NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: December 2, 2022

To: All NAIC Members and Interested Parties

From: Chlora Lindley-Myers, Director of Missouri Department of Commerce and Insurance and NAIC-President Elect
Michael Consedine, NAIC Chief Executive Officer
Andy Beal, NAIC Chief Operating Officer and Chief Legal Officer
Jim Woody, NAIC Chief Financial Officer

Re: Summary of Comments on the Proposed 2023 NAIC Budget

In response to the Executive (EX) Committee's and Internal Administration (EX1) Subcommittee's request for comment on the NAIC's proposed 2023 budget, the NAIC received comment letters on the proposed budget after it was released for public comment on October 21, 2022, from the National Association of Mutual Insurance Companies (NAMIC) (Attachment One) and the American Council of Life Insurers (ACLI) (Attachment Two). This memorandum summarizes the letters' comments and includes the NAIC's response to each comment.

A Public Hearing will be held December 9th to discuss these comments. Participation instructions for the public hearing teleconference can be accessed at https://content.naic.org/about_budget.htm.

State Connected – A New Strategic Vision

1. NAMIC noted that the NAIC is focused and instrumental in helping the states tackle the many unique challenges facing the insurance industry, citing the proposed budget will build upon its current strategic plan *State Ahead*, and will enable the NAIC to position itself as a connected hub for its members through enhanced technology, data analytics, training, and education. NAMIC noted that two such infrastructure items – System for Electronic Rates and Forms Filing (SERFF) and the Financial Data Repository (FDR) – have budgeted funds for system upgrades in 2023. NAMIC correctly indicated that products and services dependent upon these two platforms account for 36% of NAIC's budgeted revenue. NAMIC recommended further technology infrastructure investments into these platforms be evaluated against several criteria, such as ensuring investments are supported by regulators to assist in regulatory initiatives, are cost-effective, and reflect regulatory tasks delegated by the states. In addition, the ACLI requested additional details of the SERFF fees, specifically if the revenue increases from 2021 through the 2023 budget are volume or price driven.

NAIC Response: NAMIC correctly identifies that both SERFF and FDR represent significant revenue sources for NAIC operations, however they also represent infrastructure critical for ongoing state-based regulation. SERFF is licensed and used by 53 jurisdictions and over 5,000 insurance companies, third-party filers, rating organizations, and other companies and is a cost-effective and efficient way for insurance companies to submit rate and form filings to the states and jurisdictions. Most jurisdictions receive more than 90% of their filings in an electronic format via SERFF, allowing for 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. Without SERFF (or its planned upgrades reflected in the SERFF Modernization fiscal impact statement), state review and approval of product filings would not occur as timely as they do today, which would inhibit an insurer from being able to react quickly to changing market conditions, or as referenced by NAMIC, react to a new challenge facing the insurance industry. For insurers, being able to file in one location permits companies to pivot faster, an increasingly important characteristic in an environment that often seems to change faster in every subsequent year. It is imperative this 20+ year old system be upgraded to keep pace with current technology and increasing needs of state regulators and the insurance industry.

In terms of SERFF filing volumes, in 2021 SERFF received 548,991 transactions. However, thus far in 2022, SERFF has experienced a significant decrease in transaction count with most states reporting a decline in volume – based on our latest forecast, it is anticipated 510,000 transactions will be processed in 2022. The proposed 2023 budget is based on a return to 2021 levels.

The table below reflects a comparison of actual SERFF transaction revenue in 2021 compared to the 2022 budget and projection as well the proposed 2023 budget. The revenue per transaction increased from an average of approx. $9.17 in 2021 to a rate of $17.00 in 2022 and $17.61 in 2023. The increase in pricing in 2022 compared to 2021 is due to the elimination of bundled pricing as well as an increase in per filing in May 2022 to $17.00 to fund the modernization and ongoing support of the SERFF platform. The price in 2023 increased $0.61, or 3.6%, to $17.61 based on the 2021 CPI-U increase.

	2021 Actual	2022 Budget	2022 Projected**	2022 Forecast**	2023 Budget
SERFF Fees*	$5,577,323	$9,192,658	$9,202,697	$8,273,400	$9,192,658
Transaction Count	548,991	573,989	570,990	510,000	548,152

* SERFF Fees also include Integration Expansion license fees and an annual license from the Interstate Compact.
**The 2022 Projected column reflects estimated fees and transactions at the time the budget was produced. The 2022 Forecasted column reflects estimated fees and transactions at the time of this writing.

FDR (Financial Data Repository), the second critical infrastructure system referenced by NAMIC, is in essence one of the most important tools in the regulatory process. This system collects, loads, processes, and maintains annual and quarterly financial statement data and while summarized in a single sentence, involves several complex processes, and dedicated teams to ensure its continued success and operation. It is the beginning point where all solvency analysis begins and as NAMIC correctly states, is a platform that is widely used by state regulators, has been enabled through legislation, and is foundational to ensuring state regulators have the information to ensure solvency in the marketplace and protection of consumers. Capital expenditures on FDR as well as the assessment of fees with associated filings, are critically important to ensure the NAIC can fulfill its core mission of supporting state-based regulation. Given the 20+ year age of this platform, it is critically important that it be modernized over the coming

years which will benefit both regulators and insurance companies. This upgrade will transition this system to current technology which will allow the NAIC to ensure system performance and provide additional functionality requested by regulators and industry.

Funding Mechanisms to Support Solvency

2. NAMIC highlighted that the NAIC uses annual database filing fee revenues to support its financial solvency program, which are then further supplemented by the sale of insurance data products to third-party vendors. NAMIC inquired whether the budgeted funds in the "FDR Modernization" fiscal impact statement would benefit state insurance regulators or supplement data sales. NAMIC also inquired if recent initiatives of the Valuation of Securities (E) Task Force, which will potentially expand the Securities Valuation Office (SVO) staff's discretion over the assignment of NAIC designations, will incrementally benefit state insurance regulators' ability to achieve financial solvency objectives.

NAIC Response: The NAIC appreciates NAMIC's inquiry regarding the upcoming FDR Modernization initiative. FDR is built on a platform that is over 20 years old and is becoming increasingly difficult to support. The effective operation of FDR is critical to regulators and industry alike. The system must be functional so that industry can submit documentation when required, and regulators can complete their oversight responsibilities in the name of solvency. In fact, the criticality of system availability was demonstrated as FDR failed to meet this for the most recent annual statements cycle, as some filings were backed up for two days when regulators generally have access to financial statement filings within two hours of submission.

The first part of the fiscal requests funds to use third-party consultants to develop new access paths to FDR data tables. These access paths are for the benefit of regulators so that they may more efficiently gather information for analysis purposes. The magnitude of data tables and the steps required to access information are not efficient for regulators or NAIC staff to support on behalf of the regulators. While this initial fiscal is required to develop a long-term plan for FDR, the ultimate objective is to enable regulators to have the capability to perform additional analysis, independent of requiring special query submissions to NAIC support staff. Enabling regulators to have technologically advanced tools and streamlined access is the goal of this initiative.

Regulators are additionally challenged to ensure solvency in an increasingly complex marketplace, especially in terms of monitoring complicated investments. A number of significant projects to ensure regulatory standards are kept current with marketplace actions are underway with examples including the Principles-Based Bond definition project being pursued by the Statutory Accounting Principles (E) Working Group or as NAMIC mentioned, recent initiatives of the Valuation of Securities (E) Task Force.

The budget estimates for the SVO and AVS+ reflect increasing costs for data, research, and technology to support current regulatory policies in addition to the rising costs impacting all of the NAIC. The Valuation of Securities (E) Task Force has many critical roles, one of which is to identify potential improvements to the filing exempt (FE) process (the use of credit rating provider (CRP) ratings to determine an NAIC designation) to ensure greater consistency, uniformity, and appropriateness to achieve financial solvency objectives. Regulators have expressed concern that there is an inconsistency in application of FE for certain, often bespoke, securities. As NAIC designations are an indication of credit quality, ensuring investments reflects NAIC designations consistent with regulators' expectations, which appropriately reflect the underlying risk of an investment, promotes a strong and stable state-based regulatory system.

The new charges planned for Valuation of Securities (E) Task Force are not included in this budget and any financial needs to fund these critical regulatory initiatives will be considered separately.

NAIC Meetings – New Normal Includes Hybrid Component

3. NAMIC noted the NAIC's 2023 national meeting schedule is expected to offer a full-slate of in-person meetings and will include hosting the International Association of Insurance Supervisors (IAIS) Global Seminar. In addition to the national meetings being held in-person, the NAIC anticipates building on the successes of the hybrid meeting approach and will continue to offer these types of sessions in 2023. NAMIC noted increases in 2023 travel expenses and inquired if sufficient funding was available for legislators to ensure in-person attendance at national meetings, especially in support of the effort to achieve lasting and meaningful dialogue with federal and international policymakers to ensure an appropriate understanding about the U.S. insurance regulatory system. NAMIC stated it is critically important to defend the U.S. state-based system of insurance regulation and given that the NAIC is a multidimensional regulatory support organization, this opportunity may require additional resources to support all activities associated with state-based regulation, activities that generally are better achieved through in-person dialogue.

NAIC Response: The NAIC values NAMIC's thoughtful recommendation to ensure that sufficient funding is available to support collaboration between regulators and insurers, especially as state regulators are in the best position to defend the U.S. state-based system of insurance regulation. Collaboration is at the core of NAIC's culture, and the NAIC stands ready to assist in every possible avenue. The NAIC believes that by working collaboratively, transparency can be improved, deeper expertise can be developed, and a better product is produced. In terms of the continued hybrid model, while the costs are often higher due to additional technology resource needs, the NAIC has found that regulators and individuals from industry, who might not have been able to attend in-person, were able to actively participate and share in the information being presented –increasing the reach to an important audience.

Currently the NAIC sponsors several opportunities for collaboration including the Commissioners Fly-in, participation in the International Association of Insurance Supervisors (IAIS), three national meetings held in varying venues throughout the U.S., and the annual Insurance Summit in Kansas City, MO., where sessions are held on solvency, market conduct, technology, and other topics of interest. In addition, the NAIC is actively involved in the National Council of Insurance Legislators (NCOIL) meetings. Funding for travel to these events for NAIC staff, regulators, funded consumers, and legislators has increased from 2022 projected year-end expenses reflecting a higher level of travel as well as inflationary pressures. The NAIC concurs with NAMIC in that meaningful dialogue most often occurs in-person. Rest assured that while the NAIC believes the proposed budgeted numbers accurately reflect the needed expenditures related to travel, should additional funds be necessary for regulator travel, especially in cases to support the state-based insurance system, those funds will be made available.

New Avenues to Insurance Careers Foundation

4. NAMIC applauded the NAIC for its establishment of the New Avenues to Insurance Careers Foundation. The foundation will proudly serve as an avenue to provide financial support to enable students to pursue a fulfilling insurance career either in government or the insurance industry. Similarly, NAMIC has created their own foundation and has awarded more than $496,000 in scholarships, 71% of which has been awarded to women or minorities. As the goals of the two

foundations closely align, specifically in fostering interest in insurance related careers, with a particular focus on students from underserved and diverse communities, NAMIC would welcome the opportunity to partner with the NAIC to assist in the promotion of scholarships once the foundation has been established.

NAIC Response: The NAIC appreciates NAMIC's generous offer to promote awareness of the NAIC's scholarship foundation. It is clear the objectives of both foundations are similar and both organizations believe it is critical to assist in the promotion of the insurance industry as a desirable career path. The NAIC is honored to have the support of three prior Commissioners and past NAIC presidents – Director Ray Farmer from South Carolina, Commissioner Terri Vaughan from Iowa, and Commissioner George Nichols from Kentucky – actively involved in the establishment of the foundation. When the NAIC's foundation was announced, it was stated the goal is to create opportunities for future regulatory insurance professionals. In the creation of this foundation, the NAIC intends to lead the way in showing how the public sector can help students of all races, genders, and ethnicities launch meaningful insurance careers. With the successes shared by NAMIC in their comment letter, the NAIC appreciates NAMIC's dedication and investment which will likely have a long-lasting positive impact on the industry. The NAIC would welcome assistance in promotion of the NAIC foundation's scholarships and when the program goes live, welcome the opportunity to discuss additional collaboration regarding these endeavors.

Building on the goal to lead by example and make a positive impact in the insurance sector, the NAIC is proud to report its Diversity, Equity, and Inclusion (DE&I) initiative will be celebrating its three-year anniversary in 2023. The initiative is broad and encompasses the NAIC, regulators, and the insurance industry. The NAIC believes that through a diverse workforce, not only will the NAIC be improved, but service, understanding, and services to our members, industry, and insurance consumers will reach new heights. Additionally, in 2023, the NAIC will host the third annual NAIC DE&I conference, a one-day event open to NAIC staff, insurance regulators, insurance companies, and others who desire to participate in this outstanding event.

Group Cap Adjustment

5. The ACLI requests the NAIC use its unrestricted net assets by increasing its annual deficits rather than increasing the cap on database filing fees to generate additional revenue. Although the database filing fee group cap has not been increased since its inception (despite an increase in the number of mergers and acquisitions resulting in large groups), they do not see the need to increase the group cap to enhance revenues given the NAIC's projected Net Asset balance at the end of 2023.

NAIC Response: The NAIC appreciates the ACLI's comments and wishes to note that for 2022, the NAIC is projected to have a $3.6 million operating loss, and because of investment losses, is budgeted to experience a $18.9 million reduction in surplus during 2022. Additionally, before the inclusion of the filing fee cap revenue adjustment and considering the other fiscal impact statements, the NAIC's 2023 operations are budgeted to incur a $9.4 million operating loss (which is reduced to a $4.8 million operating loss by the increase in group cap revenues by $4.6 million). Also notable, the budget operating loss does not include the $11.7 million in planned capital expenditures, an increase of $5 million over 2022's planned capital spending of $6.7 million. The ACLI does correctly identify that NAIC's revenues, before the cap adjustment, do indeed increase, however expenses are budgeted to grow at a significantly faster rate. Several of the NAIC's systems, as indicated throughout various fiscal impact statements, are 20+ years old, and accordingly many of these systems will require significant upgrades. These planned and future

upgrades will provide the members, insurance companies, and consumers with the access, data, and services they expect and deserve.

One of the main objectives of any proposed modification is to take into consideration an approach that is fair and equitable. The original (and current group cap) of three times the individual cap has been in place since 1993. However, since that time, the industry has seen significant merger and acquisition activity with many groups now containing over forty insurance reporting entities and two groups having nearly 100 insurance reporting entities. With the ongoing growth of these groups, their prorated filing fee (as a percentage of per million in premium) continues to erode despite the regulatory costs to support these entities continuing to rise.

The inequity or disparity of filing fees (as a percentage of premiums) is significant. Based on year-end 2021 premiums, individual companies, on average, paid approximately $26 per million in premiums, while large groups paid an average of $6.36 per million in premiums (on $1.378 trillion in premiums). This inequity causes significant operating cost differences among insurers with competing products, which further erodes a competitive marketplace and exacerbates an uneven playing field.

Further, while the large caped groups paid an average of $6.36 per million in premiums, eight large insurer groups representing 433 companies and nearly $728 billion in premiums, paid less than $4.52 per million. This amount is less than 20% of the amount paid by individual companies. One of these large insurer groups (representing 93 companies and $193.8 billion in premiums) paid only $1.47 per million of premiums (less than 6% of the amount paid by individual companies). The disparity of fees creates an unlevel playing field between similar insurers, with similar products thus increasing the cost to access insurance products for consumers who purchased insurance from individual insurance companies.

Finally, on August 10, 2022, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee adopted an operating reserve policy based on a report from an independent consulting firm hired to review NAIC's operating reserves, which established a new reserve methodology. The recommendation was based on an analysis of NAIC's working capital and strategic needs as well as current and future identified risks. NAIC's operating reserve is currently established with a minimum target reserve of $169.6 million. Based on the results proposed in the 2023 budget, including all fiscal impact statements, the NAIC is budgeted to fall short of the minimum reserve with $164 million in unrestricted net assets.

Concluding Comments

The NAIC greatly appreciates the effort, commentary, and questions posed by interested parties. As is woven through NAIC's processes, strategic plan and culture, transparency, and continual collaboration with its members and stakeholders are foundational to the NAIC's success. Accordingly, the NAIC takes a holistic approach to the development of its annual budget, which involves input from NAIC staff, NAIC officers, the Executive Committee, and all NAIC's members. To provide transparency to the public, the NAIC publishes a copy of its proposed budget before the budget is approved and welcomes input and comments from interested parties, which are addressed both in writing and in an open Public Hearing. This process ensures that state insurance regulators, who are committed to protecting policyholders as well as ensuring the financial solvency of the insurance industry, remain supported by the NAIC in a cost-effective and financially prudent manner, while minimizing the impact to industry where possible. The NAIC continuously seeks opportunities to reduce operating costs and improve efficiencies while providing world-class support to its members, regulators, interested parties, and insurance customers.

Attachment One

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

202.628.1558 | [F] 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

November 18, 2022

Jim Woody
Chief Financial Officer
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: NAMIC Comments – Proposed 2023 NAIC Budget

Dear Mr. Woody:

On behalf of the National Association of Mutual Insurance Companies (NAMIC),[1] thank you for the opportunity to provide comments regarding the Proposed 2023 NAIC Budget[2]. NAMIC is a longtime supporter of activities to promote consistency and coordination in state insurance regulation. We recognize the great effort involved in achieving a reasonable degree of uniformity in key areas of insurance oversight and the NAIC's desire for necessary resources and technology to assist states in working collaboratively to address insurance regulatory issues. Our support of the NAIC is rooted in the belief that the tools, regulatory guidance, and model laws that are developed are intended to serve and promote a strong and stable state-based regulatory system which focuses on essential insurance fundamentals. Our support also extends to the role of an ally to the NAIC in its effort to oppose unwarranted federal regulation of insurance; therefore, we appreciate when the NAIC provides strong leadership both at the federal and international levels. It is with these basic principles of support that NAMIC offers our comments today.

NAMIC's comments on the 2023 proposed budget are focused on the positive benefits included in the budget that we believe give the NAIC – as a regulatory support organization for state insurance regulatory authorities – the necessary and

[1] The National Association of Mutual Insurance Companies consists of more than 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write $357 billion in annual premiums and represent 69 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets. Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

[2] Proposed 2023 NAIC Budget - https://content.naic.org/sites/default/files/inline-files/about-budget-proposed-2023-naic-budget_2.pdf

appropriate resources to support a modernized state-based regulatory system. Furthermore, we offer constructive comments in areas that we believe warrant additional inquiry, as the growth in services, databases, and alternative revenue sources beyond member assessment suggests a desire to continue to create a process that results in policy decisions directed and influenced by this organizational growth.

As described by Chlora Lindley-Myers, NAIC President-Elect and Director of the Missouri Department of Insurance upon the release of the proposed budget:

> "The proposed 2023 budget helps equip the NAIC to better support the nation's chief insurance regulators tackle the many challenges facing consumers and the insurance industry. This budget recognizes the need for additional staffing resources, as well as a commitment to advance our technology and the modernization of insurance regulation in areas such as innovation, cybersecurity, and standard setting."

State Connected – A New Strategic Vision

NAMIC agrees with incoming NAIC President Lindley-Myers that there are many challenges facing the insurance industry, and the NAIC can be instrumental in helping states be better equipped to tackle these challenges. The proposed budget describes the NAIC strategic vision for the upcoming years. As the strategic plan recognized as *State Ahead* evolves into the new vision referred to as *State Connected,* our understanding of the planned evolution is that the new strategic vision will build upon what was created with *State Ahead* – a resource hub for insurance departments to draw upon. The new vision will focus on member connectivity – to position the NAIC as a "connected hub" for the membership – as well as, technology and data analytics, regulatory training and consumer education, and NAIC operations. Furthermore, it appears the plan will also incorporate a focus on protecting consumers including by providing NAIC publications and information about available risk management tools.

As the NAIC continues to invest heavily in its technology infrastructure, it is important that these investments meet several thresholds:

- Be reasonably necessary to support key regulatory initiatives;
- Reflect a cost-effective approach;
- Have the support from a majority of insurance regulators; and
- Defer to appropriate legislative oversight and input in regard to the delegation of regulatory tasks to the NAIC by states.

Programs such as the System for Electronic Rate and Form Filing (SERFF) and the Financial Data Repository (FDR) are listed as areas in need of upgrades and are primary support systems that benefit insurance regulators. The budget includes Fiscals for each of these programs, both of which are used widely by state regulators and have been enabled by legislation, underscoring the importance of these programs and the process for participation in them. SERFF processes hundreds of thousands of transactions and is used by 53 jurisdictions and over 5,000 insurance companies; FDR maintains a majority of

insurance company financial statement data that is accessed by state insurance regulators. These programs provide a significant portion of revenue for the association, as SERFF Fees and Data Hosting Fees represent $12.5 million, and FDR Fees represent $40.1 million. Together, fees generated from these programs represent 36% of the revenue included in the 2023 proposed budget. Contrast that with member assessments representing 1.5% of revenue. While these are vital programs for state insurance regulators and key sources of revenue for the NAIC, NAMIC maintains the above thresholds should be met if these areas continue to be targeted for future growth opportunities.

Funding Mechanisms to Support Solvency

The NAIC uses **annual database filing fee revenues** to fund and support its financial solvency program. The budget calls for a 17% increase in database fee revenue above 2022 projected revenue. Further enhancing the revenue earned from FDR fees is an additional $10.7 million budgeted for revenues generated from the sale of insurance data products, which includes contracts with third-party vendors who use, market, and sometimes redistribute NAIC data. We understand the value and need to provide regulators with timely access to insurance company financial statement data and other solvency data reporting elements; however, it is not clear from the budget if the enhancements to the FDR are for the benefit of state insurance regulators or for the benefit of generating additional "insurance data products" revenue. As part of the FDR Fiscal, funds requested include the use of third-party consultants to develop new access paths to FDR data tables. From this statement, it is not clear if the new access paths are intended for state insurance regulators (or other third parties) and therefore whether they satisfy the above thresholds – it is unclear that they are necessary to support key regulatory initiatives.

Additional revenue sources beyond database fees and insurance data products that are generated by the industry include **valuation services**. The budget includes $9 million for securities designated by the SVO and an additional $7.2 million for automated valuation service revenue, which is derived from companies that utilize the AVS+ system to prepare their Schedule D filing. In 2023, work contemplated by the Valuation of Securities (E) Task Force includes implementing additional and alternative ways to measure and report investment risk. Additionally, the Task Force is planning to expand SVO staff discretion over the assignment of NAIC designations. It appears that these initiatives will serve to grow revenue for the association; however, it is not clear if these measures will incrementally benefit state insurance regulators' ability to achieve their financial solvency objectives. We would request more information about the future growth of both investment analysis fees and valuation services revenue as it applies to the mission of better serving and promoting a strong and stable state-based regulatory system for the benefit of regulators and consumers.

NAIC Meetings – New Normal Includes Hybrid Component

The NAIC describes the 2022 meeting schedule as the "new normal" as most meetings were held in hybrid fashion. For 2023, it is expected to offer a full-slate of in-person meetings, including hosting the annual International Association of Insurance Supervisors Global Seminar in June. Noted throughout the budget are the additional expenses related to inflation pressures, including for international and domestic travel for state regulators, NAIC staff, consumer representatives, and state legislators.

Increases in budget for Travel expenses (+33%) and National and Major Meetings expenses (+30%) are up significantly compared to 2022 projections with inflation and an anticipated rise in in-person attendance contributing to the increase. As that applies to commissioners, it is noted that $601,400 is dedicated to commissioner travel for the IAIS Global Seminar and for national and major events. Total commissioner/regulator travel is budgeted at $2.6 million, which is an increase of 25% versus 2022 projections. Given the NAIC is hosting the Global Seminar, added expenses may appear to be warranted and are expected as the NAIC is a key supporter and member of the IAIS as a standard-setting organization. In addition to these line items, staff travel (+40%) and international travel (+64%) are both up significantly versus 2022 projections. While not as large of an expense for the association, budget for travel expenses associated with consumer funded representatives is up slightly versus 2022 projections; although, it is not clear what (if any) increase in budgeted travel expenses has been established for state legislators to attend 2023 NAIC national meetings and other NAIC events. As it stands, the budget for consumer funded representatives to attend national meetings is nearly double that of for state legislators. We believe that NAIC's objectives are enhanced by participation and input from state legislators, and they are a pivotal voice in all activities associated with state-based regulation. We encourage the NAIC to look for ways to enhance the budgetary support for such an engagement.

It is important that state insurance commissioners and other insurance regulators are put in the best position to defend the U.S. state-based system of insurance regulation. Given the new levels of expertise in data collection and delivery and the commitment to an even greater technological capability, the NAIC evolvement to a role as a multidimensional regulatory support organization means more effort is needed to educate domestic and international policymakers about the U.S. state-based system. This need for enhanced education is particularly acute in regard to increased demands for more granular industry data. With that comes a certain amount of domestic and international engagement and in-person dialogue. To the extent that state regulators and NAIC staff are able to achieve lasting and meaningful dialogue with federal and international policymakers and come to agreements and understandings about the U.S. system, NAMIC members are supportive of this necessary engagement. Nevertheless, we encourage additional state legislator involvement at NAIC national and major meetings and would support additional funds dedicated to the NAIC Educational Outreach Program in this regard.

New Avenues to Insurance Careers Foundation

We applaud the NAIC for the establishment of the New Avenues to Insurance Careers Foundation. NAMIC has established a similar scholarship fund called the NAMIC Mutual Insurance Foundation, which has awarded more than $496,000 to date in scholarships to students pursuing careers in insurance and risk management. Our commitment is focused on fostering diversity and inclusion at all levels of the mutual insurance industry, to bring individuals with an array of talents, ideas, and cultural experiences into the insurance industry; 71% of NAMIC scholarship recipients have been women or minorities. Our mission is closely aligned with the NAIC's newly established foundation, which is looking to help individuals learn relevant skills for the regulation and business of insurance. As stated by Lindley-Myers in her testimony to Congress, the Foundation "will focus on fostering interest in careers in insurance and insurance regulation, with a particular focus on students from underserved and diverse communities" and "will support our members' efforts to increase diversity and inclusion in the regulatory community specifically, and the industry more generally." In our estimation both foundations will play a critical

role to foster the innovation that drives the industry's ability to effectively serve its policyholders and the regulatory community's ability to serve consumers and the public interest. We welcome opportunities to partner with the NAIC to promote these scholarships to even more students around the country.

Conclusion

As a general matter, in reviewing NAIC's budget, NAMIC considered whether the proposed spending is cost-effective, reasonably necessary to support key regulatory initiatives, have support from most insurance regulators, and demonstrate appropriate oversight. NAMIC supports the commitments of the NAIC to serve as a "connected hub" for state insurance regulators to collaborate to address insurance regulatory issues. NAMIC is supportive of the activities of the NAIC to promote uniformity and coordination in state insurance regulation. We applaud the leadership for the creation of the Innovation, Cybersecurity, and Technology (H) Committee and Catastrophe Modeling Center of Excellence, both established in 2022. As the NAIC continues to evolve, these newly established groups will be instrumental in coming to a common understanding for the use of technology both on the regulator and industry side.

Thank you for your consideration of these comments on this matter of importance to insurers and policyholders. NAMIC looks forward to the responses and discussions during the coming year.

Sincerely,

Erin Collins
Senior Vice President – State and Policy Affairs
National Association of Mutual Insurance Companies

November 18, 2022

Chlora Lindley-Myers
NAIC President-Elect
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

RE: NAIC's *Proposed 2023 Budget*

Dear Commissioner Lindley-Myers:

The American Council of Life Insurers (ACLI)[1] appreciates this opportunity to comment on the NAIC's *Proposed 2023 Budget*.

Our comments are focused on *Fiscal Impact Statement – 2023 Revenue Enhancements*, particularly the proposed increase in the database filing fee group cap from $283,938 to $473,230, an increase of $189,292 per group. While it is true that that group cap has not been increased since its inception and there has been an increase in the number of mergers and acquisitions resulting in larger groups, we do not see the need to increase the group cap to enhance revenues since the NAIC already has a very large budget surplus (unrestricted net assets), one which is projected to be $166.5 million at the end of 2022 and budgeted to be $164 million at the end of 2023.

As we have said in previous comment letters, the NAIC should strive to create or increase annual deficits, <u>without increasing fees on our members</u>, in order to reduce its budget surplus to a level that is still sufficient for an organization of its size that has a steady base of companies who pay filing and valuation fees every year. The proposed increase in the group cap, however, would go in the opposite direction, as it would increase overall revenues by $4.6 million in 2023, $4.765 million in 2024 and almost $5 million in 2025.

Furthermore, these additional fees are not necessary since operating revenues are projected to increase from $125.1 million in 2021 to $133.3 million in 2022 and are budgeted to increase, <u>without</u> the proposed increase in the group cap, to $139.8 million in 2023. Similarly, database fees are projected to increase from $32.8 million in 2021 to $34.4 in 2022 and are budgeted to increase, <u>without</u> the proposed increase in the group cap, to $35.6 million.

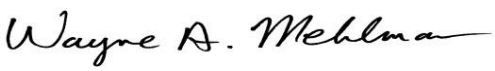
[1] The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

We, therefore, urge the NAIC to withdraw its proposed increase in the database filing fee group cap, even though it would negatively affect only a small number of our members.

In addition, we would like to know the breakdown of the increases in SERFF fees from $5.6 million in 2021 to $9.2 million in 2022 to $10.8 million in 2023. How much of these increases are due to a rise in the number of actual SERFF transactions, and how much are due to recent filing fee increases ($0.25 in 2022 and $0.61 in 2023)?

Thanks again for the opportunity to comment on the *Proposed 2023 Budget*. If you have any questions, please contact me at 202-624-2135 or at waynemehlman@acli.com.

Respectfully submitted,



Wayne Mehlman
Senior Counsel, Insurance Regulation
waynemehlman@acli.com

cc: Dean L. Cameron, President
Jim Woody, NAIC Chief Financial Officer
Andrew Beal, Chief Operating Officer and Chief Legal Officer