Interstate Insurance Product Regulation Commission

States, Strength & Speed Aligned

ANNUAL REPORT 2007

In Memoriam

Dedicated to our friend and colleague,
Nebraska Insurance Director Tim Wagner
1942-2007

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Letter from the Officers

June 2008,

2007 was a banner year for the Interstate Insurance Product Regulation Commission!

We adopted national standards that were accepted by all 30 of our Members, opened our doors for business and approved more than a dozen initial product filings within our speed-to-market commitment of under 60 days.

We were fortunate to have the expert assistance of "seconded" or on-loan staff from our Member jurisdictions who have assisted in establishing our product review filing platform on the System for Electronic Rate and Form Filing (SERFF) and reviewed our first filings.

During 2007, we moved from a modernization concept to an operational reality. This truly is a testament to the ability of the states to work together to streamline the regulation of insurance while continuing to hold the bar high on consumer protection. The vision of state insurance regulators in partnership with our state legislators, allowed us to implement a truly innovative solution to a complex problem.

The National Association of Insurance Commissioners (NAIC) continued to support our mission by providing a line of credit to fund the Commission's expenses during the first phase of our operations. In September, the Commission adopted its filing-fees structure that will, in time, provide the self-generated fee revenue to fund our overall operating expenses and budget.

As new regulatory professionals and staff are brought on board, filings increase and more states join this successful modernization effort, we look forward to enhancing our product review operation as we build a state-of-the-art electronic filing platform with built-in consumer protections to meet the challenges of regulation in the global insurance marketplace.

We are pleased to present this 2007 Annual Report, which records our membership to date, sets forth our governance and operating structure, and provides the results of our Audit Report.

Jane L. Cline

Commissioner Jane Cline, West Virginia, Chair

Mary Jo Hudson

Director Mary Jo Hudson, Ohio, Vice Chair

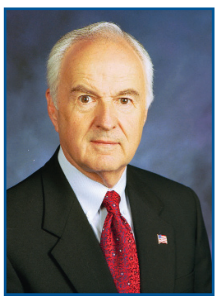
Glenn Wilson

Commissioner Glenn Wilson, Minnesota, Treasurer

IIPRC Officers

Commissioner Jane L. Cline
Chair
Offices of the Insurance Commissioner
West Virginia

Director Mary Jo Hudson
Vice Chair
Department of Insurance
Ohio



Commissioner Glenn Wilson
Treasurer
Department of Commerce
Minnesota

Commissioner Linda A. Watters
Past Vice Chair
Office of Financial and Insurance Services
Michigan

Letter from the Executive Director

June 2008

The Interstate Insurance Product Regulation Commission (IIPRC) had a highly successful year during 2007. With the on-time launch of our product-filing operations and the first life insurance product approvals, the IIPRC has begun to deliver on its Member states' speed-to-market commitment.

Under the mandate of the Interstate Insurance Compact, the IIPRC provides the central point of electronic filing for regulatory review under uniform standards for asset-based insurance products. By the first quarter of 2007, the first national standards for life insurance products were in filing effect. With the adoption of a Product Filing Rule by the end of the second quarter, the IIPRC opened the Compact filing platform on the System for Electronic Rate and Form Filing (SERFF). And, as Member states provided their regulatory expertise through secondments to the IIPRC, we were able to receive and review the first filings from insurers on target with the Members' plan to be operational by June 2007.

The IIPRC's initial start-up success was secured through the diligent efforts of our Members and their regulatory staff, state legislators and IIPRC advisory committees, along with the continued support of the National Association of Insurance Commissioners (NAIC).

In particular, I would like to thank the Member states of Nebraska, Ohio and Washington for affording the IIPRC the opportunity to work with their rate and form filing professionals. These secondments were key to our success in 2007.

The IIPRC continues to build upon our initial success -- enhancing our central, electronic filing platform and adopting new uniform standards with high-level consumer protections -- to meet the Compact's goals for more competitive insurance products which keep pace with consumer demands in the global marketplace.

We look forward to meeting the challenges of 2008 and beyond, as the IIPRC works to fulfill the mission of the Compact.

Frances Arricale
Executive Director

Left to Right: Frances Arricale, Director Hudson, Commissioner Cline, and Commissioner Wilson.

About the IIPRC

MISSION: The Interstate Insurance Compact (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 29 States and Puerto Rico to date, representing one-half of the premium volume nationwide. The Compact established a multi-state public entity, the Interstate Insurance Product Regulation Commission (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 standards with the highest level of consumer protection on a national level through the Compact's collective framework. To be funded by filing fees, the Compact implements its modernization goals without impinging on state budgets.

STATUS: Within one year of its establishment, the IIPRC brought its central product filing operations on-line and received its first filings from insurers in June 2007. The Compact defines its speed-to-market mandate by providing a 60-day turnaround time for Compact filings. The initial Compact filings were reviewed and approved in under 30 days. The IIPRC continues to receive initial filings from large, medium and small sized insurers as companies begin to assess the Compact's new national standards which took effect in 2007. During its continued operational start-up, the IIPRC is working to build the highest-caliber, modern electronic product filing platform to meet the increasing Compact filings anticipated as the IIPRC completes its operational build-out in 2008.

KEY MILESTONES/PLANS:

- June 2006: Inaugural Meeting of the IIPRC in Washington, DC
- December 2006: First Uniform Life Standards Adopted by Members
- May 2007: 30 Member States/One-half of National Premium Volume
- June 2007: Operations Initiated On-Target/First Insurer Filings Received
- July 2007: Two (2) Initial Filings Approved in Under 30 Days
- September 2007: Compact Filing Fees Implemented
- October 2007: Compact Continues to Receive Initial Filings from Insurers
- December 2007: Planned Expansion of Filing Platform/Operations and Staffing
- *January 2008: 36 Standards Effective/Increased Filings Volume Expected/ Additional States Anticipated to Join Compact*

Highlights

PRODUCT REGULATION COMMISSION
NORTH CAROLINA
INTERSTATE INSURANCE
PRODUCT REGULATION COMMISSION
OKLAHOMA
States, Strength & Speed Aligned
WYOMING

Membership

As of December 31, 2007

Linda Hall
*Director, **Alaska***
Division of Insurance

Marcy Morrison
*Commissioner, **Colorado***
Division of Insurance

John Oxendine
*Commissioner, **Georgia***
Department of Insurance

Shelley Santo
*Special Designee, **Hawaii***
Insurance Division

William Deal
*Director, **Idaho***
Department of Insurance

Jim Atterholt
*Commissioner, **Indiana***
Department of Insurance

Susan Voss
*Commissioner, **Iowa***
Division of Insurance

Sandy Praeger
*Commissioner, **Kansas***
Insurance Department

Julie McPeak
*Executive Director, **Kentucky***
Office of Insurance

Eric Cioppa
*Acting Superintendent, **Maine***
Bureau of Insurance

Ralph Tyler
*Commissioner, **Maryland***
Insurance Administration

Nonnie Burnes
*Commissioner, **Massachusetts***
Division of Insurance

Ken Ross
*Acting Commissioner, **Michigan***
Office of Financial and Insurance Services

Glenn Wilson
*Commissioner, **Minnesota***
Department of Commerce

Ann Frohman
*Director, **Nebraska***
Department of Insurance

Roger Sevigny
*Commissioner, **New Hampshire***
Department of Insurance

Jim Long
*Commissioner, **North Carolina***
Department of Insurance

Mary Jo Hudson
*Director, **Ohio***
Department of Insurance

Kim Holland
*Commissioner, **Oklahoma***
Insurance Department

Joel Ario
*Acting Commissioner, **Pennsylvania***
Insurance Department

Dorelisse Juarbe Jiménez
*Commissioner, **Puerto Rico***
Department of Insurance

Joseph Torti, III
*Superintendent, **Rhode Island***
Insurance Division

Leslie A. Newman
*Commissioner, **Tennessee***
Department of Commerce and Insurance

Mike Geeslin
*Commissioner, **Texas***
Department of Insurance

D. Kent Michie
*Commissioner, **Utah***
Department of Insurance

Paulette Thabault
*Commissioner, **Vermont***
Division of Insurance

Alfred W. Gross
*Commissioner, **Virginia***
State Corporation Commission, Bureau of Insurance

Mike Kreidler
*Commissioner, **Washington***
Office of the Insurance Commissioner

Jane Cline
*Commissioner, **West Virginia***
Offices of the Insurance Commissioner

Ken Vines
*Commissioner, **Wyoming***
Department of Insurance

Management Committee

Management Committee 2007- 2008
Jane Cline (WV), Chair
Mary Jo Hudson (OH), Vice Chair
Glenn Wilson (MN), Treasurer
Joel Ario (PA)
Jim Atterholt (IN)
Nonnie Burnes (MA)
William Deal (ID)
Mike Geeslin (TX)
Alfred W. Gross (VA)
Kim Holland (OK)
Jim Long (NC)
John Oxendine (GA)
Paulette Thabault (VT)
Linda Watters (MI)

The Management Committee is comprised of 14 Members representing three tiers of the premium volume nationwide. 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 six (6) compacting states with the largest premium volume. The second tier is comprised of four (4) Members from compacting states with at least 2% of the market share based on the premium volume and are selected on a rotating basis at the Annual Meeting. The third tier is comprised of four (4) Members who represent compacting states with less than 2% of the premium volume and are elected from each of the NAIC Zones.

Management Committee	Zone	Tier
Texas	W	1
Pennsylvania	NE	1
Ohio	MW	1
Michigan	MW	1
North Carolina	SE	1
Massachusetts	NE	1
Virginia	SE	2
Georgia	SE	2
Minnesota	MW	2
Indiana	MW	2
Vermont	NE	3
West Virginia	SE	3
Oklahoma	MW	3
Washington	W	3

Member Committees

Audit Committee

Kent Michie (UT), Chair
Joseph Torti, III (RI), Vice Chair
Linda Hall (AK)
Susan Voss (IA)
Julie McPeak (KY)

Rulemaking Committee

Paulette Thabault (VT), Chair
Joel Ario (PA), Vice Chair
Shelley Santo (HI)
Nonnie Burnes (MA)
Glenn Wilson (MN)
Mary Jo Hudson (OH)
Kim Holland (OK)
Joseph Torti, III (RI)
Kent Michie (UT)
Alfred W. Gross (VA)
Mike Kreidler (WA)
Jane Cline (WV)

Product Standards Committee

Roger Sevigny (NH), Chair
Mike Geeslin (TX), Vice Chair
Sandy Praeger (KS)
Nonnie Burnes (MA)
Glenn Wilson (MN)
Mary Jo Hudson (OH)
Kim Holland (OK)
Joel Ario (PA)
Kent Michie (UT)
Paulette Thabault (VT)
Alfred W. Gross (VA)
Mike Kreidler (WA)
Ken Vines (WY)

Technology Committee

Mary Jo Hudson (OH), Chair
Susan Voss (IA), Vice Chair
John Oxendine (GA)
Linda Watters (MI)
Jim Long (NC)
Julie McPeak (KY)
Ralph Tyler (MD)

Communications Committee

Kim Holland (OK), Chair
Ralph Tyler (MD), Vice Chair
John Oxendine (GA)
William Deal (ID)
Jim Atterholt (IN)
Linda Watters (MI)
Dorelisse Juarbe Jiménez (PR)
Mike Geeslin (TX)

Finance Committee

Ann Frohman (NE), Chair
Nonnie Burnes (MA), Vice Chair
Marcy Morrison (CO)
William Deal (ID)
Eric Cioppa (ME)
Glenn Wilson (MN)
Jim Long (NC)

Legislative Committee

Representative Robert Damron, Chair
Commonwealth of Kentucky

Senator Delores Kelley, Vice Chair
State of Maryland

Senator Ralph Hudgens
State of Georgia

Representative Brian Patrick Kennedy
State of Rhode Island

Representative Mike Ripley
State of Indiana

Representative Larry Taylor
State of Texas

Senator Ruth Teichman
State of Kansas

Advisory Committees

Consumer Advisory Committee

Rod Bordeland, Office of the Public Insurance Counsel, State of Texas

Brendan Bridgeland, Center for Insurance Research

T. Ryan Wilson, AARP

Industry Advisory Committee

Steve Buhr, AEGON

Tom English, New York Life Insurance Company

Michael Gerber, National Association of Insurance and Financial Advisors

Dennis Herchel, Massachusetts Mutual Life Insurance Company

Nancy Johnson, UNUM

Michael Lovendusky, American Council of Life Insurers

Randi Reichel, America's Health Insurance Plans

Gary Sanders, Association of Health Insurance Advisors

Consumer Protection

Throughout the development of the Compact, there have been questions raised about the adequacy of consumer protection under its processes -- including the basis for its operation, delegation of authority, rights and remedies, and status of the IIPRC. The guiding mission of the Compact directly stated in the actual enabling language of the Insurance Compact Model Statute is to promote and protect insurance consumers, as has been the hallmark of state insurance regulation for over a century. By leveraging the expertise and commitment of the state-based regulatory system into a new national approach, the Compact brings high-caliber consumer protection under uniform standards to the nation's consumers to keep pace with the evolving, global insurance marketplace.

The following provides answers to frequently asked questions about the Interstate Insurance Compact concerning its consumer protection mission:

- ***What is the basis for the Interstate Insurance Compact to operate?***
  Interstate compacts have been a part the U.S. system since its founding and are specifically mentioned in the U.S. Constitution. Originally utilized to handle state border issues, compact use has expanded over the recent decades to allow states to act collectively and within their sovereign capacity to manage issues of national concern. Every state belongs to at least one compact. An interstate compact is a contract among member states and also becomes a part of a state's administrative law once enacted by legislative action. The Interstate Insurance Compact became operational in June 2006 when its threshold of 26 states adopted the Insurance Compact Model Statute into the respective state law of its membership. The mission of the Interstate Insurance Compact encapsulated in its Model Statute is to promote and protect consumers while developing a streamlined product review process under uniform standards in order to modernize state-based regulation.

- ***Is the Delegation of Authority from a State to the Interstate Insurance Compact permissible?***
  As state legislatures routinely assign powers to administrative agencies, the delegation of the regulatory function of insurance product review to an interstate compact is permissible in the same manner that states delegate regulatory functions to their respective insurance departments. The Interstate Insurance Compact created the Interstate Insurance Product Regulation Commission (IIPRC) to carry out its functions, and the Compact delegates no more powers to the IIPRC than those which are legally entrusted to state insurance departments. The delegation of authority to the IIPRC is specifically defined in its Statute and Bylaws. Its daily operation within the parameters of its specific authority is conducted with regular oversight by its Member state insurance regulators and Member state legislators. Consistent with the proper functioning of a delegation of authority, member states may opt-out of the Compact and/or opt-out of specific uniform standards promulgated by the Compact; thus, a member state always retains its regulatory authority. Additionally, the IIPRC provides only the central clearinghouse for product review on behalf of its membership; all market conduct/compliance activities remain with the member state insurance departments.

Consumer Protection

- ***How will the Compact raise product standards and consumer protection?***
  The standard-setting process in the Compact engages the collective expertise of the Member insurance departments as well as seeks the input of the greater state insurance regulatory community through the National Association of Insurance Commissioners (NAIC). The Compact also actively seeks comments and concerns from state legislative representatives, consumers, industry, and the general public to inform its process in order to promulgate high-level standards. All proposed standards and actions of the Compact are noticed to the public and are posted via the Compact's website on a daily basis at www.insurancecompact.org.

- ***How do consumers participate in the Compact?***
  The Compact Statute directs the establishment of an advisory committee for consumer representatives which provides feedback on the Compact's uniform standards, rules, and operating procedures. This committee serves as a formal mechanism for consumer representatives to monitor the operations of the Compact and to make recommendations; however, all consumer advocates and the general insurance-buying public are encouraged to participate in the standard-setting process at the Compact.

- ***How are the rights and remedies of consumers impacted for products approved by the Compact?***
  All rights and remedies afforded to consumers under the state-based regulatory system remain in tact under the Interstate Insurance Compact. The Compact Statute specifically preserves the rights of state insurance regulators over market conduct issues and to pursue appropriate regulatory and enforcement actions; the rights of consumers to pursue existing contract; tort and other remedies against insurers and agents; and the rights of state attorneys general to enforce consumer protection laws.

- ***How will the Compact be funded?***
  As stated in the Compact Statute, the IIPRC is to be financed by filing fees paid by insurers. There is no fiscal impact on state budgets as the IIPRC remits member state filing fees due on Compact filings to the states.

- ***What is the status of the Interstate Insurance Product Regulation Commission ("IIPRC")?***
  The IIPRC is an instrumentality of its member states, functioning as a public entity, not a private corporation. It is managed by a 14-member Management Committee of state officials, following government protocols, including Governmental Accounting Standards Board (GASB). Its operates with a daily commitment to transparency, as all Management Committee and Commission meetings are open to the public; all decision-making processes are noticed for public comment; and all actions are posted to the IIPRC web site.

Speed-To-Market Platform

The ***Interstate Insurance Product Regulation Commission*** (IIPRC) enhances the efficiency and effectiveness of the way life insurance, annuities, disability income, and long-term care insurance products are reviewed and approved.

The IIPRC leverages state regulatory expertise in developing uniform national product standards, providing uniformity and speed-to-market with a high level of consumer protection.

Uniformity...Speed-to-Market

- Utilize SERFF to submit multi-state filings to the IIPRC. Submit one filing under one set of uniform standards for one approval, valid in all of the Compact States.
- Take advantage of the 60-day product review decision turn-around time.

Convenience...One-Stop Filing

- There is an IIPRC Annual Registration Fee of $5,000 per company, pro-rated if a company registers mid-year.
- The IIPRC collects a $500 per Product Filing Fee, per company. Individual state filing fees are unchanged and are collected by the IIPRC on behalf of the states.

Take These First Steps Toward Filing

- Sign-up to use SERFF and EFT by contacting the SERFF Marketing Team at *serffmktg@naic.org*.
- Pay the IIPRC Annual Registration Fee.
- Take advantage of speed-to-market filing with the IIPRC via SERFF.

www.insurancecompact.org
www.serff.com

IIPRC Office

Frances Arricale
Executive Director

Sara Bamford
Administrative Coordinator

444 North Capitol Street, NW, Suite 701
Hall of the States
Washington, DC 20001-1509

(202) 471-3962
fax (816) 460-7476

www.insurancecompact.org
comments@insurancecompact.org

The Executive Director would like to extend a particular note of appreciation to our Product Review Secondees during 2007: David Morris (NE), Pete Weber (OH), and Erica Brownell (WA) for their time and expertise which contributed to our success in 2007; to the NAIC staff who work with the IIPRC on a daily basis; and to Sara Bamford for her diligent efforts in the set-up of the IIPRC Office during 2007.


Interstate Insurance
Product Regulation Compact
States, Strength & Speed Aligned

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

FINANCIAL STATEMENTS

December 31, 2007 and 2006

Audit Report

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INDEPENDENT AUDITOR'S REPORT

To the INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

We have audited the accompanying balance sheet of the Interstate Insurance Product Regulation Commission (the "IIPRC") as of December 31, 2007 and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the IIPRC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the IIPRC as of December 31, 2006 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated May 31, 2007.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Interstate Product Regulation Commission as of December 31, 2007, and the changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Leawood, Kansas
March 12, 2008

Mayer Hoffman McCann P.C.

Interstate Insurance Product Regulatory Commission
Management's Discussion and Analysis
Years Ended December 31, 2007 and 2006

Introduction

This discussion and analysis of the financial performance of the Interstate Insurance Product Regulatory Commission (the "IIPRC") provides management's overview of the financial activities for the years ended December 31, 2007 and 2006. It should be read in conjunction with the accompanying financial statements. The IIPRC 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.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the IIPRC's three basic financial statements—a balance sheet, listing assets, liabilities, and net assets or ownership; a statement of revenues, expenses and change in net assets (deficit), showing operating performance in terms of revenues, expenses, and the resulting change in net assets; and a statement of cash flows, summarizing the use of funds from the National Association of Insurance Commissioners (NAIC). The IIPRC is accounted for as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB) and presents its financial statements using the accrual basis of accounting.

Financial Highlights

Balance Sheets
In June 2006, the IIPRC approved the use of the NAIC's System for Electronic Rate and Form Filings (SERFF) as the central filing point for IIPRC transactions. A capital asset of $126,902 was established in 2006 for the costs associated with acquiring a SERFF v5 license. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF system to meet IIPRC requirements, such as the establishment of a multistate product filing platform in conformity with the requirements of the IIPRC adopted by its member states, the required collection and remission of member state filing fees, and the submission of Compact fees. Amortization, the allocation of the cost of this asset over its estimated three year useful life, began in 2007 with the receipt of the first IIPRC filing reducing the stated value of this asset to $103,756.

Accounts payable decreased significantly from 2006. During initial business operations set up in 2006, the NAIC incurred expenditures on behalf on the IIPRC creating a liability to the NAIC for the reimbursement of these expenditures. This liability was relieved in March 2007. Repayments for expenditures made by the NAIC on behalf of the IIPRC are now settled monthly.

Net assets present a loss on operations of $227,390. Net assets are the result of all revenues and expenses since inception. The presentation of a loss in 2007 indicates the full consumption of the $500,000 grant from the NAIC in 2006. Operational losses are not uncommon for an organization with only 19 months of operations, including a 16 month delay in the receipt of revenue generating transactions.

Statements of Revenues, Expenses and Change in Net Assets
The IIPRC adopted of a $500 per filing fee on September 10, 2007. Revenue is earned when an insurance company processes filings through the SERFF using standards established by the IIPRC for its member states. Since the adoption of the filing fee rate, 36 assessment filings have been received.

The growth in salaries expense in 2007 represents efforts to build a full compliment of staff. In December 2006, the executive director was hired, followed by an administrative staff person to handle general office functions in late February 2007. In mid-2007, two analysts were secured via a secondment arrangement with state departments of insurance at no cost to the IIPRC. This arrangement continued until January 2008 with the contracting of a development consultant and a product review consultant.

Employee benefits, including payroll taxes and employee health care coverage, increased in 2007 due to the hiring of staff in late 2006 and early 2007.

Professional services include fees for services from the NAIC, outside legal counsel, and the annual external audit. On June 1, 2007 the IIPRC signed a services agreement with the NAIC to provide certain administrative, technical, staffing, and accounting services to the IIPRC during its continued start-up. The NAIC receives an administrative fee of $100,000 for the first year of this agreement and $125,000 for the second. The IIPRC also pays an annual license/maintenance fee in the amount of $25,000 for the use of SERFF. Since inception, the IIPRC 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 its financing arrangements.

Depreciation and amortization expense represents the allocation of the cost of acquiring the SERFF v5 license over the estimated three year useful live of the asset and began in 2007 with the receipt of the first IIPRC filing.

Interest expense includes accrued interest on amounts drawn under the NAIC line of credit.

Meeting expenses include the cost of meeting rooms, food and beverage service, audio visual, and other costs related to meetings of the IIPRC. The nature of IIPRC meetings in the initial six months of the operation required substantially more face to face meetings than in 2007.

Recruiting expenses are for the recruitment and relocation of the executive director.

A $500,000 grant from the NAIC to fund the IIPRC's initial start up costs was the sole source of income for 2006.

Debt

On June 1, 2007, a Line of Credit Agreement with the NAIC was executed. This agreement made available to the IIPRC a line of credit not to exceed $550,000, with an interest rate equal to the Prime Rate on the date an advance is made minus 100 basis points, compounded monthly. Repayment is amortized over 60 months and begins the first day of the first calendar quarter following the date twelve months after the date of the initial advance of funds. The total of all accrued and unpaid interest at this time plus all advances of funds will become the outstanding principal amount.

An advance of $250,000 was drawn in June and another in the amount of $300,000 occurred in late October. Repayment begins approximately one year from the date of the initial advance. Two payments of approximately $33,000 each will be due in 2008. The first, on July 1, includes accrued interest of $9,969. The second payment is due on October 1, with accrued interest of $9,410.

Economic Factors

The IIPRC initiated its product filing review operations in June 2007 with the adoption of its relevant operating procedures by the IIPRC membership. Initial filings were received during 2007 as insurers began to assess the newly-adopted Uniform Standards in the life insurance product line. The IIPRC is authorized under its statute to charge transaction fees to cover its operating expenses and annual budget; and its fee structure was adopted in September 2007 with the initial implementation of a $500 per submission filing fee during that time. The IIPRC generated $18,050 in fees during 2007. The IIPRC also adopted an Annual Registration Fee to take effect on January 1, 2008.

During 2007, the IIPRC continued work on developing new Uniform Standards as it is authorized to review product filing submissions in the life insurance, annuities, disability income, and long-term care insurance lines. Two additional states joined the IIPRC in 2007, bringing the total membership to 30 jurisdictions, representing half of the premium volume in its authorized product lines nation-wide.

With additional state memberships expected, new Uniform Standards adoptions, and the expansion of its product filing platform on SERFF, it is anticipated that the practical volume of filings submitted by insurers will increase significantly so that transaction fee revenue also will increase to cover operating expenses. During the continued build-out of the IIPRC operations in 2008, the NAIC by agreement with the IIPRC has agreed to extend an additional line of credit of not to exceed $850,000 under similar repayment terms as its 2007 line of credit.

Contacting the IIPRC's Financial Management

This financial report is designed to provide a general overview of the IIPRC's finances and to show accountability for the funds received in 2007 and 2006. Questions about this report and requests for additional financial information should be directed to Frances Arricale, IIPRC Executive Director at (202) 471-3962.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

BALANCE SHEETS

December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 259,786	$ 482,265
Accounts receivable	9	-
Interest receivable	842	-
Prepaid expenses	3,715	1,100
TOTAL CURRENT ASSETS	264,352	483,365
CAPITAL ASSETS, NET	103,756	126,902
TOTAL ASSETS	$ 368,108	$ 610,267
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	$ 16,559	$ 313,380
Current portion of note payable to the NAIC	46,494	-
Accrued expenses	28,939	16,016
TOTAL CURRENT LIABILITIES	91,992	329,396
Note payable to the NAIC, less current portion above	503,506	-
TOTAL LIABILITIES	595,498	329,396
NET ASSETS (DEFICIT)		
Unrestricted	(227,390)	280,871
TOTAL LIABILITIES AND NET ASSETS	$ 368,108	$ 610,267

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT)

For the Year Ended December 31, 2007 and the Period from
June 13, 2006 (Inception) to December 31, 2006

	2007	2006
REVENUES		
Assessment fees	$ 18,050	$ -
Interest income	6,699	-
Total revenues	24,749	-
EXPENSES		
Salaries	229,409	15,300
Employee Benefits	27,207	1,470
Professional Services	143,362	34,924
Travel	37,290	20,868
Rental and maintenance	30	65
Depreciation	24,867	-
Interest expense	13,619	-
Insurance	9,638	1,374
Office services	26,342	19,593
Meeting expenses	3,699	48,777
Relocation	17,547	76,758
TOTAL EXPENSES	533,010	219,129
LOSS FROM OPERATIONS	(508,261)	(219,129)
GRANT FROM THE NAIC	-	500,000
CHANGE IN NET ASSETS (DEFICIT)	(508,261)	280,871
NET ASSETS, BEGINNING OF YEAR	280,871	-
NET ASSETS (DEFICIT), END OF YEAR	$ (227,390)	$ 280,871

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2007 and the Period from
June 13, 2006 (Inception) to December 31, 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 18,050	$ -
Interest received	5,857	-
Cash payments to suppliers and employees	(667,763)	(17,735)
NET CASH FLOWS FROM OPERATING ACTIVITES	(643,856)	(17,735)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of capital assets	(1,721)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of accounts payable used to finance the purchase of capital assets	(126,902)	-
Borrowings under NAIC line of credit	550,000	-
Cash receipts from NAIC contribution	-	500,000
NET CASH FLOWS FROM FINANCING ACTIVITIES	423,098	500,000
CHANGE IN CASH AND CASH EQUIVALENTS	(222,479)	482,265
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	482,265	-
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 259,786	$ 482,265
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	$ (508,261)	$ (219,129)
Adjustments to reconcile net loss from operations to net cash flows from operating activities		
Depreciation and amortization	24,867	-
Changes in operating assets and liabilities		
Accounts receivable	(9)	(1,100)
Interest receivable	(842)	-
Prepaid expenses	(2,615)	-
Accounts payable	(169,919)	186,478
Accrued expenses	12,923	16,016
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ (643,856)	$ (17,735)
Supplemental Cash Flow Information		
Capital assets acquired through accounts payable	$ -	$ 126,902

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATORY COMMISSION

NOTES TO FINANCIAL STATEMENTS

(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 purchases of asset protection insurance products. As of December 31, 2007 and December 31, 2006, the IIPRC had 30 and 28 member states, respectively.

The IIPRC earns revenue predominately through transactions fees. Transaction fees are earned when insurance companies process transactions through the National Association of Insurance Commissioners' (NAIC) System for Electronic Rate and Form Filings (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.

Basis of accounting and presentation – The financial statements of the IIPRC have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions (grant from the NAIC) are recognized when requirements are met. The IIPRC first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The IIPRC prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the IIPRC applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Capital assets – Capital assets consist of computer hardware and software and are stated at cost. Depreciation is computed by the straight-line method over the following useful lives:

Description	Estimated Useful Lives
Computer software	3-5 Years
Computer hardware	3 Years

Use of estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(1) Summary of significant accounting policies (continued)

Compensated absences – Compensation for future vacation and sick leave and deferred compensation are accrued as earned. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

Risk management – The IIPRC is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims.

Net assets – As noted previously, in the government-wide statements, equity is classified as net assets, which are described as follows:

a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

b. Unrestricted net assets – All other net assets that do not meet the definition of “invested in capital assets, net of related debt.”

Income tax provision – The IIPRC has been organized as a joint-cooperative of the compacting states, the IIPRC is generally exempt from federal and state income taxes. However, the IIPRC is subject to federal income tax on any unrelated business taxable income.

Reclassifications – Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

(2) Cash flow disclosures

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 markets. The IIPRC maintains cash balances in financial institutions in excess of FDIC insurance limits. Management believes the risk of loss associated with these accounts is negligible and the IIPRC has not experienced any losses in the past.

Concentration of credit risk – All IIPRC deposits are held by UMB Bank, n.a. Cash in excess of current obligations is invested in an interest bearing money market account.

(3) Capital assets

2006	Beginning Balance	Additions	Ending Balance
Cost			
Hardware	$ -	$ -	$ -
Software	-	126,902	126,902
Total cost	-		126,902
Accumulated depreciation	-	-	-
Net property and equipment	$ -		$ 126,902

2007	Beginning Balance	Additions	Ending Balance
Cost			
Hardware	$ -	$ 1,721	$ 1,721
Software	126,902	-	126,902
Total cost	126,902		128,623
Accumulated depreciation	-	(24,867)	(24,867)
Net property and equipment	$ 126,902		$ 103,756

(4) Note payable to the NAIC

On June 1, 2007, an unsecured Line of Credit Agreement with the NAIC was executed. This agreement made available to the IIPRC, a line of credit not to exceed $550,000, with an interest rate equal to the Prime Rate on the date an advance is made minus 100 basis points, compounded monthly. Repayment is amortized over 60 months and begins the first day of the first calendar quarter following the date twelve months after the date of the initial advance of funds. The total of all accrued and unpaid interest at this time plus all advances of funds will become the outstanding principal amount.

An advance of $250,000 was drawn in June and another in the amount of $300,000 occurred in October. Repayment begins approximately one year from the date of the initial advance. Two payments of approximately $33,000 each will be due in 2008. The first, on July 1, includes accrued interest of $9,969. The second payment is due on October 1, with accrued interest of $9,410. The interest rate on both draws was 7.2% at December 31, 2007.

	2007	2006
Note payable to the NAIC	$ 550,000	$ -
Current portion	$ (46,494)	$
Noncurrent portion	$ 503,506	$ -

Maturities for the note payable are as follows:

2008	$	46,494
2009		98,184
2010		105,543
2011		113,455
2012		121,959
Thereafter		64,365
	$	550,000

An additional line of credit in the amount of $850,000, to cover IIPRC expenses for 2008 was approved by the NAIC in December 2007.

(5) Related party transactions

Effective June 2007, the NAIC entered into a service agreement with the IIPRC, 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). The NAIC receives an administrative fee of $100,000 for the first year of the agreement. In the second year, the fee will increase to $125,000. In 2006, the NAIC provided the IIPRC with a $500,000 grant to fund operations. 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:

	2007	2006
Administrative services provided by NAIC	$ 58,334	$ -
Amounts payable to the NAIC	$ 14,440	$ 166,618

(6) Defined contribution plan

The IIPRC has a defined contribution plan 401 (a) 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. In 2007, the IIPRC agreed to match up to 3.5% of contributions of those employees who will contribute 2% of all employees' annual compensation. There was no contribution expense for 2007 or 2006.

NOTES TO FINANCIAL STATEMENTS

(7) Significant estimates and concentrations

U.S. generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. At December 31, 2007 and 2006, all of the IIPRC's grants were from the NAIC.

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