The NAIC received one comment letter from the National Association of Mutual Insurance Companies (NAMIC) (Attachment One) on the proposed 2020 budget after it was released for public comment on October 8, 2019. This document summarizes NAMIC’s comments and includes the NAIC’s response to each comment.

A Public Hearing will be held November 18, 2019, to discuss these comments. Participation instructions for the public hearing can be accessed at http://www.naic.org/about_budget.htm.

Contributions to Regulator Efficiency

- NAMIC noted the NAIC 2020 budget includes several programs and services that contribute to efficiencies in state-based insurance regulation and enable regulators to become more proficient in their roles. NAMIC cited the continued upgrade of financial analysis solvency tools through the FASTR project; the investments in the NAIC Professional Designation Program; the migration to and development of new programs within a cloud computing environment, and the steps taken to strengthen the NAIC’s data security environment. NAMIC went on to provide detailed statements of support for each of these initiatives. NAMIC did caution NAIC “to not inject any regulatory biases or other ill-defined, aspirational goals that do not further state-based insurance regulation but do cause unnecessary compliance costs that are ultimately borne by policyholders.”

NAIC Response: The NAIC appreciates NAMIC’s support of these initiatives. The NAIC’s goal is to ensure state-based insurance regulation keeps pace with a rapidly changing marketplace. The initiatives cited by NAMIC as well as numerous others outlined on the NAIC State Ahead website demonstrate that commitment. NAIC senior leadership developed an internal project review process several years ago, which requires all key initiatives be vetted before starting, to ensure the project is aligned with State Ahead and Member priorities and will provide benefits to state-based regulation. Any project meeting certain thresholds requires a fiscal impact statement, or fiscal. These thresholds are expenses exceeding $100,000, technology resources exceeding 1,150 hours, or any new revenue stream. Fiscals are posted on the NAIC’s website prior to
membership consideration in order to allow for the public to comment. Both the internal vetting and the fiscal process are designed to ensure that all initiatives undertaken by NAIC staff will enhance or improve state-based insurance regulation and will not result in unnecessary costs.

_Internal Data Protection and Security_

- NAMIC noted the NAIC is spending time and financial resources to increase the level of data protection and security around the data and data repositories the NAIC maintains by conducting independent third-party audits. While supporting the direction the NAIC is taking to ensure data and systems are protected, NAMIC also stated it does not necessarily mean the insurance industry is comfortable providing additional data to the NAIC without justification.

**NAIC Response:** As NAMIC noted, the 2020 budget reflects NAIC’s commitment to data protection and security, especially in light of the transition to the Cloud. The NAIC collects a wide variety of data from various sources, primarily from the insurance industry. It does so, however, based on a regulatory business need. There is no intent to collect data simply because of any technology expansion efforts. Data collection has been and will continue to be at the request of the NAIC membership for the purpose of regulating the insurance industry.

_Cloud Development Tools Modernization_

- One of the four initiatives specifically supported by NAMIC was the migration of the NAIC’s applications to the Cloud, which is a significant element to the State Ahead strategic plan. NAMIC pointed out the investments associated with each of the four phases, noting the initiative has the capability to reduce maintenance costs, improve efficiencies, and strengthen security. NAMIC said its members are interested in reviewing a comprehensive cost/benefit analysis of the NAIC’s migration to the Cloud and asked for the costs to develop and maintain the Cloud on an ongoing basis, the benefits and costs savings to operating in a Cloud environment, and the overall security enhancements that go along with managing and housing applications that contain sensitive and proprietary company information on the Cloud.

**NAIC Response:** The NAIC appreciates NAMIC’s support of this critical initiative. Although the NAIC will be entering its fourth phase of the initiative in 2020, the work to complete migrations will continue past year-end 2020. A number of significant systems are scheduled to begin migrations in 2020, such as SERFF, State Based Systems, and I-SITE; however, given the size of these systems, it is not expected that all systems will be fully migrated to the Cloud by year-end 2020. The NAIC does, however, expect to complete the project utilizing internal resources, thereby not requesting additional fiscal funding.

As noted in the 2020 fiscal, the primary benefits of investing in the cloud platform are increased efficiencies including improved system availability; enhanced customer support; predictable costs and flexibility; and greater innovation opportunities. Cost savings are expected long term, but while the migration is in progress, the NAIC recognizes it must continue to invest in the on-premise systems as well as the cloud migrations in order to continue its operations. Having said that, the NAIC has taken steps to reduce costs where feasible. First, the NAIC has engaged an
industry-leading firm to provide consulting expertise as to how best to design and deploy cloud-based solutions. In addition, the NAIC has also implemented a cost management program managed by another industry-leading firm which pinpoints potential cost savings in the Cloud by taking certain actions. The NAIC will continue to investigate opportunities to reduce the cost of maintaining its Cloud infrastructure while taking advantages of the Cloud’s technical capabilities.

**IAIS Dues**

- NAMIC noted that the NAIC dues paid to the International Association of Insurance Supervisors (IAIS) continue to increase at a significant rate and questioned the value proposition. NAMIC members asked whether the NAIC is one of the highest paying members and/or if they are assessed based on the number of jurisdictions in the United States.

**NAIC Response:** The IAIS annual dues paid by the NAIC cover the memberships of the NAIC itself and the individual 56 NAIC members. IAIS annual dues are calculated based on two parameters: the written premium within the jurisdiction and the jurisdiction’s GDP per capita. The size of the US insurance market relative to the rest of the world and the US GDP, result in the NAIC’s annual dues level. While the NAIC’s IAIS dues increased 12.5% in 2020 compared to 2019, a 10% increase is expected in 2021 and annual fee increases will continue to decline in subsequent years. Additionally, the NAIC is continuing to work with IAIS Secretariat to control the level of spending and identify further operational improvements that can be reflected in annual budgets. Since the dues are billed in Swiss Francs, the actual rate the NAIC pays in US dollars may be higher or lower depending on the currency exchange rate when the payment is made.

**Concluding Comments**

The NAIC takes a holistic approach to the development of its annual budget. With the goal of transparency in mind, NAIC leadership welcomes the opportunity to publicly present the proposed 2020 NAIC budget and respond to questions and/or comments raised by interested parties. State insurance regulators, supported by the NAIC, are committed to protecting policyholders as well as ensuring the financial solvency of the insurance industry in a cost-effective and financially prudent manner. The NAIC continuously seeks opportunities to reduce operating costs while providing world-class support to its members, regulators, insurance customers, and interested parties. In addition, the NAIC will continue to utilize a portion of its Net Assets to ensure the products and services required by state insurance departments are delivered with minimal price changes.
November 7, 2019

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

VIA Email Transmission: jwoody@naic.org

RE: NAMIC Comments – NAIC Proposed 2020 Budget

Dear Mr. Woody:

The following comments are submitted on behalf of the members of the National Association of Mutual Insurance Companies1 regarding the NAIC’s proposed 2020 budget.

NAMIC members have long been supporters of the state-based regulatory system and are mindful of the many challenges facing state insurance departments, such as working with limited or dwindling resources or attracting and retaining talent. We therefore believe it is incumbent upon the NAIC to assure streamlined and efficient regulatory standards and guidance so as not to unduly burden states in carrying out their respective duties and responsibilities.

Regarding the 2020 budget, there are several programs and services that NAMIC believes will go a long way to helping state regulators become more efficient and proficient in their critical role as state regulators. Such programs and services include: the continued upgrade of financial analysis solvency tools (FASTR), the new investments made to the NAIC Professional Designation Program, the migration to and development of new programs within a cloud computing environment, and the enhancements made to the NAIC’s own data security environment. These programs and others demonstrate that the NAIC is becoming a more important resource to the states in a society becoming more dependent on the use of new and innovative technology. However, as the NAIC continues to incorporate data analytics and other artificial intelligence into its internal analysis and workstream, caution should be taken not to inject any regulatory biases or other ill-defined, aspirational

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1 NAMIC membership includes more than 1,400 member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country’s largest national insurers. NAMIC member companies write $268 billion in annual premiums. Our members account for 59 percent of homeowners, 46 percent of automobile, and 29 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.
goals that do not further state-based insurance regulation but do cause unnecessary compliance costs that are ultimately borne by policyholders.

The remainder of our comments will focus on these areas of interest but also include some commentary on the overall direction of the NAIC.

Financial Analysis Solvency Tools
The NAIC 2020 budget includes $135,000 in professional services for the continued work on the Financial Analysis Tool Redesign (FASTR). This program, which included dedicated Fiscal Statements in both the 2018 and 2019 budgets, is a long-term program designed to help the state financial analyst become more efficient and to make their jobs easier. As part of the State Ahead strategy, the first phase of FASTR included a redesign of the Financial Profile Report, an automated analysis tool that allows regulators to better identify issues and trends and to navigate financial data more efficiently. The second phase when fully implemented will include an update to the financial risk repositories, a massive database of insurer financial data that allows regulators to monitor the performance of the industry and identify concerns for further investigation. NAMIC members support the upgrades of these tools and are hopeful they will lead to more valuable insurer/regulator interactions.

NAIC Professional Designation Program
In addition to helping the states with new tools and enhanced ways to access and analyze data, another initiative that has potential to help state insurance regulators is the NAIC Professional Designation Program and specifically the increased investment into the program for the 2020 fiscal year. In conjunction with this program, the NAIC budget proposes an increase of $91,400 in professional fees. NAMIC supports this increase in spending and supports the overall program which started in 2006 and has awarded over 1,200 professional designations in that time. As communicated in the State Ahead Initiative, the NAIC wishes to increase regulator enrollment into the program and NAMIC also encourages more states to participate. Given the current state of demographics in the U.S. economy, a program like this is critical if states and the NAIC want to address the issue of the high rate of retiring baby-boomers. Continued investments into programs like this will help train the future regulators of tomorrow to deal with the complex and ever-changing insurance regulatory landscape.

Cloud Development Tools Modernization
A significant element in the State Ahead Initiative includes the migration of all the NAIC’s applications to a Cloud environment. Since 2017, the NAIC has dedicated funds to developing a Cloud strategy and included minimal investments into Cloud programs and services. As the State Ahead Initiative was formalized, so too were increased investments into the NAIC’s Cloud Strategy, starting in 2018 with an investment of $238,000. These initial investments were the start of migrating existing NAIC applications to the Cloud. Last year, according to the 2019 Fiscal Statement regarding the third phase of cloud transition, budgeted spending increased dramatically to $3.5 million; however, this represented the first full year of system migrations. Included in the 2020 budget is an additional request of $3.3 million in expenses. The aggregated
The amount of spending for cloud migration projects totals just over $7 million over the last four budget cycles. The sheer volume of these figures speaks to the NAIC’s dedication to running programs and systems in a safer and more secure environment, such as the Cloud, and its’ importance to the overall strength of the organization.

The migration to the Cloud has the opportunity to reduce IT maintenance costs and according to the commentary provided during the Open Hearing for the budget, some of those savings have started to emerge. Further, outdated and obsolete systems are being retired and the systems replacing them that are being hosted on the Cloud are more efficient. In addition, the new applications that are being initially developed on the Cloud have the benefit of being developed utilizing the latest technologies and security enhancements. With these potential benefits and the high development costs, NAMIC members are interested in reviewing a comprehensive cost/benefit analysis of the NAIC’s migration to the Cloud. Included in this analysis would be the costs to develop and maintain the Cloud on an ongoing basis, the benefits and costs savings to operating in a Cloud environment, and the overall security enhancements that go along with managing and housing applications that contain sensitive and proprietary company information on the Cloud.

Internal Data Protection and Security
Data protection and security is another area where NAMIC supports the direction NAIC operations is taking, particularly as it pertains to the increasing amount of company information being shared between the NAIC and the states. Whether that includes financial data included as part of the risk repositories or the nearly 170 systems that will ultimately be run on the Cloud, NAMIC applauds the NAIC for taking steps to enhance the organizations information systems through conducting independent third-party audits to certify each of their systems against industry (SOC 2) standards. A note in the 2020 budgets on professional fees: audits, includes a line item of $180,000 for a SOC 2 gap assessment for cloud computing, $148,400 for a cybersecurity audit, and $90,000 for security testing related to cloud computing. This demonstrates the NAIC’s recognition of how important it is to provide a safe and secure environment for their members (states) to work within. NAMIC strongly encourages the NAIC to continue its commitment the important area of data protection and security.

Simple technology upgrades and security measures, however, do not mean that the industry supports or is comfortable with any enhanced data requirements it may be asked to submit to the NAIC for regulatory approval. Requests should not be inordinate, excessive, or in any way justified simply because the NAIC has engaged in technology expansion. Further, as additional, critical, proprietary, and confidential information is submitted per regulatory requirements, the NAIC as the data hub for this information should continue to implement and explore extremely robust protections from external sources.

General Comments
Each of the last several years, revenues and expenses combined have outperformed the budget. Factoring in investment gains during those years has allowed the NAIC to operate at a deficit yet continue to grow its’ net asset base. For the 2020 budget the NAIC is targeting a slight decrease to its’ liquid operating reserve ratio; however, it remains in the necessary
range for adequate funding. Continued growth and expansion should be in proportion to expected needs and tempered by
continued review for efficiencies and removal of redundancies that provide excessive costs to all stakeholders, thereby
continuing to be good stewards of public and private funds.

For instance, dues paid to the International Association of Insurance Supervisors continue to increase at a significant rate
with no apparent end in sight – and for an increasingly questionable value proposition based on the direction of many of
their workstreams. The increase from 2018 to 2019 was just over $50,000 and budgeted 2020 dues includes an additional
$91,000 bringing total dues to be paid in 2020 to the IAIS to just over $671,000. NAMIC members inquire whether the
NAIC is one of the highest paying members and/or if they are assessed based on the number of jurisdictions in the United
States.

Closing
NAMIC members appreciate the opportunity to provide input on the NAIC 2020 annual budget. We believe the association is
managing the significant finances of the organization and has invested in several projects that may benefit the states and
ultimately the insurers and policyholders they serve.

Thank you for your consideration of these comments on this matter of importance to NAMIC, its member companies, and
their policyholders.

Sincerely,

Jon Bergner
Assistant Vice President – Public Policy and Federal Affairs
National Association of Mutual Insurance Companies