

Date: December 6, 2024

To: All NAIC Members and Interested Parties

From: Jon Godfread, North Dakota Insurance Commissioner and NAIC-President Elect  
Gary Anderson, 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 2025 NAIC Budget

In response to the Executive (EX) Committee's and Internal Administration (EX1) Subcommittee's request for comment on the NAIC's proposed 2025 budget, the NAIC received one comment letter on the proposed budget after it was released for public comment on October 31, 2024, from the National Association of Mutual Insurance Companies (NAMIC) (Attachment One). This memorandum summarizes the submitted comments and includes NAIC's responses.

A public hearing will be held on December 10<sup>th</sup> at 12:00 p.m. CT to discuss these comments. Participation instructions for the public hearing can be accessed at [https://content.naic.org/about\\_budget.htm](https://content.naic.org/about_budget.htm).

### **Opening Remarks**

The NAIC appreciates NAMIC's continued support for the state-based system of insurance regulation and its recognition of the financial and operational challenges faced by both regulators and insurers. As NAMIC noted, the evolving landscape of risks—such as extreme weather events, inflation, litigation pressures, and challenges within reinsurance markets—requires an even closer partnership between regulators, the industry, and the NAIC. We value NAMIC's acknowledgment of NAIC's ongoing efforts to ensure state insurance departments have access to the necessary tools, resources, and support to navigate these challenges.

Additionally, we appreciate NAMIC's recognition of the transparency provided in the proposed budget, particularly the eight fiscal impact statements. NAMIC's acknowledgment of the balance between technology-focused initiatives and operational enhancements reflects NAIC's commitment to modernizing tools and capabilities in a financially prudent manner that supports our members while avoiding regulatory redundancies. NAMIC continues to commend the NAIC and its members for their steadfast commitment to the multi-year strategic plan 'State Connected.' The NAIC also appreciates NAMIC's recognition that the tools and projects outlined in the 2025 budget—specifically those supported by fiscal impact statements—further enhances effective insurance regulation. NAMIC has provided comments on various fiscal impact statements as follows:

## **1. System for Electronic Rates and Forms Filing (SERFF) Modernization – 2025 Transition Stages**

NAMIC expressed strong support for NAIC’s continued investment in the SERFF modernization project, emphasizing that SERFF remains crucial to insurers’ daily operations, particularly in rate and form filings. They acknowledged the ongoing multi-year initiative, noting the 2025 allocation of over \$6 million for the project, which includes additional staff and consulting. NAMIC highlighted the importance of improving filing efficacy and speed-to-market, underscoring that these are key objectives of the modernization effort, which would greatly benefit their members. In line with their previous comments, NAMIC stressed the need for continuous stakeholder engagement and suggested that NAIC staff participate in future NAMIC Compliance Council meetings to provide updates. NAMIC also recommended outreach to other industry organizations, such as the Association of Insurance Compliance Professionals, to solicit valuable feedback from SERFF users.

**NAIC Response:** The NAIC appreciates NAMIC’s ongoing support for the SERFF modernization initiative. We agree that SERFF is an essential tool for both regulators and insurers, and we are committed to improving its efficiency, filing accuracy, and speed-to-market. These upgrades will help streamline rate and form filings, enhancing efficiencies for all stakeholders in the regulatory process.

We highly value NAMIC’s emphasis on continuous engagement with stakeholders and recognize the importance of maintaining open lines of communication throughout the development process. To facilitate this, the NAIC SERFF development team will continue to host sessions at all NAIC National Meetings, where both regulators and industry participants can provide feedback. Additionally, we will conduct another, dedicated SERFF workshop in Kansas City in 2025, specifically for industry participants and we welcome input as well as attendance from NAMIC members and all others in industry who wish to attend either in person or virtually at other SERFF specific sessions. NAIC staff will also reach out to NAMIC, ensuring they can share upcoming development sessions with their members. Our steering committee and project focus groups remain active, ensuring that feedback from end-users continues to inform the project at each stage of its development.

The NAIC remains committed to working closely with regulators and the industry to ensure that the final product meets the needs of all users and contributes to a more efficient regulatory environment. We look forward to continued collaboration in refining and enhancing the SERFF platform. Interested parties are encouraged to review updates or participate in a focus group by visiting <https://www.serff.com/serff/modernization.htm>.

## **2. VISION Support Team and Monitoring of Collateralized Loan Obligations (CLOs)**

NAMIC acknowledged the appropriateness of adding staff to the Capital Markets and Investment Analysis Office (collectively referred to as the IAO) and a position dedicated to analytical support of CLOs, as directed by the Valuation of Securities (E) Task Force (VOSTF). They emphasized the valuable role the IAO plays in the regulatory system but suggested further clarification on both short-term and long-term personnel and office needs.

**NAIC Response:** The NAIC values NAMIC’s recognition of the critical role played by the IAO in supporting insurance regulators and the broader regulatory system. The ability to provide independent, expert analysis on increasingly complex investment instruments is fundamental to regulator’s understanding of investment risk as well as maintaining the solvency and financial stability of insurers.

The decision to add a dedicated analyst for CLOs reflects NAIC’s proactive approach responding to the needs of the VOSTF, addressing emerging risks, and ensuring that regulators have the necessary resources

to effectively assess evolving financial market challenges. The personnel additions, beyond the CLO analyst, will strengthen the IAO's capabilities by improving the velocity of system enhancements as requested by regulators and the VOSTF. These new positions will include two software engineers, a software quality engineer, a software quality analyst and a business analyst, all focused on system design and enhancement.

It is important to note that these positions will initially focus on addressing the backlog of work identified in the 2024 *IT VISION System Enhancements* fiscal impact statement and other long-overdue enhancements. This backlog represents approximately 3-5 years of work, and these new personnel are vital for addressing these needs while ensuring that the IAO can continue to meet the long-term objectives identified by the VOSTF and NAIC members.

In response to longer term needs, we would like to highlight that the NAIC's Financial Condition (E) Committee initiated a *Framework for Regulation of Insurer Investments – A Holistic Review* initiative. This initiative includes several critical objectives but, in short, will result in the development of a mechanism to reduce "blind" reliance on credit rating provider (CRP) ratings, while maintaining their use under a robust due diligence framework. The outcome of this long-term project could fundamentally reshape how the IAO operates by aligning its focus more sharply on administering and maintaining this holistic due diligence framework. These enhancements will ensure that the SVO remains equipped to meet evolving regulatory needs while continuing to prioritize accuracy, efficiency, and regulator responsiveness.

Interested parties or firms wishing to review the RFP are encouraged to visit <https://content.naic.org/fiscals-requests-proposal>.

### **3. Enterprise Data Management – Phase IV**

Consistent with previously offered comments on this initiative, NAMIC acknowledges the importance of the NAIC's ongoing efforts to enhance its data environment, particularly given the growing volume of data sets collected, analyzed, and stored. NAMIC supports the initiative as a beneficial use of funds, emphasizing the value of avoiding duplicative data gathering efforts and improving regulator access to relevant data, tools, and training.

NAMIC highlights the importance of transparency and education across the NAIC enterprise, expressing encouragement about the newly announced Data Call Study Group under the Innovation, Cybersecurity and Technology (H) Committee. However, NAMIC reiterates its caution against the NAIC performing functions that should remain exclusively within the purview of regulators. They emphasize the need for public accountability and collaborative discussions regarding the purpose, process, and protections related to data gathering and sharing.

NAMIC also reflects on lessons learned from the 2024 Property and Casualty Insurance Market Intelligence (PCMI) data call, underscoring the importance of ensuring that future data calls are conducted with the right legal authorities and protections in place. They encourage a careful approach to ensure meaningful and efficient data collection, while reducing unnecessary or less valuable efforts.

**NAIC Response:** The NAIC appreciates NAMIC's observations and continued support for its efforts to enhance the data environment, particularly acknowledgment of the value in improved access to relevant data, tools, and training. These initiatives are designed to better equip regulators with efficient, streamlined tools, reducing duplication of efforts and enabling deeper insights into regulated entities. By consolidating datasets and databases into a unified platform, the NAIC aims to provide regulators with a

more comprehensive view of the industry while making data analysis more accessible through customizable tools that do not require specialized programming expertise.

NAMIC's emphasis on avoiding duplicative data collection efforts is well-taken. Our members and the NAIC remain committed to reducing burdens on regulators and the industry by centralizing efforts where possible. Without the NAIC's facilitative role, individual jurisdictions would face significant financial burdens in developing and executing their own data calls, increasing costs and administrative tasks for insurers and regulators alike. As always, the NAIC operates under the guidance of its members and remains steadfast in its role as a facilitator rather than a regulator. The centralized infrastructure provided by the NAIC enables efforts that would otherwise be uneconomical or operationally inefficient for individual jurisdictions. Nonetheless, we remain committed to acting solely under the direction of our members.

Regarding the newly established Data Call Study Group, the NAIC shares NAMIC's enthusiasm for fostering collaboration and transparency in the data collection process. This group will serve as a forum for regulators, industry stakeholders, and other interested parties to evaluate and refine data collection methodologies, ensuring that the questions posed and the data gathered are aligned with the intended regulatory outcomes and legal frameworks.

The NAIC also acknowledges NAMIC's observations about lessons learned from the 2024 PCMI data call. These experiences underscore the importance of open dialogue and careful planning to ensure data requests are both meaningful and appropriately structured. We value NAMIC's commitment to productive collaboration and transparency in data efforts, and the NAIC will continue to prioritize these principles to strengthen confidence in the data collection process across its enterprise.

#### **4. Financial Data Repository (FDR) – Modernization Proof of Concept**

NAMIC recognizes the potential benefits of exploring third-party solutions to manage FDR's technical infrastructure, particularly if such an approach offers long-term cost savings through modernization and outsourcing. However, NAMIC stresses the importance of the NAIC being mindful of its relationships with third-party vendors, especially in relation to sensitive financial data, given the increased focus by regulators on third-party vendors within the insurance industry. NAMIC continues to support the enhancement of information technology security across the NAIC, emphasizing that, as custodians of sensitive information, the NAIC must prioritize data protection in all technological investments and governance decisions, just as regulators require of the entities they oversee.

**NAIC Response:** The NAIC echoes NAMIC's comments regarding the exploration of third-party solutions to house and manage FDR's technical infrastructure. The NAIC recognizes the potential for long-term cost savings and efficiency improvements through modernization and outsourcing and is committed to carefully evaluating such solutions where appropriate. The NAIC is mindful of the importance of maintaining robust relationships with third-party vendors, especially when it comes to handling sensitive financial information and will continue to prioritize data security and transparency in its dealings with all external partners.

As stewards of critical insurer and policyholder data, the NAIC remains unwavering in its commitment to safeguarding sensitive information. As part of the ongoing modernization efforts, we ensure that all technology-related investments are made with stringent security measures in place, aligning with the same standards of protection that regulators expect from the entities they oversee. The NAIC will continue

to prioritize data security in all future initiatives, while also balancing the need for cost-effective, innovative solutions to meet the demands of a rapidly evolving regulatory landscape.

## **5. Member Customer Relationship Management (CRM)**

NAMIC supports the NAIC's pursuit of an enterprise-wide CRM system to address challenges with managing member and stakeholder information across various siloed databases. This improvement will reduce manual tasks, enhance accuracy, and streamline record-keeping, ultimately enabling more efficient and transparent communication with regulators and stakeholders.

**NAIC Response:** The NAIC appreciates NAMIC's support for the initiative to implement an enterprise-wide member-based CRM system. This initiative will improve efficiency, and accuracy, and will enhance communication with regulators and stakeholders. We believe this system will significantly advance internal operations, ensuring better coordination and transparency across the organization.

## **6. Operational Staffing**

NAMIC appreciates the detailed descriptions of the eight additional operational staff positions outlined in the final fiscal. While recognizing the need for adequate staffing to provide efficient assistance to regulators, NAMIC encourages the NAIC to maintain a balance that ensures resources are effectively utilized without duplication of effort or encroaching on the regulatory responsibilities of state insurance departments.

**NAIC Response:** The NAIC is committed to carefully balancing staffing needs with the critical role it plays in supporting insurance regulators across 56 jurisdictions. NAIC's support is broad and includes maintaining several vital regulatory infrastructures such as the Financial Data Repository, SERFF, and a host of other items, all of which are indispensable tools for state regulators.

In addition to these technical systems, the NAIC supports various other initiatives, including financial and investment analysis, committee support, regulatory training, hosts national meetings, and funds numerous activities that provide ongoing assistance to regulators. The NAIC's efforts directly support thousands of insurance regulators nationwide, contributing to consumer protection and the stability of the insurance market.

That said, the NAIC continually ensures the effectiveness of these broad operations and is equally committed to reviewing and refining our processes to maintain efficiency. This ongoing evaluation helps us ensure that we deliver the best possible support to state regulators while maintaining a streamlined and effective operational framework.

## **Concluding Comments**

The NAIC values the engagement and inquiries shared by NAMIC. Transparency and collaboration are deeply embedded in the NAIC's processes, strategic plan, and culture, serving as cornerstones of its success for over 150 years. The NAIC takes a comprehensive approach to developing its annual budget, drawing on input from NAIC staff, officers, the Executive Committee, and all its members.

As part of its commitment to transparency, the NAIC publishes a proposed budget for public review and welcomes feedback from interested parties. This feedback is thoughtfully considered and addressed through written responses and in an open Public Hearing. This inclusive process ensures that the NAIC effectively supports insurance regulators in their mission to protect policyholders and maintain the financial stability of the insurance industry. The NAIC strives to do so in a fiscally responsible manner that

minimizes impacts on the industry wherever possible and remains dedicated to identifying opportunities to reduce costs, enhance operational efficiency, and deliver exceptional support to its members, regulators, stakeholders, and insurance consumers.



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November 25, 2024

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VIA Email Transmission: [jwoody@naic.org](mailto:jwoody@naic.org)

RE: NAMIC Comments – NAIC Proposed 2025 Budget

Dear Mr. Woody:

The following comments are submitted on behalf of the National Association of Mutual Insurance Companies<sup>1</sup> regarding the NAIC's proposed 2025 budget.

NAMIC and its members have long been staunch supporters of the state-based regulatory system; as such, we are very mindful of the financial challenges facing state insurance departments. As insurers continue to confront a new era of risk characterized by increased extreme weather events, inflationary pressures, litigation abuse, and novel challenges in reinsurance markets, it is imperative that regulators and a right-sized NAIC remain attentive to the need for streamlined and efficient regulatory tools, standards, and guidance. We understand that the NAIC also faces budgetary challenges related to the increased cost of labor, travel, and most products and services needed to run a successful organization that accomplishes much in defense of state-based regulation. As always, we offer these comments in the spirit of collaboration and a commitment to work together on behalf of our member carriers and your member regulators.

#### Continued Implementation of "State Connected"

We appreciate the continued financial commitment to the multi-year "State Connected" strategic plan to better connect and empower individual NAIC members and their staffs – the plan builds out several

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<sup>1</sup> NAMIC membership includes nearly 1,500 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, including 7 of the top 10 auto insurers in the country. NAMIC member companies write \$357 billion in annual premiums. Our members account for 69 percent of homeowners, 56 percent of automobile, and 31 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.



programs and services NAMIC has applauded in previous years and continues to support.<sup>2</sup> Efforts to make state regulators better at maintaining the reliability, solvency, and financial stability of their markets are important, and the NAIC creates economies of scale that facilitate many processes for state regulators. At the same time, we urge caution and a reminder that it is state regulators, not the NAIC, that are responsible for the actual regulation of licensed entities in their states.

We commend the NAIC for its transparency where the budget is concerned, and for highlighting the eight major fiscal impact statements in the proposed 2025 budget – five of which are technology based and three focused on compilation of information, enhancing analytical capabilities, and operational capabilities. We note that five of the eight fiscal impact statements involve addition of headcount, bringing the proposed NAIC total headcount to 559 – more than all but four NAIC member state Departments of Insurance. While this growth may be appropriate as the NAIC is asked to do more by its members, taking on an even more prominent role in compiling and analyzing data increases the risk of blurring the line between standard-setting and regulatory activity. With that in mind, we provide additional comments regarding some of the specific fiscals:

#### SERFF Modernization – 2025 Transition Stages

The NAIC 2025 budget includes more than \$6 million toward the multi-year initiative to improve the SERFF platform, including two additional staff and \$5.9 million in capital consulting and software. While everything the NAIC does affects carriers in some fashion, it is safe to say that SERFF is among the most crucial for day-to-day operations; it is in the filing of rates and forms that the rubber meets the road for much of insurance regulation. The ongoing modernization project seeking to improve rate and form filing efficacy and speed-to-market will be a welcome upgrade for NAMIC member staff involved in the filing process. As you continue to allocate funds, resources, personnel, and time to these upgrades, we encourage continuous engagement and outreach to appropriate stakeholders who are deeply affected by any changes. Consistent with our offer from last year, we would welcome attendance, participation, and updates by appropriate NAIC staff at a future meeting of the NAMIC Compliance Council and encourage you to reach out proactively to industry organizations like the Association of Insurance Compliance Professionals, where you are likely to get the most productive feedback from SERFF users.

#### VISION Support Team and Monitoring of Collateralized Loan Obligations (CLOs)

Adding staff to the Capital Markets and Investment Analysis Office, as well as a staffer dedicated to analytical support of CLOs at the specific initiative from the Valuation of Securities (E) Task Force appear appropriate in light of the stated long-term development needs for the office, which plays a valuable role in the insurance regulatory system. There may be value in the NAIC more publicly highlighting the specific roles contemplated for better understanding of the fiscal and personnel needs, as well as outlining additional anticipated growth of the office and roles in future years.

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<sup>2</sup> <https://content.naic.org/about/state-connected>





#### Enterprise Data Management – Phase IV

The NAIC's continued efforts to update its data environment is important, particularly as more data sets are collected, analyzed, and housed by the NAIC. At the outset of this effort several years ago, NAMIC noted that the NAIC supporting its members with improved access to relevant data, tools, and training was a worthwhile use of funds. We agree that there is value in avoiding duplicative data gathering efforts, and we encourage additional education for regulators, their staff, and interested parties (as appropriate) to inform data collection efforts across the entire NAIC enterprise – we are encouraged by the newly announced Data Call Study Group that will report to the (H) Committee.

NAMIC continues to caution against the NAIC performing functions only appropriate for regulators; even with legal memoranda of understanding with states in place, the NAIC remains a private entity and should not become a clearinghouse for sensitive and proprietary supervisory information about regulated entities.

Public accounting and collaborative opportunities for open discussion of what, when, how, and why data is being gathered by the NAIC, as well as if and how it is being shared with outside parties would bolster confidence in both the process and the value of data gathering exercises, while potentially also identifying those collections that are less valuable and any that might be discontinued. The 2024 experience with the PCMI data call has provided many valuable lessons and opportunities for learning that we hope the industry and regulators can use to ensure that in the future, the right questions are asked the right way with the right legal authorities cited and protections in place to produce the most meaningful responses and useful results for all parties involved.

#### Financial Data Repository (FDR) – Modernization Proof of Concept

Exploring a third-party solution to house and manage FDR's technical infrastructure may be appropriate, particularly if there are long term cost savings to be had from modernizing and outsourcing the platform. We note that at a time when regulators and the NAIC are showing increasing interest in the scope and use of third-party vendors by regulated insurers through the Third-Party Data and Models (H) Task Force, it is only fair that the NAIC be especially mindful of its own relationships with third-parties and vendors, particularly where financial information is concerned.

As we have stated in previous years, we enthusiastically support enhancements of information technology security across the NAIC – as we see technology evolve, we are reminded that regulators and the NAIC are entrusted with the safekeeping of extremely sensitive and valuable insurer and policyholder information. To the extent that the NAIC is investing in technology related projects, we encourage the NAIC to prioritize information security and data protection in all budgetary and governance considerations, just as regulators continuously require regulated entities to do.



### Member Customer Relationship Management (CRM)

The fact that currently member and stakeholder information is stored across the NAIC in manually maintained spreadsheets, documents, and various siloed databases is good reason to pursue an enterprise-wide CRM that could reduce manual tasks, reduce errors, and improve both record-keeping services and opportunities for consistent, strategic, and transparent communication with regulators and stakeholders. We expect this to be a valuable improvement for NAIC operations.

### Operational Staffing

We appreciate the detailed descriptions of the eight additional operational staff positions in the final fiscal. As always, we encourage the NAIC to strive for the right balance of having enough staff and resources to provide efficient assistance to regulators without being wasteful or intruding into the regulation of insurance. Of particular interest to NAMIC is the proposed addition of a Senior Property and Casualty Manager to assist with numerous initiatives of the Property and Casualty Insurance (C) Committee to support the property and casualty market intelligence data call (PCMI Data Call) and other NAIC strategic priorities including support for the Climate and Resiliency (EX) Task Force. We look forward to working closely with this individual once they join the NAIC staff.

### General / Closing Comments

The role of the insurance industry and our partnerships with state regulators have never been more important to consumers all around the country than they are now. Just as NAMIC members continue to carefully assess every expenditure, investment, and strategic decision, the NAIC's growth and expansion should remain proportionate to expected needs and tempered by continuous review. Insurance regulators and the NAIC are uniquely positioned to solve for inefficiencies and remove redundancies that result in excessive costs to all insurance stakeholders.

NAMIC appreciates the opportunity to provide input on the NAIC 2025 annual budget. We believe the NAIC continues to responsibly manage the growing finances of the organization and is investing in projects that will benefit the states' insurance markets and consumers alike. Thank you for your consideration of these comments on this matter of importance to NAMIC, its member companies, and their policyholders.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tony Cotto".

Tony Cotto  
Public Policy Counsel