



# IDMA's The Regulatory Review

An eBulletin dedicated to providing NAIC regulatory updates to IDMA members

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**To:** IDMA Members  
**From:** Aimee Siliato, Vice President of Marketing, IDMA  
**Subject:** *The Regulatory Review* eBulletin – 2016, Edition #2

## ***Introduction***

*Welcome to another edition of IDMA's Regulatory Review. The National Association of Insurance Commissioners (NAIC) held a national meeting in August with ongoing, follow up teleconferences to continue work. I'm pleased to share with you my thoughts, observations and information on several topics in support of IDMA's goal to not only provide data management education but also knowledge of the insurance industry environment.*

## ***Disclaimer***

*The content presented here is not intended to be all-inclusive so please visit [www.naic.org](http://www.naic.org) and click on Committees, on the NAIC's newly revamped website, 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](mailto:fyassine@idma.org).*

## **THE REGULATORY REVIEW**

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## **Big Data**

In previous discussions, a key focus was how to define Big Data. That proved to be difficult and time-consuming. Instead, work will move forward on 3 action items:

1. Public policy and the regulatory framework
2. Understanding what data is being used and how
3. Better tools for regulators and regulatory cooperation

Comments from the Center for Economic Justice, an advocacy organization for consumer rights, included the importance of realizing that correlation is not causation and models can lead to historic discrimination. TransUnion stated that the use of Big Data and modeling can lead to more products for consumers, more availability, better pricing. It was noted that the Fair Credit Reporting Act and Gramm-Leach-Bliley are already in place to provide consumer protections.

There was extensive discussion on transparency, with regulators expressing concern that neither regulators nor the consumers they serve fully understand model algorithms, inputs and functions. Insurance departments often do not have the resources or budget for such investigations. A suggestion that the NAIC dedicate resources to reviewing and examining models was countered with a lack of resources as well as expertise in the field available at the NAIC.

### **Casualty Actuarial and Statistical Task Force**

The Task Force is also looking at modeling and its uses in the industry, as are other NAIC groups, leading to comments that the efforts should be combined or at a minimum coordinated closely. Discussion at the Task Force also included suggestions that the NAIC take on a large role in reviewing models. But as noted above, resources and expertise were cited as obstacles.

Variation among states, for example which factors can be used in modeling, (Pennsylvania does not allow gender) complicates the regulatory role and landscape. Again concern was raised that regulators, agents, and consumers do not know enough about how models work and yet are being affected by their outcomes. It was suggested that a new model law might be an appropriate step to take.

### **Cybersecurity**

The NAIC draft Insurance Data Security Model Law continues to generate an extraordinary amount of comment and discussion. The Model Law sets standards for data security and breach response/notifications, which many feel would create conflict with various state breach requirements already in place would result in consumers receiving many notifications of the same breach. Work is ongoing.

The latest version of the model law can be found on the NAIC website.

[http://naic.org/documents/committees\\_ex\\_cybersecurity\\_tf\\_exposure\\_mod\\_draft\\_clean.pdf](http://naic.org/documents/committees_ex_cybersecurity_tf_exposure_mod_draft_clean.pdf)

Beginning in 2015, a supplement for Cybersecurity was added to the NAIC Annual Statement data call for collection of data regarding cyber coverage. Over 500 insurers reported data. NAIC staff estimated that approximately \$1.5 billion in direct written premium was written. Given that much of the premium was part of a package policy, staff used estimation techniques to produce the final total. The number is small relative to the estimated \$522 billion property/casualty premiums but is growing. The \$1.5 billion also does not include excess and surplus premium, given those writers are not subject to the NAIC data collection requirement. Efforts are underway to work with other NAIC groups to obtain information from excess and surplus writers.

### **National Flood Insurance Program (NFIP)**

The NAIC has developed recommendations for NFIP reform including:

- Encouraging greater by the private flood insurance market
- Encouraging a coordinate effort between the public and private sectors with regard to take up rates
- Considering a study on alternative approaches to the program structure.

There was a comment from a consumer representative that private insurers could provide better coverage at better prices than the NFIP. The NAIC is working with the NFIP to assist in these private sector efforts.

## **Workers Compensation**

Work continues on the Large Deductible Study that the NAIC and the IAIABC is jointly preparing. The study is intended to serve as a resource for insurers, TPAs, professional employer organizations, guaranty associations and regulators showing how large deductible policies work and special issues that can arise with them.

The objectives of the study are to:

- Compare the market for large deductible workers compensation in 2015/2016 versus 2016
- Identify whether the use of large deductibles by employers is a significant trend
- Identify the causes of recent insurance company insolvencies and the role large deductibles played in their insolvencies
- Understand special concerns related to the use of large deductibles by PEOs

The latest version of the paper can be found on the NAIC website.

[http://naic.org/documents/committees\\_c\\_wctf\\_naic\\_iaiabc\\_exposure\\_wc\\_study\\_combined.pdf](http://naic.org/documents/committees_c_wctf_naic_iaiabc_exposure_wc_study_combined.pdf)

## **Data Collection for Life Insurers**

Statistical data collection is being implemented for life insurers. This is the first time that data collection of this nature will be required for life insurers. There has been discussion on the NAIC becoming the statistical agent. The NAIC is collecting data in Kansas and is looking at capacity and security issues.

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

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