Interstate Insurance Product Regulation Commission

2012 Annual Report

States, Strength & Speed Aligned

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LETTER FROM THE OFFICERS

We are pleased to report that 2012 was another year in which the Interstate Insurance Product Regulation Commission achieved key milestones and record growth in many areas of its operations and development. We began the year by welcoming Oregon as the 41st Compacting State to accept products approved by the Commission and by opening the doors to accept individual disability income products filings for review. During the year, the Commission adopted Uniform Standards for the first group product line and conducted its first advanced rulemaking accepting comments on the framework for group annuity Uniform Standards. It was another year of achieving a record number of company registrations and product submissions as well as continual improvement in our product review process and outreach efforts.

With the implementation of the individual disability income Uniform Standards, the Commission now has more than 80 detailed Uniform Standards for a wide range of product lines and benefit features for all individual product areas authorized under the Compact statute including life, annuities, disability income, and long-term care insurance. With Oregon accepting Commission-approved products last January, the Commission increased its participation in the Uniform Standards to 41 Compacting States representing 70% of the nationwide asset-based premium volume. Further, many companies with Commission-approved products simply pushed a button to add Oregon to their product filing authorizing them to immediately use the forms in the newest member state. With a Commission approval, companies are now able to roll out standard product forms throughout their distribution network in 41 Compacting States for individual life, annuity, and disability income products and in 37 Compacting States for individual long-term care insurance products.

With the increase in Compacting States and Uniform Standards, the number of companies registering to file increased by 27% over the previous year to 167 small, medium, and large companies as well as fraternals representing a combined 75% of the asset-based premium volume nationwide. The number of products submitted to the Commission also increased to 744, an increase of 60% over 2011 filing volumes. Perhaps most impressive is that the Commission experienced a 98% retention of companies registering year over year in order to leverage the wide range of speed-to-market benefits and savings of filing with the Commission.

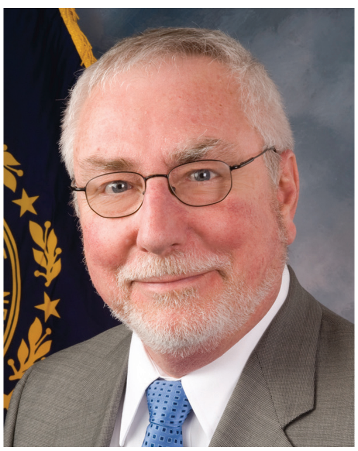
The Commission also reduced its overall average filing review times from 38 days in 2011 to 23 days in 2012 even with increased filing volumes. In 2012, the full effects and benefits of the investments made in additional reviewer resources in the Commission's product operations were realized by companies as they worked with our form reviewers and actuaries before making a filing to answer questions during their filing preparation and after making a filing to work through detailed objections to guide them to compliance. More tools for filers were released including interactive checklists, best practices guidance and a SERFF enhancement for mix-and-match filings.

The Commission also increased its communication to company filers, regulators and consumers by conducting more informational webinars and disseminating weekly filing tips. The Commission in coordination with the Massachusetts Division of Insurance held a Compact information day at the Department last fall for companies. The Officers are looking forward to working with additional states in the coming year as part of the Commission's outreach initiatives.

The Commission was also attentive to prudent fiscal management. We decided to restate the Commission's 2012 budget to reflect more realistic growth assumptions and to restructure the Commission's fees for 2013. This allowed us to simplify and diversify based on the type of filing and the company's asset-based premium volume size. We are pleased to report the Commission ended the year with actual revenues at 101% of budgeted revenues. By implementing a restructured fee schedule in 2013, the Commission will be able to grow its operating revenue at a reasonable rate to meet current operating expenses and prepare for future operational growth.

As we reflect on another year of success and positive growth, we want to thank all those who have worked so hard this year to further the ongoing development of the IIPRC, especially our Members and their staffs, state legislators, company filers, and consumer and industry representatives. We welcome your review of our accomplishments and ask for your continued support and participation as we move forward in developing strong Uniform Standards, welcoming more Compacting States, and encouraging increased industry utilization.

Roger A. Sevigny
Chair



Michael F. Consedine
Vice Chair

Joseph G. Murphy
Treasurer

John M. Huff
Past Vice Chair

LETTER FROM THE EXECUTIVE DIRECTOR

The Interstate Insurance Product Regulation Commission (Commission) demonstrated significant growth and improvements in 2012 by implementing and adopting additional Uniform Standards; welcoming another Compacting State; enhancing the product filing and review process; and increasing outreach to members and company filers. The Commission achieved several new benchmarks as more companies – new and repeat – leveraged the ability to prepare and submit one standard product filing for one review and approval in up to 41 Compacting States. With more companies experiencing the positive impact of a Commission approval in their product development and execution process, the Commission experienced tremendous growth in the number of registered companies and in the number of product submissions compared with the 2011 filing volumes.

In January 2012, Oregon began accepting Commission-approved products under all Uniform Standards. Companies with previously-approved products were rewarded as they simply had to update their filing to add Oregon to begin using these standard forms in one more Compacting State.

We consistently hear filers exclaim their excitement when they receive a Commission approval as it means they are 41 Compacting States closer to launch. As one filer explained, "the joy keeps spreading as the Commission-approval e-mail is distributed among compliance, actuarial, systems, administration, marketing and sales. We went from a few state approvals to 44 state approvals which is a dramatic leap in our filing statistics and great comfort as we contemplate the upcoming launch of our product."

The Commission implemented more product lines in 2012 for individual disability income products; and adopted its first Uniform Standards for employer/employee group term life products. With 86 Uniform Standards in effect as of the end of 2012, companies of all sizes had plenty of options for filing products with robust benefit features for individual life, annuities, long-term care, and disability income insurance products. We look forward to completing the Uniform Standards for employer/employee group term life products in the coming year and beginning development of other products.

The Commission also stayed responsive to its speed-to-market mission by making enhancements to its operations to facilitate the submission and review of compliant filings. In 2012, the Commission experienced the full effects and benefits of the investments made in reviewer resources as we saw a dramatic increase in overall turnaround times with an average review time of 23 review days for substantially-compliant product submissions.

The Commission and System for the Electronic Rate and Form Filing (SERFF) released a new tool to enable Commission filers to automate the upload of information into the Statement of Intent Schedule in a mix-and-match filing. Companies have been pleased with the time savings and dramatic reduction in manual data entry. As a result of this outreach, the Commission implemented several enhancements for outreach to include a new suggestion box on the web site to facilitate feedback; updates to Filing Information Notices and updates to SERFF submission requirements and the general instructions.

Working with the Officers and members to expand the Commission's outreach program the Commission participated in new industry conferences to promote the Compact and conducted informational webinars for specific groups – member regulators, filing companies, and consumers. Over the coming year, we will build upon this outreach by extending informational efforts to cover more groups, such as legislators in Compacting States, and more targeted subject areas.

On behalf the IIPRC team, we wish to acknowledge the support and dedication of the Commissioners and the many regulators in our Compacting States along with members of the Legislative Committee, our consumer and industry advisory committees, and others who participate in the Commission's ongoing development and achievements. We look forward to another year of achieving more benchmarks and milestones.

Karen Z. Schutter

Karen Z. Schutter
Executive Director

ABOUT THE IIPRC

The Interstate Insurance Product Regulation Compact (Compact) is an innovative vehicle formalizing the joint and cooperative action among compacting states, leveraging regulatory resources and expertise to establish Uniform Standards that strongly protect the interest of consumers and form the foundation of a central clearinghouse for prompt review of asset-based insurance products. The Interstate Insurance Product Regulation Commission (IIPRC) created by the Compact is a member-driven public entity, organized through a committee structure. The members develop and adopt the Bylaws, Budget, Uniform Standards, Rules, and Operating Procedures forming the foundation of the IIPRC's product filing operations. The IIPRC operates in an open and transparent process encouraging state legislators, consumers, industry representatives and any interested party the opportunity to be involved in the processes of the IIPRC.

MISSION: The Compact is a key state-based regulatory modernization initiative that enhances the efficiency and effectiveness of the way insurance products are filed, reviewed and approved in the United States. The Compact's new streamlined processes provide speed-to-market for the insurance industry, thus affording consumers quicker access to more competitive insurance products. By promoting uniformity through application of national product standards embedded with strong consumer protections, the Compact is meeting the demands of consumers, industry and regulators in the ever-changing, global financial marketplace.

BACKGROUND: The Compact has been adopted by 40 States and Puerto Rico to date, representing approximately 70% of premium volume nationwide. The Compact established a multi-state public entity, the IIPRC which serves as an instrumentality of the Member States. The IIPRC is the central point of electronic filing for asset-based insurance products, including life insurance, annuities, disability income, and long-term care insurance. By leveraging the insurance regulatory expertise of the states, the Compact is able to employ one set of uniform standards with the highest level of consumer protection on a national level through the Compact's collective framework. The Compact, funded by filing fees, implements its modernization goals without impinging on state budgets.

STATUS: In June 2007, the IIPRC became operational and received its first filings within one year of its establishment. The Compact has defined speed-to-market by providing final disposition in less than 60 days. Companies of all sizes - large, medium, and small - utilize the Compact's electronic filing platform to submit product filings using the adopted Uniform Standards. There are over 80 Uniform Standards in individual and group life, and individual annuity, long-term care, and disability income product lines adopted and available for filing use; additional standards are under development for group life and annuities. The first group life products have been adopted by the Compact – term life for employer groups. Throughout 2012, the IIPRC saw continued and significant growth with the number of registered companies and product filing submissions compared to the previous years.

KEY MILESTONES/PLANS:

- June 2006: Inaugural Meeting of the IIPRC in Washington, DC
- December 2006: First Uniform Life Standards Adopted by Members
- June 2007 Operations Initiated On-Target/First Insurer Filings Received
- July 2007: First Filings Approved in Under 30 Days
- Summer 2009: "Mix & Match" 2-Year Timeline Removed
- November 2010: Illinois Joins the Compact; 37 Member States
- December 2010: Individual Long-Term Care Uniform Standards in Effect for Filing
- January 2011: New Jersey Joins the Compact; 38 Member States
- Spring 2011: New Product Reviewer and Actuary Join IIPRC Team
- January 2012: Disability Income Standards in Effect; 41 Member States
- September 2012: Group Term Life Uniform Standards Adopted
- January 2013: Group Term Life Uniform Standards Eligible for Filing and Review

MEMBERSHIP (AS OF DECEMBER 31, 2012)

Jim L. Ridling
Commissioner, Alabama
Department of Insurance

Bret S. Kolb
Director, Alaska
Division of Insurance

Jim Riesberg
Commissioner, Colorado
Division of Insurance

Ralph T. Hudgens
Commissioner, Georgia
Office of Insurance &
Fire Safety Commissioner

Gordon Ito
Commissioner, Hawaii
Insurance Division

William W. Deal
Commissioner, Idaho
Department of Insurance

Andrew Boron
Director, Illinois
Department of Insurance

Stephen Robertson
Commissioner, Indiana
Department of Insurance

Susan Voss
Commissioner, Iowa
Division of Insurance

Sandy Praeger
Commissioner, Kansas
Insurance Department

Sharon P. Clark
Commissioner, Kentucky
Office of Insurance

James J. Donelon
Commissioner, Louisiana
Department of Insurance

Eric A. Cioppa
Superintendent, Maine
Bureau of Insurance

Therese Goldsmith
Commissioner, Maryland
Insurance Administration

Joseph G. Murphy
Commissioner, Massachusetts
Division of Insurance

R. Kevin Clinton
Commissioner, Michigan
Office of Financial and
Insurance Regulation

Mike Rothman
Commissioner, Minnesota
Department of Commerce

Mike Chaney
Commissioner, Mississippi
Insurance Department

John M. Huff
Director, Missouri
Department of Insurance

Bruce Ramge
Director, Nebraska
Department of Insurance

Scott J. Kipper
Commissioner, Nevada
Division of Insurance

Roger A. Sevigny
Commissioner, New Hampshire
Department of Insurance

Kenneth E. Kobylowski
Commissioner, New Jersey
Department of Banking
& Insurance

John Franchini
Superintendent, New Mexico
Division of Insurance

Wayne Goodwin
Commissioner, North Carolina
Department of Insurance

Mary Taylor
Lt. Governor & Director, Ohio
Department of Insurance

John Doak
Commissioner, Oklahoma
Department of Insurance

Lou Savage
Administrator, Oregon
Insurance Division

Michael F. Consedine
Commissioner, Pennsylvania
Insurance Department

Ramon Cruz-Colon
Commissioner, Puerto Rico
Department of Insurance

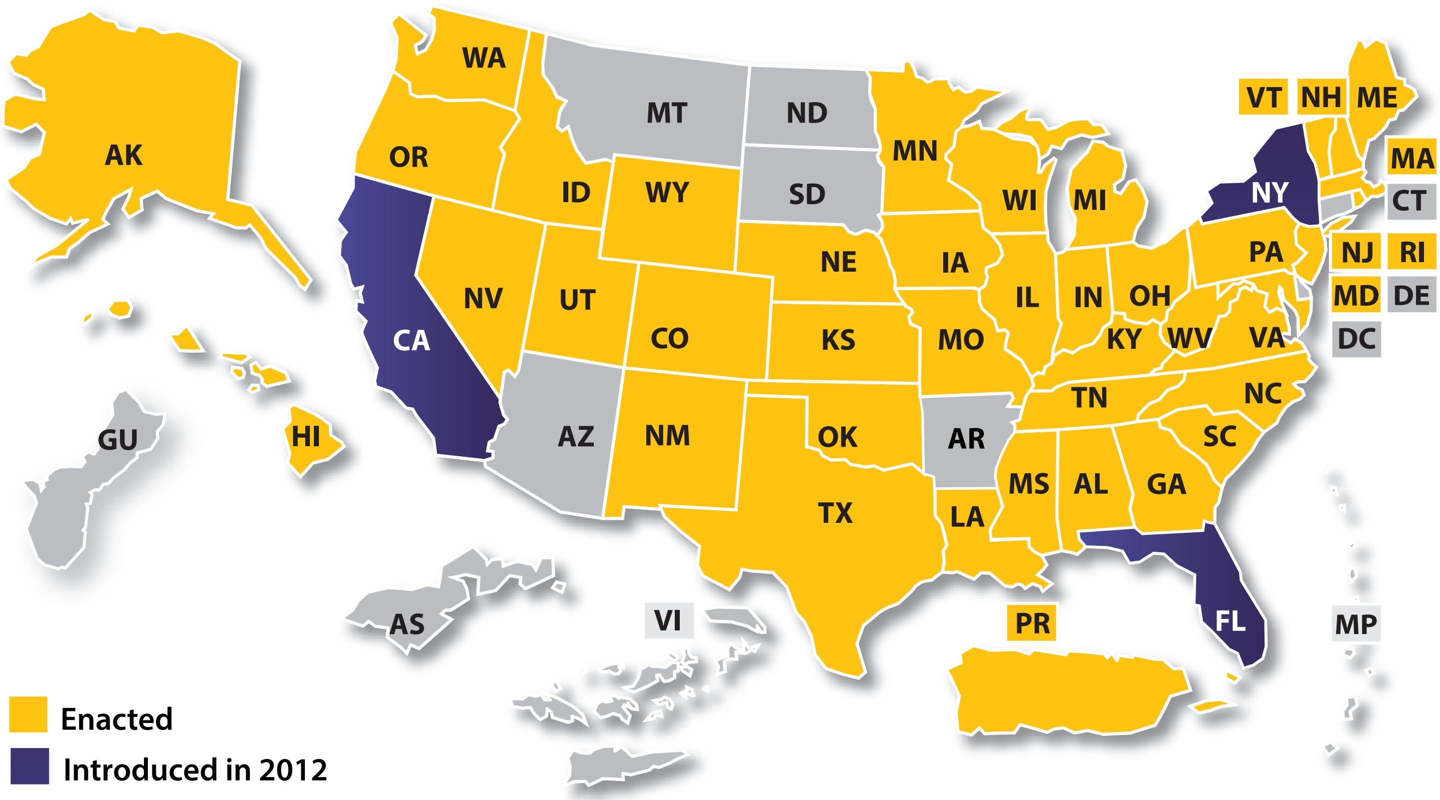
Joseph Torti, III
Superintendent, Rhode Island
Insurance Division

Raymond G. Farmer
Director, South Carolina
Department of Insurance

Julie Mix McPeak
Commissioner, Tennessee
Department of Commerce
and Insurance

Interstate Insurance Product Regulation Compact

As of December 31, 2012



Eleanor Kitzman
Commissioner, Texas Department of Insurance

Neal Gooch
Commissioner, Utah Department of Insurance

Susan L. Donegan
Commissioner, Vermont Division of Insurance

Jacqueline Cunningham
Commissioner, Commonwealth of Virginia State Corporation Commission, Bureau of Insurance

Mike Kreidler
Commissioner, Washington Office of the Insurance Commissioner

Michael D. Riley
Commissioner, West Virginia Offices of the Insurance Commissioner

Ted Nickel
Commissioner, Wisconsin Office of the Commissioner of Insurance

Tom C. Hirsig
Commissioner, Wyoming Department of Insurance

2011 Past Members who Served

Linda Hall
Alaska

Thomas B. Considine
New Jersey

Gwendolyn Fuller McGriff
South Carolina

Ken Vines
Wyoming

MANAGEMENT COMMITTEE

The Management Committee 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 at the Annual Meeting. 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.

Management Committee, 2012 – 2013

Roger A. Sevigny, New Hampshire, Chair
Michael F. Consedine, Pennsylvania, Vice Chair
Joseph G. Murphy, Massachusetts, Treasurer
Andrew Boron, Illinois
Therese Goldsmith, Maryland
R. Kevin Clinton, Michigan
John Huff, Missouri
Bruce Ramge, Nebraska
Kenneth Kobylowski, New Jersey
Mary Taylor, Ohio
Lou Savage, Oregon
Julie Mix McPeak, Tennessee
Eleanor Kitzman, Texas
Ted Nickel, Wisconsin

Management Committee, 2011 – 2012

Roger A. Sevigny, New Hampshire, Chair
John Huff, Missouri, Vice Chair
Michael F. Consedine, Pennsylvania, Treasurer
Ralph Hudgens, Georgia
Andrew Boron, Illinois
Therese Goldsmith, Maryland
R. Kevin Clinton, Michigan
Mike Rothman, Minnesota
Mike Chaney, Mississippi
Bruce Ramge, Nebraska
Thomas B. Considine, New Jersey
Mary Taylor, Ohio
Lou Savage, Oregon
Eleanor Kitzman, Texas

LEGISLATIVE COMMITTEE

Representative Robert Damron, Chair
Commonwealth of Kentucky

Senator Ruth Teichman, Vice Chair
State of Kansas

Representative Kurt Olson,
State of Alaska

Senator Rosalyn H. Baker,
State of Hawaii

Senator Delores Kelley,
State of Maryland

Senator Keith Faber,
State of Ohio

Representative Brian Patrick Kennedy,
State of Rhode Island

Representative Greg Wren,
State of Alabama

ADVISORY COMMITTEES

Consumer Advisory Committee

- American Association of Retired Persons (AARP)
  T. Ryan Wilson, Strategic Policy Advisor
- Center for Insurance Research
  Brendan Bridgeland, Policy Director and Staff Attorney
- NAIC Consumer Liaison Representative
  Sonja Larkin-Thorne, Consumer Representative

Industry Advisory Committee

- New York Life Insurance Company
  Tom English, Senior Vice President / Chief Insurance Counsel *
  Joe Muratore, Associate General Counsel #
- John Hancock Life Insurance Company (U.S.A)
  Marie Roche, Assistant Vice President, LTC Contracts and Legislative Services
- Symetra Life Insurance Company
  Jill Morgan, Insurance Compliance Manager
- Insured Retirement Institute (IRI)
  Lee Covington, V.P., Regulatory Affairs & Compliance
- American Council of Life Insurers
  Miriam Krol, Vice President - Long Term Care
- America's Health Insurance Plans
  Amanda Matthiesen, Senior Policy Director
- National Association of Insurance and Financial Advisors
  William Anderson, Vice President / General Counsel
- State Farm Insurance Companies
  Mary Keim, Manager – L/H Contracts & Compliance

* Member in 2011 – 2012
# Member in 2012 – 2013

COMMITTEE ACTIVITIES

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

The **Communications Committee** handles the outreach and communications agenda for the IIPRC. In 2012, the Communications Committee re-formed the Focus Group for the purpose of getting user feedback and other suggestions to make the product filing process smoother for filing companies.

2011-2012: Mike Chaney (MS), Chair; Joseph G. Murphy (MA), Vice Chair;
2012-2013: Mike Chaney (MS), Chair; Scott Kipper (NV), Vice Chair

The **Finance Committee** monitors the finances of the IIPRC including preparing the annual budget, reviewing the actual and projected revenues and expenses; and making recommendations regarding the filing fee structure. In 2012, the Finance Committee developed a new schedule of filing fees and worked closely with the IIPRC Office to manage short-term and long-term financial projections.

2011-2012: Joseph G. Murphy (MA), Chair; William W. Deal (ID), Vice Chair;
2012-2013: Joseph G. Murphy (MA), Chair; Bruce Ramge (NE), Vice Chair

The **Product Standards Committee** reviews and recommends uniform standards to the Management Committee starting with the draft uniform standards transmitted by the NAIC's National Standards (EX) Working Group. In 2012, the Product Standards Committee continued to meet weekly to review, draft and recommend uniform standards including uniform standards for group term life insurance for employer groups products.

2011-2012: Ted Nickel (WI), Chair; Mike Rothman (MN), Vice Chair;
2012-2013: Ted Nickel (WI), Chair; Therese Goldsmith (MD), Vice Chair

The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto. In 2012, the Rulemaking Committee initiated discussions on mix and match as well as the applicability of state requirements to Compact-approved products.

2011-2013: Jacqueline K. Cunningham (VA), Chair; Neal Gooch (UT), Vice Chair

The **Technology Committee** reviews and recommends any enhancements to the IIPRC filing platform within the NAIC's System for Electronic Rate and Form Filing (SERFF) as well as monitors the technology needs for the IIPRC.

2011-2013: Ted Nickel (WI), Chair; Lou Savage (OR), Vice Chair

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

2011-2012: Joseph Torti III (RI), Chair; Linda Hall (AK), Vice Chair
2012-2013: Joseph Torti III (RI), Chair; John Doak (OK), Vice Chair

UNIFORM STANDARDS

The IIPRC establishes Uniform Standards for asset-based products filed with the IIPRC. By the end of 2012, the IIPRC had adopted more than 80 very detailed Uniform Standards for individual life, annuity, long-term care, and disability income products; and 4 Uniform Standards for Group Term Life for Employer Groups. There are now 86 Uniform Standards adopted for both the individual and group product lines. The Uniform Standards drafting process is an open and inclusive process. After a careful review and comment period by the IIPRC's Product Standards Committee, the Management Committee exposes each draft uniform standard for a 60-day comment period on the Docket located on the IIPRC website. Comments regarding the proposed uniform standards are received from all interested parties to include the members of the Legislative Committee and the Industry Advisory and Consumer Advisory Committees. Upon adoption by the IIPRC (a minimum two-thirds vote in favor is required), a Uniform Standard is effective 90 days after promulgation. The Uniform Standards are moved to the Record located on the IIPRC website upon promulgation. These Uniform Standards are used by companies to prepare and submit a product filing which then undergoes an extensive, detailed review by the IIPRC's product review team.

Individual Annuity Products

- Deferred Variable Annuity
  - Single Premium
  - Modified Single Premium
  - Fixed Premium
  - Flexible Premium
  - Immediate
- Deferred Non-Variable Annuity
  - Single Premium
  - Modified Single Premium
  - Fixed Premium
  - Flexible Premium
  - Immediate

Annuity Benefit Features

- Waiver of Surrender Charges
- Tax Qualified Plans
- Index-Linked Crediting Features
- Bonus Features
- Market Value Adjustment Features
- Guaranteed Benefits
- Longevity Features

Individual Disability Income Products

- Disability Income Insurance
- Business Overhead Expense

Disability Income Benefit Features

- Long-Term
- Short-Term
- Combined Long-Term and Short-Term

Individual Life Products

- Term Life, Whole Life, Endowment
  - Single Premium
  - Joint Last-to-Die Survivorship
- Adjustable Life (Universal)
  - Single Premium
  - Joint Last-to-Die Survivorship
  - Flexible Premium (Adjustable)
  - Fixed/Indeterminate Premium

Life Benefit Features

- Accidental Death
- Accelerated Death
- Waiver of Premium
- Change of Benefits
- Underwriting Exclusions
- Index-Linked Crediting
- Intermediate Period Endowment (including Return of Premium)
- Graded Benefit

Individual Long-Term Care Products

- Home Care
- Home Health Care
- Nursing Home
- Assisted Living Care
- Adult Day Care
- Nursing Home & Home Care
- Nursing Home & Home Health Care

Long-Term Care Benefit Features

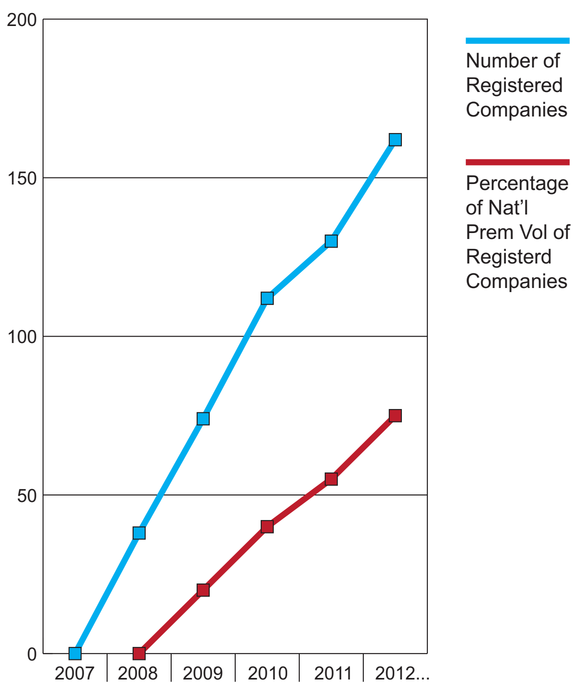
- Issue Age Rate Schedules
- Modified Rate Schedules

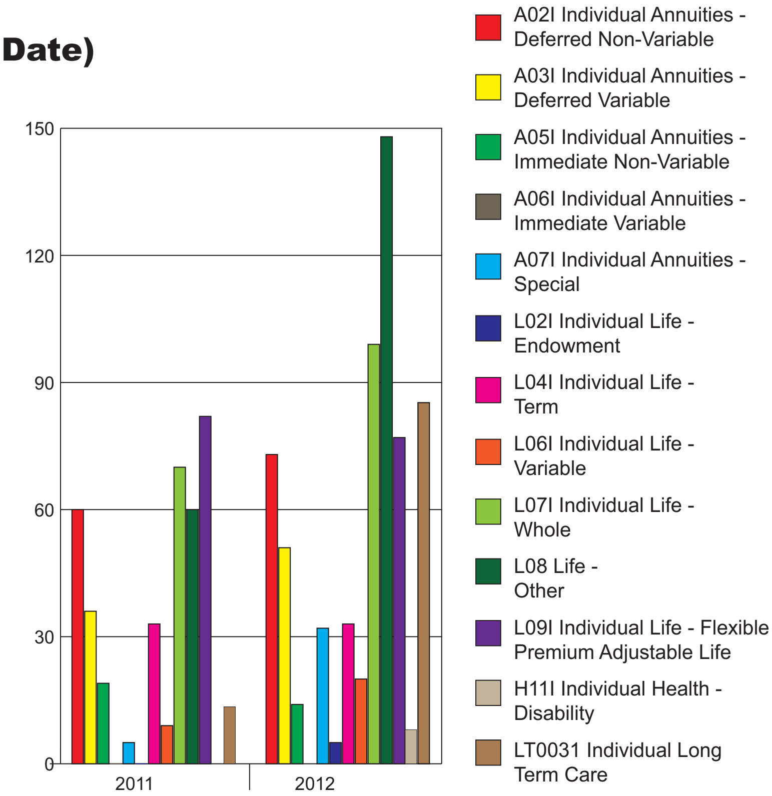
PRODUCT FILING STATISTICS (AS OF DECEMBER 31, 2012)

The tables below provide statistics on the product filings submitted to the IIPRC since first accepting product filings in June 2007 through December 31, 2012.

	2012	2011	2010	2009	2008	2007
Companies Registered	167	132	113	74	38	N/A
Filings received	744	464	368	244	106	36
Forms Submitted	2,595	1,588	1,456	1,314	395	113
Amended Filings	157	78	40	-	-	-
Products Approved	625	436	320	279	126	29
Transactions *	19,063	13,685	8,446	7,494	3,063	552
Approval Time (avg) **	23	38	42	28	25	35
Average # of states/filing	31	31	26	28	25	25
Mix & Match %	62%	63%	63%	75%	75%	100%
State filing fees collected	$1,728,081	$992,506	$ 735,683	$499,942	$139,910	$62,965
IIPRC filing fees	$407,788	$274,127	$ 225,442	$130,900	$68,730	$18,050

Historical Filing Data (Year To Date)





* "Transactions" refers to the total number of SERFF transactions that have been made through the IIPRC.
** The time for product approval is calculated utilizing business days and excludes the company response time to objection letters, as defined in §105 of the "Product Filing Rule".

PRODUCT FILING TRENDS
(AS OF DECEMBER 31, 2012)

- There are over 21 Types of Insurance (TOIs) available for filing using the 86 adopted Uniform Standards with more than 125 various sub-TOIs available.

- 1,815 products have been approved by the IIPRC to date since June 2007; which equates to MORE THAN 50,000 SERFF transactions.

- The TOI for the Product Filings submitted through SERFF for Compact Filings YTD:

  LIFE (61% of all filings received):
  - 37 % have been TOI – Other
  - 25 % have been Whole Life Products
  - 13 % have been Term Life Products
  - 19 % have been Flexible Premium Adjustable
  - 5 % have been Variable Life Products
  - 1 % have been Endowment Life Products

  ANNUITIES (26% of all filings received):
  - 43 % have been Deferred Non-Variable Annuity
  - 30 % have been Deferred Variable Annuity
  - 18 % have been Annuity - Special
  - 9 % have been Immediate Non-Variable Annuity

  LONG-TERM CARE (12% of all filings received)
  DISABILITY INCOME (1% of all filings received)

- Of the 2012 Registered Companies who have submitted filings in 2012:
  - 10% have filed 10 or more times
  - 24% have filed 5 or more times
  - 26% have filed 3 or more times
  - 11% have filed twice
  - 28% have filed once
  - 22% are first time filers with 39% of these filers submitting 3 or more filings in 2012
  - 98% of 2011 registered companies registered in 2012.

- There have been 7,461 forms submitted with product filing submissions. The average number of forms per filing is 4. In 2007, the most forms submitted in one product filing were 17; in 2010, the most forms submitted in a single submission were 63; in 2011, the most forms submitted in a single submission were 34; and in 2012, the most forms submitted in a single submission were 65.

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. McGladrey, LLP has not audited this information and expresses no opinion on the information contained herein.*

Introduction

The Interstate Insurance Product Regulation Commission (Commission) 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. While the Commission's 2012 Annual Report includes the independent auditors report with information on the actual financial results of the organization, this report, which is not a part of the annual external audit examination, is included to provide management's analysis of the organization's financial performance in relation to the previous year.

Financial Highlights

The Commission'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 and borrowings from the NAIC have resulted in a cash and cash equivalents balance of $403,851 as of December 31, 2012 compared to a balance of $421,955 at the end of 2011. Pursuant to the 2012 line of credit in the amount of $400,000 approved in March 2012, a draw of $250,000 occurred on October 1.

The Commission ended the year with accounts receivable of $9,650, $3,765 lower than the previous year, which represents registration and filings fees received on the last day of December 2012 that were satisfied by electronic payments on the first day of January 2013. Prepaid expenses are $705 lower than one year ago. This is due to a decrease in the premiums for insurance renewals in 2012 versus 2011. Other assets are the result of a supplemental executive retirement plan with the Executive Director with vesting of contributions for previous years occurring in July 2012.

Capital assets are $1,766 lower than one year ago due to the depreciation of capital assets purchased in previous years. Capital assets have been established for the costs associated with acquiring a SERFF version 5 license for Commission filings (computer software) and for necessary computer equipment for staff (computer hardware). The depreciation of $141,091 is mostly attributable to the depreciation of the SERFF license, which began June 1, 2007 with the Commission's first filings and became fully depreciated at May 31, 2010. Though fully depreciated, this asset remains on the balance sheet because it is still in service.

Liabilities are $128,151. This amount includes $18,275 in state fees collected on behalf of Missouri and Texas. These states do not currently accept remittance by electronic funds transfer. Also included is $19,983 due to the NAIC for operational expenses. The remaining balance is due to the timing of payments to vendors, employees, and consultants.

In 2012, the Commission received $304,440 in deferred revenues which was $16,060 lower than in 2011, due to the timing of when companies submit their fees for the following year's annual registration.

The net asset deficit presents a cumulative loss on operations of $2,941,055 and is the result of all revenues and expenses since inception. Operational losses are not uncommon for an organization with five years of revenue-generating activities especially one that is still implementing new product lines and state offerings and adding more resources. Management forecasts that Commission expects to generate revenue sufficient to cover operating expenses by 2015.

Statement of Revenues, Expenses and Changes in Net Assets

The IIPRC Terms and Procedures for IIPRC Filing Fees were adopted in September 2007. The Commission is a public entity and an instrumentality of its member states, it generates its revenue transactionally and not under any specific taxing authority. Revenue is earned when an insurance company registers with the Commission and submits product filings to the Commission through SERFF. In 2012, the annual registration fee was $5,000 per company and prorated to $2,500 per company as of July 1. The Commission charges filing fees for product filing submissions ranging from $250 to $1,000 depending on the type of filing. Regional companies who are filing in 12 or less compacting states pay a lower registration and per filing fee.

In March 2012, the Commission restated its 2012 operating budget reducing revenues by $185,000 with a proportional offsetting reduction in expenses of $185,000. The 2012 restated budget is the basis for the financial statement comparisons. Revenues were over budget by $15,011 or 1.4% for 2012.

Product filing fees were $407,788 in 2012 compared to $274,127 in 2011, representing a 49% percent increase over the previous year. Actual 2012 filing volumes of 744 product submissions exceeded 2011 filings volumes of 464 product submissions, representing an increase of 62% in filing volume compared to 2011. In 2012, Oregon began accepting Compact filings and the individual disability income Uniform Standards became effective. The average review days for product review and approval decreased from 38 days in 2011 to 23 days in 2012 due to an increase in reviewer resources and the availability of more compliance tools. In 2012, the Commission experienced positive growth in filing volumes from both repeat filers and new filers as more companies experienced the speed-to-market benefits of using the Commission.

Annual registration fees of $707,695 for 167 companies were earned in 2012 compared to a budget of $758,750 for 188 companies. The Commission budgeted to receive more regional company registrations and update-only registrations than it actually received in 2012. The under performance in the update-only category is directly related to the high retention rate of 98% of companies reregistering in 2012. During the same time period in 2011, total registration revenues were $596,250 with 132 registrations, representing an increase of 18.7% in revenues and an increase of 26.5% in the number of companies registered to file when compared to 2011. In 2012, the Commission modified its fee schedule for 2013 to attract small premium volume companies to register and file with the Commission.

Expenses ended the year under budget by $93,843 or 6.2% for 2012. Consultant services were amended effective May 1 for the part-time actuary creating a difference in budgeted expenses. The Commission did not fully utilize the amount budgeted for the following line items -- outside legal services; Commissioner and marketing travel; office supplies and meeting expenses. The Commission increased its utilization of informational webinars for members, industry, and consumers, which helped in part to reduce travel for marketing purposes.

On June 1, 2007, the Commission signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the Commission. The NAIC receives an annual administrative fee of $125,000 for these services. The Commission also pays an annual license/maintenance fee in the amount of $25,000 for the use of SERFF. Since inception, the Commission has engaged outside legal counsel for the establishment of its structural entity, preparation of bylaws, implementation of employee benefit plans, the review of governance matters and financing arrangements.

Debt

The note payable to the NAIC totals $2,950,139 as of the end of 2012. This is a $311,397 increase over the prior year due to the utilization of $250,000 of the 2012 line of credit and the capitalization of interest on the outstanding loan amount. The Commission has used lines of credit from the NAIC to fund operational needs since 2007. The resulting note payable carries an interest rate of 2.25% equal to the prime rate of 3.25% at January 1, 2010, the effective date of the debt restructure, less 1%. Principal and interest payments are deferred until the year following the year in which the Commission achieves a profit of $250,000 or an accumulated cash balance from operations of $500,000 excluding funds from draws. Outstanding interest is capitalized monthly. While a line of credit in the amount of $400,000 to cover expenses of the Commission in 2012 was approved at the NAIC 2012 Spring National Meeting, the Commission took a single $250,000 draw on October 1.

A request for an additional line of credit from the Commission in the amount of $250,000 for 2013 will be considered by the NAIC at its Spring National Meeting.

Economic Factors

The Commission accepted its first product filings in June 2007, and completed its fifth full calendar year of product filing review operations in 2012. The Commission generated $870,401 in filing and registration fees during 2011 and $1,115,511 in 2012. The Commission's revenues in 2012 represent an increase in revenues of 28% over 2011 and 61% over 2010, respectively. In 2013, the Commission received 167 company registrations from large, medium and small insurance companies and fraternals representing a combined 75% of the nationwide premium volume written for asset-based insurance products. These registered companies filed a combined 744 product filings with the Commission in 2013 helping it to achieve another record year in terms of registered companies and product filing submissions.

In 2012, the Commission experienced the full effects and benefits of the investments made in 2010 and 2011 in reviewer resources for the product operations with the addition of two form reviewers and a full-time actuary. Companies experienced much quicker response and overall turnaround times even as the Commission experienced a record number of company registrations and filings. The Commission also experienced its first full year of 41 Compacting States accepting Compact filings with the addition of New Jersey, Illinois, Alabama, and Nevada in 2011 and Oregon in January 2012. With the implementation of the individual disability income uniform standards in early 2012, the Commission has Uniform Standards for a wide variety of products and benefit features across all four individual insurance product lines – life, annuities, long-term care, and disability income.

In March 2012, the Commission restated its adopted budget to address the double-digit actual-to-budget deviation in previous years and to apply more realistic growth assumptions in light of actual revenue growth. The Commission restated the operating budget by reducing revenues and expenses by $185,000, respectively. The Commission ended the year with actual revenues at 101% of budgeted revenues.

In 2012, the Commission performed extensive analysis on its revenue-generating fee structure in consideration of its current and long-term operational cost structure and needs. Based on this analysis, the Commission modified its fee schedule for 2013 by creating a new fee category for smaller premium-volume companies (companies with $50,000,000 or less in asset-based premium volume 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). The Commission also amended and simplified its product filing fee structure to reflect the higher resource costs to the Commission for product filings that require actuarial review. The goal of the restructured fee schedule is to grow operating revenue at a reasonable rate to meet current operating expenses and to factor in the need for future operational growth.

In 2013, the Commission expects additional states will introduce and pass the Compact legislation and additional uniform standards for group insurance products will be implemented. The Commission anticipates that it will see a growth in companies registering for the first time and taking advantage of the ability to prepare one product filing submission for one approval in up to 41 Compacting States. The Commission also anticipates repeat filers will be increasing their filing activity with the Commission as they experience the full breadth of cost and administrative benefits in implementing standard forms across Compacting States.

Contacting the Commission’s Financial Management

This financial report is designed to provide a general overview of the Commission’s finances and to show accountability for the funds received in 2012 and 2011. Questions about this report and requests for additional financial information should be directed to Karen Schutter, IIPRC Executive Director, at (202) 471-3962.

AUDIT REPORT

McGladrey

INDEPENDENT AUDITORS' REPORT

To the Audit Committee
Interstate Insurance Product Regulation Commission
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the Interstate Insurance Product Regulation Commission (the IIPRC), which comprise the statement of financial position as of December 31, 2012, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of the IIPRC for the year ended December 31, 2011 were audited by other auditors whose report, dated February 17, 2012, expressed an unqualified opinion on those 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 audit. We conducted our audit 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 IIPRC as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey LLP

Kansas City, Missouri
March 7, 2013

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 403,851	$ 421,955
Accounts receivable	9,650	13,415
Interest receivable	2	2
Other assets	21,282	64,284
Prepaid expenses	4,682	5,387
TOTAL CURRENT ASSETS	439,467	505,043
LONG-TERM ASSETS:		
Property and equipment, net	2,208	3,974
TOTAL ASSETS	$ 441,675	$ 509,017
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 41,874	$ 70,257
Accrued expenses	64,995	57,199
Deferred revenue	304,440	320,500
Other liabilities	21,282	64,284
TOTAL CURRENT LIABILITIES	432,591	512,240
LONG-TERM LIABILITIES:		
Note payable to the NAIC	2,950,139	2,638,742
TOTAL LIABILITIES	3,382,730	3,150,982
NET DEFICIT:		
Unrestricted	(2,941,055)	(2,641,965)
TOTAL LIABILITIES AND NET DEFICIT	$ 441,675	$ 509,017

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2012 and 2011

	2012	2011
REVENUES:		
Annual registrations	$ 707,695	$ 596,250
Product filing fees	407,788	274,127
Interest income	28	24
TOTAL REVENUES	1,115,511	870,401
EXPENSES:		
Salaries	336,805	308,331
Employee benefits	83,393	80,872
Professional services	828,805	763,192
Travel	58,918	69,609
Rental and maintenance	5,223	3,867
Depreciation and amortization	1,766	1,481
Interest expense	61,397	52,294
Insurance	12,100	16,127
Office services	20,387	24,840
Meeting expenses	5,807	4,828
Recruiting	-	2,396
TOTAL EXPENSES	1,414,601	1,327,837
INCREASE IN NET DEFICIT	(299,090)	(457,436)
NET DEFICIT, BEGINNING OF YEAR	(2,641,965)	(2,184,529)
NET DEFICIT, END OF YEAR	$ (2,941,055)	$ (2,641,965)

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Increase) in net deficit		
Adjustments to reconcile changes in net deficit to net	$ (299,090)	$ (457,436)
cash flows from operating activities:		
Depreciation and amortization	1,766	1,481
Interest expense included in note payable	61,397	52,294
Changes in operating assets and liabilities:		
Accounts receivable	3,765	(12,865)
Interest receivable	-	(1)
Prepaid expenses	705	1,351
Accounts payable	(28,383)	42,278
Accrued expenses	7,796	19,658
Deferred revenue	(16,060)	142,900
NET CASH (USED IN) OPERATING ACTIVITIES	(268,104)	(210,340)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of capital assets	-	(5,299)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	-	(5,299)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from NAIC	250,000	400,000
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	250,000	400,000
NET INCREASE (DECREASE) IN CASH	(18,104)	184,361
CASH:		
Beginning	421,955	237,594
Ending	$ 403,851	$ 421,955

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of operations: The Interstate Insurance Product Regulation Commission (the IIPRC), formed in June 2006, is a multi-state 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 their expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products. As of both December 31, 2012 and 2011, the IIPRC had 41 member states.

Basis of accounting for revenues: The IIPRC earns revenue predominately through annual registration and product filing fees. Product filing fees are earned when insurance companies process filings through the National Association of Insurance Commissioners' (the NAIC) System for Electronic Rate and Form Filing (SERFF). The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. The IIPRC earns revenue when a filing received through SERFF is processed using standards established by the IIPRC for its member states. Annual registration fees are recognized as revenue through the registration period and are assessed at year-end as deferred revenue.

Basis of accounting and presentation: The financial statements of the IIPRC have been prepared on the accrual basis of accounting.

Use of estimates: 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 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 and cash equivalents: For purposes of the statement of cash flows, cash is considered to be cash on hand, bank checking accounts and money market funds.

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.

Property and equipment: Property and equipment consists of computer hardware and software and are stated at cost. Routine repairs and maintenance are expensed as incurred. Depreciation is computed by the straight-line method over the following useful lives:

Computer software	3 to 5 Years
Computer hardware	3 Years

Net deficit: At December 31, 2012 and 2011 net deficit consisted entirely of unrestricted net deficit.

Functional expenses: The Not-for-Profit Entities topic of the FASB ASC requires not-for-profit organizations to disclose expenses by functional classification. The IIPRC presents expenses only by their natural classification on the December 31, 2012 and 2011 statements of activities. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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. However, the IIPRC is subject to federal income tax on any unrelated business taxable income. The IIPRC is currently in the process of applying for and obtaining its tax exemption from the Internal Revenue Service. Uncertain tax positions, if any, are recorded in accordance with FASB ASC 740, *Income Taxes*. FASB 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, 2012 or 2011.

Note 2. Property and Equipment

	2012	2011
Hardware	$ 16,397	$ 16,397
Software	126,902	126,902
Total cost	143,299	143,299
Accumulated depreciation	(141,091)	(139,325)
Net property and equipment	$ 2,208	$ 3,974

Note 3. Other Assets

Other assets consist of a supplemental executive retirement plan with the Executive Director. This plan has been funded in its entirety by the IIPRC and the related liability is included in other liabilities on the December 31, 2012 and 2011 statements of financial position. Contributions to the plan totaled $20,000 for the years ended December 31, 2012 and 2011. The participant assumes all the risks and benefits associated with the losses and gains from the investments of the plan. Vesting is anticipated in July 2015.

Note 4. 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. Repayment of principal and interest is deferred until the last calendar date of the first quarter following the trigger date. The trigger date is 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; accumulated cash balance of at least $500,000 from operations, excluding funds from draws. As of December 31, 2012, the trigger date has not been achieved, and, as a result, the outstanding interest is included in the principal balance of the note. Following the trigger date, the note will mature in 60 months and bear interest at 2.25%, compounded monthly. Quarterly principal and interest payments will be due through maturity.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 4. Line of Credit From and Notes Payable to the NAIC (Continued)

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.

As is customary, both the note and line of credit described above contain certain events of default that, if triggered, allows the NAIC to call the remaining principal balance and all accrued interest for immediate payment.

An additional line of credit in the amount of $250,000 to cover expenses of the IIPRC for 2013 is on the agenda to be considered by the NAIC at the NAIC 2013 Spring National Meeting.

Note 5. 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 non-exclusive license to the SERFF system. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet 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 for the years ended December 31, 2012 and 2011. The IIPRC also pays an annual license and maintenance fee in the amount of $25,000 for the use of SERFF. 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 IIPRC are as follows:

	2012	2011
Administrative services provided by the NAIC	$ 125,000	$ 125,000
License fee paid to NAIC	$ 25,000	$ 25,000
Amounts payable to NAIC	$ 19,983	$ 38,798

Note 6. 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, 2012 and 2011, the IIPRC agreed to match up to 3.5% of compensation of employees who contribute to the plan and contributed 2% of all employees' annual compensation. The IIPRC made contributions of $15,712 and $12,796 for the years ended December 31, 2012 and 2011, respectively.

Note 7. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2012 through March 7, 2013. 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, 2012.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