

Draft Pending Adoption

Date: 8/8/17

SERFF Advisory Board
Philadelphia, Pennsylvania
August 6, 2017

The SERFF Advisory Board met in Philadelphia, PA, Aug. 6, 2017. The following Advisory Board members participated: Laura Cali Robison, Chair (OR); Dean L. Cameron (ID); Ken Selzer represented by Julie Holmes (KS); Rhonda Fossitt (MI); Angela Nelson (MO); Birny Birnbaum (Center for Economic Justice—CEJ); Brian Hoffman (The Travelers Companies); Katie Gurnett (Physician’s Mutual); and Karen Schutter (Interstate Insurance Product Regulation Commission—IIPRC).

1. Reviewed its Spring National Meeting Minutes

There were no requested changes to the Advisory Board’s April 8 minutes (Attachment One).

2. Received Reports on SERFF Activity

Bridget Kieras (NAIC) reported on System for Electronic Rate and Form Filing (SERFF) development and marketing activities. SERFF 7.12 will be released later this month. In addition to bug fixes and security upgrades, the release will introduce functionality to allow the states to begin implementing their state-specific record retention policies in SERFF. Some core features of this enhancement include the ability for state users to set destruction dates on SERFF rate and form filings, singly or in batch; business rules related to the setting of destruction dates; a mechanism to retain key information for historical reporting and trending; a notification system to alert the industry when filings have upcoming destruction dates; a record retention management screen for industry users to track and take action on filings nearing their destruction date; and a batch service to allow industry users to create either a portable document format (PDF) or a zip file of filings they need to retain. Work has begun for the second phase of the state data retention feature, scheduled to be in production before year-end or early in 2018. Mr. Birnbaum requested the total number of SERFF Filing Access (SFA) searches be added to the SERFF dashboard.

Ms. Kieras also reported that SERFF was approximately 5% behind budget for transaction revenue as of June 30, but an influx of plan management filings July have brought revenues in line with budget. The implementation team attended two conferences in May and June.

3. Received an Update on SERFF Strategic Projects

Ms. Kieras (NAIC) provided a report on 2017 strategic projects. The SERFFF redesign evaluation was extended through first-quarter 2017 to allow the team to explore rewriting SERFF using cloud technology. Initially, SERFF was considered for an early migration candidate and options were discussed for moving the application to the cloud. The intent was to migrate SERFF to the cloud as part of the software rewrite; however, due to the complexity of the SERFF application suite, it was determined not to be a good candidate for early inclusion in the NAIC’s cloud migration.

At this time, no project proposals have been prepared to begin a SERFF rewrite. A rewrite is still anticipated, but work is unlikely to begin until an organizational cloud transformation plan has been developed. Mr. Birnbaum asked how the delay in the SERFF rewrite would affect the requested enhancement to indicate where information had been redacted on public access filings via SFA. Commissioner Cali Robison confirmed that this feature also would be delayed but would again be considered as a part of the rewrite project. Joy Morrison (NAIC) said the current time frame is for the rewrite to begin in 2019 and, while a phased approach might result in a portion of the project being completed in 2019, the full project would probably not be completed in a year. Ms. Morrison reiterated that the timeline is dependent upon the development of a cloud migration roadmap, which will map the cloud migration plan for all the major systems at the NAIC.

The plan management project was completed on time with a reduced scope due to changes from the federal partners. Phase 2 of SERFF Integration Services is currently being delayed to coincide with the redesign of SERFF. There were no significant variances in the expenses for these projects.

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4. Received an Update on Transaction Fee Budget Forecasts

Ms. Morison said the team had completed some analysis work on filing volumes and revenue as part of the 2018 budget preparation. The Advisory Board reviewed statistics on filings and plan submissions, filings by Type of Insurance (TOI), and filings by filing type. The 2015 high in filing volume was due in part to the federal Terrorism Risk Insurance Act (TRIA). The results indicate that form filing submissions have dropped 20% from 2015 to 2016 and appear to be remaining at the reduced level into the first half of 2017. Ms. Morrison also said that the states they talked to about filing volumes acknowledged the drop in filings but did not know why they were receiving fewer in 2016 and 2017. A few states indicated changes in filing rules for some lines of business that may contribute to a reduction in filings. Ms. Morrison reiterated that as of July 31, the year-to-date (YTD) revenue total is very close to the budget and said the 2018 budget was prepared based on 2016 and 2017 actuals.

5. Reviewed PSC Annual Appointments Memorandum

Ms. Kieras presented the recommendations for Product Steering Committee (PSC) turnover from June 30. Those recommendations are for four state insurance regulator seats and four industry seats. Ms. Kieras confirmed for Mr. Birnbaum that the recommended members participate in the calls and that the calls are also open to any interested parties. Input is encouraged from non-members. Mr. Birnbaum questioned the recommendation of a Perr & Knight employee, citing a possible conflict of interest as Perr & Knight has been a provider of filing data. Mr. Hoffman confirmed that Perr & Knight sold that portion of its business, which should eliminate the possible conflict. Having no further discussion, the Advisory Board accepted the nominations. NAIC staff will contact appointees to confirm.

6. Discussed Other Matters

Ms. Morrison explained to the Advisory Board that Oracle had decided not to continue support for its Tracker product. Tracker is used by about 12 customers to manage their filings and submit filings to SERFF via the NAIC's SERFF Programming Interface (SPI). NAIC staff are already working with affected customers to outline options and provide training where needed. Ms. Morrison said she anticipates this news may prompt the vendor using SERFF Integration Services (SIS) to request the second phase of that project be completed prior to the rewrite of SERFF.

Commissioner Cali Robison reminded the Advisory Board that it will not be meeting at the Fall National Meeting and will, instead, meet via conference call later this fall.

Having no further business, the SERFF Advisory Board adjourned.

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FISCAL IMPACT STATEMENT

DATE SUBMITTED:	SEPTEMBER 21, 2017
NAME OF INITIATIVE:	SERFF PRICING AND POLICY RESTRUCTURE
REGULATOR/BUSINESS SPONSOR:	INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE
NAIC STAFF SUPPORT:	JIM WOODY, CHIEF FINANCIAL OFFICER
REQUESTED INITIATIVE START DATE:	JANUARY 1, 2018
ANTICIPATED COMPLETION DATE:	APRIL 30, 2018
TOTAL REVENUE EXPECTED (2018):	(\$70,894)
(2019):	\$35,188
TOTAL EXPENSE REQUESTED (2018):	\$9,900
(2019):	\$0
TOTAL CAPITAL REQUESTED (2018):	\$0
(2019):	\$0

I. Executive Summary:

The System for Electronic Rate and Form Filing (SERFF) was launched in 1998, nearly 20 years ago. Usage of the system at that time required an annual license fee as well as the purchase of filing fee blocks, which came in various quantities of prepaid filings with decreasing costs per filing for larger quantities purchased. In 2001 the annual license fee was eliminated and prepaid block tiers were modified resulting in the structure in place today with per-transaction prices ranging from \$6 to \$10. According to current policy, these blocks do not expire nor are they refunded. Customers who do not want to purchase transactions in advance have the option to pay \$15 per transaction, which is termed "Pay as You Go." These customers are offered a monthly volume discount if usage exceeds 150 transactions. The pricing structure set in 2001 has covered multiple technology changes to SERFF, most significantly migration to a new platform in 2006.

During its first 15 years, SERFF usage increased each year, in some cases quite dramatically. In 2001, SERFF had 3,694 transactions flow through the system. By the end of the decade, usage had grown to 565,478. With the addition of the Plan Management functionality to accommodate the Affordable Care Act (ACA), usage peaked in 2013 at nearly 650,000 transactions, but has declined over the past few years. For example, the number of transactions dropped 10% in 2016 to 574,519 from 637,717 transactions in 2015. Revenues have followed a similar pattern, with 2013 revenue being just short of

\$5 million, but falling to \$4.4 million in 2016, a 12% decline. Revenue appears to have stabilized at \$4.3 million.

	2010	2011	2012	2013	2014	2015	2016	2017P	2018B*
SERFF Transactions	565,478	558,689	544,884	648,114	644,158	637,717	574,519	572,211	570,225
Transaction variance	38,339	-6,789	-13,805	103,230	-3,956	-6,441	-63,198	-2,308	-1,986
% change over previous year	7.27%	-1.20%	-2.47%	18.95%	-0.61%	-1.00%	-9.91%	-0.40%	-0.35%
SERFF Revenue	\$4,282,499	\$4,234,413	\$4,144,667	\$4,977,153	\$4,863,161	\$4,818,088	\$4,375,421	\$4,363,751	\$4,347,200
Revenue variance	\$286,361	-\$48,086	-\$89,746	\$832,486	-\$113,992	-\$45,073	-\$442,667	-\$11,670	-\$16,551
% change over previous year	7.17%	-1.12%	-2.12%	20.09%	-2.29%	-0.93%	-9.19%	-0.27%	-0.38%
Avg price per transaction	\$7.57	\$7.58	\$7.61	\$7.68	\$7.55	\$7.56	\$7.62	\$7.63	\$7.62

*2018 Base budget does not include the impact by fiscals

The creation and oversight of prepaid blocks is a manual process handled by NAIC SERFF support staff. Because blocks do not expire, the unused transactions continue indefinitely as prepaid revenue to the NAIC, in some cases for more than a decade as transactions are slowly utilized or not used at all if a company goes out of business or purchases new blocks without depleting the older ones it has available.

The intent of this fiscal is to streamline the pricing structure, which will in turn make it easier to maintain, ensure equity in pricing across the tiers, and significantly reduce the NAIC's financial liability. The proposed pricing restructure reduces the number of tiers from five to three, lowers the price of pay-as-you-go transactions, incorporates policy changes to expire blocks after a reasonable period, and eliminates pay-as-you-go volume discounts.

The pricing restructure and policy changes are expected to alleviate manual effort involved with the prepaid block process, with the goal of fully automating the SERFF pricing structure as this system is upgraded. To achieve equity, there will be logical levels of transactions for each tier – of 500, 1,000, and 1,500 – with corresponding unit prices that adjust in a similar fashion between tiers. The new policy will ensure customers utilize prepaid blocks in a timely fashion, by encouraging them to purchase only what they need for the immediate future, as prepaid blocks will expire within 24 months. To facilitate the transition to the new pricing structure, refunds will be offered on unused transactions for older blocks, some of which were purchased in the early 2000s.

Periodic adjustments may be made to the price points to cover ongoing and future regulatory initiatives. Any adjustment would be capped at 25 cents per price point, whether it is an increase or decrease in price. Such adjustments will allow the NAIC to manage its financial position in a prudent manner while ensuring the appropriate level of funding for important membership initiatives and technology investments, including the anticipated move of SERFF to the Cloud within the next few years.

The proposed pricing changes in this fiscal are designed to be revenue neutral over the next three years. Revenue neutrality is based on continuation over the next three years of the pattern of system usage which occurred during the 12-month period of April 2016 to March 2017. While it is revenue neutral in its overall scope, it is anticipated that nearly 85% of current SERFF customers will experience no change or a reduction in fees paid compared to the current structure.

Impact to SERFF Customers						Expected 2018 Budget Increase	Expected 2019 Budget Increase	Expected 2020 Budget Increase	Three-year Revenue Impact
Savings or No Impact	Less than \$100 increase	\$101 to \$1,000 increase	\$1,001 to \$5,000 increase	More than \$5,000 increase	Total Customers				
1,336	115	101	35	7	1,594	(\$70,894)	\$35,188	\$35,188	(\$518)
84%	7%	6%	2.5%	0.5%	100.0%				

II. Key Deliverables:

The restructure of the SERFF pricing model and the necessary policy changes will result in several key deliverables:

As of January 1, 2018:

- Reduce the number of prepaid block tiers from five to three, thus streamlining the tier structure, and at the same time, implement a more logical structure whereby the incremental increase in transactions and decrease in unit fees are equitable between tiers.

Current Pricing Structure by Number of Transactions					
PAYG*	100	400	1,000	2,500	5,000
\$15	\$10	\$9	\$8	\$7	\$6
Proposed Pricing by Transaction Level					
PAYG	500	1,000	1,500		
\$13.50	\$9.50	\$8	\$6.50		
*PAYG discount rate of \$8 to be eliminated					

- Set a two-year expiration date for prepaid blocks. The policy change will prevent unused transactions from remaining as a financial liability to the NAIC for an indefinite period of time, and instead will allow the NAIC to recognize the revenue in a timely manner. Customers will be encouraged to evaluate their volume usage in order to purchase the appropriate level of transactions. Following the expiration of blocks, which is proposed to begin in early 2020, the unused transactions will be recognized as revenue.
- Reduce the Pay as You Go transaction fee from \$15 to \$13.50, resulting in savings to many of the smaller companies that use SERFF less frequently.
- Eliminate the Pay as You Go volume discount. The current policy discounts the fee to \$8 for Pay as You Go transactions over 150 in any given month. Fewer than 20 customers received this discount during the 12-month period evaluated, and the impact to those customers can be minimized through purchases of prepaid blocks.

To accommodate the pricing restructure, several policy modifications are needed in the fourth quarter of 2017 – it is important to note these policy modifications should occur to improve the operational effectiveness of the SERFF program:

- Revise the current “no expirations” and “no refunds” policy posted on the website so that blocks purchased thereafter will have a two-year expiration date.
- Offer refunds on all current blocks but specifically target those that are more than two years old. Customers opting to not receive a refund will be expected to fully deplete unused transactions on these blocks by the end of 2018. To accommodate the effort to refund blocks, temporary resources will be requested to augment staff efforts to notify customers, modify license agreements, and process the refunds.

III. Organizational Impact:

It is anticipated customers will evaluate their individual financial positions with regard to the pricing changes and decide whether to receive a refund on older blocks and purchase new blocks at the new

price or to opt out of the refund and instead fully deplete existing blocks. This fiscal assumes each customer will make the decision that is most financially beneficial to the customer, based on individual customer transaction volume over the evaluated 12-month period. As a result, the 2018 SERFF base budget revenue is expected to decline by \$70,894. However, once refunds have been processed and all customers are purchasing blocks under the new pricing structure, revenue is expected to increase by \$35,188 in 2019 compared to the 2018 SERFF base budget, assuming similar transaction volume per customer in 2019. Overall the average price per transaction in 2018 is anticipated to decrease from \$7.62 to \$7.50 in 2018 and increase to \$7.69 in 2019.

SERFF Pricing Restructure: 2018 - 2020 Impact											
Trans Type	Total trans	Existing Unit Fee	Proposed Unit Fee	Revenue at Existing Fee	Revenue at Proposed Fee	2018 Revenue Total	2018 Revenue Variance from 2018 Budget	2019 Revenue Total	2019 Revenue Variance from 2018 budget	2020 Revenue Total	2020 Revenue Variance from 2018 budget
\$10 prepaids	14,800	\$10.00	\$9.50	\$81,370	\$63,299	\$144,669	(\$3,332)	\$140,600	(\$7,400)	\$140,600	(\$7,400)
\$9 prepaids	44,625	9.00	9.50	281,025	127,300	408,325	11,425	423,938	27,038	423,938	27,038
\$8 prepaids	89,500	8.00	8.00	475,224	240,776	716,000	8,800	716,000	8,800	716,000	8,800
\$7 prepaids	69,400	7.00	6.50		451,100	451,100	(34,700)	451,100	(34,700)	451,100	(34,700)
\$6 prepaids	299,800	6.00	6.50	1,134,444	719,719	1,854,163	126,163	1,948,700	220,700	1,948,700	220,700
\$4 prepaids	325		9.50		3,088	3,088	1,788	3,088	1,788	3,088	1,788
\$15 PAYG	51,200		13.50		691,200	691,200	(76,800)	691,200	(76,800)	691,200	(76,800)
\$8 PAYG	575		13.50		7,763	7,763	(104,238)	7,763	(104,238)	7,763	(104,238)
Grand Total	570,225			\$1,972,063	\$2,304,244	\$4,276,307	(\$70,894)	\$4,382,388	\$35,188	\$4,382,388	\$35,188
							-1.6% % increase		0.8% % increase		0.8%
							\$7.50 Avg fee		\$7.69 Avg fee		\$7.69

As noted above, nearly 85% of SERFF customers will either pay the same or lower fee than they do today, while only seven SERFF customers will see an increase of more than \$5,000 or 8%, when their current prepaid blocks are fully utilized. It is important to note a SERFF customer ID is often at the group level or is utilized by a third-party filer. Therefore the seven customers most impacted represent 225 companies, for an average increase of \$237 per insurer.

With regard to organizational impact, the effort to refund prepaid blocks will require resources from the Finance Department and Information Technology Group. The effort to update license agreements to remove the current no-refund language will impact the Legal Division. Temporary and intern resources are requested for a total of \$9,900, to assist with the potential of up to 607 customer refunds.

See **Attachment I** for further financial details.

IV. Risk Management Plan:

if this fiscal is not approved, the current pricing structure will retain certain inherent inequities. The volume discount on Pay As You Go usage over 150 transactions per month allows customers to receive the same price as those that purchase large prepaid blocks. Currently customers must make a \$30,000 payment to receive the lowest tier rate, whereas the lowest tier block will require a cash outlay of only \$9,750 in the new structure. Smaller customers who use the system infrequently will continue to pay the \$15 rate, rather than receiving the proposed savings of \$1.50 per transaction.

The current no-expiration policy allows blocks with unused transactions to remain on the NAIC's financial books indefinitely, resulting in financial liability that requires NAIC staff to manage year over year. The table below illustrates the number of prepaid blocks that have unused transactions, by year created. For example, there are 28 blocks that were created in 2004 which have 5,783 unused transactions. The customers paid for these blocks in 2004, but the cash has remained on the NAIC's books for 13 years. This fiscal proposes to notify these customers so the transactions can be utilized and thus earned by the NAIC as revenue or the cash can be refunded to the customer.

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
Blocks	28	7	6	21	18	26	26	38	34	78	94	228	604
Units	5,783	2,496	701	3,802	2,712	6,538	4,023	11,128	12,589	35,102	35,916	96,982	217,772

This initiative will require coordination between several NAIC departments to oversee the refund and block expiration process effectively. A detailed plan will be created to cover all aspects of the initiative, to ensure an effective and efficient process. The pricing changes should not require significant technical resources to implement.

V. Security Impact:

There is no security impact to these changes, as they are pricing changes only.

2018 Budget
Fiscal Impact Statement Project Cost Analysis
Project/Initiative: SERFF Pricing and Policy Restructure

Description	2018 Budget Spread												2018 Total	2019 Budget	2020 Budget		
	January	February	March	April	May	June	July	August	September	October	November	December					
Revenues:																	
Usage Fees	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)
Total Revenues	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)	(5,908)
Expenses:																	
Temporary Personnel	2,000	2,000	2,000	2,000													
Intern	1,300	1,300	1,300														
Total Expenses	3,300	3,300	3,300	2,000													
Revenues Over (Under) Expenses	(\$7,208)	(\$9,208)	(\$9,208)	(\$7,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)	(\$5,908)
Capital Purchases:																	
Total Capital Purchases	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0



SERFF Activities Report

SERFF Development

SERFF Production Releases

- System for Electronic Rate and Form Filing (SERFF) 7.12 was released Aug. 3, 2017. It introduced functionality to allow the states to begin implementing their state-specific record retention policies in SERFF. The primary pieces of this enhancement allow state users to set destruction days on SERFF rate and form filings and a batch service allowing industry users to create a portable document format (PDF) or zip file of filings they wish to retain. Additionally, 7.12 introduced functionality for companies that file to the Interstate Insurance Product Regulation Commission (IIPRC) to add a company/state association on a submitted filing where the state was already associated to one other company.
- SERFF 7.13 was released Oct, 12, 2017. This release focused on security improvements to the system.
- SERFF 7.14 work is in progress. This release, anticipated for late 2017 or early 2018, includes:
 - Additional security improvements.
 - Addition of a new field to the Rate/Rule Schedule for “SERFF Tracking Number of Last Filing.” This is a field that was added to the uniform transmittal document (UTD) for 2018 that needs to also be collected via SERFF.
- SERFF 7.15, planned for first-quarter 2018, will be primarily focused on the functionality to finish out the backend process for the new State Data Retention functionality, including the jobs that will run to actually delete the filings.

NAIC Initiatives

The SERFF team continues to participate in NAIC initiatives involving future state architecture, software development, security standards and project management best practices, user-centered design, and user interface standards. The team has been working with other business areas to learn about cloud infrastructure and development in anticipation of moving SERFF to the cloud in the future. The group also continues its efforts toward improving SERFF’s security posture.

Health Care Reform Update

Plan year 2018 has mostly wrapped up in terms of submission, review and transmission of plans to the U.S. Department of Health and Human Services’ (HHS) Health Insurance and Oversight System (HIOS). The SERFF team is preparing to submit Financial Management (FM) data reports for state-based exchanges so advanced cost shares can be calculated. Discussions about possible changes for the 2019 plan year submission are underway.

SERFF Marketing/Implementation

SERFF Transaction Volume

SERFF is projected to receive 617,732 transactions in 2017. 438,985 transactions were received through the end of September. This is about 6.5% lower than expected at this point in the year. Overall, SERFF received only 76% of the plans expected through SERFF. The difference is being attributed to the changes in federal administration and anticipated reforms to the federal Affordable Care Act (ACA), which would also likely affect filing volume on the health side.

SERFF Marketing Activities/Events

Four SERFF staff members attended the 2017 Annual Association of Insurance Compliance AICP Conference in Seattle in early October. The team sponsored a snack break, participated in roundtables, manned a booth and presented a well-attended session on SERFF hot topics, spending a good portion of time talking about the new State Data Retention functionality.

SERFF State Implementation

The product specialists are currently preparing to reach out to discuss changes for the 2018 Product Coding Matrices. They have also made other filing rules changes from the states, as requested. Plan year 2018 requirements were configured and completed in early spring. The team has been working with the states to assess usage and possible retirement of the Health Filing Access Interface (HFAI) and has been providing demonstrations for SERFF Filing Access (SFA). In August, the product specialists reached out to the states to verify their intents with using State Data Retention functionality. The first state turned on the new functionality Sept. 19, with a few additional states turning it on shortly thereafter.

SERFF Filing Access

SFA is now in production for 42 states and the IIPRC. Arizona has been implemented since the Summer National Meeting. Additionally, staff members have held more demonstrations on the SFA functionality as we look toward eventually retiring the HFAI functionality and replacing it with SFA.

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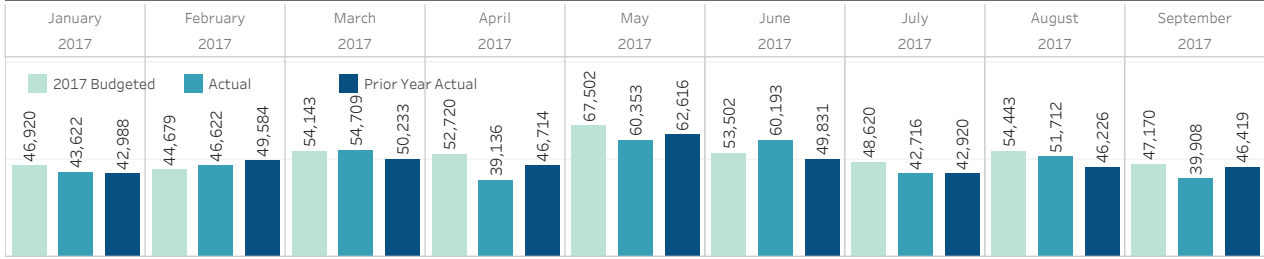


SERFF Dashboard

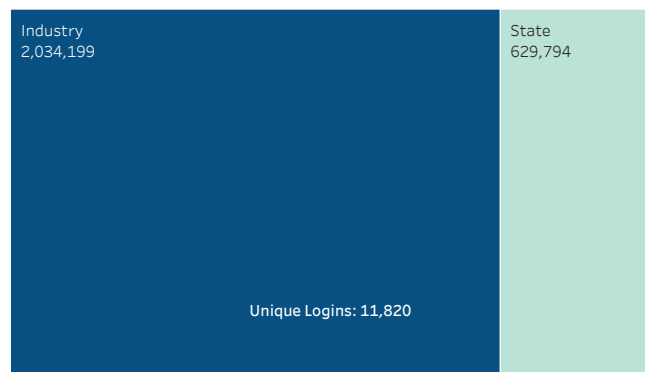


*YTD through 9/30/2017

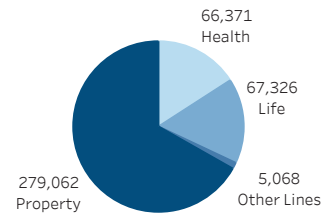
Transaction Counts per Month



Number of Login Attempts YTD*



Filing Experience YTD*



SERFF Filing Access Searches YTD*

