



National Association of Insurance Commissioners

A large, stylized globe is the background of the entire page. The globe is rendered in shades of blue and white, with a dotted or pixelated texture. The continents are visible, and the globe is shown from a perspective that makes it appear to be a sphere. The background is a solid dark blue.

2020 **NAIC**BUDGET

Adopted by NAIC Membership

December 10, 2019



PROPOSED 2020 NAIC BUDGET

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NOTE: Audited financial statements are included in the NAIC Annual Report located at http://www.naic.org/index_about.htm

Executive Summary

NAIC 2020 Budget



National Association of Insurance Commissioners

About the NAIC

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories.

Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight activities. NAIC staff supports these efforts and represents the collective domestic and international views of state insurance regulators.

NAIC members, together with the central resources of the association, form the national system of state-based insurance regulation in the U.S. NAIC members are elected or appointed state government officials who, along with their departments and staff, regulate the conduct of insurance companies and agents/brokers in their respective jurisdictions.

The NAIC's annual budget supports the many valuable services and benefits provided to state insurance regulators, insurance consumers, and the insurance industry. Each year, the budget is developed with the goal of enabling the membership to accomplish its key strategic priorities.

The 2020 budget incorporates funding for the final year of the NAIC's three-year strategic plan, *State Ahead*. The plan articulates a comprehensive vision for the future of state insurance regulation and how the NAIC can help the membership stay ahead of the curve in a rapidly evolving marketplace. The budget demonstrates a firm commitment to the initiatives outlined in *State Ahead*, with its support of technology advancements and the continuing modernization of insurance regulation in areas such as innovation, cybersecurity, and international standard-setting.

The budget also continues the NAIC's commitment to support the variety of programs, products, and services in the financial solvency and market regulatory arenas. The NAIC offers a wide range of publications, data, and information systems; accreditation reviews; and many other services to assist state insurance regulators in achieving their fundamental insurance regulatory goals in a timely and cost-effective manner.

For many years, the NAIC has collected data on behalf of the states for statutory financial statements, complaints data, and Market Conduct Annual Statements (MCAS). In recent years, the NAIC has expanded its services to include regulatory ad-hoc data collection efforts, such as the short-term limited duration data call. With the expansion of services, the NAIC is utilizing new technologies to develop and expand systems for collecting various regulatory data sets in a timely and cost-effective manner.

Identified in *State Ahead* as a significant element to achieving the plan's goals, the NAIC has committed to moving its technology platform to the Cloud. Through mid-2019, the NAIC has nine applications in the Cloud, including the Professional Designation program and MCAS. Cloud solutions will streamline data intake processes, expand the tools offered to the membership and the insurance industry, increase the level and timeliness of analysis, and allow for experimentation of new products and services without a significant financial investment.

Support of the Membership

The mission of the NAIC is to assist the state insurance regulators in serving the public interest and achieving its goals of protecting the public interest; promoting a competitive marketplace; facilitating the fair and equitable treatment of consumers of insurance; promoting the reliability, solvency, and financial solidity of insurers; and supporting and improving state insurance regulation. Leveraging NAIC technology solutions, regulatory tools, and staff resources allow member states to achieve these goals at a significant cost savings. Without these options, many systems would be cost-prohibitive for the states to implement on their own. Without membership in the NAIC, the amount of state funding required to provide or access similar type of services and data the NAIC provides — often at no extra charge — would far exceed what a state pays in member dues to the NAIC.

A Focus on Consumers

The NAIC provides a multi-channel approach to reach and assist consumers in making informed decisions on insurance matters. These multi-pronged public relations campaigns include items like consumer insights and alerts, a consumer section on naic.org, mobile apps, and targeted social campaigns. The NAIC also hosts a consumer hotline to help consumers contact their state insurance departments for assistance.

Valuable Products and Services

The NAIC seeks to support its mission through the wide variety of products and services offered to both the insurance industry and state regulators. NAIC web-based systems automate, standardize, and streamline regulatory processes by transmitting data and facilitating regulatory transactions between insurers, consumers, and state insurance regulators.

The NAIC is committed to maintaining and enhancing these systems to provide high-quality service to all stakeholders. The 2020 budget includes five technology-based fiscals, which represent initiatives to automate manual processes, enhance security, streamline billing processes, take advantage of cloud-based solutions, and improve delivery of products and services.

By the Numbers

NAIC products and services make life easier on a number of fronts.

- ▶ Life Policy Locator – 100,006 requests received in 2018, with 31,385 located life insurance policies for a total claims amount of more than \$454 million
- ▶ System for Electronic Rates & Forms Filing (SERFF) – 557,089 transactions processed in 2018
- ▶ Online Premium Tax for Insurance (OPTins) – 142,616 transactions processed in 2018
- ▶ State Based Systems (SBS) – provides back-office services for 30 jurisdictions in 2019
- ▶ Professional Designation Program – 1,211 designations awarded since the program's inception in October 2006
- ▶ Center for Insurance Policy and Research (CIPR) Key Research Issues – 150 briefs currently available online including NAIC key initiatives and topics ranging from cybersecurity and innovation to natural catastrophe risk and resiliency

Building the Budget

The NAIC strives for transparency in its budget process as well as in its operations. The budget process gets underway in the spring each year, when department managers evaluate current-year revenues and expenses in order to assess the year-end picture, then propose a budget for the following year based on their operational objectives and member initiatives. Managers carefully focus on variances between the current year's budget and projected results and anticipated business needs for the coming year. This process includes a review of all projects, products, programs, services, committee charges, and technology initiatives in light of the NAIC's mission and the membership's strategic priorities, particularly those outlined in *State Ahead*. NAIC senior management reviews each department budget in detail with its division director to make adjustments according to the strategic and financial needs of the association and ultimately consolidates all requests into a single, comprehensive budget.

Following the extensive development and internal review process, the budget is presented to the NAIC Officers, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee, and the full NAIC membership before being released for public review and comment. To ensure transparency, a public hearing is held to receive public comments before final consideration and adoption by the NAIC Executive (EX) Committee and Plenary.

2019: The Halfway Point of *State Ahead*

State Ahead outlined 94 initiatives to be accomplished over three years. The NAIC is at the halfway mark with the completion of 35 of these initiatives, while 40 are being actively worked and 19 more are slated to start in 2020.

2019:
Building Full Speed Ahead

The NAIC continued to focus on building an infrastructure for data, technology, and talent to implement *State Ahead*.

Expected Results for 2019

Based on actual operating results (before adding investment income) through June 30, 2019, the NAIC projects a net negative operating margin of \$8.8 million compared to a budgeted net negative operating margin of \$11 million, an improvement of nearly \$2.3 million. Investment income is projected to be \$13.7 million, resulting in a net asset increase of \$4.9 million.

Several initiatives outlined in the *State Ahead* blueprint resulted in fiscal impact statements for 2019. These fiscals were made available for public comment in advance of membership consideration, approval, and incorporation into the 2019 budget.

Additional information regarding 2019 projected variances is included throughout the detailed footnotes of the budget.

Year Three of the Plan

2020:
Transforming

By the end of 2020, the NAIC will be positioned to provide its members with new analytics, technology, and tools to more effectively regulate their markets.

2020 Budget

The 2020 budget demonstrates NAIC's continued strong focus on prudent financial management.

The 2020 NAIC operating budget (before adding investment income) reflects revenues of \$114.5 million and expenses of \$124.5 million, which represent a 6.5% and a 5.1% increase, respectively, from the 2019 budget, resulting in \$10.0 million in projected expenses over revenues. Viewed in relation

to the 2019 projected totals, the 2020 budget represents operating revenue increase of 3.8% and operating expense increase of 4.6%. Additional information about the 2020 budget is included throughout the detailed footnotes of the budget.

A fiscal impact statement (fiscal) is prepared for new or existing NAIC initiatives with revenue, expense, or capital impacts of \$100,000 or more either in the current budget or within the following few years' budgets or requires more than 1,150 internal technical resources to accomplish. Each fiscal includes a detailed description of the initiative; the impact on key stakeholders; the financial and operational impact of the initiative; and an assessment of the risks. The total financial impact of the five fiscals included in the 2020 budget is a net of \$4.3 million in expenses over revenues. Additional information about each initiative is included in the various Fiscal tabs of the budget.

The 2020 budget includes \$3.2 million in investment income from the NAIC's Long-Term Investment Portfolio. Investment income is composed of interest and dividends earned reduced by investment management fees – investment gains and losses are not projected nor included in the budget.

Combining budgeted results from operations with budgeted investment income, the 2020 budget has a reduction in net assets of \$6.9 million.

Preparing for the Unknown

The budget proposal includes all known activities anticipated to occur in 2020. However, situations may arise during the course of the year that require additional funding. In such an event, a funding request is prepared and presented to the Executive (EX) Committee and Internal Administration (EX1) Subcommittee for consideration. Funding for any approved project comes from the Regulatory Modernization and Initiatives Fund, established in 2005 to manage requests

2020 Fiscal Impact Statements

- ▶ **Cloud Transition Phase IV (Cloud Migration)** – This fourth phase of the project focuses on minimal change to most of the targeted systems to be migrated, in order to do so quickly and at a minimal cost. This phase continues the culture transformation designed to make the organization nimbler, thus enabling more frequent and faster delivery of products, and provides technical support for cloud projects already in progress.
 - Net 2020 expense of \$3.2M after NIPR cost-sharing
- ▶ **Enhanced Regulatory Data Collection (RDC)** – This project expands the current system into an enterprise solution that can integrate with other applications, improve data quality, and speed up the review process. This project will enable business owners to be more self-reliant and independent. This project will provide functionality that will be used by the Uniform Certificate of Authority Application (UCAA) redesign.
 - Expense in 2020 of \$239K
- ▶ **Financial Data Delivery Platform Enhancement** – This initiative moves financial statement data order fulfillment to the Cloud, thereby eliminating outdated platforms and improving the NAIC's security profile. This project will allow customers to access their data in a more timely manner without manual intervention and support from NAIC staff.
 - Expense in 2020 of \$397K
- ▶ **SERFF Billing Enhancements** – will simplify the SERFF transaction pricing structure by eliminating SERFF prepaid blocks and instead charging a fee based on prior-period usage. The NAIC will also collect the transaction fee at the time of filing, thereby reducing payment and collection efforts.
 - Expense in 2020 of \$86K
- ▶ **Uniform Certificate of Authority Application (UCAA) Redesign and Biographical Affidavit Database** – moves the UCAA platform to the Cloud and expands the number of company licensing-related forms and applications, including Biographical Affidavits, by 2022.
 - Expense in 2020 of \$390K, with \$760K in 2021 and \$295K in 2022

that arise following the adoption and implementation of an annual budget. The Fund is based on 1.5% of the NAIC's projected consolidated net assets as of December 31, 2020, or \$1.9 million with the inclusion of fiscals.

Ensuring Financial Stability

The NAIC's operating reserve is designed to ensure the financial stability of the NAIC in the event of emerging business risks and uncertainties and to absorb new priority initiatives pursued by NAIC membership. The association's reserve status is of paramount consideration in the budgeting process, as is strong and prudent financial management of the NAIC's assets.

In July 2015, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved a report from an independent financial advisory firm which established the NAIC's liquid operating reserve target range of 83.4% to 108.2%. This range was the result of a comprehensive review of current and future identified risks and an evaluation of comparable organizations. This report recognized the increased level of uncertainty facing the NAIC and anticipated future investments which would be required to enhance the association's information technology and technical infrastructure, which is represented by many elements of the 2020 budget.

Operating Reserve	
2018 Audited	93.0%
2019 Projected	94.7%
2020 Proposed	91.3%

Contact Information

The NAIC appreciates the opportunity to present this 2020 budget and believes it provides a comprehensive review of the NAIC's business and financial operations for the current and upcoming fiscal year. A summary of the 2020 budget's key components is included in the budget overview.

Please feel free to contact Jim Woody, Chief Financial Officer, at (816) 783-8015, or Carol Thompson, Senior Controller, at (816) 783-8038, should you have any questions or need additional information.



National Association of Insurance Commissioners

2020BUDGET**OVERVIEW**

2020 BUDGET OVERVIEW

CURRENT STATE

2019 is the second year of the *State Ahead* strategic plan, a three-year blueprint for the NAIC's future

Planning and building upon the activities begun in prior years to meet the goals outlined in *State Ahead*:

- Safe, solvent and stable markets
- Consumer protection and education
- Superior member services and resources

Financial Performance in 2019 is above budget (dollars in millions)

	<u>2018 Actual</u>	<u>2019 Budget</u>	<u>2019 Projection</u>	<u>Change 2019 Budget vs 2019 Projection</u>
Operating Revenue	\$105.7	\$107.4	\$110.3	\$2.9
Operating Expense	105.4	118.4	119.1	0.6
Operating Revenues Over/(Under) Expenses	0.3	(11.0)	(8.8)	2.3
Investment Income	(3.2)	3.0	13.7	10.7
Net Revenues Over/(Under) Expenses	(\$2.9)	(\$8.0)	\$4.9	\$12.9

- Operating results are above budget \$2.3M due to a 2.7% over run in operating revenue partially offset by a 0.5% over run in operating expense
- Investment income is above budget due to unrealized/realized investment gains/losses
- Overall, net assets at the end of 2019 are expected to increase \$4.9M to \$135.9M, exceeding budget by \$12.9M

2019 Operating Revenue

(dollars in millions)

	Budget	Projection	Variance
Member Assessments	\$2.1	\$2.1	—
Database Fees	30.4	31.0	\$0.6
Publications and Insurance Data Products	15.9	16.2	0.3
Valuation Services	26.9	27.4	0.5
Transaction Filing Fees	11.1	11.4	0.3
National Meeting Registration Fees	2.8	2.8	—
Education and Training	0.4	0.4	—
Administrative Services/License Fees	17.7	18.9	1.2
Other	0.1	0.1	—
Total Revenue	\$107.4	\$110.3	\$2.9

- Database Filing Fees are above budget due to greater premium growth by insurers
- Valuation Services are above budget due to an increase in corporate security ratings and advanced valuations
- Administrative Services/License Fee revenue is above budget due to a higher-than-budgeted revenue share for revenues generated by the NAIC's affiliate National Insurance Producer Registry (NIPR)

2019 Expenses

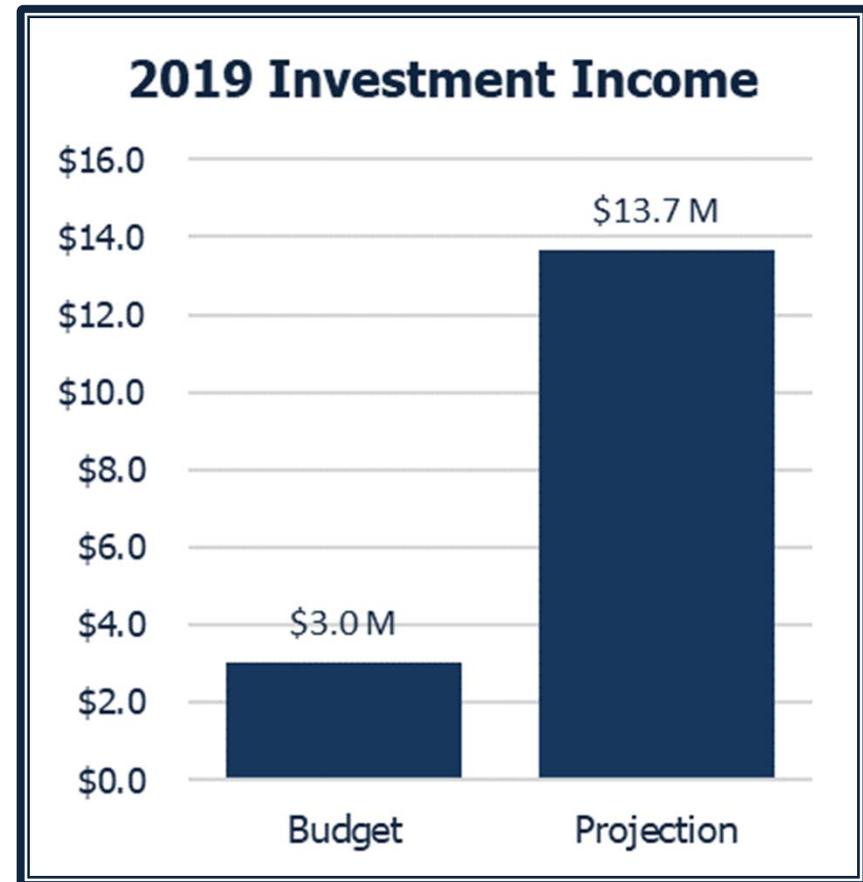
(dollars in millions)

	Budget	Projection	Variance
Salaries, Taxes, and Benefits	\$68.5	\$70.1	\$1.7
Professional Services	16.5	16.1	(0.4)
Computer Services	4.8	4.8	—
Travel	5.2	5.2	(0.1)
Occupancy and Rental	4.5	4.5	—
Computer Hardware and Software Maintenance	5.3	5.2	(0.2)
Depreciation and Amortization	4.3	4.1	(0.2)
National Meetings, NAIC Events, and Interim Meetings	3.9	4.0	0.1
Education and Training	0.1	0.1	—
Grant and Zone	1.7	1.7	—
Administrative and Operational	3.6	3.3	(0.3)
Total Expense	\$118.4	\$119.1	\$0.6

- Staffing (salaries, taxes, and benefits) - benefits are over budget due to acceleration of loss recognition in the defined benefit plan
- Professional Services are below budget primarily due to under runs in spending on consumer awareness, royalties, and implementations
- Computer Hardware and Software Maintenance are below budget due to favorable rates
- Depreciation and Amortization are below budget due to delays in deployment of two 2019 system rewrites

2019 Investment Income

- Realignment of the NAIC long-term investment portfolio generated \$10.7M in realized and unrealized gains through June 30. Unrealized gains have declined \$1.1M during July and August due to continued market volatility.



LOOKING TO 2020

Last year of the *State Ahead* strategic plan

Leverage activities of the first 18 months of *State Ahead* by focusing on building and implementing the strategies identified to reach the goals of the plan

2020 Budget

(dollars in millions)

	<u>2018 Actual</u>	<u>2019 Budget</u>	<u>2019 Projection</u>	<u>2020 Budget</u>	<u>2020 Budget Increase (Decrease) from 2019 Budget</u>	<u>2020 Budget Increase (Decrease) from 2019 Projection</u>
Operating Revenue	\$105.7	\$107.4	\$110.3	\$114.5	\$7.0	\$4.2
Operating Expense	105.4	118.4	119.1	124.5	6.1	5.4
Operating Revenues Over/(Under) Expenses	0.3	(11.0)	(8.8)	(10.0)	1.0	(1.3)
Investment Income	(3.2)	3.0	13.7	3.2	0.1	(10.5)
Net Revenues Over/(Under) Expenses	<u>(\$2.9)</u>	<u>(\$8.0)</u>	<u>\$4.9</u>	<u>(\$6.9)</u>	<u>\$1.1</u>	<u>(\$11.8)</u>

- Operating revenues increase \$4.2M compared to 2019 projection
- Operating expenses increase \$5.4M over 2019 projection reflecting costs included in the five fiscals
- After the inclusion of investment income, the NAIC's Net Assets are budgeted to decline \$6.9M

2020 Operating Revenue

(dollars in millions)

	2018 Actual	2019 Budget	2019 Projection	2020 Budget	2020 Budget Increase (Decrease) from 2019 Budget	2020 Budget Increase (Decrease) from 2019 Projection
Member Assessments	\$2.1	\$2.1	\$2.1	\$2.1	—	—
Database Fees	29.8	30.4	31.0	31.8	\$1.4	\$0.8
Publications and Insurance Data Products	16.1	15.9	16.2	16.9	1.0	0.7
Valuation Services	26.9	26.9	27.4	28.0	1.0	0.6
Transaction Filing Fees	10.7	11.1	11.4	12.7	1.6	1.2
National Meeting Registration Fees	2.5	2.8	2.8	2.9	0.1	0.1
Education and Training	0.4	0.4	0.4	0.4	—	—
Administrative Services/License Fees	17.2	17.7	18.9	19.6	1.9	0.8
Other	0.0	0.1	0.1	0.1	—	—
TOTAL OPERATING REVENUES	105.7	107.4	110.3	114.5	7.0	4.2
Investment Income	(3.3)	3.0	13.7	3.1	0.1	(10.5)
TOTAL OPERATING REVENUES	\$102.4	\$110.4	\$124.0	\$117.6	\$7.1	(\$6.3)

- Operating revenues increase \$4.2M compared to 2019 projection:
 - Database Fees caps increase 2.1% resulting an increase of \$0.3M
 - Publications and Insurance Data Products increase \$0.7M principally due to contractual price increases as well as small increases in Filing Support product prices
 - Valuation Services increase \$0.6M due to AVS+ tier increases and SVO price adjustments
 - Transaction Filing Fees increase \$1.2M to reflect the new SERFF data hosting service and CE from one SBS state added in mid-2019
 - Administrative Services and License Fees increase due to anticipated growth in NIPR revenues

Actual 2018 – 2020 Budget Revenue Composition (dollars in millions)

	2018 Actual	2018 Composite Mix	2019 Budget	2019 Budget Composite Mix	2019 Projection	2019 Projection Composite Mix	2020 Budget	2020 Composite Mix
Member Assessments	\$2.1	2.0%	\$2.1	2.0%	\$2.1	1.9%	\$2.1	1.8%
Database Fees	29.8	28.1%	30.4	28.2%	31.0	28.1%	31.8	27.8%
Publications and Insurance Data Products	16.1	15.2%	15.9	14.8%	16.2	14.6%	16.9	14.7%
Valuation Services	26.9	25.5%	26.9	25.1%	27.4	24.9%	28.0	24.4%
Transaction Filing Fees	10.7	10.2%	11.1	10.4%	11.4	10.4%	12.7	11.1%
National Meeting Registration Fees	2.5	2.4%	2.8	2.6%	2.8	2.6%	2.9	2.6%
Education and Training	0.4	0.4%	0.4	0.4%	0.4	0.3%	0.4	0.4%
Administrative Services/License Fees	17.2	16.2%	17.7	16.5%	18.9	17.1%	19.6	17.2%
Other	0.0	0.0%	0.1	0.1%	0.1	0.1%	0.1	0.1%
TOTAL OPERATING REVENUES	\$105.7	100.0%	\$107.4	100.0%	\$110.3	100.0%	\$114.5	100.0%

- No major shifts in revenue composition:
 - Database Fees is the largest category at 27.8% of revenues
 - Valuation Services is 2nd largest category but percentage declines due to fewer structured securities sales
 - Administrative Services and License Fees continue to increase due to growth in NIPR revenue

2020 Operating Expense

(dollars in millions)

	2018 Actual	2019 Budget	2019 Projection	2020 Budget	2020 Budget Increase (Decrease) from 2019 Budget	2020 Budget Increase (Decrease) from 2019 Projection
Salaries, Taxes, and Benefits	\$64.5	\$68.5	\$70.1	\$72.5	\$4.1	\$2.4
Professional Services	10.2	16.5	16.1	16.8	0.3	0.7
Computer Services	3.6	4.8	4.8	5.8	1.0	1.0
Travel	5.0	5.2	5.2	5.3	—	0.1
Occupancy and Rental	4.5	4.5	4.5	4.7	0.1	0.1
Computer Hardware & Software Maintenance	4.3	5.3	5.2	5.9	0.5	0.7
Depreciation and Amortization	4.4	4.3	4.1	4.1	(0.1)	0.1
National Meetings, NAIC Events, and Interim Meetings	3.8	3.9	4.0	4.1	0.2	0.1
Education and Training	0.1	0.1	0.1	0.2	0.1	0.1
Grant and Zone	1.5	1.7	1.7	1.7	—	—
Administrative and Operational	3.6	3.6	3.3	3.4	(0.1)	0.1
TOTAL OPERATING EXPENSES	\$105.5	\$118.4	\$119.1	\$124.5	\$6.1	\$5.4

- Operating expenses increase \$5.4M over 2019 projections:
 - Largest increase is \$2.4M for staffing expenses reflecting salary increases to remain competitive with the market
 - Computer services increase \$1.0M and computer hardware and software maintenance increase \$0.7M for costs associated with maintaining two networks while migrating systems to the Cloud as well as higher costs for security ratings and data feeds
 - Professional services increase \$0.7M related to system implementation costs and planned consumer awareness activities

Actual 2018 – 2020 Budget Expense Composition (dollars in millions)

	2018 Actual	2018 Composite Mix	2019 Budget	2019 Budget Composite Mix	2019 Projection	2019 Projection Composite Mix	2020 Budget	2020 Composite Mix
Salaries, Taxes, and Benefits	\$64.5	61.2%	\$68.5	57.8%	\$70.1	58.9%	\$72.5	58.3%
Professional Services	10.2	9.6%	16.5	14.0%	16.1	13.5%	16.8	13.5%
Computer Services	3.6	3.4%	4.8	4.1%	4.8	4.1%	5.8	4.7%
Travel	5.0	4.8%	5.2	4.4%	5.2	4.3%	5.3	4.2%
Occupancy and Rental	4.5	4.3%	4.5	3.8%	4.5	3.8%	4.7	3.7%
Computer Hardware & Software Maintenance	4.3	4.1%	5.3	4.5%	5.2	4.3%	5.9	4.6%
Depreciation and Amortization	4.4	4.2%	4.3	3.6%	4.1	3.4%	4.1	3.3%
National Meetings, NAIC Events, and Interim Meetings	3.8	3.6%	3.9	3.3%	4.0	3.4%	4.1	3.3%
Education and Training	0.1	0.1%	0.1	0.1%	0.1	0.1%	0.2	0.2%
Grant and Zone	1.5	1.5%	1.7	1.4%	1.7	1.4%	1.7	1.4%
Administrative and Operational	3.6	3.4%	3.6	3.1%	3.3	2.8%	3.4	2.8%
TOTAL OPERATING EXPENSES	\$105.5	100.0%	\$118.4	100.0%	\$119.1	100.0%	\$124.5	100.0%

- Staffing costs remain the largest category but decline as a percent of total due to increase in expenditures associated with *State Ahead* initiatives and migration to the Cloud
- Depreciation and amortization costs continue to decline due to a lower level of capital spending as the number of systems migrating to the Cloud increases

Fiscal Summary

- **Cloud Transition Phase IV (Cloud Migration)** – The fourth phase of the NAIC’s move to the Cloud, this fiscal requests funding for 2020 migrations. The strategy focuses on minimal change to targeted systems, to enable them to move to the Cloud quickly and minimize costs. The move to the Cloud will transform NAIC into a nimbler organization, allowing for more frequent and faster delivery of functionality and products. It also continues the implementation of SOC 2 capabilities for secure cloud computing and provides technical support for in-progress cloud projects.
- **Enhanced Regulatory Data Collection (RDC)** – This project expands the current framework into an enterprise solution that can integrate with other applications, improve the quality of the data collected, and minimize delays between reviewers and submitters. It will also add an administration portal to allow business owners to enter and maintain form definitions, data collection file formats, validation rules, and notifications. The UCAA redesign project listed below will utilize the enhanced functionality.
- **Financial Data Delivery Platform Enhancement** – This project moves financial statement data fulfillment to a cloud-based platform, thus allowing the NAIC to sunset two systems on outdated platforms and enhance security. The move will also improve delivery of datasets to licensees by utilizing web services. This will benefit customers and NAIC support staff as the redesigned processes will be easier to use and require less manual intervention and support than current processes.
- **SERFF Billing Improvements** – This project will eliminate the significant manual effort currently employed by customers and the NAIC to administer and pay/collect SERFF transaction fees. A fiscal was approved in 2018 to address the NAIC’s financial liability by reducing the number of prepaid block tiers and expiring blocks after 24 months. With this proposal, customers will no longer purchase prepaid blocks, thereby eliminating the financial liability altogether. Instead, customers will receive a discounted transaction fee based on filing volume in the previous year. This project will also collect transaction fees along with applicable state fees at the time of filing, eliminating manual effort on customers’ part to log into a separate platform to pay invoices and the manual effort on the NAIC’s part to invoice and collect fees.
- **Uniform Certificate of Authority Application (UCAA) Redesign and Biographical Affidavit Database** – This 24-month project redesigns the UCAA system as a cloud-native solution and expands the number of company licensing-related applications which can be submitted electronically to the states thereby eliminating manual processes and improving accuracy and completeness. The final phase includes a biographical affidavit database. The redesigned platform will use the enhanced RDC process, which will allow this project to expedite the implementation of additional forms for data collection and electronic submission to the states.

2020 Fiscal Impact Statements

(dollars in thousands)

Initiative	2020 Revenue	2020 Expense	Net Impact on 2020 Budget	2020 Capital
Cloud Transition Phase IV (Cloud Migration)	\$133.1	\$3,341.7	(3,208.6)	
Enhanced Regulatory Data Collection (RDC)		238.7	(238.7)	
Financial Data Delivery Platform Enhancement		396.8	(396.8)	
SERFF Billing Improvements		86.4	(86.4)	
Uniform Certificate of Authority Application (UCAA) Redesign and Biographical Affidavit Database		390.4	(390.4)	
Total Fiscal Impact Statements	133.1	4,453.9	(4,320.8)	\$0.0
2020 Budget Before Fiscals	114,330.0	120,045.4	(5,715.5)	1,419.6
2020 Budget After Fiscals and Before Investment Income	114,463.1	124,499.3	(10,036.2)	1,419.6
Investment Income	3,153.1		3,153.1	
2020 Budget After Fiscals and Investment Income	\$117,616.2	\$124,499.3	(\$6,883.3)	\$1,419.6

2020 Headcount

2020 Headcount by Department	
Division	Current Approved Headcount
CIPR	6.5
Communications	10.0
Executive (includes finance)	24.5
Financial Regulatory Services	113.0
Government Relations	18.0
Human Resources	6.5
Information Technology Group	224.0
Legal	14.0
Member Services	26.0
Regulatory Services	28.5
Technical Services	24.5
Total Headcount	495.5

- No headcount increase from 2019
- Approximately 50% of staff is in information technology and technical support
- Employees in three locations: Kansas City, MO (416.5), New York, NY (52) and Washington DC (27)

Liquid Operating Reserve Ratio (including fiscals):

- Actual Reserve Ratio at 12/31/15: 84.7%
- Actual Reserve Ratio at 12/31/16: 90.4%
- Actual Reserve Ratio at 12/31/17: 103.9%
- Actual Reserve Ratio at 12/31/18: 93.0%
- Projected Reserve Ratio at 12/31/19: 94.7%
- Budgeted Reserve Ratio at 12/31/20: 91.3%

Target liquid operating reserve ratio range is between 83.4% - 108.2%

2021 and Beyond

- Continue to invest in the initiatives outlined in *State Ahead* and support state-based insurance regulation
- Continue to focus on controlling costs, reducing capital investment, and wisely leveraging the NAIC's financial position
- Continue to provide world-class technical and regulatory services to Members

**2020 BUDGET
REVENUE AND EXPENSE SUMMARY**

Description	2018 Actual	2019			2019 Projected Variance	2020				
		6/30/2019 Actual	12/31/2019 Projected	2019 Budget		2020 Budget	Increase (Decrease) from 2019 Budget	%	Increase (Decrease) from 2019 Projected	%
Operational Revenues	\$105,741,465	\$65,844,306	\$110,308,512	\$107,430,898	\$2,877,614	\$114,329,953	\$6,899,055	6.4%	\$4,021,441	3.7%
Operational Expenses	105,454,967	55,573,570	119,067,377	118,440,444	626,932	120,045,442	1,604,998	1.4%	978,065	0.8%
Operating Revenues Over/(Under) Expenses Before Fiscal Impact Statements	286,498	10,270,736	(8,758,865)	(11,009,546)	2,250,682	(5,715,489)	5,294,057		3,043,376	
Fiscal Impact Statement Revenues (1)						133,135	133,135		133,135	
Fiscal Impact Statement Expenses (1)						4,453,888	4,453,888		4,453,888	
Fiscal Impact Statement Revenues Over/(Under) Expenses						(4,320,753)	(4,320,753)		(4,320,753)	
Investment Income	(3,183,385)	12,398,447	13,674,609	3,012,020	10,662,589	3,153,072	141,052		(10,521,537)	
Total Revenues After Fiscal Impact Statements	102,558,079	78,242,753	123,983,121	110,442,918	13,540,203	117,616,160	7,173,242	6.5%	(6,366,961)	-5.1%
Total Expenses After Fiscal Impact Statements	105,454,967	55,573,570	119,067,377	118,440,444	626,932	124,499,330	6,058,886	5.1%	5,431,953	4.6%
Total Revenues Over/(Under) Expenses	<u>(\$2,896,887)</u>	<u>\$22,669,183</u>	<u>\$4,915,744</u>	<u>(\$7,997,526)</u>	<u>\$12,913,271</u>	<u>(\$6,883,170)</u>	<u>\$1,114,356</u>		<u>(\$11,798,914)</u>	

(1) See the Fiscal Impact tabs for details.

**2020 BUDGET WITH FISCAL IMPACT STATEMENTS
REVENUE AND EXPENSE BY LINE**

Description	Reference	2019				2019 Projected Variance	2020				
		2018 Actual	6/30/2019 Actual	12/31/2019 Projected	2019 Budget		2020 Budget	Increase (Decrease) from 2019 Budget	%	Increase (Decrease) from 2019 Projected	%
Member Assessments	R1	\$2,108,679	\$1,054,205	\$2,109,460	\$2,109,460		\$2,110,953	\$1,493	0.1%	\$1,493	0.1%
Database Fees	R2	29,750,827	30,958,559	30,960,867	30,334,777	\$626,090	31,776,882	1,442,105	4.8%	816,015	2.6%
Publications and Insurance Data Products	R3	16,059,955	7,259,383	16,156,765	15,912,690	244,075	16,867,844	955,154	6.0%	711,079	4.4%
Valuation Services	R4	26,918,340	9,324,749	27,449,436	26,942,918	506,518	27,977,053	1,034,135	3.8%	527,617	1.9%
Transaction Filing Fees	R5	10,752,404	6,229,960	11,454,121	11,117,239	336,882	12,668,651	1,551,412	14.0%	1,214,530	10.6%
National Meetings, NAIC Events, and Interim Meetings	R6	2,549,365	1,147,500	2,831,000	2,807,531	23,469	2,923,648	116,117	4.1%	92,648	3.3%
Education and Training	R7	391,930	124,365	376,666	414,398	(37,732)	400,740	(13,658)	-3.3%	24,074	6.4%
Administrative Services and License Fees	R8	17,166,364	9,723,962	18,869,204	17,730,385	1,138,819	19,646,917	1,916,532	10.8%	777,713	4.1%
Other	R9	43,601	21,623	100,993	61,500	39,493	90,400	28,900	47.0%	(10,593)	-10.5%
Total Operating Revenues		105,741,465	65,844,306	110,308,512	107,430,898	2,877,614	114,463,088	7,032,190	6.5%	4,154,576	3.8%
Salaries	E1	50,241,678	25,987,177	52,192,071	51,971,330	220,741	54,739,393	2,768,063	5.3%	2,547,322	4.9%
Temporary Personnel	E2	592,539	291,444	594,176	665,553	(71,377)	611,936	(53,617)	-8.1%	17,760	3.0%
Payroll Taxes	E3	3,386,310	2,022,437	3,496,794	3,571,105	(74,311)	3,636,130	65,025	1.8%	139,336	4.0%
Employee Benefits	E4	9,612,553	5,721,114	12,947,716	11,420,064	1,527,652	12,740,356	1,320,292	11.6%	(207,360)	-1.6%
Employee Development	E5	692,996	395,583	885,188	836,581	48,607	804,191	(32,390)	-3.9%	(80,997)	-9.2%
Professional Services	E6	10,165,645	4,903,215	16,094,271	16,522,999	(428,728)	16,811,083	288,084	1.7%	716,811	4.5%
Computer Services	E7	3,616,430	2,380,225	4,820,364	4,808,622	11,742	5,848,629	1,040,007	21.6%	1,028,264	21.3%
Travel	E8	5,020,501	2,626,496	5,154,662	5,235,116	(80,454)	5,264,192	29,076	0.6%	109,530	2.1%
Occupancy and Rental	E9	4,509,092	2,261,301	4,519,470	4,548,537	(29,067)	4,661,327	112,790	2.5%	141,857	3.1%
Computer Hardware and Software Maintenance	E10	4,292,368	2,441,422	5,169,101	5,342,933	(173,832)	5,884,458	541,525	10.1%	715,357	13.8%
Depreciation and Amortization	E11	4,435,747	2,019,166	4,051,787	4,270,732	(218,945)	4,140,587	(130,145)	-3.0%	88,800	2.2%
Operational	E12	1,922,027	1,100,812	1,874,789	1,926,066	(51,277)	1,790,279	(135,787)	-7.0%	(84,511)	-4.5%
Library Reference Materials	E13	330,262	165,731	334,926	333,225	1,701	332,487	(738)	-0.2%	(2,439)	-0.7%
Printing and Production	E14	88,681	42,620	81,753	137,847	(56,094)	71,022	(66,825)	-48.5%	(10,731)	-13.1%
National Meetings, NAIC Events, and Interim Meetings	E15	3,769,618	2,032,661	4,020,947	3,886,099	134,848	4,133,484	247,385	6.4%	112,537	2.8%
Education and Training	E16	57,165	41,220	119,502	141,844	(22,342)	212,404	70,560	49.7%	92,902	77.7%
Grant and Zone	E17	1,530,867	432,497	1,716,655	1,704,250	12,405	1,676,730	(27,520)	-1.6%	(39,925)	-2.3%
Other	E18	1,190,486	708,449	993,204	1,117,541	(124,337)	1,140,642	23,101	2.1%	147,438	14.8%
Total Operating Expenses		105,454,967	55,573,570	119,067,377	118,440,444	626,932	124,499,330	6,058,886	5.1%	5,431,953	4.6%
Revenues Over/(Under) Expenses before Investment Income		286,498	10,270,736	(8,758,865)	(11,009,546)	2,250,682	(10,036,242)	973,304		(1,277,377)	
Investment Income	II1	(3,183,385)	12,398,447	13,674,609	3,012,020	10,662,589	3,153,072	141,052		(10,521,537)	
Revenues Over/(Under) Expenses		(\$2,896,887)	\$22,669,183	\$4,915,744	(\$7,997,526)	\$12,913,271	(\$6,883,170)	\$1,114,356		(\$11,798,914)	

A detailed analysis of each line item is included in the Revenue Detail, Expense Detail, and Investment Income Detail tabs.

BUDGET ITEM: Member Assessments

Item Description: Assessments from all members to fund the activities of the NAIC offices. Members are assessed based upon relative premium volume of their respective domiciled companies to total premium volume.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Member Assessments (1)	\$2,108,679	\$1,054,205	\$2,109,460	\$2,109,460	\$2,110,953	\$1,493	0.1%

(1) In exchange for annual member assessments, the NAIC delivers a wide array of funding, information, products, and services, generally at no charge to state insurance regulators, as a benefit of NAIC membership.

The assessment structure is based on each member's share of total insurance premium volume within its jurisdiction. Premium volume is measured as direct written premiums by companies domiciled in each state for the calendar year. The budgeted amount is based on four months of the May 2019 - April 2020 assessment and eight months of the May 2020 - April 2021 assessment. The May 2020 - April 2021 member assessments are illustrated in Exhibit R1-One. Exhibit R1-Two illustrates member assessments and database filing fees as a percentage of total NAIC revenue.

NAIC MEMBER ASSESSMENTS

State	Total Premiums	Percent To Total	Assessment	\$7,339 Minimum \$125,000 Cap 2020/21 Amount	\$7,339 Minimum \$125,000 Cap 2019/20 Amount	\$7,339 Minimum \$125,000 Cap 2018/19 Amount
Alabama	\$27,045,672,604	1.1868%	\$26,834	\$26,834	\$26,712	\$25,670
Alaska	3,992,952,267	0.1752%	3,961	7,339	7,339	7,339
American Samoa	4,011,644	0.0002%	5	7,339	7,339	7,339
Arizona	34,664,512,646	1.5211%	34,392	34,392	33,359	33,949
Arkansas	15,330,306,773	0.6727%	15,210	15,210	15,016	15,069
California	161,546,251,741	7.0888%	160,278	125,000	125,000	125,000
Colorado	38,790,977,624	1.7022%	38,487	38,487	37,196	36,154
Connecticut	37,550,903,233	1.6478%	37,257	37,257	37,763	35,892
Delaware	65,499,451,709	2.8742%	64,986	64,986	74,840	66,331
District Of Columbia	10,619,396,791	0.4660%	10,536	10,536	10,262	10,988
Florida	167,456,104,398	7.3482%	166,143	125,000	125,000	125,000
Georgia	65,113,404,125	2.8573%	64,604	64,604	63,225	62,068
Guam	574,681,335	0.0252%	570	7,339	7,339	7,339
Hawaii	13,514,409,219	0.5930%	13,408	13,408	13,436	13,133
Idaho	9,339,879,430	0.4098%	9,266	9,266	8,794	8,651
Illinois	86,991,893,071	3.8173%	86,309	86,309	87,716	88,345
Indiana	41,720,766,431	1.8308%	41,394	41,394	41,633	39,758
Iowa	34,818,607,876	1.5279%	34,546	34,546	39,796	36,221
Kansas	21,778,623,123	0.9557%	21,608	21,608	23,176	22,456
Kentucky	30,076,952,245	1.3198%	29,841	29,841	29,982	30,493
Louisiana	36,633,381,348	1.6075%	36,346	36,346	36,273	36,010
Maine	8,400,870,388	0.3686%	8,334	8,334	9,772	8,075
Maryland	39,145,522,477	1.7178%	38,839	38,839	38,767	39,242
Massachusetts	57,494,696,853	2.5229%	57,043	57,043	57,021	58,513
Michigan	71,800,485,008	3.1507%	71,237	71,237	72,698	73,309
Minnesota	44,708,097,306	1.9618%	44,356	44,356	44,708	44,771
Mississippi	16,319,144,519	0.7161%	16,191	16,191	15,937	16,197
Missouri	40,625,866,115	1.7827%	40,307	40,307	39,455	39,558
Montana	5,703,673,504	0.2503%	5,659	7,339	7,339	7,339
Nebraska	15,113,010,635	0.6632%	14,995	14,995	14,525	13,866
Nevada	17,940,644,624	0.7873%	17,801	17,801	16,927	16,714
New Hampshire	10,368,849,231	0.4550%	10,288	10,288	9,251	10,746
New Jersey	77,025,356,006	3.3800%	76,422	76,422	76,073	78,852
New Mexico	13,752,198,324	0.6035%	13,645	13,645	13,462	14,036
New York	189,585,154,095	8.3192%	188,097	125,000	125,000	125,000
North Carolina	55,371,199,991	2.4298%	54,938	54,938	55,477	54,204
North Dakota	6,577,916,732	0.2886%	6,525	7,339	7,339	7,339
Northern Mariana Islands	71,867,517	0.0032%	72	7,339	7,339	7,339
Ohio	94,389,873,912	4.1419%	93,648	93,648	87,048	82,632
Oklahoma	20,610,166,787	0.9044%	20,448	20,448	20,137	20,509
Oregon	25,793,890,531	1.1319%	25,592	25,592	25,060	25,515
Pennsylvania	106,540,989,188	4.6751%	105,704	105,704	104,311	114,927
Puerto Rico	13,796,376,939	0.6054%	13,688	13,688	13,344	14,126
Rhode Island	9,350,155,632	0.4103%	9,277	9,277	9,346	9,193
South Carolina	30,515,419,700	1.3391%	30,277	30,277	29,704	29,235
South Dakota	6,447,569,835	0.2829%	6,396	7,339	7,339	7,339
Tennessee	44,825,175,108	1.9670%	44,474	44,474	43,646	44,166
Texas	179,520,952,421	7.8776%	178,113	125,000	125,000	125,000
US Virgin Islands	471,522,807	0.0207%	468	7,339	7,339	7,339
Utah	17,602,010,736	0.7724%	17,464	17,464	16,531	16,593
Vermont	3,800,804,654	0.1668%	3,771	7,339	7,339	7,339
Virginia	52,577,908,888	2.3072%	52,166	52,166	50,546	51,111
Washington	45,096,214,303	1.9789%	44,743	44,743	45,186	44,650
West Virginia	10,723,589,151	0.4706%	10,640	10,640	10,663	11,136
Wisconsin	40,562,938,191	1.7800%	40,246	40,246	40,136	40,921
Wyoming	3,186,527,298	0.1398%	3,161	7,339	7,339	7,339

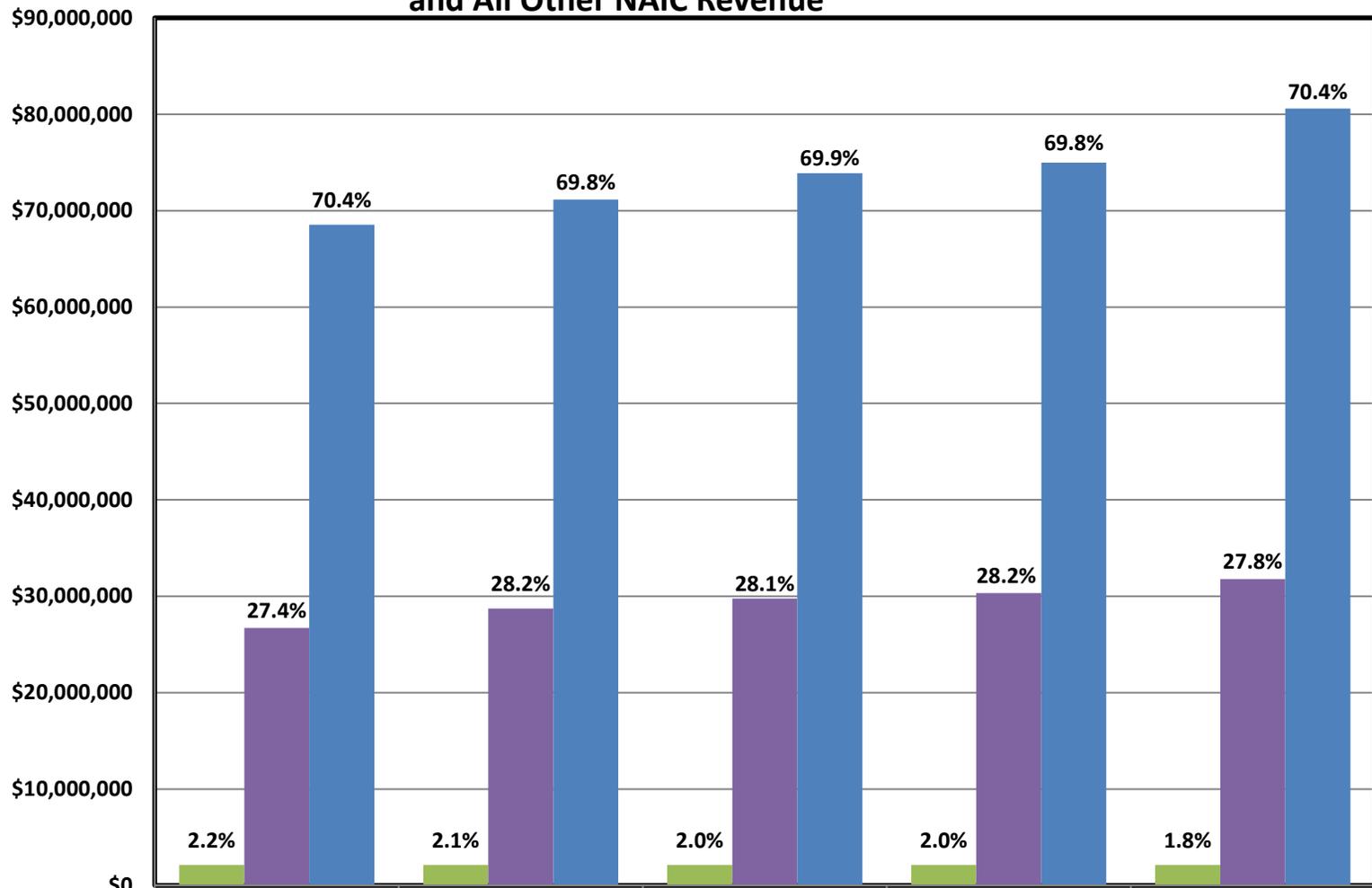
Total Member Assessments	\$2,278,879,779,039	100.00%	\$2,261,006	\$2,111,177	\$2,110,500	\$2,107,375
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Four months of the May 2019-April 2020 assessment	\$703,502
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Eight months of the May 2020-April 2021 assessment	1,407,451
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Total calendar year 2020 assessment	\$2,110,953
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Member Assessments as Compared to Database Fees and All Other NAIC Revenue



	Actual 2016	Actual 2017	Actual 2018	Budget 2019	Budget 2020
Member Assessments	\$2,109,914	\$2,110,636	\$2,108,679	\$2,109,460	\$2,110,953
Database Fees	\$26,700,694	\$28,734,510	\$29,750,827	\$30,334,777	\$31,776,882
Other Operating Revenue	\$68,530,509	\$71,162,116	\$73,881,959	\$74,986,661	\$80,575,253

BUDGET ITEM: Database Fees

Item Description: Fees from all insurance companies filing with the NAIC's Financial Data Repository (FDR). Fees are based on each filer's premium volume, which is measured as the greater of direct written premium or reinsurance assumed from non-affiliates.

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Database Fees (1)	\$29,750,827	\$30,958,559	\$30,960,867	\$30,334,777	\$31,776,882	\$1,442,105	4.8%

(1) The NAIC uses annual database filing fee revenues to support its financial solvency program, including a number of solvency monitoring tools provided to state insurance regulators. Company financial information is generally available to state insurance regulators within 24 hours of receipt of the electronic filing. In addition, the insurance industry benefits from the ability to electronically file their quarterly and annual statements with the NAIC's central data collection system rather than submitting separate filings to each jurisdiction in which they conduct business.

In 2017, database filing fees were recalibrated to simplify the complex, multi-tiered system with significant disparity in the amount small individual companies paid in relation to their premiums, as compared to larger companies within groups, particularly those within groups that exceeded the group cap. In addition, tier sizes were not consistent. The first six tiers had relatively small premium ranges as compared to the remaining tiers, resulting in companies with significantly different annual premiums paying the same database filing fee. The tiered structure was replaced with a formulaic approach which charges the same fee per million in insurance premiums. The recalibration of filing fees reduced the disparity of fees while retaining the individual company and group cap structure and a minimum filing fee. The recalibration more evenly distributed funding of major investments in important regulatory initiatives, including NAIC systems and technology infrastructure, all of which benefit state insurance regulators, consumers, and the insurance industry.

Database filing fees projected for 2019 are based on actual 2018 data year filings received in 2019 through July 31. The projected over budget variance reflects premium growth within the industry greater than the anticipated average of 1.5%. The 2020 budget incorporates a 2.0% expected increase in premiums over current year filings. Additionally, the CPI-U of 2.1% has been applied to filing fee caps for 2020 resulting in a group cap of \$263,688 and an individual company cap of \$87,896. The filing fee calculation of \$26 per million in premium volume, filing fee floor of \$235, and combined filing fee of \$675 remain the same. With the 2% premium growth assumption incorporated in the calculation of 2020 filing fees, 31 groups with premiums of nearly \$1.6 trillion are expected to hit the group filing fee cap. These groups are expected to have a reduction in fees of nearly \$10.5 million. This represents a 56.1% reduction in database filing fees for the filing companies and 24.7% reduction in database filing fee revenue for the NAIC.

BUDGET ITEM: Publications and Insurance Data Products

Item Description: Revenues generated from the sale of various reference materials, handbooks, subscriptions, and information stored within the NAIC's financial database.

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Publications (1)	\$2,469,017	\$794,519	\$1,598,780	\$1,442,404	\$1,578,863	\$136,459	9.5%
Online Subscription Services Revenue (2)		106,647	267,479	260,788	333,333	72,545	27.8%
Insurance Data Products (3)	9,663,954	4,217,102	10,323,307	10,301,613	10,771,478	469,865	4.6%
Filing Support Product Platform Revenue (4)	3,926,985	2,141,115	3,967,200	3,907,885	4,184,170	276,285	7.1%
Total	\$16,059,955	\$7,259,383	\$16,156,765	\$15,912,690	\$16,867,844	\$955,154	6.0%

- (1) Publications revenue is generated from the sale of printed publications as well as royalties from the sale of these products by third-party vendors. The NAIC produces approximately 150 publications, which are designed to: (1) provide state insurance regulators with handbooks, statistical reports, and white papers, in an effort to offer best practices and coordinated regulatory approaches to the state-based system of insurance regulation and (2) provide the insurance industry with a variety of handbooks, tools, and electronic applications to facilitate industry compliance with state insurance regulatory requirements. The over budget variance in 2019 is related to a subscription renewal campaign for the Accounting Practices and Procedures (APP) Manual that began in late 2018. The resulting increase in subscriptions in 2019 is budgeted to remain in 2020, partially offset by the continued decline in sales of other publications.
- (2) In 2019, the electronic version of the Accounting Practices and Procedures (APP) Manual was replaced with a new online subscription service. While the printed book continues to be sold as a publication, the electronic or USB version of the manual is now available via PDF through an online subscription. The subscription service allows customers to access the manual online as well as regulatory changes to be incorporated into the next published manual. Because revenues from the subscriptions are earned monthly, there was a one-time deferral of two months of revenue in 2019 due to the release of the product in March. The 2020 budget incorporates a full year of subscription revenue for this service. The additional two months of revenue, along with an increased number of subscriptions to this service, accounts for the increase in revenue in 2020.
- (3) Revenues generated from the sale of insurance data products include (1) contracts with third-party vendors who use, market, and sometimes redistribute NAIC data (\$9,870,000) and (2) direct sales to customers (\$900,000). This data is leveraged to conduct research and benchmark specific company data and performance to various industry aggregates, among other activities. The increase in revenue in 2020 is related to minor (5% or less) price increases for contractual and direct sale agreements.
- (4) Seven business partners leverage the NAIC Filing Support Product (FSP) Platform in order to ensure accurate submissions of quarterly and annual filings to the NAIC. Licensed services include (1) Annual Statement Filing Support Product (ASFSP); (2) Risk-Based Capital Filing Support Product (RBCFSP); (3) Annual Statement Instructions; and (4) Risk-Based Capital Forecasting. Royalties from all seven business partners are expected to exceed budget in 2019. In 2020, FSP fees will increase \$30, Annual Statement Instructions fees will increase \$20, and Risk-Based Capital Forecasting fees will increase \$5. The most recent increase occurred in 2017.

BUDGET ITEM: Valuation Services

Item Description: Fees related to the designation of securities, including the Securities Valuation Office (SVO), Capital Markets Bureau (CMB), and Structured Securities Group (SSG). This category also includes revenues generated by the NAIC's Automated Valuation Service (AVS+).

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Capital Markets and Investment Analysis Fees (1)	\$10,397,175	\$5,447,774	\$11,373,224	\$10,714,700	\$11,678,175	\$963,475	9.0%
Structured Securities (2)	10,849,666	1,113,400	10,410,430	10,439,109	10,097,000	(342,109)	-3.3%
Automated Valuation Service (3)	5,671,499	2,763,575	5,665,782	5,789,109	6,201,878	412,769	7.1%
Total	\$26,918,340	\$9,324,749	\$27,449,436	\$26,942,918	\$27,977,053	\$1,034,135	3.8%

- (1) The NAIC's Capital Markets and Investment Analysis business units provide state regulators with investment security valuations, capital markets analysis, research, and evaluations of insurer investment portfolio risks. Revenues generated from Capital Markets and Investment Analysis fees in 2019 are projected to be above budget due to an increase in corporate security ratings and advanced valuations. The 2020 budget anticipates continuation of the 2019 corporate security filing trend and an increase in private letter rulings. As illustrated in Exhibit R4-One, the Securities Valuation Office (SVO) pricing adjustments represent a continued effort to align fees with the effort expended to perform ratings analysis and the increasing cost of doing business. Price adjustments range from \$25 to \$2,500. Only one product is slated to increase by \$2,500, Corporate Initial Complex Credit ratings. This increase is necessary due to the amount of time required to review this complicated filing category. There are no ratings in this category anticipated in the 2020 budget. Two products will have a price increase of \$500, one of \$300, and four of \$200 while 19 products will have an increase of \$75 or less.

Capital Markets and Investment Analysis revenues include (1) \$9.8 million for non-rated security filings (non-rated security filing revenues are illustrated in Exhibit R4-One); (2) \$618,350 for the processing of subsidiary valuation filings; (3) \$406,500 for advanced rating services; (4) \$103,500 in services provided to banks and financial institutions that wish to be placed on the NAIC List of Qualified U.S. Financial Institutions; (5) \$109,725 in service fees for the review of money market funds; (6) \$221,400 in service fees for the review of exchange traded funds; (7) \$12,100 in service fees for the review of working capital financial investments; (8) \$33,500 in SVO sovereign fees, representing an offset to the cost of the SVO's requirement to conduct a sovereign analysis on the initial submission of issuing debt in a foreign country; (9) \$29,150 in service fees for the review of counterparty derivatives; (10) \$127,200 in private letter ruling fees; (11) \$190,350 for the right for redistributors to use SVO exchange traded fund designations; (12) \$15,575 in appeals fees; and (13) \$10,000 in investment analyst report fees generated through the work of the Capital Markets Bureau.

- (2) Structured Securities revenues are generated from the sale of modeled residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) held by insurance companies at the end of each year. Revenue is based on per-security sales to insurers based on their year-end holdings as well as the sale of complete RMBS, CMBS, or RMBS/CMBS datasets to third parties. The projected under performance for 2019 is based on the loss of one third-party dataset sale, partially offset by an increase in rating volume for CMBS and advanced rating services. The loss of the dataset sale and the increase in the number of CMBS ratings are expected to continue in 2020. The 2020 RMBS price per security of \$70 and CMBS price per security of \$100 have been in place since 2017.
- (3) The Automated Valuation Service (AVS+) is the NAIC's electronic system for the delivery of security designations assigned by the SVO. The AVS+ system is utilized by companies when preparing their Schedule D filings. Fees are based on the value of assets held in a companies' portfolio. The under budget variance in 2019 is related to the number of subscription agreements signed in 2019. The 2020 budget includes the first pricing adjustment since 2017. Fees for larger portfolios (top three tiers over \$50 billion) will increase 25% while smaller portfolios (bottom four tiers under \$250 million) will increase only 5%. Increases in the other seven tiers range from 7.5% to 17.5%. This increase is driven by higher costs for third parties who provide the data necessary to develop the information.

**Securities Valuation Office
Non-Rated Securities Revenues**

Product Description	2019 Filing Fee	2020 Filing Fee	2020 Budgeted Volumes	2020 Budgeted Revenue
34500 Corporates				
Corporate Initial Rated	\$275	\$300	8	\$2,400
Corporate A/U Rated	\$300	\$325	59	19,175
Structured CTL A/U Rated	\$325	\$325	1,385	450,125
Structured CTL A/U Not Rated	\$1,650	\$1,725	3	5,175
Corporate Initial Issuer Not in VOS	\$5,000	\$5,000	348	1,740,000
Corporate Initial Issuer Not in VOS Foreign	\$5,000	\$5,500	36	198,000
Corporate A/U Not Rated	\$1,650	\$1,725	1,087	1,875,075
Corporate A/U Not Rated Foreign	\$1,650	\$1,850	158	292,300
Corporate Initial Not Rated	\$1,650	\$1,725	152	262,200
Corporate Initial Not Rated Foreign	\$1,650	\$1,850	17	31,450
Corporate Initial Expired Info Request	\$275	\$300	41	12,300
Corporate Annual Expired Info Request	\$300	\$300	37	11,100
Corporate Rejected Filing	\$300	\$300	350	105,000
Corporate A/U Issuer CRP Rated	\$575	\$575	533	306,475
Corporate A/U Issuer Rated Add Issue	\$175	\$225	3,250	731,250
Corporate Initial Issuer CRP Rated	\$1,650	\$1,725	135	232,875
Corporate Initial Issuer Rated Add Issue	\$1,650	\$1,725	399	688,275
Corporate Material Change	\$300	\$300	21	6,300
Schedule BA Initial NotinVOS	\$5,000	\$5,000	2	10,000
Schedule BA Annual Rated	\$300	\$300	8	2,400
Schedule BA Annual VOS Not Rated	\$1,650	\$1,725	63	108,675
Schedule BA Annual Expired Info Request	\$300	\$300	2	600
Schedule BA A/U Issuer CRP Rated	\$575	\$575	2	1,150
Schedule BA A/U Issuer Rated Add Issue	\$175	\$225	9	2,025
Schedule BA Rejected Filings	\$300	\$300	7	2,100
34600 Municipals				
Municipal Initial Rated	\$300	\$300	187	56,100
Municipal A/U Rated	\$325	\$325	5	1,625
Municipal Initial Issuer Not in VOS	\$5,000	\$5,000	55	275,000
Municipal A/R VOS Not Rated	\$1,725	\$1,725	46	79,350
Municipal Initial Not Rated	\$1,725	\$1,725	9	15,525
Municipal A/R Issuer CRP Rated	\$575	\$575	29	16,675
Municipal Initial Issuer CRP Rated	\$1,725	\$1,725	5	8,625
Municipal Initial Issuer Rated Add Issue	\$1,725	\$1,725	38	65,550
Municipal Annual Lottery Add Issue	\$225	\$225	34	7,650
Municipal Initial Lottery	\$1,350	\$1,350	3	4,050
Municipal Annual Lottery	\$750	\$750	23	17,250
Municipal Initial Pre-Refunded	\$1,350	\$1,350	163	220,050
Municipal Annual Pre-Refunded	\$1,350	\$1,350	1	1,350
Municipal A/R Issuer Rated Add Issue	\$225	\$225	26	5,850
Municipal Rejected Filing	\$300	\$300	17	5,100
34700 Canadian				
Canada Rejected Filing	\$300	\$300	1	300
34800 Governments				
Government Annual Uissuer CRP Rated	\$575	\$575	1	575
35000 Structured				
Structured Initial Rated	\$275	\$300	11	3,300
Military Housing Bonds Initial	\$5,000	\$5,000	2	10,000
Structured A/U Rated	\$300	\$325	374	121,550
Structured Replication A/U	\$325	\$325	901	292,825
Structured RMBS A/U Non-Gtd	\$575	\$575	12	6,900
Structured CTL Additional Notes	\$300	\$300	2	600
Military Housing Bonds Annual	\$1,650	\$1,725	36	62,100
Structured Initial Expired Info Request	\$275	\$300	2	600
Structured CTL Bond Initial	\$1,650	\$1,725	16	27,600
Structured CTL Lease Initial	\$2,575	\$2,575	67	172,525
Structured A/U Not Rated	\$1,650	\$1,725	13	22,425
Structured Replication Initial	\$1,650	\$1,725	460	793,500
Structured Replication Collateral	\$325	\$375	500	187,500
Structured Annual Structured Settlement	\$575	\$575	144	82,800
Structured Initial ETFs	\$2,575	\$2,575	12	30,900
Structured Annual ETFs	\$1,650	\$1,725	47	81,075
Structured Rejected Filing	\$300	\$300	87	26,100
SSG Rejected Filing	\$300	\$300	3	900
Structured Material Change	\$300	\$300	2	600
			11,556	\$9,800,850

BUDGET ITEM: Transaction Filing Fees

Item Description: Transaction filing fees to assist state departments of insurance with regulatory filings, including System for Electronic Rates and Forms Filings (SERFF), Online Premium Tax for Insurance (OPT*ins*), State Based Systems (SBS), and the International Insurers Department (IID).

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
SERFF Fees (1)	\$4,796,884	\$2,582,862	\$5,221,624	\$5,010,621	\$6,091,128	\$1,080,507	21.6%
OPT <i>ins</i> Fees (2)	1,044,600	688,107	1,074,104	965,925	1,091,025	125,100	13.0%
SBS Fees (3)	4,126,120	2,186,791	4,356,913	4,371,733	4,683,938	312,205	7.1%
IID Fees (4)	784,800	772,200	801,480	768,960	802,560	33,600	4.4%
Total	\$10,752,404	\$6,229,960	\$11,454,121	\$11,117,239	\$12,668,651	\$1,551,412	14.0%

(1) SERFF is licensed and used by 52 jurisdictions and over 4,000 insurance companies, third-party filers, rating organizations, and other companies. SERFF represents a key NAIC product in the modernization and efficiency of the state-based insurance regulatory system. Most jurisdictions receive more than 90% of their filings in an electronic format via SERFF, allowing faster turnaround, more consistent review, and better reporting. Companies experience significant cost savings and efficiency through the electronic submission of product filings to multiple jurisdictions, saving personnel and mailing costs by streamlining the submission process. Revenue for SERFF usage fees is expected to exceed budget in 2019. More companies are choosing to file under the higher priced pay-as-you-go model than expected in the calculation of the 2019 budget. SERFF filing fees changed in 2018 with the implementation of the SERFF Pricing and Policy Restructure. The 2020 budget is consistent with these projections with usage fees budgeted at \$4.5 million, which is \$97,600 higher than the 2019 budget.

Also included in the SERFF revenue line is \$597,800 for Integration Expansion license fees and \$25,000 annual license fee from the Interstate Insurance Product Regulation Commission (IIPRC). Integration Expansion license fees are expected to exceed budget in 2019 as a result of additional contracts. These contracts continue in 2020 and include contractual annual increases. Under the NAIC/IIPRC license and services agreement, the IIPRC pays a licence fee to receive general support of the SERFF system and up to 250 development hours each year to make modifications to SERFF in order to accommodate IIPRC filings and the overall expansion/enhancements of IIPRC product filing operations.

A new line of business based on NAIC hosting insurers' rate and form filings was approved by the Executive (EX) Committee in August 2019. Revenue from this line of business is expected to begin in November 2019. Revenue of \$965,000 budgeted in 2020 is based on current hosting vendor models, with approximately 50% of companies expected to move to the NAIC.

(2) The NAIC's online premium tax submission and payment system (OPT*ins*) automates and simplifies premium tax and surplus lines tax return submissions by filing companies, brokers, and individuals and the receipt of filings and collection of premium taxes by states, in exchange for a transaction fee on a sliding scale of \$1 to \$10 per transaction. OPT*ins*, with 26 participating jurisdictions, represents another NAIC initiative to modernize and improve the efficiency of the state-based insurance regulatory system. Companies experience cost savings and efficiency through electronic submission of premium tax and surplus lines returns and electronic payment of quarterly and annual premium taxes. Projections for 2019 and the 2020 budget show continued growth in the use of these services.

(3) SBS provides a comprehensive web-based application for use by state regulators in support of all state-based insurance regulatory functions. SBS is currently in service in 29 jurisdictions with one state in process of implementation. SBS enables state insurance regulators to more efficiently and effectively process license applications, license renewals, consumer inquiries, consumer complaints, and enforcement actions, among other regulatory applications, and remain compliant with national insurance regulation uniformity initiatives. Through SBS both regulated entities and state insurance regulators experience significant cost savings and efficiency by automation of state insurance regulatory processes and transactions. The value of SBS services to the industry is significant in terms of cost savings to insurers, producers, and providers managing the cost of compliance, and far exceeds the insignificant processing fees charged by the NAIC in facilitating electronic transactions. Further, SBS generates voluntary transaction fees from users who leverage the SBS system to complete regulatory transactions, which further illustrates the benefit of value-added services to both state insurance regulators and the insurance industry. The 2020 budget includes a full year of continuing education (CE) revenue for one state added in mid-2019. Additionally, Producer Information Reports will increase from \$0.02 to \$0.03 a line, with a \$30 minimum fee.

BUDGET ITEM: Transaction Filing Fees (continued)

- (4) IID revenues are generated from processing initial applications and annual update financial filings from companies listed in the Quarterly Listing of Alien Insurers. Companies benefit from this listing in their ability to conduct business in jurisdictions relying on the IID and Quarterly Listing of Alien Insurers. The 2020 budget is based on 157 filings from companies and Lloyd's Syndicates, five new applications, and two late fees. The IID received 154 renewals in 2019, four more than budget. Fees remain the same and have not changed since 2017.

R5b: Transaction Filing Fees

BUDGET ITEM: National Meetings, NAIC Events, and Interim Meetings

Item Description: Fees received from attendees at NAIC National Meetings, International Insurance Forum, Insurance Summit, and NAIC sponsored IAIS Global Seminar.

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
National Meeting Registration Fees (1)	\$2,192,250	\$784,788	\$2,468,288	\$2,445,031	\$2,443,723	(\$1,308)	-0.1%
International Insurance Forum	85,500	89,500	89,500	84,000	84,000		0.0%
Insurance Summit (2)	271,615	273,212	273,212	278,500	271,125	(7,375)	-2.7%
IAIS (3)					124,800	124,800	
	\$2,549,365	\$1,147,500	\$2,831,000	\$2,807,531	\$2,923,648	\$116,117	4.1%

- (1) National meeting registration fees are projected based on Exhibit R6-One, and are charged on a multi-tier basis such that early registrations receive a discount and certain incentives are offered to first-time and local attendees. The overage in 2019 is the result of increased registrations for the NAIC 2019 Spring National Meeting. The number of registrations budgeted for 2020 national meetings are based on location. The 2020 fees are the same as 2019.
- (2) Revenue from the NAIC Insurance Summit is generated by registration fees for participants and sponsorship fees for exhibitors. Registration fees for the 2020 Summit will increase \$50 but the number of registrations is expected to decline. One sponsorship fee is budgeted to increase \$500. The 2020 Summit will be held in September.
- (3) During 2020, the NAIC will host the IAIS Joint Committee Meeting and Global Seminar in Seattle, WA. Non-committee members will pay a registration fee to attend the Global Seminar portion of this event.

National Meeting Registrations

	Phoenix, AZ		Minneapolis, MN		Indianapolis, IN		Total		
	Fee	Registrants	Total	Registrants	Total	Registrants	Total	Registrants	Total
Advance Registration	\$775	938	\$726,950	917	\$710,675	875	\$678,125	2,730	\$2,115,750
Registration after 30 Days Prior	\$875	120	105,000	117	102,375	112	98,000	349	305,375
First Time, Local Registrants	\$438	33	14,454	32	14,016	30	13,140	95	41,610
Subtotal		1,091	846,404	1,066	827,066	1,017	789,265	3,174	2,462,735
Cancellations	\$388	(16)	(6,208)	(16)	(6,208)	(17)	(6,596)	(49)	(19,012)
Total Projected Paid Attendance and Revenues		1,075	\$840,196	1,050	\$820,858	1,000	\$782,669	3,125	\$2,443,723
Total Projected Registrations (Paid and Unpaid)		2,150		2,050		2,000		6,200	

2020 attendance projections were determined by taking into consideration location and past attendance.

Prior Year <u>Paid</u> Attendance Statistics:	Spring	Summer	Fall
2019	1,003 Orlando	1,075 New York	Austin
2018	980 Milwaukee	1,003 Boston	1,038 San Francisco
2017	1,001 Denver	1,100 Philadelphia	507 Honolulu
2016	983 New Orleans	964 San Diego	991 Miami Beach
2015	1,027 Phoenix	1,094 Chicago	1,070 Washington, D.C.
2014	957 Orlando	926 Louisville	1,072 Washington, D.C.
2013	936 Houston	944 Indianapolis	1,027 Washington, D.C.
2012	989 New Orleans	918 Atlanta	1,007 Washington, D.C.
2011	998 Austin	(cxl'd) Philadelphia	1,051 Washington, D.C.
	<u>5,890</u>	<u>4,846</u>	<u>5,227</u>
Average attendance - prior four years	992	1,036	902

BUDGET ITEM: Education and Training

Item Description: Revenue from NAIC education and training programs.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Education and Training (1)	\$391,930	\$124,365	\$376,666	\$414,398	\$400,740	(\$13,658)	-3.3%

(1) The purpose of the Education and Training function within the NAIC is to manage the NAIC's regulatory curriculum. The core focus is on identifying and seizing opportunities to develop just-in-time, on-demand, and/or unmanned training and development of products, while assuring the integrity and comprehensiveness of the curriculum as a whole. In the examination of education opportunities, the goal is to achieve a balance between meeting the regulatory training needs of Department of Insurance employees and assisting industry clients through a broader range of compliance training topics. The NAIC educational curriculum is offered to Department of Insurance employees and Consumer Advocates at no charge. Educational programs are short courses with highly targeted curriculum. Projected revenue for 2019 reflects a decline in registrations for technical and reporting related trainings. The 2020 budget assumes technical training requests will return to previous levels. The number of participants attending reporting courses will be lower in 2020 due to courses that are only offered every other year.

BUDGET ITEM: Administrative Services and License Fees

Item Description: Revenues received from license and services agreements with the National Insurance Producer Registry (NIPR) and Interstate Insurance Product Regulation Commission (IIPRC).

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
License Fees (1)	\$15,193,662	\$8,688,281	\$16,542,970	\$15,639,148	\$17,165,443	\$1,526,295	9.8%
Administrative Service/System Usage Fees (2)	1,972,702	1,035,681	2,326,234	2,091,237	2,481,474	390,237	18.7%
Total	<u>\$17,166,364</u>	<u>\$9,723,962</u>	<u>\$18,869,204</u>	<u>\$17,730,385</u>	<u>\$19,646,917</u>	<u>\$1,916,532</u>	10.8%

Administrative services and license fees are derived from agreements between the NAIC and NIPR and the NAIC and IIPRC. The license and services agreement between NAIC and NIPR includes license fees and administrative services fees and began on January 1, 2018, for a five-year period. The current agreement is similar to previous agreements. The license and services agreement between the NAIC and IIPRC began June 1, 2007, and expired December 31, 2011. This agreement continues to be renewed for one-year periods, with the most current expiring on December 31, 2019.

- (1) Pursuant to the 2018 license and services agreement, the NAIC receives 38% of certain NIPR revenues, which represents a license for NIPR to use the NAIC's producer data. The 2019 projection and 2020 budget are based on revenue projections provided by NIPR. The projected increase over the 2019 budget is attributable to increases in both Producer Database and Gateway products. The 2020 budget is consistent with these expectations, with additional revenue expected in all lines.

The value of NAIC/NIPR services to industry is significant. By licensing the NAIC's State Producer Licensing Database, NIPR is able to deliver a national, aggregated database of producer information. Insurance companies are able to leverage NIPR's Producer Database (PDB) as a centralized, one-stop shop to perform research of all licensed producer records, which is critical in saving them time and money in ensuring the appropriate licensing and appointment of producers selling business on their behalf, and critical to the companies' compliance with state insurance laws.

Without the centralized database, this research would have to occur on a state-by-state basis, significantly increasing the amount of time and cost of compliance. The NAIC believes this illustrates tremendous value and cost savings to insurers managing the cost of compliance. Further, NIPR's products and services have been embedded into the automated workflow processes of many insurance carriers. The PDB is now the data source for companies to synchronize their producer data systems, which automates data entry and gets the carrier closer to producer real-time expectations. Use of the data supports compliance management and eliminates costly errors.

Specific to the individual producer licensing transactions offered by NIPR, a non-resident producer wishing to be licensed in a large number of non-resident states (e.g., 50 states) is able to leverage NIPR's non-resident licensing (NRL) transaction functionality to submit one electronic, uniform application at a current maximum price of \$6.18 for each of the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands, and receive the approval or declination of the application generally within 48 hours. Absent NIPR's web-based option, the producer would have been required to submit paper applications via U.S. Mail (perhaps by fax in some states) to each of the 50 states and territories. Value propositions include (1) lower cost to the producer to submit the uniform application through NIPR's system compared to the cost of (i) printed mailings and (ii) the potential cost of preparing multiple required forms in cases where the uniform application is not accepted manually and (2) reduced administrative cost to the producer in monitoring the status of the printed applications versus receiving the electronic notification of approval in 48 hours.

The current license and services agreement with IIPRC calls for an adjustable administrative fee of 5% of every \$25,000 in the first year revenues exceed expenses by at least \$25,000. In year two the percentage increases to 7.5%. This administrative fee was first triggered in 2018 with IIPRC remitting \$6,250. The 2019 projection for this fee is \$33,750 while the 2020 budget is only \$1,875 based on earnings projections provided by IIPRC.

- (2) Administrative services fees includes the actual cost of services provided to NIPR and a flat fee of \$125,000 for services provided to IIPRC. These services include administrative support services, facilities, and equipment provided by the NAIC. The increase in 2019 reflects the anticipated use of NAIC resources by NIPR based on actuals through June 30, 2019. This level of NAIC staff utilization is anticipated to continue in 2020. A portion of the increase is attributable to transition to cloud computing (see Fiscal Impact 1).

BUDGET ITEM: Other

Item Description: Revenues received from business operations not otherwise classified.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/2019 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Other (1)	\$43,601	\$21,623	\$100,993	\$61,500	\$90,400	\$28,900	47.0%

(1) The 2020 budget consists of (1) \$60,000 for a tax rebate related to the Kansas City leasehold; (2) \$12,000 for a service level agreement with the New York State Insurance Department to accept supplemental filings to the Annual Statement submitted to the Department by New York licensed insurers through the NAIC's internet filing application; (3) \$13,900 for rebates related to the use of purchasing cards; and (4) \$4,500 for software maintenance fees. Rebates for 2019 and 2020 are based on the actual rebate for 2018.

R9: Other

BUDGET ITEM: Salaries

Item Description: Includes salary, vacation liability, a turnover factor, a budget for promotions and adjustments, and overtime for all NAIC employees.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Salaries - Existing Employees (1)	\$50,115,863	\$25,925,514	\$52,088,983	\$52,792,440	\$55,046,866	\$2,254,426	4.3%
Turnover Factor (2)				(906,861)	(942,000)	(35,139)	3.9%
Salaries - Promotions and Adjustments (3)					548,219	548,219	100.0%
Overtime (4)	125,814	61,663	103,088	85,751	86,308	557	0.7%
Total	\$50,241,678	\$25,987,177	\$52,192,071	\$51,971,330	\$54,739,393	\$2,768,063	5.3%

(1) The NAIC generally bases its annual budgeted salary increase on local and national salary surveys such as the William Mercer Compensation Planning Survey, the Hay Group Survey, and the World at Work Salary Budget Survey. While these surveys show increases on the local and national level to be in the 3.3-3.4% range, the NAIC has budgeted a 3.2% overall increase for 2020. This is a 0.2% increase from the prior year. With a 3.2% budget the NAIC can be mindful of state budget challenges while attracting and retaining qualified staff members in its highly technical and professional environment. The majority of the NAIC's staff are located in the tight Kansas City labor market, making it difficult to attract and retain talented resources in highly specialized fields due to increased competition. The NAIC will realize a salary savings in fiscal year 2019 as a result of open positions from January 1 through June 30 and those expected to be open for the remainder of the year, some of which have remained open for longer than usual due to (1) difficulty securing specialized resources at the existing salary for the open position, and (2) management's priority-based review of open NAIC positions in an effort to thoroughly assess the needs of each position without impacting critical membership services. The salary line also includes a provision for the value of accrued but unused vacation at the end of each year, which is required by Generally Accepted Accounting Principles (GAAP). There are no requested additional headcount in the 2020 budget.

As of June 30, 2019, the NAIC has 495.5 approved full-time equivalent (FTE) positions.

- (2) The turnover factor anticipates a turnover percentage of 10% with an average vacancy duration of 9.0 weeks, consistent with the 2019 budget. While the vacancy duration is applied as an average, actual vacancy durations vary significantly by area of expertise. A position within one of the NAIC's more specialized areas, such as technical, financial, or actuarial, can remain open as long as 18 weeks. The increase in budgeted turnover savings is related to the increase in the 2020 salary base.
- (3) The NAIC uses a promotions and adjustments line for the purpose of attracting and retaining qualified individuals for employment with the NAIC. Given the unique qualifications required by the NAIC for many positions, it is sometimes difficult to retain or fill valuable resources at NAIC salary rates. The promotions and adjustments budget provides the NAIC an opportunity to remain competitive in the marketplace and retain valuable resources. The 2020 budget remains consistent with the prior year at 1.0% of budgeted salaries. The 2019 budget of \$518,208 has been moved to the salary line to accommodate salary increases necessary to secure unique and highly qualified skillsets.
- (4) The overtime budget reflects the amount of overtime required to support NAIC functions during the year. Examples include (1) additional hours worked by desktop computer technicians during software rollouts, outages, and unexpected absences by team members; (2) travel time and additional hours for administrative staff who support the three NAIC National Meetings and other NAIC events during the year; (3) additional hours worked by Service Desk staff to address backlogs; and (4) additional hours worked by staff during state and system implementations. The over budget variance in 2019 reflects the unexpected need for overtime hours spread over several NAIC divisions. The 2020 budget reflects a return to a normal level of additional hours worked by staff.

BUDGET ITEM: Temporary Personnel

Item Description: Fees paid to outside agencies and wages paid to interns for additional personnel during peak work periods.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
National Meetings (1)	\$81,699	\$16,261	\$67,862	\$77,754	\$87,956	\$10,202	13.1%
Interns (2)	390,778	211,067	449,591	457,167	499,380	42,213	9.2%
Other (3)	120,063	64,116	76,723	130,632	24,600	(106,032)	-81.2%
Total	\$592,539	\$291,444	\$594,176	\$665,553	\$611,936	(\$53,617)	-8.1%

- (1) Temporary resources for national meetings are used for security and door monitoring purposes. Hotel configurations and meeting schedules dictate the amount of temporary services required at each national meeting. The 2019 projection reflects fewer hours and a lower hourly rate for security services during the Spring National Meeting. The increase in 2020 is primarily related to the cost of services for the Spring National Meeting.
- (2) The NAIC internship program is designed to complement resource needs in various high-priority areas. Some of the projects slated for intern assignment include SBS systems testing; SERFF product support; NAIC Service Desk customer service support; support for the Human Resources Division; support for the NAIC's digital library collection; statistical research; data security support; and legal research. The use of interns allows the NAIC to find and attract temporary resources, in a competitive marketplace, resulting in a very successful program for the NAIC with respect to identifying and retaining qualified candidates for full-time positions. The 2020 budget includes requests for five additional interns in highly leveraged areas of the NAIC.
- (3) Other temporary personnel are budgeted to provide additional resources during periods of increased demand or unusual vacancies. The 2019 budget included the engagement of temporary staff to assist during state migrations to the new SBS platform. As the SBS deployment team has become comfortable with deployments these resources have not been utilized to the extent budgeted in 2019 and will not be needed in 2020.

BUDGET ITEM: Payroll Taxes

Item Description: FICA and unemployment compensation costs incurred for all NAIC employees and interns.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
FICA (1)	\$3,342,637	\$1,987,992	\$3,459,214	\$3,579,649	\$3,658,602	\$78,953	2.2%
FICA Turnover (1)				(61,300)	(62,200)	(900)	1.5%
Unemployment Compensation (2)	43,673	34,445	37,580	52,756	39,728	(13,028)	-24.7%
Total	<u>\$3,386,310</u>	<u>\$2,022,437</u>	<u>\$3,496,794</u>	<u>\$3,571,105</u>	<u>\$3,636,130</u>	<u>\$65,025</u>	1.8%

(1) FICA expense is below budget in 2019 after inclusion of FICA turnover due to a higher than budget turnover rate and longer than expected duration to fill open positions. The increase in budgeted FICA for 2020 is related to the increase in the 2020 salary budget as described in the salary section of this budget and the annual expected increase in the salary limit subject to FICA.

The turnover factor applied to annual salaries is also applied to the payroll taxes related to those salaries, using turnover and vacancy rates consistent with those described in the salary section of this budget. Actual and projected turnover is reflected in the salary line. The increase in this budget line is related to the increase in the salary base as discussed in the salary section.

(2) The decrease in unemployment compensation reflects a decrease in the Kansas City unemployment rate received in late 2018 following the approval of the 2019 budget. This rate decrease is expected to continue through 2020.

BUDGET ITEM: Employee Benefits

Item Description: Includes all pension, health insurance, life, and disability insurance paid by the NAIC for its employees, as well as programs designed to reduce health insurance costs and retain NAIC employees.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Retirement Benefits (1)	\$4,652,480	\$3,294,178	\$7,069,088	\$5,123,610	\$6,260,717	\$1,137,107	22.2%
Health Benefits (2)	3,818,407	1,892,575	4,766,088	5,173,375	5,435,283	261,908	5.1%
Group Life and Disability	237,664	125,247	250,179	248,196	251,396	3,200	1.3%
Employee Relations (3)	904,002	409,114	862,361	874,883	792,960	(81,923)	-9.4%
Total	\$9,612,553	\$5,721,114	\$12,947,716	\$11,420,064	\$12,740,356	\$1,320,292	11.6%

- (1) Retirement Benefits includes the defined contribution plan (DCP) to which the NAIC makes a 3% discretionary contribution of each employee's annual salary and matches an employee's contribution up to 5.5%, for an estimated \$3.8 million in 2020. This expense is budgeted to increase \$191,642 from projected 2019 expenses and \$137,107 from the 2019 budget based on (1) current staff contribution rates and (2) increased salary base in 2020.

Also included in this line is the NAIC's defined benefit plan (DBP). The NAIC Internal Administration (EX1) Subcommittee approved a strategy to accelerate loss recognition and fully fund the plan over the next few years beginning with the December 31, 2017, measurement date. The goal of this strategy is to be fully funded with no unrecognized expense by the end of 2021. This approach results in projected expense for 2019 of \$3.3 million and budgeted 2020 expense of \$2.2 million. Consistent with prior years, the 2020 budget and 2019 projection include \$300,000 for estimated settlement accounting for this plan, which represents the best available measurement of additional costs to be incurred if several long-term employees in this plan choose to retire. NAIC management works closely with the NAIC Internal Administration (EX1) Subcommittee, the plan's actuary, and the NAIC's investment advisory firm to carefully review plan performance in relation to underlying plan assumptions.

- (2) Employee health benefits are based on the number of employees enrolled and their benefit selections. The NAIC moved to a self-insured plan in 2017 generating significant savings. As with any self-insured plan, actual cost will vary annually based on employee claims. The 2020 budget for health insurance expense assumes (1) claims remain relatively consistent with the prior year; (2) a 12% increase in the cost of stop loss coverage; and (3) a Health Savings Account (HSA) contribution for approximately 300 employees who have elected this benefit. The NAIC currently has several programs in place to assist in reducing the number and severity of health care claims. Examples of these programs are employee health awareness programs, Wellness Days, and Corporate Challenge participation. Projected expense for 2019 is based on actual claims through mid-2019 and prior year experiences.
- (3) Employee relations includes (1) service awards; (2) performance recognition programs; (3) incidental employee functions such as Employee Appreciation Day, NAIC Wellness Days, and Corporate Challenge participation; (4) student loan assistance program; and (5) annual holiday luncheons for each of the three NAIC offices. The 2019 budget will be underspent due to lower utilization of the student loan assistance program. This reduced usage is also reflected in the 2020 budget. Management continues to have confidence in the benefit of these programs in creating a positive work environment and the success of these events.

BUDGET ITEM: Employee Development

Item Description: Includes fees for seminars, professional training courses, and professional association memberships for NAIC staff.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Education Reimbursements (1)	\$35,796	\$20,954	\$47,166	\$60,740	\$46,462	(\$14,278)	-23.5%
Professional Training (2)	579,033	322,403	758,687	694,432	674,713	(19,719)	-2.8%
Professional Association Dues-Staff (3)	78,167	52,226	79,335	81,409	83,016	1,607	2.0%
Total	\$692,996	\$395,583	\$885,188	\$836,581	\$804,191	(\$32,390)	-3.9%

- (1) Educational reimbursements carry an annual cap per employee, are only available to those employees who are actively pursuing college degrees or professional designations, and only apply toward tuition for courses that specifically relate to and enhance the employee's job knowledge and/or skills for the benefit of the NAIC. The 2019 variance from budget reflects fewer certification reimbursements than anticipated in the 2019 budget as a result of workload restraints. The 2020 budget demonstrates the NAIC's continued commitment to the development of employee skills to further the work of state regulation and the NAIC.
- (2) Professional training represents registration fees for professional seminars, trade workshops, and education programs attended by NAIC employees who require specialized training or are required to receive continuing education to maintain professional licenses or designations. This category also includes NAIC All Staff Training Event expenses on topics such as (1) cybersecurity; (2) management; and (3) leadership. The 2020 budget demonstrates the continued need for specialized training in several areas, including cloud computing.
- (3) The budget includes employee memberships in various professional associations, such as the American Society of Association Executives, American Bar Association, local and state bar associations, the American Institute of Certified Public Accountants, and state CPA associations, among others. The increase in 2020 is due to cloud computing-related certifications.

BUDGET ITEM: Professional Services

Item Description: Fees paid to outside consultants for legal, actuarial, information technology, security modeling, financial services, and other consulting services.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Legal (1)	\$69,382	\$48,539	\$300,539	\$400,000	\$400,000		0.0%
Accreditation Team (2)	751,730	617,280	1,127,630	1,133,410	1,132,210	(\$1,200)	-0.1%
Royalties (3)	1,741,942	377,708	1,895,021	2,205,886	1,872,575	(333,311)	-15.1%
Benefits (4)	303,122	122,999	285,849	271,464	297,144	25,680	9.5%
Audit (5)	255,232	204,786	606,889	559,418	499,048	(60,370)	-10.8%
Consumer Awareness (6)	149,622	73,469	426,898	600,000	635,000	35,000	5.8%
Implementation/Upgrade (7)	2,731,726	2,673,317	7,187,357	7,389,343	7,580,032	190,689	2.6%
Data Modeling (8)	2,950,000		2,950,000	2,950,000	2,950,000		0.0%
Other Professional Services (9)	1,212,890	785,117	1,314,088	1,013,478	1,445,073	431,595	42.6%
Total	\$10,165,645	\$4,903,215	\$16,094,271	\$16,522,999	\$16,811,083	\$288,084	1.7%

- (1) The outside legal counsel budget reflects anticipated legal expenses to assist the Legal Division in (1) needed expertise to assist in complex and specialized regulatory issues and projects; (2) labor and employment issues; (3) corporate matters relating to contracts, tax, and benefits; and (4) amicus briefs filed at the request of NAIC members. The 2020 budget is consistent with the prior year.
- (2) The NAIC contracts with independent teams to conduct reviews of insurance departments seeking accreditation under the NAIC Financial Regulation Standards and Accreditation program. The budget is based on the number and type of examinations to be conducted. To reduce significant fluctuations in resource and funding needs, in 2018 the NAIC adopted a proposal by the Financial Regulation Standards and Accreditation (F) Committee to more evenly distribute the number of reviews between years. The 2020 budget assumes 10 states undergoing full reviews and 11 states undergoing pre-reviews, both consistent with 2019; and three re-reviews, an increase of two over 2019. This line also includes training for the independent team members to discuss program guidelines, standards, review team practices, changes to the program, and NAIC tools used by members to comply with the program. While the number of reviews is scheduled to increase slightly the budget is consistent with 2019 due to a reduction in the number of large domestics included in reviews scheduled for 2020.
- (3) Royalties are paid to (1) financial modelers based on CMBS and/or RMBS dataset sales to third parties (\$1,842,500); and (2) the sale of NAIC products that leverage third-party technology and proprietary data (\$30,075). The 2019 projection is less than budget due to an expected decrease in dataset sales to third parties. Revenue for 2020 from the sale of CMBS and RMBS modeled securities datasets, and thus royalties, is expected to be in line with 2019 projections.
- (4) Consulting and support services in the benefits category include assistance with (1) administration of the Defined Contribution Retirement Plan; (2) actuarial services for the Defined Benefit Retirement Plan; (3) benefit renewals; and (4) employee wellness plans. Administration fees will be slightly over budget in 2019 as a result of retaining an advisory firm for pharmacy plans. This cost will continue in 2020.
- (5) Audit fees include amounts paid to independent accounting, accrediting, and information technology firms for (1) annual financial examination (\$40,600); (2) Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization (SOC) engagements, including SOC 1 and SOC 2 audits and a SOC 2 gap assessment for cloud computing (\$180,000); (3) cybersecurity audits (\$148,400); (4) operating reserve policy audit (\$35,000); and (5) security testing related to cloud computing (\$90,000) (see Fiscal Impact 1). The increase in spending in 2019 is related to two unbudgeted benefit audits. The budgeted decrease in 2020 is due to the completion of several examinations related to NAIC's applications and networks.

BUDGET ITEM: Professional Services (continued from E6a)

- (6) The 2020 budget for consumer awareness contains \$485,000 in public relations consulting services to support the NAIC's core consumer awareness and education media campaign. It also includes \$150,000 for the NAIC Educational Outreach Program, a continuation of the program designed to educate domestic and international policymakers about the state-based regulatory system in the U.S. These campaigns were on hold in 2018 to search for the proper resources and did not become active again until the second quarter of 2019. The 2020 budget includes an expansion of the core consumer awareness and education media campaign.
- (7) The Implementation/Upgrade category contains amounts budgeted for consulting and other professional services related to process and application improvements across all platforms. The 2020 budget includes (1) \$1,711,600 for implementation costs to complete the transition of existing jurisdictions to the updated SBS system; (2) \$750,000 for upgrades to customer-facing processes and functionality, particularly SERFF and SBS; (3) \$135,000 for continued work on the Financial Analysis Tools Redesign; (4) \$295,200 for further work on the Market Analysis Review Systems Redesign; (5) \$453,600 in staff augmentation and guidance as the NAIC continues work on several high-profile implementations; (6) \$150,400 for process improvements and automation to NAIC back-office systems; and (4) \$163,500 for additional support for systems converted to cloud computing in previous budget cycles. The 2020 budget also includes consulting dollars for Fiscal Impacts 1 through 5 - Cloud Transition Phase IV (\$2,813,300); Enhanced Regulatory Data Collection (RDC) (\$233,860); Financial Data Delivery Platform Enhancement (\$396,800); SERFF Billing Improvements (\$86,360); and UCAA Redesign (\$390,375). The under budget variance in 2019 is driven by hiring delays for consultants for the SBS transition project. The majority of the increase in 2020 is related to new fiscal projects partially offset by the completion of several prior year fiscal projects.
- (8) Data modeling service fees are based on a contractual agreement for the modeling of CMBS and RMBS securities owned by insurers.
- (9) Other professional services include (1) \$56,700 for the NAIC's commercial insurance brokerage fees; (2) \$168,300 for expenses related to registration software license fees, transportation, facilities, speakers, and photographers for National Meetings, NAIC Events, and Interim Meetings; (3) \$102,900 in banking fees; (4) \$182,000 in fees for the administration, lease, and oversight of the co-location facility and services; (5) \$388,400 in cloud management services; (6) \$105,000 in news and video production services; (7) \$40,000 for cybersecurity services; (8) \$92,400 for technology information subscriptions; (9) \$91,400 in consulting services for the NAIC Designation Program; (10) \$60,000 for data analysis; and (11) \$158,000 for various outside services used throughout the association. The 2019 over budget projection in other professional services is due primarily to the addition of cloud management services. The increase in this expense line in 2020 is related to continuation of cloud management services.

BUDGET ITEM: Computer Services

Item Description: Fees paid to outside providers for computer processing; payroll processing; credit card processing; registrations for national meetings, education programs and other NAIC events; and securities valuation services.

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Database Network (1)	\$463,063	\$357,859	\$739,389	\$769,572	\$894,398	\$124,826	16.2%
Cloud Services (2)	549,579	560,757	1,146,297	1,255,772	1,730,799	475,027	37.8%
Securities Valuation Services (3)	1,908,102	1,105,787	2,212,289	2,089,715	2,403,990	314,275	15.0%
Credit Card Fees (4)	358,100	187,256	357,706	348,796	382,993	34,197	9.8%
Other (5)	337,587	168,566	364,684	344,767	436,449	91,682	26.6%
Total	\$3,616,430	\$2,380,225	\$4,820,364	\$4,808,622	\$5,848,629	\$1,040,007	21.6%

- (1) Database Network expenses budgeted in 2020 include (1) Internet connectivity (\$124,800); (2) New York and Washington, D.C. office circuits and backups to the Kansas City office (\$143,300); (3) wireless devices (\$121,150); (4) data line circuits for data replication and network synchronization between the NAIC's co-location site and all three NAIC offices (\$192,500) and (5) \$312,600 for wireless network and Wi-Fi services at national meetings, NAIC events, and interim meetings. The 2019 projection includes savings related to Wi-Fi services during the Insurance Summit. The increase in 2020 is directly related to the use of two hotels and convention centers for all three national meetings, requiring internet service at all three facilities.
- (2) The NAIC undertook an initiative in mid-2017 to begin the transition to cloud computing to enable the association to quickly provision new capabilities, increase agility, and increase the speed of products to market. In order to closely monitor run costs related to this initiative, service costs are tracked separately from infrastructure costs. The 2019 expense for cloud services represents conversions of systems to the Cloud in phases I through III. The under budget variance is due to prudent management of run periods for cloud applications. The 2020 budget includes the continued service cost for initial applications, a full year of costs for applications transitioned in 2019, and the transition of additional applications in 2020 (see Fiscal Impact 1). Operational costs will continue to increase for a few years as the NAIC continues to operate both the on-premise and cloud-based platforms. Once the majority of applications are on the cloud-based platform, overall operational costs for the NAIC will begin to decrease.
- (3) Securities Valuation Services represent the purchase of NRSRO ratings and security data feeds, as well as access to credit reports, industry/sector analysis, peer searches, and analysis methodologies. This information is used to produce SVO designations for NRSRO-rated securities, including municipal bond pricing, corporate bond pricing, Bloomberg, and Moody's. The variance in 2019 is related to the addition of services and renewal rate increases. The 2020 budget includes annual increases across all platforms.
- (4) Credit card fees include charges from vendors and banks to settle NAIC customer credit card transactions and deposit funds in the NAIC bank account. The over budget performance in 2019 relates to an increase in payment of invoices via credit card. The 2020 budget recognizes the continuation of this trend along with an increase in billed transactions for products and services.
- (5) Other computer services included in the 2020 budget represent: (1) the cost of outsourcing the preparation of NAIC's payroll (\$100,880); (2) fees for use of an online learning platform (\$119,200); (3) fees for processing online registrations for national meetings and other NAIC events (\$17,200) and education programs (\$23,000); (4) fees for powering the national meeting and Insurance Summit mobile agenda application (\$24,850); (5) webinar connectivity for education programs (\$16,700); (6) employee-based services (\$66,150); (7) technology to scan attendee badges for professional education reporting (\$8,800); (8) library catalog service fees (\$23,700); (9) membership services software fees (\$12,000); and (10) language generation software fees (\$24,000). Spending in 2019 will exceed budget due to the purchase of unbudgeted language generation services for portfolio analysis; this increase is carried forward in the 2020 budget. The 2020 budget includes a \$40,000 increase in employee-based services.

BUDGET ITEM: Travel

Item Description: Includes airfare, lodging, meals, and incidental travel expenses incurred by the NAIC staff, Commissioners, regulators, funded consumer representatives, state legislators, and international fellows. The sales and marketing expense line includes registration and incidental fees charged by organizations for participation in their trade shows as well as travel cost for NAIC staff members to the selected trade show sites.

Description	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Staff Travel (1)	\$1,474,787	\$663,444	\$1,646,710	\$1,692,592	\$1,778,118	\$85,526	5.1%
Non-Staff/Non-Regulator Travel (2)	148,096	31,749	153,399	137,650	143,300	5,650	4.1%
Sales and Marketing Travel (3)	104,045	19,882	86,765	98,795	99,899	1,104	1.1%
Commissioner/Regulator Travel (4)	1,988,736	1,498,067	2,121,973	2,070,820	2,051,678	(19,142)	-0.9%
International Travel (5)	983,630	369,923	960,523	1,049,266	1,001,197	(48,069)	-4.6%
Regulatory Disaster Assistance Travel (6)	214,638	511	50,000	50,000	50,000		0.0%
Consumer Funding (7)	106,570	42,920	135,292	135,993	140,000	4,007	2.9%
Total	\$5,020,501	\$2,626,496	\$5,154,662	\$5,235,116	\$5,264,192	\$29,076	0.6%

- (1) Staff travel includes (1) travel to NAIC national meetings for committee staff support; (2) interim committee meetings; (3) state visits; and (4) travel to professional seminars and training programs. The under budget variance for 2019 is due to positions with budgeted travel being open, fewer trips than planned by staff members, and management's continued focus on controlling costs in this area. The increase in the 2020 budget is related to increased travel for cloud computing and other technical-related trainings.
- (2) The 2020 budget for non-staff/non-regulator travel includes (1) \$84,000 for travel expenses for state legislators to attend a 2020 NAIC National Meeting; (2) \$40,100 for travel and miscellaneous expenses for international regulators sponsored as part of the NAIC International Fellows Program; and (3) \$6,600 for speaker travel for CIPR Programs and Receptions at NAIC National Meetings. The over budget performance in 2019 is related to unbudgeted travel for CIPR Programs and Receptions and non-regulators to attend critical meetings in early 2019.
- (3) Sales and marketing travel represents travel and trade show expenses related to marketing of SERFF, OPT *ins*, SBS, and NAIC education and training programs. The under budget variance in 2019 is related to reduced participation at trade shows and conferences by SBS staff, who were heavily involved in the implementation of the new SBS platform. The 2020 budget for this line anticipates a return to the 2019 budgeted level of participation in these events by SBS staff.
- (4) Commissioner travel includes (1) \$340,000 in domestic travel for Commissioners and senior regulators to participate in such events as Congressional testimony, trade association meetings, speaking engagements, and conferences, all for the purpose of conducting NAIC business; (2) \$600,000 to sponsor Commissioner and senior regulator travel to all 2020 NAIC national meetings; (3) \$140,500 to fund Commissioner travel to the annual Commissioners Conference held for strategic planning purposes at the beginning of each year; (4) \$44,100 for financial regulatory training events; (5) \$20,000 to host travel to Valuation of Securities (VOS) Task Force meetings at NAIC offices; (6) \$33,000 for travel associated with support of the Financial Analysis (E) Working Group (FAWG); (7) \$29,600 for the IAIS Committee Meeting & Global Seminar; (8) \$492,100 to fund regulator travel to the NAIC Insurance Summit; (9) \$26,600 for Commissioner travel to the annual Committee Assignment Meeting; (10) \$202,800 to fund Commissioner travel to the Commissioners Fly-In, Executive (EX) Committee Interim Meeting & Mid-Year Commissioners Roundtable, and International Insurance Forum; (11) \$14,400 for travel associated with support of the Market Actions (D) Working Group (MAWG); (12) \$89,300 for regulator travel for Peer Review examinations; and (13) \$16,300 for various other regulatory events such as the Structured Securities Boot Camp. Expenses for this category of travel will be over budget in 2019 as a result of more-than-budgeted travel reimbursement requests for national and interim meetings. The 2020 budget anticipates cost savings related to travel to the Commissioners Conference, partially offset by the addition of travel to the IAIS Committee Meeting & Global Seminar.
- (5) International travel includes \$450,000 for regulator travel and participation in meetings such as the International Association of Insurance Supervisors (IAIS), the Organization for Economic Cooperation and Development (OECD), and the International Accounting Standards Board (IASB), among many others. The remainder is for NAIC staff travel to support regulators during certain international regulatory meetings. NAIC members are committed to ensuring U.S. regulatory processes and practices are aligned with international standards development and coordinated with activities of federal agencies. The projected under budget variance for 2019 demonstrates the NAIC's concerted effort to keep tight control on spending in this area while continuing its leadership role in the IAIS and other international forums. The 2020 budget demonstrates NAIC dedication to controlling costs in this area.

BUDGET ITEM: Travel (continued from E8a)

- (6) Projected 2019 expense for Regulatory Disaster Assistance travel represents NAIC's commitment to fund volunteer regulators to assist following devastating disasters should they occur during the remainder of the year. The 2020 budget of \$50,000 is to ensure needs of this nature will be met, should they arise, in the coming year.
- (7) The consumer funding budget is allocated for the NAIC's funded consumer representatives to attend national meetings, participate in NAIC conference calls, and pay for the NAIC Consumer Board of Trustees luncheon. To accommodate requests for consumer travel funding the 2020 budget has domestic travel of \$120,000 and international travel of \$20,000. This budget includes the same number of travelers and events as the travel to 2019 national meeting sites.

BUDGET ITEM: Occupancy and Rental

Item Description: Includes all rent, building operating expenses, maintenance fees, cleaning, warehouse storage, and equipment rental.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Rent (1)	\$2,779,053	\$1,387,248	\$2,768,734	\$2,756,112	\$2,787,760	\$31,648	1.1%
Utilities and Parking (2)	1,125,064	584,520	1,174,670	1,198,880	1,285,247	86,367	7.2%
Warehouse	22,349	11,333	22,590	21,600	20,085	(1,515)	-7.0%
Equipment Rental and Maintenance (3)	568,448	278,200	549,176	567,645	546,680	(20,965)	-3.7%
National Meeting Equipment Rental (4)	14,178		4,300	4,300	21,555	17,255	401.3%
Total	\$4,509,092	\$2,261,301	\$4,519,470	\$4,548,537	\$4,661,327	\$112,790	2.5%

(1) Rent expense for the Central Office in Kansas City, MO at Town Pavilion is \$201,906 monthly for 146,283 rentable square feet (\$16.56 per square foot), with a lease expiration of January 31, 2024. The lease at Town Pavilion also includes incentive allowances reimbursed to the NAIC for leasehold improvements, furniture and equipment, and base rent differential. Generally Accepted Accounting Principles (GAAP) requires leasehold incentive allowances to be recorded on the balance sheet and amortized against rent expense over the life of the lease (12 years). This incentive allowance reduces base rent by \$100,114 per month.

Rent expense for the Executive Office in Washington, D.C. in the Hall of the States is \$64,723 monthly for 11,512 rentable square feet (\$67.47 per square foot), with a lease expiration of January 31, 2024.

Rent expense for the Capital Markets and Investment Analysis Office in New York City, NY at One New York Plaza is \$63,991 monthly for 18,844 rentable square feet (\$40.75 per square foot), with a lease expiration of June 30, 2027.

In accordance with GAAP, the total cost of each lease is recorded as expense evenly throughout the life of the lease. The annual budget for rent expense is derived by calculating the total cost of the lease, including scheduled increases in rental payments and incentive allowances, and dividing by the number of years covered by the lease.

(2) The variance in 2019 is related to less-than-expected Kansas City leasehold common area maintenance expenses. The 2020 budget includes increases in building and parking expenses.

(3) Equipment rental includes the cost to rent and/or maintain copiers for the NAIC copy centers, certain computer equipment, leased software, and other business operational equipment. Projected 2019 expense reflects savings on equipment maintenance. The 2019 budget and projection include approximately \$32,500 for a battery refresh. This expense only happens every four years, resulting in a decrease in the budget for 2020. This decrease is partially offset by additional repairs planned for 2020.

(4) Equipment rental expense in 2020 is driven by the use of convention centers. Locations in 2019 did not require the use of convention centers.

BUDGET ITEM: Computer Hardware and Software Maintenance

Item Description: Maintenance fee on computer hardware and software, and computer-related equipment.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Hardware Maintenance (1)	\$350,468	\$130,098	\$375,639	\$365,203	\$477,944	\$112,741	30.9%
Software Maintenance (2)	3,941,900	2,311,324	4,793,462	4,977,730	5,406,514	428,784	8.6%
Total	\$4,292,368	\$2,441,422	\$5,169,101	\$5,342,933	\$5,884,458	\$541,525	10.1%

The NAIC secures maintenance and service agreements on hardware, software, and equipment that have exceeded the initial warranty period when the cost and risk of failure exceeds the cost of the service agreement. Examples of such include computer hardware (e.g., storage arrays and servers) and support agreements for heavily used software products.

- (1) The budgeted increase in 2020 is the result of a full year of maintenance on Cloud tools deployed during 2019 and service agreements for new hardware and software purchases in 2020.
- (2) The under budget variance in 2019 is the result of a favorable purchase rate on a new software maintenance contract as well as the elimination of a software product. The 2020 budget incorporates these savings but includes increases for (1) software upgrades and additional licenses (\$192,350); (2) conversion of a license from a free non-profit arrangement to a contract requiring a license fee due to the need for additional services (\$105,000); and (3) systems migrations from the NAIC's data center to the Cloud during 2019 (\$75,100) and 2020 (\$132,600) (see Fiscal Impact 1).

As part of NAIC's State Ahead strategic plan a multi-year transition to the Cloud began in mid-2017. The cloud platform will allow the NAIC to (1) expand the tools offered to the membership and its constituents; (2) reduce the cost of data processing and storage; (3) increase the level and timeliness of analysis; (4) allow for experimentation of new products and services without significant financial investment; and (5) make the organization more nimble, enabling more frequent and faster delivery of products. The 2017 and 2018 phases provided the strategy, technical environments, security, governance, operating processes, tools, and training to prepare the organization for migrating and securely supporting applications in the Cloud. The focus in 2019 and 2020 is on migration of systems from the on-premise environment to the Cloud. As systems are being transitioned it will be necessary to support the system in both environments. These duplicative costs will be eliminated as soon as most of the applications are fully transitioned to the Cloud. The NAIC has already experienced a decrease in capital investment for hardware to support the on-premise environment.

BUDGET ITEM: Depreciation and Amortization

Item Description: Includes depreciation and amortization for all capital assets owned as of June 30, 2019, with projected purchases through December 31, 2019, and depreciation and amortization for budgeted 2020 capital outlays.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Depreciation (1)	\$1,753,237	\$715,652	\$1,426,477	\$1,444,538	\$1,477,794	\$33,256	2.3%
Amortization (2)	2,682,510	1,303,514	2,625,310	2,826,194	2,662,793	(163,401)	-5.8%
Total	\$4,435,747	\$2,019,166	\$4,051,787	\$4,270,732	\$4,140,587	(\$130,145)	-3.0%

- (1) Depreciation is calculated on a straight-line basis over the useful life of capital assets owned by the NAIC, which is five years for furniture and equipment and three years for computer hardware and software. The amount of depreciation expense in a given year is related to the purchase of capital assets in the current and preceding years. The increase in depreciation is related to an increase in capital hardware and equipment purchases budgeted for 2020.
- (2) Amortization is computed on a straight-line basis for capitalized assets such as leasehold improvements and consulting services on major computer application projects and system upgrades. The initial useful life of this class of assets is approximately 10 years, but are assigned to specific assets based on each asset's useful life. The under budget projection for 2019 is due to delays in the deployment of two 2019 system rewrites: one until later in 2019 and the other until 2020. The 2020 budget includes a full year of expense for the rewrite deployed in 2019 and nine months for one deployed in 2020.

See Exhibit E11-One for a list of capital purchases and Exhibit E11-Two for detailed information on purchases with a unit cost of \$25,000 or greater.

BUDGET ITEM: Depreciation and Amortization (continued)

	2020 Capital Budget	Depreciation Expense	2019 Capital Budget	2019 Capital Projection
Capital Requests:				
Furniture and Equipment	\$180,000		\$30,000	\$11,125
Computer Hardware	1,084,874		941,810	930,785
Computer Software	<u>154,690</u>		<u>76,000</u>	<u>132,942</u>
Total Capital Requests	<u>\$1,419,564</u>	\$342,582	<u>\$1,047,810</u>	<u>\$1,074,852</u>
Depreciation on Prior Year Purchases		<u>1,135,212</u>		
Total Depreciation		<u>\$1,477,794</u>		
Budget Requests:				
Leasehold Improvements				
Consulting	<u> </u>		<u>\$338,443</u>	<u>\$472,324</u>
Total Requests	<u>\$0</u>		<u>\$338,443</u>	<u>\$472,324</u>
Amortization on Prior Year Expenditures		<u>\$2,662,793</u>		
Total Amortization		<u>\$2,662,793</u>		

2020 Capital Expenditures

Description	Furniture and Equipment			Computer Hardware			Computer Software		
	Qty	Cost	Total	Qty	Cost	Total	Qty	Cost	Total
Cameras for Elevator Lobbies	1	\$30,000	\$30,000						
Conference Room Audio-Visual Upgrades	1	150,000	150,000						
3Par Storage				1	\$47,500	\$47,500			
Blade Server				11	35,000	385,000			
Multi-Function Printer				2	4,000	8,000			
Storage Refresh				2	130,000	260,000			
Switch Replacement, Kansas City Office				1	302,656	302,656			
Switch Replacement, DC and New York Offices				1	81,718	81,718			
Device Administration Licenses							2	\$2,668	\$5,336
Sound Masking and Paging System Upgrade							1	19,354	19,354
Backup License Upgrades							10	3,000	30,000
Network Visibility/Detailed Reporting Tool							1	100,000	100,000
			<u>\$180,000</u>			<u>\$1,084,874</u>			<u>\$154,690</u>

2020 Proposed Capital Expenditures Unit Cost \$25,000 or Greater

Capital requests for NAIC technology infrastructure fall into four primary categories: (1) cost or labor saving; (2) high availability or disaster recovery; (3) useful life; and (4) technology trend. A technology trend is a project that would better utilize an existing resource or address a current issue. Consulting costs may be incurred in the development of software code for major systems with a life greater than one year.

Useful Life

- **Blade Server (\$385,000)** – Second year of server upgrades at a rate of one-third per year over three years, as existing servers are nearing end-of-useful-life.
- **Switch Replacement-Kansas City (\$302,656) and District of Columbia and New York (\$81,718)** – Replacement of devices connecting staff workstations to the data center will begin in early 2020. This upgrade is necessary due to devices reaching end-of-support. New switches will also provide additional capabilities and expansion capacity.
- **Storage (\$260,000)** – Storage arrays in the District of Columbia and New York offices are approaching end-of-useful-life.
- **Conference Room Audio-Visual Upgrades (\$150,000)** – This purchase would replace 33% of the seven-year-old audio-visual equipment in conference rooms in the Kansas City office.

Technology Trend

- **Cameras for Elevator Lobbies (\$30,000)** – To enhance building security at the Kansas City location the NAIC will install cameras in elevator lobbies and near the data center.
- **Network Visibility/Detailed Reporting Tool (\$100,000)** – Purchase of this tool will allow for more network visibility and the ability to drill down into traffic to greater detail. It will also allow the ability to troubleshoot high utilization, general network problems, and quickly resolve issues resulting in a positive impact on user experience.
- **3PAR Storage (\$47,500)** – New technology, allowing for data sharing and search capabilities in the Cloud, is expected to double the size of an email account. Short-term primary backups will be stored in the Cloud, but long-term storage will remain onsite to reduce costs. This storage acquisition fully populates two storage arrays – one located in the data center and the other at co-location.

BUDGET ITEM: Operational

Item Description: Includes operational expenses for the NAIC offices.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Insurance (1)	\$454,215	\$215,599	\$405,385	\$452,672	\$416,396	(\$36,276)	-8.0%
Telephone (2)	470,601	175,450	350,431	369,651	373,626	3,975	1.1%
Supplies (3)	308,657	139,365	302,860	339,429	321,419	(18,010)	-5.3%
Non-Capital Equipment (4)	519,848	468,719	636,108	575,375	507,376	(67,999)	-11.8%
Mail Services (5)	168,705	101,679	180,006	188,939	171,462	(17,477)	-9.3%
	\$1,922,027	\$1,100,812	\$1,874,789	\$1,926,066	\$1,790,279	(\$135,787)	-7.0%

- (1) The negotiation of premiums at the May 2019 renewal date, while maintaining consistent coverage, were very competitive which resulted in savings. The 2020 budget includes a full year of this cost savings, partially offset by an increase of 5% over existing premiums for the May 2020 renewals.
- (2) The decrease in projected expense for 2019 is related to a reduction in the number and length of conference calls. The 2020 budget assumes an increase in conference call activity for several committees and working groups.
- (3) Supplies include purchases of copy paper; common area supplies; and miscellaneous office supplies for staff, interns, consultants, and temporaries at all NAIC offices. The decrease in 2019 is related to an decrease in the usage of copy paper and cost of common area supplies. A portion of these savings is expected to continue in 2020.
- (4) Non-capital equipment purchases include minor software upgrades and purchases as well as minor office equipment and computer supplies needed to furnish staff members with the tools necessary to complete their assigned tasks. The 2019 projection includes the replacement of existing office equipment with more functional and ergonomic solutions. The 2020 budget anticipates a return to normal purchasing levels.
- (5) Mail services includes the cost of shipping (1) printed publications for order fulfillment and (2) equipment and materials to NAIC national meetings and other events. The slight decrease in 2019 and 2020 is related to the shift toward the electronic delivery of publication products.

BUDGET ITEM: Library Reference Materials

Item Description: Includes costs for books, periodicals, and online reference services.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Library Reference Materials (1)	\$330,262	\$165,731	\$334,926	\$333,225	\$332,487	(\$738)	-0.2%

(1) Library reference materials include reference sources on CD-ROM and subscription services for resources used in performing research by the NAIC Research Library. The reference collection is a vital source of up-to-date information on insurance, legal, business, finance, and technology-related issues and supports the NAIC's fulfillment of research questions from NAIC members, NAIC staff, and interested parties.

BUDGET ITEM: Printing and Production

Item Description: Costs incurred for printing books, subscription updates, marketing materials, and other publications.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Publications (1)	\$82,962	\$41,859	\$76,292	\$124,053	\$64,022	(\$60,031)	-48.4%
Outside Printing (2)	5,720	761	5,461	13,794	7,000	(6,794)	-49.3%
Total	<u>\$88,681</u>	<u>\$42,620</u>	<u>\$81,753</u>	<u>\$137,847</u>	<u>\$71,022</u>	<u>(\$66,825)</u>	-48.5%

(1) Publications printing expense represents the cost of all publication inventory items sold, including the cost of special paper and other supplies used to produce a publication and the cost of external printing and binding services. The 2019 projection and 2020 budget reflects a continued shift toward electronic delivery of products and a decrease in the amount of inventory slated for obsolescence.

(2) The 2019 projection and 2020 budget represent a decrease in the use of outside facilities to execute print jobs that cannot be accommodated by the NAIC's in-house copy center.

BUDGET ITEM: National Meetings, NAIC Events, and Interim Meetings

Item Description: Outside costs directly related to conducting the Commissioners Conference; All Commissioner DC Fly-In; Executive (EX) Committee Interim Meeting & Mid-Year Commissioners Roundtable; national, interim, and committee meetings; Insurance Summit; International Insurance Forum; and IAIS Committee Meeting & Global Seminar not classified within other budget categories.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Receptions (1)	\$291,392	\$202,665	\$312,263	\$298,655	\$323,016	\$24,361	8.2%
Hotel Services (2)	1,747,798	994,933	1,916,786	1,925,233	1,963,189	37,956	2.0%
Reproductions (3)	110,447	36,955	103,740	112,836	97,225	(15,611)	-13.8%
Audio-Visual Services (4)	977,001	550,049	996,199	977,571	1,191,224	213,653	21.9%
Interim Meetings (5)	642,980	248,059	691,959	571,804	558,830	(12,974)	-2.3%
Total	\$3,769,618	\$2,032,661	\$4,020,947	\$3,886,099	\$4,133,484	\$247,385	6.4%

These categories include costs for the IAIS Committee Meeting & Global Seminar which will be hosted by the NAIC in Seattle, WA in 2020. The first three days of the event are for committee meeting attendees only. The following two days of the Global Seminar are open to all attendees with payment of the registration fee which is included in National Meetings, NAIC Events, and Interim Meetings revenue (see Footnote R6). Members of the IAIS voluntarily host events in support of the organization. The last event hosted by the NAIC was the IAIS 2012 Annual Conference. The one-time costs related to the IAIS event have been identified in the information below.

Natritional Meeting Locations

Year	Spring	Summer	Fall
2020	Phoenix	Minneapolis	Indianapolis
2019	Orlando	New York	Austin
2018	Milwaukee	Boston	San Francisco

- (1) Reception expenses reflect the cost of food and beverage services and service charges for the NAIC's welcome reception at (1) national meetings; (2) Commissioners Conference; (3) All Commissioner DC Fly-In; (4) Executive (EX) Committee Interim Meeting & Mid-Year Commissioners Roundtable; (5) Insurance Summit; and (6) IAIS Committee Meeting & Global Seminar. The 2020 budget is based on quotes for food and beverage costs for selected meeting sites. This over budget projection for 2019 is related to events held in conjunction with the Insurance Summit. The reception to be held during the IAIS Global Seminar is budgeted at \$32,850.
- (2) Hotel services include the cost of (1) technology support; (2) electrical support; (3) regulator and staff breakfasts, lunches, and breaks; (4) transportation; and (5) other hotel charges. The 2020 budget includes \$196,570 for the IAIS Committee Meeting & Global Seminar. Costs for the Insurance Summit and Executive (EX) Committee Interim & Mid-Year Commissioners Roundtable are budgeted to increase due to site selection. These increases are partially offset by cost decreases budgeted for the Commissioners Conference and Summer National Meeting based on pricing at selected locations. The 2020 budget is based on quotes from host hotels and convention centers and expected number of attendees.
- (3) The NAIC negotiated new copy service agreements for national meetings, resulting in a reduction in cost. There are no copy services planned for the IAIS events.
- (4) Audio-visual services include microphones, video equipment, electronic presentations, and labor costs associated with setup and operation of these services. The use of additional equipment resulted in increased cost for the 2019 International Insurance Forum; this additional cost is expected to continue in 2020. Audio-visual costs for all three national meetings, as quoted by the service provider at the national meeting location, will increase by approximately \$65,000 due to the use of convention centers and secondary hotels. Additionally, audio-visual services for the IAIS meeting are budgeted at \$137,300.

BUDGET ITEM: National Meetings, NAIC Events, and Interim Meetings (continued)

- (5) The interim meeting budget represents costs associated with face-to-face meetings on key initiatives that are not otherwise classified within the NAIC's budget (e.g., Asia-Pacific Forum, IAIS meetings, CIPR Programs and Receptions, Innovation Technology Forum). Interim meeting expenses include group meals, meeting room rental, and food and beverage. The NAIC added CIPR programs and receptions to the national meeting agenda following completion of the 2019 budget. These events are the primary driver of the over budget projection in 2019 and have been included in the 2020 budget. This increase is offset by the removal of expenses for the Asia-Pacific Forum. The NAIC does not plan to participate in this event in 2020.

BUDGET ITEM: Education and Training

Item Description: Expenses incurred by the NAIC for education programs.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Education Programs (1)	\$53,019	\$21,494	\$83,212	\$99,554	\$156,880	\$57,326	57.6%
Risk Assessment Training (2)	4,146	19,726	36,290	42,290	55,524	13,234	31.3%
Total	\$57,165	\$41,220	\$119,502	\$141,844	\$212,404	\$70,560	49.7%

- (1) The purpose of the Education and Training function within the NAIC is to manage the NAIC’s regulatory curriculum. The core focus is on identifying and seizing opportunities to develop just-in-time, on-demand, and/or unmanned training and development of products, while assuring the integrity and comprehensiveness of the curriculum as a whole. In the examination of education opportunities, the goal is to achieve a balance between meeting the regulatory training needs of Department of Insurance employees and assisting industry clients through a broader range of compliance training topics. The NAIC educational curriculum is offered to Department of Insurance employees and Consumer Advocates at no charge. The 2019 projection reflects cost savings in a number of programs. The increase in expense in 2020 is related to the New Financial Regulator Training. This program was presented as part of the Insurance Summit in 2019, requiring minimal additional travel funding for regulators to attend this training. In 2020, the Advanced Financial Regulator Training will be included in the Insurance Summit agenda but the New Financial Regulator Training will be provided as part of the Education & Training curriculum, requiring travel funding for regulators.
- (2) Risk Assessment Training expenses represent a national training program for regulators in states that have adopted the Risk Management and Own Risk and Solvency Assessment (RMORSA) Model Act. The 2020 budget includes an increase in the number of participants.

BUDGET ITEM: Grant and Zone

Item Description: Utilization of grant and zone funds and expenses for zone-sponsored events.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Grant Funds (1)	\$1,071,518	\$317,275	\$1,170,000	\$1,170,000	\$1,170,000		0.0%
Zone Funds (2)	8,439		11,500	11,500	12,000	\$500	4.3%
Zone Technical Training (3)	175,111	72,836	246,769	268,250	217,730	(50,520)	-18.8%
Zone Expenses (4)	275,799	42,386	288,386	254,500	277,000	22,500	8.8%
Total	\$1,530,867	\$432,497	\$1,716,655	\$1,704,250	\$1,676,730	(\$27,520)	-1.6%

- (1) Grant funding of \$1,120,000 (\$20,000 per member) remains consistent with budgets since 2014. An additional \$50,000 is budgeted to assist members with special funding needs during 2020. The 2019 projection assumes full utilization of available funding.
- (2) Zone funds represent the utilization of the training dollars allocated to each member by the four Zones. Grant funding balances are used by members first as they do not carry forward to the following year. Zone fund balances are available until used by the member.
- (3) Zone Technical Training funds are used by NAIC Zones to fund technical training for the Zone as a whole. Funding is derived from the allocation of unused Grant funding for members within a particular Zone. Zone spending for financial and market regulation and other Zone training events in 2019 is projected to be significantly less than budgeted. Zones anticipate fewer training events in 2020 than 2019.
- (4) NAIC allocates funding to NAIC Zones annually to fund activities of the Zones. These activities include Zone conferences, Zone meetings at national meetings, and funding of member training allocations (Zone Funds) in addition to NAIC Grant funds. NAIC funding includes (1) \$147,500 - \$2,500 per Zone member, with a minimum of \$35,000 per Zone, approved - June 2010 and (2) \$140,000 - \$2,500 per Zone members to be used by the Zones to provide additional training opportunities for their members, approved - December 2013. The 2019 projection and 2020 budget are based on current and historical events hosted by the four NAIC Zones.

BUDGET ITEM: Other

Item Description: Costs incurred for the NAIC's membership in other organizations, recruiting employees, bad debt allowances, and member relations.

<u>Description</u>	2018 Actual	6/30/19 Actual	12/31/19 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Professional Association Dues - NAIC (1)	\$555,533	\$589,322	\$593,322	\$610,236	\$684,000	\$73,764	12.1%
Recruiting and Relocation (2)	501,238	151,816	356,816	372,825	372,842	17	0.0%
Bad Debt Expense (3)	129,890	(39,226)	35,774	130,000	80,000	(50,000)	-38.5%
Member Relations (4)	3,826	6,537	7,292	4,480	3,800	(680)	-15.2%
Total	\$1,190,486	\$708,449	\$993,204	\$1,117,541	\$1,140,642	\$23,101	2.1%

- (1) Professional Association dues includes \$671,500 for the NAIC's annual membership in the International Association of Insurance Supervisors (IAIS), an increase of \$91,203 over the dues paid in 2019. The IAIS is expected to budget a 12.5% increase in dues in 2020, calculated in Swiss Francs. The NAIC bears the currency conversion rate risk on this membership fee. Additionally, this line includes association participation in local business organizations.
- (2) Recruiting agencies are used to fill open positions with qualified individuals with a unique/specific skill set and those at higher levels of management within the association when standard methods of recruitment prove unsuccessful. The 2019 under budget variance reflects a slight easing in (1) the need to search for several highly qualified candidates to fill key positions; (2) continued challenges to fill technical positions; and (3) tight employment markets in cities where NAIC has a number of vacancies. The 2020 budget assumes a continued need for the use of recruiting agencies to identify individuals with the unique skill sets used by the NAIC in its many specialized areas.
- (3) Bad debt expense is a provision for future uncollectible customer accounts receivable. The 2019 projection reflects the collection of receivable balances reserved in the prior year and the 2020 budget reflect a trend toward fewer uncollectible accounts.
- (4) The member relations account includes expenses associated with the Dineen Award recipient and recognition of NAIC Members and Officers.

BUDGET ITEM: Investment Income

Item Description: Interest, dividends, and realized and unrealized gains/losses, partially offset by investment advisory management fees on the NAIC investment portfolio and cash equivalents. Also included is interest earned on the note payable from the Interstate Insurance Product Regulation Commission (IIPRC).

Description	2018 Actual	6/30/19 Actual	12/31/2019 Projected	2019 Budget	2020 Budget	Increase (Decrease)	Percentage
Interest Income (1)	\$802,523	\$461,550	\$924,909	\$936,050	\$977,325	\$41,275	4.4%
Dividend Income (2)	2,709,573	1,360,879	2,834,653	2,442,382	2,552,288	109,906	4.5%
Realized Gain/(Loss) (3)	4,188,414	7,870,690	8,495,328				
Unrealized Gain/(Loss) (3)	(10,540,584)	2,876,009	1,779,038				
Investment Fees (4)	(343,311)	(170,681)	(359,319)	(366,412)	(376,541)	(10,129)	2.8%
Total	(\$3,183,385)	\$12,398,447	\$13,674,609	\$3,012,020	\$3,153,072	\$141,052	4.7%

The investment income budget is based on (1) projected interest income on the long-term fixed income portfolio and short-term investments; (2) interest on the note payable from IIPRC for borrowing from 2007-2012 to fund its operational needs; and (3) dividend income from the equity portfolio; partially offset by (4) investment advisory fees for the management of the NAIC long-term investment portfolio. NAIC uses actual results through June to project year-end results for the current year. These projections are monitored closely throughout the year. Realized and unrealized gains or losses are not budgeted due to the volatility of the market.

In late 2017, a new investment advisory firm was hired and a comprehensive review of the long-term portfolio was undertaken. During this process a new custodian for the NAIC long-term investment portfolio was selected. In mid-2019, a realignment of the NAIC's long-term investment manager line-up was completed. The final step in the examination process is formalization of the investment policy statement. Work on this document has been completed and is currently in the review and approval process. The investment advisory firm is currently operating under guidelines approved and documented in minutes of meetings of the Executive (EX) Committee and Internal Administration (EX1) Subcommittee.

- (1) The slight under budget performance in 2019 is based on actual interest earned through June 30, 2019. The 2020 budget reflects a shift in the portfolio to more income-generating instruments.
- (2) Dividend income is projected based on current and historical dividend receipts. The 2019 projection is expected to exceed budget based on the current financial markets and mix of NAIC investments. Budgeted 2020 dividend income reflects a continuation of the current market trends and completion of the examination of the NAIC's investment options in 2019.
- (3) Realized and unrealized gains or losses are not budgeted due to the volatility of financial markets. Realized gains as of June 30, 2019, were generated from the sale of existing financial holdings as part of the investment portfolio realignment. Through August 31, 2019, realized gains have increased nearly \$625,000, while the unrealized gain declined by nearly \$1.1 million resulting in a net decrease in income of approximately \$472,000. Unrealized gain and loss adjustments to market value are required by Generally Accepted Accounting Principles (GAAP). Fluctuations in market gains and losses are expected during the remainder of 2019 and 2020. While the NAIC's investment strategy is to perform well in an up-market, it is specifically designed for increased protection in down-markets rather than larger gains in up-markets.
- (4) Generally Accepted Accounting Principles (GAAP) require the presentation of investment advisory management fees as an offset to investment income. Fees for the NAIC's long-term investment portfolio are budgeted to increase slightly based on revisions to the portfolio allocation during 2019.

**2020 BUDGET
FISCAL IMPACT STATEMENTS**

Fiscal Impact Number	Description	2020 Budget			Net Impact 2020 Budget
		Capital Expenditures	Revenues	Expenses	
	Total Revenues Over/(Under) Expenses Before Fiscals and Investment Income	\$1,419,564	\$114,329,953	\$120,045,442	(\$5,715,489)
1	Cloud Transition Phase IV (Cloud Migration)		133,135	3,341,693	(3,208,558)
2	Enhanced Regulatory Data Collection (RDC)			238,660	(238,660)
3	Financial Data Delivery Platform Enhancement			396,800	(396,800)
4	SERFF Billing Improvements			86,360	(86,360)
5	Uniform Certificate of Authority Application (UCAA) Redesign and Biographical Affidavit Database			390,375	(390,375)
	Total Fiscal Revenues Over/(Under) Expenses		133,135	4,453,888	(4,320,753)
	Investment Income		3,153,072		3,153,072
	Total Revenues Over/(Under) Expenses	<u>\$1,419,564</u>	<u>\$117,616,160</u>	<u>\$124,499,330</u>	<u>(\$6,883,170)</u>



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 23, 2019
NAME OF INITIATIVE:	CLOUD TRANSITION PHASE IV (CLOUD MIGRATION)
REGULATOR/BUSINESS SPONSOR:	INNOVATION AND TECHNOLOGY (EX) TASK FORCE
NAIC STAFF SUPPORT:	SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 2, 2020
ANTICIPATED COMPLETION DATE:	DECEMBER 31, 2020
TOTAL REVENUE EXPECTED (2020):	\$133,135
(2021):	\$47,650
TOTAL EXPENSE REQUESTED (2020):	\$3,341,693*
(2021):	\$326,432*
TOTAL CAPITAL REQUESTED (2020):	\$0
(2021):	\$0

*Expenses are net of cost share with NIPR.

I. Executive Summary:

This fiscal requests funding to continue one of the key technology foundations of *State Ahead*, the transition of the association’s technology to the Cloud. The benefits of this transition are extensive. The organization will continue to expand and enhance tools offered to members and constituents by enabling a new software development process and architecture and provide a flexible infrastructure that can dynamically change with the needs of the membership. On-demand capacity will improve availability of services, while automation will provide efficiencies and allow for experimentation of new products and services without significant upfront financial investment.

The first two phases of the transition, completed in early 2019, provided the strategy, technical environments, security, governance, operating processes, tools, and training to prepare the organization for migrating and securely supporting applications in the Cloud. These phases saw the implementation of over 20 new tools and services. Of equal importance, a culture shift was initiated to align organizational beliefs and values to different ways of working to enable speed of delivery for products and services, referred to as DevOps. The third phase, currently in progress for 2019, includes the migration of the first set of applications to the Cloud. This work includes testing the cloud platform and migration processes in order to provide feedback for refinements and hands-on experience for migration teams to learn the new processes and tools.

This fiscal outlines the fourth phase of the transition and continues the migration of system applications from NAIC's data center to the Cloud. Several major applications are slated to begin migration in 2020, among them the System for Electronic Rates and Forms Filing (SERFF); the Automated Valuation Service (AVS+), State Based Systems (SBS); I-SITE+, Life Policy Locator, and State Producer Licensing reports. Also, several enterprise-level applications used internally, such as Microsoft SharePoint, will move to a cloud-based platform.

This project also continues the transformation to a more nimble organization, allowing for more frequent and faster delivery of functionality and products. It also continues the implementation of SOC 2 capabilities for secure cloud computing and provides technical support for in-progress cloud projects.

There are numerous benefits to continuing the investment in the cloud platform and new processes for delivering services. These benefits include:

- Increased system efficiencies through the automation of existing manual processes and the corresponding decrease in computer programming.
- Improved system availability.
- Enhanced customer support through the management of applications individually and improved tools for tracking and troubleshooting issue.
- Predictable costs and flexibility to scale up or down as needed through the pay-as-you-use model offered through the Cloud.
- Greater innovation through speed to market for new services.

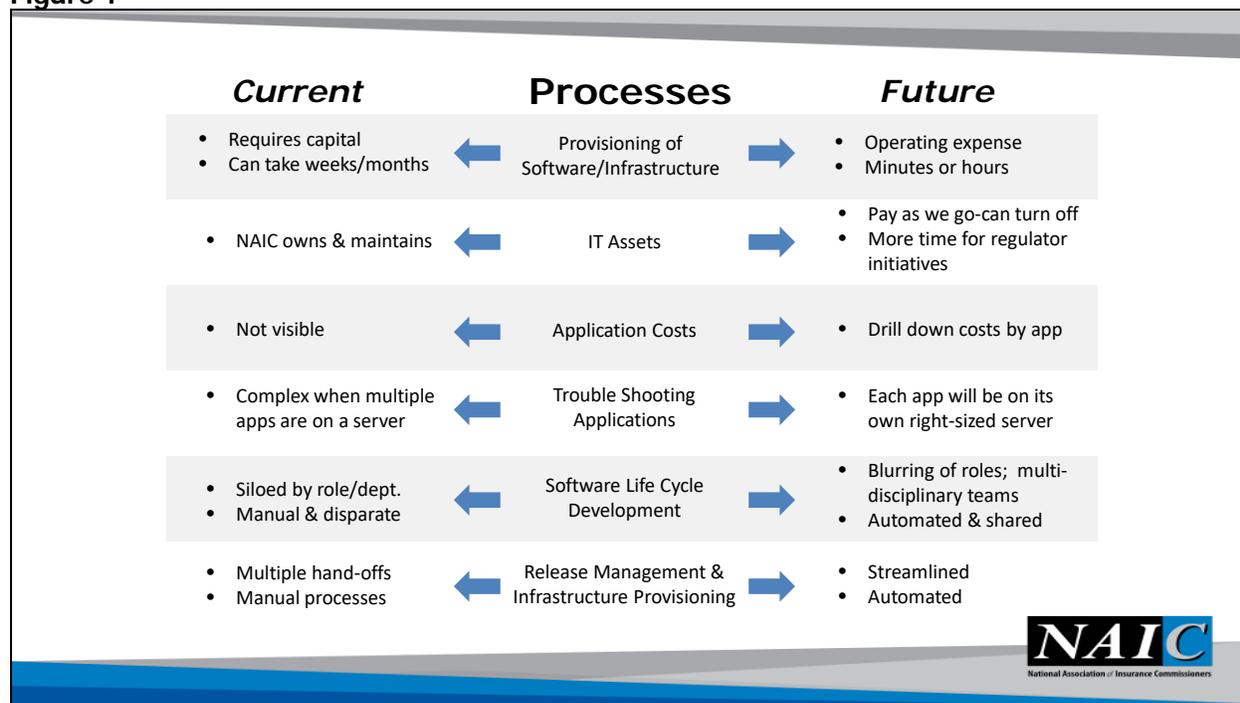
Many of these benefits have already begun to be realized through the first three phases of the transition. InsData, a cloud-native system that went to production in August 2018, deployed a change into production this year using Auto DevOps, which reduces or eliminates the need to manually set up and configure the environment to manage the software development lifecycle. Auto DevOps has many benefits, including faster delivery of features, more stable operating environments, and increased effectiveness of technical resources. Another example is Market Conduct Annual Statement (MCAS), which was deployed in the Cloud in March 2019. MCAS, used by companies to report market conduct data, received more than 30,000 filings prior to the April 30th deadline. When more compute capacity was necessary to handle the increase in filing volumes, MCAS scaled up as needed, paying only for what was used and providing a higher level of service than experienced in the prior year. Beyond the deployment of systems, the organization has also utilized new tools in other areas. A new machine learning tool for forecasting was used by NIPR to assist with the creation of NIPR's 2020 budget. Expansion of the tool's use is being considered by the NAIC for the development of its 2021 budget.

II. Key Deliverables:

There are several key deliverables that will measure the overall success of the association's transition to the Cloud. First, as each system migrates, its end users will experience improved system response times. At the same time, system availability and performance will be improved when compared to baselines before and after cloud migration. NAIC staff will be able to successfully monitor, maintain, and provide support for the system in the Cloud, with operational disaster recovery and back-up processes. Furthermore, by the conclusion of the initiative, compliancy requirements for security audits will be met for cloud systems, and cycle times for delivering new products and features will be greatly reduced.

Figure 1 below illustrates the process changes that will take place as the initiative completes.

Figure 1



III. Financial and Organizational Impact:

The financial impact of this project is summarized below within four categories of expenses: consulting, computing, software, and training and related travel. Consulting, training and related travel are for 2020 only, while software subscriptions and cloud run costs will continue past 2020.

A. Consulting

This fiscal requests consulting cost of \$3,381,536 in 2020, with \$2,903,300 in expenses for NAIC and \$478,236 for NIPR. In addition, a portion of the NAIC's staff augmentation consulting will be offset by \$85,484 in credits for NAIC staff work charged to NIPR under the NAIC/NIPR Licenses and Services Agreement.

The consulting requests of \$3,381,536 include:

- A total of 10 staff augmentation consultants (\$1,842,336), seven of which will augment NAIC staff on application development teams to perform system transitions and three of which will enable NAIC technical staff to transition operational work in order to be fully dedicated to this initiative.
- Penetration testing (\$90,000) to supplement security testing ensuring systems are not vulnerable to security threats.
- Cloud and DevOp consultants (\$914,684 for NAIC in 2020; \$450,516 for NIPR) with expertise in new tools being used to help adjust configuration and trouble shoot issues during migrations.
- Identity management consultants (\$56,280 for NAIC in 2020; \$27,720 for NIPR) to help adjust configuration and trouble shoot issues for user authentication and authorization during migrations.

B. Computing

Computing cost of \$193,855 is requested to run the migrated systems on the AWS cloud platform. A portion of the NAIC’s run costs will be offset by \$47,650 in technical services charged to NIPR under the NAIC/NIPR Licenses and Services Agreement. These costs continue in 2021 and beyond.

C. Software

The NAIC will need to purchase cloud versions of software (\$132,577 for NAIC in 2020 and \$65,299 for NIPR) that systems being migrated use today in the current on-premises environment. These subscriptions include a server platform to enable applications and services to run in the Cloud, an open source operating system, and application and platform performance monitoring services. These costs continue in subsequent years.

D. Training and Related Travel

Staff training will continue as more staff are involved in transitioning systems to the Cloud using DevOps best practices. This fiscal requests \$62,800 to send NAIC staff to conferences and to continue to provide cloud and DevOps training. Travel costs of \$49,161 are requested for staff to attend technical training and conferences.

See **Attachment I** for further financial details.

IV. Risk Management Plan:

Key risks due to the transition to the Cloud are summarized below along with the mitigation plans.

Risk	Mitigation Plan
System performs slower in the Cloud even after successfully being tested during migration.	Revert the system back to on premises while latency issues are resolved in a manner that minimizes the impact to system users. If data is being accessed on NAIC premises from the Cloud, evaluate moving data to the Cloud to eliminate this latency.
Working through the complexity of moving data securely to the Cloud might take longer than anticipated.	The project is requesting two consultants to augment the Database Administrators group to allow staff to focus on this initiative.
Teams may be asked and may want to make more changes to their applications when migrating than absolutely necessary, which may increase the time to migrate to the cloud platform.	Application owners will be responsible for approving changes to applications that are being migrated. Migration throughput will be monitored and reported to the project sponsor, application owners, and NAIC’s internal project management office (PMO).
New scenarios or new technical issues might arise that slow the pace of migrations.	This project includes requests for technical expertise consulting to help trouble shoot technical issues to mitigate this risk.

There will be many benefits as applications move to the Cloud, such as increased efficiencies as manual processes are automated, improved system availability, and greater innovation through speed to market for new services. Any adverse impact to regulators, industry, and consumers will be minimized. If an application requires a change in its internet address, the change will be communicated, as well as minimized by redirecting prior Uniform Resource Locators (URLs) to the new internet address.

External business partners and vendors may also experience change as a result of this initiative if there are changes to the web services or other specifications upon which they rely when an application is migrated to the Cloud. For example, some external partners use a web service to connect to the NAIC to retrieve or submit data. If the web service changes, the partner will need to incorporate that change. Communication and coordination will be important to provide these business partners and vendors advanced notification of any impact to them, as well as time needed to respond to the changes.

V. Security Impact:

During this fourth phase of the initiative, systems will be migrated, monitored, and supported using the secure cloud platform, security tools, governance, policies, automation, and processes that were implemented and rolled out in the prior phases. It also continues the implementation of SOC 2 capabilities for secure cloud computing.

Specifically, this phase provides the ongoing security responsibilities of:

- Automating security and governance for the Cloud;
- Automating security and governance in DevOps processes for software life cycle development;
- Confirming cloud systems have a high level of protection from cybersecurity threats before they go to production; and
- Monitoring compliance and security for the Cloud using the security tools purchased and implemented in prior phases.

Some of the applications that will be migrated will include Personally Identifiable Information (PII), confidential information, and/or attachments. Some of this data will continue to reside in NAIC's data center and some will reside on the cloud platform. Regardless of data storage location, the applications will meet all organizational standards and controls related to security.

Ultimately, the NAIC believes the move to a cloud environment will provide even greater security than the current environment but multiple environments will need to be managed from a security standpoint during the transition.

2020 Budget

**Cloud Transition Phase IV (Cloud Migration)
Project Cost Analysis**

Anticipated Start Date: January 2, 2020
Anticipated Completion Date: December 31, 2020

Description	2020 Total	2021 Budget	2022 Budget
Revenues:			
NIPR Administrative Service Fees	\$133,135	\$47,650	\$47,650
Total Revenues	133,135	47,650	47,650
Expenses:			
Cloud Computing Costs	193,855	193,855	193,855
Computer Software	197,876	197,876	197,876
NIPR Credit for Cloud Computer Software	(65,299)	(65,299)	(65,299)
Professional Services-Implementations/Upgrades	3,291,536		
NIPR Credit for Professional Services-Implementations/Upgrades	(478,236)		
Professional Services-Testing	90,000		
Professional Development-Training	62,800		
Staff Travel	49,161		
Total Expenses	3,341,693	326,432	326,432
Revenues Over (Under) Expenses	<u>(\$3,208,558)</u>	<u>(\$278,782)</u>	<u>(\$278,782)</u>



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 23, 2019
NAME OF INITIATIVE:	ENHANCED REGULATORY DATA COLLECTION (RDC)
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER
REQUESTED INITIATIVE START DATE:	MAY 1, 2020
ANTICIPATED COMPLETION DATE:	APRIL 1, 2021
TOTAL REVENUE EXPECTED (2020):	\$0
(2021):	\$0
TOTAL EXPENSE REQUESTED (2020):	\$238,660
(2021):	\$12,000
TOTAL CAPITAL REQUESTED (2020):	\$0
(2021):	\$0

I. Executive Summary:

The Regulatory Data Collection (RDC) system, released in May 2017, was designed to provide the capability to quickly set up data collection processes for state insurance regulatory data needs. It was initially used for two data calls: life experience data and a study of the Connecticut homeowners insurance market. More recently, RDC was used for a Financial Stability (EX) Task Force data call and leveraged for the Market Conduct Annual Statement (MCAS) data collection. While RDC has successfully supported these limited data calls, this fiscal requests funding to expand the platform’s capabilities to streamline and increase the speed in which the NAIC can collect data.

This project will expand the current RDC framework into an enterprise solution that can integrate with any internal system that collects data, through its enhanced User Interface (UI) or through Data Collection as a Service (DCAS). To accomplish this, the current RDC system will be enhanced to support distributed data calls and varying data collection needs for the membership. These enhancements will improve the quality of the data collected and minimize delays between reviewers and submitters. The project also includes an administration portal to allow business owners to enter and maintain form definitions, data collection file formats, validation rules, and notifications. One of the first business areas to take advantage of the enhanced system will be the redesigned platform for the Uniform Certificate of Authority Application (UCAA), pending

approval of a separate fiscal request included in the 2020 proposed budget (See Fiscal Impact 5).

The long-term vision is for RDC to become an enterprise solution for virtually any type of data collection. Historically, there have been a variety of business processes used to collect data. The most common method was to create a spreadsheet template customized for each data call. The spreadsheet would then be distributed to the entities asked to provide the requested data. The returned data would then be manually aggregated. The RDC platform improved the process by moving quality checks to the front end and automating the aggregation. This project will enhance the RDC platform to continue to build on data collection capabilities. The RDC business process will change significantly, in that data call initiators will be able to set up all necessary information in the Administration Portal on their own – no development team intervention will be required. In addition, the RDC system itself will be decomposed by creating microservices, which will improve maintainability and provide external systems the ability to submit data outside the RDC interface. Microservices break a large single system down into smaller, unique pieces that work together toward an overarching business purpose. With the enhanced platform, state insurance regulators and NAIC staff will be able to quickly and easily collect data from various sources in a variety of formats and will provide an excellent foundation for the establishment of an enterprise application in line with the One Product/Platform vision outlined in the NAIC's Strategic Plan, *State Ahead*.

II. Key Deliverables:

There are several key components to the expansion of the system. First, RDC will change from being a single system to micro services, enabling it to more easily scale to support varying collection needs. It will also offer reporting services to extract read-only data from the NAIC's enterprise data warehouse, which will optimize performance of the platform.

Ultimately, the expanded RDC platform will allow users to set up data collection by defining the desired data elements and validation rules via an administration tool; provide the ability to build data-entry forms that can be dynamically created based on predefined data formats; and interface with other applications to collect data leveraging the RDC framework as DCAS.

III. Financial and Organizational Impact:

The project requests \$233,860 in professional services and \$4,800 in Cloud run costs in 2020. Annual run costs of \$12,000 are estimated for a full year but will be dependent on actual system usage. To begin the project, a database design review will be conducted in May, at a cost of \$10,000. Two consultants, a software engineer, and software quality engineer, will also begin work on the project in May, continuing through year-end 2020 (see **Attachment I**). Internal staff will continue working on the project until its release in April 2021. The project is expected to use 2,600 internal staff hours.

IV. Risk Management Plan:

Effort by regulators and NAIC staff to initiate data calls will be greatly reduced. The project team will work closely with internal business partners to ensure the administration portal is intuitive and meets business needs.

The project to redesign the UCAA platform is dependent on this project's timeline. The ability to dynamically generate forms via the enhanced RDC platform will greatly reduce the development effort for the UCAA Redesign project. In order to accommodate the redesign, the RDC team will spend two months on the initial design and build the framework for the necessary services for the UCAA Redesign team to use.

V. Security Impact:

This project will adhere to all software development and data security requirements. There are no security risks or issues related to this project.

2020 Budget

Enhanced Regulatory Data Collection (RDC)
Project Cost AnalysisAnticipated Start Date: May 1, 2020
Anticipated Completion Date: April 1, 2021

Description	2020 Total	2021 Budget	2022 Budget
Expenses:			
Professional Services-Implementations/Upgrades	\$233,860		
Cloud Computing Costs	4,800	\$12,000	\$12,000
Total Expenses	238,660	12,000	12,000
Revenues Over (Under) Expenses	<u>(\$238,660)</u>	<u>(\$12,000)</u>	<u>(\$12,000)</u>



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 23, 2019
NAME OF INITIATIVE:	FINANCIAL DATA DELIVERY PLATFORM ENHANCEMENT
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	JIM WOODY, CHIEF FINANCIAL OFFICER
REQUESTED INITIATIVE START DATE:	FEBRUARY 1, 2020
ANTICIPATED COMPLETION DATE:	SEPTEMBER 30, 2020
TOTAL REVENUE EXPECTED (2020):	\$0
(2021):	\$0
TOTAL EXPENSE REQUESTED (2020):	\$396,800
(2021):	\$0
TOTAL CAPITAL REQUESTED (2020):	\$0
(2021):	\$0

I. Executive Summary:

In August 2018, the NAIC launched the revised InsData platform, a cloud-based application which delivers financial statement PDF files. The launch was the first step in a rewrite and consolidation of several NAIC systems used to fulfill consumer and industry requests for annual statement PDFs and data for the dual purpose of addressing cybersecurity concerns and reducing the manual work involved in administering the application and delivering datasets. The platform was designed so functions from other internal order fulfillment applications could be added to the platform.

This fiscal requests resources to complete the consolidation by incorporating functionality from internal fulfillment systems into the InsData platform. Doing so will allow the NAIC to sunset the remaining fulfillment systems on outdated platforms, thereby bringing these systems up to the NAIC enhanced security standards. The move will also improve delivery of datasets to licensees by utilizing web services. This will benefit customers and NAIC support staff as the redesigned processes will be easier to use and require less manual intervention and support than current processes.

II. Key Deliverables:

This project will deliver two key components by the end of September 2020.

First, in order to sunset the internal systems, manual processes to prepare datasets for delivery will be automated and will reside within the InsData platform. These manual processes currently take nearly 750 hours of staff support to complete each year. It will also move the functionality to the cloud-based application.

Second, as part of the effort to automate manual processes, web services will be made available for customers to receive datasets on demand, after filings have been loaded and verified, rather than on a scheduled basis. Licensees can also opt to receive datasets that reflect changes made from the previous delivery, rather than the full dataset. The NAIC will continue to offer its current delivery via Secure File Transfer Protocol (SFTP) as necessary; over time, web services will become the sole delivery mechanism in order to eliminate all manual processes.

III. Financial and Organizational Impact:

To complete the automation of these manual processes, the project requires eight months of consulting for one business analyst, one quality assurance analyst, and two software engineers, for a total of \$396,800 (see **Attachment I**).

This project requires no new staff and no significant staff or user training. In addition, cost savings will be realized over time as the effort to support this business function may be greatly reduced, resulting in information technology staff being utilized in other capacities other than order processing.

IV. Risk Management Plan:

The dataset format and delivery have not changed in nearly 20 years. The ability to provide data via web services will allow the NAIC to easily maintain strong security protocols by bringing the technology platform into the Cloud while providing greater value to customers. Licensees interested in receiving this benefit will need to invest in RESTful services in order to utilize the web services. NAIC will work with licensees in the upcoming months to provide the appropriate documentation and testing environment and to work with NAIC staff to test and transition. While the services will be available for use by September 2020, no licensee will be obligated to receive its dataset by that delivery mechanism until it is comfortable with the process. In order to realize these benefits, performance will be monitored to ensure data delivery is optimal and data delivery via SFTP will continue to be offered as necessary.

NAIC internal information technology staff will benefit from the automation of these processes and the alleviation of any potential cybersecurity risks. Offering parallel delivery options will give the NAIC the opportunity to ensure the speed and accuracy of the automated processes.

V. Security Impact:

One of the project's purposes is to enhance security by updating the platform to a cloud-based solution. The project will ensure confidential data will be flagged so it is not made available

externally. By using web services rather than a direct database connection, the NAIC will be able to protect its data, manage access, and deliver the appropriate information.

2020 Budget

**Financial Data Delivery Platform Enhancement
Project Cost Analysis**

Anticipated Start Date: February 1, 2020

Anticipated Completion Date: September 30, 2020

Description	2020 Total	2021 Budget	2022 Budget
Expenses:			
Professional Services-Implementations/Upgrades	\$396,800		
Total Expenses	396,800		
Revenues Over (Under) Expenses	<u>(\$396,800)</u>	<u>\$0</u>	<u>\$0</u>



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 23, 2019
NAME OF INITIATIVE:	SERFF BILLING IMPROVEMENTS
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	JIM WOODY, CHIEF FINANCIAL OFFICER SCOTT MORRIS, CHIEF TECHNOLOGY OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2020
ANTICIPATED COMPLETION DATE:	NOVEMBER 1, 2020
TOTAL REVENUE EXPECTED (2020):	\$0
(2021):	\$0
TOTAL EXPENSE REQUESTED (2020):	\$86,360
(2021):	\$0
TOTAL CAPITAL REQUESTED (2020):	\$0
(2021):	\$0

I. Executive Summary:

This project will eliminate the significant manual effort currently employed by customers and the NAIC to administer and pay/collect SERFF transaction fees. A fiscal was approved with the 2018 budget to address the NAIC’s financial liability by reducing the number of prepaid block tiers and expiring blocks after 24 months. With approval of this proposal, customers will no longer need to purchase prepaid blocks, thereby eliminating the financial liability altogether. In addition, this project includes the collection of transaction fees along with applicable state fees at the time of filing, eliminating manual effort on customers’ part to log into a separate platform to pay invoices and manual effort on the NAIC’s part to invoice and collect fees.

With the elimination of prepaid blocks, customers will be charged the same per-transaction fee as they received with the purchase of prepaid blocks but will have the benefit of paying only the fees associated with the filing at the time of the filing. Annually, customers will be assigned a transaction rate for a calendar year based on filing volume in the previous calendar year. This will preserve volume discounts built into the tiered fee structure currently approved by the NAIC membership and advocated by industry. While the elimination of prepayments will roll out November 1, 2020, the NAIC will continue to accept SERFF filings paid via existing prepaid blocks through December 31, 2021.

The original intent of prepaid blocks was to provide funds to the NAIC in order to implement SERFF, by offering volume discounts to filers willing to pay upfront for large numbers of transactions. With SERFF in its 22nd year, the business needs have evolved. Cash outlays from prepaid blocks are no longer necessary nor are the expense and overhead of administering prepaid blocks warranted.

The purchase and accounting for blocks by customers is burdensome. Customers have to send in the funds – often a live check – along with a request form, followed by monthly accounting for the balance. For NAIC, block setup and administration are time-consuming responsibilities primarily handled by NAIC information technology staff. The purchase process is entirely manual for both parties, which introduces the possibility of errors and delays. Filers occasionally have to pay the standard rate of \$13.50 per filing if a new block has not been set up before the previous block has been depleted. Each block applies only to a customer’s particular SERFF instance, which is an area within SERFF where the customer stores filings based on its own preferences. While multiple instances are not required, many customers choose to take advantage of the ability to partition filings for various purposes. Blocks are applied manually on a per-instance basis, rather than at a customer level, adding to the potential for error. Setting a fixed rate at the customer level in the system will completely eliminate the manual work and potential for errors. Customers will also benefit from payment of applicable fees electronically at the time of filing. This will eliminate the need for customers to log into the NAIC’s Account Manager system to pay the invoice and the need for NAIC to invoice and collect transaction fee invoices.

In addition, the NAIC has to collect and store banking information. Overall, the support efforts associated with this collection process as well as the maintenance of prepaid blocks and invoicing exceeds 1,800 hours a year. Most of the support comes from staff who are charged with SERFF’s implementations, for both state and industry customers. They not only handle customer setups and maintenance but also work with customers to learn the SERFF basics. Their responsibilities include coordination of training along with the NAIC’s Education & Training department; implementation of new features for states; training states on new functionality; hosting training sessions; and creation of video training when needed. The implementation team also helps the states on an annual basis with implementation of changes to the Uniform Product Coding Matrix and changes for Plan Management. All of these tasks would benefit from the additional resource hours that would become available with the elimination of prepaid filing blocks and invoicing.

II. Key Deliverables:

In order to facilitate the sunset of prepaid blocks, the NAIC will revise its policy so all prepaid blocks will expire by year-end 2021. The policy revision will be posted in late 2019 in order to give customers ample notice of the change. The NAIC will also no longer sell prepaid blocks after November 1, 2020. Short-term prepaid blocks will be made available to existing block customers that run out of block transactions before November 2020.

By July 1, 2020, the NAIC will begin collecting transaction fees from pay-as-you-go customers at the time of filing, either via ACH credit, ACH debit, or credit card. By November 2020, all transaction fees will be collected at the time of filing, with transaction fees based on previous usage patterns.

Below is the timeline for the changes:

- December 2019 – modify SERFF expiration policy to expire all prepaid blocks purchased in 2020 by year-end 2021.

- July 1, 2020 – begin collection of state and transaction fees at the time of filing from pay-as-you-go customers.
- November 1, 2020 – expand collection of transaction fees at the time of filing to all customers and assign transaction rates based on block rates in 2019.
- November 1, 2020 – discontinue sales of prepaid blocks.
- December 31, 2021 – expire any remaining prepaid blocks.

III. Financial and Organizational Impact:

Implementation of this project will not impact transaction fee rates. Customers will continue to pay the transaction fee rate they currently pay, without having to pay for blocks of transactions upfront. Block rates of \$6.50, \$8.00, and \$9.50 per transaction will be applied to customers who currently purchase those blocks. Customers who have purchased blocks of various rates will receive the benefit of the lowest rate. Annually, customers will be assigned the discounted rate that corresponds with the filing volume from the previous calendar year.

The implementation will be primarily handed by internal information technology resources of 1,360 hours, supplemented by one software engineer consultant for \$86,360 (see **Attachment I**). This investment will allow NAIC to save 1,800 hours a year that are currently expended to support prepaid blocks.

In addition to modifications to SERFF, the NAIC's collection interface will be modified to allow customers to input their own banking information, thereby eliminating the need for NAIC staff to handle such information.

IV. Risk Management Plan:

Communication to customers will be key to ensuring they understand how blocks will be retired and how their rate will be assigned annually based on their filing volume. The NAIC will email customers as the deadlines for changes approach and will provide a website dedicated to these changes.

V. Security Impact:

This project will adhere to all software development and data security requirements. There are no security risks or issues related to this project.

Fiscal Impact Statement Project Cost Analysis

SERFF Billing Improvements Project Cost Analysis

Anticipated Start Date: January 2, 2020
Anticipated Completion Date: November 1, 2020

Description	2020 Total	2021 Budget	2022 Budget
Expenses:			
Professional Services-Implementations/Upgrades	\$86,360		
Total Expenses	86,360		
Revenues Over (Under) Expenses	<u>(\$86,360)</u>	<u>\$0</u>	<u>\$0</u>



Fiscal Impact Statement

DATE SUBMITTED:	AUGUST 23, 2019
NAME OF INITIATIVE:	UNIFORM CERTIFICATE OF AUTHORITY APPLICATION (UCAA) REDESIGN AND BIOGRAPHICAL AFFIDAVIT DATABASE
REGULATOR/BUSINESS SPONSOR:	NATIONAL TREATMENT AND COORDINATION (E) WORKING GROUP
NAIC STAFF SUPPORT:	JEFF JOHNSTON, MANAGING DIRECTOR, FINANCIAL REGULATORY AFFAIRS
REQUESTED INITIATIVE START DATE:	JULY 1, 2020
ANTICIPATED COMPLETION DATE:	JUNE 30, 2022
TOTAL REVENUE EXPECTED (2020):	\$0
(2021):	\$5,232
(2022):	\$244,787
TOTAL EXPENSE REQUESTED (2020):	\$390,375
(2021):	\$760,750
(2022):	\$295,375
TOTAL CAPITAL REQUESTED (2020):	\$0
(2021):	\$0
(2022):	\$0

I. Executive Summary:

The NAIC currently offers an online service to allow insurers to file copies of the same company licensing application for admission in numerous states, via its Uniform Certificate of Authority Application (UCAA) platform. Insurers can submit primary applications, expansion applications, and corporate amendments to states accepting the uniform application, eliminating the need to submit multiple applications in varying formats. However, this nearly 20-year-old platform is limited in its functionality as well as the licensing applications and forms it processes electronically. Consequently, many company licensing applications and forms are submitted and processed manually.

This fiscal requests funds to redesign the system as a cloud-native solution and expand the number of company licensing-related applications which can be submitted electronically to the states, eliminating manual processes and improving accuracy and completeness. The redesigned

platform will take advantage of the NAIC’s enhanced Regulatory Data Collection (RDC) (see Fiscal Impact 2) process, which has also requested funding to expand its capabilities for projects such as this one. The enhanced RDC services will allow the UCAA project to expedite the implementation of additional forms for data collection and electronic submission to the states.

This multi-year project will culminate with the implementation of a secure electronic method for completing, submitting, and transmitting biographical affidavits. These biographical affidavits will be stored in a central location, provide a searchable database for regulators, and promote uniformity between states. Regulators will be able to search for officers, directors, and key managerial personnel who have left one troubled company and moved to another, in order to give appropriate consideration to the review of applications. The system will automate the redaction of personally identifiable information (PII), offer a printable or downloadable form, and give access to company representatives and those who have made a sworn statement on an affidavit (affiants). Approved vendors will have secure access to affidavits to complete investigations and upload their final reports.

A modest filing submission fee will be charged to vendors and filers for the various submissions, which will bring the UCAA platform in line with other NAIC online services.

II. Key Deliverables:

There are five phases to this project, correlating to automation of specific forms or applications over the course of the project.

Phase	Applications/Forms Released in the Platform	Projected Release
1	Primary Applications/Re-domestications	Quarter 1 2021
2	Corporate Amendments for domiciliary states	Quarter 2 2021
3	Form A and Form E Applications	Quarter 3 2021
4	Current UCAA Applications migrated to new platform	Quarter 1 2022
5	Biographical Affidavit Database	Quarter 2 2022

Success will be measured by the ability to facilitate electronic submission of these company licensing filings via the Cloud, thereby replacing the current manual, labor-intensive process and promoting uniformity among the states. Success will also be measured by the regulators’ ability to utilize a searchable database, with information readily available on the movement of officers, directors, and key managerial personnel between companies. In addition, the new system will be a vehicle for states to respond to public records requests in an automated fashion that prevents confidential information from being made available to the public.

III. Financial and Organizational Impact:

The project requests \$1,446,500 in professional services over 24 months, starting in July 2020. At the beginning of the project, a database design review will be conducted for \$10,000 in 2020. At the same time, a fixed contract will be sought for the development work, scheduled to begin in mid-2020 and concluding by mid-2022, for a total of \$841,500. Of this, \$210,375 will be expensed in 2020, \$420,750 in 2021, and the remaining \$210,375 in 2022. The development work will be supplemented by two other consulting positions for \$170,000 in 2020 and \$340,000

in 2021. Internal staff will assist with the project, which is estimated to be 1,500 hours over the life of the project.

This project does not include the collection of any applicable state fees; filers will continue to send such fees directly to the states. A filing fee will be charged for each submission made in the new platform, beginning with the incorporation of Primary Applications/Re-domestications in Quarter 1 of 2021. Revenue projections are based on a flat rate of \$12 per application submission. Should the platform be modified in the future to collect state fees on behalf of the filers, the filing fee may change to accommodate additional support costs incurred by the NAIC.

See **Attachment I** for details associated with the revenue and expenses related to the redesigned platform.

IV. Risk Management Plan:

There are a number of stakeholders with this project. The risks for each are different and will be mitigated as noted below.

Regulators:

Currently state regulators receive primary and all domestic corporate amendment filings, including Form A and Form B, via hardcopy submissions. The biographical affidavits submitted for licensing applications or annual updates are often handwritten or submitted with missing or inaccurate information. An automated process will ensure all applications and affidavits are complete before submission to states. Having these licensing applications on the new cloud platform will also ensure uniform processes in submission of the forms. Ad-hoc groups will be set up to collect requirements for the development of each application, to ensure regulatory needs are met.

Insurers:

Insurers will benefit from the electronic submission of all licensing applications as it will encourage uniformity, eliminate submission of incomplete applications that cause delays in the review process, and provide one centralized location for all licensing forms. Company users will also be able to clone a domestic submission and modify the state-specific information for foreign state submissions without the need to create a new and separate filing for the same transaction, such as mergers, change of control, and statutory address changes. It will be critical to test the flow of the submission process before each new form is released, in order to provide the most positive user experience possible.

Background Reporting Vendors:

The creation of an electronic biographical affidavit database will ensure background reporting vendors receive completed biographical affidavits on the most current form. Also creating a background report template for electronic transmission will verify all vendors are compliant with the company licensing best practices and guidelines for background investigation reports. A third-party electronic signature tool will be utilized, which staff will research and test before implementing.

NAIC staff:

NAIC licensing staff initially field questions that pertain to obtaining or amending a certificate of authority. This project includes the provision of an internal administrative tool that will allow updates to be made for changing state statutes or regulations, which should reduce the number of calls or emails received on the UCAA process. Also, the electronic database will reduce the

need to provide full integration testing for code changes and provide real-time updates to applications. These revisions will also reduce the amount of time needed for NAIC staff to test changes to the system and streamline future improvements. NAIC Help Desk requests for User IDs will increase and it will be necessary for those IDs to be issued in a timely manner.

It is necessary for the cloud platform tools to be available on all application environments before this project commences. Any delay in availability could result in delays to this project. The redesign is also dependent on the approval of the Enhanced RDC fiscal and its timely implementation in 2020. Communications between project teams will be critical to ensure project dependency delays are avoided or mitigated to the extent possible.

Since PII data will be stored with the implementation of this project, testing will be essential to ensure the data is de-identified properly and staff do not have access to any confidential information.

V. Security Impact:

The biographical affidavit contains PII such as social security number, date of birth, and any government identification number on the affiant completing the form. Today, in order to comply with a public records request, state staff must manually redact confidential information by printing the affidavit, redacting the confidential information with a marker, scanning, and then printing the redacted affidavit to provide to the requestor. The quantity of affidavits varies by company size, ranging from 10-50 affidavits per application. The proposed biographical affidavit database will quickly identify personal information by input and electronically redact the confidential information before an affidavit is printed to satisfy all public record requests, considerably reducing the time and effort for every state. It will also likely prevent confidential information from being inadvertently shared due to human error in the manual redaction process.

Since confidential information will be stored at the NAIC, security measures will be taken to protect the data. The data will be de-identified in all non-production environments. In production, confidential data will be encrypted due to sensitivity, and support staff access will be determined based on security roles within the application.

Fiscal Impact Statement Project Cost Analysis

Uniform Certificate of Authority Application (UCAA) Redesign and Biographical Affidavit Database

Project Cost Analysis

Anticipated Start Date: July 1, 2020

Anticipated Completion Date: June 30, 2022

Description	2020 Total	2021 Budget	2022 Budget
Revenues:			
Submission Fees-Primary Application/Re-domestication		\$900	\$3,600
Submission Fees-Corporate Amendment for Domiciliary State		732	1,464
Submission Fees-Form A and Form E Applications		3,600	4,800
Submission Fees-UCAA Applications			13,356
Submission Fees-Biographical Affidavits			221,567
Total Revenues		5,232	244,787
Expenses:			
Professional Services-Implementations/Upgrades	\$390,375	760,750	295,375
Total Expenses	390,375	760,750	295,375
Revenues Over (Under) Expenses	<u>(\$390,375)</u>	<u>(\$755,518)</u>	<u>(\$50,589)</u>

**2020 BUDGET
UNRESTRICTED NET ASSETS (UNA)**

	<u>Total UNA (1)</u>	<u>Regulatory Modernization Fund (2)</u>	<u>Available UNA</u>
2015 Revenues Over/(Under) Expenses	(\$3,658,613)		
Defined Benefit Plan Adjustment (FAS 158) (3)	(1,711,816)		
2015 Ending Balance	<u>114,373,497</u>	\$1,643,203	\$112,730,294
2016 Revenues Over/(Under) Expenses	4,964,045		
Defined Benefit Plan Adjustment (FAS 158) (3)	(75,067)		
2016 Ending Balance	<u>119,262,475</u>	\$1,785,657	\$117,476,818
2017 Revenues Over/(Under) Expenses	11,638,987		
Defined Benefit Plan Adjustment (FAS 158) (3)	2,904,688		
2017 Ending Balance	<u>133,806,150</u>	\$2,006,328	\$131,799,822
2018 Revenues Over/(Under) Expenses	(2,896,887)		
Defined Benefit Plan Adjustment (FAS 158) (3)	78,390		
2018 Ending Balance	<u>130,987,653</u>	\$1,842,346	\$129,145,307
2019 Projected Revenues Over/(Under) Expenses	4,915,744		
2019 Projected Ending Balance	<u>135,903,397</u>	\$2,038,551	\$133,864,846
2020 Revenues Over/(Under) Expenses	(2,562,417)		
2020 Ending Balance Before Fiscal Impact Statements	<u>133,340,980</u>	\$2,000,115	\$131,340,865
2020 Fiscal Impact Statements	(4,320,753)		
2020 Ending Balance After Fiscal Impact Statements	<u>\$129,020,227</u>	\$1,935,303	\$127,084,924

(1) On July 7, 2015, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved a report from the consulting firm hired to review the NAIC's operating reserves, which changed the NAIC's liquid reserve target from a range of 80% to 91% established in September 2011, to a target range of 83.4% to 108.2%. These changes in the operating reserve target are the result of current and future identified risks and benchmarking to comparable organizations.

UNRESTRICTED NET ASSETS

(2) The NAIC instituted the Regulatory Modernization and Initiatives Fund during the 2005 budget process to manage spending beyond the budget by establishing spending guidelines for new initiatives and proposals submitted subsequent to the annual budget presentation. The fund balance was established at 1.5% of projected consolidated net assets for that year.

(3) Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans requires plan sponsors to reflect the funded status of their defined benefit plans on a company balance sheet on a projected benefit obligation basis. This is accomplished through an adjustment to unallocated net assets, or net equity of the NAIC, and results from the actual performance of the NAIC's defined benefit plan compared to assumed performance of investments, discount rates, and covered participants.

The NAIC froze the Defined Benefit Plan to new entrants on January 1, 2000, and accrued benefits for all active employees were frozen as of December 31, 2012.

Declines in market performance and updated plan assumptions increased the plan obligation in 2015. As of December 31, 2015, SFAS 158 adjustments increased the liability \$1.5 million and decreased net assets \$1.7 million.

The SFAS 158 adjustment at December 31, 2016, increased the liability by \$509,974 and decreased net assets by \$75,067. These adjustments are the result of plan assumption updates partially offset by the portfolio's positive financial performance.

The plan experienced an overall decrease in obligation in 2017. The SFAS 158 adjustment decreased liabilities \$551,249 and increased net assets \$2.9 million primarily due to market performance and plan assumptions updates. Additionally, the NAIC Internal Administration (EX1) Subcommittee approved a strategy to accelerate loss recognition and fully fund the plan over the next few years. The goal of this strategy is to be fully funded with no unrecognized expense by the end of 2021.