2019 ANNUAL REPORT

Delivering on our Promises

National Association *of* Insurance Commissioners

Contents

Foreword

At the time of writing this 2019 Annual Report, the threat of COVID-19, a novel strain of the Coronavirus, was just emerging. As a result, this report doesn't discuss the risks this pandemic might have on NAIC's ongoing operations or strategic priorities for 2020. We are in regular contact with our membership and government agencies to ensure that we are doing everything we can to assist the nation's insurance regulators in addressing this crisis.

The outbreak of COVID-19 poses an unprecedented threat to our nation's consumers and the stability of our economy, including our resilient insurance sector. This pandemic has the potential to threaten the health of millions of American consumers. COVID-19's economic impact has financial implications for the insurance sector as consumers face unemployment, business interruption, workers compensation claims, and a possible inability to pay for critical insurance coverages. Finding ways to help educate consumers and provide affordable access to testing and treatment is critical to protecting consumers during this outbreak.

US insurers, while generally well-capitalized and reserved, may also face challenges across several different areas—business continuity issues, investment losses, exposure to volatility related to certain securities (i.e. mortgage-backed securities), operational disruption, etc. Consequently, ensuring consumer safety and stabilizing the market is now the top challenge and priority of our members, and so they are now the NAIC's primary focus for 2020.

NAIC Culture Statement

The **National Association of Insurance Commissioners** supports state insurance regulators to protect consumers and keep insurance markets safe—**to help ensure that "promises made are promises kept**."

The insurance industry is built on promises. Insurance companies promise their policy holders that they will be there in their time of need. Insurance regulators promise to protect consumers and keep markets competitive. We in turn promise to serve our members so that they can keep their promises.

A promise of service is at the heart of what we do and who we are. The promises embodied in insurance represent the very social fabric of society and our members are there to ensure those promises are kept. We are there to serve the pursuit of those promises.

We realize that keeping promises doesn't just happen, it takes work. We do it through our behavior, the way we treat everyone and in our pursuit for excellence in all we do. Living up to our commitments, thinking about the curve balls that life might throw at us and working together as a team is what makes the NAIC successful.

Letter from the CEO and COO

In 2019, the NAIC made great strides in delivering on our vision – from the policy priorities, to the State Ahead strategic plan, to our cultural and operational transformation. We delivered on the promises we made to our members and ourselves. Our work is far from over and there were lessons learned, but one thing is clear: in 2019 we demonstrated our ability to execute on our vision of remaining a world-class standard-setter, policy-mover and member services organization.

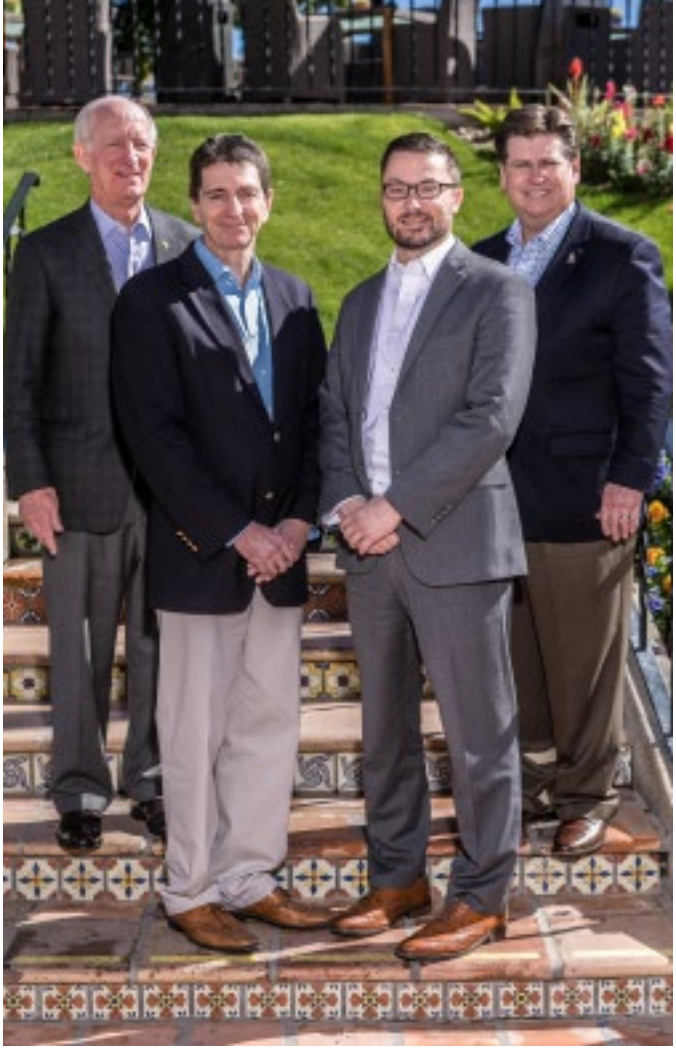
This report outlines several of our accomplishments. Our successes are the result of a team-wide effort that includes NAIC Officers, Executive Committee members, other members, and NAIC staff all working together to advance a proactive state-regulatory agenda. These accomplishments represent continued progress, but they are just part of our transformational journey. As we become more agile, we'll continue to learn from our challenges and mistakes.

Culture is the engine that will continue to fuel our transformation. Last year, the management team established a corporate culture statement detailing our guiding principles. These are more than words. The statement defines who we are and who we aspire to be. And it doesn't stop there.

As our culture statement says: We exist to safeguard our members' ability to ensure that promises made are promises kept. We are extraordinarily proud of the work of the NAIC team and strive each day to better serve the membership. With the continued support and vision of our leaders and members, we will continue on our path to enhance state insurance regulation and global leadership —**we promise**.

Michael F. Consedine
Chief Executive Officer

Andrew J. Beal
Chief Operating Officer,
Chief Legal Officer



2019 Regulatory Policy Priorities

Early in 2019, NAIC leadership and staff worked together in an unprecedented effort to establish key priorities and related strategic deliverables. A number of these priorities are spread over multiple years, and, in some cases, generations (e.g., natural catastrophe and climate risks and resiliency). We made notable progress on all eight policy priorities.

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ONE: Long-Term Care Insurance (LTCI)

Long-Term Care Insurance (LTCI) represents one of our most significant challenges. It is the perfect example of the tension between solvency regulation and consumer-protection. Consumers, mostly elderly, are experiencing triple-digit premium increases that carriers say are necessary to maintain appropriate reserves.

In recognition of the significance of this issue, the NAIC formed an executive-level task force focused on rate coordination and consistency of long-term care insurance. The task force made progress toward evaluating state actuarial review practices, and considerations regarding reduced benefit options for policyholders where premium increases are no longer sustainable.

The NAIC finalized an actuarial review of AG51 filings and coordinated findings with the Financial Analysis (E) Working Group (FAWG) for further engagement with domestic financial regulators. The NAIC also continues to actively monitor the financial position of LTCI carriers in rehabilitation and liquidation. We expect LTCI to remain a top priority for 2020.

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TWO: Health Insurance

The NAIC remains one of the few national organizations not paralyzed on healthcare. While our members have different points of view on healthcare, the nature of our state-based system as laboratories of innovation is one of our greatest strengths as we are united in our shared mission of consumer protection.

In 2019, we provided non-partisan advice to Congress and the administration on a number of health insurance market reforms and proposals, with a focus on cost drivers and cost containment (e.g., prescription drugs, pharmacy benefit managers and surprise billing). As an example, the NAIC continues to push for air ambulance balance billing reforms. In September, the U.S. Department of Transportation (DOT) formed the Air Ambulance and Patient Billing Advisory Committee and appointed 13 members, including a state insurance regulator.

As part of the year-end spending package, Congress passed a number of priorities for health reform:

- The health insurance tax (HIT) was repealed, eliminating a potential 2% increase in premiums. The tax will still be collected for 2020 but will be repealed for plan years beginning after December 31, 2020.
- They also repealed the "Cadillac" tax, eliminating a 40% excise levy on high-cost health plans, meant to curb high employer plan spending.
- Included in the spending bill were provisions requiring auto re-enrollment for consumers at the end of a plan year and prohibit the Secretary from banning or limiting the practice of "silver loading" – which is when insurers raise ACA premiums for Silver plans to recoup required cost-sharing subsidies. Both of these provisions are effective for just the 2021 plan year.
- The bill also provides $1.63 billion for community health centers (CHCs) through May 22, 2020, as well as increased funding for State Health Insurance Assistance Programs (SHIPs) which provides free assistance to seniors. SHIP funding will be $52.1 million; a 6% increase and the first increase in several years.

The Consumer Information (B) Subgroup, with assistance from NAIC's communications team, developed and distributed consumer assistance materials, including a health insurance shopping tool and questions to ask when consumers are looking for coverage. Additional consumer guides are under development.

The new Health Innovations (B) Working Group convened several times in 2019 to share information on state reinsurance waivers, research on insurer payments to hospitals, state efforts to limit prescription drug cost increases, and other innovative practices by states and issuers to contain health care spending. NAIC staff continued to support an ad hoc group of regulators who share issues and experiences with enforcing mental health parity laws. In addition to connecting regulators with federal officials, they shared market conduct findings and educational materials on mental health parity.

In response to changes in federal regulations, the ERISA (B) Working Group held regular calls and meetings with state regulators and U.S. Department of Labor (DOL) officials to address authority and oversight issues related to the new Association Health Plan (AHP) regulations, and the implications of the court decision to overturn that regulation. Also, the Market Analysis Procedures (D) Working Group developed a Short-Term, Limited Duration (STLD) Plan Data Call to determine the impact of the new regulation allowing these plans to extend coverage for up to 364 days a year and renew for up to 36 months.

The second installment of the NAIC's Center for Insurance Policy and Research (CIPR) report on healthcare cost drivers was released in August 2019. The third installment will be released in 2020, along with other research to enhance

our understanding of consumer health insurance literacy, as well as gain a deeper understanding of the health and long-term care insurance marketplaces.

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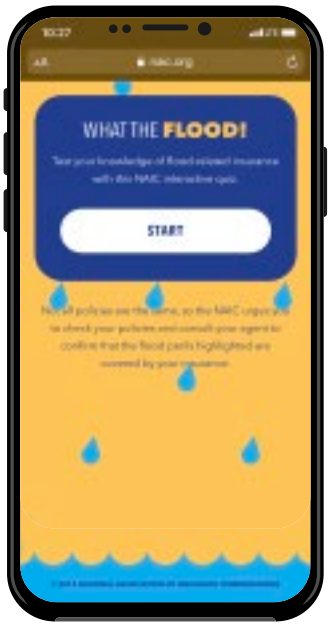
THREE: Climate/Natural Catastrophe Risks and Resiliency

The NAIC initiated several workstreams to secure the role of state insurance regulators in addressing the generational issues raised by climate risk.



We enhanced efforts to educate Americans about the dangers of flood and wildfire. We partnered with state departments of insurance, the Federal Insurance and Mitigation Administration (FIMA) and the Federal Emergency Management Agency (FEMA), to launch an integrated consumer campaign aimed at educating Americans about their risks. Our #YourRiskisReal integrated campaign offered information across a wide variety of communications vehicles including: "What the Flood!," an interactive quiz to test flood coverage knowledge; a twitter chat; satellite media tour; press releases; and social media posts.

The Property and Casualty Insurance (C) Committee adopted a post-disaster claims guide to provide information on steps to take following a disaster. These materials will be made available on NAIC.org and edited into social media content that will be available on the public information officer section of StateNet for insurance departments to use in their outreach efforts.

As part of our collaborative effort with other organizations, more than 20 regulators visited the Insurance Institute for Business & Home Safety (IBHS) headquarters to learn about the positive impact hardening buildings can have on resilience. The NAIC Insurance Summit hosted a keynote panel on resiliency and a policy workshop on the subject is scheduled for the upcoming Fall National Meeting.

The NAIC supported the National Flood Insurance Program (NFIP) reauthorization bill that included provisions from our guiding principles. One of those provisions is to ensure that consumers can leave and return to the NFIP without penalty and receive pro-rata refunds when they cancel an NFIP policy midterm to switch to a

private policy. Similarly, the NAIC supported allowing Write Your Own insurance companies to sell private flood insurance outside of the NFIP. We continued to look for ways to expand a private flood insurance market bringing more choice to consumers. At the end of the year, Congress passed an extension of the National Flood Insurance Program (NFIP) until Sept. 30, 2020. The NAIC continues to advocate for a long-term reauthorization, which remains critical for policyholders.

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FOUR: Data, Innovation, and Cyber

How we balance regulation of data usage, Artificial Intelligence (AI), and privacy will be a defining moment for this sector and the NAIC from a policy perspective. In the last year we've applied all that we have learned in these areas to informed policymaking.

We continued to promote the adoption of the Insurance Data Security Model Law (#668). We also engaged with state attorneys general and Congress to maximize insurance regulator involvement and pro-consumer standards and collaborated with the U.S. Department of Treasury to facilitate regional tabletop exercises in South Carolina and Missouri to explore cybersecurity incident response and recovery across the insurance sector. We expect to play a leading role in coordinating future exercises to demonstrate state regulators' lead role in this area.

We formed a new Privacy Protections (D) Working Group to review state insurance privacy protections regarding the collection, use, and disclosure of information gathered in connection with insurance transactions. This effort includes the review of existing NAIC models, such as the Insurance Information and Privacy Protection Model Act (#670) and the Privacy of Consumer Financial and Health Information Regulation (#672). Additionally, a new AI workgroup was formed to begin developing regulatory policy on this quickly emerging area. We've already seen other jurisdictions, including the European Union (EU), step into this arena and we must ensure global regulatory policy takes into account U.S. market perspectives.

On the advocacy and research front, a new CIPR innovation-focused newsletter will be developed to provide further and more frequent regulatory insights and thought-leadership. A research survey will be developed to assess how insurance companies are undertaking best practices stemming from the NAIC-Treasury tabletop exercises.

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FIVE: Group Capital Calculation (GCC)

U.S. state insurance regulators are developing a Group Capital Calculation (GCC) for use in solvency-monitoring activities. The calculation is intended to provide additional analytical information to lead states for use in assessing group risks and capital adequacy to complement the current holding company analysis in the U.S.

The NAIC finalized GCC specifications for further evaluation and field testing this year. We expect final design decisions will be made in 2020. Finalization of the GCC is critical for a number of reasons, including leveraging the reciprocal recognition provisions of the Credit for Reinsurance Model Act (#785) and Credit for Reinsurance Model Regulation (#786), ensuring that reciprocal jurisdictions cannot apply an International Insurance Capital Standard (ICS) or other incompatible capital requirements on companies doing business in those countries.

We coordinated with the Federal Reserve in developing its Building Block Approach (BBA) proposal that was released in late 2019. The BBA was released in advance of the November meeting in Abu Dhabi demonstrating the United States' commitment to an aggregation approach.

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SIX: Annuity Suitability/Best Interest Standard

We made significant progress in revising the Suitability in Annuity Transactions Model Regulation (#275) to evolve into a "best interest" standard, consistent with market trends and complementary action at the federal level. The current strategy, devised in 2018 and effectively executed in 2019, focuses on alignment, where appropriate, with the U.S. Securities and Exchange Commission (SEC) Best Interest Regulation to enhance consistency across regulatory platforms.

The NAIC has focused on developing a framework for the best interest standard of conduct with specific obligations for producers and insurers in making annuity product recommendations to consumers. We continued to engage with the SEC

and DOL as model revisions move forward. Progress on this important initiative highlighted one of the most endearing qualities of NAIC members: our ability to find consensus in areas where others fall victim to politics.

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SEVEN: International Insurance Capital Standard

Our work on the international ICS demonstrated the NAIC's ability to execute on a multi-faceted strategy and influence policy on a global level. The effort started almost two years ago in Kuala Lumpur with a seemingly small concession to allow the U.S. to develop its own group capital approach. Over the next two years we advanced a domestic and international plan to achieve meaningful recognition of the U.S. and disrupt the ascension of the European-based approach that would be unworkable for the U.S. market.

In coordination with NAIC staff, leadership developed and executed a clear strategy related to the ICS and recognition of the U.S.-backed Aggregation Method, including:

- Defining "comparable outcomes" and a credible process to ensure the Aggregation Method is given a fair review.
- Refining and field testing the Aggregation Method.
- Continuing to advocate for technical design changes to the ICS to better reflect U.S. market needs.

Despite challenges and opposition from certain jurisdictions, we were ultimately successful in achieving our objectives. While the U.S. does not plan to implement the ICS, Team USA remains committed to developing a global group capital alternative to the ICS and protecting U.S. consumers and companies that engage globally.

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EIGHT: Macroprudential Initiative (MPI)

The NAIC continued to work on the U.S. regulatory framework's program on liquidity risks, with a focus on the long-term cash buildup in many life insurance contracts and the potential for large scale liquidation.

The Financial Stability (EX) Task Force sponsored a number of reporting changes that were adopted by the NAIC Plenary for inclusion in the 2019 year-end statutory life annual statements (filed in 2020). These changes will increase the level of detail in product category reporting in the life annual statement, allowing regulators to more readily identify companies with material writings in product types that possess higher liquidity risk. We held an interim data call in June 2019 to give regulators initial insights from 2018 year-end data.

Other High-Level Regulatory Policy Matters

We also made progress on other regulatory policy matters, including:

Reinsurance Collateral Reform

Our staff team continues to provide support to help our members strengthen the U.S. solvency system. The membership adopted revisions to the Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786) in order to preserve state authority in 2019. The project involved numerous hearings, comment periods, revisions, and negotiating sessions. The next phase will involve supporting the state adoption of the revisions.

Financial Services/Infrastructure

We are researching the state of infrastructure investment as it pertains to U.S. insurance companies and have been seeking the industry's feedback in a precise definition of infrastructure, the size of the market for such investments, historical credit performance and the insurance industry's exposure. We've made significant

progress, including finalizing a definition of economic infrastructure, and our goal is to complete the study by mid-2020.

The NAIC has been working with the Financial Industry Regulatory Authority (FINRA) to facilitate the electronic exchange of licensing and disciplinary information for insurance producers and securities brokers. After we entered into an Information Sharing Agreement with FINRA late last year, we were able to implement the exchange of data between the two organizations. On a weekly basis, FINRA provides key licensee information, including CRD numbers and active/inactive status, which we run against our State Producer Licensing Database (SPLD) to identify matches between licensed brokers and licensed insurance producers.

This ensures accurate CRD numbers in the SPLD which will allow state insurance regulators to electronically track FINRA license status for producers who are holding or seeking an insurance producer licenses. Another major enhancement is the ability of state insurance regulators to link directly to FINRA's public BrokerCheck from the CRD number in the SPLD.

We were also successful in helping to get several pieces of legislation introduced, including legislation to:

- Provide for greater state insurance regulator involvement in international negotiations
- Grant a vote to the state insurance regulator representative on the Financial Stability Oversight Council (FSOC).

Our advocacy also resulted in FSOC adoption of an activities-based approach to identifying systemic risk.

Terrorism Risk Insurance Act (TRIA)

We helped set the stage for greater focus on achieving the Terrorism Risk Insurance Act (TRIA) reauthorization in 2020. The NAIC participated in a congressional roundtable in May and testified before the House Financial Services Subcommittee at a hearing in October in support of the reauthorization of the program.

Late in December, Congress passed a seven-year reauthorization of the Terrorism Risk Insurance Act (TRIA) through Dec 31, 2027. This will help ensure the availability of terrorism risk insurance and provide market stability.

NAIC's CIPR held a TRIA Policy Workshop at the Summer National Meeting, which was attended by more than 75 state insurance regulators and interested parties. The workshop featured a discussion of the operational aspects of the Terrorism Risk Insurance Program (TRIP), existing evidence of its effectiveness, and emerging terrorism insurance issues related to the program. In November, the House of Representatives ultimately passed an NAIC-backed bill reauthorizing TRIA, and the Senate is expected to follow suit.

Retirement Security

We continued our efforts to help support state and federal efforts to ensure lifetime income in retirement. The NAIC supported the Setting Every Community Up for Retirement Enhancement (SECURE) Act; which, makes it easier for Americans to plan for retirement by expanding access to annuities and requiring new disclosures regarding lifetime income. This provision was passed by Congress in December. We also educated consumers about options for preparing for their retirement years. With the creation of the Retirement Security (A) Working Group, we anticipate these efforts will continue to be a priority in 2020.

Insurtech

In addition to supporting the important work of the Innovation and Technology (EX) Task Force, we once again sponsored an innovation track at our annual Insurance Summit. The sessions—which drew more than 1,200 attendees—included thought-provoking insights and real examples of new products and services from insurtech start-ups.

The NAIC sponsored 45 state insurance regulator attendees at the annual InsureTech Connect Conference in late September. The conference, considered to be the largest event of its kind in the U.S. with more than 7,000 attendees, highlighted the latest insurtech developments , giving NAIC staff and regulators front row seats to the latest developments. We again hosted a pre-conference "Innovator — Regulator Workshop," attended by more than 50 innovators which provided a great opportunity to educate innovators about regulatory requirements that may impact their business models, while at the same time affording regulators an opportunity to learn more about new products and services in the insurance area.

We are also developing an insurtech research paper to highlight key learnings to set the stage for related CIPR educational events in the space. We again partnered with Plug and Play Technology Center in Silicon Valley to host a "Bridging the Gap" program last spring to bring together insurtech innovators and state insurance regulators to discuss new technologies and business practices, as well as regulatory and compliance issues.

Operational/Member Priorities

New member influx

In 2019, we received a near-record number of new members. To support the new members, we developed a multi-faceted orientation and onboarding plan which included introductory telephone calls from the NAIC CEO, COO and/or Director of Member Services and NAIC Officers. In addition, NAIC senior management conducted 14 in-person orientation visits and sessions. Additional in-person orientation sessions will be conducted at the Fall National Meeting and the 2020 Commissioners Conference.

We worked with the NAIC officers and experienced members to identify and recruit volunteer commissioners to serve as mentors for new members. Informal mentor-mentee receptions were hosted by the NAIC President at the Spring and Summer National Meetings, as well as the Commissioners Conference in February and the Mid-Year Commissioners Roundtable Meeting in June.

We held a special National Meeting Orientation session for new members at the beginning of the Spring National Meeting in Orlando, FL to help them navigate their first national meeting. We also implemented a New Member Concierge Service, assigning a senior NAIC staff person to each new member for assistance during the Spring National Meeting.

In 2020 we anticipate the focus will shift from onboarding new members to devoting more attention to engagement with all our members to better understand their current needs, as well as receive feedback regarding NAIC products and services.

State Ahead

We realized significant progress toward achieving the objectives laid out in our State Ahead strategic plan. State Ahead, a three-year plan which was introduced in 2018, included a total of 93 projects (as of November 2019). Of these, 39 had been completed, 36 projects are ongoing and 18 are scheduled to begin in 2020. Some of the more noteworthy projects are highlighted here.

93 TOTAL STATE AHEAD PROJECTS

39	36	18
COMPLETED PROJECTS	ACTIVE PROJECTS	FUTURE PROJECTS

Regulator Training And Education

Financial/Solvency

In 2019, the NAIC provided junior-level financial insurance regulators with training focused on foundational knowledge and skills for immediate use in their jobs, with 90 participants from 35 states. We also held training for more senior financial insurance regulators using a "train the trainer" format, with 90 participants from 47 states. Four states also conducted local training sessions reaching more than 70 additional regulators. More states are planning to conduct this training in the first quarter of 2020.

Our Peer Review Program for financial insurance regulators in which participants review solvency work performed by other states in a live peer discussion setting continued to grow. We conducted five sessions with 62 participants, a record number. We expect this high level of interest to continue this year. We are continuing to provide on-site training and support for state Own Risk and Solvency Assessment (ORSA) reviews, including the first-ever live training session on internal capital modeling and software tools. We are continuing to provide on-site training for departments upon request and off-site review of completed ORSA work performed by states.

"The entire Peer Review Project was amazing. The knowledge and experience learned through this process was invaluable and will definitely help improve my state's ability to successfully and efficiently conduct risk-focused analysis. I would encourage all states to attend."

–State Insurance Regulator Participant

Predictive Models

We marked the advent of our focus on providing technical support, including training, to state insurance regulators for review of predictive models. We engaged a consulting actuary to provide technical support for insurance regulators on predictive risk correlation, actuarial review, experience, education, and training.

To date, we have provided more than 60 hours of predictive analytics training via conference calls held by the Casualty Actuarial and Statistical (C) Task Force book club. We also held a training session at the NAIC Insurance Summit, with approximately 50 participants. Webinars and online classroom activities are also offered to teach advanced statistics and best practices for reviewing models in rate filings and market conduct exams.

As part of this effort, the NAIC is developing property/casualty and life insurance databases for state insurance departments to share model review information. Once we address legal issues regarding the confidentiality of filings, the databases will be available for use.

Public Information Officer (PIO), Media, and Consumer Outreach

The NAIC's communications team provides monthly newsletters as well as monthly conference calls with insurance regulators, an opportunity to share information and lessons learned. We include presentations from guest speakers and resources for best practices. We assist PIOs with their marketing outreach efforts by identifying hot topics, developing turn-key toolkits, and providing communication resources.

Insurance Department Manager Training

The NAIC has a dedicated staff trainer on board to implement the organization's Practical Manager Program at state departments of insurance. This leadership training program is customized to meet the needs of each insurance department. Last year, we provided training to 103 state insurance department managers which include both on-site training in four states and one session at the NAIC Central Office in Kansas City, MO.

Consumer Protection and Education

Research on Consumer Education Tools and Techniques

The communications team conducted extensive research as part of our efforts to develop a financial literacy tool. We presented the findings, including graphic and conceptual themes for a financial literacy campaign called "Earn. Save. Protect." This effort included a web page for South Carolina and Tennessee. The

information contained in the presentation provides state insurance regulators with an understanding of the most current technologies being utilized for online learning.

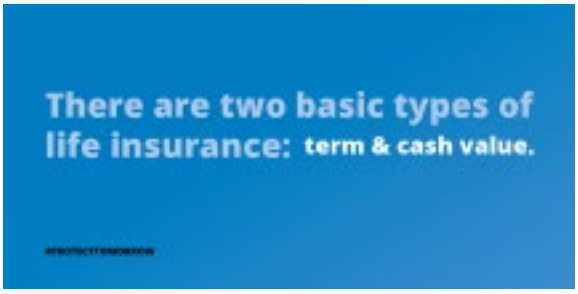
Consumer Pages on NAIC Website

We merged two distinct consumer-focused websites to make key information more accessible. Originally, the consumer sections on NAIC.org provided users with information about insurance companies with the ability to file complaints and report fraud. InsureU was a separate site run by the NAIC that offered consumers information about the various types of insurance products. Last year, we brought them together, creating a robust consumer section on NAIC.org to help consumers better understand insurance products and provide a simple way to file complaints and report fraud.

We are studying web metrics and working with our consumer representatives to get their thoughts and insights to continue to evolve the consumer section of the website. These conversations have yielded better integration of committee work and more diverse ideas around ways to educate the public about the value of insurance.

Enrolling in Marketplace Coverage for 2020
October 23, 2019

Be Skeptical About "Free Meal" Financial Seminars
September 16, 2019



What Type of Life Insurance is Right for You?
August 4, 2019

The Truth about Medigap Changes
April 8, 2019

Consumer Information Source (CIS) Redesign

The Consumer Information Source (CIS) redesign supports our members' goal of educating consumers regarding market performance of insurance companies by using a data visualization tool. For example, consumers are now able to view

Tableau dashboards with insurance information on complaints, licensing, and solvency. The transition to Tableau also enables the NAIC to modify consumer dashboards and communications without requiring special programming enabling us to respond to our member needs more quickly and effectively.

CIS Integration with Insurance Department Websites

This project is closely aligned with the CIS redesign. NAIC.org was modified with direct links from the NAIC website to state insurance departments, where consumers can file a complaint, find licensed insurance agents, and find state-specific information regarding enforcement actions against insurance companies. States were encouraged to link from their state websites to the NAIC's consumer pages to view Tableau dashboards.

InsData

InsData, which allows consumers to obtain annual and quarterly financial statement data, was the first NAIC application to realize the benefits of automation and a move to cloud technology. The system currently has 4,181 users and has processed 9,926 orders. The move to the cloud has many benefits, including faster delivery of features, more stable operating environments and increasing the effectiveness of technical resources.

Regulator Tools – Solvency and Market Regulation

Financial Analysis

NAIC's Financial Analysis Tools Redesign (FASTR) assists regulators in performing enhanced solvency oversight. Phase one of the project focused on a redesign of part of the Financial Profile Report, an automated analysis tool. The Financial Profile Report was chosen as the focus because it is used by more than 2,000 insurance regulators on a regular basis, resulting in more than 113,000 views annually making it the most widely used NAIC Financial Analysis Solvency Tool.

The pilot tool was released for insurance regulator use in April 2019 for non-priority companies.

We received helpful feedback from 30 different states about the redesign. After analyzing the feedback and lessons learned, we decided to refine our approach in the second phase which will now utilize Tableau for drill-down investigations and expanded use of detailed sub-dashboards. There are plans to develop more than 20 detailed sub-dashboards for each business type for drill-down investigative analysis. Sub-dashboards will provide access to cutting-edge interactive data displays, new ratios, and trend charts utilizing years of detailed data not currently available.

Market Conduct Annual Statement (MCAS) Redesign

The Market Conduct Annual Statement (MCAS) continues to be an effective collaborative effort among our insurance regulators, consumers and the insurance industry for monitoring, benchmarking, and analyzing market conduct of insurance companies. With 48 jurisdictions participating in the collection of MCAS data, the application continues to be a vital regulatory tool used by state insurance regulators to collect key market conduct data on insurance companies. The need for state insurance regulators to extend data collection to additional lines of business has increased and is expected to continue. Since its initial release in 2002, the MCAS blanks have expanded from personal lines auto, home, life, and annuities to include the collection of long-term care insurance data in 2015, health insurance data in 2018, and lender-placed insurance data in 2019.

The MCAS redesign has created a more stable data collection tool that is able to meet increased filing demands for state insurance regulators. Leveraging cloud technology, the system can scale up and down, as needed, to meet filing demands. For 2019 MCAS filings, we improved system functionality and reliability, with the collection of more than 30,000 filings for state insurance regulators.

The MCAS application also includes 1,650 data validations, minimizing the need for state insurance regulators to conduct data quality reviews and reducing the number of companies needing to refile.

Enhanced Data Call Automation

The collection of market data outside the MCAS application has been an ongoing challenge for state insurance regulators due to technological and legal impediments. Most recently, the national collection of data regarding Short Term Limited Duration (STLD) plans became a priority for state insurance regulators. Leveraging the NAIC's Regulatory Data Collection system, we were able to support state insurance regulators through an STLD data call specific for each jurisdiction. In addition to underwriting and claims data (e.g., the numbers of policies/ certificates in-force, covered lives, claims paid, and the premium written), insurance regulators will receive company data on coverages for each form and the methods and names of entities marketing and administering the form.

This project minimized or eliminated much of the work each state would normally incur for a data call. The NAIC distributed the data call to all companies licensed to write business in one or more of the 40 participating states. This project also minimized states' needs to review the data for completeness and accuracy since 30 data validations were built into the filing process.

Finally, this project eliminated administrative support responsibilities for each state through the creation of Frequently Asked Questions that provide data call filing instructions and a dedicated email address where NAIC staff assist companies with filing questions. To date, 110 company submissions have been received.

Member Engagement and Support

Every day we remind ourselves of the promises we make to you – and the promises you have made to your constituents to protect consumers and enable a fair and competitive marketplace. Member service is front and center in everything we do. One important area of member service is providing opportunities for you to dialogue and collaborate on important insurance regulatory issues.

National Meetings

Our national meetings continued to draw large crowds. In 2019 the Spring National Meeting in Orlando drew 2,020 people, 2,332 registered to attend our Summer National Meeting in New York City, and 2,330 people gathered for our Fall National Meeting in Austin. Highlights included sessions on "The Future of Blockchain in Insurance" and "Demystifying Artificial Intelligence in Insurance."

Interim Member Meetings

Two smaller but equally important NAIC forums provide members with valuable opportunities to engage on significant insurance regulatory topics. The annual Commissioners Conference was held in February in Palm Springs, CA, and the Mid-Year Commissioners Roundtable Meeting was held in late June in Rockport, ME.

The Commissioners Conference highlights included:

- Getting member consensus on the organization's strategic regulatory policy priorities for the year.
- Standing committees holding planning sessions to map out and prioritize their work plans for the year.

The Mid-Year Commissioners Roundtable Meeting, highlights included:

- Focusing on key workstreams of the regulatory policy priorities.
- A discussion on natural catastrophe and climate risks and resiliency from a panel comprised of a catastrophe modeler, a reinsurer and a direct writer.

- An engaging discussion on important issues surrounding data privacy and the use of big data and artificial intelligence in the insurance marketplace.

Members received updates on State Ahead projects at both of the interim meetings.

All-Commissioner Fly-In

2019 marked another successful All-Commissioner Fly-In, with NAIC members attending 170 congressional meetings. Speakers at the briefing included James Parker, Senior Advisor to U.S. Department of Health and Human Services (HHS) Secretary Azar; Brian Blasé, Special Assistant to the President on Healthcare Policy; and Dan Kaniewski, Acting Deputy Federal Emergency Management Agency (FEMA) Administrator.

International Forum and Fellows

As a thought leader on international insurance issues, the NAIC engages bilaterally, regionally, and globally.

The 2019 International Forum, which highlights global market and regulatory developments impacting the sector, was sold-out again this year with 350 participants. The list of speakers included Steven T. Mnuchin, U.S. Secretary of Treasury; Pina Albo, CEO of Hamilton Insurance; Brian Duperreault, President and CEO of AIG; and Deanna M. Mulligan, President and CEO of the Guardian Life Insurance Company.

NAIC's International Fellows program advances working relations with foreign markets, emphasizing the exchange of regulatory techniques and technology. To date, more than 310 fellows from 35 countries have been hosted by 42 U.S. jurisdictions.

Insurance Summit

There were 1,259 registered attendees for the annual Insurance Summit in Kansas City, MO, which included a record 650 state insurance regulators. The program consisted of tracks covering financial/solvency regulation, producer licensing, innovation, market regulation, anti-fraud, and public information/communications.

State Government Engagement

We continued to engage with state legislator colleagues, hosting our annual state legislator orientation at the Fall National Meeting. At the State Legislator and Government Official Program, we provided a full day of sessions on how the NAIC supports the U.S. insurance regulatory framework. We also engaged with the National Council of Insurance Legislators (NCOIL) and the National Conference of State Legislatures (NCSL) at their meetings throughout the year.

Efforts To Attract And Retain Top Talent

One of the foundational pillars of our State Ahead strategic plan is talent. It is imperative for us to attract and retain skilled people. Our focus in this area includes:

- Culture Transformation
- Formal Professional and Leadership Development
- Enhanced Performance Management
- Diversity Initiative
- Employee Engagement
- Compensation Study
- Succession Planning

Senior management held an offsite meeting in April 2019 to meet with internal directors to focus on both the Culture Transformation and Professional and Leadership Development for the management team. They also began the work to develop our vision statement and supporting principles.

We also launched, for the first time, a culture survey to measure employee engagement and connection with our mission and core values. The results showed areas where we're doing well and where more attention is needed to improve our culture. The Executive Committee was briefed on the results at the Summer National Meeting and managers have initiated ongoing meetings with their teams to discuss key issues and actions.

Another issue identified is a lack of resources to help management with career, professional, and leadership development. We hired a Coordinator of Professional

Development in October to focus on professional and leadership development opportunities for the management team. This will expand to creating career development programs for staff teams.

Our goal for the organization is to build a strong team. One way to help accomplish this is by expanding our pool of skilled prospective job candidates to help us attract the talent we need. An important variable in this effort is the value-add in having a diverse workforce. We have therefore:

- Retained a consultant to conduct a diversity cultural assessment of the organization, the purpose of which is to inform senior management about what steps should be taken to improve diversity and inclusiveness within the organization.
- Began developing a plan to promote diversity within the organization, which includes:
  - Conducting outreach and developing stronger relationships with universities noted for their diverse student bodies, as well as local organizations that represent diverse communities, all of which is designed to enlarge our pool of diverse, qualified job candidates.
  - Continue conducting diversity training for NAIC managers and expand to all staff.
  - Establishing an internal Diversity Council, to generate discussion and feedback on ways we can retain diverse employees.

We're also focused on ensuring that we're providing competitive salaries. We are completing work with an outside consulting firm (CBIZ) on a market compensation project of NAIC positions. CBIZ generally found that NAIC positions are around 10% below the market. The organization is developing a multi-year approach to address market compensation disparities for critical positions. This will allow us to better compete for needed talent.

2020 Challenges

Long-Term Care Insurance

As we continue to assess the adequacy of reserves and the solvency of certain insurers, we need to gain membership support to resolve inconsistent regulatory responses to the proposed rate increases.

Climate/Natural Catastrophe Risks and Resiliency

Consumers and even some regulators are unaware of the risks associated with being underinsured, and the number of natural catastrophe costs covered by insurance is shrinking. Uncertainty about NFIP continues to underscore the need for more private market alternatives.

Globally, regulatory bodies are increasingly engaging in the assessment and management of Environmental, Social, and Governance (ESG) risks. We will need to evaluate the NAIC's position in this emerging area.

Finalization of GCC

The clock is ticking for states to implement the U.S. and EU Covered Agreement by 2022, and to respond to the potential for additional agreements. The U.S. policy statement on the covered agreement acknowledges a U.S. approach to group capital and group supervision, a key victory in the process. Finalizing our work on a credible GCC in 2020 will be paramount.

Cyber Security

There is ongoing resistance to the Insurance Data Security Model Law (#670) and a limited timeline to gain traction at the state level creates a threat that a standard might be pushed at the federal level.

Next-Generation International Issues

With the successful conclusion of our ICS strategy, we need to pivot from decades-old IAIS ComFrame initiatives (e.g., ICS, holistic framework) and focus on a new generation of issues being pursued by international organizations (e.g., big data/AI regulation, infrastructure investment, market conduct, resiliency and climate risk, etc.).

AI/Big Data

These areas represent the next great global regulatory battleground given the competing interests domestically (e.g., state vs. federally) and globally between the U.S. and Europe on how to balance regulation of AI and data usage between consumer protection and pro-market innovation.

2020 Elections

The upcoming presidential and congressional elections could radically influence domestic politics for years to come. Regardless of the outcome, the NAIC must continue its strategy of aggressively building out the state-based framework to ward off unnecessary federal intrusion.

Final Year of State Ahead 1.0 and Planning for State Ahead 2.0

2020 represents the final year of the first phase of State Ahead. We are focused on achieving the objectives and building a solid foundation to continue our transformation. In 2020 we will focus on:

- Additional enhanced training for state insurance regulators.
- Continuing the organization's transition to the cloud, rebuilding our data platform, pursuing opportunities to enhance existing tools, and explore new tools, for state insurance regulators. This includes an assessment of the NAIC's System for Electronic Rate & Form Filings (SERFF) platform, as well as supporting state insurance department pilot projects in the pursuit of regulatory innovation.
- Building a strong NAIC staff team based on diversity and the skills needed to help the organization provide support for the evolving needs of our members.
- Growing a staff culture based on continuous learning and providing high-quality customer service.

However, our work in 2020 is not all about *State Ahead* 1.0. We must begin planning the next phase of our transformational journey.

Conclusion

Overall, 2019 was a successful year for the NAIC with significant results, but we can't stop here. Regardless of the swing of the national political pendulum, we are ready to demonstrate that "we've got this" when it comes to the regulation of the insurance sector and protection of consumers.

We have collectively raised the bar and made a strong case for the primacy of state regulation for years to come. With those results come heightened expectations including pressure for:

- Consistent and effective regulation across the country.
- Streamlined and secure use of data.
- Strong federal engagement and impactful contributions to international efforts.

Promises made are promises kept. We are confident we can meet these expectations working together through an effective and focused NAIC.

Backing every promise we make are hundreds of NAIC employees who are committed to fulfilling our obligations and delivering excellent customer service. We are proud of all the hard work and dedication of our staff for our valued members. And we know the NAIC would not be a success without all the hours members put into committee service, representing our state-based system at events and providing valuable feedback to us.

Thank you for your commitment and leadership. We look forward to a successful and transformational 2020.

National Association of Insurance Commissioners

Financial Statements

December 31, 2019 and 2018

RSM

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the National Association of Insurance Commissioners adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606).* This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Our opinion was not modified with respect to this matter.

RSM US LLP

Kansas City, Missouri
March 11, 2020

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National Association of Insurance Commissioners

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 13,696,804**	$ 13,310,382
Accounts receivable, less allowance for doubtful accounts of 2019—$627,947 and 2018—$1,070,423	**11,843,034**	9,391,863
Interest receivable	**80,003**	87,767
Incentive receivable (Note 5)	**-**	225,856
Prepaid expenses	**3,847,070**	2,770,419
Inventories	**31,630**	51,562
Investments (Note 3)	**122,866,465**	108,088,481
Current portion of operating note receivable (Note 7)	**274,013**	-
Total current assets	**152,639,019**	133,926,330
Long-term portion of operating note receivable, net (Note 7)	**2,466,121**	3,376,116
Incentive receivable (Note 5)	**-**	762,185
Property and equipment, net (Note 4)	**18,007,966**	20,554,064
Deferred pension asset (Note 6)	**1,863,721**	-
Total assets	**$ 174,976,827**	$ 158,618,695
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 1,794,291**	$ 1,951,084
Accrued expenses and other current liabilities	**13,400,027**	13,382,458
Deferred revenue	**4,409,710**	3,807,620
Total current liabilities	**19,604,028**	19,141,162
Deferred lease incentive (Note 5)	**5,963,611**	7,315,962
Deferred pension liability (Note 6)	**-**	1,173,918
Total liabilities	**25,567,639**	27,631,042
Net assets:		
Without donor restrictions:		
Allocated	**147,271,298**	129,145,307
Unallocated	**2,137,890**	1,842,346
Total net assets	**149,409,188**	130,987,653
Total liabilities and net assets	**$ 174,976,827**	$ 158,618,695

See notes to financial statements.

National Association of Insurance Commissioners

Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Member assessments	**$ 2,109,455**	$ 2,108,678
Database fees	**31,003,712**	29,750,827
Publications and insurance data products	**16,618,257**	16,059,955
Valuation services	**29,321,356**	26,918,340
Transaction filing fees	**11,503,239**	10,752,404
National meetings, NAIC events, and interim meetings	**2,489,942**	2,192,250
Education and training	**678,392**	749,045
Administrative services/license fees	**19,524,587**	17,166,364
Other	**94,186**	43,601
Total revenues	**113,343,126**	105,741,464
Expenses:		
Salaries	**52,745,467**	50,241,679
Temporary personnel	**649,631**	592,540
Employee benefits	**15,858,561**	13,691,859
Professional services	**12,509,305**	7,215,644
Computer services	**6,605,419**	6,016,851
Travel	**4,988,673**	5,024,078
Occupancy	**3,801,227**	3,926,466
Equipment rental and maintenance	**7,030,476**	5,424,574
Depreciation and amortization	**4,042,165**	4,435,747
Insurance	**396,457**	454,215
Supplies	**1,802,725**	1,798,073
Printing expense	**81,090**	88,681
Meetings	**3,698,416**	3,766,042
Education and training	**141,069**	60,992
Grant and zone	**1,509,915**	1,530,867
Other expenses	**1,563,665**	1,186,661
Total expenses	**117,424,261**	105,454,969
Changes in net assets before investment income (loss) and pension adjustment	**(4,081,135)**	286,495
Net investment income (loss) (Note 3)	**18,030,412**	(3,183,386)
Changes in net assets before pension adjustment	**13,949,277**	(2,896,891)
Pension adjustment	**4,472,258**	78,394
Changes in net assets without donor restrictions	**18,421,535**	(2,818,497)
Net assets, beginning of year	**130,987,653**	133,806,150
Net assets, end of year	**$ 149,409,188**	$ 130,987,653

See notes to financial statements.

National Association of Insurance Commissioners

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Changes in net assets without donor restrictions	**$ 18,421,535**	$ (2,818,497)
Adjustments to reconcile changes in net assets without donor restrictions to net cash provided by operating activities:		
Interest income included in operating note receivable	**-**	(75,045)
Allowance on operating note receivable	**635,982**	-
Depreciation and amortization	**4,042,165**	4,435,747
Net realized and unrealized losses (gains) on investments	**(14,197,974)**	6,352,170
Loss on sale of property and equipment	**-**	16,775
Changes in operating assets and liabilities:		
Accounts receivable, net	**(2,451,171)**	1,500,389
Incentive receivable	**988,041**	213,074
Interest receivable	**7,764**	(12,890)
Prepaid expenses	**(1,076,651)**	298,757
Inventories	**19,932**	(485)
Accounts payable	**(156,793)**	215,829
Accrued expenses and other current liabilities	**17,569**	(2,766,244)
Deferred revenue	**602,090**	269,380
Deferred lease incentive	**(1,352,351)**	(1,352,352)
Deferred pension asset/liability	**(3,037,639)**	(3,918,870)
Net cash provided by operating activities	**2,462,499**	2,357,738
Cash flows from investing activities:		
Purchase of property and equipment	**(1,496,067)**	(1,748,310)
Purchase of investments	**(97,662,205)**	(31,143,253)
Proceeds from disposition of investments	**97,082,195**	28,147,986
Net cash used in investing activities	**(2,076,077)**	(4,743,577)
Net increase (decrease) in cash and cash equivalents	**386,422**	(2,385,839)
Cash and cash equivalents:		
Beginning of year	**13,310,382**	15,696,221
End of year	**$ 13,696,804**	$ 13,310,382

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 United States.

Basis of accounting and presentation: The NAIC presents its financial statements based on *FASB Accounting Standards Codification* (ASC) Topic 985, Presentation of Financial Statements. Net assets, revenues and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the NAIC and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets are not subject to donor-imposed restrictions but may be subject to board designations. At December 31, 2019 and 2018, net assets consisted entirely of net assets without donor restrictions.

Net assets with donor restrictions: Net assets are subject to donor-imposed restrictions that may or will be met either by actions of the NAIC and/or passage of time. Also included within this category are net assets subject to donor-imposed restrictions to be maintained permanently by the NAIC. Generally, the donors of these assets permit the NAIC to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2019 and 2018, the NAIC does not have any net assets with donor restrictions.

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, 2019 and 2018, 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 estimated 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, 2019 and 2018:

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

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

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 is 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.

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 NAV 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 NAV 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 NAV. 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 NAV, and the discount could be significant.

Property and equipment: Property and equipment is 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.

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

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.

	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: The NAIC earns revenues predominantly through fees for member assessments, database fees, the sale of publications and insurance data products, valuation services and transaction filing fees, and license and administrative services. 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 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard replaced most existing revenue recognition guidance under U.S. GAAP. This standard also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The NAIC adopted the new standard effective for the year ended December 31, 2019, using the modified retrospective transition approach. Based on the NAIC's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. See below for additional disclosures.

As noted above, revenue from contracts with customers is derived primarily from fees for member assessments, database fees, the sale of publications and insurance data products, valuation services and transaction filing fees, and license and administrative services.

The NAIC's fees for member assessments is for a performance obligation that is satisfied overtime and is derived from contracts with an initial expected duration of one year or less. The fee applies 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, one-third of the assessments are accounted for as deferred revenue. As of December 31, 2019 and 2018, member assessment revenue was $2,109,455 and $2,108,678, respectively.

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

The NAIC's database fee revenue is recognized at a point in time and consists of a single performance obligation that is satisfied when the annual statement filing is due. Prices are distinct to a performance obligation. As of December 31, 2019 and 2018, database fee revenue was $31,003,712 and $29,750,827, respectively.

The NAIC's sales of publications and insurance data products is recognized at a point in time and consists of a single performance obligation that is satisfied when the product is shipped to the customer. Prices are distinct to a performance obligation. As of December 31, 2019 and 2018, publications and insurance data products revenue was $16,618,257 and $16,059,955, respectively.

The NAIC's valuation services and transaction filing fees is recognized at a point in time and consists of performance obligations that are satisfied when the service or filing has been performed. Prices are distinct to a performance obligation. As of December 31, 2019 and 2018, valuation services and transactions filing fees revenue was $40,824,596 and $37,670,744, respectively.

The NAIC's license and administrative fees revenue is recognized at a point in time. The NAIC's 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. Prices are distinct to a performance obligation. As of December 31, 2019 and 2018, license and administrative revenue was $19,524,587 and $17,166,364, respectively.

The NAIC records deferred revenue in situations when amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues for revenue from contracts are classified as current liabilities on the statements of financial position and as of December 31, 2019 and 2018, were $4,409,710 and $3,807,620, respectively. Associated accounts receivable for revenue from contracts as of December 31, 2019 and 2018, were $11,843,034 and $9,391,863, respectively, and allowance for doubtful accounts for revenue from contracts as of December 31, 2019 and 2018, were $627,947 and $1,070,423, respectively. There were no changes in revenue streams that would affect economic seasonality of the statements of financial position.

The NAIC did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

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 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, 2019 or 2018.

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%. 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, 2019 and 2018, 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.

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 underfunded or overfunded 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, 2019 and 2018, statements of activities, as there is only one program (member services) with multiple service offerings. Therefore, management does not allocate expenses between multiple programs and supporting expenses. 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.

Recent accounting pronouncement: 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 2021. 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 2. Liquidity and Availability of Resources

The NAIC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2019 and 2018, the following financial assets are available to meet annual operating needs of the subsequent fiscal year:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	**$ 13,696,804**	$ 13,310,382
Accounts receivable, net	**11,843,034**	9,391,863
Interest receivable	**80,003**	87,767
Inventories	**31,630**	51,562
Investments (Note 3)	**122,866,465**	108,088,481
Total financial assets	**$ 148,517,936**	$ 130,930,055

Note 2. Liquidity and Availability of Resources (Continued)

The NAIC has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, inventories, and marketable debt and equity securities. See Note 3 for information about the NAIC's investments.

Note 3. Investments and Investment Income

	2019		2018	
	Cost	**Fair Value**	Cost	Fair Value
Government bonds	**$ 10,062,337**	**$ 10,191,780**	$ 7,111,045	$ 7,105,826
Corporate bonds	**6,958,027**	**6,975,946**	7,029,684	6,845,191
Fixed-income mutual funds	**33,064,185**	**33,557,829**	33,831,764	32,630,206
Foreign fixed-income funds	**4,929,632**	**4,876,058**	7,703,393	6,929,606
Domestic equity mutual funds	**7,046,875**	**7,517,824**	8,433,861	10,443,016
Real estate investment trusts	**3,779,775**	**3,713,390**	-	-
Common stock:				
Industrials	**1,121,080**	**1,522,689**	1,123,080	1,416,117
Consumer discretionary	**3,501,415**	**4,716,426**	5,724,109	5,721,040
Financials	**1,848,020**	**3,197,131**	2,982,194	3,918,329
Information technology	**2,174,420**	**5,628,576**	3,673,018	6,889,536
Other industries	**7,170,756**	**10,352,315**	14,676,729	16,221,381
Foreign common stock	**57,876**	**245,782**	131,447	389,565
Foreign equity mutual funds	**18,613,473**	**20,288,075**	7,161,472	7,911,979
Alternative equity funds	**10,095,323**	**10,082,644**	1,402,733	1,666,689
	$ 110,423,194	**$ 122,866,465**	$ 100,984,529	$ 108,088,481

Total net investment income (loss) comprises the following:

	2019	2018
Interest and dividend income	**$ 4,182,753**	$ 3,512,095
Net realized gains	**8,858,654**	4,188,414
Net unrealized gains (losses)	**5,339,320**	(10,540,584)
Investment manager fees	**(350,315)**	(343,311)
	$ 18,030,412	$ (3,183,386)

Note 3. 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, 2019			
	Total Fair Value	**Level 1**	**Level 2**	**Level 3**
Government bonds	**$ 10,191,780**	**$ -**	**$ 10,191,780**	**$ -**
Corporate bonds	**6,975,946**	**-**	**6,975,946**	**-**
Fixed-income mutual funds	**33,557,829**	**33,557,829**	**-**	**-**
Foreign fixed-income funds	**4,876,058**	**4,876,058**	**-**	**-**
Domestic equity mutual funds	**7,517,824**	**7,517,824**	**-**	**-**
Real estate investment trusts	**3,713,390**	**3,713,390**	**-**	**-**
Common stock:				
Industrials	**1,522,689**	**1,522,689**	**-**	**-**
Consumer discretionary	**4,716,426**	**4,716,426**	**-**	**-**
Financials	**3,197,131**	**3,197,131**	**-**	**-**
Information technology	**5,628,576**	**5,628,576**	**-**	**-**
Other industries	**10,352,315**	**10,352,315**	**-**	**-**
Foreign common stock	**245,782**	**245,782**	**-**	**-**
Foreign equity mutual funds	**20,288,075**	**20,288,075**	**-**	**-**
	112,783,821	**$ 95,616,095**	**$ 17,167,726**	**$ -**
Investments measured at net asset value:				
Alternative equity hedge funds	**10,082,644**			
Total investments	**$ 122,866,465**			

	December 31, 2018			
	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 7,105,826	$ -	$ 7,105,826	$ -
Corporate bonds	6,845,191	-	6,845,191	-
Fixed-income mutual funds	32,630,206	32,630,206	-	-
Foreign fixed-income funds	6,929,606	6,929,606	-	-
Domestic equity mutual funds	10,443,016	10,443,016	-	-
Common stock:				
Industrials	1,416,117	1,416,117	-	-
Consumer discretionary	5,721,040	5,721,040	-	-
Financials	3,918,329	3,918,329	-	-
Information technology	6,889,536	6,889,536	-	-
Other industries	16,221,381	16,221,381	-	-
Foreign common stock	389,565	389,565	-	-
Foreign equity mutual funds	7,911,979	7,911,979	-	-
	106,421,792	$ 92,470,775	$ 13,951,017	$ -
Investments measured at net asset value:				
Alternative equity hedge funds	1,666,689			
Total investments	$ 108,088,481			

Note 3. Investments and Investment Income (Continued)

	Alternative Equity Funds	
	2019	2018
Total gains (losses), included in earnings attributable to the change in unrealized gains (losses), net, relating to financial instruments still held	**$ 21,724**	$ (30,348)

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, 2019 and 2018:

Investment	Fair Value at December 31		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2019	2018			
Protégé Partners QP Fund LTD (A)	**$ 101,170**	$ 1,666,689	$ -	Quarterly	95 days
Magnitude International (B)	**4,985,808**	-	-	Quarterly	65 days
Chatham Asset High Yield Offshore Fund, Ltd. (C)	**1,011,887**	-	-	Quarterly	45 days
Davidson Kemper (D)	**1,008,130**	-	-	Quarterly	65 days
Field Street Master Fund, Ltd. (E)	**1,016,839**	-	-	Monthly	60 days
Silver Point Capital Offshore Fund, Ltd. (F)	**965,650**	-	-	Quarterly	90 days
Survetta (G)	**993,160**	-	-	Quarterly	45 days
	$ 10,082,644	$ 1,666,689			

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

(B) This fund's investment objective is to deliver a 5% return over LIBOR, net of fees, over an extended market cycle with a target of achieving 5% annual volatility. The fund is globally diversified, multistrategy, multimanager portfolio that seeks to maximize expected active return from investing in hedge funds while minimizing passive risk and managing exposure to shock risk.

(C) This fund manages a long/short credit strategy within the high-yield bond and levered loan markets. The strategy combines a unique pairing of deep sector-based fundamental research combined with very active trading of portfolio positions.

(D) This fund employs a broad multistrategy event driven approach, blending distressed investing with merger arbitrage, event equity, and convertible and volatility arbitrage expertise. Strategy seeks to exploit situations where an announced or anticipated event is likely to take place, and a disconnect in the current valuation relative to the believed exit value is found.

(E) This fund manages a macro fund that is diversified across three categories: macro, relative value, and volatility. Relative value trades try to capture a mispricing among highly correlated securities, typically fixed-income instruments, while not taking any directional exposure to rates, curves, or spreads. Macro trades will take directional views on rates, curves, spreads, currencies and implied volatility. Volatility trades can express a directional view or be a relative value trade. The goal of the portfolio manager is to produce a return stream that has low correlation to other risk asset classes.

Note 3. Investments and Investment Income (Continued)

(F) This fund manages a strategy that invests into distressed credit and special situations investments. Due to the nature of distressed credit, many of the investments have an event catalyst that will unlock value in the company. The fund is looking for opportunities in companies undergoing financial restructuring, companies in financial distress or bankruptcy, companies in liquidation, or other special situations.

(G) This fund employs a generalist long/short equity strategy focused on investments in North America and developed countries in Europe.

Note 4. Property and Equipment

Property and equipment at December 31, 2019 and 2018, consisted of the following:

	2019	2018
Furniture and equipment	**$ 5,666,794**	$ 5,533,555
Computer and related equipment	**9,546,320**	8,849,445
Computer software	**31,783,063**	31,221,347
Leasehold improvements	**16,869,256**	16,869,256
	63,865,433	62,473,603
Less accumulated depreciation and amortization	**45,857,467**	41,919,539
	$ 18,007,966	$ 20,554,064

Note 5. 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, 2019 and 2018, were $2,747,650 and $2,747,822, 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% interest over the course of the initial lease term. This incentive is being recognized in the statements of activities on a straight-line basis over the life of the lease and as included in the deferred lease incentive described below. Annual payments of $285,140 were scheduled to be made to the NAIC through fiscal year 2022. However, the lessor paid the remaining balance to the NAIC in March 2019 reducing the outstanding incentive receivable balance to $0 as of December 31, 2019. As of December 31, 2018, the outstanding principal balance of this incentive receivable was $988,041.

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 $5,963,611 and $7,315,962 as of December 31, 2019 and 2018, respectively.

Note 5. Operating Leases (Continued)

Future minimum lease payments at December 31, 2019, are as follows:

Years ending December 31:	
2020	$ 4,394,734
2021	4,411,109
2022	4,402,867
2023	4,461,792
2024	1,395,981
Thereafter	2,167,060
Total future minimum lease payments	$ 21,233,543

Note 6. 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:

	2019	2018
Projected benefit obligation	**$ (51,165,292)**	$ (48,007,199)
Fair value of plan assets	**53,029,013**	46,833,281
Funded status of plan	**$ 1,863,721**	$ (1,173,918)
Accrued benefit asset (cost) recognized in the statements of financial position	**$ 1,863,721**	$ (1,173,918)
Accumulated benefit obligation	**$ 51,165,292**	$ 48,007,199
Employer contributions	**$ 1,250,000**	$ 5,092,788
Plan settlements	**$ (2,380,650)**	$ -
Benefits paid	**$ (807,030)**	$ (1,252,868)
Interest cost	**$ 1,839,274**	$ 1,644,435
Return on plan assets	**(2,469,559)**	(2,756,080)
Amortization of net loss	**3,073,826**	2,363,957
Settlement loss recognized	**241,078**	-
Net pension cost	**$ 2,684,619**	$ 1,252,312

Note 6. Employee Retirement Plans (Continued)

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

	2019	2018
Discount rate	**3.10%**	4.21%
Salary rate	**N/A**	N/A
Measurement date	**December 31, 2019**	December 31, 2018

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

	2019	2018
Discount rate	**4.21%**	3.52%
Salary rate	**N/A**	N/A
Expected return on plan assets	**5.75%**	6.00%
Measurement date	**December 31, 2019**	December 31, 2018

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, 2019 and 2018 (the measurement date of the plan assets):

	2019	2018
Equity securities	**45.58%**	45.41%
Debt securities	**54.42%**	54.59%

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, 2019, are as follows:

Years ending December 31:	
2020	$ 5,288,139
2021	4,517,964
2022	4,151,586
2023	4,542,180
2024	3,946,548
2025–2029	14,727,169
Total	$ 37,173,586

Note 6. Employee Retirement Plans (Continued)

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 (EX) Committee and Internal Administration (EX1) Subcommittee determine the contribution for the next year. The NAIC matched up to 5.5% of compensation of employees who contributed to Plan B and contributed 3.0% of all employees' compensation in 2019 and 2018. The pension expense related to Plan B for the years ended December 31, 2019 and 2018 was $3,446,916 and $3,400,168, respectively.

Note 7. Related-Party Transactions

The NAIC and National Insurance Producer Registry (NIPR) executed a License and Services Agreement (the Agreement) effective January 1, 2018, for an initial term of five years. The terms of the Agreement provide for (1) a 38% 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) a service fee for administrative and technical services provided by NAIC staff.

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

	2019	2018
Administrative services provided by the NAIC	**$ 2,134,654**	$ 1,847,701
License fee	**$ 17,214,307**	$ 15,187,412
Amounts payable to the NAIC	**$ 1,871,543**	$ 1,807,831

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 and 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 IIPRC also pays an adjustable administrative fee of every $25,000 of net revenue in excess of expenses. This fee was 7.5% and 5.0% for the years ended December 31, 2019 and 2018, respectively. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC. 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. As of December 31, 2019, the IIPRC's 2019 financial performance has triggered repayment of the note receivable. The NAIC Executive (EX) Committee approved a modification to the note agreement subsequent to year-end that would significantly reduce the amount owed. The IIPRC Management Committee will consider the proposal in March 2020. The proposed modifications will extend the repayment term from five to 10 years with the first payment due in 2020 and the final payment due in 2029. Repayment will be made only on the principal balance of $2,740,134. Payments of $274,013 will be made no later than March 31 of each year. There is no accrued interest during the repayment period including any extended periods beyond the initial 10-year repayment period. If, during the 10-year repayment period, the IIPRC's cash balance is less than $250,000 as reflected in the annual audited financial statements, the required payment for the year following the financial statement date will be deferred and the repayment period extended accordingly. Upon the final payment that completely repays the principal balance, the imputed interest balance of $712,733 will be treated as a contribution to the IIPRC. As a result of the modification, the NAIC recorded an allowance of $712,733 on the note receivable from IIPRC as of December 31, 2019.

Note 7. Related-Party Transactions (Continued)

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

	2019	2018
Administrative services provided by the NAIC	**$ 125,000**	$ 125,000
License fee paid to the NAIC	**$ 25,000**	$ 25,000
Adjustable administrative fee	**$ 50,625**	$ 6,250
Amounts payable to the NAIC	**$ 97,555**	$ 36,536
Note payable to the NAIC, net of allowance of $712,733 recorded by the NAIC	**$ 2,740,134**	$ 3,376,116

Note 8. 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 9. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2019, through March 11, 2020. Other than what is noted in Note 7, there have been no events 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, 2019.