2011 Annual Report
The Home of U.S. Insurance Regulation

Discussion Article: Operations and Services

Electrical wiring and plumbing are critical features to a home's efficiency and infrastructure. The "pipes and wires" of the NAIC's Speed to Market initiatives exemplify sheer functionality and the latest technology to support the modernization of the regulatory system.

System for Electronic Rate and Form Filing (SERFF)

The NAIC's System for Electronic Rate and Form Filing (SERFF) continued to experience tremendous growth last year, with 558,689 transactions. Twenty-seven states now require the use of SERFF and 19 have mandated their filing fees be paid via electronic funds transfer. Designed to improve the efficiency of the rate and form filing and approval process, SERFF offers a decentralized point-to-point, Web-based electronic filing system. The system also reduces the amount and cost involved in making regulatory filings and provides current filing requirements when they are needed. This uniformity allows filers to use SERFF to submit any product they need to file.

State Based Systems (SBS)

In 2011, Maryland, Oklahoma, the U.S. Virgin Islands and West Virginia joined State Based Systems (SBS), the electronic system owned by the NAIC in partnership with state insurance departments. SBS provides a comprehensive, Web-based application for use by state regulators to more efficiently and effectively process license applications, renewals, inquiries, complaints, enforcement actions, with minimal effort while remaining compliant with national uniformity initiatives.

SBS is currently the system of choice in Alabama, Delaware, the District of Columbia, Florida, Illinois, Iowa, Kansas, Missouri, Nebraska, New Hampshire, New Jersey, North Carolina, North Dakota, Oklahoma, Oregon, Puerto Rico, Rhode Island and Tennessee. Limited SBS services are also licensed by South Carolina and Virginia.

NAIC NY Office Name Change Reflects Expanded Services to Regulators, Public

A fresh coat of paint, some lush landscaping or even a new welcome mat can really boost a home's curb appeal. Improvements can also add to the financial value of a home and contribute to its sustainability and staying power.

In the case of the NAIC's New York office, the number of enhancements made during a "makeover" warranted a complete name change. In April, the NAIC's Securities Valuation Office in New York was renamed the Capital Markets and Investment Analysis Office. The new name reflects the expansion of regulatory support services including an increased role in assisting states to monitor investment risk. The Capital Markets and Investment Analysis Office will also help federal policymakers understand the interaction between the insurance sector and the broader capital markets.

As part of its objective to enhance offerings in training, education and analysis support, the office began releasing a series of industry financial performance reports to the public. Developed from insurer statutory filings, these reports are intended to provide the public with information on developing trends in the insurance industry.

Additionally, the office provides Capital Markets Special Reports, which are available through email subscription and on the NAIC website. Targeted to regulators and the public, these reports focus on detailed and specific analysis of issues that have the potential of impacting insurance company investment portfolios.

The NAIC's Securities Valuation Office services will remain a mission within the organization and continues to oversee the day-to-day credit quality assessment and valuation of securities owned by state regulated insurance companies. The New York office will continue working closely with the NAIC's Government Relations Office in Washington, D.C. on pending state and federal legislation that may impact insurance and related financial sector regulation.

2011 NAIC Organizational Chart

Therese M. (Terri) Vaughan, Ph.D., Chief Executive Officer

Andrew J. Beal, Chief Operating Officer & Chief Legal Officer

Kay Noonan
General Counsel

Julie Fritz
Chief Business Strategy & Development Officer

Eric Nordman
Director, Regulatory Services

Todd Sells
Director, Financial Regulatory Services

Denise Matthews
Director, Information Systems

Elise Liebers
Special Advisor, Insurance Markets and International Prudential Supervision

Trish Schoettger
Director, Member Services

Chris Evangel
Managing Director, Securities Valuation Office

Ed Toy
Director, Capital Markets Bureau

Ramon Calderon
Director, Center for Insurance Policy & Research

Kris DeFrain
Director, Statistical & Actuarial Services

Brent Roper
Director, Human Resources

Jim Woody
Chief Financial Officer

Ethan Sonnichsen
Director, Government Relations

Scott Holeman
Director, Communications

Tim Mullen
Director, Market Regulation

Frosty Mohn
Director, Technical Services

National Association of Insurance Commissioners
2011 Annual Report: *The Home of U.S. Insurance Regulation*

Discussion Article: Statistics and Highlights

Association Profile

The NAIC is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

The NAIC provides its members with a national forum for discussing common issues and interests, as well as for working cooperatively on regulatory matters that transcend the boundaries of their own jurisdictions. Collectively, commissioners work to develop model legislation, rules, regulations and white papers to coordinate regulatory policy. The overriding objective is to protect consumers and help maintain the financial stability of the insurance marketplace.

With its wide range of services, the NAIC supports the work of its committees, the state insurance departments, state and federal officials, and the public. The association maintains three offices: the Executive Office, located in Washington, D.C.; the Central Office, in Kansas City, Mo.; and the Capital Markets & Investment Analysis Office in New York, N.Y.

The NAIC maintains extensive systems linking all state insurance departments and provides financial, actuarial, legal, research, technology, market conduct and economic expertise. Staff members research standard and custom reports, develop uniform statutory financial statements, monitor federal activity, submit legal briefs, conduct educational training programs and much more.

Association Update

The NAIC prides itself on its diversity, innovative employment practices and exceptional benefits. The association successfully sustained operations without major cuts in staffing or benefits in 2011. Employee turnover, excluding unavoidable separations such as retirements, was 8.5% in 2011.

One of the hallmarks of the NAIC's unique employee benefits, the Infants in the Workplace program, celebrated its 13th year and welcomed 12 new babies to the NAIC offices. The program was highlighted during a live CNN interview on Bring Your Child to Work Day on April 28, 2011. Since the program's inception, 115 babies have accompanied their parents to work.

Through numerous fundraising efforts, employees raised more than $11,400, which was donated to 24 local, national and international charities. Building homes for local families through Habitat for Humanity, holding a donation drive for victims of the Joplin tornado and raising money for the Muscular Dystrophy Association were among many of the NAIC volunteer initiatives in 2011.

Robert Dineen Award

The NAIC Robert Dineen Award is given each year to a state insurance department staff member who has made an outstanding contribution to insurance regulation. Danny Saenz of the Texas Department of Insurance was recognized in 2011 for his financial expertise and significant contributions to international initiatives.

In his role as co-chair of the Group Solvency Issues Working Group, Saenz has played a key role in the development and adoption of revisions to the Holding Company Model Act and Model Regulation; development and adoption of the new Part B Accreditation Financial Analysis Review Team Guidelines to raise the bar on holding company system analysis; and drafting of an NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual. In addition, Saenz has traveled extensively to represent the NAIC abroad at the European Insurance and Occupational Pensions Authority (EIOPA) and the International Association of Insurance Supervisors (IAIS).

2011 Statistics
3 National Meetings with 3,984 Total Attendees
55 NAIC Interim Meetings
18 Funded Consumer Reps
358 Million Total Media Impressions (TV, Radio, PSAs, Consumer Alerts)
700+ Fulfilled Media Requests
6.4 Million Visits to NAIC Website (www.naic.org)
317,461 Visits to Insure U Website (www.insureUonline.org)
2.2 Million Visits to Consumer Information Source Website
10.8 Million Visits to NAIC's Regulator-Only I-SITE Website
558,689 Insurance Product Submissions to the System for Electronic Rate and Form Filing (SERFF)
48,305 Online Fraud Referrals to Members
195 NAIC Publications and Data Products
75 Classroom or Online Education Courses
2,051 Fulfilled Research Library Inquiries
9 Full Accreditation Reviews
10 Pre-Accreditation Reviews
42 Interim Accreditation Reviews

National Association of Insurance Commissioners
2011 Annual Report: *The Home of U.S. Insurance Regulation*

Discussion Article: Government Relations

When strong winds blow, the very foundation of a home is tested. No storm has challenged the strength of our regulatory framework in recent years as much as the financial crisis that peaked in the fall of 2008. While state-based insurance regulation protected the insurance markets from the worst damage, state regulators are making proactive changes to better monitor financial markets, address the insurance industry's exposure to other economic sector vulnerabilities and ensure that sound regulation will support the insurance industry in the United States and abroad going forward.

Last year, U.S. insurance regulators continued to work closely with Congress and key federal regulatory bodies to ensure legislative and regulatory coordination. Largely an educational campaign, insurance regulators helped Congress understand the insurance sector and how state insurance regulators protect consumers and ensure the stability of the insurance. Through congressional testimony, comment letters to federal financial agencies and participation in meetings regulators have developed strong relationships to bolster the foundation of cooperation with the federal government.

Members also watched closely throughout the year while federal regulatory bodies continued to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. While the NAIC has no official position on the Dodd-Frank Act or any current legislative proposals to modify it, state regulators continue to emphasize that any effort to reform financial regulation should take into account the unique insurance business model and reflect the strength of our national state-based system of insurance regulation.

In addition, U.S. regulators worked through their designated representative on the Financial Stability Oversight Council (FSOC) to assist in monitoring systemic risks to the financial system. Through John M. Huff, Director of the Missouri Department of Insurance, state regulators have a voice and a seat at the table, ensuring that the insurance regulatory perspective is represented along with the other financial institutions.

The NAIC also coordinated closely with the Federal Insurance Office (FIO), established under Dodd-Frank to serve as an information resource for the federal government and to engage in international discussions in conjunction with U.S. insurance regulators. Throughout the year, regulators coordinated with FIO through discussions of solvency regulation, market conduct, modernization and improvement initiatives.

As global reach of financial regulation expands, the government affairs arm of the NAIC continues to develop new, and strengthen existing, relationships with regulators in the U.S. and around the world. Effective communication among federal and state government officials is the most productive means of developing tools to ensure continued protection of consumers, competitive and strong markets and the states' frontline regulatory strengths.

Discussion Article: International Insurance Supervision

Often after a journey, we return with keepsakes from our travels to remind us of the adventures we had and the people we met. Insurance regulators who engaged internationally have no shortage of such mementos, but they come in the form of enhanced regulatory cooperation, memoranda of understanding and technical exchanges.

In light of the evolving insurer business model, state regulators—coordinated through the NAIC's international team—have been implementing a new reinsurance framework as well as developing structures and tools to better identify risks to the insurance sector.

On the sidelines of the International Association of Insurance Supervisors (IAIS) Triannual Meetings in February, the NAIC held a regulator dialogue with the Swiss Financial Market Authority (FINMA). This meeting provided an opportunity to discuss the NAIC's Solvency Modernization Initiative (SMI) and the Swiss Solvency Test, as well as group supervision and a vision of insurance regulatory trends worldwide.

Also in February, insurance regulators with the Central Bank of Armenia traveled to the NAIC's Executive Headquarters in Washington, D.C. to meet with state regulators and NAIC staff for training on detection and identification of insurance fraud. Separately, the NAIC provided an overview of insurance supervision in the United States to Bosnian financial regulators.

In March, the NAIC hosted a regulator-only session for the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission in Washington, D.C. Insurance regulator representatives met to discuss solvency modernization, group supervision and the EU equivalence process.

Overall, 2011 saw an increase in activity with Latin American regulators through various initiatives, including participation in the Association for Latin American insurance regulators (ASSAL) Annual Meeting in Puerto Rico and a solvency seminar in Chile.

In May, the NAIC hosted the annual International Insurance Forum in Washington, D.C. More than 130 regulators and insurers from around the world met to discuss strategies to enhance group-wide supervision of internationally active insurance groups, tactics to strengthen regulatory surveillance and perspectives on U.S. solvency regulation. Furthermore, the third round of the China-U.S. Strategic and Economic Dialogue (S&ED) was held in May in Washington, D.C. The two sides discussed major bilateral, regional and global issues.

In September, insurance regulator representatives from the NAIC, the Federal Insurance Office (FIO), EIOPA and the European Commission met in Frankfurt, Germany as part of the ongoing U.S.-EU insurance regulatory dialogue. These meetings are designed to better understand our respective systems and the challenges we collectively face with regard to international insurance regulation. That meeting was followed by a trip to Brussels in October where state regulators had a series of meetings with the European Parliament and the European Commission.

Developed in 2004, the NAIC International Fellows Program seeks to advance working relationships with foreign market regulators, emphasizing the exchange of regulatory techniques and technology. The NAIC welcomed 12 fellows to the 2011 Spring International Fellows Program in April, and another 14 fellows in October. With the completion of the two 2011 programs, more than 150 regulators have participated in this program.

Throughout 2011, the NAIC has been preparing to host the 19th Annual IAIS Conference to be held in Washington, D.C. in October 2012. The NAIC continues to take on leadership roles at the IAIS, developing global standards and addressing systemic risk. By joining with our international counterparts, our global engagement will continue to expand to strengthen insurance markets in the U.S. and abroad.

Discussion Article: Solvency Modernization

To maintain and protect the integrity of a home's structure, it is crucial to routinely plan for improvements and necessary upgrades. Similarly, U.S. regulators embarked on the Solvency Modernization Initiative (SMI) to perform a holistic, critical self-examination of the U.S. solvency regulation framework, supplementing the ongoing maintenance of solvency rules and processes. The SMI includes an evaluation of lessons learned from the 2007-08 global financial crisis, a focus on meeting the needs of the U.S. marketplace in an increasingly interconnected financial environment, and a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation. The SMI focuses on key issues such as capital requirements, governance and risk management, group supervision, statutory accounting and financial reporting, and reinsurance.

In 2011, highlights within the SMI included the following:

- Revisions to the Credit for Reinsurance model law and regulation with respect to reinsurance credit and collateral requirements (applicable to non-U.S.-licensed reinsurers), utilizing a method of international supervisory recognition and company financial analysis.

- Amendments to the Insurance Holding Company System Model Act and Regulation to require disclosure of enterprise risk, provide clarification on the ability to access books and records, and grant power to the Commissioner to participate in supervisory colleges.

- Continued work on the NAIC's Own Risk and Solvency Assessment (ORSA) proposal, which would require certain insurers or groups to annually perform a financial self-assessment and confidentially disclose their enterprise risk management framework, assessment of risk exposures (e.g. stress testing), group risk capital and prospective solvency assessment.

- Identification of existing U.S. corporate governance requirements, including those required outside of insurance law and regulation.

- Study of the impact of proposed principles-based reserving changes for life insurance valuation.

Discussion Article: Financial Regulation

The financial health and solvency of insurance companies is the ground on which the structure of U.S. insurance regulation is built. Through the NAIC, state insurance regulators coordinate licensing applications and procedures, accounting practices and procedures, statutory financial statement and other disclosures, collection and analysis of industry financial data, the valuation of industry capital and investments, and on-site risk-focused examinations. The NAIC provides a large variety of tools with which state regulators perform solvency oversight, and the multi-state system facilitates a large number of perspectives which strengthen the overall regulatory system and the industry.

This coordination of peers extends to the process of state insurance department accreditation, through which departments undergo a comprehensive, independent review every five years to ensure the departments continue to meet baseline financial solvency oversight standards. The accreditation standards require state insurance departments to have adequate statutory and administrative authority to regulate an insurer's corporate and financial affairs, as well as the necessary resources to carry out that authority.

With the passage of the Dodd–Frank Wall Street Reform and Consumer Protection Act and the Affordable Care Act, the NAIC and regulators have worked with federal agencies and regulators to ensure the proven nationwide system of state-based solvency insurance regulation is adequately considered and not impaired.

In 2011, supplemental financial data was collected from health insurers as a result of provisions of health care reform, while Dodd-Frank required regulators to review proposed rules over issues such as over-the-counter derivatives, reinsurance, surplus lines and receivership.

In addition to issues prompted by federal action, regulators completed a process that began in 2009 to revise statutory accounting principles for current and deferred federal and foreign income taxes and current state income taxes. The focus of these changes was deferred tax assets (DTA), and the updates improve the treatment and regulation of various industry tax-planning activities and their impact on company valuations.

Discussion Article: Market Regulation

Just as a thermostat regulates a home's heating and cooling system, insurance regulators recognize the importance of monitoring companies' conduct in a more uniform manner. In 2011, the NAIC debuted a new Market Conduct Annual Statement (MCAS) collection system. The goal of the MCAS project is to provide states with a uniform data collection system. The project began in 2002 and gradually grew from eight participating states to the 45 jurisdictions that collected 2010 data in 2011. Comprehensive training was offered to industry representatives and state regulators on the new automated tool, which will help improve state regulation by allowing all participating states to analyze the industry on a national and state level. The new system became available online via the NAIC website in April.

The NAIC also announced its commitment to focus on continued improvement in the area of market regulation. Assessing the current state of market regulation recognizes the states' ongoing commitment to maintaining the highest level of consumer protection while striving for the most efficient market regulatory process.

In December, the Market Regulation and Consumer Affairs (D) Committee sent a survey to state insurance departments to obtain additional information and further the discussion on the current state of market regulation. A preliminary list of potential topics included: reporting of state market conduct data to NAIC systems; the growing role of market analysis and the most cost-efficient way to evaluate the marketplace; examiner training and expertise; examination expenses and mandatory coordination of state examinations.

Discussion Article: Consumer Education

There are many ways a family can protect their home, from routine maintenance and adequate insurance coverage to security systems and home warranties. The first step to protecting any major investment is a solid foundation of knowledge to assist with the decision-making process. Through the Insure U program, the NAIC takes pride in helping consumers "Get Smart About Insurance." This outreach attests to state regulators' commitment to providing innovative, timely and helpful resources.

Consumer Outreach and Education

In 2011, the Insure U: Get Smart About Insurance consumer education program took a seasonal approach to insurance needs that focused on four main lines of insurance:

- Spring: Home
- Summer: Auto
- Fall: Health
- Winter: Life

During this campaign, the NAIC and state insurance departments provided consumers with educational materials in the form of news releases and new content on the Insure U website, which featured new landing pages focusing on each topic with easy to access information. Outreach for each line of insurance was augmented with monthly consumer alerts featuring important reminders on the highlighted topic.

To help consumers better understand health insurance—and their specific open enrollment options—NAIC CEO Dr. Therese M. Vaughan conducted a national satellite media tour in New York City. During a series of interviews with television and radio stations all over the country, Vaughan offered tips and discussed the importance of reviewing coverage options during the annual open enrollment process. She also advised viewers to contact their state insurance departments for more information. The interviews aired on 26 stations across the country, reaching approximately 2.1 million viewers.

Also on the airwaves in 2011 was a timely consumer public service announcement (PSA). "The Right Fit" PSA was produced and distributed nationwide in the spring to 273 stations in 61 television markets. Thirty-four commissioners recorded state-specific tags encouraging consumers to contact their office with questions about their insurance needs. In just eight months, the PSA aired nearly 3,000 times, capturing the attention of nearly 4 million viewers. The PSAs have aired at no cost to the NAIC or state insurance departments, but represent the equivalent of more than $1 million in paid advertising.

In addition to reminding consumers about finding the right fit for their insurance needs, the NAIC helped respond to consumer confusion surrounding the federal health insurance reform. To help consumers understand changes brought by the law, the NAIC developed a video to add to its special web page section on health reform implementation. The video answered some of the more frequently asked questions the states received about the law. Since June, the video has been viewed on the NAIC website and YouTube more than 4,000 times.

The NAIC's commitment to education and outreach was recognized by the Kansas City chapter of the

Public Relations Society of America for excellence in 11 categories. During the annual competition, the NAIC received three PRISM and eight Silver Awards for communications initiatives including the Insure U program, health care reform outreach, and the home inventory campaign.

Disaster Preparedness

Consumer outreach took on a very personal meaning this year for many members of the NAIC. Violent weather took the homes, livelihoods and lives of Americans from coast to coast in 2011.

In the days following the destruction in Tuscaloosa, Alabama, state staff from across the country mobilized and at the direction of the Alabama Department of Insurance, 80 regulators from 20 states assisted with disaster relief. From flooding in the upper Midwest to wildfires in the west, and the Joplin tornado—the worst natural disaster in Missouri history—state insurance departments demonstrated their resilience in the worst of times.

Disasters, followed by destruction, often come when least expected. That's why preparation and planning are the most important tools for recovery. In 2011 the NAIC utilized smartphone technology to assist consumers with the often overwhelming task of creating a home inventory.

In March, the NAIC announced the launch of myHOME Scr.APP.book, a new iPhone® application developed to help consumers understand the importance of "knowing their stuff." Developed through an in-house partnership between the NAIC Communications and Information Services Divisions, the app allows homeowners and renters to quickly photograph and capture images, descriptions and serial numbers of personal possessions, and then store the information electronically for safekeeping.

The app uses the latest communications and technology platforms to extend tried-and-true ideas—in this case a home inventory—to new audiences. The app made it possible to reach out to bloggers, social and other new media outlets, as the NAIC worked to expand outreach beyond traditional news mediums. In response to consumer demand, the Android version of the app, offering the same functionality, was released in August. Since their releases, the iPhone and Android app have gotten almost 15,000 downloads.

National Association *of* Insurance Commissioners

2011 ANNUAL REPORT

The Home of U.S. Insurance Regulation

FINANCIAL STATEMENTS

December 31, 2011 and 2010

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Honorable Members

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

We have audited the accompanying statements of financial position of the National Association of Insurance Commissioners (the NAIC) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the NAIC'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 NAIC as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Leawood, Kansas
February 21, 2012

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,128,461	$ 2,619,563
Accounts receivable, less allowance for doubtful accounts; 2011 - $2,294,387, 2010 - $1,732,260	10,887,177	6,042,037
Interest receivable	117,102	132,389
Prepaid expenses	3,190,101	2,483,335
Inventories	279,460	271,371
Investments	66,543,155	65,935,880
TOTAL CURRENT ASSETS	86,145,456	77,484,575
OPERATING NOTE RECEIVABLE	2,638,742	2,186,448
INCENTIVE RECEIVABLE	2,248,865	-
PROPERTY AND EQUIPMENT, NET	16,173,622	6,135,936
TOTAL ASSETS	$ 107,206,685	$ 85,806,959
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 1,515,049	$ 698,284
Accrued expenses and other current liabilities	9,792,614	7,290,028
Deferred revenue	5,987,882	5,669,605
TOTAL CURRENT LIABILITIES	17,295,545	13,657,917
NON-CURRENT LIABILITIES		
Deferred lease incentive	10,246,749	-
Deferred pension liability	10,039,221	4,342,600
TOTAL NON-CURRENT LIABILITIES	20,285,970	4,342,600
TOTAL LIABILITIES	37,581,515	18,000,517
UNRESTRICTED NET ASSETS		
Allocated	63,640,825	65,001,738
Allocated - Structured Securities Project	4,988,543	1,818,680
Unallocated	995,802	986,024
TOTAL UNRESTRICTED NET ASSETS	69,625,170	67,806,442
TOTAL LIABILITIES AND NET ASSETS	$ 107,206,685	$ 85,806,959

See Notes to Financial Statements

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2011 and 2010

	2011	2010
REVENUES		
Database fees	$ 25,637,971	$ 25,523,278
Publications and subscriptions	19,223,563	18,344,125
Services	18,542,761	16,450,019
Administrative services/license fees	7,696,159	7,329,677
Member assessments	2,210,160	2,162,611
Education and training	1,354,149	1,283,079
National meeting registration fees	1,228,425	1,561,800
Other	139,574	50,773
TOTAL REVENUES	76,032,762	72,705,362
EXPENSES		
Salaries	36,128,777	33,722,583
Temporary personnel	384,842	348,120
Employee benefits	10,325,573	9,665,383
Professional fees	7,393,921	5,586,924
Travel	3,599,854	3,339,890
Rental and maintenance	8,176,709	7,900,456
Depreciation and amortization	3,251,674	3,503,479
Insurance	441,648	403,451
Office supplies	1,741,480	1,797,705
Printing expense	196,709	115,162
Meetings	954,373	1,058,838
Education and training	1,473,442	1,639,317
Other	327,888	295,745
Bad debt expense	583,501	494,918
TOTAL EXPENSES	74,980,391	69,871,971
CHANGES IN NET ASSETS BEFORE STRUCTURED SECURITIES PROJECT, INVESTMENT INCOME AND PENSION ADJUSTMENT	1,052,371	2,833,391
DIRECT STRUCTURED SECURITIES PROJECT REVENUES	11,895,051	6,772,680
DIRECT STRUCTURED SECURITIES PROJECT EXPENSES	(8,442,647)	(6,236,656)
INDIRECT NAIC STAFF SUPPORT OF PROJECT	(282,541)	(576,270)
INVESTMENT INCOME	1,715,350	6,376,866
CHANGES IN NET ASSETS BEFORE PENSION ADJUSTMENT	5,937,584	9,170,011
PENSION ADJUSTMENT	(4,118,856)	(444,997)
CHANGES IN NET ASSETS	1,818,728	8,725,014
NET ASSETS, BEGINNING OF YEAR	67,806,442	59,081,428
NET ASSETS, END OF YEAR	$ 69,625,170	$ 67,806,442

See Notes to Financial Statements

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 1,818,728	$ 8,725,014
Adjustments to reconcile changes in net assets		
to net cash flows from operating activities		
Interest income included in operating note receivable	(52,294)	(47,216)
Depreciation and amortization	3,251,674	3,503,479
Net realized and unrealized gains on investments	375,760	(4,377,224)
Gain on sale of property and equipment	(5,485)	(419)
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,845,140)	(1,060,141)
Incentive receivable	(2,248,865)	-
Interest receivable	15,287	30,350
Prepaid expenses	(706,766)	(545,346)
Inventories	(8,089)	(60,070)
Accounts payable	816,765	11,330
Accrued expenses and other current liabilities	2,502,586	815,392
Deferred revenue	318,277	224,592
Deferred lease incentive	10,246,749	-
Deferred pension liability	5,696,621	(137,844)
NET CASH FLOWS FROM OPERATING ACTIVITIES	17,175,808	7,081,897
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on operating note receivable	-	69,796
Advances made on operating note receivable	(400,000)	(450,000)
Purchase of property and equipment	(13,289,360)	(1,661,206)
Proceeds from disposition of property and equipment	5,485	12,422
Purchase of investments	(17,183,707)	(19,329,238)
Proceeds from disposition of investments	16,200,672	9,544,184
NET CASH FLOWS FROM INVESTING ACTIVITIES	(14,666,910)	(11,814,042)
CHANGES IN CASH AND CASH EQUIVALENTS	2,508,898	(4,732,145)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,619,563	7,351,708
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,128,461	$ 2,619,563

See Notes to Financial Statements

(1) Summary of significant accounting policies

Nature of operations – The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

Cash and cash equivalents – The NAIC considers all liquid investments with original maturities of one year or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted of money market funds and discount notes.

The NAIC maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these financial institutions and believes the NAIC's risk is negligible.

Accounts receivable – Accounts receivable are stated at the amounts billed to customers. The NAIC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Past-due accounts are periodically reviewed by management. Delinquent and/or uncollectible receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory pricing – Inventories are stated at the lower of cost, determined by the first-in, first-out (FIFO) method, or market.

Investments and investment income – Investments are carried at fair value. Investment income includes dividends, interest and realized and unrealized gains and losses.

Property and equipment – Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The cost of internally developed software is expensed until the technological feasibility of the software has been established. Thereafter, all software development costs are capitalized until such time as the product is available for general release to customers. The development costs of enhancements that extend the life or improve the marketability of the original product are capitalized. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life and changes in software and hardware technologies. The cost of capitalized software is amortized on the straight-line method over the products' estimated useful lives.

Description	Estimated Useful Lives
Furniture and equipment	5 - 12 Years
Computer and related equipment	3 Years
Computer software	3 - 10 Years
Leasehold improvements	12 Years

(1) Summary of significant accounting policies (continued)

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.

Revenue recognition – Revenue is recognized as follows:

- Database fee revenue is recognized upon the filing of insurance companies' annual statements.
- Publications and subscriptions revenue is recognized when the product is shipped to the customer.
- Services revenue is recognized when the service has been performed.
- Revenue from fees for member assessments apply to an assessment fiscal year ended April 30, and are recorded in the calendar year assessed as receivables and deferred revenue. At December 31 of each year, 1/3 of the assessments are accounted for as deferred revenue.

Income taxes – The NAIC has been granted exemption from income taxes by the Internal Revenue Service under the provisions of Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the NAIC is subject to federal income tax on any unrelated business taxable income.

Net assets – Since 2005, the NAIC's target operating reserve is based on a liquid reserve of 80%, as defined as total net assets, less net property and equipment, as a percentage of the future year's budgeted operating expenses. After a comprehensive review by an outside consultant, the NAIC adopted on September 22, 2011, a target range of 80% to 91%. Net assets are allocated by the Executive (EX) Committee and Internal Administration (EX1) Subcommittee as a function of the budgeting process. As of December 31, 2011 and 2010, net assets were fully allocated, with the exception of an amount maintained as unallocated equal to 1.5% of the next year's projected net assets. The unallocated balance will be used to fund priority initiatives that may arise in the next year.

As of December 31, 2011 and 2010, the amount of direct revenues in excess of direct and indirect expenses arising from the NAIC's Structured Securities project, which includes residential mortgage backed securities and commercial mortgage backed securities, has been allocated for anticipated future work in the area of structured securities and related regulatory services during 2012 and future years.

Pension plan – The *Compensation-Retirement Benefits* topic of the FASB ASC requires employers to recognize on their statements of financial position a liability and/or an asset equal to the under-funded or over-funded status of their defined benefit pension and other postretirement benefit plans. The funded status that the NAIC has reported on the statements of financial position under the topic is measured as the difference between the fair value of plan assets and the benefit obligation. The topic also requires that for each under-funded plan, an amount equal to the present value of the next 12 months' expected benefit payments in excess of the fair value of the plan's assets be classified as a current liability. The remainder is classified as a non-current liability.

(1) Summary of significant accounting policies (continued)

Functional expenses – The *Not-for-Profit Entities* topic of the FASB ASC requires not-for-profit organizations to disclose expenses by functional classification. The NAIC presents expenses only by their natural classification in the December 31, 2011 and 2010 statements of activities. Management believes that disclosing expenses by function is insignificant to the financial statements taken as a whole, and therefore does not apply the provision of the topic as it relates to the disclosure of expenses by functional classification.

Reclassifications – Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation.

(2) Investments and investment income

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Government bonds	$ 3,484,974	$ 3,706,336	$ 3,899,372	$ 4,101,222
Treasury inflation protected bonds	2,384,055	2,672,968	2,315,279	2,418,085
Corporate bonds	6,195,074	6,348,526	6,462,495	6,734,608
Fixed income mutual funds	11,469,217	12,095,120	11,594,091	12,284,656
Foreign fixed income funds	3,954,381	3,638,868	2,541,483	2,508,682
International bonds	411,724	427,124	411,724	414,090
Common stock				
Industrials	1,859,510	2,257,371	1,996,090	2,418,397
Consumer discretionary	2,633,947	3,755,200	2,627,179	3,363,485
Financials	2,730,006	2,970,141	2,640,584	3,061,284
Information technology	3,008,039	3,584,289	3,085,343	3,922,825
Other industries	4,783,053	6,838,676	3,962,603	5,633,529
Foreign common stock	1,274,845	1,540,488	1,426,174	1,657,615
American depository receipts	1,414,781	1,747,856	1,360,667	1,839,965
Foreign equity mutual funds	3,288,236	3,525,125	3,417,395	3,888,851
Master limited partnerships	2,562,935	2,856,372	-	-
Alternative fixed income funds	-	-	3,965,000	3,989,406
Alternative equity funds	8,765,000	8,578,695	7,215,000	7,699,180
	$ 60,219,777	$ 66,543,155	$ 58,920,479	$ 65,935,880

Total investment income (loss) is comprised of the following:

	2011	2010
Interest and dividend income	$ 2,091,110	$ 1,999,642
Net realized gains	316,265	255,174
Net unrealized gains (losses)	(692,025)	4,122,050
	$ 1,715,350	$ 6,376,866

(2) Investments and investment income (continued)

The *Fair Value Measurements and Disclosures* topic of the FASB ASC requires additional disclosures as part of the financial statements. The topic establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The management of NAIC endeavors to utilize the best available information in measuring fair value. The following table summarizes the valuation of financial instruments by the above pricing levels as of December 31, 2011 and 2010:

	Total fair value	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
December 31, 2011				
Government bonds	$ 3,706,336	$ 3,706,336	$ -	$ -
Treasury inflation protected bonds	2,672,968	2,672,968	-	-
Corporate bonds	6,348,526	6,348,526	-	-
Fixed income mutual funds	12,095,120	12,095,120	-	-
Foreign fixed income funds	3,638,868	3,638,868	-	-
International bonds	427,124	427,124	-	-
Common stock				
Industrials	2,257,371	2,257,371	-	-
Consumer discretionary	3,755,200	3,755,200	-	-
Financials	2,970,141	2,970,141	-	-
Information technology	3,584,289	3,584,289	-	-
Other industries	6,838,676	6,838,676	-	-
Foreign common stock	1,540,488	1,540,488	-	-
American depository receipts	1,747,856	1,747,856	-	-
Foreign equity mutual funds	3,525,125	3,525,125	-	-
Master limited partnerships	2,856,372	2,856,372	-	-
Alternative equity funds	8,578,695	-	-	8,578,695
	$ 66,543,155	$ 57,964,460	$ -	$ 8,578,695

(2) Investments and investment income (continued)

	Total fair value	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
December 31, 2010				
Government bonds	$ 4,101,222	$ 4,101,222	$ -	$ -
Treasury inflation protected bonds	2,418,085	2,418,085	-	-
Corporate bonds	6,734,608	6,734,608	-	-
Fixed income mutual funds	12,284,656	12,284,656	-	-
Foreign fixed income funds	2,508,682	2,508,682	-	-
International bonds	414,090	414,090	-	-
Common stock				
Industrials	2,418,397	2,418,397	-	-
Consumer discretionary	3,363,485	3,363,485	-	-
Financials	3,061,284	3,061,284	-	-
Information technology	3,922,825	3,922,825	-	-
Other industries	5,633,529	5,633,529	-	-
Foreign common stock	1,657,615	1,657,615	-	-
American depository receipts	1,839,965	1,839,965	-	-
Foreign equity mutual funds	3,888,851	3,888,851	-	-
Alternative fixed income funds	3,989,406	-	-	3,989,406
Alternative equity funds	7,699,180	-	-	7,699,180
	$ 65,935,880	$ 54,247,294	$ -	$ 11,688,586

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Alternative fixed income funds	Alternative equity funds	Total
December 31, 2009	$ 3,939,889	$ 4,020,507	$7,960,396
Purchases	-	3,330,000	3,330,000
Net unrealized gains	49,517	348,673	398,190
December 31, 2010	3,989,406	7,699,180	11,688,586
Purchases	-	1,550,000	1,550,000
Settlements	(4,042,362)	-	(4,042,362)
Net realized gains	77,362	-	77,362
Net unrealized losses	(24,406)	(670,485)	(694,891)
December 31, 2011	$ -	$ 8,578,695	$8,578,695

(2) Investments and investment income (continued)

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Fair values for the alternative equity and fixed income funds (Level 3) are determined by aggregating the net asset value provided by each fund manager. The net asset value is determined by taking the fair value of total fund assets less the fair value of total fund liabilities. Net unrealized gains (losses) related to alternative equity and fixed income funds of ($694,891) and $398,190 have been included in investment income on the statement of activities for the years ended December 31, 2011 and 2010, respectively.

(3) Property and equipment

Property and equipment at December 31 consisted of the following:

	2011	2010
Furniture and equipment	$ 7,228,043	$ 4,797,442
Computer and related equipment	12,172,942	11,868,741
Computer software	19,674,375	19,112,929
Leasehold improvements	11,792,322	3,937,331
	50,867,682	39,716,443
Less accumulated depreciation and amortization	34,694,060	33,580,507
	$ 16,173,622	$ 6,135,936

(4) Operating leases

The NAIC leases its office space in Kansas City, New York, and Washington D.C. under noncancellable operating leases. Certain parts of the agreements contain escalation clauses providing increased rentals based on maintenance, utility and tax increases. The lease on the Kansas City office expires February 29, 2012. During the year ended December 31, 2011, a new lease was signed for the Kansas City office, effective as of the expiration of the current lease. Future minimum lease payments related to this lease are included in the schedule below. The NAIC also leases certain office equipment under noncancellable operating leases, which expire at various dates through 2014. The accompanying financial statements reflect rent expense on the straight-line method over the terms of the leases. Total rental expenses under all leases for the years ended December 31, 2011 and 2010 were $4,968,631 and $5,042,213, respectively.

The new Kansas City office space lease includes various lease incentives, free rent and scheduled rent increases. Deferred lease incentives consist primarily of reimbursements for leasehold improvements, parking costs and moving costs. U.S. generally accepted accounting principles require that the above items be recognized as a reduction of rental expense over the term of the lease. The unamortized balance in deferred lease incentive was $10,246,749 and $0 as of December 31, 2011 and 2010, respectively.

(4) Operating leases (continued)

Future minimum lease payments at December 31, 2011, were:

2012	$	1,506,269
2013		2,186,716
2014		2,415,849
2015		2,033,941
2016		2,020,795
Thereafter		15,193,934
Total	$	25,357,504

(5) Employee retirement plans

The NAIC has a noncontributory defined benefit plan (Plan A) covering all employees with a hire date prior to January 1, 2000. The benefits are based on years of service and the employee's compensation for the five consecutive years of the ten latest years of employment that give the highest average.

The following table sets forth the plan's funding status, amount recognized in the NAIC's financial statements, and other required disclosures.

		2011		2010
Projected benefit obligation	$	(46,581,839)	$	(41,205,590)
Fair value of plan assets		36,542,618		36,862,990
Funded status of plan	$	(10,039,221)	$	(4,342,600)
Accrued benefit cost recognized in the statement of financial position	$	(10,039,221)	$	(4,342,600)
Accumulated benefit obligation	$	42,033,807	$	36,404,695
Employer contributions	$	200,000	$	2,600,000
Benefits paid	$	(331,680)	$	(1,075,982)
Service cost	$	1,463,414	$	1,413,782
Interest cost		1,956,791		1,991,773
Return on plan assets		(2,416,890)		(2,189,731)
Amortization of net loss		774,451		801,236
Net pension cost	$	1,777,766	$	2,017,060

Weighted average assumptions used to determine benefit obligations are as follows:

	2011	2010
Discount rate	4.34%	5.06%
Salary rate	4.51%	4.51%
Measurement date	December 31, 2011	December 31, 2010

(5) Employee retirement plans (continued)

Weighted average assumptions used to determine net pension costs are as follows:

	2011	2010
Discount rate	5.06%	5.74%
Rate of salary increase	4.51%	4.51%
Expected return on plan assets	7.00%	7.00%

The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

The following is the plan's weighted average asset allocation by asset category as of December 31, 2011 and 2010 (the measurement date of the plan assets):

	2011	2010
Equity securities	50.26%	40.03%
Debt securities	49.74%	59.97%

Plan assets are held by an insurance company, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds, U.S. Government securities and other specified investments, based on certain target allocation percentages. Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced as necessary based upon the minimum and maximum restrictions set forth in the plan's investment policy statement. Plan assets are valued using Level 1 inputs and are based on unadjusted quoted market prices within active markets.

The benefits expected to be paid to participants over the next 10 years which reflect expected future services as appropriate, as of December 31, 2011 are as follows:

2012	$	3,140,661
2013		4,016,812
2014		2,917,952
2015		3,101,600
2016		2,742,121
2017 - 2021		18,867,144
Total	$	34,786,290

The NAIC's best estimate of contributions to be paid during 2012 is $4,600,000. The amount is actuarially calculated by the NAIC's independent consultant firm and represents the amount necessary to fully fund the actuarial accrued liability and normal cost of the plan.

(5) Employee retirement plans (continued)

The NAIC provides a defined contribution 401(a) plan (Plan B) that covers substantially all employees with one year or more of service. Each year, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee determine the contribution for the next year. The NAIC matched up to 3.5% of compensation of employees who contributed to Plan B and contributed 2% of all employees' compensation. The pension expense related to Plan B for the years ended December 31, 2011 and 2010 was $1,567,474 and $1,510,177, respectively.

(6) Related party transactions

Effective January 1, 2006, the NAIC entered into a service agreement with the National Insurance Producer Registry (the NIPR), an affiliated entity, whereby the NAIC provides certain administrative services to the NIPR. The NAIC receives a fee computed on 30% of certain NIPR revenues, which represents a license fee for the NIPR to use the NAIC's producer data. In addition, the NAIC receives from the NIPR an administrative fee of $1,000,000 for services, facilities, and equipment provided by the NAIC. The NAIC also receives a per transaction usage fee from the NIPR related to their use of the NAIC's State Producer Licensing (SPL) System. The SPL fee is intended to compensate the NAIC for its investment and maintenance expenses related to the hardware and software infrastructure that support both the NAIC and NIPR. Additionally, certain expenses are paid on behalf of, and reimbursed by, the NIPR.

The total amount charged during the year and amounts owed at year-end for the NIPR are as follows:

	2011	2010
Administrative services provided by NAIC	$ 1,000,000	$ 1,000,000
License Fee	$ 5,789,304	$ 5,281,486
SPL Fee	$ 1,911,095	$ 1,779,895
Amounts payable to NAIC	$ 995,270	$ 876,083

Subsequent to December 31, 2011, NAIC and NIPR have finalized a new License and Services Agreement (the Agreement). The initial term of the agreement is five years and is retroactively effective to January 1, 2012. The agreement will automatically renew each year thereafter unless either party provides written notice of termination to the other party no later than 180 days prior to the end of the renewal period. The terms in the new Agreement, provide for a lump-sum payment of approximately $6.9 million to NAIC as a cost recovery mechanism for NAIC's remaining investment in SPL as of December 31, 2011. The terms of the Agreement do not provide for any repayment to NIPR of this cost recovery amount if the Agreement is cancelled prior to the end of the renewal period.

(6) Related party transactions (continued)

Effective June 2007, the NAIC entered into a service agreement with the Interstate Insurance Product Regulation Commission (the IIPRC), whereby the NAIC provides certain administrative services to the IIPRC. The NAIC received an administrative fee of $125,000 for the years ended December 31, 2011 and 2010. The IIPRC also pays an annual license and maintenance fee in the amount of $25,000 for the use of the NAIC's System for Electronic Rate and Form Filing. The NAIC also has an operating note receivable due from the IIPRC. Repayment of principal and interest is deferred until certain operating performance measures are met by the IIPRC. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

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

	2011	2010
Administrative services provided by NAIC	$ 125,000	$ 125,000
License fee paid to NAIC	$ 25,000	$ 25,000
Amounts payable to NAIC	$ 38,798	$ 15,951
Note payable to NAIC	$ 2,638,742	$ 2,186,448

An additional line of credit in the amount of $400,000 to be used by the IIPRC in 2012 will be considered by the NAIC at the NAIC 2012 Spring National Meeting.

(7) Contingencies

The NAIC is, from time to time, subject to claims and lawsuits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not currently believe the ultimate resolution of these matters will have a material adverse effect on the financial condition, results of operations or cash flows of the NAIC.

(8) Subsequent events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2011 through February 21, 2012, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation, other than as disclosed in Note 6 above.