NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS **2017 ANNUAL REPORT**

A BLUEPRINT *for* STRATEGY

STATE AHEAD

OPERATIONS & TECHNOLOGY

Association Highlights

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. Its staff supports these efforts and represents state regulators' collective domestic and international views. NAIC members, together with the central resources of the association, form the national system of state-based insurance regulation in the U.S.

The NAIC provides its members a national forum for discussing common issues and interests, while working cooperatively on matters shared across 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 City.

Home of the world's largest insurance financial database, the NAIC maintains extensive systems linking all state insurance departments and provides financial, actuarial, legal, research, technology, market conduct and economic expertise. Staff research and create standard and custom reports, develop uniform statutory financial statements, monitor federal activity, submit legal briefs, conduct educational training programs and much more. The Center for Insurance Policy and Research (CIPR) leverages resources to collect and analyze information provided to officials, agencies and policymakers in the U.S. and abroad. Through seminars, presentations and publications, CIPR efforts strengthen: Coordination with federal, state and international agencies and regulators; Understanding of insurance-related topics and issues by thought leaders; Information exchange between the states and the federal government; and state regulator participation in public policy decisions affecting insurance and the broader financial services sector.

NAIC Operations

Providing the highest quality of member service requires a talented and dedicated workforce. The NAIC is committed to creating a work environment that results in high job satisfaction for our employees. The association provides flexible work options — including flex scheduling and work-from-home opportunities — that promote work-life balance. The association also has an *Infants in the Workplace* program that allows parents to bring their newborn to work. The NAIC celebrated the program's 20th anniversary and welcomed 16 new babies to its offices in 2017. In total, 165 infants have accompanied their parents to work since the program's inception.

To promote wellness and team spirit, the NAIC's Central Office participated in the 2017 Kansas City Corporate Challenge, finishing second in the organization's division. The association's participation level increased to 222 employee participants from 205 in 2016.

A consistent feature of the association's culture is a low employee turnover rate. The NAIC had a net turnover of just 2.9% in 2017.

Regulators Rally in Wake of Natural Disasters

The insurance industry plays a tremendous role in communities recovering from large-scale natural disasters. 2017 was marked by devastating wild fires in California, Montana and other western states. While Gulf-States and territories in the Caribbean were ravaged by a historic hurricane season.

Even before category-4 hurricane Maria struck Puerto Rico, on September 20, staff in nearby states had contacted the NAIC offering whatever assistance may be needed. Fresh from the experiences of Harvey and Irma, the regulatory community came together quickly to assist with the response. Working closely with the Office of the Insurance Commissioner of Puerto Rico and the U.S. Virgin Islands' Office of the Lieutenant Governor – Division of Banking, Insurance and Financial Regulation, NAIC and state volunteers rallied to provide communications to consumers, media and the insurance industry.

Volunteers responded to consumer and industry calls and provided more than 8,000 users with emergency bulletins and other information through NAIC-hosted websites.

2017 NAIC Organizational Chart

Michael F. Consedine, Chief Executive Officer

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

Kay Noonan
General Counsel

Jim Woody
Chief Financial Officer

Scott Morris
Chief Technology Officer

Frosty Mohn
Chief Security & Information Officer

Jeff Johnston
Managing Director, Financial Regulatory Affairs

Elise Liebers
Senior Director, Financial Regulatory Affairs, International Policy & Market Surveillance

Ethan Sonnichsen
Managing Director, Government Relations

Eric Nordman
Director, Regulatory Services and Center for Insurance Policy & Research

Trish Schoettger
Director, Member Services

Scott Holeman
Director, Communications

Todd Sells
Director, Financial Regulatory Policy & Data

Dan Daveline
Director, Financial Regulatory Services

Charles Therriault
Director, Securities Valuation Office

Eric Kolchinsky
Director, Structured Securities Group

Ed Toy
Director, Capital Markets Bureau

Ramon Calderon
Director, International Policy

Denise Matthews
Director, Data Coordination & Statistical Analysis

Kris DeFrain
Director, Research & Actuarial Services

Tim Mullen
Director, Market Regulation

Brent Roper
Director, Human Resources

Information Technology

The NAIC employs technology to protect insurance consumers by delivering information technology products and services that support state-based insurance regulation. The organization provides a number of tools that enable regulators to enhance the state-based system, including:

- Automated Valuation Service (AVS+)
- Consumer Information Source (CIS)
- Enterprise technology initiatives
- Financial data repository and analysis
- Insurance Data (InsData)
- iSite+
- Market Conduct Annual Statement (MCAS)
- Market regulation systems
- Online Fraud Reporting System (OFRS)
- Online Premium Tax for Insurance (OPTins)
- Securities filings system (VISION)
- State Based Systems (SBS)
- System for Electronic Rate and Form Filing (SERFF)

Ultimately, the team strives to provide world-class data-collection capabilities and unparalleled technology for state-based insurance regulation.

Business Intelligence and Data Management

The NAIC Information Technology Group (ITG) has worked to build a number of reports and dashboards with a new business intelligence tool. The tool allows for the development of advanced analytics in a fraction of the time in comparison with previous tools. Here are examples of a few of the dashboards that have been developed:

- Found policies from the NAIC Life Insurance Policy Locator System
- SBS – health
- Life experience reports and dashboards for principle-based reserving (PBR)
- SERFF usage and system health metrics

Until recently the output of the business intelligence tool was only available to internal users. With the purchase of additional software licensing, approved in July, the system has been deployed to the NAIC cloud platform. This will allow the first external dashboard to be published for regulators in 2018. The dashboard displays metrics on the lost life insurance policies and will be embedded in iSite+, the existing NAIC regulator portal.

Cloud Platform Transformation

In July 2017, the NAIC selected a cloud provider and started multiple cloud projects. The goals are to increase capabilities and innovation, increase efficiency and improve system availability. Ultimately, this will improve speed of delivery of new technology features and increase the sophistication of regulatory tools to support the changing insurance market. Accomplishments in 2017 include:

- Selection of a primary cloud provider
- Launch of the first cloud native application for professional designations
- Setup and launch of sandbox environments for staff learning
- Creation of initial governance framework to ensure security controls and cost management
- Completion of cloud readiness assessment
- Completion of application portfolio assessment
- Creation of migration strategy and approach
- Initiation of three cloud native projects: InsData replacement; business intelligence platform; and MCAS replacement

Cybersecurity Enhancements

Cybersecurity continued to be one of the NAIC's primary focuses. In 2017, Security Information and Event Management (SIEM) processed 35 billion events (log messages); blocked 70 million threats (denial-of-service attempts, vulnerabilities and viruses) through the Threat Protection System (TPS); and filtered or blocked 12 million threat messages (malicious email, SPAM or negative reputation). The NAIC continued to implement new and more advanced security and privacy controls, as well as assess the continued effectiveness of established controls. The association will continue to identify areas to mature and enhance security. With the ongoing heightened cybersecurity awareness within the insurance industry, cybersecurity will continue to be of paramount importance for the NAIC for the foreseeable future.

Market Conduct

A number of new projects were started in 2017, including the changes to MCAS filings to support the health line of business, MCAS industry application redesign, creation of the Market Regulation dashboard and analysis for various requests from the Market Information Systems Research and Development (D) Working Group. The MCAS improvements also included enhancements to applications to meet new security standards and upgrading the Life Insurance Policy Locator System to allow state system integration.

NAIC Websites

In 2017, the NAIC conducted a content management system (CMS) project to evaluate improvements to enhance the NAIC's website. The project included outreach and feedback from different NAIC website user groups, and the recommendations are being incorporated into NAIC websites.

A CMS was implemented for the NAIC president's monthly newsletter and the Interstate Insurance Product Regulation Commission (IIPRC) website, allowing end users to update website content without engaging technical staff. Future phases will include dynamic delivery of content using a CMS for all NAIC web properties.

OPTins

OPTins provides state insurance departments with an electronic system to accept documents and payments for premium tax, surplus lines, assessments and other state-specific filing needs. Twenty-seven jurisdictions utilize OPTins, with 12 of them mandating use for at least one filing category.

Improvements were completed on the OPTins system to accept filings for the Quarterly Listing of Alien Insurers.

Filing volume for 2017 was higher than projected, with growth attributed to both state implementation and improved functionality. Security enhancements and improvements to the transactions feature used by the states to track and audit filings and payments have been made to the system this year. Additionally, functionality was added to enable scheduled filings.

Professional Designation

The newly designed Professional Designations application became the first NAIC application to successfully migrate to the cloud. The Professional Designations migration is the culmination of a learning period for the cloud team that began in early 2017 with a small group of NAIC staff. The application is designed to assist regulators in applying for and completing the requirements for a NAIC Insurance Regulator Professional Designation Program.

The effort behind this cloud application is part of a larger initiative aimed at building cloud infrastructure, learning new development tools and practices, establishing security guidelines and adjusting the NAIC culture to embrace cloud technology.

Overall improvements to the user experience were made by making the interface simple and more intuitive, enhancing workflow, creating more extensive administration features and streamlining the payment process. Professional Designations was released to the user population in October 2017.

Producer Licensing

NAIC staff worked with jurisdictions to move from the legacy state process and file processing methods to new gateway web services. Work will continue in 2018 to transition remaining states. The new process leverages real-time interactions and meets the latest security standards.

A multi-year project to load data from states was completed in 2017. The State Data Collection System (SDCS) loads producer data from state systems to the NAIC State Producer Licensing database. SDCS has better monitoring and recovery capabilities, streamlines regulator efforts and improves industry experience.

Regulatory Data Capture System (RDC)

Released to production in May, RDC is a flexible data collection system built to more easily collect a variety of data. Initially, RDC was used in two data calls. It was first used for the collection of life experience data from insurers directed to submit such data by their domiciliary state. It was next used in the *Study of the Connecticut Homeowner Insurance Market And Coastal Affordability and Availability.* RDC is also being used as a foundational element in the new MCAS filings system in 2018.

SBS

The SBS team implemented Arizona — the first new state on new SBS — in April and New Mexico in July. The team also transitioned six states from the legacy platform. In the last quarter of 2017, the SBS team increased its focus on quality and resolving support issues. SBS increased staff support through resource reallocation to support their complex and important work.

SERFF

The first phase of functionality for State Data Retention was rolled out in August 2017. This function allows the states to set data-retention polices for SERFF that align with their state's retention policies. Plan management for 2018 is nearly complete. Fifty-three jurisdictions, the IIPRC and more than 4,500 insurance companies use SERFF.

Security Investments Filings

The VISION system — a valuation of securities online application critical to state insurance regulators, NAIC staff and insurance companies — is used by the Securities Valuation Office (SVO), as well as industry customers who file their securities with the NAIC for a ratings designation. After its initial release in September 2016, continued improvements to VISION have occurred via point releases on a regular cadence throughout the year.

Major enhancements in 2017 were expanded dashboards and a new notification system released in late February. A summer release delivered functionality for private letter ratings to be captured via VISION. This functionality is expected to be implemented in early 2018.

A project was approved in mid-2017 to allow entities to make an electronic request, via VISION, for inclusion on the NAIC List of Qualified U.S. Financial Institutions. The work for this enhancement has been underway and is expected to be available in early 2018.

The NAIC created the first product user group for VISION to allow for more direct industry and analyst input into the refinement of features and enhancements. The group had its first meeting in September 2017.

Service Desk and Customer Support

The NAIC completed the implementation and adoption of change and incident management, consistent with Information Technology Infrastructure Libraries (ITIL) methodologies. The new processes have increased transparency across all teams in the organization, increased throughput and productivity by using the same process for all change types. The new process and system provides service level metrics used to monitor customer service levels.

The NAIC Service Desk was reorganized midyear to improve service to our customers. At the end of 2017, significant improvements were reflected in general customer sentiment, as well as service level metrics.

Another improvement was the investment in an application monitoring tool, which measures user experience. Although setup is still in progress, the tool has already identified issues and opportunities to improve the customer experience.

FINANCIAL REGULATION

Financial examinations and analysis processes are central to effective solvency oversight. By employing sophisticated analytical tools and expert resources, state insurance regulators minimize insolvencies and their profound impact on policyholders and the marketplace. In 2017, the NAIC adopted significant changes to the *Financial Analysis Handbook* to further align with the risk-focused examination processes used by state insurance departments. This updated approach allows solvency regulators to focus efforts on key risks of insurers and insurance holding companies supervised by state insurance regulators.

Group Supervision

State insurance regulators continue to implement improvements to group supervision through legislative changes and ongoing involvement in U.S. and non-U.S. supervisory colleges.

The Insurance Holding Company System Regulatory Act (#440) was amended following the financial crisis to improve group supervision. In 2014, the NAIC adopted additional revisions to Model #440, which provides clear legal authority for a state insurance commissioner to act as the groupwide supervisor for a defined class of internationally active insurance groups and further defines the activities the commissioner may engage in related to such authority. Twenty-four states and the U.S. Virgin Islands have already passed changes in their laws consistent with the 2014 NAIC changes to Model #440. More significantly, 49 states have enacted legislation based on the *Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act (#505)*, which requires insurance groups above a certain premium threshold to file an annual ORSA Summary Report with their lead state.

Finally, in 2015, the Financial Condition (E) Committee formed the Group Capital Calculation (E) Working Group, which was charged to construct a U.S. group capital calculation using a risk-based capital (RBC) aggregation methodology. Since that time, the Working Group has held numerous conference calls and meetings and hopes to have made tentative decisions on the various aspects of such an aggregation methodology by the summer of 2018, thus allowing a "beta" version of the calculation to be field-tested prior to the 2018 Fall National Meeting.

Reinsurance

On Sept. 22, 2017, the U.S. Department of the Treasury (Treasury) and Office of the U.S. Trade Representative (USTR) signed the "Bilateral Agreement Between the United States and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (covered agreement). The covered agreement includes requirements on group capital, group supervision and reinsurance. In early 2018, the NAIC held a public hearing to consider suggestions from various parties on the best approach and considerations for addressing the covered agreement. Material future discussion is expected on this topic.

Parallel to the development of the covered agreement, the states continue to make progress in adopting the 2011 revisions to the *Credit for Reinsurance Model Law (#785)* and the *Credit for Reinsurance Model Regulation (#786)*. To date, 43 states have enacted legislation to implement the revised Model #785, the most recent being Wisconsin, with 34 of these states also adopting the revised Model #786. Insurers domiciled in these states represent more than 79% of the direct insurance premium written in the U.S. across all lines of business. The NAIC voted to make the certified reinsurer provisions a uniform accreditation standard requirement for all NAIC-accredited jurisdictions effective Jan. 1, 2019.

The Reinsurance Financial Analysis (E) Working Group of the Financial Condition (E) Committee provides a peer-review process for certified reinsurer designations. The Working Group's mission is to facilitate consistency among the states and to coordinate multistate efforts. To date, the NAIC has approved 26 certified reinsurers. The Working Group also adopted changes to the *Uniform Application Checklist for Certified Reinsurers* to provide further guidance and ensure consistency across the states' certification processes.

Principle-Based Reserving

The NAIC continued to implement principle-based reserving (PBR) in 2017. Activity included addressing regulatory and NAIC staff resources, developing analysis and examination procedures, making changes to the statutory financial statement blanks and appointing a Valuation Analysis (E) Working Group to provide consistent oversight and application across each jurisdiction. Forty-seven states have now enacted the revised *Standard Valuation Law (#820)* to implement PBR. The three-year implementation period for PBR began Jan. 1, 2017.

Use of Captives by Life Insurers

In 2014, the NAIC adopted a conceptual reinsurance framework for life insurers' use of captives for business subject to the *Valuation of Life Insurance Policies Model Regulation (#830)* and *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation (AG 38)*, commonly referred to as Regulation XXX and Regulation AXXX, respectively. Several important components of this framework were adopted in 2014 and almost all other components were adopted in 2015, including new RBC requirements and additional disclosure within the annual audit report.

The NAIC adopted the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)* and revisions to Model #785, which collectively provide state insurance departments with specified authority with regard to captive reinsurance transactions on certain term and universal life insurance business.

In 2017, the NAIC focused on captive reinsurance used by life insurers, known as variable annuities. The NAIC appointed the Variable Annuities Issues (E) Working Group and is considering changes to the statutory framework for variable annuities to remove the noneconomic volatility created by the current framework. The potential changes are based on the results of two quantitative impact studies.

Financial Regulation Standards and Accreditation Program

The NAIC Financial Regulation Standards and Accreditation Program was established to maintain standards to promote effective financial solvency regulation. NAIC accreditation allows non-domestic jurisdictions to rely on the accredited domestic regulator to fulfill baseline financial regulatory oversight. All 50 states, the District of Columbia and Puerto Rico are accredited. Accreditation also creates greater efficiencies for insurance companies, thereby eliminating duplicative regulation.

The NAIC conducted 10 full accreditation reviews, 42 interim annual reviews and 11 pre-accreditation reviews in 2017. In addition, the NAIC adopted PBR and requirements for an annual corporate governance disclosure as accreditation standards to be required beginning in 2020.

International Insurers Department

The International Insurers Department (IID) functions as a national gatekeeper for non-U.S. insurers seeking to gain access to the U.S. excess and surplus lines market. This function includes solvency monitoring and trust account maintenance of all NAIC-listed insurers, as well as oversight and analysis for considering new applications. Two new insurers were added during the year, and there were four withdrawals, resulting in a net total of 147 listed entities at the end of 2017. As of Sept. 30, 2017, listed insurers maintained $5.8 billion in trust assets, which are held as collateral against an estimated $22.4 billion of gross claim liabilities as of year-end 2016.

Securities Valuation Office

The NAIC Securities Valuation Office (SVO) is comprised of investment professionals who assess the credit risk of insurer investments. The SVO assigns an NAIC designation, a measure of credit risk, to filed insurer investments.

The SVO received filings from 870 insurers in 2017. These filings covered 13,689 securities with an insurer total carrying value of approximately $372 billion. This unique capability allows the NAIC to assess investment credit risks through its own independent regulator-driven process, instead of relying exclusively on nationally recognized statistical rating organizations. The NAIC designation and other analysis produced by the SVO are used in regulatory processes to monitor insurers, including the appropriateness of the RBC investment charges.

Mortgage-Backed Securities

The NAIC Structured Securities Group (SSG) is an internal team of investment professionals that builds on the NAIC's technical expertise to provide specialized analysis, valuation, research and reporting for structured securities.

The SSG modeled 5,369 unique commercial mortgage-back securities (CMBS) and 21,158 unique residential mortgage-backed securities (RMBS) Committee on Uniform Security Identification Procedures (CUSIPs) in 2017. Based on previous year's book values, these securities total approximately $152 billion of CMBS and $97 billion of RMBS.

Capital Markets

The NAIC Capital Markets Bureau (CMB) provides a macroprudential view in support of the efforts of state insurance regulators. The CMB monitors trends, developments and activity in financial markets around the world—analyzing the potential impact on investment activities and portfolios of U.S. insurance companies and considering potential financial stability issues. The CMB reports these results directly to state insurance regulators and publishes reports for regulators and the general public.

The CMB published 15 "Capital Markets Special Reports" in 2017. These reports included updates on U.S. insurer exposures to the different investment markets and strategies in which insurers are involved. In addition to general analysis of the industry's asset mix, reports focus on specific sectors, such as municipal bonds, commercial real estate and hedge funds. Topical issues are also covered, such as variability in returns across different markets and the impact on the U.S. insurance industry from changing market regulation.

The CMB also provides quick updates on more specific situations addressing volatility in the capital markets through periodic "Hot Spot" reports. While market volatility was considerably less pronounced in 2017 than in previous years, specific concerns around the potential for market disruption from exogenous factors, such as the negotiations for the United Kingdom's exit from the European Union, persisted.

In addition, the CMB supports state insurance regulators in their analysis and examination of specific insurers and their investment portfolios. Confidential reports include analysis of investment holdings and practices, derivatives use, and investment management policies and agreements—focusing on credit, market and liquidity risk.

CONSUMER EDUCATION

Consumer outreach and education is at the core of the NAIC's mission to protect consumers. To this end, the NAIC educates consumers through programs anchored by the "Insure U – Get Smart about Insurance" website and campaign. Insure U provides information about companies, agents and products through a broad variety of articles, tips, games and interactive exercises. Content is organized by the "core four" lines of insurance (auto, home, life and health), but also focuses on common life situations or life-changing events.

Campaign strategies and tactics include traditional media relations and earned-media operations, online and social media, as well as public service announcements (PSAs) for TV and radio. The NAIC distributes news releases and consumer alerts directly through subscription. In addition, the organization works with state insurance departments to provide unbiased and reliable information to media outlets covering insurance.

Rita Moreno Encourages Seniors to "Keep Moving"

The NAIC launched a national televised PSA starring legendary entertainer Rita Moreno. The PSA was a part of Moreno's partnership with the NAIC to encourage seniors to get smart about their insurance policies and financial plans as part of the Insure U campaign.

The high-energy PSA gave viewers a look at a "day in her life" and was rooted in Moreno's simple, yet meaningful, life motto: "Keep moving." Moreno hopes her message inspires families to make smart insurance and retirement planning decisions together. Moreno also recorded a radio PSA and video series featuring her take on modern advancements, such as social media and the sharing economy, and lessons learned after her husband's death.

The TV PSA was part of the NAIC Retirement Security Initiative. To better help seniors get smart about insurance and avoid fraud, the NAIC also created "10 Tips to Help Seniors Navigate the 21st Century," a downloadable checklist of information all seniors should know about the sharing economy, social media, long-term care, living with adult children, annuities and more.

To date, the TV PSA has aired more than 9,800 times, generated more than 51 million impressions and has an ad equivalency of $2.7 million.

Connecting through the 'Core Four'

The NAIC's 2017 day-to-day efforts focused on the "core four" lines of insurance. During the spring, the "Disasters Redefined" campaign focused on homeowners insurance. This component of the campaign not only reinforced well-established concepts of understanding policies and maintaining a home inventory, but also included updated information about the changing nature of common risks.

The "Changing Lanes" campaign featured an interactive online tool called "DriveCheck." This assessment tool interviews consumers about their driving behavior and then assesses the likelihood they would benefit from usage-based insurance or telematics for their auto insurance. The tool was launched through the use of an audio news release featuring 2017 NAIC President and Wisconsin Insurance Commissioner Ted Nickel.

The health component, "Health Insurance – Rethink Your Research," focused on open enrollment, featuring an Annual Health Insurance Check-Up to guide consumers through the process of selecting their coverage.

The life insurance element of the campaign focused on helping insurance consumers understand life insurance and annuities as financial products that can be used to protect assets. The "Life Insurance – It's More Than a Death Benefit" campaign provided updates to the Insure U content to increase the understanding of the large variety of products available in the market.

With 2017 came new iPhones and, as such, some small improvements to NAIC mobile apps. The NAIC's free Home Inventory app, myHOME Scr.APP.book, lets consumers quickly photograph and capture descriptions of their possessions room by room, and then store their inventory electronically for safekeeping. The app is also available for Android devices. Click here to watch the demonstration video.

The WreckCheck mobile app outlines the steps to take following an auto accident to determine what information to share, with whom and what details are important when filing a claim. Click here to watch the demonstration video.

Available on iTunes and Google Play, these apps have been downloaded more than 95,000 times.

Timely Alerts

The NAIC distributed more than a dozen consumer alerts and coordinated social media outreach to further consumer education efforts. The alerts covered topics such as identity theft, insurance fraud, travel insurance and usage-based insurance. Some efforts were driven by events in the headlines, others by the extreme weather that impacted so many people in 2017.

Consumer alerts included:

Winter Mishaps: Review Your Policies to Make Sure You're Covered During the Holidays

Credit Freezes and the Burn They Have on Hackers

Insurance Fraud: What Is It and How Do I Report It?

Oh, Deer! Rutting season increases collision frequency

State Health Exchanges: What You Need to Know to (Re)Enroll

Navigating the Claims Process: Recover & rebuild

Details for Departure: Navigating end-of-life business

Buying a Used Car? Get the Facts Before You Act

Identity Theft

Claim Complaints

Breaking for Spring Travel: Protect your trip

Environmentally-Friendly Insurance

Understanding Usage-Based Insurance

Insurance Checklist for the New Year: Are you prepared for 2017?

Service and Surveillance

A vital component of the NAIC's outreach to consumers is its media relations and surveillance operations. The Daily NewsWire, a daily news brief distributed by the organization provides a summarized list of insurance-related articles, including those contributed by NAIC members or experts.

By coordinating with state insurance department staff to provide accurate and unbiased information to reporters, the NAIC remains a reliable source for insurance-related stories reported through print, television, radio and online channels, viewed locally and around the world. The NAIC's consumer education programs were recognized for excellence with several awards. The Greater Kansas City Chapter of the Public Relations Society of America (PRSA) honored the NAIC with six PRISM awards, one for each of the entries the NAIC submitted. The NAIC was also recognized at the PR News Platinum PR Awards with an honorable mention for the 2015 Annual Report and at the PR News Digital PR Awards for the "Bad Breaks" Social Media Campaign with RJ Mitte.

MARKET REGULATION

The NAIC supports state insurance regulators as they continuously improve market regulatory processes. This includes market analysis, regulatory interventions with companies and multi-jurisdictional collaboration. Through the committee process, the NAIC reviews and make recommendations regarding the underwriting and market practices of insurers and producers as those practices affect the cost and availability of insurance products.

Market Conduct Annual Statement

The Market Conduct Annual Statement (MCAS) provides a uniform system of collecting market conduct information for personal lines: annuities, life insurance, homeowners insurance, private passenger automobile insurance and long-term care insurance. There were 49 participating jurisdictions in 2017, up from 29 when the program launched in 2009. In addition, the NAIC adopted a new health MCAS blank for the collection of 2017 health insurance data in 2018 and a new lender-placed home and auto MCAS blank for the collection of 2018 lender-placed insurance data in 2019. The NAIC assists state insurance regulators by processing MCAS filings on their behalf, validating data and enhancing the analysis of market conduct information. In 2017, the states received and centrally stored 31,096 filings through the MCAS system.

Complaints Database System

The NAIC's 56 member jurisdictions contributed a total of 245,987 complaints to the NAIC Complaints Database System (CDS) in 2017. The CDS automates the collection and storage of closed complaint data submitted by state insurance departments against insurance entities and producers. Regulators can then leverage nationwide information from this database.

Regulatory Information Retrieval System

The Regulatory Information Retrieval System (RIRS) contains records of regulatory actions finalized by state insurance departments against entities engaged in the business of insurance. The states entered 8,785 actions into the database in 2017.

Online Fraud Reporting System

Increased fraud reporting to state insurance departments helps reduce incidences of fraud. This, in turn, cuts insurers' expenses, better protects consumers and, ultimately, reduces costs to consumers. The states used the Online Fraud Reporting System (OFRS) to receive referrals of suspected fraud from consumers and the insurance industry. The NAIC also received reports from the National Insurance Crime Bureau (NICB). The NAIC made available to members 73,805 reports of suspected fraud in 2017.

State insurance regulators actively engage in consumer protection by verifying policy provisions comply with state law, are reasonable and fair, and do not contain major gaps in coverage that might be misunderstood by consumers and leave them unprotected.

HEALTH, FEDERAL & INTERNATIONAL POLICY

Government Relations

With the change in administration and a Congress generally supportive of state insurance regulation, we have taken advantage of opportunities to advance the NAIC's policy positions domestically. This comes as gridlock has pervaded Washington, DC, and Congress has had difficulty passing major legislation. The change in the administration has caused a shift in the people and policies driving our engagement with the federal bureaucracy. Our domestic strategy is to use this period to build on our already robust state regulatory system to address areas of opportunity and vulnerability so if the pendulum ultimately swings back to a pro-federal philosophy, it will find a strong and fortified state regulatory system.

Financial Regulatory Reform

The NAIC was involved in the development of three pieces of bipartisan legislation introduced and designed to oversee the federal government's involvement in international insurance matters, limit the Federal Insurance Office's (FIO) authorities and clarify the Consumer Financial Protection Bureau's (CFPB) insurance exemption. Connecticut Insurance Commissioner Katharine L. Wade testified before Congress in support of the legislation on Oct. 24.

The NAIC successfully advocated for the Senior Safe Act, which passed the U.S. House of Representatives and was included in the U.S. Senate's financial regulatory reform bill. This legislation would help to increase identification and reporting of suspected senior financial exploitation.

The NAIC also supported the International Insurance Standards Act, which passed the House Financial Services Committee. The bill requires consultation with Congress and coordination with state insurance commissioners throughout negotiations of international standard-setting agreements.

In May, 39 jurisdictions attended the All Commissioner DC Fly-In and attended more than 165 congressional meetings. Guest speakers included U.S. Health and Human Services (HHS) Secretary Tom Price; Sen. Lamar Alexander (R-Tenn.) and Sen. Mike Crapo (R-Idaho); Justin Clark, Deputy Assistant to the President and Director of the Office of Intergovernmental Affairs (in 2017); and Doug Hoelscher, Special Assistant to the President and Deputy Director of Intergovernmental Affairs at the White House.

Financial Stability Oversight Council (FSOC)

The NAIC supported the efforts of the designated state insurance regulator representative serving on the FSOC, Peter L. Hartt, Director of New Jersey's Insurance Division, in advocating for the de-designation of AIG by the FSOC. The FSOC's justification for the de-designation reflected a revised understanding of the insurance business model and insurance regulation, and was more consistent with the NAIC's policy views on insurance and systemic risk.

RecognizingP the FSOC's diminished authority over systemically important financial institutions (SIFI) would give states an opportunity to raise its profile in the area of macroprudential surveillance (MPS) of the insurance sector, the NAIC began an aggressive initiative to evaluate and enhance its own MPS tools. Development and deployment of these tools will further secure the primacy of state insurance regulators in monitoring and addressing systemic risk in the insurance sector.

The NAIC supported the FSOC Insurance Member Continuity Act, which was enacted into law in late September.

National Flood Insurance Program (NFIP) Reauthorization

As an example of proactively anticipating congressional priorities, the NAIC developed flood insurance reform principles well in advance that have been a critical component of the debate in Congress around reauthorizing and reforming the NFIP. This included advocating for legislation that passed the House of Representatives in November, as well as other bipartisan bicameral bills consistent with several of the principles.

The NAIC successfully advocated for the Flood Insurance Market Parity and Modernization Act (H.R. 1422), which was unanimously approved by the House Financial Services Committee in July and incorporated into the House-passed NFIP reauthorization legislation.

Covered Agreement

A specific international agreement, the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (covered agreement) was negotiated jointly by the FIO and the Office of the U.S. Trade Representative (USTR) with the European Union (EU). The document, signed on Sept. 22, contains provisions eliminating reinsurance collateral requirements for EU reinsurers that meet certain criteria.

After identifying a possible method for resolving the covered agreement dispute, the NAIC engaged with U.S. Department of the Treasury (Treasury Department), the White House, key congressional leadership and stakeholders to successfully implement its plan. The NAIC aggressively advocated for and obtained a Treasury Department policy statement clarifying significant provisions of the covered agreement and acknowledging the primacy of state regulation in the United States. This is the same department that has historically called for a federal insurance regulator. The NAIC applied pressure at two congressional hearings with then NAIC President–Elect and Tennessee Insurance Commissioner Julie Mix McPeak (McPeak Congressional Testimony, May 2) and then NAIC President and Wisconsin Insurance Commissioner Ted Nickel (Nickel Congressional Testimony, Feb. 17) testifying. Our position was further reinforced at high-level meetings with the Treasury Department and USTR officials. It also included industry and stakeholder outreach to illustrate the potential negative consequences to our sector if state regulation was undermined in favor of European-style regulation.

Health Policy

The change in administration brought with it a changing perspective on our nation's health insurance system. This in turn led to an extended period of political uncertainty that further destabilized the individual market, which in many states was already stressed. Despite being a politically charged issue, NAIC members rallied around a consistent message of stabilization and state flexibility. The NAIC's voice and message was heard throughout D.C., and many of its views were adopted into HHS and congressional actions. While the future of the federal Affordable Care Act (ACA) remains uncertain, it is clear that state insurance regulators will have a seat at the table on this critical issue, and increased opportunities for state flexibility and authority are a direct result of our credible, non-partisan approach.

Oklahoma Insurance Commissioner John D. Doak, Washington Insurance Commissioner Mike Kreidler, Alaska Insurance Director Lori K. Wing-Heier and former Pennsylvania Insurance Commissioner Teresa D. Miller testified before Congress on market stability on Sept. 6. South Carolina Insurance Director Raymond G. Farmer testified before the Senate Committee on Health, Education, Labor and Pensions (HELP) urging market stability on Sept. 14.

International Activities

State insurance regulators and NAIC staff actively contribute to the work of the International Association of Insurance Supervisors (IAIS), serving in a number of leadership roles. Key issues in 2017 included: 1) the ongoing development of the Common Framework for Supervision of Internationally Active Insurance Groups (ComFrame), including the insurance capital standard; 2) the process for identifying global systemically important insurers (G-SIIs) and development of an activities-based approach for systemic risk; 3) addressing emerging issues such as innovation and technology and the challenges of cyber risk; and 4) enhancing implementation and assessment activities for IAIS standards.

NAIC members participated in a variety of IAIS meetings throughout the year, including the committee meetings, annual general meeting and annual conference in November in Kuala Lumpur, Malaysia. In addition to attending IAIS meetings, the trip provided an opportunity for NAIC representatives to have dialogues with insurance supervisors from Argentina, Australia, the Bahamas, Bermuda, Brazil, Chile, Germany, Hong Kong, Mexico, Panama, Peru, Quebec, South Africa, Switzerland, Taiwan and Thailand.

In addition to insurance regulatory dialogues, our International Fellows program and participation in other forums and training programs continue to build bridges globally. By the end of 2017, 270 participants from 34 countries participated in the International Fellows program. Thirty-eight U.S. jurisdictions have hosted these foreign insurance regulators.

The NAIC's international strategy assumes that our bilateral relationships will increasingly grow in importance as international standard-setting faces the same political impediments and gridlock seen domestically. We view our bilateral engagements not only as an opportunity to build important relationships, but also to advance our domestic and international agendas.

In March, representatives from the NAIC met with the Financial Services Agency (FSA) of Japan for the seventh NAIC-FSA Insurance Regulatory Dialogue. This biannual dialogue brought together insurance regulators from the world's two largest insurance markets, representing more than 47 percent of worldwide premium income.

Other bilateral and regional dialogues included meetings with insurance regulators from the Asian Forum of Insurance Regulators (AFIR), Bermuda, Germany, Latin American Insurance Supervisors Association (ASSAL) and the United

Kingdom (UK). The NAIC also hosted a roundtable with the Organisation for Economic Co-operation and Development (OECD) and Thailand's Office of Insurance Commission (OIC) on retirement in September.

The NAIC signed a memorandum of understanding (MOU) with Argentina's National Superintendence of Insurance – Superintendencia de Seguros de la Naciòn (SSN) during the Summer National Meeting. Superintendent Juan Pazo addressed the members during the national meeting's Opening Session. The MOU is a framework for insurance supervisors in the U.S. and Argentina to coordinate regulatory issues with the goal of efficient, fair, safe and stable insurance markets. The NAIC now has MOUs with 17 individual and regional jurisdictions representing 37 countries.

In May, the 11th Annual International Insurance Forum welcomed more than 280 attendees, with state insurance regulators and industry members from every region of the globe. The content featured all the major developments of concern to the sector, from capital standards and systemic risk to cross-border access, reinsurance and regulatory cooperation. Affairs for the NAIC.

International Forum

Federal Reserve Governor Daniel Tarullo gave the keynote address during the second day of the 10th annual International Insurance Forum in May. During Tarullo's speech, he highlighted the importance of different regulatory approaches. Another keynote address came from Victoria Saporta, chair of the IAIS Executive Committee.

The two-day forum drew more than 300 attendees and featured panels on systemic risk and insurance regulation, insurance company investments in a volatile marketplace, cybersecurity and cyber insurance, and managing catastrophic risk using insurance and reinsurance.

International Fellows

In its 12th year, the NAIC's International Fellows Program welcomed nine international fellows from six countries in April. The spring class included members from Bermuda, India, Nigeria, Saudi Arabia, South Korea and Taiwan who are hosted by Louisiana, Missouri, Puerto Rico, Oklahoma, Texas, Vermont and Washington, D.C. The NAIC welcomed nine participants to the fall class in October. Countries represented were Bermuda, China, India, Saudi Arabia, Thailand and Taiwan.

Since the program began in 2004, 36 U.S. jurisdictions have hosted nearly 260 participants from 32 countries.

Bilateral and Regional Dialogues

Nearly two-thirds of the global insurance market is comprised of the Pacific Rim and Latin American regions. This includes the top three largest national markets – the U.S., Japan and China. These regions show promise for expansion, as U.S. insurers seek opportunities for growth.

The NAIC hosted the Third Annual Asia-Pacific International Forum prior to the Summer national meeting in San Diego. The forum served as an opportunity to strengthen relationships between regulators from the U.S. and the Asia-Pacific region. More than 35 regulators from the region and the U.S., as along with senior-level industry representatives attended the event.

In October, the NAIC participated in the Sixth Insurance Regulatory Dialogue between U.S. and Japanese regulators. Members met with representatives from the Financial Services Agency of Japan (JFSA) to discuss key issues including cybersecurity, principle-based reserving (PBR) and the group capital calculation.

Other bilateral and regional dialogues took place throughout the year including Bermuda, China, Japan and Thailand along with Latin America and the European Union. In addition to the IAIS, the NAIC participated in meetings of the Organization for Economic Co-operation and Development. The NAIC also continues to build relationships through participation in and leadership of international supervisory colleges of regulators where regulatory cooperation is practiced to the benefit of all participants.

A BLUEPRINT *for* STRATEGY

STATE AHEAD

AUDITED FINANCIAL REPORTS
DECEMBER 31, 2017

National Association of Insurance Commissioners

Financial Report
December 31, 2017

THE POWER OF BEING UNDERSTOOD
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RSM

Contents

RSM US LLP

Independent Auditor's Report

Honorable Members
National Association of Insurance Commissioners

Report on the Financial Statements

We have audited the accompanying financial statements of the National Association of Insurance Commissioners, which comprise the statements of financial position as of December 31, 2017 and 2016, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Association of Insurance Commissioners as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
March 16, 2018

National Association of Insurance Commissioners

Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 15,696,221**	$ 10,548,197
Accounts receivable, less allowance for doubtful accounts of 2017—$1,820,818 and 2016—$2,111,578	**10,892,252**	8,595,280
Interest receivable	**74,877**	69,079
Incentive receivable (Note 4)	**213,073**	201,013
Prepaid expenses	**3,069,176**	3,204,823
Inventories	**51,077**	97,276
Investments (Note 2)	**111,445,384**	101,606,317
Total current assets	**141,442,060**	124,321,985
Operating note receivable (Note 6)	**3,301,071**	3,227,696
Incentive receivable (Note 4)	**988,042**	1,201,114
Property and equipment, net (Note 3)	**23,258,276**	26,993,702
Total assets	**$ 168,989,449**	$ 155,744,497
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 1,735,255**	$ 3,580,409
Accrued expenses and other current liabilities	**16,148,702**	11,167,500
Deferred revenue	**3,538,240**	6,069,411
Total current liabilities	**21,422,197**	20,817,320
Deferred lease incentive (Note 4)	**8,668,314**	10,020,665
Deferred pension liability (Note 5)	**5,092,788**	5,644,037
Total liabilities	**35,183,299**	36,482,022
Unrestricted net assets:		
Allocated	**131,799,822**	117,476,818
Unallocated	**2,006,328**	1,785,657
Total unrestricted net assets	**133,806,150**	119,262,475
Total liabilities and net assets	**$ 168,989,449**	$ 155,744,497

See notes to financial statements.

National Association of Insurance Commissioners

Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016
Revenues:		
Member assessments	**$ 2,110,636**	$ 2,109,914
Database fees	**28,734,510**	26,700,694
Publications and insurance data products	**16,025,983**	15,092,720
Valuation services	**26,532,364**	27,069,520
Transaction filing fees	**10,253,060**	9,200,422
National meeting registration fees	**1,897,260**	2,153,060
Education and training	**668,609**	594,168
Administrative services/license fees	**15,718,898**	14,323,946
Other	**65,944**	96,673
Total revenues	**102,007,264**	97,341,117
Expenses:		
Salaries	**48,022,001**	46,041,296
Temporary personnel	**464,983**	414,852
Employee benefits	**14,152,714**	13,960,587
Professional services	**11,711,782**	12,058,113
Computer services	**2,776,270**	3,015,292
Travel	**4,568,529**	4,310,805
Occupancy	**3,813,737**	3,578,983
Equipment rental and maintenance	**3,951,631**	3,588,000
Depreciation and amortization	**5,283,667**	5,079,912
Insurance	**492,980**	494,104
Supplies	**1,750,138**	2,021,281
Printing expense	**141,667**	74,949
Meetings	**2,937,125**	2,653,759
Education and training	**164,550**	154,628
Grant and zone	**1,404,399**	1,396,685
Other expenses	**410,968**	762,735
Total expenses	**102,047,141**	99,605,981
Changes in net assets before investment income and pension adjustment	**(39,877)**	(2,264,864)
Investment income (Note 2)	**11,678,864**	7,228,909
Changes in net assets before pension adjustment	**11,638,987**	4,964,045
Pension adjustment	**2,904,688**	(75,067)
Changes in net assets	**14,543,675**	4,888,978
Net assets, beginning of year	**119,262,475**	114,373,497
Net assets, end of year	**$ 133,806,150**	$ 119,262,475

See notes to financial statements.

National Association of Insurance Commissioners

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Changes in net assets	**$ 14,543,675**	$ 4,888,978
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Interest income included in operating note receivable	**(73,375)**	(71,746)
Depreciation and amortization	**5,283,667**	5,079,912
Net realized and unrealized gains on investments	**(8,968,351)**	(4,269,596)
Loss on sale of property and equipment	**26,944**	58
Changes in operating assets and liabilities:		
Accounts receivable, net	**(2,296,972)**	1,452,812
Incentive receivable	**201,012**	189,635
Interest receivable	**(5,798)**	11,936
Prepaid expenses	**135,647**	(127,906)
Inventories	**46,199**	(13,414)
Accounts payable	**(1,845,154)**	2,097,692
Accrued expenses and other current liabilities	**4,981,202**	(2,780,742)
Deferred revenue	**(2,531,171)**	(231,176)
Deferred lease incentive	**(1,352,351)**	(1,352,353)
Deferred pension liability	**(551,249)**	509,974
Net cash provided by operating activities	**7,593,925**	5,384,064
Cash flows from investing activities:		
Purchase of property and equipment	**(1,575,185)**	(4,482,225)
Proceeds from disposition of property and equipment	**-**	103
Purchase of investments	**(29,366,928)**	(31,542,704)
Proceeds from disposition of investments	**28,496,212**	32,835,331
Net cash used in investing activities	**(2,445,901)**	(3,189,495)
Net increase in cash and cash equivalents	**5,148,024**	2,194,569
Cash and cash equivalents:		
Beginning of year	**10,548,197**	8,353,628
End of year	**$ 15,696,221**	$ 10,548,197

See notes to financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: The National Association of Insurance Commissioners (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 reviews, and coordinate their regulatory oversight. The NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. The 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, 2017 and 2016, cash equivalents consisted of money market funds and discount notes. The NAIC, at times, maintains deposits with banks in excess of the insured limits, but has not experienced any losses in such accounts.

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: The NAIC carries its investments at their fair values. Unrealized gains and losses are included in the change in net assets in the accompanying financial statements.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those effects could be significant.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of the NAIC's financial instruments at December 31, 2017 and 2016:

Cash and cash equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Investment securities, except alternative investments: The fair values of fixed-income and domestic and international equity investments are based on quoted market prices at the reporting date for those or similar investments. A portion of the fixed-income investments are valued based on quoted prices for similar instruments in active markets.

Alternative investments: The NAIC reports the fair value of alternative investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the NAIC based on various factors.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The NAIC accounts for its investments at fair value. In accordance with the guidance, the NAIC has categorized its investments based on the priority of the inputs to the valuation technique, which gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices for identical instruments traded in active markets

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; or derived from inputs that are observable

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker trade transactions; Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities

Investments and concentrations of credit risk: Financial instruments that potentially subject the NAIC to significant concentrations of credit risk consist principally of cash and investments. 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.

Alternative investments are redeemable with the fund at net asset value under the original terms of the partnership and/or subscription agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future, in accordance with the fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the NAIC's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the NAIC were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

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.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

	Estimated Useful Lives
Furniture and equipment	5-13 years
Computer and related equipment	3 years
Computer software	3-10 years
Leasehold improvements	10-13 years

Uses of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

Basis of accounting for revenues: Revenue is recognized as follows:

- Database fee revenue is recognized upon the filing of insurance companies' annual statements.
- Publications and insurance data products revenue is recognized when the product is shipped to the customer.
- Valuation services and transaction filing fee revenue is recognized when the service or filing has been performed.
- License fees consist of revenue earned from a related party for the use of the NAIC's producer data. Administrative services consist of revenues earned from related parties for administrative services and the use of the NAIC's facilities and equipment. Revenue from administrative services/license fees is recognized as revenue when the services are performed and when the use of the NAIC's assets occurs, in accordance with the terms contained in written agreements in effect with related parties.
- 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.

Uncertain tax positions, if any, are recorded in accordance with *FASB Accounting Standards Codification* (ASC) Topic 740, Income Taxes. ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2017 or 2016.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Net assets: The NAIC operating reserve is based on a liquid reserve, defined as total net assets, less net property and equipment, as a percentage of the future year's budgeted operating expenses. On July 7, 2015, following a comprehensive review by an outside consultant to reflect the NAIC's current operating environment, the NAIC adopted a target liquid reserve range of 83.4 to 108.2 percent. 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, 2017 and 2016, net assets were fully allocated, with the exception of an amount maintained as unallocated equal to 1.5 percent 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.

Pension plan: The Compensation-Retirement Benefits topic of the 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.

Functional expenses: The Not-for-Profit Entities topic of the ASC requires nonprofit organizations to disclose expenses by functional classification. The NAIC presents expenses only by their natural classification in the December 31, 2017 and 2016, 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 amounts within the statement of activities for the year ended December 31, 2016, were reclassified to be consistent with current-year presentation with no impact to the total change in net assets.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance is intended to improve comparability of accounting treatment for revenue recognition across geographies and industries, and to provide more useful information to financial statement readers through enhanced disclosure requirements. It replaces industry-specific guidance with a principles-based approach for revenue recognition, and is a step toward convergence of U.S. GAAP and International Financial Reporting Standards. In general, it requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU, as deferred one year by ASU No. 2015-14, is effective for annual reporting periods beginning after December 15, 2018. Therefore, this ASU will be effective for the NAIC for the fiscal year ending December 31, 2019. The ASU permits the use of either of two methods: a full retrospective or a retrospective with the cumulative effect and additional disclosures. Management has not yet selected a transition method, as the NAIC is currently evaluating the impact of the new standard on its sources of support and financial statements, and is reviewing its revenue recognition policies and processes for any necessary amendments.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The NAIC is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreases the number of net assets classes from three to two. The new classes will be "net assets with donor restrictions" and "net assets without donor restrictions." The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017. Therefore, this ASU will be effective for the NAIC's fiscal year ending December 31, 2018. Management is in the process of evaluating the impact of this new guidance.

Note 2. Investments and Investment Income

	2017		2016	
	Cost	**Fair Value**	Cost	Fair Value
Government bonds	**$ 5,651,046**	**$ 5,523,968**	$ 5,611,657	$ 5,529,053
Corporate bonds	**7,894,713**	**7,794,354**	6,671,274	6,581,898
Fixed income mutual funds	**40,831,095**	**42,961,893**	23,875,945	23,391,204
Foreign fixed income funds	**5,953,378**	**5,600,807**	5,521,204	4,878,069
Domestic equity mutual funds	**-**	**-**	9,473,793	9,786,234
Common stock:				
Industrials	**1,093,024**	**2,085,029**	1,361,256	2,377,115
Consumer discretionary	**1,656,873**	**2,595,468**	1,868,403	2,868,749
Financials	**1,869,165**	**3,676,604**	2,066,830	3,354,443
Information technology	**3,529,935**	**6,558,328**	3,401,153	5,845,457
Other industries	**14,494,614**	**20,814,118**	15,010,887	19,455,443
Foreign common stock	**215,809**	**589,600**	142,238	669,180
Foreign equity mutual funds	**6,062,445**	**7,884,635**	6,460,263	7,326,880
Master limited partnerships	**-**	**-**	3,579,069	2,609,611
Alternative equity funds	**4,548,750**	**5,360,580**	6,065,000	6,932,981
	$ 93,800,847	**$ 111,445,384**	$ 91,108,972	$ 101,606,317

Total investment income comprises the following:

	2017	2016
Interest and dividend income	**$ 2,710,513**	$ 2,959,313
Net realized gains	**1,821,160**	4,447,938
Net unrealized gains (losses)	**7,147,191**	(178,342)
	$ 11,678,864	$ 7,228,909

Note 2. Investments and Investment Income (Continued)

The following tables summarize the valuation of financial instruments measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

	December 31, 2017			
	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 5,523,968	$ -	$ 5,523,968	$ -
Corporate bonds	7,794,354	-	7,794,354	-
Fixed income mutual funds	42,961,893	42,961,893	-	-
Foreign fixed income funds	5,600,807	5,600,807	-	-
Common stock:				
Industrials	2,085,029	2,085,029	-	-
Consumer discretionary	2,595,468	2,595,468	-	-
Financials	3,676,604	3,676,604	-	-
Information technology	6,558,328	6,558,328	-	-
Other industries	20,814,118	20,814,118	-	-
Foreign common stock	589,600	589,600	-	-
Foreign equity mutual funds	7,884,635	7,884,635	-	-
	106,084,804	$ 92,766,482	$ 13,318,322	$ -
Investments measured at net asset value:				
Alternative equity hedge funds	5,360,580			
Total investments	$ 111,445,384			

Note 2. Investments and Investment Income (Continued)

	December 31, 2016			
	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 5,529,053	$ -	$ 5,529,053	$ -
Corporate bonds	6,581,898	-	6,581,898	-
Fixed income mutual funds	23,391,204	23,391,204	-	-
Foreign fixed income funds	4,878,069	4,878,069	-	-
Domestic equity mutual funds	9,786,234	9,786,234	-	-
Common stock:				
Industrials	2,377,115	2,377,115	-	-
Consumer discretionary	2,868,749	2,868,749	-	-
Financials	3,354,443	3,354,443	-	-
Information technology	5,845,457	5,845,457	-	-
Other industries	19,455,443	19,455,443	-	-
Foreign common stock	669,180	669,180	-	-
Foreign equity mutual funds	7,326,880	7,326,880	-	-
Master limited partnerships	2,609,611	2,609,611	-	-
	94,673,336	$ 82,562,385	$ 12,110,951	$ -
Investments measured at net asset value:				
Alternative equity hedge funds	6,932,981			
Total investments	$ 101,606,317			

	Alternative Equity Funds	
	2017	2016
Total gains (losses), included in earnings attributable to the change in unrealized gains (losses), net, relating to financial instruments still held	**$ 62,726**	$ (196,902)

The following table sets forth additional disclosures of the NAIC's investments whose fair value is estimated using NAV per share (or its equivalent) as of December 31, 2017 and 2016:

Investment	Fair Value at December 31 **2017**	Fair Value at December 31 2016	Unfunded Commitment	Redemption Frequency
Alternative equity funds (A)	**$ 5,360,580**	$ 6,932,981	$ -	Quarterly

(A) This fund aims to generate consistent absolute returns by investing in assets with a diversified group of investment managers through managed account structures (Managed Account Structures) or in the private investment funds sponsored by investment managers (collectively, Hedge Fund Managers or Hedge Funds).

Note 3. Property and Equipment

Property and equipment at December 31, 2017 and 2016, consisted of the following:

	2017	2016
Furniture and equipment	**$ 5,434,403**	$ 5,410,732
Computer and related equipment	**11,889,771**	11,289,661
Computer software	**36,108,993**	35,237,705
Leasehold improvements	**16,774,497**	18,293,345
	70,207,664	70,231,443
Less accumulated depreciation and amortization	**46,949,388**	43,237,741
	$ 23,258,276	$ 26,993,702

Note 4. Operating Leases

The NAIC leases its office space in Kansas City, New York and Washington, D.C. under noncancelable operating leases. Certain parts of the agreements contain escalation clauses providing increased rentals based on maintenance, utility and tax increases. The NAIC also leases certain office equipment under noncancelable operating leases, which expire at various dates through 2021. 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, 2017 and 2016, were $2,729,000 and $2,723,047, respectively.

The Kansas City office space lease includes various lease incentives, free rent and scheduled rent increases. The lessor agreed to pay the NAIC base rental differential payments totaling $2,390,571 plus 6 percent interest over the course of the initial lease term. Annual payments of $285,140 are being made to the NAIC through fiscal year 2022. The outstanding noncurrent principal balance of this receivable is reported as an incentive receivable on the statements of financial position and had a balance of $988,042 and $1,201,114 as of December 31, 2017 and 2016, respectively. This outstanding receivable is being recognized in the statements of activities on a straight-line basis over the life of the lease and is included in the deferred lease incentive described below.

Deferred lease incentives consist primarily of reimbursements for leasehold improvements, parking costs and moving costs. U.S. GAAP requires 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 $8,668,314 and $10,020,665 as of December 31, 2017 and 2016, respectively.

Future minimum lease payments at December 31, 2017, are as follows:

Years ending December 31:	
2018	$ 4,310,451
2019	4,367,364
2020	4,394,734
2021	4,411,109
2022	4,402,867
Thereafter	8,024,832
Total future minimum lease payments	$ 29,911,357

Note 5. Employee Retirement Plans

The NAIC has a noncontributory defined benefit plan covering all employees with a hire date prior to January 1, 2000. As of December 31, 2012, accrued benefits for all active participants were frozen. The benefits are based on years of service and the employee's compensation prior to January 1, 2013.

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

	2017	2016
Projected benefit obligation	**$ (50,233,124)**	$ (48,846,489)
Fair value of plan assets	**45,140,336**	43,202,452
Funded status of plan	**$ (5,092,788)**	$ (5,644,037)
Accrued benefit cost recognized in the statements of financial position	**$ (5,092,788)**	$ (5,644,037)
Accumulated benefit obligation	**$ 50,233,124**	$ 48,846,489
Employer contributions	**$ -**	$ -
Plan settlements	**$ (2,025,485)**	$ -
Benefits paid	**$ (739,677)**	$ (1,624,458)
Interest cost	**$ 1,830,382**	$ 1,863,934
Return on plan assets	**(2,431,436)**	(2,420,076)
Amortization of net loss	**2,561,984**	991,049
Settlement loss recognized	**392,509**	-
Net pension cost	**$ 2,353,439**	$ 434,907

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

	2017	2016
Discount rate	**3.52%**	3.95%
Salary rate	**N/A**	N/A
Measurement date	**December 31, 2017**	December 31, 2016

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

	2017	2016
Discount rate	**3.95%**	4.25%
Salary rate	**N/A**	N/A
Expected return on plan assets	**6.00%**	6.25%
Measurement date	**December 31, 2017**	December 31, 2016

Note 5. Employee Retirement Plans (Continued)

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, 2017 and 2016 (the measurement date of the plan assets):

	2017	2016
Equity securities	**52.44%**	51.90%
Debt securities	**47.56%**	48.10%

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, as of December 31, 2017, are as follows:

Years ending December 31:	
2018	$ 3,868,788
2019	4,111,578
2020	4,197,131
2021	4,023,928
2022	3,707,334
2023–2027	16,889,896
Total	$ 36,798,655

The annual 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.

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 Committee and (EX1) Internal Administration Subcommittee determine the contribution for the next year. The NAIC matched up to 5.5 percent of compensation of employees who contributed to Plan B and contributed 3.0 percent of all employees' compensation in 2017 and 2016, respectively. The pension expense related to Plan B for the years ended December 31, 2017 and 2016, was $3,244,927 and $3,066,114, respectively.

Note 6. Related-Party Transactions

The NAIC and the National Insurance Producer Registry (NIPR) executed a License and Services Agreement (the Agreement) effective January 1, 2012, for an initial term of five years. The agreement was renewed for an additional one-year period ended December 31, 2017. The terms of the agreement provide for (1) a 38 percent license fee for NIPR to use the NAIC's producer data; (2) the reimbursement of the actual cost of services, facilities and equipment provided by the NAIC to NIPR; and (3) the reimbursement of system usage fees related to ongoing infrastructure costs for NIPR.

The total amount of revenue recognized during the year and amount owed at year-end from NIPR are as follows:

	2017	2016
Administrative services provided by the NAIC	**$ 1,312,451**	$ 1,242,779
License fee	**$ 13,981,511**	$ 12,733,249
System usage fee	**$ 299,936**	$ 222,918
Amounts payable to the NAIC	**$ 1,450,456**	$ 1,379,931

The NAIC and NIPR executed a new License and Services Agreement on December 31, 2017. The five-year agreement is effective January 1, 2018, with terms consistent with those of the previous agreement.

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 both of the years ended December 31, 2017 and 2016. 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 (SERFF). 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 amount of revenue recognized during the year and amounts owed at year-end from the IIPRC are as follows:

	2017	2016
Administrative services provided by the NAIC	**$ 125,000**	$ 125,000
License fee paid to the NAIC	**$ 25,000**	$ 25,000
Amounts payable to the NAIC	**$ 31,294**	$ 40,032
Note payable to the NAIC	**$ 3,301,071**	$ 3,227,696

A line of credit in the amount of at least $100,000 to be used by the IIPRC in fiscal year 2018 will be considered by the NAIC at the NAIC 2018 Spring National Meeting.

Note 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.

Note 8. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2017, through March 16, 2018. There have been no events, other than the matter noted below, that occurred during such period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of or for the year ended December 31, 2017.

In January 2018, the NAIC contacted current customers who had prepaid for SERFF blocks as of December 31, 2017, as the terms of new SERFF blocks are different going forward. These customers were given the option to either receive a refund of their prepaid balance or sign a new agreement for the NAIC to retain the funds with an expiration date of 24 months. As of February 9, 2018, the NAIC is expected to refund $2,650,000 to 783 customers. This amount is included in accrued expenses and other liabilities on the statement of financial position as of December 31, 2017.