INSURANCE COMPACT

2020 ANNUAL REPORT

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LETTER FROM THE OFFICERS

It is hard to describe 2020 as anything but unprecedented. The Interstate Insurance Product Regulation Commission ("Insurance Compact") was positioned to be responsive to its state insurance department members and insurance company filers during the unchartered events of last year.

The Insurance Compact put into action several items from the *Insurance Compact Compass: Strategic Plan 2020 – 2022*, adopted in December 2019. In early 2020, to provide wider and easier participation of all Compacting States in the drafting process, the meetings of Insurance Compact's committees were opened to all regulators and not limited to only committee members. The Insurance Compact also seamlessly transitioned to a web-based meetings platform resulting in record participation in Insurance Compact proceedings. In spite of moving to online-platforms, the Officers appreciated their colleagues increased attention to Insurance Compact related matters.

Due to the record filing activity and associated revenue in 2019, the Insurance Compact triggered repayment of the start-up capital provided by the National Association of Insurance Commissioners (NAIC). We are pleased to report the restructured terms of repayment agreed upon with the NAIC will maximize the Insurance Compact's ability to balance repayment with sustainability over the next ten years. In 2020, the Insurance Compact made its first of ten annual payments in the amount of $274,013.

In 2020, under the leadership of the Governance Review Committee, the Insurance Compact commenced and completed independent reviews of the governance and business model of the organization. After an extensive selection process, Squire Patton Boggs conducted the governance review and Rector & Associates conducted the business assessment. Both projects involved objective evaluation of the structural aspects of the organization and interviews with Compacting State Commissioners, regulators, state legislators, consumer and industry representatives and company filers. These firms began the public conversation about their reports at our 2020 Annual Meeting, and as a Commission we have already begun using the 'consent agenda,' established a Governance Committee, and taken steps to improve member communications and address the third-party litigation matter.

In April 2020, the Colorado Supreme Court issued an opinion at the request of the United States Tenth Circuit Court of Appeals in a federal case addressing whether a state statute conflicting with a Uniform Standard provision, i.e., the suicide exclusion period, is applicable to a Compact-approved product. The Court ruled that without congressional consent, a state legislature may not delegate the power through an interstate compact to apply a product requirement that conflicts with a state statute. The matter was dismissed before the Tenth Circuit issued a decision. The Insurance Compact is considering legal analyses and thoughtful options provided by Squire Patton Boggs in their independent governance review as the Compacting States consider next steps in addressing pivotal legal issues raised by the Colorado Supreme Court.

We want to recognize the Commissioners and their staff as well as members of the Legislative Committee, Consumer and Industry Advisory Committees, and company filers for their engagement in navigating the issues and events of 2020. We look forward to working with you in 2021 as the Insurance Compact addresses the governance review and business assessment recommendations, foundational legal issues, and continues to implement its three-year strategic plan.

OFFICERS

Superintendent
Elizabeth Kelleher Dwyer
Chair, Rhode Island

Commissioner
Mark Afable
Vice Chair, Wisconsin

Commissioner
James A. Dodrill
Treasurer, West Virginia

PAST OFFICERS IN 2020

Director
Robert H. Muriel
Treasurer, Illinois

LETTER FROM THE EXECUTIVE DIRECTOR

What are the guiding pillars of the Insurance Compact? They are reflected in the priorities set forth in the *Insurance Compact Compass: Strategic Plan 2020 – 2022*. These foundational principles served to navigate the Insurance Compact during the unparalleled events of 2020.

One of those events was the COVID-19 pandemic. The Insurance Compact received product filing submissions to change the method of delivery for applications and to submit life insurance application questions related to COVID-19. The Insurance Compact created a section on its website with COVID-19 FAQs to transparently provide filing guidance on the type and format of allowable questions as well as provided reporting to Compacting States.

The Insurance Compact went through its first independent governance review and business assessment. Special thanks to the Compacting State Commissioners and regulators involved in these projects and for providing candid feedback on areas for improvement. These projects solicited input from state legislators, consumer and industry representatives and company filers. The business assessment concluded the Insurance Compact successfully performs its operations and employs a business model that allows it to accomplish its key goals and provided recommendations for process enhancements. The governance review provided a roadmap for addressing good governance practices, compact law issues, and the organization's tax-exempt status.

The timing of these independent reviews coincided with the first court opinion on the state delegation of authority to the Insurance Compact. In April 2020, the Colorado Supreme Court held that without congressional consent, the Colorado General Assembly could not delegate to the Insurance Compact the power to apply a product requirement through the Uniform Standards that conflicts with a state statute. In 2021, the Insurance Compact will consider the governance review compact law recommendations including the recognition of implied congressional consent, and work to minimize conflicts which may meaningfully affect insurance consumers.

Many of the recommendations in the independent reports aligned with objectives and action items in the *Insurance Compact Compass: Strategic Plan 2020 – 2022*. For instance, the expedited review service is now permanent as of January 1, 2021. This service allows filers, who want an even faster turnaround time than the average 22 review days, to pay an expedited fee for guaranteed service levels, without sacrificing a thorough form and actuarial review. In 2020, this service was utilized by 78 of the 249 registered companies, with an average turnaround time of 9 review days, generating $186,960 in revenue.

Another first in 2020 was the Insurance Compact received in-force rate increase requests under 15% on Compact-approved individual long-term care insurance products. The Insurance Compact performs advisory reviews on in-force rate increases above 15% and has the authority to approve those under 15%. We invited Compacting States to follow along in the review and received input from a multi-state group of regulator actuaries to ensure their questions and issues were addressed. Whether it is an advisory review or not, the Insurance Compact performs a thorough, skilled review with detailed documentation to ensure the need for rate increase is actuarially justified.

In 2021, the Insurance Compact will mark 15 years since its inaugural meeting of 27 Compacting States. With 46 Compacting States, 250+ filing companies, 100+ Uniform Standards and 10,000+ approved products, the one constant is the commitment of Compacting State Commissioners and regulators working with state legislators, consumer representatives, industry representatives and company filers to achieve the goals and purposes of this consequential state-driven interstate compact. On behalf of the Insurance Compact Office, thank you for your engagement and we look forward to working with you in the coming year.

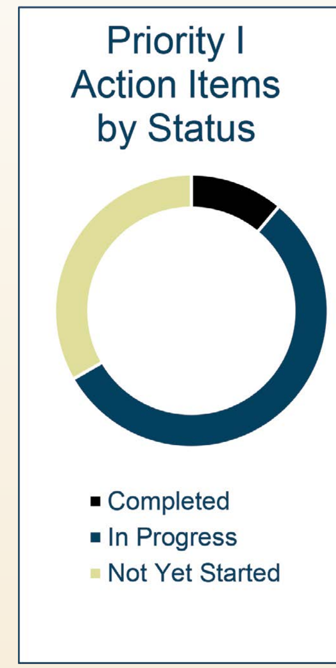
Karen Z. Schutter

Executive Director

INSURANCE COMPACT COMPASS

In December 2019, the Insurance Compact adopted its three-year strategic plan – the Compass. The Compass was developed with input from all constituents – Commissioners and state regulators, state legislators, consumer advocates, company representatives, and filers. The Compass has three overarching priorities, each with three objectives followed by several action items identified under each one for a total of 28 action items.

Throughout 2020, the Insurance Compact set forth on several projects associated with the Strategic Plan. The most notable of these were the Governance Review and Business Assessment. Several other action items were started in 2020 with a handful being considered complete by the end of the year.



PRIORITY I: Uniform Standards States Support and Companies Willingly Use

Objective 1: **Robust** – Reflect strong consumer protections
Objective 2: **Relevant** – Reflect product offerings available in Compacting States
Objective 3: **Reasonable** – Reflect product requirements that are not unduly prescriptive

Priority I Action Items Completed in 2020:

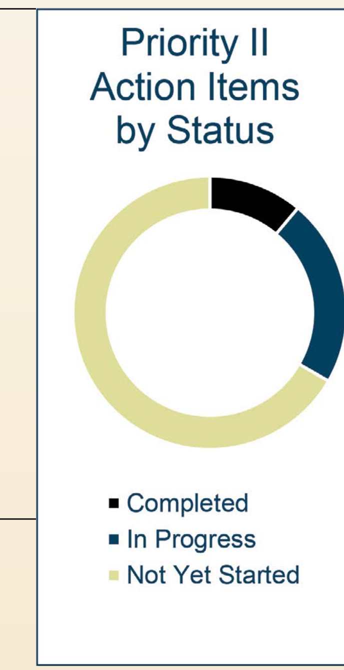
#2, Provide wider and easier participation by all Compacting States in the drafting process for Uniform Standards development with open Committee Meetings to all interested regulators and not limited to only committee members

PRIORITY II: Nationally Recognized Regulatory Review Process

Objective 1: **Responsive** – Provide prompt review and turnaround times
Objective 2: **Reliable** – Provide consistent, thorough quality reviews
Objective 3: **Regulatory Collaboration** – Provide information and processes working with Compacting States to facilitate their state market and financial regulatory functions with respect to Compact-approved products

Priority II Action Items Completed in 2020:

#4, Adopt the Expedited Review Program on a permanent basis for product filings meeting eligibility criteria to optimize compliant filings



PRIORITY III: Resource for Compacting States, Regulated Entities and Consumers

Objective 1: **Responsible** – Provide excellent and accountable information and services
Objective 2: **Respected** – Retain qualified and experienced staff
Objective 3: **Ready** – Provide proactive information on Compact activities and be an accessible source of information

Priority III Action Items Completed in 2020:

#10, Conduct review of the Insurance Compact Bylaws to assess consistency with current governance structure and with governance best practices

#3, Convene focus groups of Compacting States (regulators and legislators), industry representatives and company filers, and consumers and consumer representatives to identify informational needs and improvements to the website

#8, Restructure of repayment to the NAIC, including a business assessment, of start-up capital to maximize the Commission's ability to balance repayment with sustainability

THE INSURANCE COMPACT TODAY

https://www.insurancecompact.org

UNIFORM PRODUCT STANDARDS AND APPROVAL

The Interstate Insurance Product Regulation Compact (Insurance Compact) is an innovative, state-based agreement to modernize the regulatory approval of asset-based insurance products. Through the collective efforts of 46 Compacting States, the Insurance Compact develops detailed and comprehensive uniform product standards containing balanced and strong consumer protections. Companies submit one product for thorough review by an experienced regulatory team of reviewers and actuaries.

The Insurance Compact serves the need for uniformity, speed-to-market and regulatory compliance in a national state-regulated insurance marketplace.

COMPACT STATES

44 States, plus the District of Columbia and Puerto Rico have adopted the Insurance Compact legislation to date, representing 75% of the premium volume nationwide.

MULTI-STATE PUBLIC BODY

The Insurance Compact established a multi-state public body, the Commission, which serves as an instrumentality of the Compacting States. Each Compacting State is an official member – usually the Insurance Commissioner – of the Commission.

CURRENT PRODUCT LINES:

- Individual **Life**
- Individual **Annuity**
- Individual **Long-Term Care**
- Individual **Disability Income**
- Employer Group **Term Life**
- Employer Group **Disability Income**
- Employer Group **Annuity**

Over 100 uniform product standards have been implemented so far through an open, transparent rulemaking process that requires adoption by a minimum two-thirds or "supermajority" of the entire membership.

Once a Uniform Standard is adopted, the Insurance Compact serves as the central point of electronic filing, review, and approval for these insurance products. The Insurance Compact is revenue-neutral for state budgets. State filing fees are collected and remitted electronically for all Compact filings. The Insurance Compact is funded by separate fees from filing companies.

COMPACT BENEFITS

The Insurance Compact has defined speed-to-market by providing product approval in less than 60 days, with a thorough and transparent upfront review process.

Compact States retain sovereign authority over their insurance marketplace and actively participate in ensuring uniform standards provide insurance consumers with strong and established protections.

Consumers benefit from ensuring these mobile-borne products are subject to thorough prior review using consistent, detailed standards.

Companies benefit from getting a form/product to market in a competitive, efficient, cost-effective, and streamlined manner across the Compacting States.

COMMITTEE ACTIVITIES

The Insurance Compact relies upon the regulatory expertise in the member states to develop, adopt, and oversee implementation of Uniform Standards, Rules, and Operating Procedures, as well as the budget, technology platform, and the Insurance Compact's outreach efforts. The Management Committee is charged with managing the affairs of the Commission and looks to the following Insurance Compact committees to formulate recommendations and solicit public comments on a variety of rulemaking and operational matters.

The **Audit Committee** regularly reviews the Insurance Compact's financial accounts and reports and oversees the independent audit process, including retaining and working with the independent auditors.

2020: Bruce R. Ramge (NE), Chair; Chlora Lindley-Myers (MO), Vice Chair

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The **Finance Committee** monitors the finances of the Insurance Compact. In 2020, the Finance Committee prepared the annual budget, including monitoring the actual and projected revenues and expenses, as well as resource levels. In 2020, the Committee recommended the Expedited Review Process be made a permanent optional filing process. The Commission adopted this recommendation along with the 2021 Annual Budget and Schedule of Fees during the December 2020 Annual Meeting.

2020: Robert Muriel (IL), Chair; Vicki Schmidt (KS), Vice Chair

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The **Product Standards Committee** reviews and recommends Uniform Standards to the Management Committee. In 2020, the Product Standards Committee considered further amendments to three waiver uniform standards at the request of the Management Committee. Additionally, the Committee embarked on the development of Uniform Standards Development Guidelines and the Annual Prioritization System. Both of these were included in the Compact's Strategic Plan as Action Items for the Product Standards Committee.

2020: Michael Conway (CO), Chair; Elizabeth Kelleher Dwyer (RI), Vice Chair

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The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto. In 2020, the Rulemaking Committee completed their work related to the open meetings process and the development of Committee guidelines. The Committee began the conversation regarding expansion of group products into other groups beside employer/employee groups, including conducting surveys of state regulators and interested company filers. Both of these projects were identified in the Compact's Strategic Plan.

2020: Andrew Stolfi (OR), Chair; Scott A. White (VA), Vice Chair

MEMBERSHIP (AS OF DECEMBER 31, 2020)

Jim L. Ridling
Commissioner, Alabama
Department of Insurance

Lori K. Wing-Heier
Director, Alaska
Division of Insurance

Evan G. Daniels
Director, Arizona
Department of Insurance
& Financial Institutions

Alan McClain
Commissioner, Arkansas
Insurance Department

Michael Conway
Commissioner, Colorado
Division of Insurance

Andrew N. Mais
Commissioner,
Connecticut Insurance
Department

Karima Woods
Commissioner,
District of Columbia
Department of Insurance,
Securities and Banking

John F. King
Commissioner, Georgia
Office of Insurance &
Safety Fire Commissioner

Colin M. Hayashida
Commissioner, Hawaii
Insurance Division

Dean L. Cameron
Director, Idaho
Department of Insurance

Robert H. Muriel
Director, Illinois
Department of Insurance

Stephen W. Robertson
Commissioner, Indiana
Department of Insurance

Doug Ommen
Commissioner, Iowa
Insurance Division

Vicki Schmidt
Commissioner, Kansas
Insurance Department

Sharon P. Clark
Commissioner, Kentucky
Department of Insurance

James J. Donelon
Commissioner, Louisiana
Department of Insurance

Eric A. Cioppa
Superintendent, Maine
Bureau of Insurance

Kathleen A. Birrane
Commissioner, Maryland
Insurance Administration

Gary D. Anderson
Commissioner, Massachusetts
Division of Insurance

Anita G. Fox
Director, Michigan
Department of Insurance &
Financial Services

Grace Arnold
Temporary Commissioner,
Minnesota Department of
Commerce

Mike Chaney
Commissioner, Mississippi
Insurance Department

Chlora Lindley-Myers
Director, Missouri
Department of Commerce &
Insurance

Matthew M. Rosendale
Commissioner, Montana
Office of the Commissioner of
Securities & Insurance

Bruce R. Ramge
Director, Nebraska
Department of Insurance

Barbara D. Richardson
Commissioner, Nevada
Division of Insurance

Chris Nicolopoulos
Commissioner,
New Hampshire
Insurance Department

Marlene Caride
Commissioner, New Jersey
Department of Banking &
Insurance

Russell Toal
Superintendent, New Mexico
Office of Superintendent of
Insurance

Mike Causey
Commissioner, North Carolina
Department of Insurance

Tynesia Dorsey
Interim Director, Ohio
Department of Insurance

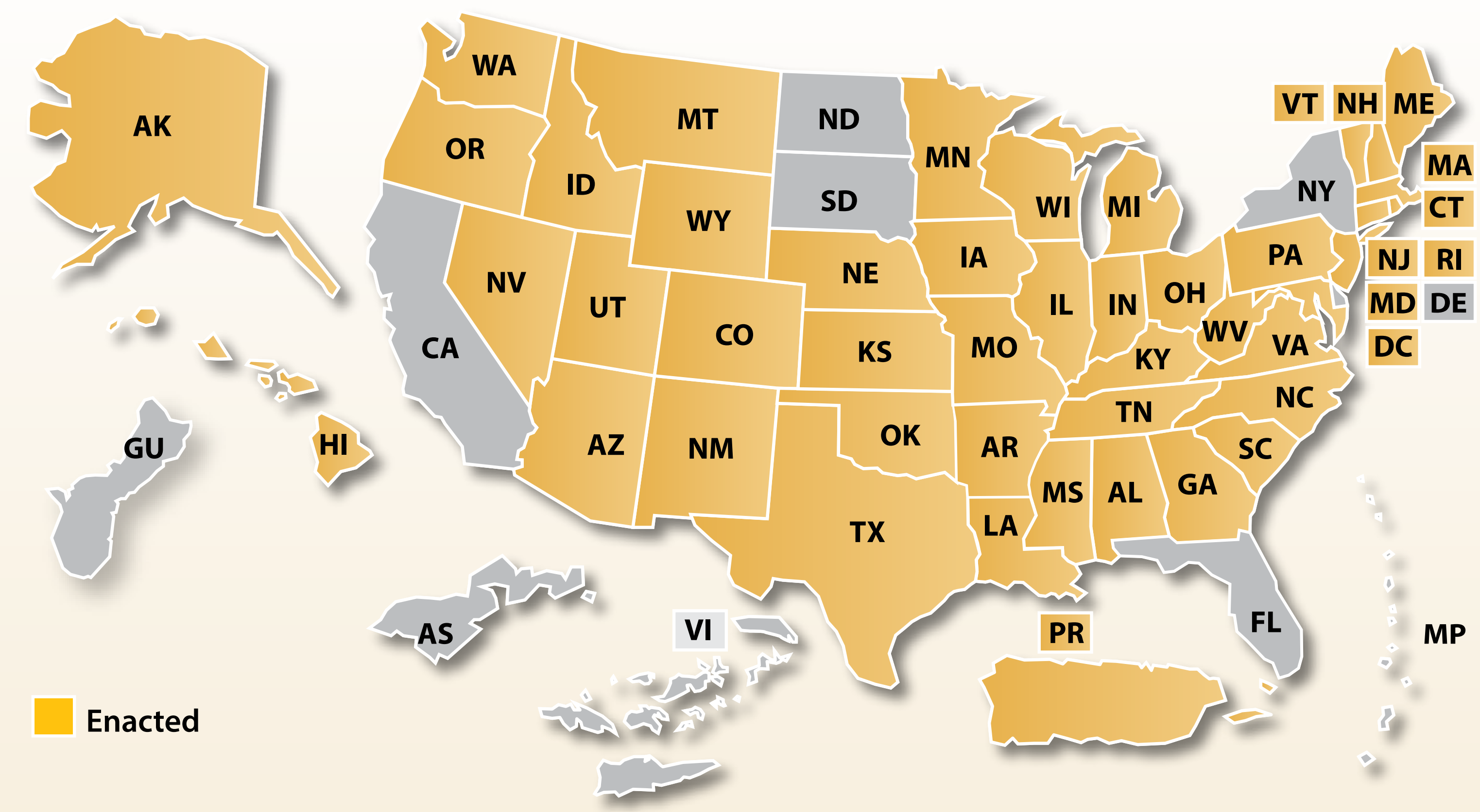
Glen Mulready
Commissioner, Oklahoma
Insurance Department

Andrew R. Stolfi
Commissioner, Oregon
Division of Financial
Regulation

Jessica K. Altman
Commissioner, Pennsylvania
Insurance Department

Rafael Cestero Lopategui
Commissioner, Puerto Rico
Office of the Commissioner of
Insurance

Elizabeth Kelleher Dwyer
Superintendent, Rhode Island
Division of Insurance



Raymond G. Farmer
Director, South Carolina
Department of Insurance

Carter Lawrence
Commissioner, Tennessee
Department of Commerce and
Insurance

Doug Slape
Chief Deputy Commissioner,
Texas Department of Insurance

Tanji J. Northrup
Interim Commissioner, Utah
Insurance Department

Michael S. Pieciak
Commissioner, Vermont
Department of Financial
Regulation

Scott A. White
Commissioner, Virginia State
Corporation Commission,
Bureau of Insurance

Mike Kreidler
Commissioner, Washington
Office of the Insurance
Commissioner

James A. Dodrill
Commissioner, West Virginia
Offices of the Insurance
Commissioner

Mark Afable
Commissioner, Wisconsin
Office of the Commissioner of
Insurance

Jeff Rude
Commissioner, Wyoming
Insurance Department

2020 Past Members Who Served

Keith Schraad, Arizona
Allen Kerr, Arkansas
Al Redmer, Jr., Maryland
Steve Kelley, Minnesota
Jillian Froment, Ohio
Javier Rivera Rios, Puerto Rico
Hodgen Mainda, Tennessee
Kent Sullivan, Texas
Todd E. Kiser, Utah

MANAGEMENT COMMITTEE

The Management Committee is formed on an annual basis during the Annual Meeting and is comprised of fourteen members representing three tiers of the premium volume. The Compact State's premium volume, as calculated by the National Association of Insurance Commissioners (NAIC) based on the records of the preceding year, determines which tier a member may represent. The first tier members are from the six Compacting States with the largest premium volume. The second tier is comprised of four members from Compacting States with at least 2% of the market share based on the premium volume. These four members are selected on a rotating basis. The third tier is four members elected from each of the four NAIC Zones and represent Compacting States with less than 2% of the premium volume. The Officers are selected by the Commission from the membership of the Management Committee during the Annual Meeting to serve in the following calendar year.

Management Committee, 2020 – 2021

Elizabeth Kelleher Dwyer, Rhode Island, Chair
Mark Afable, Wisconsin, Vice Chair
James A. Dodrill, West Virginia, Treasurer
John F. King, Georgia
Vicki Schmidt, Kansas
Robert H. Muriel, Illinois
Anita G. Fox, Michigan
Marlene Caride, New Jersey
Mike Causey, North Carolina
Tynesia Dorsey, Ohio
Jessica K. Altman, Pennsylvania
Scott A. White, Virginia
Doug Slape, Texas
Jeff Rude, Wyoming

Management Committee, 2019 - 2020

Elizabeth Kelleher Dwyer, Rhode Island, Chair
Mark Afable, Wisconsin, Vice Chair
Robert H. Muriel, Illinois, Treasurer
Vicki Schmidt, Kansas
Gary D. Anderson, Massachusetts
Anita G. Fox, Michigan
Grace Arnold, Minnesota
Marlene Caride, New Jersey
Tynesia Dorsey, Ohio
Jessica K. Altman, Pennsylvania
Carter Lawrence, Tennessee
Doug Slape, Texas
James A. Dodrill, West Virginia
Jeff Rude, Wyoming

ADVISORY COMMITTEES

Consumer Advisory Committee

- AARP
- Autism Speaks
  Angela Lello, Director, Housing and Community Living
- Center for Insurance Research
  Brendan Bridgeland, Policy Director and Staff Attorney
- Consumer Liaison Representative
  Yvonne Hunter
- Consumer Liaison Representative
  Fred Nepple
- National Alliance on Mental Illness
  Andrew Sperling, Director, Federal Legislative Advocacy

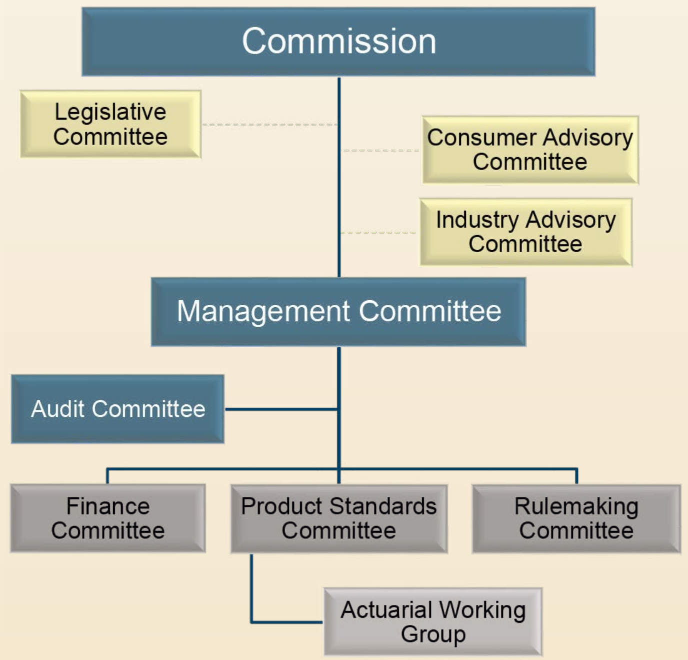
Industry Advisory Committee

- American Council of Life Insurers (ACLI)
  Wayne Mehlman, Senior Counsel, Insurance Regulation
- America's Health Insurance Plans (AHIP)
  Amanda Herrington, Senior Policy Director
- Insured Retirement Institute (IRI)
  Liz Pujolas, Vice President and Counsel, Regulatory Affairs
- National Association of Insurance and Financial Advisors (NAIFA)
  Gary A. Sanders, Director - State Government Relations
- Allianz Life Insurance Company of North America
  Anne Correia, Principal Product Contract Associate, Actuarial Product Development
- Athene Annuity and Life Company
  Andrea Davey, Senior Manager, Compliance
- Mutual of Omaha
  Shawn Pollock, Director, Regulatory Risk Management
- New York Life Insurance Company
  Joseph Muratore, Associate General Counsel, Office of the General Counsel

Legislative Committee

Representative Matt Lehman, Chair
State of Indiana
Representative Brian Patrick Kennedy, Vice Chair
State of Rhode Island
Representative Matt Dollar
State of Georgia
Senator Laura Fine
State of Illinois
Representative Joseph Fischer
Commonwealth of Kentucky
Assemblywoman Maggie Carlton
State of Nevada
Representative James Dunnigan
State of Utah

ORGANIZATIONAL CHART



INSURANCE COMPACT MILESTONES

2020
- 46 Compacting States with Mix and Match percentage = 22%
- 249 companies registered; 1,373 products submitted and 1,290 products approved with an average review of 21 days
- 72 filings amended
- The Expedited Review Program was adopted.

2019
- Adopted first Group Annuity Standards, adopted ROP Standards for IDI products, and amended 2 Uniform Standards
- 46 Compacting States with Mix and Match percentage = 27%
- 266 companies registered; 1,639 products submitted and 1,617 products approved with an average review time of 33 days
- 80 filings amended
- Employed the Expedited Review Pilot Program

2018
- Completed the Five-Year Review on the Individual Disability Income Uniform Standards and began the review of Group Annuity Uniform Standards with Mix and Match percentage = 34%
- Washington, DC enacted the Compact legislation making it the 46th Compacting State
- 233 companies registered; 1,439 products submitted and 1,226 products approved with an average review time of 25 days
- 109 filings amended

2017
- Completed the Five-Year Review of the Individual LTC Uniform Standards and began the Five-Year Review process on the adopted Individual Disability Income Uniform Standards with Mix and Match percentage = 42%
- Connecticut became the 45th Compacting State effective for filing
- 228 companies registered; 1,132 products submitted and 1,159 products approved with an average review time of 20 days
- 137 filings amended

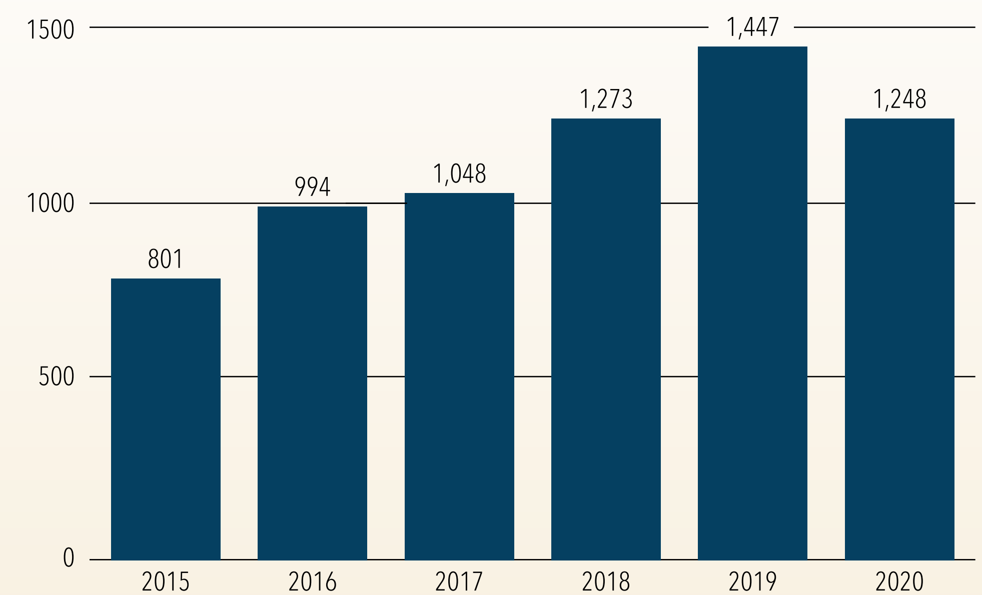
2016
- Adopted Group Disability Income Uniform Standards; 100 Uniform Standards adopted
- 45 Compacting States with Mix and Match percentage = 50%
- 226 companies registered; 1,059 products submitted and 981 products approved with an average review time of 30 days
- 229 filings amended

2015
- 44 Compacting States with Mix and Match percentage = 50%
- 205 companies registered; 863 products submitted and 829 products approved with an average review time of 33 days
- 197 filings amended

PRODUCT FILING STATISTICS

January 1, 2015 through December 31, 2020

Submissions Recieved



Overview

★ There are 46 Compacting States including Puerto Rico and the District of Columbia.

★ There are 22+ Types of Insurance (TOI) available for filing with 102 adopted Uniform Standards and 130 various sub-TOIs available.

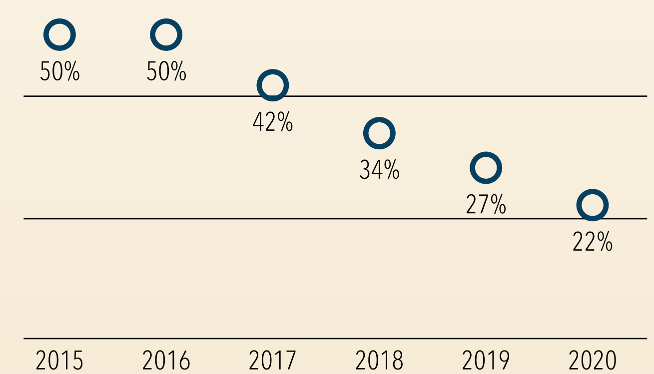
From June 2007 - December 2020:

★ Over 10,450 products have been approved by the Insurance Compact; which equates to over 346,000 SERFF transactions.

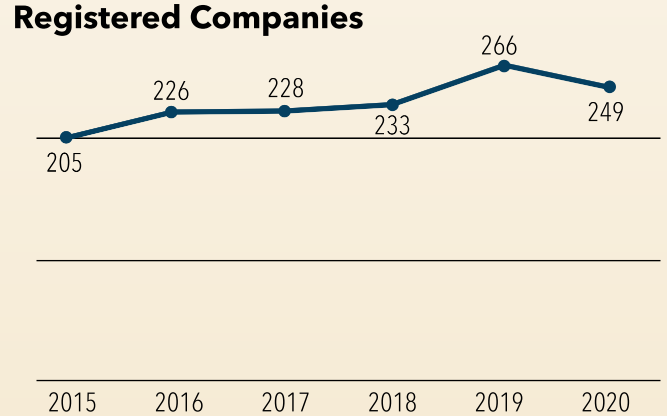
★ There have been 32,760 forms submitted with product filing submissions.

★ $25,081,549 in state filing fees have been collected and remitted to the fee collecting member states.

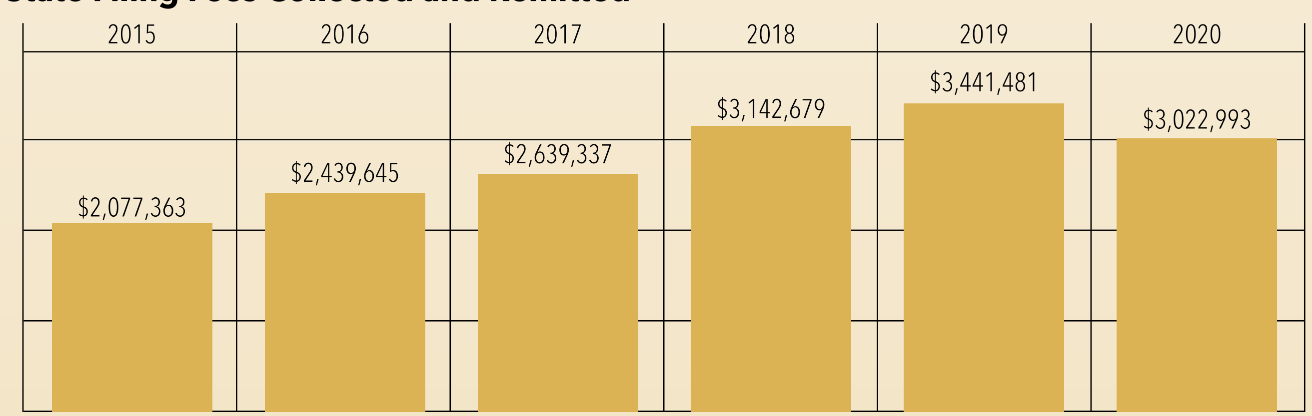
Mix & Match Percentage



Registered Companies



State Filing Fees Collected and Remitted



MANAGEMENT'S DISCUSSION & ANALYSIS

Please Note: *The Interstate Insurance Product Regulation Commission's management discussion and analysis is separate from and not a part of its basic financial statement nor included in its Independent Auditors' Report. RSM US LLP has not audited this information and expresses no opinion on the information contained herein.*

Introduction

The Interstate Insurance Product Regulation Commission (Insurance Compact) is a public entity and instrumentality of its member states charged with carrying out regulatory insurance product reviews for asset-based insurance products under Uniform Standards adopted by its membership. The Insurance Compact marked its thirteenth full year of revenue-generating operations in 2020. The Insurance Compact's 2020 Annual Report includes the independent auditors report with information on the actual financial results of the organization. This Management Discussion & Analysis report is not a part of the annual external audit examination and is included to provide management's analysis of the organization's financial performance in 2019 and 2020.

Financial Highlights

The Insurance Compact's financial statements are prepared using the accrual basis of accounting. Revenues, expenses, assets, and liabilities are recognized during the period in which the activity occurs rather than when it is received or paid.

Balance Sheet

Normal operating activities have resulted in cash and cash equivalents balance of $1,812,234 as of December 31, 2020. This is a decrease of $155,113 compared to 2019. The cash balance has increased by $709,653 since December 31, 2018.

Accounts receivables, $30,678 in 2020 and $33,974 in 2019, and prepaid expenses $9,957 in 2020 and $6,739 in 2019, were largely unchanged.

Total current liabilities are $1,499,990 or $41,444 over 2019 primarily due to the growth in deferred revenue as well as in accrued expenses. In 2020, the Insurance Compact received $929,950 in deferred revenue which was $60,200 more than in 2019. Deferred revenue represents the annual registration fee paid in 2020 for the 2021 annual registration period. More companies, and more companies in a higher fee-paying category, submitted their 2021 annual registrations by December 31, 2020 compared to the previous year. In 2020, the Insurance Compact started repayment of the note payable to the NAIC which created a new line item for the current portion of the note payable to the NAIC within the next 12 months in the amount of $274,013 with a corresponding decrease in the notes payable item in long-term liabilities. The amounts for accounts payable and accrued expenses were due to the timing of payments to vendors, employees, and consultants and fluctuates each year.

The Insurance Compact collected and remitted $3,022,993 to states in applicable state filing fees, which was a decrease of $418,488 of state filing fees remitted in 2019. This decrease follows a similar trend with the Insurance Compact's filing fee revenues for 2020 as explained below.

Statement of Revenues, Expenses, and Changes in Net Assets

The Insurance Compact is a public entity and an instrumentality of its member states, it generates its revenue on a per transaction basis and not under any specific taxing authority.

Operating revenues were $2,761,837 which was 88% of 2019 operating revenues with an actual-to-budget revenue ratio for 2020 of 95.5%.

Revenue is earned when an insurance company registers with the Insurance Compact and submits product filings to the Insurance Compact through the NAIC's System for Electronic Rate and Form Filing (SERFF). The *IIPRC Terms and Procedures for IIPRC Filing Fees* provides that the Insurance Compact adopt its Schedule of Fees in conjunction with the adoption of its annual budget. In 2020, there were no substantive changes to the Schedule of Fees which were last amended and effective in January 2019. The Insurance Compact is revenue neutral to Compacting States in that filers continue to pay the applicable state filing fees for Compact submissions in addition to the Insurance Compact fees.

The Insurance Compact requires an annual registration fee which provides access to the filing platform. There are eight main categories of filing fees for companies based on the reported premium volume and the number of states the company is currently licensed in. A company's asset-based premium volume is based on the Schedule T-Part 2 of the Annual Statement filed with the NAIC for the reporting year prior to the current annual registration period. As of October 1st, all companies are eligible to register at the pro-rated rate of 50% of their applicable registration fee for the remainder of the annual period.

There are two main categories of product filing fees based on whether or not an actuarial review is required and within those two categories, there are four sub-categories based on the reported premium volume. Companies making submissions without an actuarial review pay less per submission than those requiring an actuarial review. Submissions inclusive of a rate review have a higher product filing fee due to the time and resources required to review the submissions. Regional companies licensed to do business in 12 or fewer compacting states pay a reduced registration and per-filing fee.

When the 2020 Annual Budget was adopted in December 2019, the expedited review pilot service was extended for a calendar year. Companies entering the expedited review process pay double the applicable Insurance Compact product filing fee to receive review of their filing submission within service level time frames. This program is only available for individual life and annuities. The Insurance Compact saw 40% growth in the number of expedited review submissions in 2020 with 190 compared to 136 expedited filings submitted in 2019. The growth in revenue in 2020 was 16%, or $25,135, more than the $160,625 received in 2019. In 2020, the Commission adopted this service as a permanent one.

The Advance Filing Calculation fee was another optional service put in place in 2019. This service is to calculate and provide written guidance as to the proper state and Compact filing fees to be paid in the submission upon receipt of the $100 service fee. In 2020, the Insurance Compact received $17,100 in Advance Filing Calculation which was $7,800, or 78%, more than the $9,600 in 2019.

The third of the new filing fees put in place in 2019 was the EFT Return fee. This fee was assessed to companies who had an electronic funds transfer (EFT) that failed. When a filing is submitted to the Compact, the indicated state fees on the filing are automatically pushed to the states included in the filing submission. If there is a failed transmission, the fees are still paid from the Compact's banking accounts. The EFT Return fee is equal to 5% of the total EFT failure and is assessed to the company for any EFT return after their first failure. In 2020, $471 was collected in EFT Return fees which indicated companies are performing additional due diligence to minimize EFT returns.

Product filing fees were $1,411,953 in 2020, compared to $1,741,911 in 2019, a decrease of $329,958. The Insurance Compact saw a decrease in filing volume activity and associated revenue in 2020 when compared to 2019, especially product filings requiring actuarial review. 2019 was exceptional in terms of filing and revenue activity because companies were required to update their life products to use 2017 Commissioners Standards Ordinary (CSO) Mortality Tables by the January 1, 2020 regulatory deadline. The Insurance Compact generally experiences an above-normal filing volume when companies respond to changes in the regulatory environment.

In 2020, the Insurance Compact saw an increase in the number of submissions not requiring an actuarial review. In fact, volume was 10% above budget for these submissions which equates to $35,138 above budgeted revenue. Even with a leveling in filing volumes, mix and match filings have continued to decrease from 27% in 2019 to 22% in 2020.

Annual registration fees of $1,353,300 for 249 companies were earned in 2020, compared to $1,385,188 for 266 companies were earned in 2019.

Operating expenses of $2,684,459 were under budget by $567,113 and $175,168 above the operating expenses of 2019. The Insurance Compact was 17% under budgeted expenses in 2020. The savings in several lines was a direct result of the COVID-19 pandemic as travel and in-person meeting costs were not incurred as expected and staff and consultant positions were open longer than anticipated. Interest expense savings in the amount of $78,440 was realized due to the restructuring of the repayment of the NAIC debt as explained below.

In June 2020, the Insurance Compact amended the budget for operating expenses, specifically professional services, to increase the budget by $400,000 to retain consultants to perform two key strategic action items as well as follow-up legal work in response to the Colorado Supreme Court opinion in Amica v. Wertz. The Insurance

MANAGEMENT'S DISCUSSION & ANALYSIS

Compact performed its due diligence through a request for proposal process to determine the general cost of these multiple projects and the budget was amended accordingly.

With this additional $400,000, the Insurance Compact budget was expected to have a negative change in net assets of $360,747. Through expense savings and even with less than anticipated revenues, the Insurance Compact ended 2020 with a positive change in net assets of $77,378.

Debt

On June 1, 2007, the Insurance Compact signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the Insurance Compact. The NAIC receives an annual administrative fee of $125,000 for these services. The Insurance Compact also pays an annual license/maintenance fee in the amount of $25,000 for the use of SERFF. The Services Agreement includes an additional adjustable administrative fee equal to 7.5% of every $25,000 of net revenue in excess of expenses earned by the Commission. The Commission triggered the adjustable administrative fee in the amount of $5,625 based on the net revenue of $77,378 and is reflected under the professional services for 2020.

The note payable to the NAIC totals $3,178,494 as of the end of 2020. This is a $274,013 decrease over the prior year due to the first loan payment in May 2020. From 2007 through 2012, the Insurance Compact borrowed against lines of credit provided by the NAIC to fund operational needs.

In 2010, the NAIC and Insurance Compact entered a note payable for all outstanding and future borrowing with an interest rate of 2.25% equal to the prime rate of 3.25% on January 1, 2010, less 1%. Principal and interest payments were deferred until the year following the year in which the Insurance Compact achieved a profit of $250,000 or an accumulated cash balance from operations of $500,000 excluding funds from draws. Outstanding interest was capitalized monthly.

As of December 31, 2019, the Insurance Compact triggered the repayment of principal and interest by achieving a net positive revenue of $646,204, which exceeded the $250,000 threshold.

In 2020, the Insurance Compact and the NAIC restructured the repayment terms as the parties recognized the Insurance Compact would not be able to service the full amount of the note payable over five years without causing a negative cash balance. The updated repayment 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 of $2,740,134. Payments of $274,013 will be made no later than March 31 of each year unless extended by mutual agreement between the Compact and the NAIC. If during the 10-year repayment period the Commission'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 treated as a contribution to the Commission. There is no accrued interest during the repayment period including any extended periods beyond the initial 10-year repayment period. The first annual payment was made in May 2020 and the second annual payment will be made on or before March 31, 2021.

Economic Factors

The Insurance Compact accepted its first product filings in June 2007 and completed its thirteenth full calendar year of product filing review operations in 2020. The Insurance Compact has approved a total of 10,450 products which would have translated into more than 346,000 individual state filing transactions. There are 46 Compacting Members, including 44 states, the District of Columbia and Puerto Rico.

For the Insurance Compact, 2019 was an unprecedented year in terms of revenue as the life insurance industry was required to meet a January 1, 2020 regulatory deadline for using 2017 Commissioners Standards Ordinary Mortality Tables. The financial achievements of 2019 positioned the Insurance Compact to respond to planned and unplanned changes in 2020.

The Insurance Compact planned that 2020 budgeted revenues were likely not going to meet or exceed 2019 actual revenues. The Insurance Compact received 249 company registrations from large, medium, and small insurance companies and fraternals representing a combined 84% of the nationwide premium volume written for asset-based insurance products. Companies continuously filing with the Insurance Compact was demonstrated again in 2020 with 98% of registered companies doing so before the prorated date of October 1st. The Insurance Compact met its budget target for annual registration revenue in 2020.

2019 was the year where the highest number of companies, 266, registered to file. The Insurance Compact budgeted for a lower number of companies to register in 2020 knowing that not all companies, especially smaller companies, have a need to update or file products every year.

The Insurance Compact received 1,373 products for 2020 which was a 16% reduction compared to the 1,639 product filings received in 2019. In terms of budget, the actual number of product filings were approximately at budgeted volume; however, product filing fees were $116,347 under budget. The variance in revenue is due to the difference in the filing fee category utilization. Product filing submissions not requiring actuarial review, such as application-only filings, were above budgeted volumes while the product filing submissions for actuarial review were well below budget. This trend may be attributed to companies not updating their actuarial material or filing new products considering their exceptional filing activity in 2019. During the previous year, the bulk of the filing activity was in the higher fee category as companies had a January 1, 2020 deadline to update or file new life insurance products to comply with 2017 CSO Mortality Tables. These types of filings require actuarial review and fall in the higher fee categories.

In 2020, the Insurance Compact continued the speed-to-market benefit with an average turnaround time of 21 review days. In 2019, the Insurance Compact created an expedited review service on a pilot basis which continued in 2020. The purpose of the filing option is to address the demand from some, not all, companies requesting approval well within the 60-day turnaround time required under the Compact's Product Filing Rule and even more aggressive than the Compact's average turnaround time. Companies that focus on quicker-than-average turnaround times have shown their willingness to pay more to support such a process, which involves dedication of form reviewers and actuaries to continue to ensure thorough compliance review within tight service level time frame.

Since its inception, the Insurance Compact has earned a total of $347,585 in additional fees associated with the expedited review process; in 2019 $160,625 and $186,960 in 2020. Eighty-six companies of all sizes have taken advantage of the expedited review process. The Insurance Compact made this a permanent service starting with the 2021 annual budget.

The operating expenses of the Insurance Compact grew by 7% between 2019 and 2020. The primary driver of the Insurance Compact's significant growth in operational costs over the past 10 years of product operations is scaled growth in human resources as the Insurance Compact has expanded over time as the number of member states, registered companies, product lines, Uniform Standards, and product filing volume and activity has expanded. Salaries were $1,522,743 in 2020 compared to $1,446,997 in 2019. The increase was due to a full year salary of new resources hired in mid-2019 and promotions of long-tenured staff.

Professional services were $714,656 in 2020 compared to $468,442 in 2019. The Insurance Compact amended its annual budget in June 2020 to add $400,000 in professional services for independent consultant services to provide a governance review, business assessment and a litigation risk assessment. These projects were completed within budget and the recommendations from the independent governance review and business assessment were presented at the Insurance Compact's 2020 Annual Meeting.

The Insurance Compact incurred $14,987 of its $149,300 travel budget due to COVID-19 travel-related restrictions starting in March 2020 including conducting its three budgeted in-person meetings virtually. Salaries and professional services were also significantly under the budgeted amount for 2020 due in part to the timing of open positions and attrition.

In 2020, the Insurance Compact was able to manage its cash balance and operating budget to accommodate its first of 10 annual payments to the NAIC in the amount of $274,013. In addition, it was able to manage a 5% shortfall in operating revenues while spending an additional $400,000 for key strategic projects resulting in a positive change in net assets of $77,378.

Contacting the Insurance Compact's Financial Management

This financial report is designed to provide a general overview of the Insurance Compact's finances and to show accountability for the funds received in 2020 and 2019. Questions about this report and requests for additional financial information should be directed to Karen Schutter, Insurance Compact Executive Director, at (816) 783-8024.

AUDIT REPORT

RSM

INDEPENDENT AUDITOR'S REPORT

Audit Committee
Interstate Insurance Product Regulation Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Interstate Insurance Product Regulation Commission, which comprise the statements of financial position as of December 31, 2020 and 2019, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Interstate Insurance Product Regulation Commission as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Kansas City, Missouri
March 2, 2021

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash	**$ 1,812,234**	$ 1,967,347
Accounts receivable	**30,678**	33,974
Prepaid expenses	**9,957**	6,739
Total assets	**$ 1,852,869**	$ 2,008,060
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable	**$ 48,508**	$ 105,538
Accrued expenses	**247,519**	209,245
Deferred revenue	**929,950**	869,750
Current portion of note payable to the NAIC	**274,013**	274,013
Total current liabilities	**1,499,990**	1,458,546
Long-term liabilities:		
Note payable to the NAIC	**2,904,841**	3,178,854
Total liabilities	**4,404,831**	4,637,400
Net deficit:		
Without donor restrictions	**(2,551,962)**	(2,629,340)
Total liabilities and net deficit	**$ 1,852,869**	$ 2,008,060

See notes to financial statements.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2020 and 2019

	2020	2019
Revenues:		
Annual registrations	**$ 1,343,300**	$ 1,385,188
Product filing fees	**1,411,953**	1,741,911
Interest income	**6,584**	28,396
Total revenues	**2,761,837**	3,155,495
Expenses:		
Salaries	**1,522,743**	1,446,997
Employee benefits	**398,366**	361,888
Professional services	**714,656**	468,442
Travel	**14,987**	108,443
Rental and maintenance	**5,532**	7,215
Interest expense	**-**	76,751
Insurance	**15,914**	15,499
Office services	**10,556**	16,493
Meeting expenses	**1,705**	7,563
Total expenses	**2,684,459**	2,509,291
Changes in net deficit without donor restrictions	**77,378**	646,204
Net deficit, beginning of year	**(2,629,340)**	(3,275,544)
Net deficit, end of year	**$ (2,551,962)**	$ (2,629,340)

See notes to financial statements.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Changes in net deficit without donor restrictions	**$ 77,378**	$ 646,204
Adjustments to reconcile changes in net deficit without donor restrictions to net cash provided by operating activities:		
Interest expense included in note payable	**-**	76,751
Changes in operating assets and liabilities:		
Accounts receivable	**3,296**	(19,498)
Prepaid expenses	**(3,218)**	106
Accounts payable	**(57,030)**	52,139
Accrued expenses	**38,274**	69,164
Deferred revenue	**60,200**	39,900
Net cash provided by operating activities	**118,900**	864,766
Cash flows from financing activities:		
Principal payment to NAIC	**(274,013)**	-
Net cash used in financing activities	**(274,013)**	-
Net (decrease) increase in cash	**(155,113)**	864,766
Cash:		
Beginning	**1,967,347**	1,102,581
Ending	**$ 1,812,234**	$ 1,967,347

See notes to financial statements.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: The Interstate Insurance Product Regulation Commission (the IIPRC), formed in June 2006, is a multistate commission creating a central point of electronic filing for certain insurance products, including life insurance, annuities, disability income and long-term care insurance. The IIPRC provides its member states with the ability to collectively use its expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products. The IIPRC had 46 member states as of December 31, 2020 and 2019.

Basis of accounting for revenues: The IIPRC recognizes revenue in accordance with FASB Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer.
- Identify performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when or as performance obligations are satisfied.

Revenue from contracts with customers is derived primarily from annual registration fees and product filing fees.

The IIPRC's annual registration revenue arrangements are recognized over time and consist of performance obligations that are satisfied ratably over a period of no more than one year. Prices are specific to a distinct performance obligation and do not consist of multiple transactions. As of December 31, 2020 and 2019, annual registration revenue was $1,343,300 and $1,385,188, respectively.

The IIPRC's product filing fees revenue is recognized at a point in time and consists of performance obligations that are satisfied when insurance companies process filings through the National Association of Insurance Commissioners' (the NAIC) System for Electronic Rate and Form Filing (SERFF) and in accordance with the standards established by the IIPRC for its member states. The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. Prices are distinct to a performance obligation. As of December 31, 2020 and 2019, product filing fees revenue was $1,411,953 and $1,741,911, respectively.

The IIPRC records deferred revenue in situations when amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues for revenue from contracts are classified as current liabilities on the statements of financial position and as of December 31, 2020 and 2019, were $929,950 and $869,750, respectively. Associated accounts receivable for revenue from contracts as of December 31, 2020 and 2019, were $30,678 and $33,974, respectively. There were no changes in annual registrations and product filing fees that would affect economic seasonality of the statements of financial position.

The IIPRC 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.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Basis of accounting and presentation: The IIPRC presents its financial statements based on ASC Topic 985, Presentation of Financial Statements. Net assets, revenues and gain and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the IIPRC and changes therein are classified and reported as follows:

Net assets (deficit) without donor restrictions: Net assets are not subject to donor-imposed restrictions but may be subject to board designations. At December 31, 2020 and 2019, net deficit consisted entirely of net deficit 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 IIPRC 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 IIPRC. Generally, the donors of these assets permit the IIPRC to use all of part of the income earned on related investments for general or specific purposed. At December 31, 2020 and 2019, the IIPRC does not have any net assets with donor restrictions.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash: For purposes of the statements of cash flows, cash is considered to be cash on hand, bank checking accounts and money market funds. The IIPRC, 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. Delinquent and/or uncollectible receivables are written off based on individual evaluation and specific circumstances.

Functional expenses: The Not-for-Profit Entities topic of the ASC requires nonprofit organizations to disclose expenses by functional classification. The IIPRC presents expenses only by their natural classification on the December 31, 2020 and 2019, statements of activities, as there is only one program (member services) with multiple service offerings. Therefore, management does not allocate expenses between multiple programs and supporting expenses. Management believes that disclosing expenses by function is insignificant to the financial statements taken as a whole and, therefore, does not apply the provision of the topic as it relates to the disclosure of expenses by functional classification.

Income tax provision: The IIPRC has been organized as a joint cooperative of the compacting states and is therefore generally exempt from federal and state income taxes pursuant to section 115(1) of the Internal Revenue Code. However, the IIPRC is subject to federal income tax on any unrelated business taxable income. The IIPRC filed a Private Letter Ruling (PLR) Request with the IRS, dated January 22, 2015, with respect to exclusion of its income from gross income pursuant to section 115(1) of the Internal Revenue Code. The IRS did not issue a ruling on the PLR Request. 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 standards that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2020 or 2019.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncement: In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal year 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The IIPRC has no lease obligations but is currently evaluating the impact, if any, of the pending adoption of the new standard on the financial statements.

Note 2. Liquidity and Availability of Resources

The IIPRC 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, 2020 and 2019, the following financial assets are available to meet annual operating needs of the subsequent fiscal year:

	2020	2019
Financial assets at year-end:		
Cash	**$ 1,812,234**	$ 1,967,347
Accounts receivable, net	**30,678**	33,974
Total financial assets	**$ 1,842,912**	$ 2,001,321

The IIPRC has various sources of liquidity at its disposal, including cash and accounts receivable.

Note 3. Line of Credit From and Notes Payable to the NAIC

On January 1, 2010, an Amended, Restated and Consolidated Promissory Note with the NAIC took effect. The note consolidated all previous outstanding note and line-of-credit balances and bears interest at 2.25%, compounded monthly.

Also on January 1, 2010, a line-of-credit agreement with the NAIC was executed. This agreement made available to the IIPRC an additional line of credit not to exceed $850,000, with an interest rate of 2.25%, compounded monthly. Repayment terms are identical to the Amended, Restated and Consolidated Promissory Note described above. The deferral of debt repayment reduced draws on this line of credit to $450,000.

A $400,000 line-of-credit agreement for 2011, effective January 1, 2011, was executed with the NAIC. An advance of $250,000 was drawn in August 2011, and another in the amount of $150,000 occurred in November 2011.

A $400,000 line-of-credit agreement for 2012, effective January 1, 2012, was executed with the NAIC. An advance of $250,000 was drawn in October 2012.

A $250,000 line-of-credit agreement for 2013, effective January 1, 2013, was executed with the NAIC. No advances were drawn during 2013.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 3. Line of Credit From and Notes Payable to the NAIC (Continued)

A $150,000 line-of-credit agreement for 2014, effective January 1, 2014, was executed with the NAIC. No advances were drawn during 2014.

A $150,000 line-of-credit agreement for 2015, effective January 1, 2015, was executed with the NAIC. No advances were drawn during 2015.

A $250,000 line-of-credit agreement for 2016, effective January 1, 2016, was executed with the NAIC. No advances were drawn during 2016.

A $100,000 line-of-credit agreement for 2017, effective January 1, 2017, was executed with the NAIC. No advances were drawn during 2017.

A $100,000 line-of-credit agreement for 2018, effective January 1, 2018, was executed with the NAIC. No advances were drawn during 2018.

The total outstanding principal and interest balance of the note payable and lines of credit as of December 31, 2019, was $3,452,867. As is customary, both the note and line of credit described above contained certain events of default that, if triggered, allowed the NAIC to call the remaining principal balance and all accrued interest for immediate payment.

Repayment of principal and interest was deferred until the last calendar date of the first quarter following the trigger date. The trigger date was defined as the date of the independent auditor's report related to the audited financial statements in which one or both of the following has been achieved: increase in net assets of at least $250,000, or accumulated cash balance of at least $500,000 from operations, excluding funds from draws. As of December 31, 2019, the trigger date was achieved as the IIPRC achieved an increase in net assets of at least $250,000. Under the terms of the agreement, following the trigger date, the note would mature in 60 months and bear interest at 2.25%, compounded monthly. Quarterly principal and interest payments would be due through maturity.

During 2020, the IIPRC renegotiated with the NAIC to modify and restructure the aforementioned promissory 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. There is no accrued interest during the repayment period including any extended periods beyond the initial 10-year repayment period. If during the 10-year repayment period the IIPRC'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 IIPRC. As of December 31, 2020, the outstanding principal and interest balance on the note payable is $3,178,854.

AUDIT REPORT

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

Aggregate maturities of long-term debt as of December 31, 2020 are as follows:

Years ending December 31:	
2021	$ 274,013
2022	274,013
2023	274,013
2024	274,013
2025	274,013
Thereafter	1,808,789
	$ 3,178,854

Note 4. Related-Party Transactions

Effective June 2007, the IIPRC entered into a service agreement with the NAIC, whereby the NAIC provides certain administrative services to the IIPRC. The NAIC is also providing a nonexclusive license to the SERFF system. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet the IIPRC requirements (such as the collection and remission of state filing fees) in excess of the annual 250 hours of SERFF development provided under the service agreement. The NAIC received an administrative fee of $125,000 and an annual license and maintenance fee in the amount of $25,000 for the use of SERFF. The IIPRC 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, 2020 and 2019. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC.

Amounts charged during the year and amounts owed at year-end for the IIPRC are as follows:

	2020	2019
Administrative services provided by and paid to the NAIC	$ 125,000	$ 125,000
License fee paid to the NAIC	$ 25,000	$ 25,000
Adjustable administrative fee	$ 5,625	$ 50,625
Amounts payable to the NAIC	$ 38,753	$ 97,555

Note 5. Defined Contribution Plan

The IIPRC has a 401(a) defined contribution plan, which covers substantially all employees who have completed one year or more of service. Each year the Management Committee determines the contribution for the next year. For the years ended December 31, 2020 and 2019, the IIPRC agreed to match up to 3.5% of compensation of employees who contribute to the plan and contributed 2.0% of all employees' annual compensation. The IIPRC made contributions of $73,885 and $67,755 for the years ended December 31, 2020 and 2019, respectively.

Note 6. COVID-19

The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of businesses and people throughout the United States. Further, financial markets recently experienced significant volatility attributed to COVID-19 concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which COVID-19 impacts the IIPRC's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak, and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the IIPRC, but such an impact could have a material adverse effect on the financial condition of the IIPRC.

Note 7. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2020, through March 2, 2021. There have been no events that occurred during such period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of or for the year ended December 31, 2020.

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