Interstate Insurance Product Regulation Commission

States, Strength & Speed Aligned

2009 Annual Report

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Letter from the Officers

We are extremely pleased to report that 2009 was a year of significant growth and progress for the Interstate Insurance Product Regulation Commission ("IIPRC"). We have come a very long way in five years since the creation of the Interstate Insurance Product Regulation Compact ("Compact") in 2004, when the first two states, Colorado and Utah, enacted the model legislation. In 2009, we saw the collective and collaborative spirit of 36 member states in action as we adopted additional Uniform Standards; proactively addressed important operational and public policy issues; doubled company registration and filing activity; and generated very positive feedback on the benefits of filing through the IIPRC.

The IIPRC welcomed three new member states in 2009 - New Mexico, Mississippi and Missouri. Our membership now represents almost 60% of the nationwide insurance premium volume for group and individual life insurance, annuity, long-term care insurance and disability income products.

We continued the deliberative march toward uniform standards development for all product lines. The IIPRC implemented six additional Uniform Standards providing a wide array of individual life and annuity products and benefit features that can now be filed with the IIPRC under one or more of the 54 Uniform Standards adopted as of the end of 2009. We also did something a little differently this year by drafting all individual long-term care uniform standards before commencing the formal rulemaking process. We commend the dedication of the regulatory experts in our states who collectively spent almost 4,000 hours developing comprehensive and detailed uniform standards with strong consumer protections based on the Long-Term Care Insurance Model Law and Model Regulation. We look forward to working towards adoption in 2010. In addition, substantial drafting progress was also made on the individual disability income uniform standards and group life insurance uniform standards.

We kept busy with a few operational matters as well. The membership conducted a thorough nationwide search for a new Executive Director and we were very fortunate that the best-qualified candidate was already serving as our interim Executive Director. Karen Schutter has provided legal and operational support to the IIPRC and its members since the early days of the Compact. Her experience and guidance have proven essential as we continue to build this organization's strong foundation.

Over the summer, we amended our operating procedures to remove the two-year deadline restricting a company from using or marketing IIPRC-approved product forms with state-approved product forms, commonly known as the "mix and match timeline." We also spent several months shaping a reliable process for allowing self-certified product filings only if clearly designated in a Uniform Standard and commenced the rulemaking process for a self-certification rule by the end of 2009, and we adopted a filing fee structure for regional insurers, providing an opportunity for even more companies to experience the benefits of filing with the IIPRC in a cost-effective manner.

In September, we had our first experience with implementing the Compact's opt-out procedures when the newest member, Missouri, expressed its intent to opt out of an annuity benefit feature by regulation. Within four days of receiving Missouri's notice, the Commission met in emergency session and affirmed its request to stay effectiveness of the Uniform Standard in Missouri. Compacting States worked with Missouri and an amendment to this Uniform Standard was made. In December, Missouri ceased its opt-out rulemaking process and now is accepting products under this Uniform Standard. This process demonstrated our commitment to working with each Compacting State to support and facilitate their respective rights and obligations established by the Compact.

Our biggest story is the considerable growth in terms of registrations and product filings. As compared to 2008, we saw a nearly 200% increase in the number of companies registered to file with the IIPRC and a 230% increase in the number of product filings submitted. This upward trend coincides with the positive feedback from an independent industry survey as well as from our newly-formed Focus Group, including high marks from IIPRC filers for speed and ease of IIPRC's form submission, review and approval process.

Today, we have a robust state-based solution that has raised the bar on consumer protection by giving consumers the benefit of timely access to thoroughly-reviewed products that must meet comprehensive and detailed requirements in our Uniform Standards. Further, we are revolutionizing the asset-based product approval process whereby companies submit one product filing under one set of requirements and receive approval in 60 or fewer days for up to 36 jurisdictions.

We want to thank all those who have worked with us this year, especially our members and their staffs, state legislators, and consumer and industry representatives. We should all be very proud of the progress we made through our collective and collaborative efforts in 2009 and how much we have accomplished in just over five years since those first two states enacted the Compact. Recognizing we are still in the formative stages of the IIPRC's development, we welcome your review of our accomplishments and ask for your continued support and participation as we move forward in 2010.

Director Mary Jo Hudson
Chair
Department of Insurance
Ohio

Commissioner Paulette J. Thabault
Treasurer
Department of Banking, Insurance, Securities & Health Care Administration
Vermont

Commissioner Sean Dilweg
Vice Chair
Office of the Commissioner of Insurance
Wisconsin

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

Letter from the Executive Director

I truly admire the tireless efforts and determination of so many people that contribute to the ongoing development of the Interstate Insurance Product Regulation Commission ("IIPRC"). In 2009, we witnessed this fortitude as new states joined the Interstate Insurance Product Regulation Compact ("Compact"), and as members proactively addressed challenging operational issues such as the "mix and match" timeline and a self-certification process, and as those involved in the uniform standards development process met weekly to draft, review and comment on uniform standards. We saw this hard work in action as members outreached to companies to convey the benefits of filing with the IIPRC, and as the IIPRC reviewer team worked with current and prospective filers to answer questions and guide them through the filing process, and as companies implemented the steps necessary to register and file with the IIPRC. We appreciated the support of state legislators as they reached out to their peers in non-compacting states to encourage them to join the ranks of compacting states, and as they participated in our meetings and rulemaking processes.

The IIPRC Members have taken a practical and responsive approach to many issues that have confronted them this year. When the timeline associated with "mix and match" was eliminated, the IIPRC also made changes to the System for Electronic Rate and Form Filing (SERFF) to ensure states had enhanced capabilities to better track state-approved forms that were being mixed and matched with IIPRC-approved forms. When concerns were expressed about the scope of a self-certification process, the drafting committee set forth a rule with parameters to ensure self-certification would be utilized only when expressly permitted by a Uniform Standard and with safeguards to ensure a self-certified filing could be reviewed by the IIPRC for compliance with the Uniform Standard. When Missouri exercised its right to opt-out of one of the Uniform Standards, the IIPRC amended the Uniform Standard in question, leading Missouri to end its opt-out process.

We had an opportunity this year to hear what others thought about the IIPRC and its progress. "They are doing an excellent job addressing concerns." That was a comment about the IIPRC given by a respondent to an industry survey published by an independent organization in October. The IIPRC was receiving similar feedback by way of its first Focus Group which was formed in June.

In the survey and the Focus Group, companies already using the IIPRC said they were very pleased with many aspects of the filing process, including the speed of approval and the accessibility and ease of working with the IIPRC reviewer team. Further, we saw the key reasons given by companies for not yet using the IIPRC were ones that had been resolved or were actively being addressed, including the elimination of the "mix and match" timeline, the development of additional uniform standards, and the adoption of a regional filing fee structure.

The 2009 Annual Report is a fitting way to reflect on the impressive achievements that have been accomplished this year. The IIPRC Members continue moving ahead, working together with state legislators, consumer and industry representatives and company filers. They are busy developing additional uniform standards in other product lines such as individual disability income and group life insurance; actively working with non-compacting states to provide information and address questions and concerns in their current or upcoming legislative process; and outreaching to more companies about the IIPRC.

On behalf of the IIPRC Team, I look forward to working with you and providing the support you need to be a part of our exciting progress and growth.

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 mission of the IIPRC is to assist its member states in protecting their consumers and to facilitate the ability of companies doing business in member states to deliver asset-based insurance products to the marketplace in an efficient and cost-effective manner.

BENEFITS: Consumers have the benefit of obtaining products that have been reviewed under detailed Uniform Standards with strong consumer protections. Companies have the benefit of preparing one filing, submitting it to one place and receiving one approval in 60 days or less. States have the benefit of receiving thoroughly-reviewed product filings meeting uniform standards, that have generally raised the bar with regards to product filing requirements; thus, allowing departments to use their resources to focus on other important regulatory aspects of their marketplace, all while maintaining state filing revenue.

BACKGROUND: The IIPRC held its inaugural meeting in June 2006 upon adoption of the Compact by 27 states (including Puerto Rico), representing 41% of the national premium volume for life insurance, annuities, disability income and long-term care insurance. By the end of 2009, 36 states joined the Compact, representing approximately 60% of the premium volume nationwide. The IIPRC initiated its product filing operations in June 2007 approving its first filings less than thirty days later. By the end of 2009, the IIPRC adopted 54 Uniform Standards, doubled the number of registered companies from the previous year, and approved almost 400 product filings.

KEY MILESTONES:

- **June 2006** *Inaugural Meeting of the IIPRC in Washington, DC*
- **December 2006** *First Uniform Standards Adopted by IIPRC Members*
- **Summer 2007** *Operations Initiated On-Target / First Filings Received & Approved in Under 30 Days*
- **September 2007** *Compact Fee Structure Implemented*
- **Spring 2008** *Experienced Regulators & Actuary join Compact Filing Operations*
- **Spring 2009** *IIPRC Forms Focus Group & Adopts Filing Fee Structure for Regional Filers*
- **Summer 2009** *New Mexico, Mississippi & Missouri Join the Compact - 36 Members*
- **June 2009** *IIPRC Hires New Executive Director*
- **July 2009** *Commission Removes "Mix and Match" Timeline*
- **August 2009** *54 Uniform Standards in Effect for Individual Life and Annuity Product Lines*
- **December 2009** *Completed Drafting of Individual Long-Term Care Uniform Standards and Prepared to Commence Rulemaking Process*

MEMBERSHIP (As of December 31, 2009)

Linda S. Hall
Director, Alaska
Division of Insurance

Marcy Morrison
Commissioner, Colorado
Division of Insurance

John W. Oxendine
Commissioner, Georgia
Office of Insurance & Fire Safety
Commissioner

Shelley Santo
Special Designee, Hawaii
Insurance Division

William W. Deal
Director, Idaho
Department of Insurance

Carol Cutter
Commissioner, Indiana
Department of Insurance

Susan E. Voss
Commissioner, Iowa
Insurance Division

Sandy Praeger
Commissioner, Kansas
Insurance Department

Sharon P. Clark
Commissioner, Kentucky
Department of Insurance

James J. Donelon
Commissioner, Louisiana
Department of Insurance

Mila Kofman
Superintendent, Maine
Bureau of Insurance

Ralph S. Tyler, III
Commissioner, Maryland
Insurance Administration

Joseph G. Murphy,
Acting Commissioner, Massachusetts
Division of Insurance

Ken Ross
Commissioner, Michigan
Office of Financial and Insurance
Regulation

Glenn Wilson
Commissioner, Minnesota
Department of Commerce

Mike Chaney
Commissioner, Mississippi
Insurance Department

John M. Huff
Director, Missouri
Department of Insurance

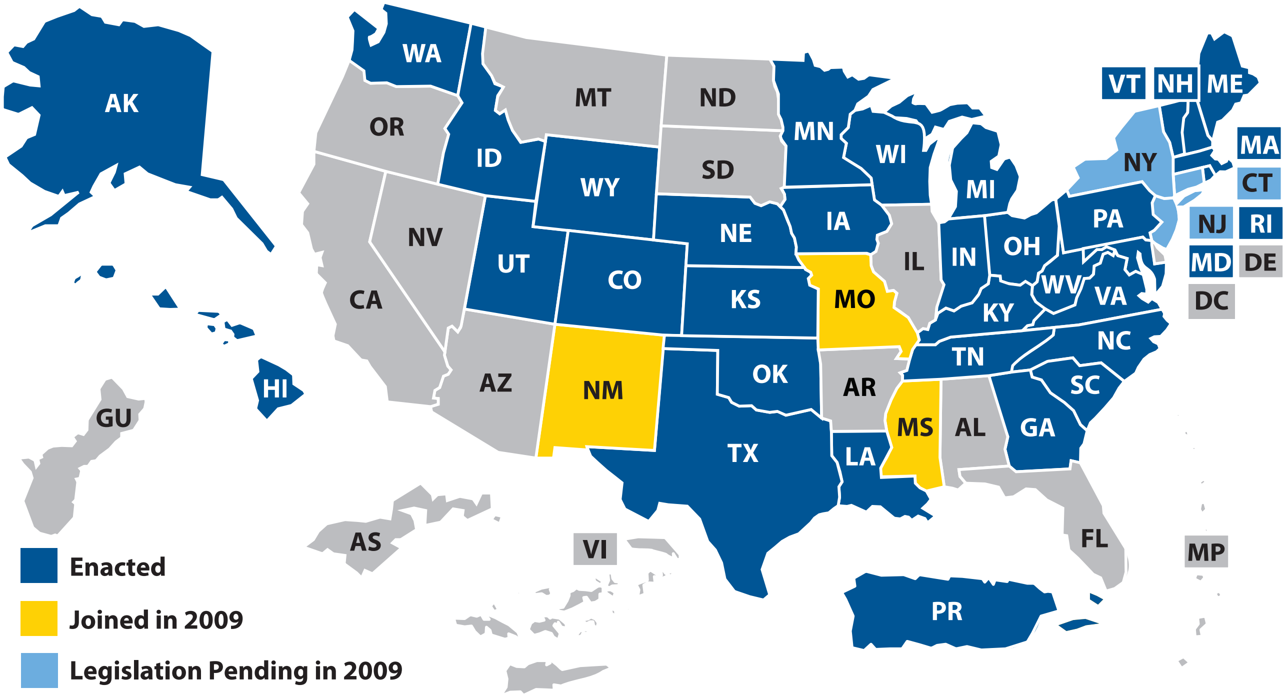
Ann M. Frohman
Director, Nebraska
Department of Insurance

Roger A. Sevigny
Commissioner, New Hampshire
Insurance Department

Morris J. Chavez,
Superintendent, New Mexico
Division of Insurance

Wayne Goodwin
Commissioner, North Carolina
Department of Insurance

Mary Jo Hudson
Director, Ohio
Department of Insurance



Kim Holland
Commissioner, Oklahoma
Insurance Department

Joel Ario
Commissioner, Pennsylvania
Insurance Department

Ramón L. Cruz Colón
Commissioner, Puerto Rico
Office of the Commissioner of
Insurance

Joseph Torti, III
Superintendent, Rhode Island
Insurance Division

Scott H. Richardson,
Director, South Carolina
Department of Insurance

Leslie A. Newman
Commissioner, Tennessee
Dept. of Commerce and Insurance

Mike Geeslin
Commissioner, Texas
Department of Insurance

D. Kent Michie
Commissioner, Utah
Insurance Department

Paulette J. Thabault
Commissioner, Vermont
Department of Banking, Insurance,
Securities & Health Care Admin.

Alfred W. Gross
Commissioner, Virginia
Bureau of Insurance

Mike Kreidler
Commissioner, Washington
Office of the Insurance
Commissioner

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

Sean Dilweg
Commissioner, Wisconsin
Office of the Commissioner of
Insurance

Ken Vines
Commissioner, Wyoming
Insurance Department

Management Committee

The Management Committee is comprised of fourteen members representing three tiers of 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.

Management Committee, 2009 – 2010

Mary Jo Hudson, Chair, Ohio
Sean Dilweg, Vice Chair, Wisconsin
Paulette J. Thabault, Treasurer, Vermont
Ralph S. Tyler, III, Maryland
Joseph G. Murphy, Massachusetts
Ken Ross, Michigan
Glenn Wilson, Minnesota
Mike Chaney, Mississippi
John M. Huff, Missouri
Wayne Goodwin, North Carolina
Kim Holland, Oklahoma
Joel Ario, Pennsylvania
Mike Geeslin, Texas
Mike Kreidler, Washington

Management Committee, 2008 – 2009

Jane L. Cline, Chair, West Virginia
Mary Jo Hudson, Vice Chair, Ohio
Sean Dilweg, Treasurer, Wisconsin
John Oxendine, Georgia
William W. Deal, Idaho
Carol Cutter, Indiana
Joseph G. Murphy, Massachusetts
Ken Ross, Michigan
Wayne Goodwin, North Carolina
Kim Holland, Oklahoma
Joel Ario, Pennsylvania
Mike Geeslin, Texas
Paulette J. Thabault, Vermont
Alfred W. Gross, Virginia

Legislative Committee

Representative Robert Damron, Chair
Commonwealth of Kentucky

Senator Ralph Hudgens, Vice Chair
State of Georgia

Representative Kurt Olson,
State of Alaska

Senator Brian Taniguchi,
State of Hawaii

Senator Ruth Teichman,
State of Kansas

Senator Delores Kelley,
State of Maryland

Senator Keith Faber,
State of Ohio

Representative Brian Patrick Kennedy,
State of Rhode Island

Advisory Committees

Consumer Advisory Committee

Brendan Bridgeland, Center for Insurance Research
Ken Libertoff, Vermont Association for Mental Health
James Wenzel, Consumer Protection & Public Health Division, Office of Attorney General, State of Texas
T. Ryan Wilson, American Association of Retired Persons

Industry Advisory Committee

Steve Buhr, AEGON / Transamerica Group
Michael Lovendusky, American Council of Life Insurers
Amanda Matthiesen, America's Health Insurance Plans
Gary Sanders, Association of Health Insurance Advisors
Dennis Herchel, Massachusetts Mutual Life Insurance Company*
Michael Gerber, National Association of Insurance and Financial Advisors
Tom English, New York Life Insurance Company
Maureen Emmert Adolf, Prudential Insurance Company of America
Mary Keim, State Farm Insurance Companies#

* *Member in 2008 - 2009*
\# *Member in 2009 - 2010*

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, including outreach to the states, both members and non-members, as well as marketing of the IIPRC's "one-stop filing platform" with the insurance industry and ensuring that the IIPRC web site is up-to-date and informational. In 2009, the Communications Committee coordinated the formation of a Focus Group to provide feedback on the benefits and usefulness of the IIPRC's central point-of-filing system.

Kim Holland (OK), Chair; James J. Donelon (LA), 2008–2009 Vice Chair; Glenn Wilson (MN), 2009-2010 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 2009, the Finance Committee recommended amendments to the filing fee structure to implement a fee for regional insurers and worked closely with the IIPRC Office to manage short-term and long-term financial projections.

Ann M. Frohman (NE), Chair; Joseph G. Murphy (MA), Vice Chair

The **Product Standards Committee** reviews, develops and recommends uniform standards to the Management Committee starting with the draft standards transmitted by the NAIC's National Standards (EX) Working Group. In 2009, the Product Standards Committee met weekly to draft and review uniform standards including ten proposed standards for individual long-term care insurance products, covering the form of a policy and application, rate filings, advertisements and other related forms.

Mike Geeslin (TX), Chair; Glenn Wilson (MN), 2008-2009 Vice Chair; Sean Dilweg (WI), 2009-2010 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 other technology needs for the IIPRC. In 2009, the Technology Committee coordinated the oversight of functionality enhancements to the IIPRC's electronic filing platform to enable states to better track "mix and match" filings.

Susan E. Voss (IA), Chair; Wayne Goodwin (NC), Vice Chair

The **Rulemaking Committee** develops and recommends to the Management Committee the rules and operating procedures, and any amendments thereto, prescribed in the Compact statute and IIPRC Bylaws. In 2009, the Rulemaking Committee proposed amendments to eliminate the deadline associated with "mix and match" filings and drafted a proposed rule for a self-certification process.

Paulette J. Thabault (VT), Chair; Joel Ario (PA), 2008-2009 Vice Chair; Ralph S. Tyler, III (MD), 2009-2010 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.

D. Kent Michie (UT), 2008 - 2009 Chair; James J. Donelon (LA), 2009-2010 Chair; Joseph Torti, III (RI), Vice Chair

UNIFORM STANDARDS (Adopted as of Dec. 31, 2009)

The IIPRC establishes Uniform Standards for asset-based products filed with the IIPRC. By the end of 2009, the IIPRC has adopted a total of 54 very detailed Uniform Standards including a full suite of individual life products and several individual annuity product components. The Uniform Standards drafting process is an extremely open and inclusive process that starts at the NAIC's National Standards (EX) Working Group, comprised of members from compact and non-compact states, and after transmittal to and review by the IIPRC's Product Standards Committee, the Management Committee exposes each draft Uniform Standard for a 60-day notice and comment period. Upon adoption by the IIPRC (a minimum two-thirds vote in favor is required), a Uniform Standard is effective 90 days after 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 Life Products	Product Categories	Life Benefit Features
Term Life Whole Life Endowment Adjustable Life (Universal) Non-Variable Variable	Single Premium Joint Last-to-Die Survivorship Flexible Premium (Adjustable) Fixed/Indeterminate Premium	Accidental Death Accidental Death and Dismemberment Accelerated Death Waiver of Premium Waiver of Monthly Deduction Waiver of Premium for Child Insurance in Event of Payor's Total Disability or Death Additonal Life Insurance Benefits On Guaranteed Insurability Basis Change of Benefits Form Underwriting Exclusions Index-Linked Crediting Intermediate Period Endowment (including Return of Premium)

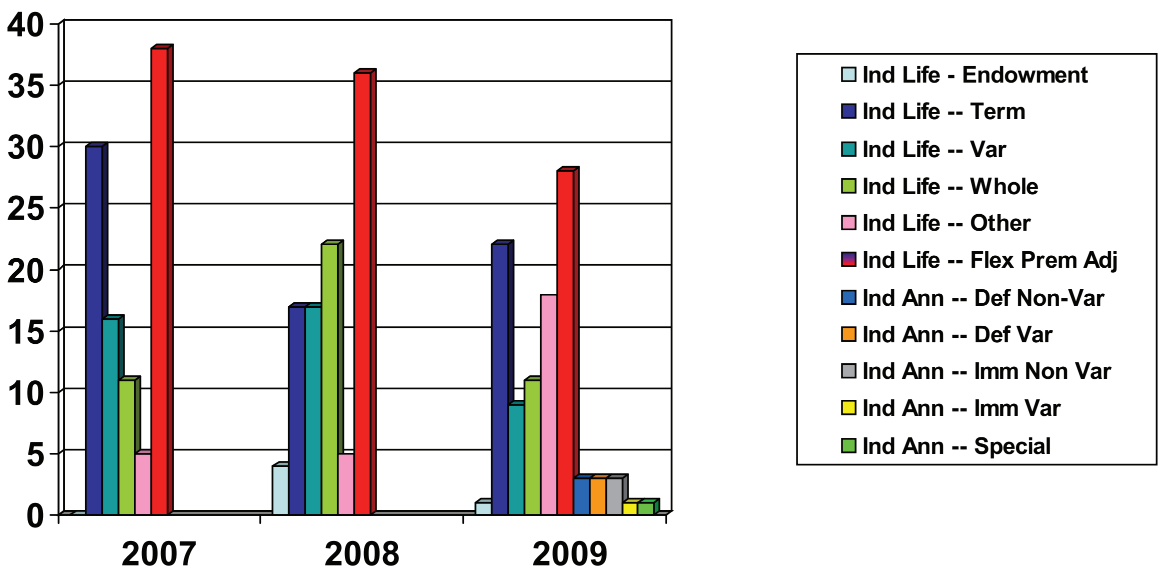
Individual Annuity Products	Product Categories	Annuity Benefit Features
Deferred Variable Annuity Deferred Non-Variable Annuity Immediate Variable Annuity Immediate Non-Variable Annuity	Single Premium Modified Single Premium Fixed Premium Flexible Premium	Waiver of Surrender Charges Tax Qualified Plan Provisions Contract Changes Form Index-Linked Crediting Feature (Non-Variable) Bonus Benefits Market Value Adjustment Feature Provided through a Separate Account Market Value Adjustment Feature Provided through the General Account

Product Filing Statistics (As of December 31, 2009)

The tables below provide statistics on the product filings submitted to the IIPRC since first accepting product filings in June 2007 through 2009.

	2009	% of Growth	2008	2007
Companies Registered	74	195%	38	N/A
Filings received	244	230%	106	36
Products Approved	279	221%	126	29
Transactions *	7,494	245%	3053	552
Approval Time (average) **	28	-	25	35
Average # of states/filing	28	-	25	25
Mix & Match %	75%	-	75%	100%
State filing fees collected	$499,942	357%	$139,910	$62,965
IIPRC filing fees	$107,900	157%	$68,730	$18,050

Percentage of Filings Received Broken Down by TOI



** "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 FIILING TRENDS (As of December 31, 2009)

- There are **13 Types of Insurance (TOIs) available** for filing using the **54 adopted Uniform Standards** with **64 various sub-TOIs available**.

- **434 products have been approved** by the IIPRC since June 2007; which equates to **11,099 SERFF transactions**.

- The Types of Insurance (TOI) for the Product Filings submitted through SERFF for Compact Filings:

  LIFE:
  - 28 % have been Flexible Premium Adjustable
  - 22 % have been Term Life Products
  - 18 % have been TOI – Other
  - 11 % have been Whole Life Products
  - 9 % have been Variable Life Products
  - 1 % have been Endowment Life Products

  ANNUITIES:
  - 3 % have been Deferred Non-Variable Annuity
  - 3 % have been Deferred Variable Annuity
  - 3 % have been Immediate Non-Variable Annuity
  - 1% have been Immediate Variable Annuity
  - 1% have been Annuity - Special

- Of the companies which have filed:
  - 19 % have filed more than 5 times
  - 51 % have filed 2 to 5 times
  - 30 % have submitted one filing
  - 19 % are first time filers
  - 81 % are repeat filers

- The IIPRC has demonstrated a 90% retention rate – only 3 of the 38 companies who registered in 2008 did not register in 2009.

- The 74 companies who have registered to date represent 34% of the national premium volume.


Senator Ralph Hudgens
KENT MICHIE
UTAH
PAULETTE THABAULT
VERMONT
MIKE KREIDLER
WASHINGTON
NAIC

Mayer Hoffman McCann P.C.
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INDEPENDENT AUDITORS' REPORT

To the **INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION**

We have audited the accompanying balance sheets of the Interstate Insurance Product Regulation Commission (the IIPRC) as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in net deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide 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 Insurance Product Regulation Commission as of December 31, 2009 and 2008, and the changes in its net deficit and cash flows for the years 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.

Mayer Hoffman McCann P.C.

Leawood, Kansas
February 24, 2010

Interstate Insurance Product Regulation Commission
Management's Discussion and Analysis
Years Ended December 31, 2009 and 2008

Introduction

This discussion and analysis of the financial performance of the Interstate Insurance Product Regulation Commission (the IIPRC) provides management's overview of the financial activities for the years ended December 31, 2009 and 2008. 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 deficit; a statement of revenues, expenses and changes in net deficit, showing operating performance in terms of revenues, expenses, and the resulting change in net deficit; and a statement of cash flows, summarizing the use of funds. 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 Sheet
The IIPRC ended the year with accounts receivable of $27,644 with much of this amount representing the $20,500 in registration and filings fees received on the last day of December 2009 that are satisfied by electronic payments on the first day of January 2010. This compares to a balance of $5,000 at the end of 2008.

In June 2006, the IIPRC approved the use of the NAIC's System for Electronic Rate and Form Filing (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 license and enhancements to meet IIPRC requirements. The IIPRC has assumed the cost of upgrades and enhancements to the SERFF application to meet IIPRC requirements, such as the establishment of a multistate product filing platform, the collection and remission of member state filing fees, and the submission of IIPRC 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 $17,625 by year end 2009.

Other assets result from contractual benefit obligations.

Accounts payable consists of expenditures incurred by the NAIC on behalf of the IIPRC creating a liability to the NAIC for the reimbursement of these expenditures in the amount of $30,232 at the end of 2009. The remaining balance relates to payments due to vendors.

Accrued expenses is comprised of balances due by the end of 2009 for which an invoice has not been received, accrued interest on the notes payable to the NAIC, and amounts earned but not paid before year end by employees to complete a full year reporting on wages and benefits.

In 2009, the IIPRC received $118,000 for 2010 annual registration fees. These fees will be recognized as revenue in 2010 when the insurance companies make their first filing or update an existing filing. Of the $118,000, $22,500 relates to companies that paid a 2009 registration fee but did not make any filings with the IIPRC during that year. Per the Terms and Procedures for IIPRC Filing Fees, companies that did not make a filing in the year in which they paid their registration fee may request, in writing by January 31, of the following year, that their registration fee be carried forward and applied to the next annual registration period.

Other long-term liabilities result from contractual benefit obligations.

Net deficit presents a cumulative loss on operations of $1,744,003. Net deficit is the result of all revenues and expenses since inception. Operational losses are not uncommon for an organization with less than four years of operations, including one that had a 16-month operational set-up period before the receipt of revenue-generating transactions. Management forecasts that IIPRC expects to generate revenue sufficient to cover operating expenses by 2012.

<u>Statement of Revenues, Expenses and Changes in Net Deficit</u>

The IIPRC Terms and Procedures for IIPRC Filing Fees was adopted in September 2007. Even though the IIPRC is a public agency 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 IIPRC and also when a company submits a product filing to the IIPRC through SERFF. The annual registration fee is $5,000 per company and is prorated to $2,500 per company as of July 1. The IIPRC charges a $500 fee for each product filing submitted to the IIPRC for review. However, regional companies and companies filing in five or less compacting states pay a lower registration and per filing fee.

The IIPRC experienced a sustained increase in filings over the last eight months of 2009 and more than doubled its filing volume from 2008. In 2008, 38 companies registered with the IIPRC and 106 product filings were received. In 2009, 74 companies registered with the IIPRC and 251 product filings were received; however, six of the companies that registered did not make filings in 2009 and requested to carry their registration fee over to 2010.

Interstate Insurance Product Regulation Commission
Management's Discussion and Analysis
Years Ended December 31, 2009 and 2008

The decrease in salaries expense in 2009 represents a vacancy in the Executive Director position for half the reporting year. The Executive Director position was vacated in November 2008 and not filled until late June 2009. Future years will include a full year of expense for this management position. The IIPRC employs two additional individuals to support operational functions. The remaining work of the IIPRC is done through consulting arrangements.

Professional services include consulting fees, fees for services from the NAIC, outside legal counsel, and the annual independent audit. In January 2009, the IIPRC contracted with a development consultant, a product review consultant, and an actuarial consultant to support the product filing operations of the IIPRC. 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. The NAIC receives an annual administrative fee of $125,000 for these services. 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 financing arrangements.

Actual travel expenses were well below budgeted travel due to careful management of these expense lines including conducting webinars rather than in-person visits and the lower number of actual trips made during 2009. The Executive Director, Operations Manager and IIPRC consultants incurred travel to attend several outreach events including national and chapter meetings of the Association of Insurance Compliance Professionals, Life Health and Compliance Association and the American Council of Life Insurers. The Executive Director, along with the IIPRC Officers, incurred travel to make presentations as well as to visit with department staff in non-compacting states. Non-employee travel includes costs incurred for the IIPRC consultants, Legislative Committee and Consumer Advisory Committee members to travel to the IIPRC quarterly in-person meetings.

Depreciation and amortization expense represents the allocation of the cost of acquiring the SERFF license over the estimated three year useful life of the asset and began in 2007 with the receipt of the first IIPRC filing. It also includes the depreciation of computer equipment used by IIPRC employees and consultants in carrying out their IIPRC duties. This equipment is depreciated over three years.

Interest expense includes accrued interest on amounts drawn under the NAIC lines of credit. The interest expense is slightly greater than in 2008 due to additional borrowings from the NAIC in the current year.

Insurance expense increased in the current year due to higher premium renewal rates as a result of a change in carrier and the enhanced coverage needed due to IIPRC's continued growth.

Training expenses include the cost of a training session with a public relations firm.

Recruiting expenses in 2009 were related to the hiring of the Executive Director position.

Debt

The IIPRC executed agreements with the NAIC providing a 2007 line of credit in the amount of $550,000, a 2008 line of credit for $850,000, and a 2009 line of credit of $550,000. These agreements carried an interest rate equal to the Prime Rate on the date of advance minus 100 basis points, compounded monthly with repayment amortized over 60 months. IIPRC fully utilized all lines of credit in the respective years.

Repayment on the note payable resulting from draws on the 2007 lines of credit began on July 1, 2008. Repayment on the note payable from the 2008 line of credit draws began on October 1, 2009. The first draw on the 2009 line of credit occurred on July 1 in the amount of $300,000 and the second draw for $250,000 occurred on October 1. Repayment of the note payable from draws on the 2009 line of credit will begin on January 1, 2011. There is $282,296 in principal payments due to the NAIC on the 2007 and 2008 notes payable in 2010. These payments will be accompanied by approximately $30,674 in interest.

The IIPRC has been granted an $850,000 line of credit to cover expenses in excess of revenue during 2010.

Economic Factors

The IIPRC accepted its first product filings in June 2007, and completed its second full calendar year of product filing review operations in 2009. The IIPRC generated $222,730 in filing and registration fees during 2008 and nearly doubled this amount to $423,400 in 2009. IIPRC revenue growth slowed in early 2009 due to insurance company concerns that the timeline associated with the ability to use IIPRC-approved filings with state-approved filings would be difficult to meet because of legal, operational and system issues. In July, the IIPRC amended the mix and match rule to remove the timeline. Additionally, revenue growth in 2009 was impacted by not reaching implementation of uniform individual long-term care standards.

Since July, the IIPRC has experienced a steady increase in registration and filing activity. In 2009, additional standards were implemented including several annuity benefit features. By the end of 2009, companies representing nearly 40% of the asset-based premium volume written nationwide were registered to file with the IIPRC. Three additional states joined the Compact in 2009 – New Mexico, Mississippi and Missouri – bringing the total number of compacting states that will accept an IIPRC-approved product filing to 36, representing 60% of nationwide premium volume. In October, an

Interstate Insurance Product Regulation Commission
Management's Discussion and Analysis
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independent survey of companies regarding the IIPRC was released. The survey found companies submitting filings through the IIPRC gave it high marks for its ease of use, accessibility and speed-to-market process.

With additional state memberships expected and adoption of new uniform standards and new product lines, it is anticipated the volume of filings submitted by companies will increase significantly so that transaction fee revenue will increase to cover operating expenses.

Executive Director Position

The full-time IIPRC Executive Director position was vacated at the end of November 2008. At the request of the IIPRC members and pursuant to the NAIC/IIPRC Services Agreement, the NAIC staff member who provided direct support to the IIPRC prior to November 2006, served as Interim Executive Director from November 2008 to June 2009. This individual was hired by the IIPRC to fill the vacant full-time Executive Director position on June 22, 2009.

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 2009 and 2008. Questions about this report and requests for additional financial information should be directed to Karen Schutter, IIPRC Executive Director, at (202) 471-3962.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
BALANCE SHEETS
December 31, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 163,362	$ 352,866
Accounts receivable	27,644	5,715
Interest receivable	3	8
Prepaid expenses	5,317	3,934
TOTAL CURRENT ASSETS	196,326	362,523
LONG-TERM ASSETS		
Capital assets, net	21,289	67,289
Other long-term assets	20,440	—
TOTAL LONG-TERM ASSETS	41,729	67,289
TOTAL ASSETS	$ 238,055	$ 429,812
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$ 47,951	$ 58,033
Current portion of note payable to the NAIC	282,296	185,449
Accrued expenses	36,639	50,032
Deferred revenue	118,000	105,000
TOTAL CURRENT LIABILITIES	484,886	398,514
LONG-TERM LIABILITIES		
Note payable to the NAIC, less current portion above	1,476,732	1,187,996
Other long-term liabilities	20,440	—
TOTAL LONG-TERM LIABILITIES	1,497,172	1,187,996
TOTAL LIABILITIES	1,982,058	1,586,510
NET DEFICIT		
Unrestricted	(1,744,003)	(1,156,698)
TOTAL LIABILITIES AND NET DEFICIT	$ 238,055	$ 429,812

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET DEFICIT
For the Years Ended December 31, 2009 and 2008

	2009	2008
REVENUES		
Annual registrations	$ 292,500	$ 154,000
Product filing fees	130,900	68,730
Interest income	97	3,534
TOTAL REVENUES	423,497	226,264
EXPENSES		
Salaries	207,859	356,917
Employee benefits	56,570	41,943
Professional services	503,574	496,087
Travel	68,591	100,157
Rental and maintenance	3,295	1,961
Depreciation and amortization	46,000	45,844
Interest expense	50,179	47,244
Insurance	14,675	11,833
Office services	35,874	38,280
Meeting expenses	10,813	14,781
Training	9,974	—
Recruiting	3,398	525
TOTAL EXPENSES	1,010,802	1,155,572
CHANGE IN NET DEFICIT	(587,305)	(929,308)
NET DEFICIT, BEGINNING OF YEAR	(1,156,698)	(227,390)
NET DEFICIT, END OF YEAR	$ (1,744,003)	$ (1,156,698)

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 541,400	$ 327,730
Interest received	102	4,368
Cash payments to suppliers and employees	(1,091,388)	(1,029,189)
NET CASH FLOWS FROM OPERATING ACTIVITES	(549,886)	(697,091)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of capital assets	—	(9,377)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from NAIC	550,000	850,000
Principal payments to NAIC	(189,618)	(50,452)
NET CASH FLOWS FROM FINANCING ACTIVITIES	360,382	799,548
CHANGE IN CASH AND CASH EQUIVALENTS	(189,504)	93,080
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	352,866	259,786
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 163,362	$ 352,866
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net deficit	$ (587,305)	$ (929,308)
Adjustments to reconcile changes in net deficit to net cash flows from operating activities		
Depreciation and amortization	46,000	45,844
Changes in operating assets and liabilities		
Accounts receivable	(21,929)	(5,706)
Interest receivable	5	834
Prepaid expenses	(1,383)	(219)
Accounts payable	(10,082)	41,474
Deferred revenue	13,000	105,000
Accrued expenses	11,808	44,990
NET CASH FLOWS FROM OPERATING ACTIVITIES	$ (549,886)	$ (697,091)
Supplemental Cash Flow Information		
Accrued interest included in NAIC line of credit	$ 25,201	$ 23,897

See Notes to Financial Statements

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

(1) <u>**Summary of significant accounting policies**</u>

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 December 31, 2009 and 2008, the IIPRC had 36 and 33 member states, respectively.

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.

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.

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. Routine repairs and maintenance are expensed as incurred. 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.

Compensated absences – Compensation for future vacation and salaries 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 – At December 31, 2009 and 2008 net assets consisted entirely of unrestricted net assets.

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.

(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

2009	Beginning Balance	Additions	Ending Balance
Cost			
Hardware	$ 11,098	$ —	$ 11,098
Software	126,902	—	126,902
Total cost	138,000		138,000
Accumulated depreciation	(70,711)	(46,000)	(116,711)
Net capital assets	$ 67,289		$ 21,289

2008	Beginning Balance	Additions	Ending Balance
Cost			
Hardware	$ 1,721	$ 9,377	$ 11,098
Software	126,902	—	126,902
Total cost	128,623		138,000
Accumulated depreciation	(24,867)	(45,844)	(70,711)
Net capital assets	$ 103,756		$ 67,289

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

(4) Other long-term assets

Other long-term 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 long-term liabilities on the December 31, 2009 balance sheet. The participant assumes all the risks and benefits associated with the losses and gains from the investments of the plan. For purposes of the statement of cash flows, the change in the fair value of the plan investments and related liabilities are considered non-cash investing activities.

(5) Line of credit from and notes payable to the NAIC

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 determination date). Interest is adjusted to the Prime Rate on the determination date minus 100 basis points, compounded monthly. The total of all accrued and unpaid interest was added to the outstanding principal amount at the determination date.

An advance of $250,000 was drawn in June 2007 and another in the amount of $300,000 occurred in October 2007. The interest rate on both draws was 4.0% up to the determination date. Repayment began July 1, 2008 with an interest rate of 4.0%.

On February 29, 2008, a second 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 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 on the determination date. Interest is adjusted to the Prime Rate on the determination date minus 100 basis points, compounded monthly. The total of all accrued and unpaid interest was added to the outstanding principal amount at the determination date.

An advance of $350,000 was drawn in April 2008 and another in the amount of $500,000 occurred in October 2008. The interest rate on the draws was 4.2% up to the determination date. Repayment began October 1, 2009 with an interest rate of 2.3%.

On January 1, 2009, a third Line of Credit Agreement with the NAIC was executed. This agreement made available to the IIPRC an additional 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 three calendar months following the determination date. Interest is adjusted to the Prime Rate on the determination date minus 100 basis points, compounded monthly. The total of all accrued and unpaid interest at the determination date plus all advances of funds will become the outstanding principal amount.

An advance of $300,000 was drawn in July 2009 and another in the amount of $250,000 occurred in October 2009. Repayment begins approximately 15 months from the date of the initial advance. The interest rate on both draws was 2.3%.

	2009	2008
Note payable to the NAIC	$ 1,759,028	$ 1,373,445
Current portion	$ 282,296	$ 185,449
Noncurrent portion	$ 1,476,732	$ 1,187,996

An additional line of credit in the amount of $850,000 to cover expenses of the IIPRC for 2010 was approved by the NAIC in December 2009.

Maturities for the notes payable are as follows:

Years Ending December 31,	
2010	$ 282,296
2011	395,855
2012	406,967
2013	354,236
2014	204,674
Thereafter	115,000
	$ 1,759,028

(6) 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) in excess of the annual 250 hours of SERFF development provided under the service agreement. The NAIC received an administrative fee of $125,000 the years ended December 31, 2009 and 2008. 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.

INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

	2009	2008
Administrative services provided by NAIC	$ 125,000	$ 114,583
License fee paid to NAIC	$ 25,000	$ 25,000
Amounts payable to the NAIC	$ 30,232	$ 51,966
Accrued interest on note payable to NAIC	$ 13,246	$ 21,155

(7) 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. For the years ended December 31, 2009 and 2008, 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 $4,887 and $11,778 for the years ended December 31, 2009 and 2008, respectively.

(8) Subsequent events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2009 through February 24, 2010. 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, 2009.

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