

'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 – 2019, Edition #1

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 smoke from the tragic Camp Fire made it difficult to see many beautiful sites and views, and some days even the building across the street, in San Francisco during the NAIC's Fall National Meeting but one thing that was crystal clear was the broad array of challenges facing the industry and regulation of it in 2019. Protesters outside where the meeting was held called for more action by the industry and regulators relative to climate change. Innovators called for more efficiency and fewer roadblocks to getting products to market. The need for consumers to be able to obtain coverage faster, easier and "without having to read a 77-page form" were common themes. Today's consumer shops differently and the industry needs to respond to that. Dialogue with the European Union continues and is particularly important in the GDPR era. Read more on state, federal and EU topics in this issue.

Disclaimer

The content presented here is not intended to be all-inclusive so please visit 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 or team@idma.org.

NAIC 2019 Budget

One of the biggest expenditures planned for 2019 is the continuation of the Cloud Migration project. Phase III of the project is set for 2019, with approximately \$3.4 million in budgeted expenses. Minimal application changes are expected to be made. The focus will be moving the applications to the cloud. Cultural transformation to make the NAIC more nimble is also part of the 2019 focus. This is expected to expedite product delivery and product development. Operating expenses are expected to increase 11% over 2018 to \$118.8M, with a net asset decline of \$8.2M. Increased expenditures are due in large part to support of the *State Ahead* strategic plan initiatives.

Innovation and Technology

A landing page on innovation has been added to the NAIC site, www.naic.org. It is a resource for information on areas of innovation. Current topics on the site are:

- Artificial Intelligence (AI)
- Autonomous Vehicles
- Big Data
- Blockchain
- Cybersecurity
- Internet of Things (IoT)

States were asked to provide the name of an insurance department team member for the page as a contact for obtaining information on new, innovative products, services, technology and regulatory implications.

Presenters at the Innovation and Technology Task Force included Plug and Play which sources startups. They have a global InsurTech network in their client base. Discussion on the topic of using/collecting genomic data for and from innovation projects resulted from remarks made. Plug and Play views this as positive for consumers to increase the number, variety and accessibility of products in the marketplace. There was lively discussion on consumer data privacy, the need for compliance with existing laws and regulations, as well as the possible need for more. Discussions in other forums have cited insurance regulation in the U.S. as complex, difficult to navigate and a possible barrier to entry for innovators.

Cybersecurity Model Law

South Carolina and Ohio have enacted the NAIC Insurance Data Security Model Law. Other states are expected to follow. The U.S. Treasury Department supports adoption of the model by states.

Focus on Quality

In many regulatory forums, *quality* is increasingly at the forefront of discussions that to a large extent had previously focused on *quantity*. As noted in the last edition of The Review, 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. Similar discussions are taking place in Innovation and Technology, Big Data, Market Analysis and Market Information Systems to cite a few.

Data Visualization

Work continues on the redesign of the Market Conduct Annual Statement (MCAS) System. Data visualization of the information that is reported in the statement has been implemented. This has resulted in faster, clearer data review, allows more analysts to be involved in the review process through the simplification that visualization provides as well as fitting with the overall NAIC quality objectives.

Emerging Issue-Cannabis Working Group

At its first in-person meeting at the NAIC Fall National Meeting, California was discussed as a case study in insuring the businesses. Supply chain was discussed as well as the challenge of coordination between state and federal laws. The working group's white paper providing information and guidance is expected to be available for comment in April.

Predictive Models

The Casualty Actuarial and Statistical Task Force (CASTF) has exposed for comment a draft white paper regarding insurers' use of predictive modeling. It addresses:

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

The full paper can be found at:

https://naic.org/documents/cmte_c_catf_exposure_predictive_model_white_paper.pdf?82

It contains, among other information, 16 best practices for regulatory review of predictive models including:

- Encourage competition among insurers
- Protect the confidentiality of filed predictive models and supporting information according to state law
- Determine that the data used as input to the predictive model is accurate, including a clear understanding of how missing values, erroneous values and outliers are handled
- Obtain a clear understanding of how the selected model was built
- Determine the means available to a consumer to correct or contest individual data input values that may be in error.

EU-U.S. Insurance Dialogue Project

This project is intended to enhance regulatory cooperation and supervision between the European Union and the U.S. The NAIC Big Data Working Group comprises the U.S. participants. An issues paper on big data was published. It is a discussion of what data is collected, how it is collected, data portability, data quality and how data is made available and used by both insurers and third parties in the context of marketing, rating, underwriting and claims handling. Upcoming topics to be addressed are:

- Further exploration of third-party vendor issues
- Expanded disclosures to applicants and policyholders regarding rating while respecting the insurer's intellectual property rights

- Insurers' use of AI models, including governance, data quality and increasing transparency of models

The full paper can be found at:

https://eiopa.europa.eu/Publications/Other%20Documents/181031_EU%20US%20Big%20Data%20%20Issue%20Paper_Publication.pdf

OPEN Government Data Act

The OPEN (Open, Public, Electronic, Necessary) Government Data Act was signed into law on January 14. Government agencies will be called upon to maintain data catalogs and to have a non-political chief data officer. The White House Office of Management and Budget will create a Chief Data Officer Council comprised of chief data officers from across the government to establish government-wide best practices for the use, protection, dissemination and generation of data.

NAIC Leadership

The NAIC elected its 2019 leadership team:

- **President:** Superintendent Eric A. Cioppa (ME)
- **President-Elect:** Director Raymond G. Farmer (SC)
- **Vice President:** Commissioner Gordon I. Ito (HI)
- **Secretary-Treasurer:** Director Dean L. Cameron (ID)

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 or team@idma.org.

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