

August 22, 2016

To: IDMA Members

From: Aimee Siliato, Vice President of Marketing, IDMA

Subject: New Feature for IDMA Members – *The Regulatory Review* eBulletin

Introduction

Welcome to this new feature for IDMA members. I look forward to sharing my observations and information on National Association of Insurance Commissioners (NAIC) activities. Subsequent communications following the NAIC national meetings will provide ongoing updates.

The insurance industry is highly regulated and data-rich. Therefore an important component of effective data management is to be aware of and knowledgeable of regulatory issues. We need to know all aspects of the environment in which we are managing data. Regulation is a critical one. We hope you will find the information that follows to be useful in managing your data responsibilities and understanding the overall insurance industry environment.

Disclaimer

The content presented here is not intended to be all-inclusive so please visit www.naic.org and click on Committees & Activities for more information or consult your own company's regulatory/compliance staff. Any opinions or observations expressed here are strictly those of Ms. Siliato's and do not necessarily represent the opinions or observations of any company, member of IDMA or of IDMA leadership. The independent review of this material by you and/or your company should be considered in any use of this material.

Ongoing Comments and Feedback

IDMA welcomes your feedback on this new communication. Please feel free to send comments to Farouk Yassine, IDMA Executive Director, at fyassine@idma.org.

THE REGULATORY REVIEW

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Data Infrastructure

In his remarks at the opening session of the April 2016 National Meeting, NAIC President, Director John Huff of Missouri, spoke of the importance of developing the proper infrastructure for big data. Director Huff's remarks tied together the critical infrastructure/management component with the use of big data. His remarks were made in the context of investments and financial prudence. However, it is clear that the concepts apply to any use of big data. Simply having big data is not sufficient. Its value can only be fully realized with the proper structure supporting it. With the remarks being made at the highest level of NAIC leadership, it is clear that these topics are, and will continue to be, key NAIC objectives. Given infrastructure can mean many things to different stakeholders and in varying situations, the NAIC expects to develop an issues paper on these topics and dialogue will continue.

Use of Big Data and Big Data Hearing

The NAIC is exploring use of big data in the industry, not just for underwriting and pricing but also for functions such as marketing and claims. Accuracy and efficiency must be addressed in any discussion of big data but in this instance market regulation will also be addressed.

At a hearing held in April, various stakeholders expressed their views on the use of big data.

- Academics cited the many ethical questions use of big data raises.
- Insurers stressed the need for big data to make better business decisions.
- Consumer representatives are concerned about privacy, accountability, discrimination and transparency.
- Regulators stressed the need for balanced judgement because insurance is people-driven and not one-size fits all.

There are many aspects to this discussion including but not limited to the sources of big data, uses, benefits, and any potential regulatory role. However one of the most basic yet most complex aspects of the discussion and something critical to moving forward is how do you define big data in the first place. No action was taken at the hearing which was held to hear perspectives. Discussions will be ongoing.

Cybersecurity

The NAIC Cybersecurity Task Force is drafting an Insurance Data Security Model Law. The purpose of the model law is to establish standards for data security and investigation and notification of a breach of data security. Topics such as consumer rights, confidentiality and penalties will be addressed in the model law. The draft can be found at http://naic.org/documents/committees_ex_cybersecurity_tf_160524_draft_ins_data_sec_model_law.pdf

National Flood Insurance Program

Potential reform of the program is being considered. The NAIC is gathering input from interested parties on various aspects of the program including transitioning to risk-based pricing to encourage private market participation.

The NAIC supports:

- Long-term reauthorization.
- Growth in the private market.
- Mitigation, planning, legislation and support to reduce losses.

Price Optimization White Paper

The use of price optimization tools by property/casualty insurers in their ratemaking processes is addressed in this white paper. The primary focus of the paper is personal lines. The paper does not express an opinion on the use of tools, leaving that to individual states to decide. It provides research to aid in state decisions.

It also proposes that states:

- Consider issuing a bulletin to address insurers' use of methods that may result in non-cost based rates.
- Consider enhancing requirements for personal lines rate filings to improve disclosure and transparency around rates, rate indications and rate selections.
- Analyze models used by insurers in ratemaking to ensure the model adheres to state law and actuarial principles.

The paper was adopted by the Executive Committee on April 4, 2016.

NAIC Adopted White Papers and Model Regulations

The NAIC has recently made their collection of white papers and model laws available at no cost. The material can be found at http://www.naic.org/prod_serv_model_laws.htm. The Prize Optimization White Paper can be found here.

Editor's Note: Once again, IDMA welcomes your feedback on this new communication. Please feel free to send comments to Farouk Yassine, IDMA Executive Director, at fyassine@idma.org.

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