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To: IDMA Members
From: Aimee Siliato, Vice President of Marketing, IDMA

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.

As we approach the mid-point of 2019, we will look at the NAIC regulatory roadmap for 2019, follow-up on previously reported upon topics and provide new insights. With over 2000 participants in the Spring National Meeting of the NAIC and over 350 participants in the NAIC International Insurance Forum, there is focus on issues from a broad array of stakeholders that includes traditional insurers, state regulators, and consumers and also federal entities, InsurTech companies, members of the scientific community such as climatologists and our global counterparts. Technology is rapidly and creatively evolving. Data management is rapidly and creatively evolving. Insurance data management fundamentals and principals remain sound even in these changing times. It is an exciting time to be part of the evolution/revolution. Learn more about the broad scope of 2019 activity in this issue of The Review.

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.
**Key 2019 NAIC Initiatives**

The NAIC membership is focusing on eight issues in 2019 central to their mission of protecting policyholders and advancing the state-based policy agenda, which is the heart of their strategic plan, *State Ahead*.

1. **Long-Term Care Insurance** - Rate review coordination and consistency, availability and affordability
2. **Annuity Suitability** - Ensure products are sold appropriately
3. **Health Insurance** - Work with federal partners, bipartisan reforms
4. **Climate Change** - Long-term reauthorization of the National Flood Insurance program, more robust private market
5. **Cybersecurity** - Tied to data along with innovation to shore up industry footprint against attacks
6. **Group Capital** - Better understand risks to insurance groups, enhance how regulators assess financial strength, Group Capital Calculation tool a new reporting template to assist in assessment
7. **Macroprudential Initiative** - Liquidity, resolution and recovery, capital stress testing, potential impact from international standard-setting and federal interest in the insurance sector
8. **International** - Developed by the International Association of Insurance Supervisors (IAIS), the International Capital Standard (ICS) is the first attempt at global approach to capital, not binding on states or federal government

**Innovation and Regulation**

Presenters at the Innovation and Technology Task Force included Plug and Play, a company that sources startups and that presented at the Task Force’s November 2018 meeting. They have a global InsurTech network in their client base. Plug and Play conducted a small, informal survey of 34 companies to learn more about what startups think about regulation. The group was evenly split as to whether regulation was a barrier to business growth. But 76% said that more open dialogue with the NAIC would be of high value.

**Blockchain**

Blockchain technology and its relationship and applicability to the insurance industry continues to be topics of interest and importance. Blockchain offers advantages of automation, security, data-sharing and control but also the challenges of buy-in, ownership of data and data not being changeable or able to be deleted present challenges. In the GDPR era, “the right to be erased” and to have personal information corrected by the person who owns the data are now regulatory requirements. Data can be disconnected from the blockchain but may still exist through other platforms.

The Vermont Department of Financial Regulation published a report on the potential applications of blockchain technology within the banking and insurance industries. While the report does not recommend any blockchain-specific legislation for the insurance industry, it does outline a regulatory sandbox approach to support and encourage innovation.

Notes from Corner Office Conversations

CEOs from Hamilton Insurance, Mass Mutual, AIG, Guardian Life and Transamerica, participated in a “Corner Office” panel discussion at the NAIC International Insurance Forum. The panel was moderated by NAIC CEO Michael F. Consedine

Here are some of my take-aways:

- What keeps you up at night? Data, data, data, how to use, how to drive value, how to protect
- Building a company (Hamilton) on science and analytics is exciting and important, build the company of the future, a clean slate to start with rather than having to integrate into other processes, legacy systems
- Need to deliver a new generation of talent
- Need to coordinate a diverse workforce
- Move to new data skill sets
- Train actuaries to be data scientists/train data scientists to be actuaries, incorporate data science into actuarial training and vice versa
- Follow the Amazon model…You bought this, maybe you need that
- Develop customer portals by market segment, e.g., florists, restaurants, etc.
- Look at company activities and results, not just capital, when assessing stability

Federal/State Regulatory Cooperation

In his keynote address at the NAIC International Insurance Forum, U.S. Secretary of Treasury Steve T. Mnuchin supported the state-based system of insurance regulation. Treasury also sees an important role for the federal government, including the Federal Insurance Office (FIO), in policy-making discussions on insurance issues. His keynote highlighted the value of coordination in international standards setting. Treasury supports activities-based approach to regulation/oversight rather than an entity-based approach.

The U.S. insurance sector plays a critical role in the U.S. economy and in ensuring stability of the U.S. financial markets with over $2 trillion in written premium in 2017, the largest in the world.

Cybersecurity Model Law

Michigan, along with South Carolina and Ohio, have enacted the NAIC Insurance Data Security Model Law. Other states are expected to follow. Treasury supports adoption of the model by states.

Predictive Models

The NAIC will develop and implement an education and training program on predictive models for state insurance regulators. Separate training, as needed will be developed for state insurance department actuaries and front-line rate and form review staff.

The NAIC’s Insurance Summit in Kansas City June 6-7 will have sessions which will provide training on predictive models. Topics include generalized-linear modeling, practical examples of predictive modeling and issues around regulation of predictive modeling.

NAIC staff recommended that additional NAIC staff be hired for technical support for the states and that a database and/or tools be developed for regulators to share models among themselves.
Cannabis Industry

The NAIC Cannabis Working Group’s draft white paper providing information and guidance for the cannabis industry has been completed and is now in the review process before finalization. The issues surrounding the legalized cannabis industry include availability and scope of coverage, workers’ compensation issues and consumer information and protection as well as recommendations for the development of regulatory guidance as appropriate. The draft concludes:

As more states continue to legalise cannabis, the need and demand for cannabis insurance will only continue to increase. There are substantial gaps in insurance coverage for the cannabis industry, which means that consumers, workers, vendors, owners and investors face risks that are not covered as they interact or engage with the cannabis industry. It is important for state insurance regulators to understand and address insurance availability and coverage gaps in their markets. State insurance regulators who have encouraged insurers to cover the cannabis industry have been successful in getting more insurers to enter this market. State insurance regulators can play a critically important role in working with the insurance industry to encourage more insurance availability for the cannabis industry.

The full paper can be found in the Working Group’s May 23 meeting materials at:

https://naic.org/cmte_c_cannabis_wg.htm

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