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To: IDMA Members
From: Aimee Siliato, Vice President of Industry Relations and Engagement, IDMA
Subject: *The Regulatory Review* eBulletin – 2022 Edition No. 2

Welcome to IDMA's Regulatory Review, presented in support of IDMA's commitment to the robust education of the insurance data manager. Information presented here is compiled from discussions of the National Association of Insurance Commissioners (NAIC) and related regulatory actions, activities and discussions.

The pandemic brought many challenges to the insurance industry. While we are hopefully moving to less severe/post-pandemic phases, new challenges, (e.g. supply chain issues, changes in behavior patterns, inflation, increasing climate risk) continue to emerge. Common threads in addressing all risk is that resolution require reliable, appropriate data; coordination and collaboration among stakeholders; creative solutions; and on-going education. The discussion summaries that follow support that.

THE REGULATORY REVIEW

2022 Edition No. 2

Artificial Intelligence/Machine Learning Survey

- Analysis of NAIC Private Passenger Auto (PPA) survey results continues
- Full report targeted for year-end 2022
- Homeowners survey to be conducted, end of June, using PPA questions as a base
- Life insurance survey to be conducted end of August

Auto Insurance

- Extensive discussion continues on losses, claim costs, driving habits during the pandemic and as we emerge from it
- Comments/observations/input from Christensen Computer Company (CCC) on factors contributing to high auto premiums
 - Miles driven have returned to 2019 levels
 - More high-speed crashes
 - Higher length of time rental cars being used
 - Higher used car prices
 - Higher new car prices due to supply chain issues
- Comments/observations/input from Dr. Robert Hartwig, University of South Carolina, on factors contributing to high auto premiums
 - Claim severities up sharply
 - Explosion of poor driving habits
 - More catastrophe losses
 - Highest number of auto accident-related deaths in the last 7 years
- Auto Insurance Database Report (compilation of data from statistical agents) released for 2018-2019, consider ways to accelerate given need for more timely auto data

Big Data and Artificial Intelligence

- Data and information on governance models/frameworks and software tools/resources will be gathered from various sources including vendors, academics, industry and international supervisory authorities to assist state regulators in overseeing and monitoring industry's use of artificial intelligence and machine learning and eliminate unintended bias in such use

Catastrophe Insurance

- NAIC Catastrophe Modeling Handbook revised with lessons learned/guidance from recent events
- Catastrophe resource center updated on NAIC website
- Improving communications with FEMA is a priority
- Earthquake summit to take place May 23-24

Challenges Facing Regulators

- Candid, frank, open report by NAIC President Director Dean Cameron (ID) on input from NAIC leadership and fellow regulators on challenges/obstacles facing state insurance regulators
 - Political divisiveness, partisanship
 - Inability to develop and implement solutions in a timely manner
 - Attract and retain talent (Newly established NAIC Foundation to provide \$200,000 in 2022 in scholarships to assist with developing and attracting talent)
 - Enhance communications
 - Collaboration with other standard setters
 - Coverage gaps facing low, moderate income consumers, race/ethnicity groups
 - Bolster NAIC credibility as a thought leader in insurance

Climate Risk Disclosure

- New NAIC standard aligns with the International Task Force on Climate-Related Financial Disclosures (TCFD)
- California seeking to go further with more detailed reporting requirements, more entities subject to reporting requirements

Collaboration Forum

- Established to facilitate collaboration and coordination of topics and issues that touch many areas of regulator responsibility
- First forum will address algorithmic bias, detecting and addressing unfair bias

Cybersecurity

- Potential upcoming projects include development of a:
 - Cybersecurity response plan to aid state insurance regulators when cybersecurity events take place
 - Survey to better understand cybersecurity practices and controls by insurers
 - Cybersecurity-related training for regulators

Innovation in Technology and Regulation

- Working group formed to facilitate education and discussion among stakeholders
- Assist regulators with bringing innovation, innovators into their states, remove barriers to entry

Model Review in Rate Filings

- NAIC team has assisted regulators with review of 54 predictive models used in rate filings
- Filing approval authority remains with regulators

Parametric Insurance

- Work to begin on white paper, draft to be available by year-end
- Parametric insurance providers have provided input to regulators particularly in the area of parametric climate risk insurance products

Privacy Protections

- Detailed workplan being followed to modernize NAIC model laws and further protect consumers, as was recommended in Privacy Protections Report
- Target completion year-end 2023 to draft changes to existing model laws and draft a white paper on data ownership and data use rights

Race and Insurance

- U.S. House of Representatives Financial Services Subcommittee on Diversity and Inclusion sent surveys to insurance sector stakeholders to gather information for a report on diversity, equity and inclusion. NAIC staff met with Chairwoman Maxine Waters (D-CA) regarding these efforts.
- NAIC seeking information on how insurers measure progress of diversity-related programs and the efficacy of the programs, collecting input on any existing gaps in available industry-related data
- Newly created NAIC position Director of Diversity, Equity and Inclusion, discuss/create best practices, diversity contact database of state insurance department contacts
- Diversity, Equity and Inclusion coursework for regulators targeted for 4Q2022
- Casualty Actuarial Society recently published papers examining approaches to defining and measuring fairness in predictive models and issues of racial bias in the financial services industry
 - Methods for Quantifying Discriminatory Effects on Protected Classes in Insurance
 - Approaches to Address Racial Bias in Financial Services: Lessons for the Insurance Industry
 - Defining Discrimination in Insurance
 - Understanding Potential Influences of Racial Bias on P&C Insurance: Four Rating Factors Explored

Terrorism Insurance Data

- Analysis of data collected under the recent workers compensation data call is underway
- Best practices white paper targeted for August 2022

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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.

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