



NATIONAL ASSOCIATION OF  
INSURANCE COMMISSIONERS

## Fiscal Impact Statement

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| <b>DATE SUBMITTED:</b>                       | <b>JANUARY 14, 2022</b>                             |
| <b>NAME OF INITIATIVE:</b>                   | <b>SERFF MODERNIZATION – 2022 TRANSITION STAGES</b> |
| <b>REGULATOR/BUSINESS SPONSOR:</b>           | <b>INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE</b>   |
| <b>NAIC STAFF SUPPORT:</b>                   | <b>SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER</b>       |
| <b>REQUESTED INITIATIVE START DATE:</b>      | <b>MARCH 1, 2022</b>                                |
| <b>ANTICIPATED COMPLETION DATE:</b>          | <b>DECEMBER 31, 2022</b>                            |
| <b>INCREMENTAL REVENUE EXPECTED (2022):</b>  | <b>\$3,398,365</b>                                  |
| <b>(2023):</b>                               | <b>\$5,352,000</b>                                  |
| <b>(2024):</b>                               | <b>\$5,459,000</b>                                  |
| <b>INCREMENTAL EXPENSE REQUESTED (2022):</b> | <b>\$3,056,936</b>                                  |
| <b>(2023):</b>                               | <b>\$3,095,091*</b>                                 |
| <b>(2024):</b>                               | <b>\$3,385,349*</b>                                 |
| <b>TOTAL CAPITAL REQUESTED (2022):</b>       | <b>\$5,715,984</b>                                  |
| <b>(2023):</b>                               | <b>\$0*</b>   |
| <b>(2024):</b>                               | <b>\$0*</b>   |

\*Additional expense and capital consulting to complete the initiative will be requested in Fiscal Impact Statements to be submitted with the 2023 and 2024 NAIC Proposed Budgets.

### I. Executive Summary:

This Fiscal Impact Statement requests funding for the first year of a three-year transition to a modernized rate and form filing platform. The NAIC’s System for Electronic Rate and Form Filing (SERFF) was launched collaboratively by regulators and industry more than 22 years ago, to provide an efficient process for product filing and review. Today, 53 jurisdictions accept SERFF filings made by more than 6,500 industry users. The system handles requirements for product filing submissions, allowing companies to submit those product filings to the states, which subsequently review and communicate with the companies. The system processes more than 550,000 transactions every year with Life, Health and Property/Casualty filings as well as capabilities for the Insurance Compact and the Affordable Care Act (ACA).

SERFF was upgraded in 2006 and subsequently expanded 10 years ago in response to the ACA. Since then, there are numerous new technological developments in document management and

workflow and with text processing using artificial intelligence that would be of tremendous benefit to the product filing and review process. To evaluate the feasibility of bringing these capabilities into SERFF, an in-depth assessment was conducted by an outside vendor in 2020. Based on more than 100 interviews with NAIC staff, insurance company users, state insurance regulators, and other impacted third parties, the assessment outlined the system’s current strengths and improvements needed to revitalize the platform. The assessment validated the need to ensure consistent and efficient review of product filings while automating manual processes and providing the ability to gain insights from the data stored in SERFF. The assessment also determined it would be impractical and unwieldy to modify the current platform to meet these needs.

Following the assessment, the NAIC moved forward with a Mobilization and Pilot phase with two main objectives: first, to select the best and most robust technology solutions to meet these business needs and second, to work with external expertise to develop a proof of concept. To find the best external vendor to assist with these goals, an Oversight Group of nine state insurance regulators in conjunction with NAIC staff developed concentrated business requirements, reviewed more than a dozen proposals, and selected a qualified vendor, with an eye toward retaining that vendor for the remainder of the project if the pilot work proved valuable and allowed the initiative to move forward with minimal disruption. The Oversight Group conducted regular touchpoints throughout 2021 and approved the conclusion of the Mobilization and Pilot phase in October 2021 with the consulting firm’s delivery of a transition plan and roadmap for buildout of the new platform. Demonstrations of the proof of concept were made to the Oversight Group in November and to interested parties during the Fall 2021 National Meeting.

This fiscal incorporates the continued engagement of the Mobilization and Pilot phase’s vendor for the remainder of the modernization initiative. This continuity will ensure greater success with the transition stages and prevent a loss of momentum and expertise gained during the pilot, thereby allowing the first transition stage to begin in March 2022. Having experienced consultants familiar with SERFF and involved in the development of the modernization plan and pilot will allow the project to provide value to the membership and industry as quickly as possible. It represents a key step in the realization of the NAIC’s goal in transitioning to the Cloud, by taking advantage of benefits available via the NAIC’s partnership with Amazon Web Services (AWS).

The roadmap and transition plan provided by the vendor is shown below in Table 1.

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|--|--|
| <b>T1</b> Search capabilities                                    | <ul style="list-style-type: none"> <li>Key word searches across all filings and documents for a given or all states</li> </ul>   |
| <b>T2</b> Reporting capabilities                                 | <ul style="list-style-type: none"> <li>Standard and custom reporting options</li> <li>Data export functionality</li> </ul>   |
| <b>T3.1</b> Insurance Compact & Public Access                    | <ul style="list-style-type: none"> <li>Customized screens and workflows for Insurance Compact</li> <li>Filing preparation and submittal with required upfront validation for Insurance Compact</li> <li>Document analysis and comparison capabilities for Insurance Compact</li> <li>Collaboration tools for Insurance Compact</li> <li>Workflow management for Insurance Compact</li> </ul> |
| <b>T3.2</b> Life filings & Public Access                         | <ul style="list-style-type: none"> <li>Customized state-specific views, screens, and workflows for Life filings</li> <li>Filing preparation and submittal with required upfront validation for Life filings</li> </ul>   |
| <b>T3.3</b> Property & Casualty filings, APIs, and Public Access | <ul style="list-style-type: none"> <li>Customized state-specific views, screens, and workflows for P&amp;C filings</li> <li>Filing preparation and submittal with required upfront validation for P&amp;C filings</li> <li>APIs for Vendor Integration</li> </ul>  |
| <b>T3.4</b> Health filings & Public Access                       | <ul style="list-style-type: none"> <li>Customized state-specific views, screens, and workflows for Health filings</li> <li>Filing preparation and submittal with required upfront validation for Health filings</li> <li>URR schedule for Health filings</li> </ul>  |
| <b>T4</b> Plan Management  | <ul style="list-style-type: none"> <li>Binder- create, validate, submit, correspondence, search, and reporting</li> <li>Plan transfer</li> <li>Template validation</li> </ul>  |

**Table 1**

This fiscal requests funding of \$3.1 million in expenses (including amortization) and \$5.7 million in capital including consultant and staff resources, software, and technology tools for the transition work to be completed in 2022. Specifically, the request covers funding of transition stages T1, T2, and initial work of T3.1. The T1 and T2 stages include new search functionality and improved reporting, which will be deployed in mid-to-late 2022. The T3 stage will move users by product into the new platform, beginning with the Insurance Compact in stage T3.1 (completed by mid-2023), followed by Life in T3.2 (completed by fourth quarter 2023), Property/Casualty in T3.3 (completed by year-end 2023), and Health in T3.4 (completed by mid-2024). Plan Management capabilities in stage T4 will complete the transition by year-end 2024. The funding needed to complete transition work after 2022 will be requested via fiscals submitted with the 2023 and 2024 budgets.

A product-based transition approach allows groups of users to train and become familiarized with the platform in a manageable way. It also provides for continuous improvement in the transitioning so that lessons learned can be applied in the following stages. This approach should also minimize the need for users to switch back and forth between the legacy system and the new platform.

Overall, the initiative is expected to cost up to \$20 million to complete over the next three years, with consulting expenses amortized over a 10-year life cycle. Annual expenses for run costs and support services are currently projected to increase over the current level by between \$2-3 million. To support the new platform, SERFF transaction fees will move to a flat fee per filing of \$17 in May 2022, with annual increases based on the previous year's CPI-U as published by the Bureau of Labor Statistics.

## **II. Key Deliverables:**

One of the key components of the transition plan is to provide benefits to system users as soon as possible and to continue this iterative approach with new and improved capabilities. The initial stages of the transition plan include modifications to the SERFF legacy system.

- 1) The Search tool in the legacy system is one of the system's most often used tools but its use can be slow and cumbersome, depending on the criteria and filtering used. There is also limited ability for searching within filing documents. The pilot phase demonstrated the ability to improve the Search tool in SERFF with new technology that will be transitioned to the new platform. The transition plan for Stage T1 expects the following changes to be completed by late summer 2022:
  - Ability to search text within the 40-million+ documents in SERFF
  - Addition of a document comparison feature
  - Improved speed in returning search results
  - Better overall user experience using the Search tool
- 2) Transition stage T2 will cover new and improved reporting capabilities. The legacy system supports several predefined reports for regulators with just a few filters that can be manipulated. Regulators can also do exports, but the data is difficult to use in its raw form and requires use of a tool such as Microsoft Excel to make the exports useful. The new feature will provide improved access to the data needed for reporting and more flexibility without as much data manipulation. This modification can be made to the current system with new

technology that will be transitioned to the new platform. T2's reporting functionality is slated to be available in Fall 2022.

- 3) Workflow customization will begin in transition stage T3, which will allow states greater flexibility and expansion of use beyond rates and forms filings if desired. Transition stage T3 will see the deployment of the new platform and will employ low-code technology to help quickly build more state-specific options into the workflows. A low-code platform will provide building blocks that can be pulled together without writing large amounts of programming code. Low-code technology offers more flexible workflows with faster feature delivery. Making use of that technology, the first product is scheduled to move to the new platform in Fall 2023 with the conclusion of transition stage T3.1. This fiscal covers the expenses associated with the beginning of the first product's transition through year-end 2022. Costs associated with the remaining tasks for T3.1 as well as the deployment of the first product onto the new platform will be covered in the 2023 fiscal.

Future stages will also bring about greater automation, such as checking for filing completeness and making filing assignments, simple tasks that when automated will allow regulators to focus on the more complex work around product filing review.

Data accessibility is another important factor to be addressed in future stages. The NAIC has had a SERFF Application Programming Interface (API) available for the states' use for 20 years; however, it is used by only half of the jurisdictions due to limited IT state resources available for the API's support. With the modernization and planned integration with certain database warehousing and business intelligence tools, states will have data access and visualization, including that captured within filing attachments, thereby reducing the need for state IT support of these capabilities.

### **III. Initiative Benefits:**

Overall, the new platform will bring a host of improved functionality and features to system users, both industry filers and regulator reviewers. While improved search functionality and reporting have been addressed in the deliverables in the previous section, this section details the benefits to be gained once the platform has been completely modernized.

The overarching goal of the modernization is to gain operational efficiencies while taking advantage of technology and innovation opportunities available today. Both industry and regulator users are increasingly resource constrained. The process improvements envisioned in the transition stages, bolstered by advanced technology solutions, will improve rate and form filing efficacy, which in turn will improve product speed to market. The new system will be easier and more intuitive to use, implement quality control checks to prevent incomplete filings, enhance communications between filers and reviewers, and provide access to data more easily. In the end, filings will be made more quickly and with fewer errors, enabling regulators to review the filings more easily and provide feedback in a streamlined manner captured by the system.

The modernized platform will also be set up such that it can integrate with advances in innovation such as artificial intelligence, business intelligence, machine learning, and other data analysis tools, again with an eye toward improving speed to market. The system's architecture will allow information from other NAIC systems to be available more readily, which will then display all the information needed to complete the review in one location. APIs and other system integration

capabilities will connect regulators, industry users, and other stakeholders and track communications within SERFF so they can be retrieved for future reference.

Specifically, regulators will see improvements in the following areas:

- Reduced number of screens navigated and clicks needed to review filings, thereby speeding up the review process
- Ability to receive and to view different types of files/forms
- Ability to download and view multiple filings, using different windows when reviewing
- Ability to configure and/or reorder the filing to better facilitate the review
- Improved ability to communicate with insurance carriers, including auto text population, option to attach screenshots and notifications, extend character limit under filing correspondence tab, and send out-of-office notifications
- Improved regulatory collaboration concerning company filings
- Ability to configure workflow and workflow assignments
- Greater accessibility to the data, improved data definition, data linkages, cataloging and labeling of forms and other documents, as well as a streamlined data structure, all of which will lead to advanced options for data visualization, mining, and reporting
- System control checks with reminders for system content updates, confirmations, and administration highlights of incomplete fields or features not being utilized
- Improved carrier/insurance department process related to public access and record retention
- Ability to review filings more easily across a company's organization structure and to see a complete picture of the filing countrywide rather than at a state level
- Front-end data validation and filing completion checks
- Ability to mark up and/or label reviewed documents and provide commentary

Industry users will see improvements in the following areas:

- Enhanced speed to market, not just improved efficiencies of review and turn around but also for emerging non-traditional insurers who may not be familiar with traditional processes and terminology
- Improved system performance, especially during seasonal peaks
- Ability to accept multiple file types, including use of hyperlinks
- Improved communication of filing status, including a dashboard with tailored information such as days to completion, filing submitted status, and assigned reviewer
- Increased user configurability including reports, timeout features, and filing status dashboard
- Improved user design to address accessibility and disability needs
- Support for mobile devices and handheld devices, thereby expanding submission opportunities
- Greater ability to edit and/or delete data input, along with ability to change filing type without having to refile
- Addition of a filing fee calculator to provide certainty concerning filing payments
- Increased file size to avoid having to break up files
- Ability to reorder filed forms (which in some cases can be between 200-300) to meet state-specific requests for a particular order, with consideration of laying or hierarchy of supporting documentation
- Improvements to filing cloning feature
- Improved process for deletion/destruction of data
- Improved instructions to help filers understand new and modified filing requirements
- Balance between required fields and those where free-form responses can be made to aid accurate completion of submission

- SERFF reminder functionality, such as when an objection is due

#### **IV. Financial and Organizational Impact:**

To begin the first three transition stages, funding is requested for professional services to contract with the Mobilization and Pilot phase's vendor for \$5.2 million in 2022. Consulting needed to backfill key NAIC resources during these phases will be \$517,500. Consulting and professional services will be capitalized then amortized over the expected 10-year life of the new platform, starting with the deployment of functionality for transition stage T1 in August 2022. Amortization for consulting will be \$71,393 in 2022 and \$419,592 in 2023.

In addition, four full-time positions are needed for the transition stages as well as ongoing support. The first position is a business analyst and the remaining three are developers to be trained in the low-code technology option. Hiring these positions upfront will ensure the NAIC builds and retains the knowledge and skills needed to support the platform in the long term so that it can keep pace with functionality and features needed for future state-specific requirements and desired modifications. The salary and benefits will be \$384,760 for the four positions as they come on board within the second quarter of 2022; the expense will increase to \$640,377 in 2023 to reflect a full year of employment. Future fiscals are expected to include additional positions needed for future transition stages and the resulting ongoing support are anticipated to be requested in the 2023 and 2024 fiscals.

Expenses for database tools, scanning and document management, artificial intelligence, low-code technology, and Cloud run costs will be \$1,118,029 in 2022 and \$2,035,122 in 2023 for the initial transition stages outlined in this fiscal. One-time expenses associated with document scanning in preparation for the release of the improved search capabilities will be \$1,399,478 in 2022. Training for low-code programming will be \$13,005 in 2022. See **Attachment I** for further details.

In addition to the funding requested, this project will require a total of 6,500 NAIC IT hours in 2022:

- Enterprise/Solutions Architect (700 hours)
- Business Owner (700 hours)
- Business Analysts (2,000 hours)
- Software Engineers (2,500 hours)
- Project Owner (515 hours)
- Technology Sponsor (85 hours)

To fund the cash flow needed for resources and tools over the life of the new system, the SERFF transaction fee will change to a single flat fee set at \$17 for all SERFF filings, which will be effective May 1, 2022. The fee will subsequently increase based on annual changes to the core CPI-U as published by the U.S. Department of Labor, Bureau of Labor Statistics. The initial fee and annual increases will provide the level of funding necessary, in an equitable manner for all filers, to develop and support the new platform as well as contribute to the overall funding of the NAIC's regulatory initiatives.

As transition stages are completed and new functionality is deployed, additional resources are expected to support the new functionality and different toolsets to be used. In addition, data warehousing and data accessibility to the members will require NAIC to provide data architecture and data science resources to assist state insurance regulators in storing, pulling, and analyzing

the information. The improved technology – while translating to more capabilities, better security, greater reliability – have a higher cost structure than that of the existing platform. The 2023 and 2024 fiscals are anticipated to include the necessary technology to support the remaining transition stages as well as support costs associated with staffing, contractors to hire, consulting, or a combination of all three.

## **V. Risk Management Plan:**

There are several potential risks associated with this project, with the primary one being that the vendor is unable to demonstrate that the tools and technologies advocated fully meet the business needs or will prove too unwieldy or costly to implement. The goal of having the pilot phase as an initial test run for the full project was intended to mitigate this risk. Trying out the solution in a test phase allowed the team to fully vet the proposed solution before committing to the approach.

The selected vendor provided a fixed bid based on the use cases within the RFP and required deliverables. Scope containment will be important to keep expenses in line.

The project transition is planned in a phased approach to mitigate risk. Bringing on users by product group will allow the NAIC to impact a smaller set of users should there be any issues with the implementation. Lessons learned from the initial stages can thus be applied to the latter ones.

Using a vendor to guide this project will mitigate risk from the current NAIC staff not being familiar with many of the tools planned for SERFF. In addition, hiring the necessary resources to support the new platform long term will enable the NAIC to mitigate any risks associated with reliance on external resources over time.

## **VI. Security Impact:**

NAIC will host the updated SERFF platform in the AWS Cloud and will comply with all NAIC security policies as the transitions occur.

New tools will go through the NAIC's extensive Security Vendor Assessment Tool (SVAT) process to be vetted by the Security team prior to purchase. Several of the tools selected were already reviewed during the SERFF Mobilization and Pilot phase.

## 2022 Budget

SERFF Modernization 2022 Transition Stages  
Project Cost AnalysisAnticipated Start Date: March 2022  
Anticipated Completion Date: December 2022

| Description                                      | 2022<br>Total      | 2023<br>Budget     | 2024<br>Budget     |
|--|--------------------|--------------------|--------------------|
| <b>Revenues:</b>                                 |                    |                    |                    |
| Revenue Differential due to increase             | \$3,398,365        | \$5,352,000        | \$5,459,000        |
| <b>Total Revenues</b>                            | <b>3,398,365</b>   | <b>5,352,000</b>   | <b>5,459,000</b>   |
| <b>Expenses:</b>                                 |                    |                    |                    |
| Salary and Benefits                              | 384,760            | 640,377            | 659,589            |
| Document Scanning costs (AWS)                    | 1,399,748          | 0                  | 0                  |
| Annual run costs (AWS)                           | 96,000             | 480,000            | 480,000            |
| Low-code Technology Tool                         | 551,691            | 744,783            | 827,536            |
| Document Comparison Tool                         | 12,500             | 20,000             | 25,000             |
| API Management                                   | 161,250            | 215,000            | 215,000            |
| Data Warehouse Platform                          | 63,000             | 108,000            | 108,000            |
| Open-source Database                             | 44,442             | 59,256             | 59,256             |
| AI Analytics                                     | 0                  | 96,000             | 96,000             |
| Text Search Usage fees                           | 142,655            | 171,186            | 171,186            |
| Text Extract/Management Usage fees               | 61,566             | 73,879             | 73,879             |
| Clustering/API calls                             | 48,591             | 60,660             | 60,660             |
| Storage fees                                     | 6,335              | 6,359              | 6,359              |
| Low-code tool training                           | 13,005             | 0                  | 0                  |
| Amortization (recognition of capital consulting) | 71,393             | 419,592            | 602,885            |
| <b>Total Expenses</b>                            | <b>3,056,936</b>   | <b>3,095,091</b>   | <b>3,385,349</b>   |
| <b>Revenues Over (Under) Expenses</b>            | <b>\$341,429</b>   | <b>\$2,256,909</b> | <b>\$2,073,651</b> |
| <b>Capital Purchases:</b>                        |                    |                    |                    |
| Capital Consulting T1 (Search)                   | 1,370,000          | -                  | -                  |
| Capital Consulting T2 (Reports)                  | 787,625            | -                  | -                  |
| Capital Consulting T3.1-2022 (Insurance Compact) | 3,040,859          | -                  | -                  |
| Staff Augmentation                               | 517,500            | -                  | -                  |
| <b>Total Capital Purchases</b>                   | <b>\$5,715,984</b> | <b>\$0</b>         | <b>\$0</b>         |