NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2022 ANNUAL REPORT

Conquering the New Normal Together

From the NAIC's first meeting in New York in May 1871 through the present day, our Members and staff have faced—and overcome—challenges by realizing the need for connection and setting the standard for close coordination.

In this new normal, we conquer together by relying on the principles that have guided us in the past and will take us into the future.

The National Association of Insurance Commissioners (NAIC) provides expertise, data, and analysis for insurance commissioners to effectively regulate the industry and protect consumers. Founded in 1871, the U.S. standard-setting organization is governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories to coordinate regulation of multistate insurers.

Contents

Letter from the CEO and COO

After celebrating 150 years as an organization, where do you go next? If you're the NAIC, you build on what came before to make the next 150 years even better.

In 2022, our core values guided us through the dual tasks of operating in the new normal and furthering our state-based agenda amid new challenges. Building on the solid foundation of our past, we enhanced connectivity among the NAIC's staff and Members, leaned forward on emerging issues, accelerated investments in technology, and rallied our internal team. This report describes our achievements in each of these four areas in greater detail.

The NAIC exists to assist our Members in executing their missions to protect consumers and keep markets solvent and stable. Operationally, we continued to deliver services and technology that offered key support and enhanced our Members' ability to execute their responsibilities.

In the policy arena, we continued to not only make our Members' voices heard but also to shape pro-consumer and pro-market policies.

Looking to the future, we also sought to retain and attract talent while continuing to promote our culture by adapting to the new post-COVID-19 workplace. We implemented a hybrid return-to-office plan, rolled out NAIC Connect, and developed new training courses on DE&I and workplace issues. Read on for more details!

After gradually increasing our return to in-person activities in 2021, we welcomed our most "normal" travel year since the pandemic started. It was great to see old friends and make new ones as we successfully oversaw 59 in-person hybrid events and returned to an in-person International Insurance Forum.

In one of our most exciting developments, we also announced the creation of the New Avenues to Insurance Careers (N.A.I.C.) Foundation. The N.A.I.C. Foundation will help bring new voices and greater representation to the industry and insurance regulation by providing internship opportunities and scholarships.

Last, but certainly not least, after a year of close coordination and collaboration, NAIC Members approved our new three-year *State Connected* strategic plan. *State Connected* is an all-in, team effort among Members and NAIC staff that will ensure our state-based system's ongoing legacy, maximizing our readiness to meet tomorrow's demands, and spread the word far and wide about how state insurance regulators can assist consumers.

Michael F. Consedine
Chief Executive Officer

Andrew J. Beal
Chief Operating Officer

"Unity is strength . . . when there is teamwork and collaboration, wonderful things can be achieved."

—Mattie Stepanek, American poet


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CENTER FOR INSURANCE POLICY AND RESEARCH
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RESEARCH LIBRARY
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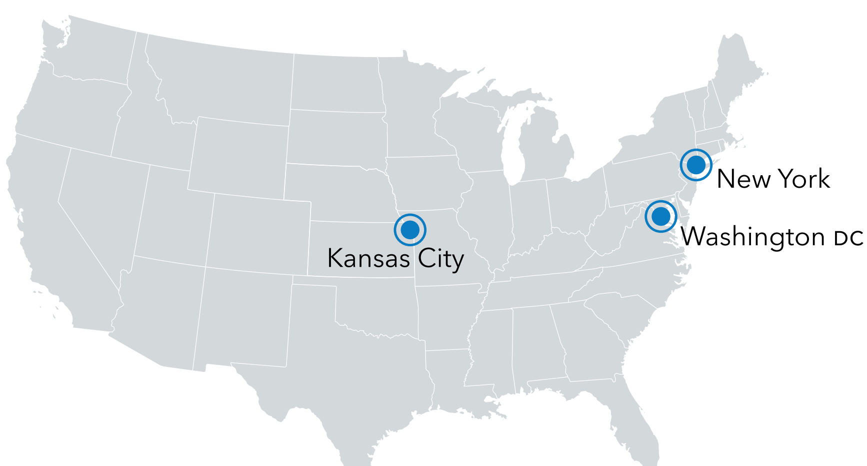

New York
Washington DC
Kansas City

Leaning Forward on Emerging Issues

Key Policy Achievements

In 2022, we marked the return of significant in-person dialogue with Washington, DC-based stakeholder groups, members of Congress and federal officials, state association partners, and key bilateral jurisdictions. We increased our collaboration and cooperation with our legislative colleagues at the National Council of Insurance Legislators (NCOIL), resulting in new opportunities to advocate for our state-based system. NAIC leadership held a series of dialogues with industry and consumer stakeholders that promoted greater transparency and understanding of NAIC initiatives. As a result of these engagements, the NAIC continued to be effective in influencing policy at domestic, federal, and international levels.

Other key achievements include:

- Conducted a virtual fly-in reaching nearly 200 congressional offices to highlight our priorities for the year.
- Held our first in-person International Insurance Forum since the COVID-19 pandemic began, reuniting more than 300 regulators and stakeholders from around the globe in Washington, DC to discuss current developments.
- Educated congressional committee leadership on private equity-owned insurers.
- Re-engaged in person with key bilateral partners and the International Association of Insurance Supervisors (IAIS).
- Advanced at the IAIS our approach for comparability of our aggregation method through strong advocacy at the International Insurance Forum and focused negotiations.
- Contributed to new initiatives at various international standard setting bodies our US-based approach on key emerging issues like climate risk, financial security, and innovation and technology.
- NAIC Leadership wrote to Congress on behalf of Members to share its perspective on Standard & Poor's (S&P's) ratings proposal and correct any misperception of the NAIC's viewpoint. S&P ultimately relented in its efforts to move forward with its model.
- Engaged with Congress on behalf of Members to revisit the federal law that limits the authority of states to oversee Medicare Advantage, resulting in a national conversation on Medicare Advantage marketing.

- Advocated for the Empowering States to Protect Seniors from Bad Actors Act (H.R. 5914/S. 3529), which would establish a senior investor protection grant program at the U.S. Securities and Exchange Commission (SEC) to support state regulatory efforts to target senior fraud. The U.S. House of Representatives overwhelming approved the bill amidst an otherwise divided Congress.
- Promoted state-based efforts addressing climate risk and resiliency and actively resisted unnecessary federal intervention and oversight through a series of Member letters and engagements with key federal agencies.

- Successfully complied with the U.S./European Union (EU)/ United Kingdom (UK) Covered Agreements and avoided federal preemption through a coordinated multi-year effort and adoption of the *Credit for Reinsurance Model Law* (#785) by all 56 Members.
- Participated in two key congressional hearings to highlight our state-based approaches on key emerging issues:
    - Commissioner Kathleen A. Birrane (MD) advocated for state-based approaches to private equity, artificial intelligence (AI) and big data, and climate risk, among other issues during a U.S. Senate Committee on Banking, Housing, and Urban Affairs hearing.
    - Director Chlora Lindley-Myers (MO) testified before a U.S. House of Representatives' Financial Services Subcommittee on the NAIC's state-based efforts to promote DE&I in the insurance sector.

Recently unveiled logo
for N.A.I.C. Foundation

New Avenues to Insurance Careers (N.A.I.C.) Foundation

As part of our effort to proactively address emerging issues, our Members saw a specific solution to remedy the talent and diversity gap in the insurance sector. Under our Officers' leadership, we created the New Avenues to Insurance Careers (N.A.I.C.) Foundation, which will provide internship and scholarship opportunities for underrepresented communities and improve access to careers with state insurance departments and the insurance industry.

Key Regulatory Support Achievements

Financial and Market Regulation

TeamMate+ Implementation
Continued to prepare for TeamMate+ implementation in 2023 by negotiating hosting contracts, preparing for state procurement, creating and testing templates, and training for use in financial and market conduct analysis and exams.

ComFrame Adoption
Adopted changes to the *Financial Analysis Handbook*, the *Financial Condition Examiners Handbook*, and the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual) to incorporate elements of the International Association of Insurance Supervisors (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of state-based regulation.

Financial Analysis Tool Development
Continued to work toward the modernization of financial analysis tools by finalizing the design and beginning the development of an enhanced financial profile report (one-stop shop for financial tools), developing and releasing new Tableau dashboards, and implementing artificial intelligence (AI)/machine learning (ML) changes to the scoring system.

Property/Casualty

The Property and Casualty Insurance (C) Committee
The Committee developed materials insurance departments can use to educate consumers about what affects homeowners and auto insurance premiums. The Committee also adopted a rate filing checklist that insurance departments can use to help ensure all necessary information is sent in with a filing.

The NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
The Advisory Group continues to collaborate with colleagues at FEMA to host regional workshops to: 1) build upon relationships between state insurance regulators and FEMA; and 2) identify new partnership opportunities for all phases of disaster management. The most recent workshop, in May 2022, was hosted by the Oklahoma Insurance Department for FEMA Region 6 States.

Insurance Institute for Business and Home Safety (IBHS)
In July 2022, state insurance regulators visited the IBHS, where they toured the lab, discussed opportunities to work collaboratively with the IBHS to address consumer complaints through consumer outreach and education, and discussed the changing market and whether insurers are moving toward different coverages and deductibles due to risks such as severe convective storms.

Research & Actuarial Services

Assisted state rate filing reviewers by producing 133 rate model review reports (average of 2.5 per week).

Presented three-hour rate model training at the Insurance Summit, arranging nine Casualty Actuarial and Statistical (C) Task Force "Book Club" sessions to educate regulators on different types of predictive modeling.

Drafted best practices for the regulatory review of decision tree models and for documenting processes and procedures.

Property and Casualty Regulatory Services
Assisted Colorado and New Mexico in collecting data from disaster data calls and providing analysis back to the states.

Financial Reporting Enhancements

Private Equity Initiative
Identified 13 considerations related to private equity ownership and other activities in the insurance industry and began work to address each consideration.

ESG Implementation
Progress was made in the development of a new economic scenario generator (ESG) to be prescribed for calculations of life and variable annuity reserves and capital.

Accelerating Investments in Technology

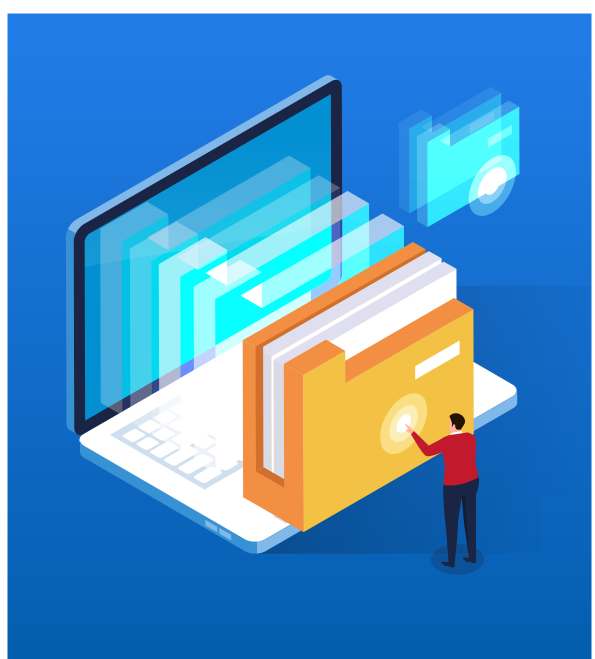
Key Technology and Analytical Tools Achievements

Cloud Transition and Cloud Network Redesign

The NAIC technology team has delivered on the cloud migration and continues to reduce the on-premises data center footprint. The NAIC completed our first year running systems in the cloud without significant negative business impacts. We evaluated the remaining systems hosted within NAIC data centers. Consistent with the NAIC cloud strategy, the operations team has continued to migrate internal applications to commodity Software-as-a-Service (SaaS) solutions anywhere possible. When finding a SaaS solution was not feasible, the NAIC technology team moved workloads into cloud data centers.

Systems for Electronic Rates & Forms Filing

In 2022, we completed the development of the first two phases of the System for Electronic Rates & Forms Filing (SERFF) modernization project, albeit slightly behind schedule. These new capabilities include a modern search for documents and a document comparison feature. Good progress was made on developing new reports and dashboards, with final completion of these expected in early 2023. Demonstrations of these features to stakeholders have gone well and will be deployed with the current platform to achieve business value as soon as possible. In 2023, we will finish building the core system on a low-code platform and launch it for the Interstate Insurance Product Regulation Commission (Compact). This project has brought in a new application programming interface (API) platform, which we have installed, and will be defining standards and usage information.

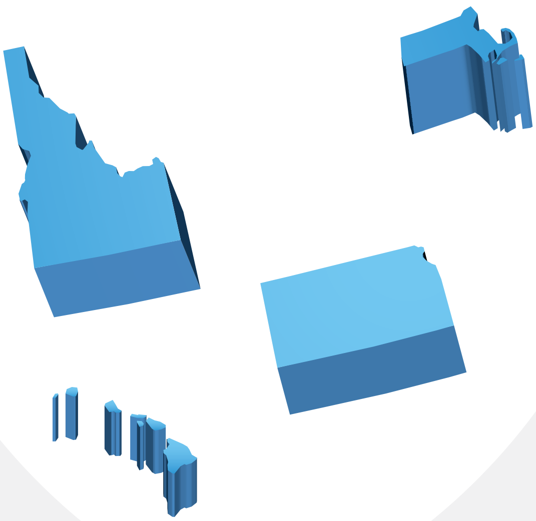


Data Platform

The NAIC continues to transition regulator access to financial and market regulation data from our operational systems to a cloud data warehouse. We worked with 43 states that have multiple connections to NAIC databases. By the end of 2022, roughly half of these connections had been moved to the new cloud data warehouse. This project significantly improves the NAIC's security posture and gives states access to all data in one place. We currently have the following datasets in the cloud data warehouse: financial, market conduct, regulatory actions, complaints, and SERFF data. We will add a new business intelligence tool in the first quarter of 2023 to query the data and additional datasets.

State Based Systems

The team completed implementation of State Based Systems (SBS) in four states. All the implementations were completed with high-quality customer service. This effort allows state insurance departments to shut down legacy systems while providing them with greater capabilities, lower cost of ownership, and more consistency.



Committee Highlights

Special (EX) Committee on Race and Insurance

In our continuous efforts to take action in the realm of diversity, equity, and inclusion (DE&I), the NAIC added a new course offering for regulators. The new EDU course addresses topics such as understanding DE&I; cultural awareness and competency; and DE&I workplace issues. We believe it is paramount to equip regulators with this applied knowledge and practical skills. As public servants, we have a duty to embrace and celebrate diversity as it directly affects our mission and reflects the image of our consumer market.

Climate and Resiliency (EX) Task Force

The Task Force worked collaboratively to facilitate updates to the climate risk disclosure statement for participating states. Members also highlighted the importance of state-based resiliency efforts and collectively pushed back against unnecessary federal overreach.

Long-Term Care Insurance (EX) Task Force

The Long-Term Care Insurance Multistate Rate Review Framework (LTCI MSA Framework) advances uniformity and information sharing while maintaining state control and local decision-making. The LTCI MSA Framework provides for a more consistent state-based approach when evaluating LTCI rate increase requests by insurers. Key objectives of the LTCI MSA Framework are to educate and advise states on the appropriateness of actuarially based rates for policyholders' benefits, narrowing rate review practices, and reducing inequities among policyholders.

Life Insurance and Annuities (A) Committee

Ten states (Alaska, Colorado, Hawaii, Maryland, Massachusetts, Minnesota, New Mexico, North Carolina, South Carolina, and Wisconsin) adopted the *Suitability in Annuity Transactions Model Regulation* (#275). Model #275 sets forth standards and procedures for recommendations to consumers that result in a transaction involving annuity products to ensure the insurance needs and financial objectives of consumers are appropriately met at the time of the transaction.

Health Insurance and Managed Care (B) Committee

The Committee spearheaded the NAIC letters to Congress and the U.S. Department of the Treasury (Treasury Department) regarding fixing the "family glitch"; extending the federal Affordable Care Act (ACA) subsidy expansions; and clarifying the health savings account (HSA) issue. The Committee also assisted with the implementation of the federal No Surprises Act (NSA); preparing for the eventual end of the public health emergency (PHE); and the implementation of the new federal network adequacy requirements.

Property and Casualty Insurance (C) Committee

Following four years of work, the NAIC adopted the *Pet Insurance Model Act* (#633) at the Summer National Meeting in August. The purpose of the Model Act is to establish an appropriate regulatory framework for pet insurance that can be adopted in the states.

Market Regulation and Consumer Affairs (D) Committee

The Committee updated the *Market Regulation Handbook* by adopting a mental health parity chapter that provides updated examination guidelines in response to the 2021 amendments to the federal Mental Health Parity and Addiction Equity Act (MHPAEA).

The Antifraud (D) Task Force adopted an Antifraud Plan Repository workflow as the template for the creation of a centralized filing system for insurers to report their antifraud plans to state insurance departments and eliminate the need for insurance companies to make multiple state filings of the same plan.

The Task Force also adopted a Request for NAIC Model Law Review to amend the *Unfair Trade Practices Act* (#880). The goal of reviewing Model #880 is to expand it to provide authority to regulate lead generators by: 1) defining "health insurance lead generator"; 2) prohibiting a health insurance lead generator from engaging in an unfair trade practice; and 3) delineating what marketing-related activity of health insurance lead generators are unfair trade practices.

Financial Condition (E) Committee

The Committee adopted a listing of 13 considerations as potential changes to the solvency framework to address activities frequently attributed to, but not exclusively, private equity firms. Each of the 13 items is currently being pursued for possible changes by the applicable NAIC group responsible for that portion of the solvency framework.

Financial Regulation Standards and Accreditation (F) Committee

The NAIC Accreditation Program is continuously updated with improved standards to maintain effective solvency regulation. This includes a review of model laws required for accreditation, with changes for a group capital calculation (GCC) under consideration in 2022 and recent revisions to credit for reinsurance models to comply with the Covered Agreement adopted by all jurisdictions prior to the effective date for accreditation of Sept. 1, 2022. Updates to accreditation policies such as the work plan for full reviews and updates to accreditation status parameters were also completed. In 2022, 11 states underwent a full review and were granted five-year accreditation, demonstrating the quality solvency regulation required by the program.

International Insurance Relations (G) Committee

INSURANCE CAPITAL STANDARD AND AGGREGATION METHOD

The Committee continued progress on a number of key international projects and provided leadership on emerging issues. In particular, the Committee had frank conversations about its views on insurance capital standard (ICS) and aggregation method (AM) comparability with International Association of Insurance Supervisors (IAIS) colleagues. This resulted in better understanding, as well as increased transparency and stakeholder engagement, as part of the process.

MEMORANDUMS OF UNDERSTANDING

The NAIC signed separate memorandums of understanding with the Taiwan Insurance Institute (TII) and the Conférence Interafricaine des Marchés d'Assurances (CIMA), the regional oversight body of insurance supervisors in francophone Central and West Africa.

Innovation, Cybersecurity, and Technology (H) Committee

Not only did the new Innovation, Cybersecurity and Technology (H) Committee get up and running, but also it made significant progress in working to understand artificial intelligence (AI) and how it is being used in the insurance sector.

ESTABLISHING COLLABORATION FORUMS

In July, the Innovation, Cybersecurity, and Technology (H) Committee welcomed approximately 170 insurance regulators to its first Collaboration Forum.

A key, ongoing project for the Committee, Collaboration Forums bring multiple NAIC committees together to coordinate on, identify, and address foundational regulatory issues relating to technology, cybersecurity, and data privacy. Collaboration Forums also offer an opportunity to develop a common regulatory framework that can inform further work. These types of inclusive forums better enable us to make informed decisions on how to structure an appropriate regulatory framework around emerging industry areas.

INSURANCE DATA SECURITY MODEL LAW ADOPTION

Twenty-one states have adopted the *Insurance Data Security Model Law* (#668). Model #668 establishes standards for data security and standards for the investigation of and notification to the commissioner of a cybersecurity event applicable to licensees.

Consumer Outreach

SATELLITE MEDIA TOURS

The NAIC conducted two satellite media tours. In May, NAIC President Dean Cameron reached an audience of more than 18.1 million impressions by talking to 30 TV and radio stations about life insurance and how state departments of insurance (DOIs) can support consumers.

In October, our satellite media tour made more than 17 million impressions when President Cameron talked to nearly 30 TV and radio stations. During these interviews, we shared important information for consumers nationwide on the COVID-19 public health emergency (PHE), surprise billing protections, questions to ask before switching or signing up for a health plan, how to navigate increased plan marketing, and more.

Consumer Insights – Spanish Version

Throughout 2022, the NAIC distributed 14 Consumer Insights. This resource helps individuals learn more about insurance, and supports those seeking guidance to make better informed decisions. We expanded our audience by translating nine Consumer Insights into Spanish.

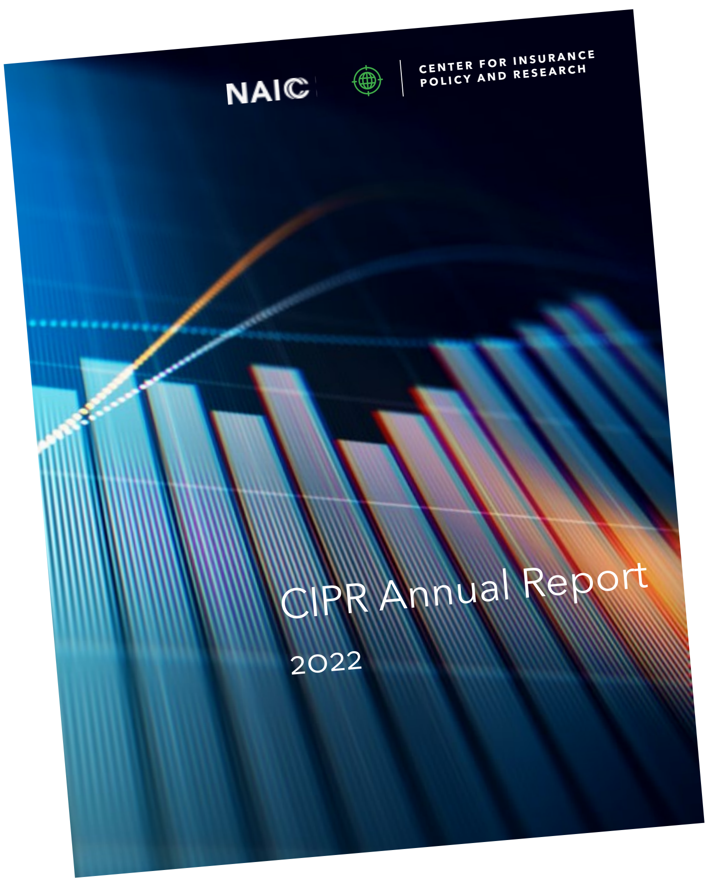
Center for Insurance Policy and Research Highlights

The Center for Insurance Policy and Research (CIPR) established a Catastrophe Modeling Center of Excellence (COE), which will provide the NAIC and state insurance departments with technical expertise, tools, and information to effectively regulate insurers and reinsurers exposed to catastrophic events.

The COE plans to develop and provide technical education and training materials for regulators to learn the mechanics of commercial catastrophe models and the treatment of perils.

These resources will bring additional transparency to the models insurers use for various solvency functions, rate-making practices, and claims management.

2022 CIPR annual report



QR Code to CIPR Report

STATE AHEAD

State Ahead Cloud Migration Completed

Over the last three years, employees have worked to complete projects that were part of the organization's *State Ahead* initiative.

In 2022, employees worked on the fourth phase of the NAIC's multiyear *State Ahead* cloud program. This technical program is a key underpinning of *State Ahead* and outlines three cloud benefits: 1) increased capabilities and innovation through speed to market for new services; 2) increased system efficiencies; and 3) improved system availability.

This phase included migrating many NAIC systems to Amazon Web Services (AWS) cloud and Oracle Cloud Infrastructure (OCI). It enabled the decommissioning of on-premises systems and databases, significantly reducing the data center footprint in two Kansas City data centers.

Migrating to the cloud removes the need for the NAIC to perform some lower-level data center maintenance tasks and increases the time spent on higher-value activities. It provides the capability to scale quickly to respond to events. The platform allows the NAIC to stay more easily updated and take advantage of advanced technologies provided by the cloud platform.

We're proud of the many projects completed under *State Ahead* and look forward to implementing our new three-year strategic plan, *State Connected*, in 2023.

QR Code to *State Ahead* information

“Strength lies in differences, not in similarities.”

Stephen R. Covey

Rallying the Team

Key Diversity, Equity, and Inclusion Achievements

Our focus on diversity, equity, and inclusion (DE&I) continues to make an impact on our performance, how we hire and how employees engage, and how we build on the NAIC's culture. Our DE&I journey is manifesting into a platform that requires all of us to be accountable for working in an organization that leverages diversity of thought and ensures equity and inclusion for all employees.

Affinity Groups

In 2022, we established our first two affinity groups. Affinity groups are safe forums for independent, voluntary groups of team members who share common interests, backgrounds, and/or goals to create and foster an inclusive environment where they feel challenged, empowered, and supported in developing and maximizing their personal potential and value to the organization.

Black Wall Street and Greenwood Rising Museum Learning Tour

Our Black History Month N.A.I.C.U. Exchange highlighted the stories and myths of the Black Wall Street and Greenwood massacre. Attendees watched a short documentary and heard about the account from Phil Armstrong, Interim Director of the Greenwood Rising Black Wall Street History Center.

Six months later, a two-day bus tour to Tulsa, OK, was organized for NAIC staff and insurance regulators from Missouri and Oklahoma. Chief Egunwale Fagbenro Amusan, owner of The Real Black Wall Street Tour Company, helped provide a first-hand learning experience that most history books fail to include.

NAIC Recognized for Its Diversity, Equity, and Inclusion Efforts

The NAIC's Diversity, Equity, and Inclusion (DE&I) team was recognized this year for receiving the Global Impact Award of Distinction from the Bowman Foundation for Workplace Equity and Mental Wellness.

Our DE&I Journey

2020

June
DE&I Council formed

July
Special (EX) Committee on Race and Insurance formed

September
First DE&I Director hired

2021

April
DE&I Council certified

June
First DE&I Conference in Kansas City, MO

June
Juneteenth recognized as a holiday for NAIC and National Insurance Producer Registry (NIPR)

October
Members Diversity Leaders forum convened

October
Educational trip to Auschwitz exhibit at Union Station (Kansas City, MO)

December
First DE&I Champion

Note: The DE&I initiatives on the DE&I journey timeline support the framework, which includes: workforce, workplace, members, and community.

DE&I's primary goal is to create an environment where all team members feel their voices, perspectives, and contributions are acknowledged, respected, and valued.

2022 DE&I Report

QR Code to DE&I Report

March
Received Healthiest Employer award by Kansas City Business Journal for the second consecutive year

June
Induction of new DE&I Council members at 2nd Annual DE&I Conference

October
Received Global Impact Award by the Bowman Foundation for Workplace Equity and Mental Wellness

2022

May
Launched Umbrella Alliance and See Her affinity groups

September
Launched two DE&I continuing education credit courses offered at Insurance Summit (Kansas City, MO)

October
Greenwood Rising Museum and Black Wall Street bus tour

October
Received Healthiest 100 Workplaces in America award by Healthiest Employers

Key People Operations Achievements

Culture

The NAIC's initiative to build on its culture continues to evolve. Who we hire, how we hire, and how we collaborate, connect, and leverage differences will affect how we support the mission and vision of the organization, as well as meet the expectations of our Members and consumers.

Flexibility

In March, the NAIC implemented the Workplace Experience plan, which classified jobs into on-site, hybrid, and remote. We remained flexible throughout 2022 and going into 2023 to ensure employees have the support they need to fully perform their jobs.

Talent Acquisition

We enhanced our talent acquisition area by redefining the roles to meet the demands of recruiting in 2022/2023; updating, documenting, and training managers on the hiring process; attending and sponsoring eight job fairs with a focus on growing diversity in the pipeline; and hiring more than 100 employees in support of the NAIC, the National Insurance Producer Registry (NIPR), and the Interstate Insurance Product Regulation Commission (Compact).

Spotlight

We implemented Spotlight—an employee recognition program—and met the stated goals of the project, including transparency with who receives recognition and remaining on budget. To date, employees have sent 8,698 recognition moments in the system.

Employee Engagement

The NAIC remained steady year over year with a 77% favorability rating, which was the same as 2021. However, we can see our trend line slowly moving up since we started monitoring this in 2017, when we first scored a 70%. Engagement is something that takes time to grow, and we are pleased with the steady upward movement of our ratings. More importantly, we are committed to doing what it takes to sustain high levels of engagement over time.

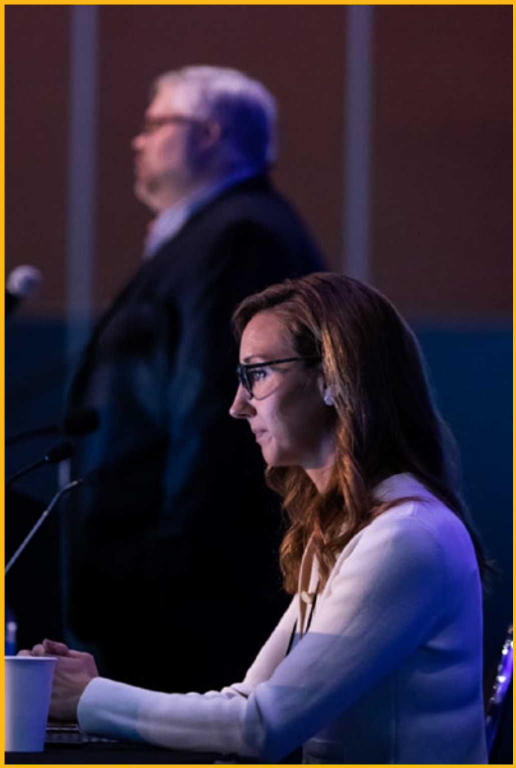
Workday

The People Operations & Engagement, Finance, and Information Technology Group (ITG) teams partnered to complete the request for proposal (RFP) for a new enterprise resource planning (ERP) system and selected Workday. Implementation is underway, and we plan to go live with our People Operations & Engagement team in July 2023. We foresee many benefits with the system, including the consolidation of our current human resources (HR) and finance systems, a reduction in manual processes, and furthering our company technology strategy by transitioning systems to the cloud.







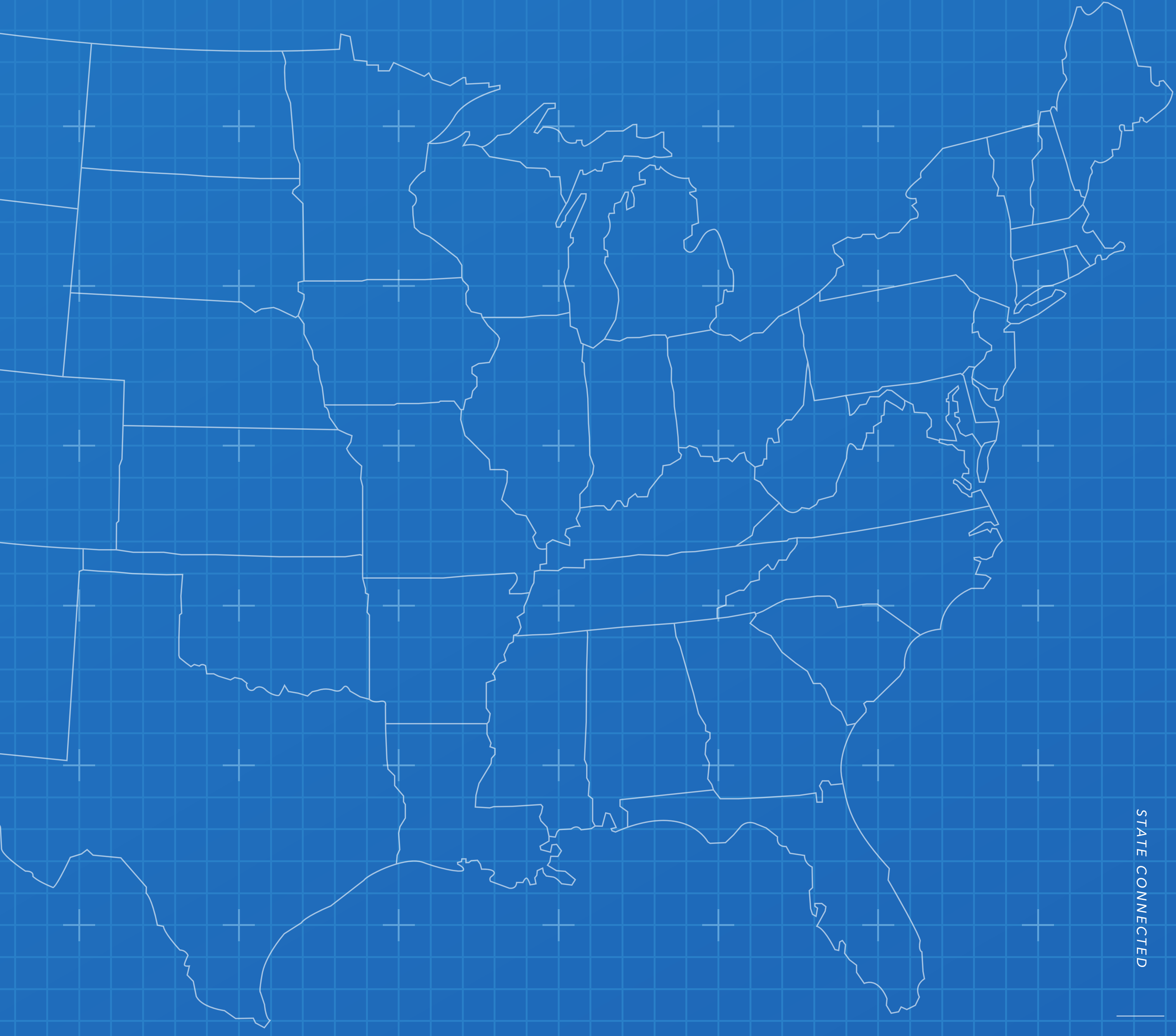


Development and Launch of *State Connected*—Architectural Blueprint for Our Future

The completion of our *State Connected* strategic plan marked one of 2022's most exciting accomplishments. Thanks to the hard work of our strategic planning committee, NAIC officers, and NAIC leadership, the plan was ready for approval at our Fall Commissioners' Conference. In 2023, efforts will shift to its implementation.

State Connected will guide us through the next three years and consists of the combined vision of the NAIC and its Members for supporting Members and our state-based insurance system. *State Connected* reflects our continued commitment to offering a best-in-class, five-star experience for our Members and equipping them with shared resources, expertise, talent, and technologies as they serve their communities.

In 2023, as we work to continue breaking down barriers, modernizing systems, and advocating for our values and state-based system, we are confident we will keep conquering this new normal the same way we did in 2022: by relying on each other, sharing the burdens, and embracing the possibilities. We are one membership with one mission.

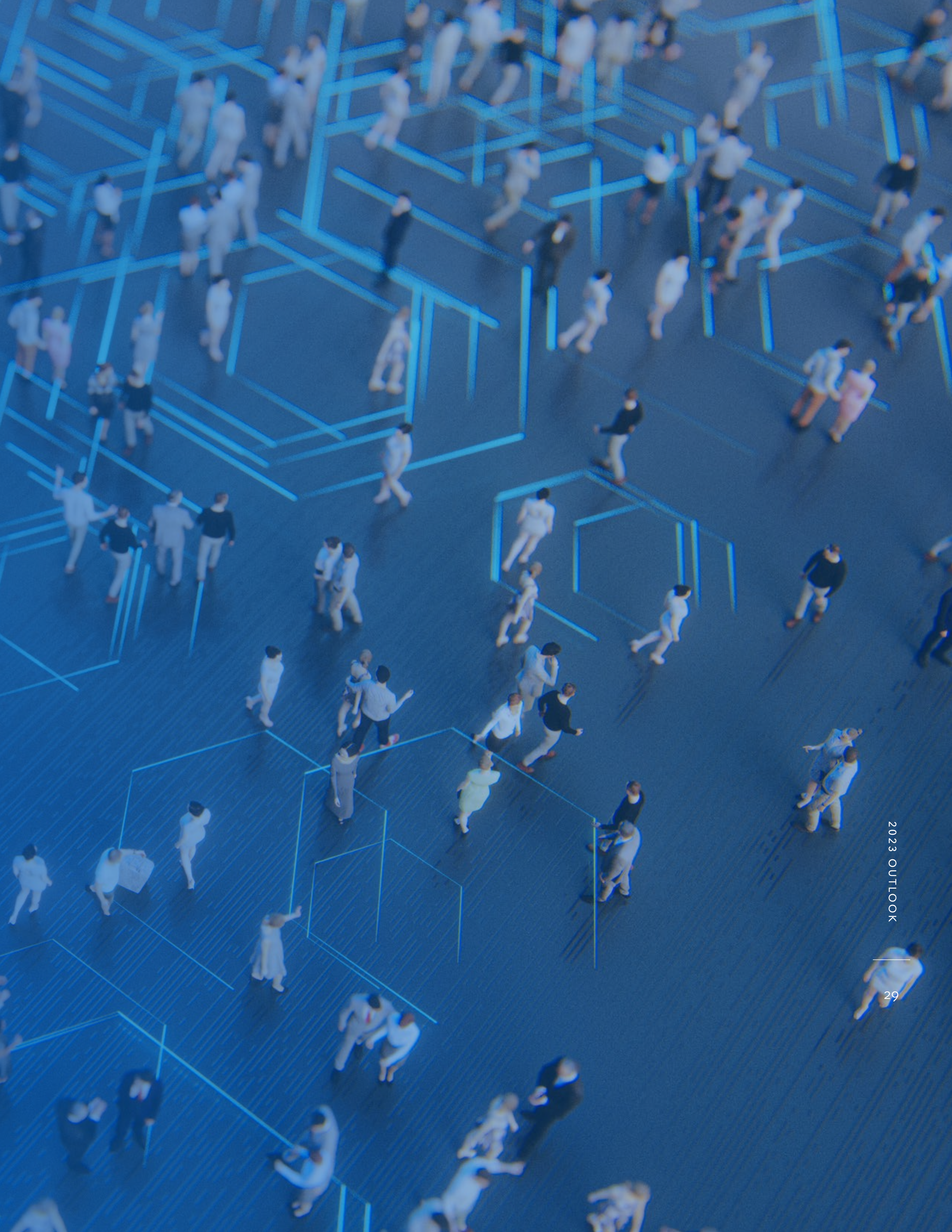


2023 Outlook: Shaping Our Future

No matter how the industry evolves or the landscape changes, state insurance regulators' mission remains the same: Protect consumers, and keep insurance markets solvent and stable.

For more than 151 years, we have delivered on that mission through a combination of adaptability, proactive engagement, thought leadership, resiliency, and a Member-centric collaborative culture. The year 2022 was no different, and we can be proud of the legacy we continue to create year after year.

That legacy increasingly requires us to be intentional. In 2022, that intentionality took the form of completing our next strategic plan that will serve as our next blueprint for shaping our future.



Financial Report

National Association of Insurance Commissioners

December 31, 2022

Contents

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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

Independent Auditors' Report

Honorable Members
National Association of
Insurance Commissioners

Opinion

We have audited the financial statements of National Association of Insurance Commissioners, which comprise the statement of financial position as of December 31, 2022, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Association of Insurance Commissioners as of December 31, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of National Association of Insurance Commissioners as of December 31, 2021 were audited by other auditors, whose report dated March 3, 2022, expressed an unmodified opinion on those statements.

Basis For Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities For The Audit Of The Financial Statements section of our report. We are required to be independent of National Association of Insurance Commissioners and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis Of A Matter

As discussed in Note 1, National Association of Insurance Commissioners adopted the provisions of Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities Of Management For The Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Association of Insurance Commissioners' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities For The Audit Of The Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of National Association of Insurance Commissioners' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Association of Insurance Commissioners' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

RubinBrown LLP

March 7, 2023

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

STATEMENT OF FINANCIAL POSITION

Assets

	December 31, 2022	2021
Current Assets		
Cash and cash equivalents	**$ 28,148,325**	$ 28,819,519
Accounts receivable, net of allowance for doubtful accounts accounts of $30,224 in 2022 and $61,514 in 2021	**5,691,434**	11,875,771
Receivables due from affiliates	**2,572,921**	2,255,790
Prepaid expenses	**6,094,732**	7,098,453
Investments	**130,730,869**	146,542,967
Current portion of note receivable	**274,013**	274,013
Total Current Assets	**173,512,294**	196,866,513
Other Noncurrent Assets		
Note receivable	**1,644,082**	1,918,095
Property and equipment, net	**18,067,092**	12,120,088
Right of use assets - operating leases	**5,679,611**	—
Deferred pension asset	**3,352,120**	3,851,194
Total Other Noncurrent Assets	**28,742,905**	17,889,377
Total Assets	**$ 202,255,199**	$ 214,755,890

Liabilities And Net Assets

	December 31, 2022	2021
Current Liabilities		
Accounts payable	**$ 2,314,180**	$ 2,850,960
Accrued expenses and other current liabilities	**14,972,126**	16,318,361
Current portion of operating lease liabilities	**4,981,756**	—
Deferred revenue	**7,474,266**	6,880,426
Total Current Liabilities	**29,742,328**	26,049,747
Noncurrent Liabilities		
Long-term portion of operating lease liabilities	**3,590,584**	—
Deferred lease incentive	—	3,258,907
Total Noncurrent Liabilities	**3,590,584**	3,258,907
Net Assets		
Without donor restrictions:		
Allocated	**166,423,468**	182,777,838
Unallocated	**2,498,819**	2,669,398
Total Net Assets	**168,922,287**	185,447,236
Total Liabilities And Net Assets	**$ 202,255,199**	$ 214,755,890

See the notes to financial statements.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

STATEMENT OF ACTIVITIES

	December 31, 2022	December 31, 2021
Revenues		
Member assessments	**$ 2,119,591**	$ 2,114,811
Database fees	**34,396,390**	32,780,920
Publications and insurance data products	**17,340,682**	16,933,828
Valuation services	**31,188,068**	30,992,789
Transaction filing fees	**18,106,803**	14,673,607
Other revenue	**225,021**	—
National meetings, NAIC events and interim meetings	**2,169,439**	1,242,231
Education and training	**409,025**	323,310
Administrative services and license fees	**28,355,233**	26,016,819
Total Revenues	**134,310,252**	125,078,315
Expenses		
Salaries	**60,816,057**	58,062,627
Temporary personnel	**871,905**	767,225
Employee benefits	**17,235,180**	17,126,713
Professional services	**15,730,900**	15,361,447
Computer services	**8,201,618**	6,451,379
Travel	**4,646,708**	1,468,474
Occupancy	**4,780,465**	4,323,964
Equipment rental and maintenance	**7,722,254**	6,913,179
Depreciation and amortization	**4,006,303**	4,051,435
Insurance	**479,352**	453,183
Supplies	**1,532,263**	1,409,304
Printing expense	**5,446**	61,371
Meetings	**4,571,097**	3,132,250
Education and training	**73,845**	143,311
Grant and zone	**2,138,795**	1,078,282
Other expenses	**1,403,555**	978,617
Total Expenses	**134,215,743**	121,782,761
Change In Net Assets Before Net Investment Return (Loss) And Pension Adjustment	**94,509**	3,295,554
Net Investment Return (Loss)	**(16,812,332)**	11,857,669
Pension Adjustment	**192,874**	3,596,963
Change In Net Assets Without Donor Restrictions	**(16,524,949)**	18,750,186
Net Assets - Beginning Of Year	**185,447,236**	166,697,050
Net Assets - End Of Year	**$ 168,922,287**	$ 185,447,236

See the notes to financial statements.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

STATEMENT OF CASH FLOWS

	For The Years Ended December 31, 2022	2021
Cash Flows From Operating Activities		
Changes in net assets without donor restrictions	**$ (16,524,949)**	$ 18,750,186
Adjustments to reconcile changes in net assets without donor restrictions to net cash from operating activities:		
Depreciation and amortization	**4,006,303**	4,051,435
Net realized and unrealized (gains) and losses on investments	**20,198,927**	(7,872,837)
Changes in assets and liabilities:		
Accounts receivable, net	**6,184,337**	696,078
Receivables due from affiliates	**(317,131)**	(350,055)
Prepaid expenses	**1,003,721**	(1,090,460)
Inventories	**—**	23,315
Accounts payable	**(1,979,410)**	1,153,189
Accrued expenses and other current liabilities	**148,180**	2,034,792
Right of use assets and lease liabilities	**(1,860,593)**	—
Deferred revenue	**593,840**	3,850,588
Deferred lease incentive	**—**	(1,352,351)
Deferred pension asset	**499,074**	(2,585,328)
Net Cash Provided By Operating Activities	**11,952,299**	17,308,552
Cash Flows From Investing Activities		
Payments received on note receivable	**274,013**	274,013
Purchase of property and equipment	**(8,510,677)**	(988,118)
Purchase of investments	**(25,556,694)**	(34,548,877)
Proceeds from sale of investments	**21,169,865**	27,808,870
Net Cash Used In Investing Activities	**(12,623,493)**	(7,454,112)
Net Increase (Decrease) In Cash And Cash Equivalents	**(671,194)**	9,854,440
Cash And Cash Equivalents - Beginning Of Year	**28,819,519**	18,965,079
Cash And Cash Equivalents - End Of Year	**$ 28,148,325**	$ 28,819,519
Supplemental Disclosure Of Cash Flow Information		
Purchases of property and equipment through accounts payable	**$ 1,442,630**	$ —

See the notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2022 And 2021

1. Summary Of Significant Accounting Policies

Organization

The National Association of Insurance Commissioners (the 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. The NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. The NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the United States.

Basis Of Accounting

The accompanying financial statements of the NAIC have been prepared on the accrual basis of accounting.

Basis Of Presentation

The financial statement presentation follows the requirements of accounting principles generally accepted in the United States of America by presenting assets and liabilities within similar groups and classifying them in ways that provide relevant information about their interrelationships, liquidity and financial flexibility. As a result, NAIC is required to report information regarding its financial position and activities according to the following classes of net assets:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions but may be subject to board designations. At December 31, 2022 and 2021, net assets consisted entirely of net assets without donor restrictions

Net Assets With Donor Restrictions - Net assets are subject to donor-imposed restrictions that may or will be met either by actions of the NAIC and/or the passage of time. Also included within this category are net assets subject to donor-imposed restrictions to be maintained permanently by the NAIC. Generally, the donors of these assets permit the NAIC to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2022 and 2021, the NAIC does not have any net assets with donor restrictions.

Estimates And Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash And Cash Equivalents

The NAIC considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2022 and 2021, cash equivalents consisted of money market funds and discount notes. The NAIC, at times, maintains deposits with banks in excess of the insured limits, but has not experienced any losses in such accounts.

Accounts Receivable

Accounts receivable are stated at the amounts billed to customers. The NAIC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Past-due accounts are periodically reviewed by management. Delinquent and/or uncollectible receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Prepaid Expenses

Prepaid expenses include general expenses, insurance, and cloud implementation fees that are amortized to expense ratably over the term of the related arrangement.

Investments

The NAIC carries its investments at their estimated fair values. Unrealized gains and losses are included in the change in net assets in the accompanying financial statements.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those effects could be significant.

Note Receivable

The NAIC has a note receivable due from an affiliate, the Interstate Insurance Product Regulation Commission (the Insurance Compact), as described in Note 8. The note receivable is stated at an amount management expects to collect from the outstanding balance, less an allowance for a future contribution to be made to the Insurance Compact once the principal amount of the note receivable is paid.

Property And Equipment

Property and equipment acquired with a useful life expectancy greater than one year and with a cost of $7,500 or greater is capitalized and stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The cost of internally developed software is expensed until the technological feasibility of the software has been established. Thereafter, all software development costs are capitalized until such time as the product is available for general release to customers. The development costs of enhancements that extend the life or improve the marketability of the original product are capitalized. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life, and changes in software and hardware technologies. The cost of capitalized software is amortized on the straight-line method over the products' estimated useful lives.

	Estimated Useful Lives
Furniture and equipment	5 - 13 years
Computer and related equipment	3 years
Computer software	3 - 10 years
Leasehold improvements	10 - 13 years

New Accounting Pronouncement - Leases

On January 1, 2022, the NAIC utilized the modified retrospective approach to adopt the provisions of Accounting Standards Codification (ASC) Topic 842, *Leases*, which includes a number of optional practical expedients that entities may elect to apply. NAIC has elected certain practical expedients, including the use of hindsight in determining the lease term at transition and in assessing impairment of an entity's right-of-use (ROU) assets and the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. NAIC has also elected the practical expedient not to assess whether existing leases that were not previously accounted for as leases under ASC Topic 840 are or contain a lease under ASC 842. The initial adoption of ASC 842 did not result in a cumulative adjustment to retained earnings. The accompanying financial statements for the year ended December 31, 2022 are presented under ASC 842, while the prior period financial statements have not been adjusted and continue to be presented under ASC 840, the accounting standard in effect at that time.

The NAIC maintains leases for office space and parking garage space in several different geographic locations including Kansas City, Missouri; Washington, DC and New York City, New York. Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The ROU assets represent the lease liabilities, plus any lease payments made at or before the commencement date, less any lease incentives received. The NAIC leases have terms ranging from ten to thirteen years. The NAIC does not record ROU assets or lease liabilities for leases with an initial expected period lease term of 12 months or less. For operating leases, lease expense for minimum lease payments is recognized on a straight-line basis over the term of the lease.

The lease terms utilized in determining ROU assets and lease liabilities include the noncancellable portion of the underlying leases along with renewal periods, only if it is reasonably certain that the option will be exercised. When determining if a renewal option is reasonably certain of being exercised, the factors considered, include but are not limited to, the cost of moving to another location, the cost of disruption of operations, the purpose or location of the lease asset and the terms associated with extending the lease.

The lease in Kansas City, Missouri includes renewal options for two successive separate periods of five years each. The NAIC has not included these renewal periods in the term when determining the ROU asset and lease liability as management is not reasonably certain if such renewals will be exercised. Accordingly, only the initial term is included in the lease term when calculating the ROU assets and lease liability with respect to the Kansas City, Missouri lease. The NAIC has not included any termination penalties in its lease payments, nor shortened any lease terms related to options to terminate a lease.

Additionally, certain leases contain incentives, such as construction allowances from the respective landlords. These incentives reduce the ROU asset related to the lease and are amortized as reductions of expense over the lease term. The NAIC's leases do not contain any residual value guarantees or material restrictive covenants.

As most leases do not provide an implicit discount rate, the NAIC has made an election available to private entities that allows the use of the risk-free rate at the lease commencement date to determine the present value of the lease payments.

The NAIC's operating leases contain fixed rent escalations over the lease terms. The NAIC recognizes expense for these leases on a straight-line basis over the lease term of the respective ROU asset.

For contracts with lease and non-lease components, the total transaction price is allocated based on the observable or estimable standalone prices of the lease and non-lease components for all classes of leases.

Pension Plan

The Compensation - Retirement Benefits topic of the ASC requires employers to recognize on their statements of financial position a liability and/or an asset equal to the underfunded or overfunded status of their defined benefit pension and other postretirement benefit plans. The funded status that the NAIC has reported on the statement of financial position under the topic is measured as the difference between the fair value of plan assets and the benefit obligation.

Net Assets

The NAIC operating reserve is based on a liquid reserve, defined as total net assets, less net property and equipment, as a percentage of the future year's budgeted operating expenses. On July 7, 2015, the NAIC adopted an operating reserve policy of a target liquid reserve range of 83.4% to 108.2%. On August 10, 2022, the NAIC adopted an operating reserve policy based on a report from the independent consulting firm hired to review the NAIC's operating reserves. The recommendation was based on analysis of NAIC's working capital and strategic needs as well as current and future identified risks. The NAIC's operating reserve is currently established with a minimum target reserve of $169.6 million. As of December 31, 2022 and 2021, net assets were fully allocated, with the exception of an amount maintained as unallocated equal to 1.5% of the next year's projected net assets. The unallocated balance will be used to fund priority initiatives that may arise in the next year.

Revenues

Revenue from contracts with customers is derived primarily from fees for member assessments, database fees, the sale of publications and insurance data products, valuation services and transaction filing fees, and license and administrative services.

The NAIC's fees for member assessments are for a performance obligation that is satisfied over time and is derived from contracts with an initial expected duration of one year or less. The fee applies to an assessment fiscal year ended April 30, and are recorded in the calendar year assessed as receivables and deferred revenue. At December 31 of each year, one-third of the assessments are accounted for as deferred revenue. For the years ending December 31, 2022 and 2021, member assessment revenue was $2,119,591 and $2,114,811, respectively.

The NAIC's database fee revenue is recognized at a point in time and consists of a single performance obligation that is satisfied when the annual statement filing is due. Prices are distinct to a performance obligation. For the years ending December 31, 2022 and 2021, database fee revenue was $34,396,390 and $32,780,920, respectively.

The NAIC's sales of publications and insurance data products are recognized at a point in time and consists of a single performance obligation that is satisfied when the product is shipped to the customer. Prices are distinct to a performance obligation. For the years ending December 31, 2022 and 2021, publications and insurance data products revenue was $17,340,682 and $16,933,828, respectively.

The NAIC's valuation services and transaction filing fees are recognized at a point in time and consists of performance obligations that are satisfied when the service or filing has been performed. Prices are distinct to a performance obligation. For the years ending December 31, 2022 and 2021, valuation services and transactions filing fees revenue was $49,294,871 and $45,666,396, respectively.

The NAIC's administrative services and license fees are recognized at a point in time. Administrative services consist of revenues earned from related parties for administrative services and the use of the NAIC's facilities and equipment. The NAIC's license fees consist of revenue earned from a related party for the use of the NAIC's producer data. Revenue from administrative services and license fees is recognized as revenue when the services are performed and when the use of the NAIC's assets occurs, in accordance with the terms contained in written agreements in effect with related parties. Prices are distinct to a performance obligation. For the years ending December 31, 2022 and 2021, administrative services and license fee revenue was $28,355,233 and $26,016,819, respectively.

Deferred revenue represents amounts invoiced but the revenue recognition criteria has not been met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues for revenue from contracts are classified as current liabilities on the statement of financial position and as of December 31, 2022 and 2021, were $7,474,266 and $6,880,426, respectively. As of January 1, 2021, deferred revenues were $3,029,838. Associated net accounts receivable for revenue from contracts as of December 31, 2022 and 2021, were $8,264,355 and $14,131,561, respectively. As of January 1, 2021, accounts receivable for revenue from contracts was $14,477,584. There were no changes in revenue streams that would affect economic seasonality of the statement of financial position.

The NAIC did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

Income Taxes

The NAIC has been granted exemption from income taxes by the Internal Revenue Service under the provisions of section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the NAIC is subject to federal income tax on any unrelated business taxable income.

Uncertain tax positions, if any, are recorded in accordance with ASC Topic 740, Income Taxes. ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more likely than not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2022 or 2021.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 financial statement presentation.

Subsequent Events

Management has evaluated subsequent events through the date of the Independent Auditors' Report, which is the date that the financial statements were available for issue.

2. Investments

Investments carried at fair value at December 31, 2022 and 2021, consisted of the following:

	2022		2021	
	Cost	**Fair Value**	Cost	Fair Value
Fixed-income mutual funds	**$ 53,925,774**	**$ 49,809,213**	$ 61,254,090	$ 61,364,659
Foreign fixed-income funds	**5,924,215**	**4,989,941**	3,984,835	3,908,279
Domestic equity mutual funds	**16,652,251**	**16,117,010**	8,538,694	12,041,879
Real estate investment trusts	—	—	422,135	713,257
Common stock:				
Industrials	**1,740,425**	**2,473,534**	1,561,451	2,131,138
Consumer discretionary	**2,638,759**	**3,920,406**	2,947,696	5,766,725
Financials	**2,863,210**	**4,574,171**	1,568,798	3,033,819
Information technology	**6,262,315**	**7,576,179**	2,541,750	7,542,893
Other industries	**3,148,250**	**4,742,331**	8,136,699	12,818,201
Foreign common stock	—	—	847,975	1,427,079
Foreign equity mutual funds	**23,410,220**	**21,964,205**	20,645,673	24,501,997
Alternative equity funds	**11,800,000**	**14,563,879**	9,000,000	11,293,041
	$ 128,365,419	**$ 130,730,869**	$ 121,449,796	$ 146,542,967

Total net investment return (loss) comprises the following:

	2022	2021
Interest and dividend income	**$ 3,695,493**	$ 4,272,360
Net realized gains	**2,528,794**	3,847,043
Net unrealized gains (losses)	**(22,727,721)**	4,025,794
Investment manager fees	**(308,898)**	(287,528)
	$ (16,812,332)	$ 11,857,669

3. Fair Value Measurements

The NAIC follows an established framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under these rules are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the NAIC has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology and inputs used for assets measured at fair value:

Cash And Cash Equivalents:

The carrying amount approximates fair value because of the short maturity of these instruments.

Common Stock

Valued at the daily closing price as reported on the active market on which the individual securities are traded.

Mutual Funds

Valued at the daily closing price as reported by the fund. The mutual funds held by the NAIC are open-end investment companies that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds are deemed to be actively traded.

Alternative investments

The NAIC reports the fair value of alternative investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the NAIC based on various factors.

The following tables summarize the financial investments measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

	December 31, 2022			
	Total Fair Value	**Level 1**	**Level 2**	**Level 3**
Fixed-income mutual funds	$ 49,809,213	$ 49,809,213	$ —	$ —
Foreign fixed-income funds	4,989,941	4,989,941	—	—
Domestic equity mutual funds	16,117,010	16,117,010	—	—
Common stock:				
Industrials	2,473,534	2,473,534	—	—
Consumer discretionary	3,920,406	3,920,406	—	—
Financials	4,574,171	4,574,171	—	—
Information technology	7,576,179	7,576,179	—	—
Other industries	4,742,331	4,742,331	—	—
Foreign equity funds	21,964,205	21,964,205	—	—
Total	116,166,990	$ 116,166,990	$ —	$ —
Investments measured at net asset value:				
Alternative equity hedge funds	14,563,879			
Total investments	$ 130,730,869			

	December 31, 2021			
	Total Fair Value	Level 1	Level 2	Level 3
Fixed-income mutual funds	$ 61,364,659	$ 61,364,659	$ —	$ —
Foreign fixed-income funds	3,908,279	3,908,279	—	—
Domestic equity mutual funds	12,041,879	12,041,879	—	—
Real estate investment trusts	713,257	713,257	—	—
Common stock:				
Industrials	2,131,138	2,131,138	—	—
Consumer discretionary	5,766,725	5,766,725	—	—
Financials	3,033,819	3,033,819	—	—
Information technology	7,542,893	7,542,893	—	—
Other industries	12,818,201	12,818,201	—	—
Foreign common stock	1,427,079	1,427,079	—	—
Foreign equity funds	24,501,997	24,501,997	—	—
Total	135,249,926	$ 135,249,926	$ —	$ —
Investments measured at net asset value:				
Alternative equity hedge funds	11,293,041			
Total investments	$ 146,542,967			

The following table sets forth additional disclosures of the NAIC's investments whose fair value is estimated using NAV per share (or its equivalent) as of December 31, 2022 and 2021:

	Fair Value At December 31		Unfunded	Redemption	Redemption
	2022	2021	Commitment	Frequency	Notice Period
Magnitude International (A)	**$ 7,701,610**	$ 5,970,460	$ —	Quarterly	65 days
Chatham Asset High Yield Offshore Fund, Ltd. (B)	**2,180,220**	1,426,018	—	Quarterly	45 days
Davidson Kemper (C)	**1,692,930**	1,239,979	—	Quarterly	65 days
Silver Point Capital Offshore Fund, Ltd. (D)	**1,989,046**	1,387,581	—	Annually	90 days
Survetta (E)	**1,000,073**	1,269,003	—	Quarterly	45 days
Total	**$ 14,563,879**	$ 11,293,041			

(A) This fund's investment objective is to deliver a 5% return over LIBOR, net of fees, over an extended market cycle with a target of achieving 5% annual volatility. The fund is globally diversified, multistrategy, multimanager portfolio that seeks to maximize expected active return from investing in hedge funds while minimizing passive risk and managing exposure to shock risk.

(B) This fund manages a long/short credit strategy within the high-yield bond and levered loan markets. The strategy combines a unique pairing of deep sector-based fundamental research combined with very active trading of portfolio positions.

(C) This fund employs a broad multistrategy event driven approach, blending distressed investing with merger arbitrage, event equity, and convertible and volatility arbitrage expertise. Strategy seeks to exploit situations where an announced or anticipated event is likely to take place, and a disconnect in the current valuation relative to the believed exit value is found.

(D) This fund manages a strategy that invests into distressed credit and special situations investments. Due to the nature of distressed credit, many of the investments have an event catalyst that will unlock value in the company. The fund is looking for opportunities in companies undergoing financial restructuring, companies in financial distress or bankruptcy, companies in liquidation or other special situations.

(E) This fund employs a generalist long/short equity strategy focused on investments in North America and developed countries in Europe. As of December 31, 2022, this fund is in the process of being liquidated.

Alternative investments are redeemable with the fund at NAV under the original terms of the partnership and/or subscription agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future, in accordance with the fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the NAIC's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if the NAIC were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.

4. Property And Equipment

Property and equipment at December 31, 2022 and 2021, consisted of the following:

	2022	2021
Furniture and equipment	**$ 6,138,765**	$ 5,766,293
Computer and related equipment	**11,245,094**	11,594,326
Computer software	**33,040,757**	31,804,550
Software upgrades in progress	**8,309,485**	—
Leasehold improvements	**16,883,970**	16,869,256
	75,618,071	66,034,425
Less: Accumulated depreciation and amortization	**57,550,979**	53,914,337
	$ 18,067,092	$ 12,120,088

Software upgrades in progress include ongoing technical projects. The first project includes the modernization of the NAIC's System for Electronic Rate and Form Filing (SERFF) which is a critical data collection platform. The NAIC is developing a new platform which will improve rate and form filing efficacy, which in turn will improve product speed to market. Additionally, the new platform will be easier and more intuitive to use, implement quality control checks to prevent incomplete filings, enhance communications between filers and reviewers and provide access to data with more ease. Filings will be made efficiently, enabling regulators to review the filings more easily and provide feedback in a streamlined manner captured by the new platform. This project in total is expected to cost up to $20 million and will be completed over a three-year period. Estimated completion is expected in 2024.

The second project involves a new enterprise resource planning (ERP) solution that will convert current disparate operational applications into one could-based, integrated software suite to handle human capital management, accounting, financial management, payroll, procurement and e-commerce business needs. Estimated completion is expected to occur in phases throughout 2023 and 2024.

The third project involves the Uniform Certificate of Authority Application (UCAA) software which will expand the number of company licensing-related applications that can be submitted electronically and implement an electronic method for biographical affidavit submissions utilizing a cloud-native-solution. Estimated completion is expected in 2023.

5. Leases

The NAIC has an operating lease for office space and parking garage space in Kansas City, Missouri which expires in February 2024. This lease has two options to renew the term for five years each, which were not included in the calculation of the lease liability or ROU asset. This lease includes several deferred lease incentives which were paid in the amount of $14,732,847 throughout 2011 to 2015 as an incentive to sign the lease initial lease and expand the leased space. This incentive is deferred and reported as a reduction of the ROU asset in the amount of $1,448,894 as of December 31, 2022. The remaining deferred lease incentive under ASC 840 at December 31, 2021 totaled $2,690,809 and was reported as a liability included in deferred lease incentive in the statement of financial position. The remaining deferred lease incentive was amortized over the lease term as a reduction in the corresponding lease expense.

The NAIC has an operating lease for office space in Washington, DC which expires in January 2024. This lease includes a deferred lease incentive which was paid in the amount of $115,120 in 2014 as an incentive to sign the lease initial lease. This incentive is deferred and reported as a reduction of the ROU asset in the amount of $12,472 as of December 31, 2022. The remaining deferred lease incentive under ASC 840 at December 31, 2021 totaled $23,984 and was reported as a liability included in deferred lease incentive in the statement of financial position. The remaining deferred lease incentive was amortized over the lease term as a reduction in the corresponding lease expense.

The NAIC has an operating lease for office space in New York City, New York which expires in June 2027. This lease includes a deferred lease incentive which was paid in the amount of $1,319,080 in 2014 as an incentive to sign the lease initial lease. This incentive is deferred and reported as a reduction of the ROU asset in the amount of $455,189 as of December 31, 2022. The remaining deferred lease incentive under ASC 840 at December 31, 2021 totaled $544,120 and was reported as a liability included in deferred lease incentive in the statement of financial position. The remaining deferred lease incentive was amortized over the lease term as a reduction in the corresponding lease expense.

Lease expense for the year ended December 31, 2022 is as follows:

Operating Lease Costs	**Classification**	
Operating lease costs	*Occupancy*	$ 4,170,194

Supplemental cash flow and other information related to leases are as follows:

Cash Flow Information:		
Cash paid for operating leases included in operating activities	$	4,988,352
Other Information:		
Weighted-average remaining term - operating leases	2.63 years	
Weighted-average discount rate - operating leases	1.04%	

The reconciliation of the undiscounted cash flows for each of the next five years and total remaining years of the lease liabilities recorded on the statement of financial position is as follows:

Year	**Operating Leases**
2023	$ 5,047,272
2024	1,493,561
2025	866,824
2026	866,824
2027	433,412
Total minimum lease payments	8,707,893
Less: Amount of lease payments representing interest	135,553
Present value of future minimum lease payments	8,572,340
Less: Current portion	4,981,756
Long-term lease liabilities	$ 3,590,584

Leases (Topic 840) Disclosures

On January 1, 2022, the NAIC adopted the new lease standard using a modified-retrospective approach by recognizing and measuring leases at the adopting date with a cumulative effect of initially applying the guidance recognized at the date of initial application and did not restate the prior periods presented in the financial statements. Accordingly, the following information is presented for the year ended December 31, 2021 under ASC Topic 840.

Rental expense for all operating leases for the year ended December 31, 2021 was $2,764,134. Deferred lease incentives consist primarily of reimbursements for leasehold improvements, parking costs and moving costs. U.S. GAAP under Topic 840 required that lease incentives be recognized as a reduction of rental expense over the lease term. The unamortized balance in deferred lease incentives was $3,258,907 at December 31, 2021.

The NAIC had the following future minimum payments under operating leases at December 31, 2021:

Year	Amount
2022	$ 4,402,867
2023	4,461,792
2024	1,395,981
2025	866,824
2026	866,824
Thereafter	443,412
	$ 12,437,700

6. Employee Retirement Plans

The NAIC has a noncontributory defined benefit plan covering all employees with a hire date prior to January 1, 2000. As of December 31, 2012, accrued benefits for all active participants were frozen. The benefits are based on years of service and the employee's compensation prior to January 1, 2013.

The following table sets forth the plan's funding status, amount recognized in the NAIC's financial statements, and other required disclosures:

	2022	2021
Projected benefit obligation	**$ (37,446,263)**	$ (50,444,656)
Fair value of plan assets	**40,798,383**	54,295,850
Funded status of plan	**$ 3,352,120**	$ 3,851,194
Accrued benefit asset recognized in the statements of financial position	**$ 3,352,120**	$ 3,851,194
Accumulated benefit obligation	**$ 37,446,263**	$ 50,444,656
Employer contributions	**$ —**	$ 670,000
Plan settlements	**$ (4,444,062)**	$ (1,913,468)
Benefits paid	**$ (1,023,006)**	$ (891,748)
Interest cost	**$ 1,177,893**	$ 1,046,431
Return on plan assets	**(1,594,664)**	(1,985,175)
Amortization of net loss	**984,227**	2,573,274
Settlement loss recognized	**124,492**	47,106
Net pension cost	**$ 691,948**	$ 1,681,636

Weighted-average assumptions used to determine benefit obligations are as follows:

	2022	**2021**
Discount rate	**5.39%**	2.62%
Salary rate	**N/A**	N/A
Measurement date	**December 31, 2022**	December 31, 2021

Weighted-average assumptions used to determine net pension costs are as follows:

	2022	**2021**
Discount rate	**2.62%**	2.15%
Salary rate	**N/A**	N/A
Expected return on plan assets	**3.25%**	4.00%
Measurement date	**December 31, 2022**	December 31, 2021

The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

The following is the plan's weighted-average asset allocation by asset category as of December 31, 2022 and 2021 (the measurement date of the plan assets):

	2022	2021
Equity securities	**15%**	14.94%
Debt securities	**85%**	85.06%

Plan assets are held by an insurance company, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds, U.S. government securities and other specified investments, based on certain target allocation percentages. Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced as necessary based upon the minimum and maximum restrictions set forth in the plan's investment policy statement. Plan assets are valued using Level 1 inputs and are based on unadjusted quoted market prices within active markets.

The benefits expected to be paid to participants over the next 10 years, as of December 31, 2022, are as follows:

Year	**Amount**
2023	$ 4,458,223
2024	3,910,825
2025	3,371,592
2026	2,965,275
2027	2,703,870
2028-2032	12,143,120
	$ 29,552,905

The annual amount is actuarially calculated by the NAIC's independent consultant firm and represents the amount necessary to fully fund the actuarial accrued liability and normal cost of the plan.

The NAIC provides a defined contribution 401(a) plan (Plan B) that covers substantially all employees with one year or more of service. Each year, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee determine the contribution for the next year. The NAIC matched up to 5.5% of compensation of employees who contributed to Plan B and contributed 3.0% of all employees' compensation in 2022 and 2021. The pension expense related to Plan B for the years ended December 31, 2022 and 2021, was $4,203,746 and $4,001,995, respectively.

7. Related Party Transactions

The NAIC and National Insurance Producer Registry (NIPR) executed a License and Services Agreement (the Agreement) effective January 1, 2018, for an initial term of five years. The terms of the Agreement provide for (1) a 38% license fee for NIPR to use the NAIC's producer data; (2) the reimbursement of the actual cost of services, facilities and equipment provided by the NAIC to NIPR; and (3) a service fee for administrative and technical services provided by NAIC staff.

The total amount of revenue recognized during the year and amount due from NIPR are as follows:

	2022	2021
Administrative services provided to NIPR	**$ 2,681,116**	$ 2,398,923
License fee	**$ 25,549,116**	$ 23,429,146
Accounts receivable due from NIPR	**$ 2,521,608**	$ 2,143,905

Effective June 2007, the NAIC entered into a service agreement with the Interstate Insurance Product Regulation Commission (the Insurance Compact), where the NAIC provides certain administrative services to the Insurance Compact. The NAIC receives an administrative fee of $125,000 and an annual license and maintenance fee in the amount of $25,000 for the use of the NAIC's SERFF. The Insurance Compact also pays an adjustable administrative fee of every $25,000 of net revenue in excess of expenses. This fee was 7.5% for the years ended December 31, 2022 and 2021.

The Insurance Compact used lines of credit from the NAIC to fund operational needs from 2007 to 2012. Interest accrued throughout this period at a rate of 2.25%. Repayment of principal and interest was deferred until certain operating performance measures were met by the Insurance Compact. As of December 31, 2019, the Insurance Compact's 2019 financial performance triggered repayment of the note receivable. During 2020, the Insurance Compact renegotiated with the NAIC to modify and restructure the aforementioned operating note as a result of the trigger date being achieved. The modified agreement extends the repayment term from five to 10 years with the first payment due in 2020 and the final payment due in 2029. Repayment will be made only on the principal balance. Payments of $274,013 will be made no later than March 31 of each year. Interest does not accrue during the repayment period including any extended periods beyond the initial 10-year repayment period. If, during the 10-year repayment period, the Insurance Compact's cash balance is less than $250,000 as reflected in the annual audited financial statements, the required payment for the year following the financial statement date will be deferred and the repayment period extended accordingly. Upon the final payment that completely repays the principal balance, the imputed interest balance of $712,733 will be forgiven and treated as a contribution to the Insurance Compact. As a result of the modification, the NAIC has recorded an allowance for the accrued interest portion of $712,733 on the note receivable from the Insurance Compact as of December 31, 2022 and 2021.

Principal payments due to the NAIC as of December 31, 2022, consist of the following:

Year	Amount
2023	$ 274,013
2024	274,013
2025	274,013
2026	274,013
2027	274,013
Thereafter	548,030
	$ 1,918,095

The total amount of revenue recognized during the year and amounts owed at year-end from the Insurance Compact are as follows:

	2022	2021
Administrative services provided by the NAIC	**$ 125,000**	$ 125,000
License fee paid to the NAIC	**$ 25,000**	$ 25,000
Adjustable administrative fee	**$ —**	$ 63,750
Amounts payable to the NAIC	**$ 51,312**	$ 111,884
Note payable to the NAIC, net of allowance of $712,733 recorded by the NAIC	**$ 1,918,095**	$ 2,192,108

8. Contingencies

The NAIC is, from time to time, subject to claims and lawsuits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not currently believe the ultimate resolution of these matters will have a material adverse effect on the financial condition, results of operations, or cash flows of the NAIC.

9. Commitments

Effective August 1, 2021, the NAIC entered into a long-term agreement with a third party for financial modeling services related to Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS). The NAIC pays the third party a fee of $2,950,000 on an annual basis through the expiration of the agreement on July 31, 2025.

10. Liquidity And Availability Of Resources

The NAIC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2022 and 2021, the following financial assets are available to meet general operating expenditures of the subsequent fiscal year:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	**$ 28,148,325**	$ 28,819,519
Accounts receivable, net	**5,691,434**	11,875,771
Investments	**130,730,869**	146,542,967
Current portion of operating note receivable	**274,013**	274,013
Total Financial Assets	**$ 164,844,641**	$ 187,512,270

The NAIC has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, inventories, and marketable debt and equity securities. See Note 2 for information about the NAIC's investments.

11. Statements Of Functional Expenses

Expenses for the years ending December 31, 2022 and 2021 are presented in the following tables according to both functional and natural classifications. Certain expenses including salaries, benefits and payroll taxes are allocated on the basis of time and effort. Expenses including professional services and travel are split based upon the review of the underlying nature of the expense.

The following table provides both functional and natural classifications for the year ending December 31, 2022:

	Program Services	Management And General	Total Expenses
Salaries	$ 56,471,744	$ 4,344,313	$ 60,816,057
Temporary personnel	596,711	275,194	871,905
Employee benefits	15,924,908	1,310,272	17,235,180
Professional services	14,869,274	861,626	15,730,900
Computer services	8,029,092	172,526	8,201,618
Travel	4,421,799	224,909	4,646,708
Occupancy	3,992,082	788,383	4,780,465
Equipment rental and maintenance	7,591,136	131,118	7,722,254
Depreciation and amortization	4,006,303	—	4,006,303
Insurance	479,352	—	479,352
Supplies	623,316	908,947	1,532,263
Printing expense	5,311	135	5,446
Meetings	4,558,693	12,404	4,571,097
Education and training	73,845	—	73,845
Grant and zone	2,138,795	—	2,138,795
Other expenses	851,260	552,295	1,403,555
	$ 124,633,621	$ 9,582,122	$ 134,215,743

The following table provides both functional and natural classifications for the year ending December 31, 2021:

	Program Services	Management And General	Total Expenses
Salaries	$ 54,047,552	$ 4,015,075	$ 58,062,627
Temporary personnel	498,919	268,306	767,225
Employee benefits	15,898,028	1,228,685	17,126,713
Professional services	14,775,815	585,632	15,361,447
Computer services	6,310,969	140,410	6,451,379
Travel	1,430,004	38,470	1,468,474
Occupancy	3,609,781	714,183	4,323,964
Equipment rental and maintenance	6,795,515	117,664	6,913,179
Depreciation and amortization	4,051,435	—	4,051,435
Insurance	453,183	—	453,183
Supplies	153,755	1,255,549	1,409,304
Printing expense	61,371	—	61,371
Meetings	3,124,670	7,580	3,132,250
Education and training	143,311	—	143,311
Grant and zone	1,078,282	—	1,078,282
Other expenses	934,482	44,135	978,617
	$ 113,367,072	$ 8,415,689	$ 121,782,761

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