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**To:** IDMA Members  
**From:** Aimee Siliato, Vice President of Marketing, IDMA  
**Subject:** *The Regulatory Review* eBulletin – 2018, Edition #3

## ***Introduction***

*Welcome to another edition of IDMA's Regulatory Review, presented in support of IDMA's ongoing commitment to robust education of the insurance data manager. The information in The Review is derived from NAIC activities and other discussions on current industry challenges and developments.*

*The insurance industry is, was and will always be a highly-regulated industry. The increasing complexities of its products and impact on so many aspects of business and society guarantee that going forward. What makes the current regulatory landscape different from previous business cycles, however, is the rapid growth of data-driven regulation. And as data and science become more prominent in regulation, the art of analysis also becomes more critical. Data professionals are uniquely skilled in combining the art and the science of data analysis. NAIC President and Tennessee Commissioner of Commerce and Insurance Julie Mix McPeak quoted Thomas Jefferson who said "a little revolution now and then is a good thing". Combining art and science in data-driven insurance regulation has the making of a good revolution. Learn more in this edition of The Regulatory Review.*

## ***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 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 communication. Please feel free to send comments to Farouk Yassine, IDMA Executive Director, at [fyassine@idma.org](mailto:fyassine@idma.org) or [team@idma.org](mailto:team@idma.org).*

**NAIC Strategic Plan**

As noted in the last edition of The Review, at its Spring National Meeting, the NAIC Executive Committee and Plenary ratified adoption of *State Ahead*, the NAIC Strategic Plan for 2018-2020. Implementation of the plan is proceeding with migration of systems to the cloud, expanding training opportunities for state insurance department employees and providing forums to explore regulatory issues in InsureTech. (See item below on **Regulation and Innovation**.)

It was reiterated in various discussions that *State Ahead* is not intended to reduce or replace the authority of state regulators, nor does it seek to have the NAIC become a regulatory body.

The link to the full *State Ahead* plan can be found on the NAIC homepage at [www.naic.org](http://www.naic.org).

**Innovation and Technology Task Force**

States are considering a survey of insurance departments to assess innovation readiness. Discussion included undertaking efforts to identify and assess regulation that prevents or inhibits innovation.

The United Kingdom's Financial Conduct Authority gave a presentation to the Task Force on their regulatory sandbox. The sandbox is viewed as a method of making regulation and innovation more agile, rather than an attempt to deregulate.

There are three main objectives:

- Ensure consumer protection
- Enhance the integrity of the UK financial system
- Promote effective competition for the benefit of consumers

**Cybersecurity Model Law**

The NAIC Insurance Data Security Model Law was adopted October 24, 2017. A recent report from the Treasury Department encourages states to adopt the NAIC model over the next five years.

**Market Information Systems Task Force**

The results of the 2017 year-end Market Information System data analysis metrics are being reviewed. The results identified potential data quality issues in the report, resulting in discussion of the need for better definition of best practices as they relate to evaluation of the insurance market. Clarification of market regulation terms and definitions used in reports and how to evaluate completeness of data submissions were noted as examples of issues to be addressed.

Work continues on the redesign of the Market Conduct Annual Statement (MCAS) System, with focus on migration to the cloud, data security and leveraging other NAIC data collection applications, such as the life insurance statistical data collection system, to increase uniformity and efficiency of NAIC data collection systems.

**Climate Change**

The United Nations-supported Principles for Responsible Investment (PRI) addressed the Climate Change and Global Warming Working Group giving an overview of climate-related financial disclosures. The PRI is an organization of over 2000 investors worldwide. Their remarks strongly

emphasized the need for financial markets to have high-quality, timely data on climate-related risks to operate efficiently. Core elements recommended for insurers include disclosure of targets and metrics used to assess and manage climate risk and opportunities as well as aggregated risk exposure to weather-related catastrophes of their property business.

### **Life Insurance Data Collection**

The Life Actuarial Task Force adopted revisions to its Experience Reporting Requirements to state that the NAIC serves as the experience reporting agent for life insurance data. It will function in that role on behalf of the states.

### **Blockchain Initiative**

The American Association of Insurance Services (AAIS) has developed Insurance Data Link (IDL) in partnership with IBM, Hyperledger platform and Linux. IDL is described by AAIS as the next-generation industry reporting process and the first open blockchain platform that enables efficient, secure and permission-based collection and sharing of statistical data. It supports statistical reporting for current requirements as well as having the flexibility to allow for easier compliance with future data calls. A single data stream is used for quarterly reporting requirements as well as periodic data calls.

### **Emerging Issue-Cannabis Working Group**

In recognition of issues associated with legalization of recreational and medicinal marijuana, the NAIC has formed a Cannabis Working Group. California will chair the Working Group, Illinois vice chair. The group will meet during the NAIC Fall National Meeting in November. A white paper is to be developed on insurance issues related to legal cannabis businesses.

### **Predictive Models**

The Big Data Working Group, with assistance from the Casualty Actuarial and Statistical Task Force (CASTF), is continuing to provide information and training to state insurance departments in support of the requirement of insurance departments to review the role of predictive models in insurance rate filings for personal automobile and homeowners.

The CASTF was asked to:

- Draft best practices for review of predictive models and analytics
- Draft guidance for review of rate filings based on predictive models
- Facilitate training through predictive analytics webinars

A white paper from the Task Force is expected to address:

- Source and reliability of data
- Types of models
- Model outputs
- Information included in filings

Recent CASTF Book Club teleconferences included a presentation by Milliman on topics including:

- Interpretability issues
- Sensitivity analysis
- Machine learning challenges

## **Regulation and Innovation**

The NAIC Center for Insurance Policy and Research (CIPR) held an event focusing on “Can Regulation Keep Up with Innovation”. Key points included the need to address the role of InsureTech startups in the industry. Regulators must work with and understand InsureTech startups. Startups must understand the regulation governing the industry and work within those parameters. All must have the good of the consumer and the growth and stability of the industry as objectives.

*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) or [team@idma.org](mailto:team@idma.org).*

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