SCOPE OF R&A INDEPENDENT BUSINESS ASSESSMENT

• Perform a review of IIPRC’s financial, budget, fee and operational structure, processes and practices

• Make recommendations for improvements that will:
  o Enhance IIPRC’s financial effectiveness and sustainability over the next five to 10 years; and
  o Comply with financial and business best practices for comparable organizations
OVERVIEW OF R&A PROCESS AND ANALYSIS FOR PERFORMANCE OF INDEPENDENT BUSINESS ASSESSMENT

• Extensive Document Analysis

• Interview Process
  o IIPRC Officers & Management Committee Members
  o Additional Senior State Insurance Regulators
  o IIPRC Staff
  o NAIC Senior Management
  o IIPRC Committee Members
  o Industry Filers
DISTINCTION BETWEEN R&A BUSINESS ASSESSMENT AND SPB CORPORATE GOVERNANCE REVIEW

Tasks and Goals

• R&A Business Assessment – evaluate and comment on IIPRC’s financial, operational and business model

• SPB Corporate Governance Review – evaluate and comment on IIPRC governance matters

Evaluation of Amica v. Wertz Decision
SUMMARY FINDINGS

IIPRC Financial Model and Sustainability

• Current financial model allows for positive financial results
• Appropriate financial systems, controls and procedures are in place
• Single biggest risk to financial sustainability is potential effect of *Amica v. Wertz* decision
SUMMARY FINDINGS

IIPRC Operational and Business Model

• Successful operations and employment of business model that allows IIPRC to accomplish key goal of serving as a speed to market vehicle for uniform product reviews
• Insurance industry product filers are very appreciative of IIPRC staff’s efforts
• Successful working relationships with other IIPRC stakeholders
KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

• **Strategic Planning Focus** – increase focus to proactively identify financial and operational threats to future and create solutions

• **Demarcation Between NAIC & IIPRC** – while recognizing necessary and appropriate overlaps, develop clearer lines of demarcation between the two entities
KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

• Improved Communication Between Insurance Commissioners and IIPRC Staff – increase IIPRC staff’s understanding of consumer and policy issues confronting Commissioners

• Collaboration on Uniform Standards Development – increase collaboration between IIPRC staff and Commissioners and staff to identify uniform standards for development
KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

• Revision to Five-Year Uniform Standards Review Process – development of identification and prioritization process for amendment of existing uniform standards at any time

• Develop Process for Allowing Innovative Product Features – development of process for including innovative product features not specifically allowed by uniform product standards
KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

• Use of Designees as Compacting State Representatives – continue use of designees for all IIPRC matters

• Coordination of IIPRC Meetings and Distribution of Materials – improve coordination of IIPRC & NAIC Committee meetings and preparation & distribution of materials
KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

• Cross Training Program for Product Reviewers – develop crossing training program for IIPRC product reviewers

• Evaluate Use of Independent Contractors by IIPRC – evaluate use of independent contractors for IIPRC staff under appropriate federal & state guidelines
KEY FINDINGS AND RECOMMENDATIONS

IIPRC OPERATIONAL AND BUSINESS MODEL

• Adopt Permanent Expedited Review Program – adopt expedited review program as a permanent service
KEY FINDINGS AND RECOMMENDATIONS

IIPRC FINANCIAL MODEL

• Develop Improved Budget Process for Future Expenditures – consider and reach consensus on approach to expense budgeting before presentation of IIPRC budget
KEY FINDINGS AND RECOMMENDATIONS

IIPRC FINANCIAL MODEL

• Consider Revisions to Annual Registration & Product Filing Fee Structure – consider changes to annual registration & product filing fee structure, including:
  o Increase annual registration & product filing fees
  o Charge lower annual registration fee for first year filers
  o Charge fee for advance filing fee calculation services
KEY FINDINGS AND RECOMMENDATIONS

IIPRC FINANCIAL MODEL

• Assess NAIC License And Services Agreement – revise NAIC License & Services Agreement so it more accurately reflects services provided and appropriate fee structure
ASSESSMENT OF IIPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

• Assessment of 13 Years of Complete Operations

• Assessment of:
  o Actual to Expected Revenue
  o Actual to Budgeted Expenses
  o Actual to Projected Change in Net Revenue/Deficit
ASSESSMENT OF IIPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

Actual to Expected Revenue

• Actual revenue below projected revenue by total of $1.5 million, or 8.1% of projected revenue, for 13 years of operations
• Positive revenue in 4 of 13 years, including 2018 & 2019
• $397,723 positive revenue in 2019
ASSESSMENT OF IIPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

Actual to Budgeted Expenses

- Actual expenses below budgeted expenses by 10.8% for 13 years of operations
- Variance between actual and projected expenses has decreased over time

Rector & Associates, Inc.
ASSESSMENT OF IIPRC ACTUAL TO PROJECTED FINANCIAL PERFORMANCE SINCE INCEPTION

Actual to Projected Change in Net Revenue/Deficit

• Projected net deficit for 10 of 13 years of operations
• Actual financial results were 24.3% better than projected financial results over entire 13 years of operations
• Positive net revenue in 2019 of $646,204 & $141,269 in 2018
ASSESSMENT OF IIPRC FINANCIAL METRICS, CONTROLS AND PRACTICES

Overall Findings

- Appropriate IIPRC financial metrics, controls & practices in accordance with best industry practices

- Well-developed policies and procedures to achieve organizational & financial goals and objectives

- Single biggest risk to financial operations is potential effect of Amica v. Wertz decision