The IIPRC Executive Director made several trips to non-compacting states for purposes of providing background information and testimony. The IIPRC also provided funding for member travel and travel for a representative of the Legislative Committee to assist in the outreach to encourage states to join the IIPRC. Costs for the employee travel line were higher than originally budgeted mainly due to the number and last-minute notice of these travel requests. Costs for non-employee travel consisted of costs that were incurred for the IIPRC consultants, Legislative Committee and Consumer Advisory Committee members to travel to the IIPRC

**Interstate Insurance Product Regulation Commission  
Management's Discussion and Analysis  
Years Ended December 31, 2008 and 2007**

quarterly national meetings. IIPRC consultants traveled to various industry events, i.e., E-Regulation, AICP Annual Conference and AICP E-Day events, on behalf of the IIPRC. Commissioner costs were associated with travel that the IIPRC Officers took on behalf of the IIPRC for industry events and meetings.

Depreciation and amortization expense represents the allocation of the cost of acquiring the SERFF license over the estimated three year useful life of the asset and began in 2007 with the receipt of the first IIPRC filing. The increase in 2008 is the result of a full year of amortization.

Interest expense includes accrued interest on amounts drawn under the NAIC lines of credit and is greater in 2008 due to the additional borrowings from the NAIC.

Recruiting expenses in 2007 were for the relocation of the Executive Director.

***Debt***

On June 1, 2007, a Line of Credit Agreement with the NAIC was executed. This agreement made available to the IIPRC a line of credit not to exceed \$550,000, with an interest rate equal to the Prime Rate on the date an advance is made minus 100 basis points, compounded monthly. An advance of \$250,000 was drawn in June 2007 and another in the amount of \$300,000 occurred in October 2007. Repayment is amortized over 60 months and began on July 1, 2008. The total of all accrued and unpaid interest at the first repayment date plus all advances of funds became the outstanding principal amount.

An additional line of credit for \$850,000 to cover 2008 expenses in excess of revenues was approved by the NAIC in December 2007 carrying the same interest provisions as the 2007 line of credit. A \$350,000 draw on this line of credit occurred in April and an additional \$500,000 draw occurred in October. Repayment of this line of credit will begin on July 1, 2009. An additional 2009 line of credit in the amount of \$550,000 was approved by the NAIC in early December 2008. There is \$185,449 in principal payments due to the NAIC on the 2007 and 2008 lines of credit in 2009. These payments will be accompanied by approximately \$36,500 in interest.

***Economic Factors***

The IIPRC initiated its product filing review operations in June 2007 and the first filings were submitted in July 2007. Initial filings were received during 2007 as insurers began to utilize the newly-adopted Uniform Standards in the life insurance product line. During 2007, the IIPRC was also implementing a fee structure as well as a framework to accommodate the "mix and match" of IIPRC-approved filings with state-approved filings.

## Interstate Insurance Product Regulation Commission Management's Discussion and Analysis Years Ended December 31, 2008 and 2007

The IIPRC is authorized under its statute to charge transaction fees to cover its operating expenses and its fee structure was adopted in September 2007 with the initial implementation of a \$500 per submission filing fee during that time. The IIPRC also adopted an Annual Registration Fee which took effect on January 1, 2008 of \$5,000 per company with a prorated fee of \$2,500 per company after July 1. The IIPRC generated \$18,050 in filing and registration fees during 2007 and \$222,730 in 2008.

During 2007, the IIPRC continued work on developing new Uniform Standards as it is authorized to review product filing submissions in the life insurance, annuities, disability income, and long-term care insurance lines. Two states joined the IIPRC in 2007 and three additional states joined in 2008, bringing the total membership to 33 jurisdictions as of January 1, 2009, representing more than half of the premium volume in its authorized product lines nationwide.

Many factors affect the difference between the \$222,730 actual and the \$475,500 budget for the transaction fee revenue line. The IIPRC and its members have worked very diligently to draft, adopt and implement Uniform Standards though many companies still indicate they are waiting for additional standards before using the IIPRC. The budget assumption was also based on companies being able to file amendments to the CSO Mortality Table under the mix and match framework though the final framework did not allow for these amendments to be filed with the IIPRC. During 2008, the IIPRC members considered possible amendments to its public access rule and industry indicated their hesitance to make filings with the IIPRC until such time as these issues were resolved. After the IIPRC's annual meeting where the public access rule was addressed, the IIPRC experienced an increase in registrations and filings. With additional state memberships expected, new Uniform Standards adoptions, and the expansion of its product filing platform on SERFF, it is anticipated the practical volume of filings submitted by insurers will increase significantly so that transaction fee revenue will increase to cover operating expenses.

### ***Executive Director Search***

The full-time IIPRC Executive Director position was vacated at the end of November 2008. The NAIC Staff member, who provided direct support to the IIPRC prior to November 2006, is serving as the interim Executive Director at the request of the IIPRC members and pursuant to the NAIC/IIPRC Services Agreement. The IIPRC has formed a member-driven Search Committee and is expected to recruit for a full-time Executive Director in first quarter 2009.

### ***Contacting the IIPRC's Financial Management***

This financial report is designed to provide a general overview of the IIPRC's finances and to show accountability for the funds received in 2008 and 2007. Questions about this report and requests for additional financial information should be directed to Karen Schutter, IIPRC Interim Executive Director at (816) 783-8024.

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION  
BALANCE SHEETS**

December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 352,866	\$ 259,786
Accounts receivable	5,715	9
Interest receivable	8	842
Prepaid expenses	3,934	3,715
	362,523	264,352
<b>CAPITAL ASSETS, NET</b>	67,289	103,756
<b>TOTAL ASSETS</b>	\$ 429,812	\$ 368,108
<b>LIABILITIES AND NET DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 58,033	\$ 16,559
Current portion of note payable to the NAIC	185,449	46,494
Accrued expenses	50,032	28,939
Deferred revenue	105,000	-
	398,514	91,992
Note payable to the NAIC, less current portion above	1,187,996	503,506
<b>TOTAL LIABILITIES</b>	1,586,510	595,498
<b>NET DEFICIT</b>		
Unrestricted	(1,156,698)	(227,390)
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	\$ 429,812	\$ 368,108

*See Notes to Financial Statements*



# AUDIT REPORT

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)**  
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUES		
Transaction fees	\$ 222,730	\$ 18,050
Interest income	3,534	6,699
	<u>226,264</u>	<u>24,749</u>
TOTAL REVENUES	226,264	24,749
EXPENSES		
Salaries	356,917	229,409
Employee benefits	41,943	27,207
Professional services	496,087	143,362
Travel	100,157	37,290
Rental and maintenance	1,961	30
Depreciation	45,844	24,867
Interest expense	47,244	13,619
Insurance	11,833	9,638
Office services	38,280	26,342
Meeting expenses	14,781	3,699
Relocation	525	17,547
	<u>1,155,572</u>	<u>533,010</u>
TOTAL EXPENSES	1,155,572	533,010
CHANGE IN NET ASSETS (DEFICIT)	(929,308)	(508,261)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(227,390)	280,871
NET DEFICIT, END OF YEAR	<u><u>\$ (1,156,698)</u></u>	<u><u>\$ (227,390)</u></u>

*See Notes to Financial Statements*

**INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION  
STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 327,730	\$ 18,050
Interest received	4,368	5,857
Cash payments to suppliers and employees	(1,029,189)	(667,763)
	<hr/>	<hr/>
NET CASH FLOWS FROM OPERATING ACTIVITIES	(697,091)	(643,856)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of capital assets	(9,377)	(1,721)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of accounts payable used to finance the purchase of capital assets	-	(126,902)
Borrowings under NAIC line of credit	850,000	550,000
Principal payments NAIC line of credit – 2007	(50,452)	-
	<hr/>	<hr/>
NET CASH FLOWS FROM FINANCING ACTIVITIES	799,548	423,098
CHANGE IN CASH AND CASH EQUIVALENTS	93,080	(222,479)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	259,786	482,265
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 352,866</u>	<u>\$ 259,786</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net deficit	\$ (929,308)	\$ (508,261)
Adjustments to reconcile net loss from operations to net cash flows from operating activities		
Depreciation and amortization	45,844	24,867
Changes in operating assets and liabilities		
Accounts receivable	(5,706)	( 9)
Interest receivable	834	(842)
Prepaid expenses	(219)	(2,615)
Accounts payable	41,474	(169,919)
Deferred revenue	105,000	-
Accrued expenses	44,990	12,923
	<hr/>	<hr/>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (697,091)</u>	<u>\$ (643,856)</u>
<b>Supplemental Cash Flow Information</b>		
Accrued interest included in NAIC line of credit	<u>\$ 23,897</u>	<u>\$ -</u>

See Notes to Financial Statements

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION NOTES TO FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies

**Nature of operations** – The Interstate Insurance Product Regulation Commission (the IIPRC), formed in June 2006, is a multi-state commission creating a central point of electronic filing for certain insurance products, including life insurance, annuities, disability income and long-term care insurance. The IIPRC provides its member states with the ability to collectively use their expertise to develop uniform national product standards, affording a high level of protection to purchases of asset protection insurance products. As of December 31, 2008 and 2007, the IIPRC had 33 and 30 member states, respectively.

The IIPRC earns revenue predominately through registration and processing transaction fees. Transaction fees are earned when insurance companies process transactions through the National Association of Insurance Commissioners' (the NAIC) System for Electronic Rate and Form Filings (SERFF). The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. The IIPRC earns revenue when a filing received through SERFF is processed using standards established by the IIPRC for its member states.

**Basis of accounting and presentation** – The financial statements of the IIPRC have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions (grant from the NAIC) are recognized when requirements are met.

The IIPRC prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the IIPRC applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

**Capital assets** – Capital assets consist of computer hardware and software and are stated at cost. Routine repairs and maintenance are expensed as incurred. Depreciation is computed by the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Computer software	3-5 Years
Computer hardware	3 Years

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

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION NOTES TO FINANCIAL STATEMENTS

**Compensated absences** – Compensation for future vacation and salaries are accrued as earned. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

**Risk management** – The IIPRC is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims.

**Net assets** – At December 31, 2008 and 2007 net assets consisted entirely of unrestricted net assets.

**Income tax provision** – The IIPRC has been organized as a joint-cooperative of the compacting states and is therefore generally exempt from federal and state income taxes. However, the IIPRC is subject to federal income tax on any unrelated business taxable income.

**Reclassifications** – Certain reclassifications have been made to the December 31, 2007 financial statements to conform to the December 31, 2008 financial statement presentation.

### (2) **Cash flow disclosures**

**Cash and cash equivalents** – For purposes of the statement of cash flows, cash is considered to be cash on hand, bank checking accounts and money markets. The IIPRC maintains cash balances in financial institutions in excess of FDIC insurance limits. Management believes the risk of loss associated with these accounts is negligible and the IIPRC has not experienced any losses in the past.

**Concentration of credit risk** – All IIPRC deposits are held by UMB Bank, n.a. Cash in excess of current obligations is invested in an interest bearing money market account.

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION NOTES TO FINANCIAL STATEMENTS

### (3) Capital assets

<u>2008</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Cost			
Hardware	\$ 1,721	\$ 9,377	\$ 11,098
Software	<u>126,902</u>	-	<u>126,902</u>
Total cost	128,623		138,000
Accumulated depreciation	<u>(24,867)</u>	(45,844)	<u>(70,711)</u>
Net property and equipment	<u>\$ 103,756</u>		<u>\$ 67,289</u>

<u>2007</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Cost			
Hardware	\$ -	\$ 1,721	\$ 1,721
Software	<u>126,902</u>	-	<u>126,902</u>
Total cost	126,902		128,623
Accumulated depreciation	<u>-</u>	(24,867)	<u>(24,867)</u>
Net property and equipment	<u>\$ 126,902</u>		<u>\$ 103,756</u>

### (4) Line of credit from and note payable to the NAIC

On June 1, 2007, a Line of Credit Agreement with the NAIC was executed. This agreement made available to the IIPRC a line of credit not to exceed \$550,000, with an interest rate equal to the Prime Rate on the date an advance is made minus 100 basis points, compounded monthly. Repayment is amortized over 60 months and begins the first day of the first calendar quarter following the date twelve months after the date of the initial advance of funds (the determination date). Interest is adjusted to the Prime Rate on the determination date minus 100 basis points, compounded monthly. The total of all accrued and unpaid interest was added to the outstanding principal amount at the determination date.

An advance of \$250,000 was drawn in June 2007 and another in the amount of \$300,000 occurred in October 2007. Repayment began July 1, 2008 with an interest rate of 4.0%. The interest rate on both draws was 4.0% and 7.2%, at December 31, 2008 and 2007, respectively.

On February 29, 2008, a second Line of Credit Agreement with the NAIC was executed. This agreement made available to the IIPRC an additional line of credit not to exceed \$850,000, with an interest rate equal to the Prime Rate on the date an advance is made minus 100 basis points, compounded monthly. Repayment is amortized over 60 months and begins on the determination date.

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

Interest is adjusted to the Prime Rate on the determination date minus 100 basis points, compounded monthly. The total of all accrued and unpaid interest at this time plus all advances of funds will become the outstanding principal amount.

An advance of \$350,000 was drawn in April 2008 and another in the amount of \$500,000 occurred in October 2008. Repayment begins approximately one year from the date of the initial advance. The interest rate on both draws was 4.2% at December 31, 2008.

	<u>2008</u>	<u>2007</u>
Note payable to the NAIC	\$ 1,373,445	\$ 550,000
Current portion	\$ 185,449	\$ 46,494
Noncurrent portion	<u>\$ 1,187,996</u>	<u>\$ 503,506</u>

Maturities for the note payable are as follows:

<u>Years Ending December 31,</u>	
2009	\$ 185,449
2010	271,977
2011	283,471
2012	295,451
2013	243,757
Thereafter	<u>93,340</u>
	<u>\$ 1,373,445</u>

An additional line of credit in the amount of \$550,000, to cover the IIPRC expenses for 2009 was approved by the NAIC in December 2008.

**(5) Related party transactions**

Effective June 2007, the NAIC entered into a service agreement with the IIPRC, whereby the NAIC provides certain administrative services to the IIPRC. The NAIC is also providing a non-exclusive license to the SERFF system. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet IIPRC requirements (such as the collection and remission of state filing fees) in excess of the annual 250 hours of SERFF development provided under the service agreement.

## INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION NOTES TO FINANCIAL STATEMENTS

The NAIC received an administrative fee of \$100,000 for the first year of the agreement. In the second year, the fee increased to \$125,000. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

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

	<u>2008</u>	<u>2007</u>
Administrative services provided by NAIC	\$ 139,583	\$ 72,916
Amounts payable to the NAIC	\$ 51,966	\$ 14,440
Accrued interest on note payable to NAIC	\$ 21,155	\$ 13,619

### (6) Defined contribution plan

The IIPRC has a defined contribution plan 401 (a) which covers substantially all employees who have completed one year or more of service. Each year the Management Committee determines the contribution for the next year. For the years ended December 31, 2008 and 2007, the IIPRC agreed to match up to 3.5% of contributions of those employees who will contribute 2% of all employees' annual compensation. The IIPRC made contributions of \$11,778 for the year ended December 31, 2008. There was no contribution expense for 2007.

## IIPRC TEAM

---

Karen Z. Schutter  
*Interim Executive Director*

Sara B. Dubsky  
*Operations Manager*

Charles Rapacciuolo  
*Development Consultant*

David Morris  
*Product Review Consultant*

Alice Fontaine  
*Actuarial Consultant*

The IIPRC members lost a good friend when North Carolina Insurance Commissioner Jim Long passed away February 2, 2009 – within weeks of retiring after 24 years of service. Commissioner Long served on the IIPRC's interim and permanent Management Committee and was instrumental in development and implementation of the IIPRC's Bylaws. He will be deeply missed though we are comforted that his contributions to the IIPRC will be enduring.

### In Memoriam



**Jim Long**

Commissioner, North Carolina  
Department of Insurance  
1985-2009



**Interstate Insurance Product Regulation Commission**

444 North Capitol Street, NW, Suite 701

Hall of the States

Washington, DC 20001-1509

phone (202) 471-3962

fax (816) 460-7476

[www.insurancecompact.org](http://www.insurancecompact.org)

[comments@insurancecompact.org](mailto:comments@insurancecompact.org)



