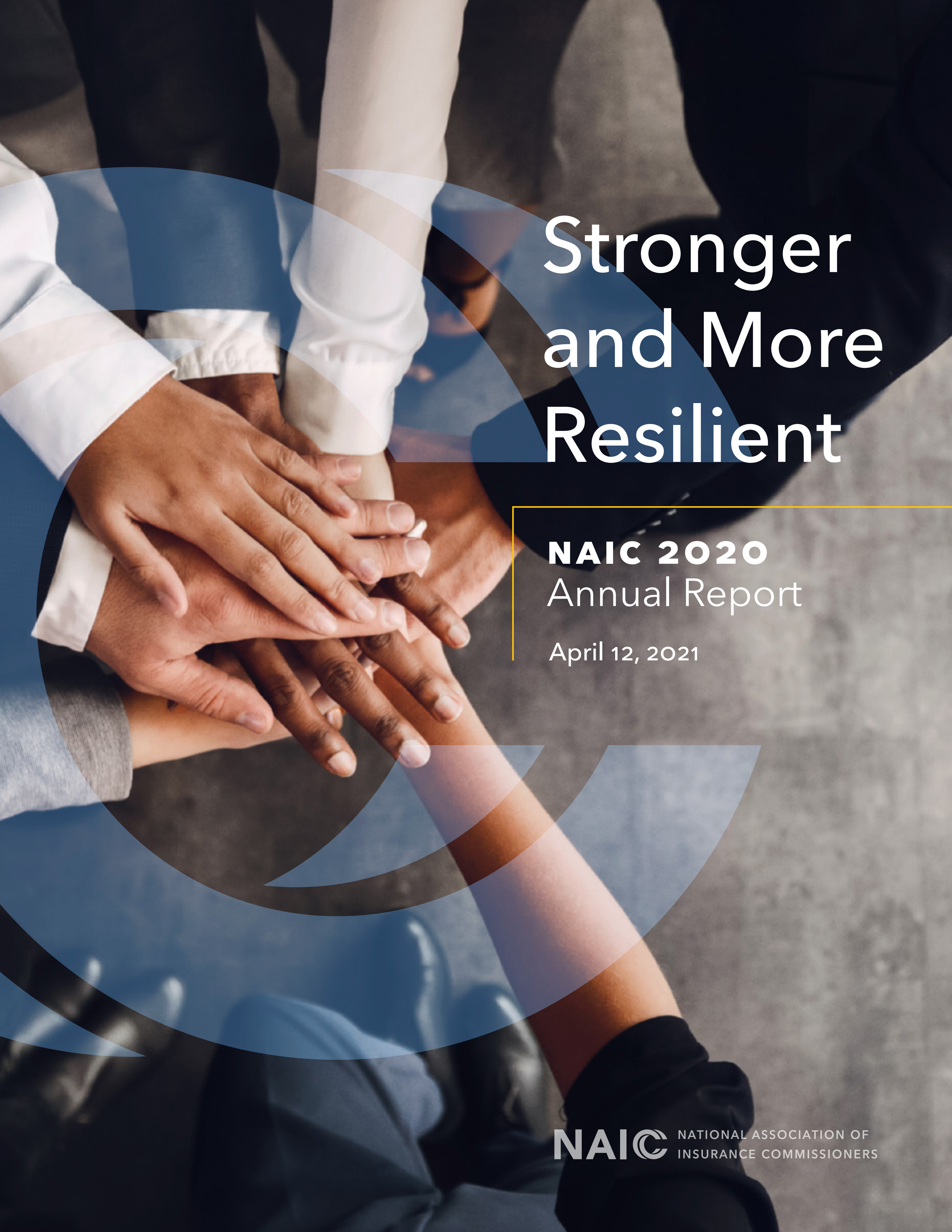

Stronger and More Resilient

NAIC 2020
Annual Report

April 12, 2021

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

"The only thing that is constant is change."

Heraclitus

Contents

Letter from the CEO and COO

It's an understatement to say that 2020 was an unprecedented year. We faced a global pandemic, a record number of natural disasters, a worldwide economic downturn, and social justice issues. In a single year, any one of these issues and the associated changes would be momentous. To have all four occur at once was at times almost overwhelming.

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Following our work in 2019, we came into the year with an ambitious slate of strategic priorities. Long-term care insurance, climate risks, big data and artificial intelligence, and group capital were among the most important issues on our agenda. Other key issues included:

- Advocating for surprise billing legislation
- Promoting the reauthorization of the National Flood Insurance Program (NFIP)
- Testifying at congressional hearings relating to the stabilization of health insurance
- Continued implementation of our *State Ahead* strategic plan

By March, we had pivoted to a work from home platform and added the pandemic and associated challenges to our to do list. We have grown stronger and become more efficient because of the processes and technology we implemented.

The NAIC has a long tradition of delivering protection and stability in the toughest times. This was especially true in 2020. When the pandemic hit, we pivoted seemingly overnight. We were focused on ways to better support our members so they could continue to focus on protecting consumers and maintaining sound insurance markets.

This report outlines the extraordinary efforts of the NAIC, our members and their staffs over the course of 2020. We adapted technology, deployed services, and engaged members and the public in new and innovative ways. While we were socially distanced, we were never disconnected.

During the pandemic, we looked outside this singular issue at other forces shaping our nation and world, specifically: race and equality, and climate and resiliency. NAIC members came together and have taken bold steps to address these issues.

In 2021, we'll celebrate our 150th anniversary. We're looking forward, incorporating what we've learned from the past year and remain focused on making progress on issues like big data, long-term care, climate and resiliency, and the use of artificial intelligence to ensure consumer's interests are addressed and we are adapting to an evolving insurance sector.

We're planning for the NAIC of the future. As the pandemic continues to evolve, we remain resolute in our commitment to protecting consumers and maintaining strong insurance markets. We are proud of our rich history and the many things we have done to keep the insurance sector strong and resilient.

Michael F. Consedine
Chief Executive Officer

Andrew J. Beal
Chief Operating Officer

Regulatory Response to COVID-19

We began 2020 with an ambitious set of priorities. In March, when the potential impact of the pandemic became clear, we quickly pivoted to a singular focus; a set of initiatives designed to protect consumers and help ensure the stability and operation of the insurance sector through unprecedented times.

Priority One: Managing the response to COVID-19 became our top priority.

We've released three public reports detailing the actions taken.

- A report of the NAIC on the State Insurance Regulatory Response to COVID-19: Update 1, which discusses state insurance regulators' actions from January 1–May 31.
- A report of the NAIC on the State Insurance Regulatory Response to COVID-19: Update 2, which discusses regulatory actions from June 1–September 30.
- A report providing an overview summary of all the COVID-19 activities for 2020.

Swift Action to Protect Consumers and Ensure Stability

Health Insurance

The NAIC facilitated member discussions that led to state insurance departments taking swift action to address issues related to access and affordability of COVID-19 testing and treatment. Across the country, NAIC members implemented initiatives that provided testing without cost sharing and worked to extend access to health insurance coverage for consumers. Nearly every state acted to remove consumer cost sharing for COVID-19 testing.

States also requested or mandated insurers must cover early prescription drug refills and took other steps to facilitate access to needed drugs during the outbreak. State insurance departments have also worked to expand access to telehealth services. Many state insurance regulators requested or required insurers to offer enrollees extended premium due dates, suspend cancellations, and provide greater flexibility for small business coverage.

Since the beginning of the pandemic, the NAIC has engaged regularly with federal agencies, including the U.S. Department of Health and Human Services (HHS), the Federal Centers for Medicare, and Medicaid Services (CMS), and the U.S. Department of Labor (DOL) to coordinate state and federal efforts relating to health insurance. That engagement has been reflected in the actions taken by federal health officials. Similarly, the NAIC remains directly engaged with the U.S. Congress to help ensure federal efforts to stabilize or support health insurance markets are coordinated, effective, and complementary to state efforts.

Life Insurance

In response to the pandemic, some states required life insurers to defer premium payments and suspend cancellations and non-renewals. In some circumstances, consumers were given up to a year to pay back deferred payments. Life insurers were also instructed to waive late fees and penalties, and to allow payment plans for premiums payments.

The NAIC, working with state insurance regulators, continues to evaluate data to determine if long-term adjustments are needed to rating models.

Auto Insurance

Many states also mandated or encouraged auto insurance companies to institute premium refunds and discounts to drivers, most of whom have greatly reduced miles driven during the pandemic. The Insurance Information Institute (III) has estimated that the refunds, discounts, dividends and other credits to consumers totaled approximately $10.5 billion. The NAIC, working with state insurance regulators, continues to evaluate data to determine if long-term adjustments are needed to rating models.

Business Interruption Insurance

State insurance regulators also worked collectively to gather important data from insurers writing business interruption coverage to assess the size of the market, the extent of exclusions, and the scope of claims and losses related to COVID-19. Initial analysis showed 83% of policies have exclusions for viruses, bacteria and pandemics, and nearly all (98%) require a physical loss for a claim. This is not surprising, as insurance works well and remains affordable when a relatively small number of claims are spread across a broader group.

Therefore, it is not typically well-suited for a global pandemic, where nearly every policyholder suffers significant losses at the same time for an extended period.

The NAIC issued a policy statement opposing the retroactive application of such coverage considering the risks it posed to the solvency of the insurance sector and potentially to the broader financial system. There are several federal and some state proposals for the retroactive application of business interruption coverage.

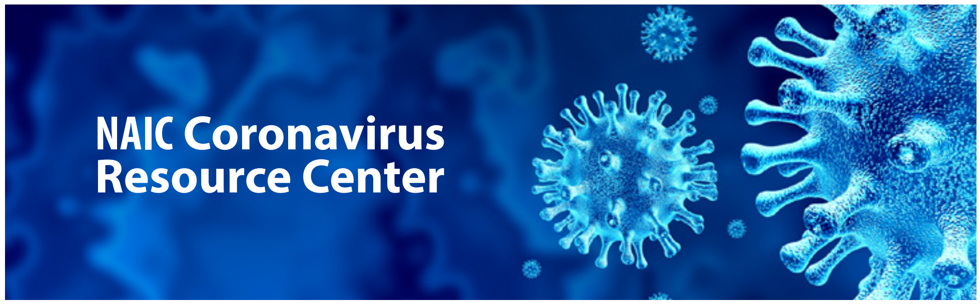
In October, the NAIC adopted a policy position to guide our efforts in engaging with the U.S. Congress as this issue moves forward, specifically supporting the creation of a federal mechanism to ensure widespread availability of business interruption coverage for pandemic risks. To the extent the insurance sector or insurance contracts are the vehicles used to facilitate such coverage, it is critical that any federal mechanism not undermine state insurance regulatory authorities to protect insurance consumers. It should not jeopardize the financial condition of insurance companies and should be affordable to policyholders. The NAIC's policy statement and data were cited at a hearing held November 19 by the U.S. House of Representatives on this issue.

The NAIC adopted a policy position to guide our efforts in engaging with the U.S. Congress as this issue moves forward, specifically supporting the creation of a federal mechanism to ensure widespread availability of business interruption coverage for pandemic risks.

Producer Licensing

The NAIC has worked with its affiliate, the National Insurance Producer Registry (NIPR), and state insurance departments on a variety of issues designed to maintain the integrity of producer reporting and licensing requirements, while at the same time streamlining processes to work effectively with shelter-in-place orders. Jointly, we monitored new developments arising from more than 140 orders and bulletins related to producer licensing. The NAIC's State Based Systems (SBS) continued to support the states throughout their response by extending the expiration dates of more than 105,000 licensees across multiple states.

Insurance producers are in direct contact every day with Americans, helping them make critical decisions on financial and personal welfare. This need has been heightened during this time of economic uncertainty. Our obligation is to ensure insurance companies can meet consumer demands for insurance products through producers who have the knowledge and personal integrity to fulfill those responsibilities.



The Coronavirus Resource Center includes a database of more than 1,000 state bulletins, actions, and alerts to help the public keep track of measures taken across the country.

Providing Valuable Resources and Education

The NAIC's Coronavirus Resource Center provides a single source of information related to NAIC member response to the pandemic. The Coronavirus Resource Center includes a database of more than 1,000 state bulletins, actions, and alerts to help the public keep track of measures taken across the country. State insurance departments and the NAIC also developed materials aimed at educating consumers about their coverage related to the coronavirus pandemic and warning them about potential COVID-19 related scams.

Coordinating With Regulators and Policymakers

We continued our active engagement at the International Association of Insurance Supervisors (IAIS) on a variety of projects and workstreams as a conduit to global regulators to share best practices of the state regulatory system. State regulators and NAIC staff also worked to finalize the reports of the International Monetary Fund (IMF)/World Bank's Financial Sector Assessment Program (FSAP). We established virtual dialogues with key regulatory counterparts to better understand the scope and impact of COVID-19 while continuing to address forward-looking issues such as emerging technology, big data, and climate risk. We also engaged with federal agencies and state insurance regulators on a variety of issues and responded to federal regulatory proposals. From coordinating with the Federal Emergency Management Agency (FEMA) on disaster response changes due to COVID-19, to working closely with HHS and CMS to coordinate state, and federal efforts targeting health insurance, the NAIC and its members continued to assert the state regulatory presence and perspective.

Maintaining Sound Markets During COVID-19

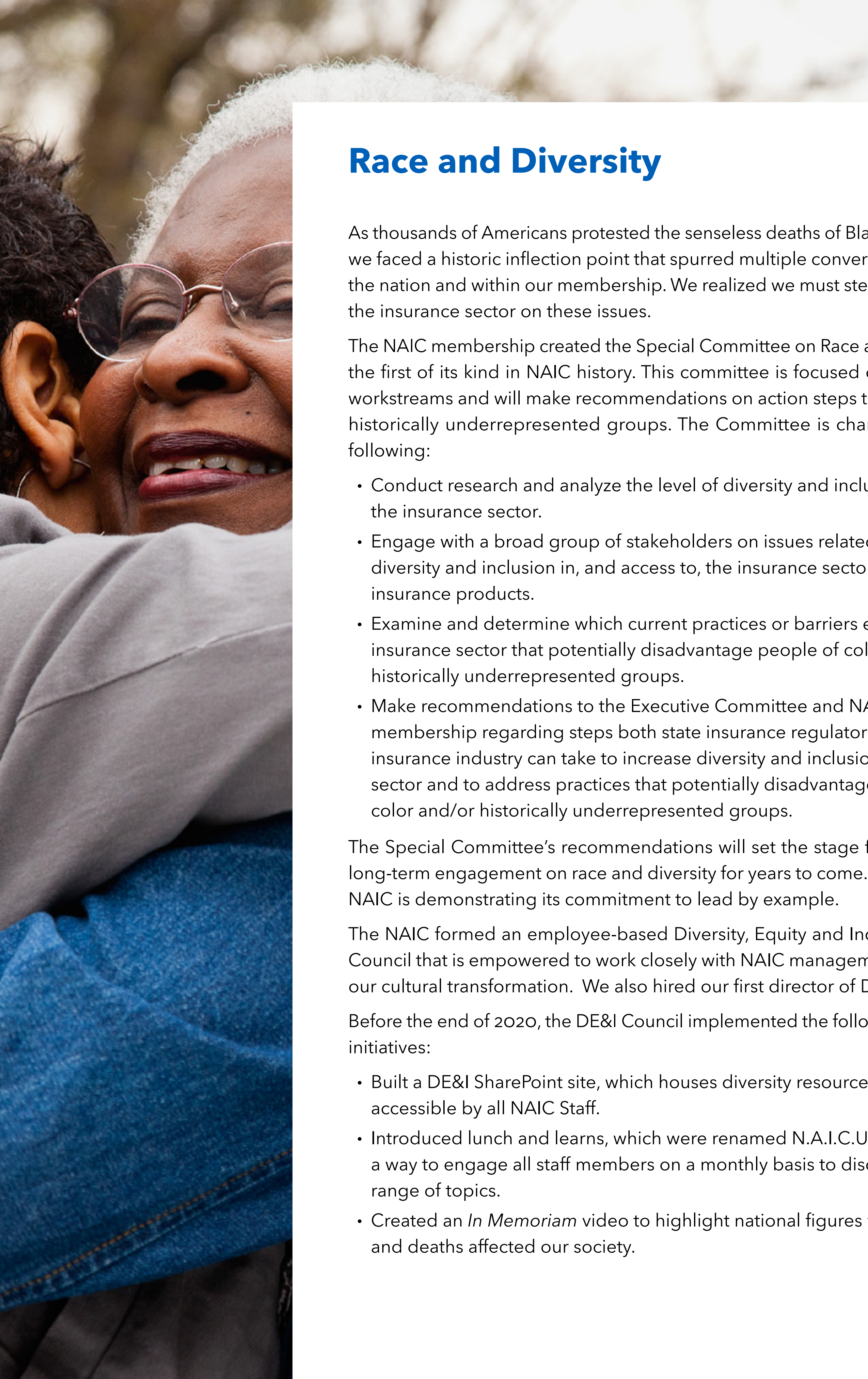
The NAIC's efforts have resulted in an insurance sector that continues to show strength and resiliency in this time of crisis. Even in the middle of a global pandemic, consumers continued to receive the benefits of their policies, which is particularly important given the historic number of natural catastrophes that occurred across the country. State insurance regulators monitored the financial health of insurers to ensure their continued ability to pay policyholder claims given the significant stresses presented by COVID-19. We collected data to understand the true impact of the pandemic and implemented guidance to help reduce the burden on insurers and consumers. We evaluated company exposure and identified companies with products that put them at a greater risk of being impacted, as well as those companies facing an increased risk because of the interest rate cuts and market downturn. We developed line-specific data requests for business interruption, workers' compensation, travel insurance, and worked with life insurers to evaluate the economic stresses on their liquidity.

Specifically, state insurance regulators and the NAIC also:

- Identified and evaluated company exposure to COVID-19, including monitoring the capital markets and providing reports to the states for their use in evaluating the potential impact of the economic downturn on insurance company assets.

- Created a resource and guidance document of COVID-19 assumptions for state insurance regulators to use when reviewing health insurance carrier rate submissions for 2021.
- Provided new accounting and reporting guidance for the treatment of overdue mortgages and due dates of quarterly filings to provide some relief and guidance.
- Maintained the integrity of reporting and license requirements, while at the same time streamlining processes to work effectively with shelter-in-place orders.
- Issued guidance regarding coverage for the coronavirus pandemic in a standard business interruption policy, alerting business owners that many policies have exclusions for virus, bacteria and pandemics, and most require a physical loss.

A recent global report by Standard & Poor's, an agency that provides ratings to the global markets, analyzed how the insurance industry has dealt with COVID-19 and its impact on the industry's capital buffers. The report, issued in September 2020, noted the overall resiliency of such buffers, and stress testing conducted found North American insurers to be the most resilient region globally. Such testing considers the overall capital strength, risk management and asset allocations of the insurers. U.S. state insurance regulators attribute the resiliency of the region in part to improvements and advancements made to the regulatory system over the last decade, including those related to solvency, corporate governance and group supervision.



Race and Diversity

As thousands of Americans protested the senseless deaths of Black Americans, we faced a historic inflection point that spurred multiple conversations across the nation and within our membership. We realized we must step up and lead the insurance sector on these issues.

The NAIC membership created the Special Committee on Race and Insurance, the first of its kind in NAIC history. This committee is focused on five critical workstreams and will make recommendations on action steps to better serve historically underrepresented groups. The Committee is charged with the following:

- Conduct research and analyze the level of diversity and inclusion within the insurance sector.
- Engage with a broad group of stakeholders on issues related to race, diversity and inclusion in, and access to, the insurance sector and insurance products.
- Examine and determine which current practices or barriers exist in the insurance sector that potentially disadvantage people of color and/or historically underrepresented groups.
- Make recommendations to the Executive Committee and NAIC membership regarding steps both state insurance regulators and the insurance industry can take to increase diversity and inclusion within the sector and to address practices that potentially disadvantage people of color and/or historically underrepresented groups.

The Special Committee's recommendations will set the stage for the NAIC's long-term engagement on race and diversity for years to come. Internally, the NAIC is demonstrating its commitment to lead by example.

The NAIC formed an employee-based Diversity, Equity and Inclusion (DE&I) Council that is empowered to work closely with NAIC management in driving our cultural transformation. We also hired our first director of DE&I this year.

Before the end of 2020, the DE&I Council implemented the following strategic initiatives:

- Built a DE&I SharePoint site, which houses diversity resources and is accessible by all NAIC Staff.
- Introduced lunch and learns, which were renamed N.A.I.C.U Exchange, as a way to engage all staff members on a monthly basis to discuss a wide range of topics.
- Created an *In Memoriam* video to highlight national figures whose lives and deaths affected our society.

Artificial Intelligence

The NAIC membership adopted a set of Artificial Intelligence (AI) Principles, which emphasize the importance of accountability, compliance and transparency, as well as safe, secure and robust outputs, to inform and articulate general expectations for businesses, professionals, and stakeholders across the insurance industry as they implement AI tools. Developed by the Artificial Intelligence Working Group, the AI Principles are based on the Organisation for Economic Co-operation and Development (OECD) AI Principles, which have been adopted by 42 countries, including the U.S. They will serve as critical guideposts for NAIC members as we engage further in appropriate and informed regulation of big data driven insurance policies.

Climate and Resiliency

The U.S. broke the 1916 record for the number of named tropical storms making landfall in October 2020, while historic wildfires ravaged Western states and damaging storms struck the Midwest. Although climate has been a priority for the Property and Casualty Insurance Committee for several years, in 2020, the NAIC membership stepped up by creating the Climate and Resiliency Task Force. The Task Force reports directly to the Executive Committee and brings a higher profile to the issue, addressing climate risk as a strategic priority for the organization.

Task Force members are considering appropriate climate risk disclosures within the insurance sector; evaluating financial regulatory approaches; investigating innovative insurer solutions to climate risk and resiliency; and identifying sustainability, resilience and mitigation issues and solutions related to the insurance industry.

The NAIC membership created a data call to collect information on the private flood market in 2018 and 2019. All states and the District of Columbia agreed to participate in the data call to provide state insurance regulators with information about the size of the private market for flood insurance. Additionally, NAIC staff assisted seven states in collecting and analyzing claims data from insurance companies after tornadoes, hurricanes, and wildfires.

Disaster Preparation and Recovery

In conjunction with FEMA and the Property and Casualty Insurance Committee, the NAIC Communications Division expanded its *What the Flood*! campaign to provide advice to help people safely prepare, evacuate, and shelter in the event of a natural disaster, while protecting themselves and others from COVID-19. This campaign was awarded the *Best in Show* PRISM award by the Public Relations Society of America (PRSA) and a Gold MarCom Award by the Association of Marketing and Communication Professionals (AMCP).

First adopted in 2002 and updated this year, the NAIC *State Disaster Response Plan* provides state insurance departments with a template for creating a disaster response plan. The document provides state insurance regulators with information about planning and recovering from a natural disaster, how to access NAIC disaster assistance, and guidance around disaster response and incident management team roles and responsibilities.

Long-Term Care Insurance

Long-term care insurance continued to present challenges for state insurance regulators as they looked for ways to balance the tension between solvency regulation and consumer protection. The Long-Term Care Insurance Task Force produced two principle documents:

- *Reduced Benefit Options Associated With Long-Term Care Insurance (LTCI) Rate Increases*
- *Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options*

The Task Force is currently developing a regulatory framework for a multistate LTCI rate review process. Additionally, it appointed a multistate rate review actuarial team, which completed its first regulator-to-regulator pilot project for a multistate rate review and advisory report.

Other NAIC groups continue to make progress in achieving their goals related to LTCI:

- The Senior Issues Task Force created the Long-Term Care Insurance Model Update Subgroup with the charge to examine the *Long-Term Care Insurance Model Act* (#640) and the *Long-Term Care Insurance Model Regulation* (#641).

- The Valuation Analysis Working Group conducted its third year of reviewing filings as required by *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51), as well as outreach to the states and companies on reserving issues identified, which includes (but is not limited to) uncertainty in older-age morbidity and COVID-19 impacts.
- The Long-Term Care Actuarial Working Group and its subgroups made progress on actuarial issues, addressing reserving standards and reporting requirements. Examples include discussions on the topic of LTCI cash value buyout options, relevant to the work of the Long-Term Care Insurance Reduced Benefit Options Subgroup; and recently adopted revised LTCI experience reporting in the annual financial statement.

Group Capital Calculation

Early in the year, NAIC staff completed crucial field-testing work that led to the advancement of discussions on several key issues surrounding the Group Capital Calculation (GCC). Along with other strategic initiatives, work on the GCC was paused in April, as NAIC staff and state insurance regulators turned their attention to COVID-19 matters. Work on the GCC resumed in June, with the Group Capital Calculation Working Group and stakeholders focusing on resolving remaining technical issues with the calculation and amending *the Insurance Holding Company System Regulatory Act* (#440) and *the Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450) to effectuate the GCC. Both the GCC and the proposed revisions to Model #440 and Model #450 were adopted during the Fall National Meeting.

Member Services

2020 provided opportunities for us to learn and grow. We sought new and innovative ways to maintain stakeholder engagement and transparency of Proceedings. Examples include:

- Delivering numerous virtual special sessions including;
  - A public special session on COVID-19, the NAIC's first virtual meeting.
  - The NAIC's first all-virtual national meeting, which broke attendance records.
  - The NAIC/NIPR Insurance Summit in virtual format, including a virtual Exhibit Hall, with attendance at more than double the prior year's conference.
  - Regional roundtable discussion with FEMA.
  - The virtual Fall National Meeting.
- Supporting ongoing regulator-to-regulator meetings that createopportunities for members engage on issues. These virtual conversations were on hot topics such as business interruption coverage, producer licensing, implementation of federal COVID-19 requirements, and issues affecting the solvency of insurers.
- Producing important research available to all members through the NAIC's independent research division, the Center for Insurance Policy and Research (CIPR). This included 16 reports and seven topic papers, including state resiliency maps, disaster preparedness and COVID-19, insights on climate risk, and telehealth.
- Providing financial analysis of insurance company investments and generating 15 reports on topics such as U.S. insurers' exposure to foreign investments, collateralized loan obligations (CLOs), and the potential impact of COVID-19 to municipal bonds held by insurers.
- Developing communications toolkits for state public information officers (PIOs) on important topics, including health plans, natural catastrophes, social media, and COVID-19 related scams.
- Updating and creating 28 new Consumer Insights, four Consumer Alerts and two Small Business Alerts on topics such as understanding deductibles across multiple product lines, information on being a life insurance beneficiary, and tips for protecting yourself against COVID-19 related scams.
- Implementing two new programs—New Financial Regulator Training and Advanced Financial Regulator Training—to help ensure consistent, high-quality zone trainings. We also expanded the Insurance Regulator Professional Designation Program.

NAIC Operational Response to COVID-19

In February, we began updating our internal emergency response plan to address possible scenarios relating to the looming pandemic. We tested our internal systems in anticipation our staff in all three offices would soon begin working remotely for an indefinite period. In mid-March our Washington, DC, and New York City offices fully transitioned to working remotely, and the Central Office in Kansas City soon followed. Recognizing that working in a pandemic environment presented new challenges for our staff team, we took several actions to support our staff team and help them adjust, including providing:

- Tips and training on working from home effectively.
- Newsletters/emails to staff highlighting the importance of increased vigilance around cyber remote work-related issues.
- Training for managers to help them manage their teams working remotely.
- Health and safety tips from national and local health experts.
- Slack channels to help engage employees and facilitate communication among staff on various topics.
- Monthly town hall meetings with the entire staff to keep them apprised of developments in the organization, including important regulatory and operational projects/workstreams, as well as the status of plans for a phased-in return to the office.

In May, we developed a multiphased plan for reopening each of our three offices. Implementation of the plan is based on local conditions and guidance from government and health officials. Phase 1 of the plan, which provides for a limited voluntary return to the office, was implemented for the Central Office in Kansas City in early July. This was followed by implementing Phase 1 of the plan in the Washington, DC, office in early September and in mid-October for our New York City office. Given the surge in COVID-19 infections across the country, we remained in Phase 1 for the remainder of the year. We expect to move into more normalized operations starting in Q2 or Q3 of 2021.

The NAIC team also realigned priorities to better support the needs of state insurance departments around COVID-19, and some of that work and activities included:

- Creating a regulator-only collaboration space.
- Supporting the special needs of states using State Based Systems (SBS), such as extension of licenses, temporary license setup, continuing education waivers, certificate of authority emailing, etc.

- Helping the states move to electronic payments using the NAIC Online Premium Tax for Insurance (OPT*ins*) platform.
- Completing the property/casualty (P/C) data collection for business interruption insurance and supporting the life data collection.
- Supporting virtual meetings, including a special program on COVID-19 held in late March with approximately 2,900 attendees.
- Creating a new SharePoint document portal as an iPad alternative for commissioners and senior staff.

State Ahead Strategic Plan

In 2018, the NAIC members adopted *State Ahead*, a three-year strategic plan developed to guide the organization in support of state insurance regulators. *State Ahead* outlines the way forward, building on our existing strengths of technology, data, and talent as a nexus for innovation and a hub of resources for state insurance regulators to draw upon as they carry out their daily regulatory duties.

In addition to beginning the year working on state ahead projects and the development of State Ahead 2.0, the pandemic changed some of our plans. Although our members decided to temporarily postpone work on developing State Ahead 2.0, we were able to continue our work on many critical State Ahead projects. Despite the challenges, we completed 17 State Ahead projects this year, bringing the three-year total of completed projects to 60. A few highlights for 2020 are covered below.

Culture and Employee Engagement

Over the last few years, the NAIC has conducted an internal engagement survey of its staff to measure what matters to our employees and help us build a stronger organizational culture. Our engagement survey this year showed significantly greater employee engagement over the previous year. Employees shared more than 900 comments about our quick response to the pandemic and how the transition to a remote work experience offered flexibility and safety during the pandemic. With most employees working remotely, we have taken a simplified and intentional approach in our response to keeping employees engaged. In addition to leadership working with their teams to address areas of opportunity, the NAIC selected three key themes that everyone in the organization will focus on throughout the upcoming year:

- Connection: Employees remain connected to the NAIC while working remotely.
- Communication: Employees receive information to perform their jobs and the opportunity to share feedback.
- Recognition: Employees feel recognized and rewarded for their contributions. The talent management team has shared survey results to enable managers to create plans to further leverage strengths while also addressing areas of concern expressed by employees.

Consumer Protection and Education Enhanced Consumer Messaging Portfolio

The NAIC communications team implemented processes and utilized techniques to make our consumer-focused materials easier to understand and applied a standardized writing format to ensure consistency. These new resources were provided to the states' PIOs through a PIO Resource online site, making it easier for states to access and share information as needed.

Financial Solvency AI Proof of Concept

Using AI, the NAIC is exploring several AI models that will improve the accuracy of the NAIC Scoring System for solvency monitoring.

STATE AHEAD

Enterprise Data Platform and Data Warehouse – Phase I

We are focused on making NAIC data more accessible to state regulators by moving to the cloud. The NAIC is implementing a centralized, standardized data platform which adheres to NAIC security standards. We expect this will also help accelerate adoption of new technology going forward. This work sets the foundation for future State Ahead business intelligence (BI) and AI objectives, the on-boarding of new data assets, and enhanced analytics capabilities for state insurance regulators and NAIC staff.

The new cloud-based platform consists of three layers: (1) a "data lake" layer containing all raw data in its original format; (2) a lightly curated exploration data layer where data cleansing and some data structure is applied in support of data exploration and machine learning; and (3) a business data layer containing highly structured data for access and use by state insurance regulators and NAIC applications. The third layer includes an Enterprise Data Catalog and Business Data Glossary to scan data assets, display the origin of specific data assets, and provide business definitions for the data elements.

Enterprise Data Strategy, Governance, and Management – Phase I

This project introduced the NAIC/NIPR to data governance, which included data management. Consultants educated our staff and helped the NAIC draft an initial Enterprise Data Governance framework along with future development plans. The framework includes the Executive Steering Committee providing support to the Data Governance Council as needed in its policy development and maintenance work, and supported by the Data Stewards identified for the various business data sets within our organizations. The continued development, expansion and maintenance of the various components will be part of the NAIC/NIPR ongoing operations as the Data initiative continues.


NATIONAL ASSOCIATION OF INSURANCE COMMISSONERS

Senior Professional

IN INSURANCE REGULATION

NAIC INSURANCE REGULATOR PROFESSIONAL DESIGNATION PROGRAM

This is to certify that on this, the 6th day of January, 2021

Adrianne Smith

has succesfully completed all prescribed requirements and is hereby designated by the National Association of Insurance Commissioners as a Senior Professional in Insurance Regulation

In testimony whereof, we have subscribed our signatures.

President, National Association of Insurance Commissioners

Chair, NAIC Designation Advisory Board

Chief Operating Officer, and Chief Legal Officer

Insurance Regulator Professional Designation Program – Phase II

The NAIC Insurance Regulator Professional Designation Program offers a structured learning path for all experience levels and includes four levels of credentialing specific to insurance regulation. We developed promotional information and made numerous presentations, updated the website to include user experience, and increased calls with program mentors and advisory board members. Through a multi-pronged effort, enrollment in the Designation Program increased 12% in 2020.

NAIC Zone Training

We developed two new programs to reduce one-off training needs and create consistent, high-quality zone trainings: New Financial Regulator Training and Advanced Financial Regulator Training; and a train-the-trainer program. More than 400 new financial regulators and 90 experienced financial regulators completed the new training, and more than 500 financial regulators were trained at state insurance departments in the train-the-trainer program. Additional steps were taken to offer continuing education and continuing professional education to state insurance regulators in response to COVID-19. Some of these training opportunities included creating webinar content; increasing educational opportunities at the 2020 NAIC/NIPR Insurance Summit; and an online version of the New Financial Regulator Training, which drew enrollments from 175 regulators in 41 jurisdictions.

Insurance Department Targeted Training

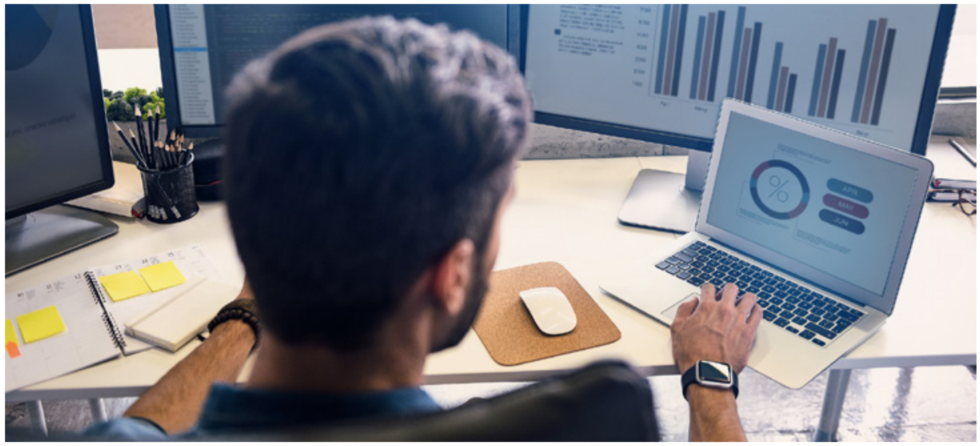
As part of our efforts to identify and prioritize training needs in state insurance departments the NAIC provided customized training for more than 500 regulators in 18 states. This included Own Risk and Solvency Assessment (ORSA) sessions, practical manager leadership training, market conduct sessions, and plain language business writing training.

Annual Committee Training Program – Phase II

The NAIC created web-based, on-demand video training for use by NAIC members, state insurance departments, and NAIC committee support staff. Training video topics include: the committee governance structure; committee members' individual assignments; appointing and disbanding committee groups; checklists of responsibilities for key committee support staff; steps on how to use the national meeting mobile app; and detailed instructions on conducting NAIC committee meetings. Training videos are posted on the Members page of the NAIC website under "CLIPcoach Explores."

Market Regulation Market Conduct Data Improvements – Phase II

To create more streamlined and effective Market Conduct Annual Statement (MCAS) Market Analysis Prioritization Tool (MAPT) reviews, the NAIC created new dashboards with data visualization tools to replace the Excel spreadsheets that had been used in the past. The enhanced MCAS MAPT now allows state insurance regulators greater insights into the market conduct practices of companies while also simplifying review of the data, leading to more efficient use of time and greater consumer protection. The dashboards provide for regulator baseline analysis and more in-depth review of a specific company identified through baseline analysis.



Annual Market Data Report

NAIC staff created a new Annual Market Data Report to provide critical feedback to the Market Information Systems Task Force. This new report highlights successes in data reporting and areas for improvement, which ultimately leads to more accurate analysis, more targeted use of state insurance resources, and enhanced consumer protection. The data quality metrics have also been automated, giving each state more flexibility for review.

Products and Services SBS Transition – Phase III

We're in the third and final phase of a multiyear transformation of SBS to the new SBS platform that provides more functionality and usability. When completed in the first quarter of 2021, the legacy system will be decommissioned. To date, 29 states have been transitioned to the new platform, which means we have completed all coding, data migration, configurations, user and internal testing, and user training for core and state specific requirements for licensing, market regulation, and external services. The new system also offers better navigation and improved user experience, including optimized revenue reports, and completion of the SBS Project Tracking Service, External Regulated Industries Service, and External Healthcare Service. The new system is scalable and can support expansion; it also has improved administrative tools and system security.

Conclusion

Although we had hoped that 2020 would be the final year of *State Ahead* 1.0, the pandemic caused us to delay and rethink some of our scheduled projects. In 2021, we are focused on continuing our transformation and working with NAIC members to define the projects and timelines for *State Ahead* 2.0. This includes an assessment of the NAIC System for Electronic Rate and Form Filing (SERFF), as well as supporting state insurance department pilot projects in the pursuit of regulatory innovation.

A Look Ahead

As unpredictable as 2020 was, we expect to face new and continued challenges for the NAIC and our members in 2021.

Continued Impact of COVID-19

COVID-19 will continue to have an impact on the NAIC and its members, the larger insurance sector, and the U.S. and global economy well into 2021. While recent announcements concerning the availability of vaccines and expanded testing options provide some measure for optimism that we might start the pivot to the "new normal," there are still significant unknowns related to both near- and long-term consequences of this historic pandemic on operations, insurance company solvency, product design, and consumer protection, amongst others.

The NAIC and its members remain committed to making sure that consumers have access to affordable testing, treatment, and vaccinations. We will continue to coordinate with federal and international regulators to capture lessons learned, monitor financial markets, and evaluate the impact of proposed solutions.

Climate and Resiliency

The magnitude of climate-related losses has created challenges in previously insurable risks like wildfire. Industry exposure is growing even as the percentage of cost covered by insurance shrinks.

NAIC is well-positioned with its climate and resilience priority to work with Congress, the Biden administration, and federal agencies to address important climate-related risks, including addressing the NFIP and private market alternatives.

Our Climate and Resiliency Task Force will continue to evaluate and review approaches to address climate risks, catastrophe modeling, and mitigation, and identify sustainable solutions within the industry. The Task Force works closely with other NAIC committees to address national issues, and it provides states information and tools to support their own individual markets.

State regulators will work with the NAIC to expand our consumer education campaigns to educate consumers on available mitigation techniques and incentives.

Business Interruption

Claims relating to the COVID-19 pandemic have largely been denied because business interruption, as well as event cancellation policies (and other types of business policies), largely excluded pandemic and viruses or had physical loss requirements. We expect Congress will continue to evaluate various possible federal programs to address business claims relating to pandemics. The NAIC has shared a policy position acknowledging that a federal facility of some sort is necessary to address this risk, and we will continue to offer Congress and other stakeholders guidance on the development of a federal mechanism.

In 2010, U.S. spending on LTC services was about 1% of gross domestic product, but by 2050, that is expected to grow to 3%.

Long-Term Care Insurance

The long-term care insurance (LTCI) market has evolved significantly since the introduction of LTCI in the 1960s. In 2010, U.S. spending on LTC services was about 1% of gross domestic product, but by 2050, that is expected to grow to 3%.

The NAIC will continue actuarial and financial monitoring of LTCI, and supporting states' efforts to assess the adequacy of policy reserves and the solvency of insurers. We will also explore innovations with the LTCI market and look for ways to offer existing policyholders more choices.

Big Data and Artificial Intelligence

State regulators continue to see issues that raise questions about benefits and challenges arising from the use of consumer and non-insurance data within the insurance sector. With the recent adoption of the Artificial Intelligence (AI) Principles for the insurance sector. With the adoption of AI Principles for the insurance sector, there will be expectations related to developing regulatory practices monitoring and overseeing the industry's compliance.

State regulators encourage innovation but continue to evaluate the benefit of new technology against the appropriate application of this information and privacy. The NAIC and its members will continue to scrutinize the underwriting, pricing and claims algorithms and risk models associated with smart tools to ensure policyholders are being treated fairly and information is sufficiently protected.

Development in Virtual Workforce and Services Trends

The current pandemic increased already existing trends related to flexible and remote work arrangements, purely virtual business platforms, and "touchless" services, among others. NAIC members adapted to these developments and in many cases allowed for "regulatory relief" or "regulatory accommodations."

We must now evaluate whether these requests should be continued or made permanent, and if so, what changes must be made to our current laws and regulations. Specific areas state insurance regulators will be reviewing include: electronic commerce, regulatory capabilities, claims facilitation, and practices specific to surplus lines. Additionally, as NAIC members also consider more virtual or remote systems and workforces, the NAIC will need to adapt its own operational strategic plan to take into consideration these trends.

Risk Modeling

While the industry has used modeling to assist in managing its risks for years, this past year has seen insurers utilize modeling and scenario projections to a greater extent, including within the Own Risk and Solvency Assessment (ORSA) Summary Report. Before the pandemic, many life insurers had included mortality and morbidity stress scenarios in their ORSA Summary Reports, with capital set aside for both to fit a pandemic of the magnitude of the 1918 Spanish Flu. During the past year, some insurers have improved their pandemic scenarios in the ORSA Summary Report and their capital modeling to correlate market and economic stresses more directly with the mortality and morbidity impacts of the pandemic previously projected. The NAIC expects this practice will become more common. As the pandemic continues to evolve, the NAIC will strengthen its commitment to its mission of protecting consumers and maintaining strong insurance markets. Our collective efforts have resulted in an insurance market with a 150-year track record of strength and resiliency.

US/EU and US/UK Covered Agreements

The states have until September 2022 to adopt the NAIC's *Credit for Reinsurance Model Law* (#785) and related improvements to the *Insurance Holding Company System Regulatory Act* (#440) to potentially avoid federal preemption associated with the "Bilateral Agreement Between the United States of America and the European Union on Prudential Measures Regarding Insurance and Reinsurance" (EU Covered Agreement). Implementation of this new model will be a 2021 state legislative priority.

NAIC Internal DE&I Initiative

This internal initiative is a high priority for senior management. The organization has created a new DE&I Council and hired a new DE&I director. One of the next objectives is to develop a comprehensive DE&I plan that will focus on areas such as recruiting, hiring practices, employee education and training, employee retention, career and leadership development, and external outreach/networking. Our successful execution of this plan will be important to ensuring that the NAIC continues to lead by example in the area of DE&I.

Consumer Data Privacy Protections

Consumer awareness and regulatory concerns about the use of consumer data by a variety of commercial, financial, and technology companies is increasing. The NAIC members are discussing what consumer rights are appropriate for the collection, use and disclosure of information gathered in connection with insurance transactions and whether appropriate consumers protections are included within existing NAIC privacy models. This includes an insurer's use of data collected from a customer and data supplied to an insurer from a third-party vendor.

Addendum:
Summary of Committee Actions

Executive Committee Task Force Summary of Activities

Financial Stability (EX) Task Force and its Liquidity Assessment (EX) Subgroup

- Paused work on developing the Liquidity Stress Test (LST) requirements for most of the year in deference to collecting liquidity risk data to assess how the life insurance industry is handling the pandemic and related economic stresses.
- Created the mechanism for consistent regulatory authority and confidentiality provisions for the LST framework by finalizing proposed revisions to Model #440 (Holding Company Act).
- Continued developing the LST requirements at the end of this year.

Long-Term Care Insurance (EX) Task Force and its subgroups

- Produced two principles documents: *Reduced Benefit Options Associated with Long-Term Care Insurance (LTCI) Rate Increases* and *Guiding Principles to Ensure Quality Consumer Notices of Rate Increases and Reduced Benefit Options*.
- Developing a regulatory framework for a multistate LTCI rate review process. Formed a multistate rate review actuarial team, which completed its first regulator-only pilot project for a multistate rate review and advisory report.

Innovation and Technology (EX) Task Force:

- Continued its work on the rebating provisions of the *Unfair Trade Practices Act* (#880).

Life Insurance and Annuities Committee Summary of Activities

Life Insurance and Annuities (A) Committee

- Adopted the 2020 revisions to the *Suitability in Annuity Transactions Model Regulation* (#275), which added a best interest standard of conduct for producers and insurers.
- Anticipate finalizing a frequently asked questions (FAQ) implementation guidance document for the states that have adopted or plan to adopt the 2020 revisions to Model #275.

Accelerated Underwriting (A) Working Group

- Made significant progress toward fulfilling its charge to consider the use of external data and analytics in accelerated life underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue and, if appropriate, drafting guidance for the states.

Health Insurance and Managed Care Committee Summary of Activities

Consumer Information (B) Subgroup

- Adopted two documents for use by state insurance departments:
  1) A new consumer guide on low-cost health insurance.
  2) Updates to the "Frequently Asked Questions About Health Care Reform" document.

Property and Casualty Insurance Committee Summary of Activities

Property and Casualty Insurance (C) Committee

- Received comments from industry and consumer groups regarding a coordinated state response to COVID-19 issues, including claims handling, notification requirements, use of virtual and technology-based means for inspections and adjusting, premium discounts or rebates, rate and form approval, and exceptions to credit-based insurance scores.
- Assisted state insurance departments in issuing a COVID-19 data call. This data assists state insurance regulators in understanding which insurers are writing applicable coverage, the size of the market and the extent of exclusions related to COVID-19. Results show that nearly 8 million commercial insurance policies include business interruption coverage. Of that amount, 90% were for small businesses, defined as having 100 or fewer employees; 8% for medium-sized businesses, defined as having 101–500 employees; and 2% for large businesses, defined as having 501 or more employees. Significantly, 83% of all policies included an exclusion for viral contamination, virus, disease, or pandemic, and 98% of all policies had a requirement for physical loss. Further, insurance regulators also collected loss and claims data, which shows approximately 200,000 claims have been reported by policyholders seeking lost income benefits under business interruption coverage. Less than 2% of claims reported have been closed with payment, and nearly 82% of claims reported have been closed without payment.

Issued an All-State Data Call to Collect Data Related to Private Flood Insurance

- Commercial and residential private flood insurance data for 2018 and 2019 was received in August.
- This data will assist state insurance regulators and others in understanding which insurers are writing the coverage, including differences between residential and commercial writings and understanding how much is first dollar coverage compared to excess and stand-alone compared to endorsements, as well as claims information.
- Adopted the private passenger auto insurance study, along with a regulator-only analytical tool, which shows private passenger auto insurance premiums and losses at a ZIP code-level basis. This allows state insurance regulators to better assess any affordability issues within their jurisdictions.
- Adopted a white paper, *An Overview of Workers' Compensation Independent Contractor Regulatory Approaches*, which examines how the changing workforce affects workers' compensation.
- Adopted updates to the NAIC *State Disaster Response Plan*, a document the state insurance departments can use as a template to create a disaster response plan.

The *State Disaster Response Plan* provides state insurance regulators with information regarding:

» The purpose of the disaster response plan.
» NAIC disaster assistance.
» Preparation steps and planning.
» The data collection process.
» The disaster response and incident management team and its roles and responsibilities.
» Business continuity organizational charts.
» Response levels and definitions.
» Sample contact lists that state insurance departments can use.

The Catastrophe Insurance (C) Working Group

- Developing a website where state insurance regulators can access information and tools prior to a disaster to be better able to help protect consumers.
- State insurance departments held two joint workshops with the Federal Emergency Management Agency (FEMA) to discuss floods and other disasters, with a focus on building existing relationships, identifying new partnership opportunities, and focusing on how COVID-19 has changed disaster response.

- The NAIC assisted seven states in collecting and analyzing claims data from insurance companies after tornadoes, hurricanes and wildfires.

Casualty Actuarial and Statistical (C) Task Force

- The NAIC implemented a property/casualty (P/C) rate model database for the states to share information about reviewing rate models.
- Hosted well-attended regulator-only monthly discussions about rate filing issues/models.
- Adopted a white paper, *Regulatory Review of Predictive Models*, which provides best practices for the review of predictive models and analytics filed by insurers to justify rates.

Market Regulation and Consumer Affairs Committee Summary of Activities

Market Regulation and Consumer Affairs (D) Committee

- Adopted a "pandemic" subject code and coverage codes for "business interruption" to be added to the coding framework for the NAIC's Complaints Database System (CDS).
- Distributed a template bulletin for state insurance departments to voluntarily use to advise insurance companies regarding the waiver of on-site review requirements of managing general agents (MGAs) and third-party administrators (TPAs) during the COVID-19 public health emergency.
- Adopted the following changes to the *Market Regulation Handbook*:
  - » Standardized data requests (SDRs) for inland marine claims and inland marine policies in force. These SDRs may be used by a state to determine if a company follows appropriate procedures with respect to the issuance and/or termination of inland marine policies and the processing of inland marine claims.
  - » SDRs for farm owners claims and farm owners' policies in force.
  - » A new "Limited Long-Term Care Examination Standards" chapter.
  - » Adopted the following changes to the Market Conduct Annual Statement (MCAS):
    - Travel insurance as the next MCAS blank to be developed.
    - Scorecard ratios for the private flood MCAS blank.
    - Clarifying revisions to the life and annuity MCAS blank. Revisions allow for the tracking of policy surrenders greater than 10 years, number of policy surrenders with a surrender fee, the identification of the use of third-party administrators (TPAs) and managing general agents (MGAs), the number of replacements processed by unaffiliated, and affiliated companies.

        - Clarifying revisions to the homeowners MCAS blank. Revisions identify the use of third-party administrators (TPAs) and managing general agents (MGAs), as well as policy counts by coverage type.
        - Clarifying revisions to the private passenger auto MCAS blanks. Revisions identify the use of TPAs and MGAs.
        - Clarifying revisions to the lender-placed insurance MCAS blank. Revisions separate the reporting of blanket vendor single interest auto and blanket vendor single interest home.
    - » Life and annuity: Revisions allow for the tracking of policy surrenders greater than 10 years, number of policy surrenders with a surrender fee, the identification of the use of TPAs and MGAs, and the number of replacements processed by unaffiliated and affiliated companies.
    - » Homeowners insurance: Revisions identify the use of TPAs, MGAs and policy counts by coverage type.
    - » Private passenger auto: Revisions identify the use of TPAs and MGAs.
    - » Lender-placed insurance: Revisions separate the reporting of blanket vendor single interest auto and blanket vendor single interest home.

Financial Condition Committee Summary of Activities

Statutory Accounting Principles (E) Working Group

- Adopted several revisions to statutory accounting guidance (three substantive, 28 not substantive and nine interpretations).

  Key highlights:

    - » Adopted a substantively revised *Statement of Statutory Accounting Principles (SSAP) No. 105R—Working Capital Finance Investments* to incorporate seven industry-requested modifications to program requirements. (Ref #2019-25)
    - » Incorporated principle concepts that will restrict the classification of "rolling" related party or affiliated investments as cash equivalents or short-term investments with identification on the short-term investments schedule for items that remain for more than one consecutive year. (Ref #2019-20)
    - » Required disclosures of surplus notes where cash-flow exchanges have been reduced or eliminated. (Ref #2019-37)
    - » Adopted two interpretations to assist with the transition from London Interbank Offered Rate (LIBOR): 1) Allows for the continuation of certain contracts that are modified in response to reference rate reform; and 2) provides waivers from derecognizing hedging transactions and exceptions for assessing hedge effectiveness.

- Also directed that basis swaps issued in response to the transition away from LIBOR qualify for admittance. (INT 20-01 and INT 20-09)
- Adopted seven interpretations to provide relief and clarity in response to COVID-19:
  » Provides an optional extension of the 90-day rule before not admitting premium receivables and receivables from nongovernment uninsured plans in response to COVID-19. (INT 20-02)

  » Clarifies that a modification of mortgage loan or bank loan terms, in response to COVID-19, shall follow the provisions detailed in the April 7, 2020, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus," and the provisions of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act in determining whether the modification shall be reported as a troubled debt restructuring. (INT 20-03)

  » Provides limited time exceptions to defer the assessment of impairment for certain bank loans, mortgage loans and investments that predominantly hold underlying mortgage loans, which are affected by forbearance or modifications in response to COVID-19. (INT 20-04)

  » Provides temporary exceptions for the assessment of collectability for specific investments, as well as exceptions on the non-admittance of investment income due and accrued that becomes more than 90 days past due in response to COVID-19. (INT 20-05)

  » Provides guidance for reporting entities that participate as a direct borrower or material investor in the 2020 Term Asset-Backed Securities Loan Facility (TALF). (INT 20-06)

  » Provides temporary practical expedients in assessing whether modifications in response to COVID-19 are insignificant under *SSAP No. 36R—Troubled Debt Restructuring* and whether a modification shall be considered an exchange under *SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. (INT 20-07)

  » Establishes guidance on how to account for premium refunds, rate reductions and policyholder dividends in response to decreased insured activity related to COVID-19. (INT 20-08)

Blanks (E) Working Group

- Adopted 29 blanks proposals incorporating changes to the annual financial statement blanks and/or instructions.

  Key highlights:

  » Incorporated a new Private Flood Insurance Supplement to collect residential and commercial private flood insurance data and incorporated revisions to the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages. (2020-15BWG)

» Incorporated revisions to require appointed actuaries to attest to meeting CE requirements and participate in the Casualty Actuarial Society (CAS)/Society of Actuaries' (SOA) CE review procedures, if requested. (2020-12BWG)

» Modified guidance to clarify that the factors for all uncollateralized reinsurance recoverable from unrated reinsurers be the same for authorized, unauthorized, certified, and reciprocal reinsurance. (2020-09BWG)

Valuation of Securities (E) Task Force

- Adopted seven amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual).

  Key highlights:

  » Incorporated revisions for principal-protected securities (PPS), with an updated description, definition and instructions; removing these securities from filing exempt (FE) eligibility; and requiring all PPS, including those currently designated under the FE process, to be submitted to the Securities Valuation Office (SVO) for review under their Subscript S authority beginning January 1, 2021, and filed with the SVO by July 1, 2021, if previously owned.

  » Incorporated revisions to map financially modeled residential mortgage-backed securities (RMBS)/commercial mortgage-backed securities (CMBS) NAIC designations to NAIC designation categories, including mapping the zero-loss bonds to the 1.A NAIC designation category. Also incorporated revisions to map short-term credit provider ratings to NAIC designation categories.

Capital Adequacy (E) Task Force

- Adopted amendments to the risk-based capital (RBC) formula and related items.

  Key highlights:

  » Adopted the 2019 Catastrophe Events List.

  » Adopted the bond designation structure for all RBC formulas.

  » Adopted six proposals, including charges and instructions for longevity risk for life/fraternal, modified instructions for uncollateralized reinsurance recoverables, and P/C premium reserve factors.

Receivership and Insolvency (E) Task Force

- Adopted revised guidance to the *Receivers Handbook for Insurance Company Insolvencies* to address federal taxes and federal releases.

Group Capital Calculation (E) Working Group

- Made significant progress in finalizing the GCC template, instructions, and regulatory authority.

Financial Regulation Standards and Accreditation (F) Committee

- Finalized a recommendation to include the 2019 revisions to the *Credit for Reinsurance Model Law* (#785) and the *Credit for Reinsurance Model Regulation* (#786) in the accreditation standards, which was subsequently adopted by the Executive (EX) Committee and Plenary and is effective for accreditation beginning September 1, 2022.
- Finalized a recommendation to include the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787) as a new accreditation standard, which was subsequently adopted by the Executive (EX) Committee and Plenary and is effective for accreditation beginning September 1, 2022.
- Reviewed accreditation status for those states subject to review.

International Insurance Relations Committee Summary of Activities

International Insurance Relations (G) Committee

- The 2020 U.S. FSAP conducted by the IMF concluded this year, with findings and opinions on the U.S. financial regulatory system being published in August. The Committee reviewed the FSAP recommendations relevant to insurance and, in October, approved a referral plan on certain recommendations meriting a closer look by U.S. state insurance regulators and the NAIC, including which NAIC groups should consider these further.

Financial Statements

National Association of Insurance Commissioners

December 31, 2020 and 2019

Contents

RSM US LLP

Independent Auditor's Report

Honorable Members
National Association of Insurance Commissioners

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

RSM US LLP

Kansas City, Missouri
March 15, 2021

National Association of Insurance Commissioners

Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 18,965,079**	$ 13,696,804
Accounts receivable, less allowance for doubtful accounts of 2020—$669,000 and 2019—$627,947	**14,477,584**	11,843,034
Interest receivable	**-**	80,003
Prepaid expenses	**6,007,993**	3,847,070
Inventories	**23,315**	31,630
Investments	**131,930,123**	122,866,465
Current portion of operating note receivable	**274,013**	274,013
Total current assets	**171,678,107**	152,639,019
Long-term portion of operating note receivable, net	**2,192,108**	2,466,121
Property and equipment, net	**15,183,405**	18,007,966
Deferred pension asset	**1,265,866**	1,863,721
Total assets	**$ 190,319,486**	$ 174,976,827
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 1,697,771**	$ 1,794,291
Accrued expenses and other current liabilities	**14,283,569**	13,400,027
Deferred revenue	**3,029,838**	4,409,710
Total current liabilities	**19,011,178**	19,604,028
Deferred lease incentive	**4,611,258**	5,963,611
Total liabilities	**23,622,436**	25,567,639
Net assets:		
Without donor restrictions:		
Allocated	**164,319,539**	147,271,298
Unallocated	**2,377,511**	2,137,890
Total net assets	**166,697,050**	149,409,188
Total liabilities and net assets	**$ 190,319,486**	$ 174,976,827

See notes to financial statements.

National Association of Insurance Commissioners

Statements of Activities
Years Ended December 31, 2020 and 2019

	2020	2019
Revenues:		
Member assessments	**$ 2,110,951**	$ 2,109,455
Database fees	**31,938,729**	31,003,712
Publications and insurance data products	**17,207,317**	16,618,257
Valuation services	**30,706,807**	29,321,356
Transaction filing fees	**13,202,790**	11,503,239
National meetings, NAIC events, and interim meetings	**720,784**	2,489,942
Education and training	**390,487**	678,392
Administrative services/license fees	**20,724,524**	19,524,587
Other	**131,990**	94,186
Total revenues	**117,134,379**	113,343,126
Expenses:		
Salaries	**56,718,566**	52,745,467
Temporary personnel	**695,416**	649,631
Employee benefits	**15,760,631**	15,858,561
Professional services	**16,815,554**	15,459,305
Computer services	**4,964,710**	4,688,443
Travel	**610,771**	4,988,673
Occupancy	**4,461,063**	4,487,225
Equipment rental and maintenance	**5,047,350**	5,311,454
Depreciation and amortization	**4,012,527**	4,042,165
Insurance	**397,199**	396,457
Supplies	**1,235,771**	1,802,725
Printing expense	**55,331**	81,090
Meetings	**732,600**	3,698,416
Education and training	**20,289**	131,738
Grant and zone	**167,799**	1,509,915
Other expenses	**1,107,722**	1,572,996
Total expenses	**112,803,299**	117,424,261
Changes in net assets before investment income and pension adjustment	**4,331,080**	(4,081,135)
Net investment income	**12,611,828**	18,030,412
Changes in net assets before pension adjustment	**16,942,908**	13,949,277
Pension adjustment	**344,954**	4,472,258
Changes in net assets without donor restrictions	**17,287,862**	18,421,535
Net assets, beginning of year	**149,409,188**	130,987,653
Net assets, end of year	**$ 166,697,050**	$ 149,409,188

See notes to financial statements.

National Association of Insurance Commissioners

Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Changes in net assets without donor restrictions	**$ 17,287,862**	$ 18,421,535
Adjustments to reconcile changes in net assets without donor restrictions to net cash provided by operating activities:		
Allowance on operating note receivable	**-**	635,982
Depreciation and amortization	**4,012,527**	4,042,165
Net realized and unrealized gains on investments	**(9,921,814)**	(14,197,974)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(2,634,550)**	(2,451,171)
Incentive receivable	**-**	988,041
Interest receivable	**80,003**	7,764
Prepaid expenses	**(2,160,923)**	(1,076,651)
Inventories	**8,315**	19,932
Accounts payable	**(96,520)**	(156,793)
Accrued expenses and other current liabilities	**883,542**	17,569
Deferred revenue	**(1,379,872)**	602,090
Deferred lease incentive	**(1,352,353)**	(1,352,351)
Deferred pension asset	**597,855**	(3,037,639)
Net cash provided by operating activities	**5,324,072**	2,462,499
Cash flows from investing activities:		
Payments received on operating note receivable	**274,013**	-
Purchase of property and equipment	**(1,187,966)**	(1,496,067)
Purchase of investments	**(40,001,486)**	(97,662,205)
Proceeds from disposition of investments	**40,859,642**	97,082,195
Net cash used in investing activities	**(55,797)**	(2,076,077)
Net increase in cash and cash equivalents	**5,268,275**	386,422
Cash and cash equivalents:		
Beginning of year	**13,696,804**	13,310,382
End of year	**$ 18,965,079**	$ 13,696,804

See notes to financial statements.

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

Nature of operations: The National Association of Insurance Commissioners (the NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight. The NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. The NAIC members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the United States.

Basis of accounting and presentation: The NAIC presents its financial statements based on *FASB Accounting Standards Codification* (ASC) Topic 985, Presentation of Financial Statements. Net assets, revenues and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the NAIC and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets are not subject to donor-imposed restrictions but may be subject to board designations. At December 31, 2020 and 2019, net assets consisted entirely of net assets without donor restrictions.

Net assets with donor restrictions: Net assets are subject to donor-imposed restrictions that may or will be met either by actions of the NAIC and/or passage of time. Also included within this category are net assets subject to donor-imposed restrictions to be maintained permanently by the NAIC. Generally, the donors of these assets permit the NAIC to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2020 and 2019, the NAIC does not have any net assets with donor restrictions.

Cash and cash equivalents: The NAIC considers all liquid investments with original maturities of one year or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted of money market funds and discount notes. The NAIC, at times, maintains deposits with banks in excess of the insured limits, but has not experienced any losses in such accounts.

Accounts receivable: Accounts receivable are stated at the amounts billed to customers. The NAIC provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Past-due accounts are periodically reviewed by management. Delinquent and/or uncollectible receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Inventory pricing: Inventories are stated at the lower of cost, determined by the first-in, first-out (FIFO) method, or market.

Investments: The NAIC carries its investments at their estimated fair values. Unrealized gains and losses are included in the change in net assets in the accompanying financial statements.

Investments may be exposed to various risks, such as interest rate, market and credit risks. As a result, it is at least reasonably possible that changes in risks in the near term could affect investment balances, and those effects could be significant.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of the NAIC’s financial instruments at December 31, 2020 and 2019:

Cash and cash equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

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

Investment securities, except alternative investments: The fair values of fixed-income and domestic and international equity investments are based on quoted market prices at the reporting date for those or similar investments. A portion of the fixed-income investments is valued based on quoted prices for similar instruments in active markets.

Alternative investments: The NAIC reports the fair value of alternative investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the NAIC based on various factors.

Fair value measurements: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The NAIC accounts for its investments at fair value. In accordance with the guidance, the NAIC has categorized its investments based on the priority of the inputs to the valuation technique, which gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices for identical instruments traded in active markets

Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, or derived from inputs that are observable

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker trade transactions; Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities

Investments and concentrations of credit risk: Financial instruments that potentially subject the NAIC to significant concentrations of credit risk consist principally of cash and investments. The NAIC maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these financial institutions and believes the NAIC’s risk is negligible.

Alternative investments are redeemable with the fund at NAV under the original terms of the partnership and/or subscription agreements. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future, in accordance with the fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the NAIC’s interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is therefore reasonably possible that if the NAIC were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.

Property and equipment: Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

The cost of internally developed software is expensed until the technological feasibility of the software has been established. Thereafter, all software development costs are capitalized until such time as the product is available for general release to customers. The development costs of enhancements that extend the life or improve the marketability of the original product are capitalized. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future revenues, estimated economic life, and changes in software and hardware technologies. The cost of capitalized software is amortized on the straight-line method over the products' estimated useful lives.

	Estimated Useful Lives
Furniture and equipment	5-13 years
Computer and related equipment	3 years
Computer software	3-10 years
Leasehold improvements	10-13 years

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

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

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

Revenue from contracts with customers is derived primarily from fees for member assessments, database fees, the sale of publications and insurance data products, valuation services and transaction filing fees, and license and administrative services.

The NAIC's fees for member assessments is for a performance obligation that is satisfied over time and is derived from contracts with an initial expected duration of one year or less. The fee applies to an assessment fiscal year ended April 30, and are recorded in the calendar year assessed as receivables and deferred revenue. At December 31 of each year, one-third of the assessments are accounted for as deferred revenue. As of December 31, 2020 and 2019, member assessment revenue was $2,110,951 and $2,109,455, respectively.

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

The NAIC's database fee revenue is recognized at a point in time and consists of a single performance obligation that is satisfied when the annual statement filing is due. Prices are distinct to a performance obligation. As of December 31, 2020 and 2019, database fee revenue was $31,938,729 and $31,003,712, respectively.

The NAIC's sales of publications and insurance data products is recognized at a point in time and consists of a single performance obligation that is satisfied when the product is shipped to the customer. Prices are distinct to a performance obligation. As of December 31, 2020 and 2019, publications and insurance data products revenue was $17,207,317 and $16,618,257, respectively.

The NAIC's valuation services and transaction filing fees is recognized at a point in time and consists of performance obligations that are satisfied when the service or filing has been performed. Prices are distinct to a performance obligation. As of December 31, 2020 and 2019, valuation services and transactions filing fees revenue was $43,909,597 and $40,824,595, respectively.

The NAIC's license and administrative fees revenue is recognized at a point in time. The NAIC's license fees consist of revenue earned from a related party for the use of the NAIC's producer data. Administrative services consist of revenues earned from related parties for administrative services and the use of the NAIC's facilities and equipment. Revenue from administrative services/license fees is recognized as revenue when the services are performed and when the use of the NAIC's assets occurs, in accordance with the terms contained in written agreements in effect with related parties. Prices are distinct to a performance obligation. As of December 31, 2020 and 2019, license and administrative revenue was $20,724,524 and $19,524,587, respectively.

The NAIC records deferred revenue in situations when amounts are invoiced but the revenue recognition criteria outlined above are not met. Such revenue is recognized when all criteria are subsequently met. Deferred revenues for revenue from contracts are classified as current liabilities on the statements of financial position and as of December 31, 2020 and 2019, were $3,029,838 and $4,409,710, respectively. Associated accounts receivable for revenue from contracts as of December 31, 2020 and 2019, were $14,477,584 and $11,843,034, respectively, and allowance for doubtful accounts for revenue from contracts as of December 31, 2020 and 2019, were $669,000 and $627,947, respectively. There were no changes in revenue streams that would affect economic seasonality of the statements of financial position.

The NAIC did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components. Finally, there are no significant changes in the judgments affecting the determination of the amount and timing of revenue from contracts with customers.

Income taxes: The NAIC has been granted exemption from income taxes by the Internal Revenue Service under the provisions of section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the NAIC is subject to federal income tax on any unrelated business taxable income.

Uncertain tax positions, if any, are recorded in accordance with ASC Topic 740, Income Taxes. ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at December 31, 2020 or 2019.

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

Net assets: The NAIC operating reserve is based on a liquid reserve, defined as total net assets, less net property and equipment, as a percentage of the future year's budgeted operating expenses. On July 7, 2015, following a comprehensive review by an outside consultant to reflect the NAIC's current operating environment, the NAIC adopted a target liquid reserve range of 83.4% to 108.2%. Net assets are allocated by the Executive (EX) Committee and Internal Administration (EX1) Subcommittee as a function of the budgeting process. As of December 31, 2020 and 2019, net assets were fully allocated, with the exception of an amount maintained as unallocated equal to 1.5% of the next year's projected net assets. The unallocated balance will be used to fund priority initiatives that may arise in the next year.

Pension plan: The Compensation—Retirement Benefits topic of the ASC requires employers to recognize on their statements of financial position a liability and/or an asset equal to the underfunded or overfunded status of their defined benefit pension and other postretirement benefit plans. The funded status that the NAIC has reported on the statements of financial position under the topic is measured as the difference between the fair value of plan assets and the benefit obligation.

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

Reclassifications: For the year ended December 31, 2019, certain amounts on the statement of activities were reclassified, with no impact on the total change in net assets, to be consistent with the current-year presentation.

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

Note 2. Liquidity and Availability of Resources

The NAIC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2020 and 2019, the following financial assets are available to meet annual operating needs of the subsequent fiscal year:

	2020	2019
Financial assets at year-end:		
Cash and cash equivalents	$ 18,965,079	$ 13,696,804
Accounts receivable, net	14,477,584	11,843,034
Interest receivable	-	80,003
Inventories	23,315	31,630
Investments	131,930,123	122,866,465
Current portion of operating note receivable	274,013	274,013
Total financial assets	$ 165,670,114	$ 148,791,949

The NAIC has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, inventories, and marketable debt and equity securities. See Note 3 for information about the NAIC's investments.

Note 3. Investments and Investment Income

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Government bonds	$ 8,495,593	$ 8,790,607	$ 10,062,337	$ 10,191,780
Corporate bonds	-	-	6,958,027	6,975,946
Fixed-income mutual funds	42,346,208	43,770,724	33,064,185	33,557,829
Foreign fixed-income funds	4,291,374	4,415,812	4,929,632	4,876,058
Domestic equity mutual funds	7,156,471	9,220,227	7,046,875	7,517,824
Real estate investment trusts	4,446,927	4,329,139	3,779,775	3,713,390
Common stock:				
Industrials	1,346,425	1,753,591	1,121,080	1,522,689
Consumer discretionary	2,210,404	3,872,270	3,501,415	4,716,426
Financials	1,453,874	2,738,483	1,848,020	3,197,131
Information technology	1,751,991	5,263,296	2,174,420	5,628,576
Other industries	7,716,751	10,644,800	7,170,756	10,352,315
Foreign common stock	268,208	477,470	57,876	245,782
Foreign equity mutual funds	19,378,520	25,179,989	18,613,473	20,288,075
Alternative equity funds	10,000,000	11,473,715	10,095,323	10,082,644
	$ 110,862,746	$ 131,930,123	$ 110,423,194	$ 122,866,465

Note 3. Investments and Investment Income (Continued)

Total net investment income comprises the following:

	2020	2019
Interest and dividend income	$ 2,902,049	$ 4,182,753
Net realized gains	1,297,709	8,858,654
Net unrealized gains	8,624,105	5,339,320
Investment manager fees	(212,035)	(350,315)
	$ 12,611,828	$ 18,030,412

The following tables summarize the valuation of financial instruments measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy:

	December 31, 2020			
	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 8,790,607	$ -	$ 8,790,607	$ -
Fixed-income mutual funds	43,770,724	43,770,724	-	-
Foreign fixed-income funds	4,415,812	4,415,812	-	-
Domestic equity mutual funds	9,220,227	9,220,227	-	-
Real estate investment trusts	4,329,139	4,329,139	-	-
Common stock:				
Industrials	1,753,591	1,753,591	-	-
Consumer discretionary	3,872,270	3,872,270	-	-
Financials	2,738,483	2,738,483	-	-
Information technology	5,263,296	5,263,296	-	-
Other industries	10,644,800	10,644,800	-	-
Foreign common stock	477,470	477,470	-	-
Foreign equity mutual funds	25,179,989	25,179,989	-	-
	120,456,408	$ 111,665,801	$ 8,790,607	$ -
Investments measured at net asset value:				
Alternative equity hedge funds	11,473,715			
Total investments	$ 131,930,123			

Note 3. Investments and Investment Income (Continued)

	December 31, 2019			
	Total Fair Value	Level 1	Level 2	Level 3
Government bonds	$ 10,191,780	$ -	$ 10,191,780	$ -
Corporate bonds	6,975,946	-	6,975,946	-
Fixed-income mutual funds	33,557,829	33,557,829	-	-
Foreign fixed-income funds	4,876,058	4,876,058	-	-
Domestic equity mutual funds	7,517,824	7,517,824	-	-
Real estate investment trusts	3,713,390	3,713,390	-	-
Common stock:				
Industrials	1,522,689	1,522,689	-	-
Consumer discretionary	4,716,426	4,716,426	-	-
Financials	3,197,131	3,197,131	-	-
Information technology	5,628,576	5,628,576	-	-
Other industries	10,352,315	10,352,315	-	-
Foreign common stock	245,782	245,782	-	-
Foreign equity mutual funds	20,288,075	20,288,075	-	-
	112,783,821	$ 95,616,095	$ 17,167,726	$ -
Investments measured at net asset value:				
Alternative equity hedge funds	10,082,644			
Total investments	$ 122,866,465			

	Alternative Equity Funds	
	2020	2019
Total gains, included in earnings attributable to the change in unrealized gains, net, relating to financial instruments still held	**$ 1,492,241**	$ 21,724

The following table sets forth additional disclosures of the NAIC's investments whose fair value is estimated using NAV per share (or its equivalent) as of December 31, 2020 and 2019:

	Fair Value at December 31				
Investment	**2020**	2019	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Protégé Partners QP Fund LTD (A)	**$ -**	$ 101,170	$ -	Quarterly	95 days
Magnitude International (B)	**5,519,030**	4,985,808	-	Quarterly	65 days
Chatham Asset High Yield Offshore Fund, Ltd. (C)	**1,261,175**	1,011,887	-	Quarterly	45 days
Davidson Kemper (D)	**1,105,563**	1,008,130	-	Quarterly	65 days
Field Street Master Fund, Ltd. (E)	**1,089,415**	1,016,839	-	Monthly	60 days
Silver Point Capital Offshore Fund, Ltd. (F)	**1,118,762**	965,650	-	Quarterly	90 days
Survetta (G)	**1,379,770**	993,160	-	Quarterly	45 days
	$ 11,473,715	$ 10,082,644			

Note 3. Investments and Investment Income (Continued)

(A) This fund aims to generate consistent absolute returns by investing in assets with a diversified group of investment managers through managed account structures or in the private investment funds sponsored by investment managers (collectively, hedge fund managers or hedge funds).

(B) This fund's investment objective is to deliver a 5% return over LIBOR, net of fees, over an extended market cycle with a target of achieving 5% annual volatility. The fund is globally diversified, multistrategy, multimanager portfolio that seeks to maximize expected active return from investing in hedge funds while minimizing passive risk and managing exposure to shock risk.

(C) This fund manages a long/short credit strategy within the high-yield bond and levered loan markets. The strategy combines a unique pairing of deep sector-based fundamental research combined with very active trading of portfolio positions.

(D) This fund employs a broad multistrategy event driven approach, blending distressed investing with merger arbitrage, event equity, and convertible and volatility arbitrage expertise. Strategy seeks to exploit situations where an announced or anticipated event is likely to take place, and a disconnect in the current valuation relative to the believed exit value is found.

(E) This fund manages a macro fund that is diversified across three categories: macro, relative value, and volatility. Relative value trades try to capture a mispricing among highly correlated securities, typically fixed-income instruments, while not taking any directional exposure to rates, curves or spreads. Macro trades will take directional views on rates, curves, spreads, currencies and implied volatility. Volatility trades can express a directional view or be a relative value trade. The goal of the portfolio manager is to produce a return stream that has low correlation to other risk asset classes.

(F) This fund manages a strategy that invests into distressed credit and special situations investments. Due to the nature of distressed credit, many of the investments have an event catalyst that will unlock value in the company. The fund is looking for opportunities in companies undergoing financial restructuring, companies in financial distress or bankruptcy, companies in liquidation or other special situations.

(G) This fund employs a generalist long/short equity strategy focused on investments in North America and developed countries in Europe.

Note 4. Property and Equipment

Property and equipment at December 31, 2020 and 2019, consisted of the following:

	2020	2019
Furniture and equipment	**$ 5,754,513**	$ 5,666,794
Computer and related equipment	**10,587,011**	9,546,320
Computer software	**31,842,620**	31,783,063
Leasehold improvements	**16,869,256**	16,869,256
	65,053,400	63,865,433
Less accumulated depreciation and amortization	**49,869,995**	45,857,467
	$ 15,183,405	$ 18,007,966

Note 5. Operating Leases

The NAIC leases its office space in Kansas City, New York and Washington, D.C. under noncancelable operating leases which expire at various dates through 2027. Certain parts of the agreements contain escalation clauses providing increased rentals based on maintenance, utility and tax increases. The NAIC also leases certain office equipment under noncancelable operating leases, which expire at various dates through 2021. The accompanying financial statements reflect rent expense on the straight-line method over the terms of the leases. Total rental expenses under all leases for the years ended December 31, 2020 and 2019, were $2,773,116 and $2,747,650, respectively.

The Kansas City office space lease includes various lease incentives, free rent and scheduled rent increases. The lessor agreed to pay the NAIC base rental differential payments totaling $2,390,571 plus 6% interest over the course of the initial lease term. This incentive is being recognized in the statements of activities on a straight-line basis over the life of the lease and is included in the deferred lease incentive described below. Annual payments of $285,140 were scheduled to be made to the NAIC through fiscal year 2022. However, the lessor paid the remaining balance to the NAIC in March 2019 reducing the outstanding incentive receivable balance to $0 as of December 31, 2019.

Deferred lease incentives consist primarily of reimbursements for leasehold improvements, parking costs and moving costs. U.S. GAAP requires that the above items be recognized as a reduction of rental expense over the term of the lease. The unamortized balance in deferred lease incentive was $4,611,258 and $5,963,611 as of December 31, 2020 and 2019, respectively.

Future minimum lease payments at December 31, 2020, are as follows:

Years ending December 31:	
2021	$ 4,411,109
2022	4,402,867
2023	4,461,792
2024	1,395,981
2025	866,824
Thereafter	1,300,236
Total future minimum lease payments	$ 16,838,809

Note 6. Employee Retirement Plans

The NAIC has a noncontributory defined benefit plan covering all employees with a hire date prior to January 1, 2000. As of December 31, 2012, accrued benefits for all active participants were frozen. The benefits are based on years of service and the employee’s compensation prior to January 1, 2013.

Note 6. Employee Retirement Plans (Continued)

The following table sets forth the plan's funding status, amount recognized in the NAIC's financial statements, and other required disclosures:

	2020	2019
Projected benefit obligation	**$ (53,121,526)**	$ (51,165,292)
Fair value of plan assets	**54,387,393**	53,029,013
Funded status of plan	**$ 1,265,867**	$ 1,863,721
Accrued benefit asset recognized in the statements of financial position	**$ 1,265,867**	$ 1,863,721
Accumulated benefit obligation	**$ 53,121,526**	$ 51,165,292
Employer contributions	**$ 927,000**	$ 1,250,000
Plan settlements	**$ (3,436,140)**	$ (2,380,650)
Benefits paid	**$ (887,942)**	$ (807,030)
Interest cost	**$ 1,435,732**	$ 1,839,274
Return on plan assets	**(2,414,509)**	(2,469,559)
Amortization of net loss	**2,535,622**	3,073,826
Settlement loss recognized	**312,963**	241,078
Net pension cost	**$ 1,869,808**	$ 2,684,619

Weighted-average assumptions used to determine benefit obligations are as follows:

	2020	2019
Discount rate	**2.15%**	3.10%
Salary rate	**N/A**	N/A
Measurement date	**December 31, 2020**	December 31, 2019

Weighted-average assumptions used to determine net pension costs are as follows:

	2020	2019
Discount rate	**3.10%**	4.21%
Salary rate	**N/A**	N/A
Expected return on plan assets	**5.00%**	5.75%
Measurement date	**December 31, 2020**	December 31, 2019

The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

Note 6. Employee Retirement Plans (Continued)

The following is the plan's weighted-average asset allocation by asset category as of December 31, 2020 and 2019 (the measurement date of the plan assets):

	2020	2019
Equity securities	**27.62%**	45.58%
Debt securities	**72.38%**	54.42%

Plan assets are held by an insurance company, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in common stocks, corporate bonds, U.S. government securities and other specified investments, based on certain target allocation percentages. Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through a limited investment in equity securities. Plan assets are rebalanced as necessary based upon the minimum and maximum restrictions set forth in the plan's investment policy statement. Plan assets are valued using Level 1 inputs and are based on unadjusted quoted market prices within active markets.

The benefits expected to be paid to participants over the next 10 years, as of December 31, 2020, are as follows:

Years ending December 31:	
2021	$ 4,650,718
2022	4,533,675
2023	4,927,021
2024	4,240,533
2025	3,759,534
2026–2030	14,296,934
Total	$ 36,408,415

The annual amount is actuarially calculated by the NAIC's independent consultant firm and represents the amount necessary to fully fund the actuarial accrued liability and normal cost of the plan.

The NAIC provides a defined contribution 401(a) plan (Plan B) that covers substantially all employees with one year or more of service. Each year, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee determine the contribution for the next year. The NAIC matched up to 5.5% of compensation of employees who contributed to Plan B and contributed 3.0% of all employees' compensation in 2020 and 2019. The pension expense related to Plan B for the years ended December 31, 2020 and 2019, was $3,770,086 and $3,446,916, respectively.

Note 7. Related-Party Transactions

The NAIC and National Insurance Producer Registry (NIPR) executed a License and Services Agreement (the Agreement) effective January 1, 2018, for an initial term of five years. The terms of the Agreement provide for (1) a 38% license fee for NIPR to use the NAIC's producer data; (2) the reimbursement of the actual cost of services, facilities and equipment provided by the NAIC to NIPR; and (3) a service fee for administrative and technical services provided by NAIC staff.

Note 7. Related-Party Transactions (Continued)

The total amount of revenue recognized during the year and amount owed at year-end from NIPR are as follows:

	2020	2019
Administrative services provided by the NAIC	**$ 2,394,601**	$ 2,134,654
License fee	**$ 18,199,297**	$ 17,214,307
Amounts payable to the NAIC	**$ 1,866,981**	$ 1,871,543

Effective June 2007, the NAIC entered into a service agreement with the Interstate Insurance Product Regulation Commission (the IIPRC), whereby the NAIC provides certain administrative services to the IIPRC. The NAIC receives an administrative fee of $125,000 and an annual license and maintenance fee in the amount of $25,000 for the use of the NAIC's System for Electronic Rate and Form Filing (SERFF). The IIPRC also pays an adjustable administrative fee of every $25,000 of net revenue in excess of expenses. This fee was 7.5% for the years ended December 31, 2020 and 2019. Additionally, certain expenses are paid on behalf of, and reimbursed by, the IIPRC. The NAIC also has an operating note receivable due from the IIPRC. Repayment of principal and interest was deferred until certain operating performance measures are met by the IIPRC. As of December 31, 2019, the IIPRC's 2019 financial performance triggered repayment of the note receivable. During 2020, the IIPRC renegotiated with the NAIC to modify and restructure the aforementioned operating note as a result of the trigger date being achieved. The modified agreement extends the repayment term from five to 10 years with the first payment due in 2020 and the final payment due in 2029. Repayment will be made only on the principal balance. Payments of $274,013 will be made no later than March 31 of each year. There is no accrued interest during the repayment period including any extended periods beyond the initial 10-year repayment period. If, during the 10-year repayment period, the IIPRC's cash balance is less than $250,000 as reflected in the annual audited financial statements, the required payment for the year following the financial statement date will be deferred and the repayment period extended accordingly. Upon the final payment that completely repays the principal balance, the imputed interest balance of $712,733 will be forgiven and treated as a contribution to the IIPRC. As a result of the modification, the NAIC has recorded an allowance for the accrued interest portion of $712,733 on the note receivable from IIPRC as of December 31, 2020 and 2019.

Principal payments due to the NAIC as of December 31, 2020, consist of the following:

Years ending December 31:	
2021	$ 274,013
2022	274,013
2023	274,013
2024	274,013
2025	274,013
Thereafter	1,096,056
	$ 2,466,121

Note 7. Related-Party Transactions (Continued)

The total amount of revenue recognized during the year and amounts owed at year-end from the IIPRC are as follows:

	2020	2019
Administrative services provided by the NAIC	**$ 125,000**	$ 125,000
License fee paid to the NAIC	**$ 25,000**	$ 25,000
Adjustable administrative fee	**$ 5,625**	$ 50,625
Amounts payable to the NAIC	**$ 38,753**	$ 97,555
Note payable to the NAIC, net of allowance of $712,733 recorded by the NAIC	**$ 2,466,121**	$ 2,740,134

Note 8. Contingencies

The NAIC is, from time to time, subject to claims and lawsuits arising in the ordinary course of business. Although the ultimate disposition of such proceedings is not presently determinable, management does not currently believe the ultimate resolution of these matters will have a material adverse effect on the financial condition, results of operations, or cash flows of the NAIC.

Note 9. COVID-19

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

Note 10. Subsequent Events

Management has performed an evaluation of events that have occurred subsequent to December 31, 2020, through March15, 2021. There have been no events that occurred during such period that would require disclosure in these financial statements or would be required to be recognized in the financial statements as of or for the year ended December 31, 2020.