

Draft: 12/4/17

2017 Fall National Meeting  
Honolulu, Hawaii

**EXECUTIVE (EX) COMMITTEE AND PLENARY**  
*Immediately followed by NAIC Officer Election*  
**Monday, December 4, 2017**  
**2:00 p.m. – 3:30 p.m.**  
**Hawaii Convention Center—Kalakaua Ballroom AB—Level 4**

**AGENDA**

1. Call to Order—*Commissioner Ted Nickel (WI)*
2. Roll Call—*Director Raymond G. Farmer (SC)*
3. Consider Adoption of the Dec. 3 Report of the Executive (EX) Committee Attachment One  
—*Commissioner Ted Nickel (WI)*
4. Consider Adoption by Consent the Committee, Subcommittee and Task Force Minutes of the  
2017 Summer National Meeting, Aug. 6–9, 2017, except for items noted below with (\*).  
***Please Note: Minutes were available Aug. 23 at [www.naic.org](http://www.naic.org), and the Synopsis was distributed  
to members the same day.***—*Commissioner Ted Nickel (WI)*
5. Consider Adoption of Interim Meeting Minutes—*Commissioner Ted Nickel (WI)* Attachment Two
6. Consider Adoption of the NAIC 2018 Proposed Committee Charges Attachment Three  
—*Commissioner Julie Mix McPeak (TN)*
7. Consider Adoption of the NAIC 2018 Proposed Budget Attachment Four  
—*Commissioner Julie Mix McPeak (TN)*
8. Receive the Dec. 4 Report of the Life Insurance and Annuities (A) Committee Attachment Five  
—*Director Dean L. Cameron (ID)*
9. Consider Adoption of the 2018 Generally Recognized Expense Tables (GRET) Attachment Six  
—*Director Dean L. Cameron (ID)*
10. Consider Adoption of Consumer Alert, *Be Skeptical About “Free Meal” Seminars: Question  
Credentials of Insurance and Financial Services Experts* Attachment Seven  
—*Director Dean L. Cameron (ID)*
11. Receive the Dec. 3 Report of the Health Insurance and Managed Care (B) Committee Attachment Eight  
—*Commissioner Al Redmer Jr. (MD)*
12. Receive the Dec. 3 Report of the Property and Casualty Insurance (C) Committee Attachment Nine  
—*Commissioner John D. Doak (OK)*
13. \*Consider Adoption of the *Catastrophic Event/Emergency Measures Regulatory Guidelines* Attachment Ten  
—*Commissioner John D. Doak (OK)*
14. Receive the Dec. 4 Report of the Market Regulation and Consumer Affairs (D) Committee Attachment Eleven  
—*Commissioner Allen W. Kerr (AR)*
15. Receive the Dec. 4 Report of the Financial Condition (E) Committee Attachment Twelve  
—*Superintendent Eric A. Cioppa (ME)*

16. Receive the Dec. 2 Report of the Financial Regulation Standards and Accreditation (F) Committee—*Commissioner Todd E. Kiser (UT)* Attachment Thirteen
17. \*Consider Adoption of the 2014 Revisions to the *Annual Financial Reporting Model Regulation* (#205) as an Addition to the Part A Accreditation Standards—*Commissioner Todd E. Kiser (UT)* Attachment Fourteen
18. Receive the Dec. 2 Report of the International Insurance Relations (G) Committee —*Commissioner Katie Wade (CT)* Attachment Fifteen
19. Receive a Status Report of State Implementation of NAIC-Adopted Model Laws and Regulations —*Commissioner Ted Nickel (WI)* Attachment Sixteen
20. Hear the Zone Election Results—*Commissioner Ted Nickel (WI)*
21. Discuss Any Other Matters—*Commissioner Ted Nickel (WI)*
22. 2018 Officer Election—*Commissioner Ted Nickel (WI)*

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2017 Fall National Meeting  
Honolulu, Hawaii

**EXECUTIVE (EX) COMMITTEE**  
**Sunday, December 3, 2017**  
**12:00 – 1:00 p.m.**

**Meeting Summary Report**

The Executive (EX) Committee met Dec. 3, 2017. During this meeting the Committee:

1. Adopted the Dec. 2 report from the joint meeting of the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee, which included the following action:
  - a. Adopted its Nov. 21, Oct. 5, Aug. 24 and Summer National Meeting minutes, which included the following action:
    1. Approved presenting the NAIC 2018 proposed budget for consideration of adoption by the Executive (EX) Committee and Plenary at the Fall National Meeting.
    2. Approved releasing the NAIC 2018 proposed budget to the public for review and comment,
    3. Heard an NAIC cybersecurity assessment update,
    4. Approved the site location for the 2019 Interim Executive (EX) Committee Meeting and All Commissioner Roundtable.
  - b. Adopted the Sept. 11 minutes of the Internal Administration (EX1) Subcommittee, which included the following action:
    1. Received an update on the NAIC Defined Benefit Plan investment portfolio as of June 30.
    2. Received an update on the NAIC long-term investment portfolio as of June 30.
  - c. Approved the NAIC/National Insurance Producer Registry (NIPR) License and Services Agreement.
  - d. Adopted the third quarter 2017 NAIC Defined Benefit Plan portfolio report and adopted the third quarter 2017 NAIC long-term investment portfolio report.
  - e. Adopted the Nov. 22 Audit Committee report, which included the following action:
    1. Received an overview of the Sept. 30 financial statements.
    2. Received an update of the Oct. 31 financial statements.
    3. Discussed the NAIC's Defined Benefit Plan.
    4. Received an update on the 2017 financial audit.
    5. Received an update on the SSAE 16 SOC 1 and SOC 2 operational reviews.
    6. Received an update on the past-due database filing fees.
    7. Discussed zone funding options.
  - f. Adopted the Nov. 9 Information Systems (EX1) Task Force report, which included the following action:
    1. Received an operational report from NAIC staff for information technology (IT) activities of the NAIC.
    2. Received updates on technical projects closed from July through October 2017.
    3. Received an update on the review of five 2018 fiscals with a technology component by the Technical Consulting (EX1) Working Group.
  - g. Adopted the 2018 proposed charges for the Information Systems (EX1) Task Force and the Internal Administration (EX1) Subcommittee.
  - h. Approved the site of the 2019 Commissioners Conference.
  - i. Heard an update on the NAIC "State Ahead" strategic plan.
  - j. Heard a report from the NAIC chief executive officer (CEO).
  - k. Heard a report from the NAIC chief operating officer/chief legal officer (COO/CLO).
2. Adopted its interim meeting report from Nov. 21, Oct. 18 and Oct. 5, which included the following action:
  - a. Approved the NAIC 2018 proposed budget to be exposed for a public comment period ending Nov. 10.
  - b. Approved the NAIC 2018 proposed budget and recommended the budget be adopted by the full NAIC membership at the Fall National Meeting;
  - c. Approved via e-vote the NAIC filing an amicus brief in the case of *Amica Life Insurance Company v. Michael P. Wertz*.
3. Adopted the reports of its task forces: the Financial Stability (EX) Task Force; the Government Relations (EX) Leadership Council; the Innovation and Technology (EX) Task Force; and the Principle-Based Reserving Implementation (EX) Task Force.

4. Adopted its 2018 proposed charges.
5. Received a status report of model law development efforts for amendments to the: *Health Insurance Reserves Model Regulation* (#10); *Health Carrier Prescription Drug Benefit Management Model Act* (#22); *Accident and Sickness Insurance Minimum Standards Model Act* (#170); *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171); *Annuity Disclosure Model Regulation* (#245); *Suitability in Annuity Transactions Model Regulation* (#275); *Creditor-Placed Insurance Model Act* (#375); *Life and Health Insurance Guaranty Association Model Act* (#520); *Life Insurance Disclosure Model Regulation* (#580); *Life Insurance Disclosure Model Regulation* (#580); *Life Insurance Illustrations Model Regulation* (#582) policy overview document; *Mortgage Guaranty Insurance Model Act* (#630); and for development of the new Short Duration Long-Term Care Policies Model Law; Travel Insurance Model Act; and Lender-Placed Real Property Insurance Model Act.
6. Heard reports from the NIPR and the Interstate Insurance Product Regulation Commission (IIPRC).

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Draft: 11/27/17

Executive (EX) Committee and Plenary  
Conference Call  
October 24, 2017

The Executive (EX) Committee and Plenary met in joint session Oct. 24, 2017. The following members participated: Ted Nickel, Chair (WI); Julie Mix McPeak, Vice Chair (TN); Eric A. Cioppa, Vice President (ME); Raymond G. Farmer, Secretary-Treasurer (SC); James J. Donelon, Most Recent Past President (LA); Lori K. Wing-Heier represented by Anna Latham (AK); Jim L. Ridling represented by Charles Angell (AL); Allen W. Kerr represented by Ryan James (AR); Leslie R. Hess (AZ); Dave Jones represented by Geoffrey Margolis (CA); Marguerite Salazar (CO); Katharine L. Wade represented by Tim Curry (CT); Stephen C. Taylor (DC); David Altmaier (FL); Ralph T. Hudgens (GA); Doug Ommen (IA); Dean L. Cameron (ID); Jennifer Hammer (IL); Stephen W. Robertson (IN); Ken Selzer (KS); Nancy G. Atkins (KY); Gary Anderson (MA); Al Redmer Jr. (MD); Patrick M. McPharlin (MI); Mike Rothman represented by Fred Andersen (MN); Chlora Lindley-Myers (MO); Mike Chaney (MS); Matthew Rosendale represented by Nancy Butler (MT); Jon Godfread (ND); Bruce R. Ramage represented by Christine Neighbors (NE); Roger A. Sevigny (NH); Richard J. Badolato represented by Peter L. Hartt (NJ); John G. Franchini represented by Robert Doucette (NM); Barbara D. Richardson (NV); Maria T. Vullo (NY); Jillian Froment represented by Chris Brock (OH); John D. Doak (OK); Jean Straight represented by TK Keen (OR); Jessica Altman represented by Alison Beam (PA); Elizabeth Kelleher Dwyer (RI); Kent Sullivan represented by Michael Nored (TX); Todd E. Kiser (UT); Jacqueline K. Cunningham (VA); Michael S. Pieciak represented by David Provost (VT); Mike Kreidler represented by AnnaLisa Gellermann (WA); and Tom Glause (WY).

1. Adopted the Insurance Data Security Model Law

Director Farmer presented the final version of the Insurance Data Security Model Law for consideration of adoption. He also presented a project history: the Cybersecurity (EX) Task Force—now known as the Cybersecurity (EX) Working Group—was appointed by the Executive (EX) Committee in 2014 to consider issues concerning cybersecurity as they pertain to the role of state insurance regulators. The Task Force was charged with reviewing the NAIC's existing model laws addressing information security and consumer privacy protection and determine the best way to address regulators' cybersecurity concerns through the NAIC's model law process.

In 2015, the Task Force drafted the *Principles for Effective Cybersecurity: Insurance Regulatory Guidance* and the *NAIC Roadmap for Cybersecurity Consumer Protections*, which formed the basis for the first draft of the model law. The Task Force also worked with the IT Examination (E) Working Group to review existing guidance in the *Financial Condition Examiners Handbook*, which was then updated to reflect the most current cybersecurity best practices and improve examination protocols.

The first version of the model was exposed in March 2016. Several meetings, including a two day listening session and 643 pages of comments followed over 18 months to produce the final draft. Following the release of the second version of the model in 2016, a drafting group led by Superintendent Dwyer was formed. The drafting group released a third version in early 2017. Shortly after its release, Superintendent Vullo addressed the Working Group at the Spring National Meeting and ultimately this model is reflective of New York's regulation.

Director Farmer reported that the Insurance Data Security Model Law establishes risk-based standards for insurers' data security and establishes standards for investigation and notification to the state insurance commissioner of a Cybersecurity Event (or data breach). The law applies to insurers, agents and other entities licensed or required to be licensed by the state insurance department.

Some of the provisions in the model include the following requirements for a licensee:

- Develop, implement and maintain an Information Security Program based on its risk assessment.
- Designate an employee or vendor in charge of its Information Security Program.
- Perform ongoing assessment of all internal and external threats.
- Determine which security measures are appropriate to implement, based on its risk assessment.
- Update its board of directors on the status of the Information Security Program.
- Exercise due diligence in selection of third-party service providers and require them to implement appropriate measures to protect nonpublic information.

- Monitor, evaluate, and adjust the Information Security Program as necessary.
- Establish an Incident Response Plan.
- Annually certify compliance with the Insurance Data Security Model Law.
- Investigate potential cybersecurity events.
- Notify the commissioner within 72 hours when a cybersecurity event has occurred.

The model requires notification to consumers to be compliant with the state's already-existing generally applicable data breach notification law.

Additionally, the model gives the commissioner power to examine and investigate licensees to determine compliance with the law. The model also governs the confidentiality and sharing of certain documents received by the commissioner. The model law has several exceptions to compliance with the Information Security Program requirements, including: 1) licensees with fewer than 10 employees; 2) licensees compliant with the federal Health Insurance Portability and Accountability Act (HIPAA); and 3) agents of a licensee who are covered by the licensee's Information Security Program. The model law phases-in requirements for compliance with the Information Security Program and oversight of third-party service providers.

This final version of the model was adopted by the Cybersecurity (EX) Working Group and the Innovation and Technology (EX) Task Force at the Summer National Meeting.

Director Farmer made a motion, seconded by Commissioner Richardson, to adopt the Insurance Data Security Model Law as presented (Attachment One). The motion passed, with Utah dissenting.

## 2. Adopted the NAIC 2017 Amended Committee Charges

Commissioner Nickel reported the proposed amendments to the NAIC 2017 committee charges contain new charges to the Casualty Actuarial and Statistical (C) Task Force related to actuarial credentials and revised charges for the Pre-Dispute Mandatory Arbitration Clauses (D) Working Group under the Market Regulation and Consumer Affairs (D) Committee related to use of pre-dispute mandatory arbitration clauses and choice-of-law and choice-of-venue clauses.

Commissioner Doak made a motion, seconded by Commissioner Donelon, to adopt the NAIC 2017 amended committee charges (Attachment Two). The motion passed.

Having no further business, the Executive (EX) Committee and Plenary adjourned.

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**2018 Adopted Committee Charges**

*Pending Adopted during the joint meeting of Executive (EX) Committee and Plenary— Dec. 4, 2017*

The mission of the Executive (EX) Committee is to manage the affairs of the NAIC in a manner consistent with its Articles of Incorporation and its Bylaws.

**Ongoing Support of NAIC Programs, Products or Services**

1. The **Executive (EX) Committee** will:
  - A. Identify the goals and priorities of the organization and make recommendations to achieve such goals and priorities, based on input of the membership. Make recommendations by the 2018 Commissioners Conference.
  - B. Create/terminate task force(s) and/or Executive (EX) Committee-level working groups to address special issues and monitor the work of these groups. Create necessary task forces and/or Executive (EX) Committee-level working groups throughout 2018 as necessary.
  - C. Submit reports and recommendations to NAIC members concerning the activities of its subcommittee and the standing committees. Submit report at each national meeting.
  - D. Consider requests from NAIC members for friend-of-the-court briefs.
  - E. Establish and allocate functions and responsibilities to be performed by each NAIC zone.
  - F. Pursuant to the Bylaws, oversee the NAIC offices to assist the organization and the individual members in achieving the goals of the organization.
  - G. Conduct strategic planning on an ongoing basis.
  - H. Plan, implement and coordinate communications and activities with the Federal Insurance Office (FIO).
  - I. Plan, implement and coordinate communications and activities with other state, federal, local and international government organizations to advance the goals of the NAIC and promote understanding of state insurance regulation.
  - J. Review and approve requests for the development of model laws and/or regulations. Coordinate the review of existing model laws and/or regulations.
  - K. Select NAIC national meeting sites five and six years in advance of the meeting date to ensure efficient and economical locations and facilities.
  - L. Review and revise, as necessary and appropriate, the criteria and categories for registrants at NAIC national meetings.

NAIC Support Staff: Andrew J. Beal/Kay Noonan

## **FINANCIAL STABILITY (EX) TASK FORCE**

The mission of the Financial Stability (EX) Task Force is to consider issues concerning domestic or global financial stability as they pertain to the role of state insurance regulators.

### **Ongoing Support of NAIC Program, Products or Services**

1. The **Financial Stability (EX) Task Force** will:
  - A. Consider issues concerning domestic or global financial stability as they pertain to the role of state insurance regulators and make recommendations to the International Insurance Relations (G) Committee, the Government Relations (EX) Leadership Council and/or the Executive (EX) Committee, as appropriate.
    1. Analyze existing post-financial crisis regulatory reform for their application in identifying macroeconomic trends, including identifying possible areas of improvement or gaps, and propose to the Financial Condition (E) Committee, or other relevant committee, enhancements and/or additions to further improve the ability of state insurance regulators and the industry to address macro-prudential impacts; consult with such committees on implementation as needed.
  - B. Consider state insurance regulators' input to national and international discussions on macro-financial vulnerabilities affecting the insurance sector.
  - C. Serve as a forum to coordinate state insurance regulators' perspectives on a wide variety of issues arising from the designation of a U.S. insurance group as "systemically important," both pre- and post-designation, including:
    1. Where appropriate, develop policy recommendations and/or guidance regarding the role, responsibilities and activities of state insurance regulators in the context of consolidated supervision resulting from the designation.
    2. Analyze proposed rules by the federal agencies that relate to financial stability.
    3. Analyze proposed policy measures regarding supervisory standards for global systemically important insurers.
    4. Develop comment letters on such analysis for further consideration by the International Insurance Relations (G) Committee, the Government Relations (EX) Leadership Council and/or the Executive (EX) Committee, as appropriate.
2. The **Liquidity Assessment (EX) Subgroup** will:
  - A. Review existing public and regulator-only data related to liquidity risk, identify any gaps based on regulatory needs and propose the universe of companies to which any recommendations may apply.
  - B. Construct a liquidity stress testing framework proposal for consideration by the Financial Condition (E) Committee, including the proposed universe of companies to which the framework will apply (e.g., large life insurers).

NAIC Support Staff: Elise Liebers/John Hopman/Mark Sagat/Todd Sells



## **GOVERNMENT RELATIONS (EX) LEADERSHIP COUNCIL**

The Government Relations Leadership Council coordinates the NAIC's ongoing work with the federal government and state government officials on legislative and regulatory policy. The Leadership Council, in conjunction with the NAIC's other standing committees, is responsible for quickly responding to federal legislative and regulatory developments that impact insurance regulation.

The mission of the Government Relations (EX) Leadership Council is to develop, coordinate and implement the NAIC's legislative, regulatory and grassroots initiatives. The Leadership Council will devise strategies for NAIC action and promote the participation of all NAIC members in the NAIC's government relations initiatives.

### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Government Relations (EX) Leadership Council** will:
  - A. Monitor, analyze and respond to federal legislative and regulatory actions and other issues of importance to the NAIC membership.
  - B. Work with other standing committees, task forces and working groups to help develop and communicate the NAIC's policy views to federal and state officials on pending legislation and regulatory issues by involvement of NAIC members through testimony, correspondence and other approaches.
  - C. Develop a strategy and program for directly engaging NAIC members with the U.S. Congress and federal agencies to advocate for NAIC objectives and the benefits and efficiencies of state-based insurance regulation.
  - D. Secure broader participation from NAIC membership on all government affairs advocacy initiatives.
  - E. Report to the Executive (EX) Committee on all activities and matters relating to the annual charges of the Leadership Council.

NAIC Support Staff: Ethan Sonnichsen

## INNOVATION AND TECHNOLOGY (EX) TASK FORCE

The mission of the Innovation and Technology (EX) Task Force is to provide a forum for regulator education and discussion of innovation and technology in the insurance sector, to monitor technology developments that impact the state insurance regulatory framework, and to develop regulatory guidance, as appropriate.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Innovation and Technology (EX) Task Force** will:
  - A. Provide a forum for the discussion of innovation and technology developments in the insurance sector, including the collection and use of data by insurers and state insurance regulators—as well as new products, services and distribution platforms—in order to educate state insurance regulators on how these developments impact consumer protection, privacy, insurer and producer oversight, marketplace dynamics and the state-based insurance regulatory framework.
  - B. Develop regulatory guidance, white papers, model laws and/or regulations, or make other recommendations to the Executive (EX) Committee, as appropriate.
  - C. Discuss regulatory issues that arise with the development of autonomous vehicles; study and, if necessary, develop recommendations for changes needed to the state-based insurance regulatory framework; consider development of a white paper or model legislation, if necessary.
  - D. Discuss emerging issues related to companies or licensees leveraging new technologies to develop products for on-demand insurance purposes—in addition to potential implications on the state-based insurance regulatory structure—including, but not limited to, reviewing new products, cancellations, nonrenewals, coverage issues, notice provisions and policy-delivery requirements.
  - E. Coordinate with other NAIC committees and task forces, as appropriate, on technology and innovation issues.
2. The **Big Data (EX) Working Group** will:
  - A. Review current regulatory frameworks used to oversee insurers' use of consumer and non-insurance data. If appropriate, recommend modifications to model laws and/or regulations regarding marketing, rating, underwriting and claims, regulation of data vendors and brokers, regulatory reporting requirements, and consumer disclosure requirements.
  - B. Propose a mechanism to provide resources and allow the states to share resources to facilitate their ability to conduct technical analysis of, and data collection related to, the review of complex models used by insurers for underwriting, rating and claims. Such a mechanism shall respect and in no way limit the states' regulatory authority.
  - C. Assess data needs and required tools for state insurance regulators to appropriately monitor the marketplace and evaluate underwriting, rating, claims and marketing practices. This assessment shall include gaining a better understanding of currently available data and tools, as well as recommendations for additional data and tools, as appropriate. Based on this assessment, propose a means to collect, house and analyze needed data.
3. The **Cybersecurity (EX) Working Group** will:
  - A. Monitor developments in the area of cybersecurity.
  - B. Advise, report and make recommendations to the Innovation and Technology (EX) Task Force on cybersecurity issues.
  - C. Coordinate activities with NAIC standing committees and their task forces and working groups regarding cybersecurity issues.
  - D. Monitor the implementation of the Insurance Data Security Model Law. This model is specific to insurers, producers, and other state-regulated entities regarding cybersecurity standards.
  - E. Consider what, if any, additional consumer disclosures related to cybersecurity might be necessary and effective and, if appropriate, develop model consumer disclosure guidance by December 2018.
  - F. Represent the NAIC and communicate with other entities/groups, including the sharing of information as may be appropriate, on cybersecurity issues.
  - G. Perform such other tasks as may be assigned by the Task Force relating to the area of cybersecurity.

**INNOVATION AND TECHNOLOGY (EX) TASK FORCE (*continued*)**

4. The **Speed to Market (EX) Working Group** will:
- A. Provide a forum for discussion of and oversee the implementation and ongoing maintenance/enhancement of, speed to market operational efficiencies related to product filing needs, efficiencies and effective consumer protection. Report the results of this ongoing charge at each national meeting.
  - B. Provide a forum for the review, discussion and recommendation of rate and form filing needs as impacted by the federal Affordable Care Act (ACA), specifically related to the U.S. Department of Health and Human Services (HHS) and the federal Center for Consumer Information and Insurance Oversight (CCIIO), including support and guidance regarding the System for Electronic Rate and Form Filing (SERFF) enhancements necessary for the states to comply with state law, federal law and/or contractual obligations.
  - C. Provide direction to, receive input from and hear reports concerning the SERFF Advisory Board activity related to SERFF.
  - D. Provide direction to NAIC staff regarding SERFF functionality, implementation, development and enhancements.
  - E. Use SERFF data to develop, refine, implement, collect and distribute common filing metrics that provide a tool to measure the success of the speed to market modernization efforts as measured by nationwide and individual state speed to market compliance, with an emphasis on monitoring state regulatory and insurer responsibilities for speed to market for insurance products. Report at each national meeting.
  - F. Facilitate proposed changes to the product coding matrices (PCMs) and the uniform transmittal document (UTD) on an annual basis, including the review, approval and notification of changes. Monitor, assist with and report on state implementation of any PCM changes.
  - G. Facilitate the review and revision of the *Product Filing Review Handbook*, which contains an overview of all of the operational efficiency tools and describes best practices for industry filers and state reviewers with regard to the rate and form filing and review process.
  - H. Conduct the following activities as desired by the Interstate Insurance Product Regulation Commission (IIPRC):
    - 1. Provide support to the IIPRC as the speed to market vehicle for asset-based insurance products, encouraging the states' participation in, and the industry's usage of the IIPRC.
    - 2. Receive a report from the IIPRC at each national meeting.
  - I. Provide a forum to gather information from the states and the industry regarding tools, policies and resolutions to assist with common filing issues. Provide oversight in evaluating product filing efficiency issues for state insurance regulators and the industry, particularly with regard to uniformity.

NAIC Support Staff: Scott Morris/Denise Matthews

## INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE

The mission of the Internal Administration (EX1) Subcommittee is to monitor the operations of the NAIC, including preparing a budget for Executive (EX) Committee review, providing direction on personnel issues, approving emergency expenditures, evaluating the chief executive officer (CEO) and assisting the CEO in resolving competing demands for NAIC staff resources.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Internal Administration (EX1) Subcommittee** will:
  - A. Review and approve all expenditures of funds not included in the final 2017 budget by considering any fiscal impact statements of unbudgeted resource requests and reporting its actions to the Executive (EX) Committee.
  - B. Annually work with the CEO, chief operating officer/chief legal officer (COO/CLO) and chief financial officer (CFO) to review the business operations plan, which will incorporate the Executive (EX) Committee's strategic management initiatives, and report its actions to the Executive (EX) Committee.
  - C. Oversee a review of any management areas of the NAIC that should be designated for formal operational reviews by working through the CEO and COO/CLO.
  - D. Oversee the development, revision and delivery of all NAIC education programs, or the addition of new programs, by coordinating with other committees as appropriate and providing direction to the CEO and COO/CLO.
  - E. Receive a report at each national meeting from the NAIC Audit Committee, which will be chaired by the secretary-treasurer. The NAIC Audit Committee will meet with NAIC management at or before each national meeting, or more frequently as necessary, to review the NAIC financial statements and to hear reports from NAIC management on emerging financial issues for the NAIC, and will report such information to the Internal Administration (EX1) Subcommittee. The NAIC Audit Committee shall also carry out the following activities pursuant to its charter:
    1. Engage the NAIC's independent accountants with respect to the annual audit. This will include the appointment of an independent audit firm, a review of the results of the annual audit, and discussions with the independent auditors and NAIC management to ensure that all audit comments or suggestions are addressed in a timely manner.
    2. Engage the NAIC's service advisory firm. This will include the selection of an independent firm to provide Statement on Standards for Attestation Engagements (SSAE) services to the NAIC.
  - F. Serve as the primary liaison between the NAIC membership and the NAIC investment advisor, or appoint a subcommittee to act in that capacity, including the receipt of reports on the performance of the NAIC's investment portfolio and, from time to time, meet directly with investment firm representatives to hear periodic reports and recommendations.
  - G. Review and revise, as necessary and appropriate, the criteria and categories for registrants at NAIC national meetings.
  - H. Appoint the Information Systems (EX1) Task Force to provide regulator-based technology expertise.
  - I. Conduct evaluations of the CEO and COO/CLO and make appropriate recommendations to the Executive Committee and consult with the CEO and COO/CLO on compensation of senior management.

NAIC Support Staff: Andrew J. Beal/James W. Woody

## INFORMATION SYSTEMS (EX1) TASK FORCE

The mission of the Information Systems (EX1) Task Force is to: 1) provide regulator-based technology expertise to the Internal Administration (EX1) Subcommittee; and 2) support committee activities and objectives, which includes ensuring that the technology resources of the NAIC are deployed in such a manner to support the core values of service, results, value and communication by:

- Being an innovator that provides state insurance department staff with quality products, programs and services that focus on streamlining the regulatory process and decreasing the overall cost of regulatory compliance to regulators, the regulated and consumers.
- Providing products and services to facilitate and promote the communication of regulatory information and knowledge among insurance entities, with a minimum technology investment needed to integrate into legacy systems. These products and services will be driven by the business needs of the states as expressed through the various NAIC committees and prioritized by the Executive (EX) Committee.
- Embracing the technology direction established by the National Technical Architecture and promulgated through the Task Force.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Information Systems (EX1) Task Force** will:
  - A. Serve as the Internal Administration (EX1) Subcommittee's project-independent technology monitor and consultant. This involves overseeing the activities of the Technical Consulting (EX1) Working Group and monitoring the development, deployment and operation of information technology (IT) by and for the NAIC and, based on this effort, providing reports and recommendations to the Subcommittee as appropriate. To achieve this, the Task Force will receive regular portfolio reports from the technology staff of each strategic IT project and provide a structure for the states to collaborate on technology initiatives.
  - B. Maintain and monitor the use of the National Technical Architecture standards for state-based insurance regulation.
  - C. Provide consultation to the NAIC technology staff, and provide interpretation of intent and specific technology direction where needed. For example, from time to time, the staff may request approval of a specific technology approach, such as a proposal to drop support for a particular version of software. The Task Force will provide direction in such matters, either directly or through a working group.
  - D. Serve as a regulator sponsor for projects involving technology only when they support the business areas of more than one other standing committee.
  - E. Monitor the organization and utilization of the NAIC Information Technology Group and the other NAIC IT personnel and resources and, based on this effort, provide reports and recommendations to the Internal Administration (EX1) Subcommittee as appropriate. This may include review of technology planning documents.
  - F. Provide direction and oversight of the NAIC State Technology Survey.
  - G. Provide regulator technology consultation to NAIC committees, task forces and working groups as requested.
2. The **Technical Consulting (EX1) Working Group** will:
  - A. Review, with technical recommendations for the Subcommittee: 1) Fiscal Impact Statements Appendix A, if the project involves a technology component exceeding \$100,000 or 1,150 hours of technology staff development and is not limited to the support of the internal operations; and 2) project requests that involve technology being submitted to the Subcommittee or directly to the Executive (EX) Committee. Ensure such proposals meet the expectations for IT regulator review, including placing special emphasis on promoting overall efficiencies of cost and operation and promoting interoperability among different systems; providing technology reports and recommendations as appropriate during fiscal and project request approval processes; and, if approved, thereafter monitoring implementation and ongoing effectiveness.

NAIC Support Staff: Cheryl McGee/Jennifer Boren

## LIFE INSURANCE AND ANNUITIES (A) COMMITTEE

The mission of the Life Insurance and Annuities (A) Committee is to consider issues relating to life insurance and annuities and review new life insurance products.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Life Insurance and Annuities (A) Committee** will:
  - A. Monitor the activities of the Life Actuarial (A) Task Force.
  - B. Oversee development of the principle-based reserving (PBR) system.
  - C. Oversee outstanding issues related to contingent deferred annuities (CDAs), including considering the development of a CDA buyer's guide.
  - D. Explore ways to promote retirement security consistent with the NAIC's continuing "Retirement Security Initiative."
2. The **Annuity Disclosure (A) Working Group** will:
  - A. Review and revise, as necessary, Section 6—Standards for Annuity Illustrations in the *Annuity Disclosure Model Regulation* (#245) to take into account the disclosures necessary to inform consumers in light of the product innovations currently in the marketplace.
3. The **Life Insurance Buyer's Guide (A) Working Group** will:
  - A. Review and revise, as necessary, the *Life Insurance Buyer's Guide* in conjunction with Appendix A of the *Life Insurance Disclosure Model Regulation* (#580).
4. The **Life Insurance Illustration Issues (A) Working Group** will:
  - A. Explore how the narrative summary required by Section 7B of the *Life Insurance Illustrations Model Regulation* (#582) and the policy summary required by Section 5A(2) of Model #580 can be enhanced to promote consumer readability and understandability of these life insurance policy summaries, including how they are designed, formatted and accessed by consumers.
5. The **Model Law Review (A) Subgroup** will:
  - A. Work with the Life Actuarial (A) Task Force to review issues identified during the Subgroup's completion of the Model Law Review Initiative, specifically:
    1. With respect to the *Modified Guaranteed Annuity Model Regulation* (#255):
      - a. Research whether the requirements of Model #255 are contained elsewhere in state law or rules.
      - b. Consider whether there is a need for the development of a similar law for modified guaranteed annuities offered through general accounts products.
    2. With respect to the *Annuity Nonforfeiture Model Regulation* (#806):
      - a. Research whether the requirements of Model #806 are contained elsewhere in state law or rules.
      - b. Consider whether Model #806 may be more appropriate as an actuarial guideline.
6. The **Suitability (A) Working Group** will:
  - A. Review and revise, as necessary, the *Suitability in Annuity Transactions Model Regulation* (#275).
  - B. Consider how to promote greater uniformity across NAIC-member jurisdictions.

NAIC Support Staff: Jennifer R. Cook/Jolie H. Matthews

## LIFE ACTUARIAL (A) TASK FORCE

The mission of the Life Actuarial (A) Task Force is to identify, investigate and develop solutions to actuarial problems in the life insurance industry.

### Ongoing Support of NAIC Programs, Products and Services

1. The **Life Actuarial (A) Task Force** will:
  - A. Address charges to the Task Force as provided in the Principle-Based Reserving (PBR) Implementation Plan adopted by the Principle-Based Reserving Implementation (EX) Task Force. These charges include *Valuation Manual* and PBR work expected by the Life Insurance and Annuities (A) Committee. Report progress to the Principle-Based Reserving Implementation (EX) Task Force and to the Life Insurance and Annuities (A) Committee.
  - B. Report progress on non-PBR related charges to the Life Insurance and Annuities (A) Committee and provide updates to the Financial Condition (E) Committee on matters related to life insurance company solvency.
  - C. Respond to requests/referrals from the Life Insurance and Annuities (A) Committee regarding reserves or other requirements relating to current or new product lines.
  - D. Monitor international developments regarding life and health insurance reserving, capital and related topics. Compare and benchmark with PBR requirements.
  - E. Work with the American Academy of Actuaries (Academy) and the Society of Actuaries (SOA) to develop new mortality tables for simplified issue and guaranteed issue forms of life insurance and minimum nonforfeiture requirements for life insurance. Work includes consideration of any guidance / requirements for accelerated underwriting. Provide periodic status reports on this project.
  - F. C-3 Phase II/AG 43 (E/A) Subgroup to implement changes to *Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43) and VM-21.
  - G. Work with the SOA to continue development of reporting channels of distribution information needed to better establish Generally Recognized Expense Table (GRET) factors.
  - H. Address approvals from the Life Insurance and Annuities (A) Committee regarding its requests to work on model requirements.
  - I. Provide recommendations and changes, as appropriate, to other reserve and nonforfeiture requirements to address issues, and provide actuarial assistance and commentary to other NAIC committees relative to their work on actuarial matters.
2. The **C-3 Phase II/AG 43 (E/A) Subgroup**, a joint subgroup of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
  - A. Develop and recommend changes for 2018 adoption that implement the Variable Annuity Framework based on recommendations from the Variable Annuity Issues (E) Working Group.
3. The **Experience Reporting (A) Subgroup** will:
  - A. Continue development of the experience reporting requirements within the *Valuation Manual* and provide input, as appropriate, for the process regarding the statistical agent, data collection and subsequent analysis and use of experience submitted.

**LIFE ACTUARIAL (A) TASK FORCE** *(continued)*

4. The **IUL Illustration (A) Subgroup** will:
  - A. Consider enhancements to *Actuarial Guideline XLIX—The Application of the Life Illustrations Model Regulation to Policies with Indexed-based Interest* (AG 49). Provide recommendations for modifications to AG 49 to the Life Actuarial (A) Task Force.
5. The **Longevity Risk (A/E) Subgroup** of the Life Actuarial (A) Task Force and the Life Risk-Based Capital (E) Working Group will:
  - A. Provide recommendations for recognizing longevity risk in statutory reserves and/or risk-based capital (RBC), as appropriate.
6. The **VM-22 (A) Subgroup** will:
  - A. Consider a PBR methodology and recommend appropriate requirements for non-variable (fixed) annuities in the accumulation phase for consideration by the Life Actuarial (A) Task Force.

NAIC Support Staff: Reggie Mazyck/Eric King



## HEALTH INSURANCE AND MANAGED CARE (B) COMMITTEE

The mission of the Health Insurance and Managed Care (B) Committee is to consider issues relating to all aspects of health insurance.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Health Insurance and Managed Care (B) Committee** will:
  - A. Respond to inquiries from the U.S. Congress, the White House and federal agencies; analyze policy implications and effect on states of proposed and enacted federal legislation and regulations; and communicate the NAIC's position through letters and testimony when requested.
  - B. Monitor the activities of the Health Actuarial (B) Task Force.
  - C. Monitor the activities of the Regulatory Framework (B) Task Force.
  - D. Monitor the activities of the Senior Issues (B) Task Force.
  - E. Serve as the official liaison between the NAIC and the Joint Commission on Accreditation of Healthcare Organizations, the National Committee on Quality Assurance (NCQA) and URAC.
  - F. Examine factors that contribute to rising health care costs and insurance premiums; review state initiatives to address cost drivers.
  - G. Utilize the Regulatory Framework (B) Task Force to review and, if necessary, consider revisions to the *Health Carrier Prescription Drug Benefit Management Model Act* (#22) to address issues related to: 1) transparency, accuracy and disclosure regarding prescription drug formularies and formulary changes during a policy year; 2) accessibility of prescription drug benefits using a variety of pharmacy options; and 3) tiered prescription drug formularies and discriminatory benefit design.
  - H. Coordinate with the Market Regulation and Consumer Affairs (D) Committee, as necessary, to provide policy recommendations regarding uniform state enforcement of the federal Affordable Care Act (ACA).
  - I. Coordinate with the Producer Licensing (D) Task Force, as necessary, regarding the regulation and activities of navigators and non-navigator assistance personnel as provided under the ACA and regulations implementing the ACA.
  - J. Coordinate with the Antifraud (D) Task Force, as necessary, regarding state and federal antifraud activities related to the implementation of the ACA.
2. The **Consumer Information (B) Subgroup** will:
  - A. Develop information or resources, as needed, that would be helpful to state insurance regulators and others in assisting consumers to better understand health insurance.
  - B. Review NAIC publications that touch on health insurance to determine if they need updating. If updates are needed, suggest specific revisions to the appropriate NAIC group or NAIC division to make the changes.
3. The **CO-OP Solvency and Receivership (B) Subgroup** will:
  - A. Provide a forum for state insurance regulators to discuss and share information through conference calls and meetings on the status of the Consumer Operated and Oriented Plans (CO-OPs) created under the ACA.
4. The **Health Care Reform Regulatory Alternatives (B) Working Group** will:
  - A. Provide a forum for the discussion of, and guidance on, the alternatives to implementing an ACA-compliant state-based exchange and the implications of such alternatives on NAIC-member regulatory authority.
  - B. Identify and assist NAIC members in resolving open issues that need to be addressed with regard to non-state exchange ACA alternatives.
  - C. Analyze the impact of the ACA on existing NAIC-member regulatory authority, both inside and outside of a federal exchange.
  - D. Identify opportunities for NAIC members to continue to innovate and regulate outside of a federal exchange.
5. The **Medical Loss Ratio Quality Improvement Activities (B) Subgroup** will:
  - A. Review new quality improvement (QI) initiatives, as reported annually on the Supplemental Health Care Exhibit (SHCE) Allocation Report, and make recommendations to the secretary of the U.S. Department of Health and Human Services (HHS) on certifying for inclusion or exclusion in the QI expense category of the SHCE.

NAIC Support Staff: Jolie H. Matthews/Brian R. Webb/Jennifer R. Cook

## HEALTH ACTUARIAL (B) TASK FORCE

The mission of the Health Actuarial (B) Task Force is to identify, investigate and develop solutions to actuarial problems in the health insurance industry.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Health Actuarial (B) Task Force** will:
  - A. Provide recommendations, as appropriate, to address issues and provide actuarial assistance and commentary with respect to model rules for appropriate long-term care insurance (LTCI) rates, rating practices and rate changes.
  - B. Study the minimum standards applicable to statutory reserves for LTCI. Ensure the *Health Insurance Reserves Model Regulation* (#10) remains open to accommodate any necessary changes to the standards. Enhance a principle-based framework for a set of minimum standards.
  - C. Provide support for issues related to implementation of, and/or changes to, the federal Affordable Care Act (ACA).
  - D. Continue to develop health insurance reserving requirements (VM-25, Health Insurance Reserves Minimum Reserve Requirements) using a principle-based reserving (PBR) framework. Request Model #10 be opened to accommodate the new requirements.
  - E. Develop LTCI experience reporting requirements in VM-50, Experience Reporting Requirements, and VM-51, Experience Reporting Formats, of the *Valuation Manual*.
  - F. Provide recommendations, as appropriate, to address issues and provide actuarial assistance and commentary to other NAIC groups relative to their work on health actuarial matters.
2. The **Health Care Reform Actuarial (B) Working Group** will:
  - A. Assist the Health Actuarial (B) Task Force in completing its charge to provide support for issues related to implementation of, and/or changes to, the ACA.
3. The **Long-Term Care Actuarial (B) Working Group** will:
  - A. Assist the Health Actuarial (B) Task Force in completing the following charges:
    1. Provide recommendations, as appropriate, to address issues and provide actuarial assistance and commentary with respect to model rules for appropriate LTCI rates, rating practices and rate changes.
    2. Continue to develop health insurance reserving requirements (VM-25, Health Insurance Reserves Minimum Reserve Requirements) using a PBR framework.
    3. Develop LTCI experience reporting requirements in VM-50, Experience Reporting Requirements, and VM-51, Experience Reporting Formats, of the *Valuation Manual*.
4. The **Health Reserves (B) Subgroup** will:
  - A. Assist the Health Actuarial (B) Task Force in completing its charge to continue to develop health insurance reserving requirements (VM-25, Health Insurance Reserves Minimum Reserve Requirements) using a principle-based reserving (PBR) framework

NAIC Support Staff: Eric King

## LONG-TERM CARE INSURANCE (B/E) TASK FORCE

### Ongoing Support of NAIC Programs, Products or Services

1. The **Long-Term Care Insurance (B/E) Task Force** of the Health Insurance and Managed Care (B) Committee and Financial Condition (E) Committee will:
  - A. Coordinate all aspects of the NAIC's work regarding the long-term care insurance (LTCI) market. In addition to coordinating all current B and E Committee projects, the Task Force should pursue the following general objectives:
    1. To more rigorously assess the financial solvency of LTCI writers. Complete by the 2018 Spring National Meeting.
    2. To evaluate the sufficiency of current financial reporting and actuarial valuation standards. Complete by the 2018 Fall National Meeting.
    3. To assess state activities regarding the regulatory considerations on rate increase requests on blocks and to identify common elements for achieving greater transparency and predictability. Complete by the 2018 Fall National Meeting.
    4. To coordinate state actions aimed at revising state guaranty fund laws. Complete by the 2018 Spring National Meeting.
    5. To monitor the development of regulatory policy regarding short duration LTCI policies. Complete by the 2018 Fall National Meeting.
    6. To consider product innovations and the development of potential state and federal solutions for stabilizing the LTCI market. Complete by the 2018 Fall National Meeting.
    7. To provide periodic reports to the B and E Committees, and the Executive (EX) Committee, regarding key issues and progress toward the general objectives set forth above. Conduct meetings in regulator-to-regulator session, as appropriate. Complete by the 2018 Fall National Meeting.

NAIC Support Staff: Dan Daveline/Jolie Matthews

## REGULATORY FRAMEWORK (B) TASK FORCE

The mission of the Regulatory Framework (B) Task Force is to: 1) develop NAIC model acts and regulations for state health care initiatives; and 2) consider policy issues affecting state health insurance regulation.

### Ongoing Support of NAIC Programs, Products and Services

1. The **Regulatory Framework (B) Task Force** will:
  - A. Coordinate and develop the provision of technical assistance to the states regarding state-level implementation issues raised by federal health legislation and regulations.
  - B. Review managed health care reforms, their delivery systems occurring in the marketplace and other forms of health care delivery; recommend appropriate revisions to regulatory jurisdiction, authority and structures.
  - C. Consider the development of new NAIC model laws and regulations and the revision of existing NAIC model laws and regulations, including those affected by federal legislation and final federal regulations promulgated pursuant to such legislation.
  - D. Continue to review NAIC models recommended for revision by the former Affordable Care Act (ACA) Model Review (B) Working Group and, as appropriate, appoint a working group or subgroup to revise the NAIC model(s) prioritized for revision in 2018.
  - E. At the direction of the Health Insurance and Managed Care (B) Committee, monitor, report and analyze developments related to association health plans (AHPs).
  - F. Monitor, analyze and report, as necessary, developments related to short-term, limited-duration coverage.
2. The **ERISA (B) Working Group** will:
  - A. Monitor, report and analyze developments related to the federal Employee Retirement Income Security Act (ERISA), and make recommendations regarding NAIC strategy and policy with respect to those developments.
  - B. Monitor, facilitate and coordinate with the states and the U.S. Department of Labor (DOL) related to sham health plans.
  - C. Monitor, facilitate and coordinate with the states and the DOL regarding compliance and enforcement efforts regarding the ACA that relate to ERISA.
  - D. Review the *Health and Welfare Plans Under the Employee Retirement Income Security Act: Guidelines for State and Federal Regulation* (ERISA Handbook) and modify it, as necessary, to reflect developments related to ERISA. Report annually.

NAIC Support Staff: Jolie H. Matthews/Jennifer R. Cook

## SENIOR ISSUES (B) TASK FORCE

The mission of the Senior Issues (B) Task Force is to: 1) consider policy issues; 2) develop appropriate regulatory standards; and 3) revise, as necessary, the NAIC models, consumer guides and training material on Medicare supplement insurance, senior counseling programs and other insurance issues that affect older Americans.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Senior Issues (B) Task Force** will:
  - A. Develop appropriate regulatory standards and revisions, as necessary, to the NAIC models, consumer guides and training material on Medicare supplement insurance, senior counseling programs and other insurance issues that affect older Americans.
  - B. Continue to monitor and work with federal agencies to advance appropriate regulatory standards for Medicare supplement and other forms of health insurance applicable to older Americans.
  - C. Review the *Medicare Supplement Insurance Minimum Standards Model Act* (#650) and the *Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act* (#651) to determine if amendments are required based on changes to federal law, and revise if necessary.
  - D. Monitor the Medicare Advantage and Medicare Part D marketplace; assist the states, as necessary, with regulatory issues; and maintain a dialogue and coordinate with the U.S. Centers for Medicare & Medicaid Services (CMS) on regulatory issues, including solvency oversight of waived plans and agent misconduct.
  - E. Monitor and assist the states in the implementation of changes to Model #651 to modernize the Medicare supplement market, as approved by the NAIC membership in March 2007 and as required by the federal Medicare Improvement for Patients and Providers Act of 2008 and the federal Genetic Information Nondiscrimination Act of 2008.
  - F. Continue to monitor the changes in the Medicare supplement insurance market and assist the states with implementation of amendments to Model #650 and Model #651 due to federal statutory changes.
  - G. Provide the perspective of state insurance regulators to the U.S. Congress, as appropriate, and CMS on insurance issues, including those concerning the effect and result of federal activity on the senior citizen health insurance marketplace and regulatory scheme.
  - H. Review and monitor state and federal relations with respect to senior health care initiatives and other impacts on the states. Work with federal agencies as appropriate.
  - I. Work with CMS to revise the annual joint publication, *Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare*.
  - J. Monitor developments concerning the State Health Insurance Assistance Programs (SHIPs), including information on legislation impacting the funding of SHIPs; provide assistance to the states with issues relating to SHIPs; support strong a partnership between SHIPs and CMS, and provide the perspective of state insurance regulators to federal officials, as appropriate on issues concerning SHIPs.
  - K. Assist the states and serve as a clearinghouse for information on Medicare Advantage plan activity.
  - L. Monitor and maintain, in accordance with changes to Model #651 approved by the NAIC membership in March 2007, a record of state approvals of all Medicare supplement insurance new or innovative benefits for use by state insurance regulators and others.
  - M. Review, in accordance with changes to Model #651 approved by the NAIC membership in March 2007, state-approved new or innovative benefits, and consider whether to recommend that they be made part of standard benefit plan designs in the model regulation.
  - N. Develop appropriate regulatory standards and revisions, as necessary, to the NAIC models, consumer guides and training material on long-term care insurance. Work with federal agencies as appropriate.
  - O. Continue to study and evaluate evolving long-term care insurance product design, rating, suitability and other related factors. Review the existing *Long-Term Care Insurance Model Act* (#640) and the *Long-Term Care Insurance Model Regulation* (#641) to determine their flexibility to remain compatible with the evolving delivery of long-term care services and remain compatible with the evolving long-term care insurance marketplace.
  - P. Monitor and provide assistance to the states on the implementation of the 2000 and 2014 amendments to Model #641 related to rating practices, as well as the model bulletin adopted by the NAIC membership in December 2013 regarding alternative filing requirements for long-term care premium rate increases.

**SENIOR ISSUES (B) TASK FORCE (continued)**

- Q. Examine whether there is anything the NAIC can or should do to address possible long-term care insurance reserve deficiencies and rating issues, such as mitigation against rate increases and death spirals.
  - R. Explore options, in line with the current Model #640 and Model #641, where appropriate, and monitor efforts to ensure the fair or equal treatment of policyholders, including those in situations where policyholders live in multiple states.
  - S. Examine how regulators should treat the spin-off or transfer of closed blocks of long-term care insurance business to another entity, including process issues related thereto.
  - T. Examine examples of health-related financial exploitation of seniors and work with other NAIC committees, task forces and/or working groups on possible solutions.
2. The **Long-Term Care Benefit Adjustment (B) Subgroup** will:
- A. Determine what contractual authority is required to make a benefit change to a long-term care insurance policy, including as an alternative to a rate revision.
  - B. Evaluate whether reduction of daily benefits upon the elimination of inflation protection pursuant to a contractual provision is reasonable.
  - C. Evaluate the sufficiency of disclosure requirements associated with policy provisions to reduce benefit amounts.
  - D. Determine what actuarial equivalence is appropriate for benefit change proposals and recommend related disclosure improvements.
3. The **Long-Term Care Innovation (B) Subgroup** will:
- A. Examine the future of financing long-term care given the significant impact of long-term care costs on state budgets through state Medicaid programs, including an assessment of the role the private market should play.
  - B. Review the number of alternative products structures being developed and, in some cases, sold by companies (e.g., long-term care/life combination products, term products and universal long-term care policies). Consider whether these are viable alternative products and what other types of products may assist in financing long-term care costs. This does not include an examination of rating issues facing the legacy long-term care insurance products.
  - C. Examine whether amendments are needed to current NAIC models and/or regulations, whether there is a need for new models or regulations to accommodate a changing market, or whether federal action may be necessary and should be encouraged.
  - D. Discuss the legal and regulatory barriers that may need to be overcome to improve the functioning of the private long-term care insurance market to assist in financing long-term care needs.
  - E. Consider the pricing issues with any potential new long-term care financing products and whether the pricing of these products creates a stable market.
  - F. Work with private insurance companies, consumers and consumer advocates about the future role of insurance in financing long-term care given the history of long-term care insurance over the past few decades, including the role they see for the private market and the types of products that are most appealing to them.
4. The **Short Duration Long-Term Care Policies (B) Subgroup** will:
- A. Create a model to address long-term care (LTC) products of short duration that are excluded from Model #640 and Model #641 but do not quite fit under the *Accident and Sickness Insurance Minimum Standards Model Act* (#170) and the *Model Regulation to Implement the Accident and Sickness Insurance Minimum Standards Model Act* (#171).
5. The **Long-Term Care Shopper's Guide (B) Working Group** will:
- A. Revise and update *A Shopper's Guide to Long-Term Care Insurance*.

NAIC Support Staff: David Torian

## PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

The mission of the Property and Casualty Insurance (C) Committee is to: 1) monitor and respond to problems associated with the products, delivery and cost in the property/casualty (P/C) insurance market and the surplus lines market as they operate with respect to individual persons and businesses; 2) monitor and respond to problems associated with financial reporting matters for P/C insurers that are of interest to regulatory actuaries and analysts; and 3) monitor and respond to problems associated with the financial aspects of the surplus lines market.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Property and Casualty Insurance (C) Committee** will:
  - A. Discuss issues arising and make recommendations with respect to advisory organization and insurer filings for personal and commercial lines, as needed. Report yearly.
  - B. Monitor the activities of the Casualty Actuarial and Statistical (C) Task Force.
  - C. Monitor the activities of the Surplus Lines (C) Task Force.
  - D. Monitor the activities of the Title Insurance (C) Task Force.
  - E. Monitor the activities of the Workers' Compensation (C) Task Force.
  - F. Provide an impartial forum for considering appeals of adverse decisions involving alien insurers delisted or rejected for listing to the *Quarterly Listing of Alien Insurers*. Appeal procedures are described in the International Insurers Department (IID) Plan of Operation.
  - G. Monitor and review developments in case law and rehabilitation proceedings related to risk-retention groups (RRGs); if warranted, make appropriate changes to the *Risk Retention and Purchasing Group Handbook*.
  - H. Monitor the activities of the Federal Crop Insurance Corporation (FCIC) that affect state insurance regulators:
    1. Serve as a forum for discussing issues related to the interaction of federal crop insurance programs with state insurance regulation.
    2. Review law changes and court decisions and, if warranted, make appropriate changes to the *Federal Crop Insurance Program Handbook: A Guide for Insurance Regulators*.
    3. Monitor the regulatory information exchanges between the FCIC and state insurance regulators, as well as the FCIC and the NAIC, and make recommendations for improvement or revisions, as needed.
  - I. Consider the development of a white paper reviewing the coverage options, product approval, marketing, rating, and claims practices related to pet insurance.
2. The **Advisory Organization Examination Oversight (C) Working Group** will:
  - A. Revise the protocols, as necessary, for the examination of national or multi-state advisory organizations (includes rating organizations and statistical agents) to be more comprehensive, efficient and possibly less frequent than the current system of single-state exams. Solicit input and collaboration from other interested and affected committees and task forces.
  - B. Monitor the data reporting and data-collection processes of advisory organizations (including rating organizations and statistical agents) to determine if they are implementing appropriate measures to ensure data quality. Report the results of this ongoing charge as needed.
  - C. Actively assist with and coordinate multi-state examinations of advisory organizations (including rating organizations and statistical agents).
3. The **Auto Insurance (C/D) Working Group** of the Property and Casualty Insurance (C) Committee and the Market Regulation and Consumer Affairs (D) Committee will:
  - A. Review issues relating to low-income households and the auto insurance marketplace and make recommendations, as appropriate
  - B. Consider the collection of data to evaluate the availability and affordability of auto insurance.

**PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE (continued)**

4. The **Catastrophe Insurance (C) Working Group** will:
  - A. Monitor and recommend measures to improve the availability and affordability of insurance and reinsurance related to catastrophe perils for personal and commercial lines.
  - B. Evaluate potential state, regional and national programs to increase capacity for insurance and reinsurance related to catastrophe perils.
  - C. Monitor and assess proposals that address disaster insurance issues at the federal and state levels; assess concentration-of-risk issues and whether a regulatory solution is needed.
  - D. Provide a forum for discussing issues and recommending solutions related to insuring for catastrophe risk, including terrorism, war and natural disasters.
  - E. Provide a forum for discussing various issues related to catastrophe modeling and monitor issues that will result in changes to the *Catastrophe Computer Modeling Handbook*.
  - F. Investigate and recommend ways the NAIC can assist states in responding to disasters and discuss issues surrounding loss mitigation; update the *State Disaster Response Plan*, as needed, so that it provides a blueprint for action by the states to respond to catastrophic events.
  - G. Review findings from the fall 2012 public hearing on catastrophe issues and consider developing a model guideline, white paper and/or compilation of best practices to reduce post-disaster insurance recovery obstacles for insurance consumers. Issues could include, but are not limited to:
    1. The appropriate duration for payment of additional living expenses.
    2. The appropriate duration for consumers to recover the full replacement cost of personal and real property.
    3. Streamlined inventory requirements in the event of a total loss.
    4. Enhanced training requirements regarding calculation of accurate dwelling replacement values.
    5. Requiring insurers to provide a complete copy of a policy upon request as part of the claim settlement process.
    6. Providing claimants access to copies of all claim-related documents in a claim file.
  - H. Coordinate with the National Flood Insurance Program (NFIP) on the regulation of flood insurance to continue developing a handbook or white paper to assist state insurance regulators in understanding the federal flood insurance program and how it interacts with state insurance regulation.
  - I. Collect and analyze NFIP data to facilitate the private market writing flood insurance.
  - J. Study, in coordination with other NAIC task forces and working groups, earthquake matters of concern to state insurance regulators; consider various innovative earthquake insurance coverage options aimed at improving take-up rates.
5. The **Climate Change and Global Warming (C) Working Group** will:
  - A. Review the enterprise risk management efforts by carriers and how they may be affected by climate change and global warming.
  - B. Investigate and receive information regarding the use of modeling by carriers and their reinsurers concerning climate change and global warming.
  - C. Review the impact of climate change and global warming on insurers through presentations by interested parties.
  - D. Investigate sustainability issues and solutions related to the insurance industry.
  - E. Review innovative insurer solutions to climate change, including new insurance products through presentations by interested parties.
6. The **Lender-Placed Insurance Model Act (C) Working Group** will:
  - A. Review information from the public hearing on lender-placed insurance and complete the drafting of a new model law concerning lender-placed insurance as it relates to mortgages.
7. The **Medical Professional Liability (C) Working Group** will:
  - A. Survey states and other entities collecting medical professional liability data and related information on medical malpractice claims. Analyze and report on the survey results to determine how data sharing in regard to medical malpractice claims in general can better inform state insurance regulators on trends and activities. Where gaps in the data exist, propose solutions for resolving those issues. Report on progress to the Property and Casualty Insurance (C) Committee and complete the charge by August 2018.



**PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE** *(continued)*

8. The **Public Adjuster (C/D) Working Group**, of the Property and Casualty Insurance (C) Committee and the Market Regulation and Consumer Affairs (D) Committee, will:
  - A. Review issues related to the unauthorized practice of public adjusting and make recommendations as may be appropriate, by the Spring National Meeting.
9. The **Terrorism Insurance Implementation (C) Working Group** will:
  - A. Coordinate the NAIC's efforts to address insurance coverage for acts of terrorism. Work with the U.S. Department of the Treasury's Terrorism Risk Insurance Program Office on matters of mutual concern. Discuss long-term solutions to address the risk of loss from acts of terrorism.
  - B. Review and report on data collection related to insurance coverage for acts of terrorism.
10. The **Transparency and Readability of Consumer Information (C) Working Group** will:
  - A. Study and evaluate actions that will improve the capacity of consumers to comparison shop on the basis of differences in coverage provided by different insurance carriers offering personal lines products.
  - B. Systematize and improve presale disclosures of coverage.
  - C. Increase consumer accessibility to different carriers' policy forms on a presale basis. The Working Group should consider all possible avenues of accessibility, including state insurance department websites, the NAIC, insurance companies and the possibility of pre-sale provision of complete policy language.
  - D. Facilitate consumers' capacity to understand the content of insurance policies and assess differences in insurers' policy forms. The Working Group should consider: 1) implementing new readability rules as suggested by the Market Regulation and Consumer Affairs (D) Committee; 2) promoting consistent, clear and logical formatting and organization of all policies; and 3) any other measures that would improve the intellectual accessibility of policy forms.
  - E. Develop a shopping tool for homeowners, renters, and business owners on flood insurance coverage and work with state insurance regulators to develop a standardized website and flood bulletin to assist consumers who have questions regarding flood insurance.
  - F. Update the *Shopping Tool for Homeowners Insurance* and the *Shopping Tool for Automobile Insurance*.
11. The **Travel Insurance (C) Working Group** will:
  - A. Complete development of a model law or guideline to establish appropriate regulatory standards for the travel and tourism insurance industry.

NAIC Support Staff: Aaron Brandenburg/Kris DeFrain/Eric C. Nordman

## CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

The mission of the Casualty Actuarial and Statistical (C) Task Force is to identify, investigate and develop solutions to actuarial problems and statistical issues in the property/casualty (P/C) insurance industry. The Task Force's goals are to assist regulators with maintaining the financial health of P/C insurers, ensuring P/C insurance rates are not excessive, inadequate or unfairly discriminatory and ensuring that appropriate data regarding P/C insurance markets are available.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Casualty Actuarial and Statistical (C) Task Force** will:
  - A. Provide reserving, pricing, ratemaking, statistical and other actuarial support to NAIC committees, task forces and/or working groups. Propose changes to the appropriate work products (with the most common work products noted below) and present comments on proposals submitted by others relating to casualty actuarial and statistical matters. Monitor the activities, including the development of financial services regulations and statistical (including disaster) reporting, relating to casualty actuarial issues.
    1. Blanks (E) Working Group (P/C annual financial statement, including Schedule P; P/C quarterly financial statement; P/C quarterly and annual financial statement instructions, including Statement of Actuarial Opinion and Actuarial Opinion Summary Supplement).
    2. Statutory Accounting Principles (E) Working Group (*Accounting Practices and Procedures Manual*). Review and provide comments on statutory accounting issues being considered under *SSAP No. 65—Property and Casualty Contracts*.
    3. Capital Adequacy (E) Task Force [P/C risk-based capital (RBC) report].
    4. Financial Analysis Handbook (E) Working Group (P/C actuarial sections and other sections regarding the use of P/C actuaries in the risk-focused examination process of the *Financial Analysis Handbook*).
    5. Financial Examiners Handbook (E) Technical Group (P/C actuarial sections and other sections regarding the use of P/C actuaries in the risk-focused examination process of the *Financial Condition Examiners Handbook*).
    6. Operational Efficiencies (EX) Subgroup (P/C actuarial sections of the *Product Filing Review Handbook*).
    7. Auto Insurance (C/D) Working Group (affordability, data call and/or any remaining issues related to price optimization).
  - B. Monitor national casualty actuarial developments and consider regulatory implications.
    1. Casualty Actuarial Society (CAS) (Statements of Principles and *Syllabus of Basic Education*).
    2. American Academy of Actuaries (Academy) [Actuarial Standards of Practice (ASOP), Council on Professionalism and Casualty Practice Council].
    3. Society of Actuaries (SOA) (general insurance track).
    4. Federal legislation.
  - C. Monitor activities related to the Own Risk and Solvency Assessment (ORSA), including the activities of the Group Solvency Issues (E) Working Group, the Academy, the International Actuarial Association (IAA) and other relevant organizations.
  - D. Facilitate discussion among state insurance regulators regarding rate filing issues of common interest across states through the scheduling of regulator-to-regulator conference calls.
  - E. Develop an attestation an actuary must complete and sign annually to verify the actuary is qualified to sign a statutory P/C Statement of Actuarial Opinion.
  - F. Work with actuarial organizations to require P/C appointed actuaries to participate in a recertification process every one to three years.
  - G. Work with the American Academy of Actuaries to add clarity to the required three-year experience period in the *U.S. Qualification Standards* regarding the mentor's responsibilities and the learning expectations for the actuary.

**CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE** *(continued)*

2. The **Actuarial Opinion (C) Working Group** will:
  - A. Propose revisions to the following, as needed, especially to improve actuarial opinions, actuarial opinion summaries and actuarial reports, as well as the regulatory analysis of these actuarial documents and loss and premium reserves.
    1. *Financial Analysis Handbook.*
    2. Financial statement instructions.
    3. Regulatory guidance to appointed actuaries.
  
3. The **Statistical Data (C) Working Group** will:
  - A. Consider updates and changes to the *Statistical Handbook of Data Available to Insurance Regulators.*
  - B. Consider updates and developments, provide technical assistance and oversee the production of the following reports and databases. Periodically evaluate the demand and utility versus the costs of production of each product.
    1. *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owners Insurance.*
    2. *Auto Insurance Database.*
    3. *Competition Database Report.*
    4. *Report on Profitability by Line by State.*

NAIC Support Staff: Kris DeFrain/Libby Crews

## **SURPLUS LINES (C) TASK FORCE**

The mission of the Surplus Lines (C) Task Force is to monitor the surplus lines market and its operation and regulation, including the activity and financial condition of U.S. and non-U.S. surplus lines insurers by providing a forum for discussion of issues and to develop or amend relevant NAIC model laws, regulations and/or guidelines.

### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Surplus Lines (C) Task Force** will:
  - A. Perform financial analysis of the surplus lines market utilizing the NAIC Financial Data Repository and other sources in order to prepare a regulator report.
  - B. Develop and oversee implementation of state-based solutions addressing the surplus lines subtitle of the federal Nonadmitted and Reinsurance Reform Act.
  
2. The **Surplus Lines (C) Working Group** will:
  - A. Provide NAIC/International Insurers Department (IID) financial staff guidance and expertise relative to regulatory policy and practices with respect to individual companies and Lloyd's syndicates that are either listed, on or seeking admission to, *the Quarterly Listing of Alien Insurers*.
  - B. Provide analytical expertise and support to the states and the IID with respect to admission to the *Quarterly Listing of Alien Insurers*.
  - C. Maintain the IID Plan of Operation and its requirements relating to standards for inclusion on the *Quarterly Listing of Alien Insurers* concerning capital and/or surplus funds, U.S. trust accounts and fitness of management, among other criteria.
  - D. Provide a forum for discussion among NAIC jurisdictions of excess market issues related to specific companies, entities or individuals.

NAIC Support Staff: Bob Schump/Andy Daleo

## **TITLE INSURANCE (C) TASK FORCE**

The mission of the Title Insurance (C) Task Force is to study issues related to title insurers and title insurance producers.

### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Title Insurance (C) Task Force** will:
  - A. Monitor issues and developments occurring in the title insurance industry, and provide support and expertise to other NAIC committees, task forces and/or working groups, or outside entities, as appropriate.
  - B. Review and assist various regulatory bodies in combating fraudulent and/or unfair real estate settlement activities. Such efforts could include working with the Antifraud (D) Task Force and other NAIC committees, task forces and/or working groups to combat mortgage fraud and mitigating title agent defalcations through the promotion of closing protection letters and other remedies. Report results at each national meeting.
  - C. Consult with the Consumer Financial Protection Bureau (CFPB) and other agencies responsible for information, education and disclosure for mortgage lending, closing and settlement services about the role of title insurance in the real estate transaction process.
  
2. The **Title Insurance Financial Reporting (C) Working Group** will:
  - A. Consider the effectiveness of recent changes in financial reporting by title insurance companies and to identify further improvements and clarifications to blanks, instructions, Statement of Statutory Accounting Principles (SSAPs), solvency tools and other matters. Coordinate efforts with the Statutory Accounting Principles (E) Working Group.

NAIC Support Staff: Jennifer Gardner/Aaron Brandenburg

## **WORKERS' COMPENSATION (C) TASK FORCE**

The mission of the Workers' Compensation (C) Task Force is to study the nature and effectiveness of state approaches to workers' compensation and related issues, including, but not limited to: assigned risk plans; safety in the workplace; treatment of investment income in rating; occupational disease; cost containment; and the relevance of adopted NAIC model laws, regulations and/or guidelines pertaining to workers' compensation.

### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Workers' Compensation (C) Task Force** will:
  - A. Discuss issues arising with respect to advisory organizations and insurance companies in the workers' compensation arena.
  - B. Monitor the movement of business from the standard markets to the assigned risk pools. Alert state insurance department representatives if growth of the assigned risk pools changes dramatically.
  - C. Assist in the implementation of terrorism insurance monitoring for the workers' compensation line of business as required by the federal Terrorism Risk Insurance Program Reauthorization Act of 2015, in coordination with the Federal Insurance Office (FIO) where appropriate.
  - D. Assist the Financial Condition (E) Committee with the implementation of recommendations contained in the NAIC/IAIABC Joint (C) Working Group white paper, *2016 Workers' Compensation Large Deductible Study*.
  - E. Assist the NAIC/IAIABC Joint (C) Working Group in its efforts to update the 2009 white paper, *An Overview of Workers' Compensation Independent Contractor Regulatory Approaches*.
2. The **NAIC/IAIABC Joint (C) Working Group** will:
  - A. Study issues of mutual concern to insurance regulators and the International Association of Industrial Accident Boards and Commissions (IAIABC). Review relevant IAIABC model laws and white papers and consider possible changes in light of the Working Group's recommendations.
  - B. Update the 2009 white paper, *An Overview of Workers' Compensation Independent Contractor Regulatory*

NAIC Support Staff: Aaron Brandenburg

## MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE

The mission of the Market Regulation and Consumer Affairs (D) Committee is to monitor all aspects of the market regulatory process for continuous improvement. This includes market analysis, regulatory interventions with companies and multi-jurisdictional collaboration. The Committee will also review and make recommendations regarding the underwriting and market practices of insurers and producers as those practices affect insurance consumers, including the availability and affordability of insurance.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Market Regulation and Consumer Affairs (D) Committee** will:
  - A. Monitor the centralized collection and storage of market conduct data, national analysis and reporting at the NAIC, including issues regarding the public availability of data.
  - B. Monitor and assess the current process for multi-jurisdictional market conduct activities and provide appropriate recommendations for enhancement, as necessary.
  - C. Evaluate all data currently collected in the NAIC Market Information Systems (MIS) and considered confidential to determine what, if any, can be made more widely available.
  - D. Oversee the activities of the Antifraud (D) Task Force.
  - E. Oversee the activities of the Market Information Systems (D) Task Force.
  - F. Oversee the activities of the Producer Licensing (D) Task Force.
  - G. Monitor the underwriting and market practices of insurers and producers, as well as conditions of insurance marketplaces, including urban markets, to identify specific market conduct issues of importance and concern; hold public hearings on these issues at the NAIC national meetings, as appropriate.
  - H. In collaboration with other technical working groups, discuss and share best practices through public forums to address broad consumer concerns regarding personal insurance products.
  - I. Coordinate with the International Insurance Relations (G) Committee to develop input and submit comments to the International Association of Insurance Supervisors (IAIS) and/or other related groups on issues regarding market regulation concepts.
  - J. Coordinate with the Health Insurance and Managed Care (B) Committee to provide policy recommendations regarding uniform state enforcement of the federal Affordable Care Act (ACA).
2. The **Auto Insurance (C/D) Working Group** of the Property and Casualty Insurance (C) Committee and the Market Regulation and Consumer Affairs (D) Committee will:
  - A. Review issues relating to low-income households and the auto insurance marketplace and make recommendations, as appropriate.
  - B. Consider the collection of data to evaluate the availability and affordability of auto insurance.
3. The **Market Actions (D) Working Group** will:
  - A. Facilitate interstate communication and coordinate collaborative state regulatory actions.
4. The **Market Analysis Procedures (D) Working Group** will:
  - A. Recommend changes to the market analysis framework based on results over the past five years, including the current set of Level 1 and Level 2 questions. Provide recommendations by the Fall National Meeting.
  - B. Discuss other market data-collection issues and make recommendations, as necessary.
  - C. Consider recommendations for new lines of business for the Market Conduct Annual Statement. Provide recommendations by the Fall National Meeting.
5. The **Market Conduct Annual Statement Blanks (D) Working Group** will:
  - A. Review the Market Conduct Annual Statement (MCAS) data elements and the “Data Call and Definitions” for all lines of business collected in the MCAS and update them, as necessary, by June 1, 2018.
  - B. Develop an MCAS blank to be used for the collection of data for additional lines of business, where appropriate, by June 1, 2018.

**MARKET REGULATION AND CONSUMER AFFAIRS (D) COMMITTEE** *(continued)*

6. The **Market Conduct Examination Standards (D) Working Group** will:
  - A. Develop market conduct examination standards and uniform market conduct procedural guidance, as necessary.
  - B. Monitor the adoption and revision of NAIC models and develop market conduct examination standards to correspond with adopted NAIC models by the Fall National Meeting.
  - C. Develop updated standardized data requests for inclusion in the *Market Regulation Handbook* by the Fall National Meeting.
  
7. The **Market Regulation Certification (D) Working Group** will:
  - A. Develop a formal market regulation certification proposal for consideration by the NAIC membership that provides recommendations for the following: 1) certification standards; 2) a process for the state implementation of the standards; 3) a process to measure the states' compliance with the standards; 4) a process for future revisions to the standards; and 5) assistance for jurisdictions to achieve certification.
  
8. The **Pre-Dispute Mandatory Arbitration Clauses (D) Working Group** will:
  - A. Consider the use of: 1) pre-dispute mandatory arbitration clauses; and 2) choice-of-law and choice-of-venue clauses and, if appropriate, prohibit their use in any individual or commercial insurance policies by amending the *Unfair Trade Practices Model Act* (#880), developing a new model act or developing other guidance regarding their usage.
  
9. The **Public Adjuster (C/D) Working Group** of the Property and Casualty Insurance (C) Committee and the Market Regulation and Consumer Affairs (D) Committee will:
  - A. Review issues related to the unauthorized practice of public adjusting and make recommendations, as may be appropriate, by the Spring National Meeting.

NAIC Support Staff: Timothy B. Mullen/Randy Helder



## **ANTIFRAUD (D) TASK FORCE**

The mission of the Antifraud (D) Task Force is to serve the public interest by assisting the state insurance supervisory officials, individually and collectively, through the detection, monitoring and appropriate referral for investigation of insurance crime, both by and against consumers. The Task Force will assist the insurance regulatory community by conducting the following activities: maintain and improve electronic databases regarding fraudulent insurance activities; disseminate the results of research and analysis of insurance fraud trends, as well as case-specific analysis, to the insurance regulatory community; and provide a liaison function between insurance regulators, law enforcement (federal, state, local and international) and other specific antifraud organizations. The Task Force also will serve as a liaison with the NAIC Information Technology Group and other NAIC committees, task forces and/or working groups to develop technological solutions for data collection and information-sharing. The Task Force will monitor all aspects of antifraud activities by its working groups on the following charges.

### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Antifraud (D) Task Force** will:
  - A. Work with NAIC committees, task forces and working groups (e.g., Title Insurance (C) Task Force, Public Adjuster (C/D) Working Group, etc.) to review issues and concerns related to fraud activities and schemes related to insurance fraud.
  - B. Coordinate efforts to address national concerns related to agent fraud and activities of unauthorized agents related to insurance sales.
  - C. Coordinate the enforcement and investigation efforts of state and federal securities regulators with state insurance fraud bureaus.
  - D. Coordinate with state, federal and international law enforcement agencies in addressing antifraud issues relating to the insurance industry.
  - E. Review and provide comments to the International Association of Insurance Supervisors (IAIS) on its Insurance Core Principles (ICPs) related to insurance fraud.
  - F. Coordinate activities and information from national antifraud organizations and provide information to state insurance fraud bureaus.
  - G. Coordinate efforts with the insurance industry to address antifraud issues and concerns.
  - H. Evaluate and recommend methods to track national fraud trends.
2. The **Antifraud Education Enhancement (D) Working Group** will:
  - A. Develop seminars, trainings and webinars regarding insurance fraud providing. Provide two webinars by 2018 Fall National Meeting.
3. The **Antifraud Technology (D) Working Group** will:
  - A. Evaluate sources of antifraud data and propose methods for enhancing the utilization and exchange of information among insurance regulators, fraud investigative divisions, law enforcement officials, insurers and antifraud organizations by the 2018 Fall National Meeting.

NAIC Support Staff: Greg Welker/Lois E. Alexander

## MARKET INFORMATION SYSTEMS (D) TASK FORCE

The mission of the Market Information Systems (D) Task Force is to provide business expertise regarding the desired functionality of the NAIC Market Information Systems and the prioritization of regulatory requests for the development and enhancements of the NAIC Market Information Systems.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Market Information Systems (D) Task Force** will:
  - A. Ensure the NAIC Market Information Systems support the strategic direction set forth by the Market Regulation and Consumer Affairs (D) Committee.
  - B. Develop a plan for making public data collected in the NAIC Market Information Systems more meaningful and widely available – by 2018 Fall National Meeting
  - C. Analyze the data in the NAIC Market Information Systems. If needed, recommend methods to ensure better data quality. – by 2018 Summer National Meeting
  - D. Determine how to effectively provide state users with query access to NAIC Market Information Systems data. – by 2018 Fall National Meeting
  - E. Provide guidance on appropriate use of the NAIC Market Information Systems and data entered in them.
    1. Complaint Database System (CDS).
    2. Electronic Forums.
    3. Market Actions Tracking System (MATS).
    4. Market Analysis Profile.
    5. Market Analysis Prioritization Tool (MAPT).
    6. Market Analysis Review System (MARS).
    7. Market Conduct Annual Statement (MCAS).
    8. Regulatory Information Retrieval System (RIRS).
    9. 1033 State Decision Repository (*in conjunction with the Antifraud (D) Task Force*).
2. The **Market Information Systems Research and Development (D) Working Group** will:
  - A. Serve as the business partner to review and prioritize submitted Uniform System Enhancement Request (USER) forms to ensure an efficient use of available NAIC staffing and resources.
  - B. Assist the Task Force with tasks as assigned, such as:
    1. Analyze NAIC Market Information Systems data.
    2. Provide state users with query access to NAIC Market Information Systems data.
    3. Provide guidance on appropriate use of the NAIC Market Information Systems.

NAIC Support Staff: Randy Helder/Ginny Ewing

## PRODUCER LICENSING (D) TASK FORCE

The mission of the Producer Licensing (D) Task Force is to: 1) develop and implement uniform standards, interpretations and treatment of producer and adjuster licensees and licensing terminology; 2) monitor and respond to developments related to licensing reciprocity; 3) coordinate with industry and consumer groups regarding priorities for licensing reforms; and 4) provide direction based on NAIC membership initiatives to the National Insurance Producer Registry (NIPR) Board of Directors regarding the development and implementation of uniform producer licensing initiatives, with a primary emphasis on encouraging the use of electronic technology.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Producer Licensing (D) Task Force** will:
  - A. Work closely with NIPR to encourage full utilization of NIPR products and services by all of the states and producers, and encourage accurate and timely reporting of state administrative actions to the NAIC's Regulatory Information Retrieval System (RIRS) to ensure this data is properly reflected in the State Producer Licensing Database (SPLD) and the Producer Database (PDB).
  - B. Facilitate roundtable discussions, as needed, with the state producer licensing directors for the exchange of views, opinions and ideas on producer-licensing activities in the states and at the NAIC.
  - C. Discuss, as necessary, state perspectives regarding the regulation and benefit of the activities of the federal Affordable Care Act (ACA) established enrollment assisters (including navigators and non-navigator assisters and certified application counselors) and the activities of producers in assisting individuals and businesses purchasing in the health insurance marketplaces. Coordinate with the Health Insurance and Managed Care (B) Committee and the Antifraud (D) Task Force, as necessary.
  - D. Monitor the activities of the National Association of Registered Agents and Brokers (NARAB) in the development and enforcement of the NARAB membership rules, including the criteria for successfully passing a background check.
  - E. Coordinate through NAIC staff to provide guidance to NIPR on producer licensing-related electronic initiatives. Hear a report from NIPR at each national meeting.
  - F. Coordinate with the Market Information Systems (D) Task Force and the Antifraud (D) Task Force to evaluate and make recommendations regarding the entry, retention and use of data in the NAIC's Market Information Systems.
2. The **Adjuster Licensing (D) Working Group** will:
  - A. Monitor state implementation of adjuster licensing reciprocity. Provide a report on state implementation by the Fall National Meeting.
  - B. Develop minimum adjuster licensing standards by the Summer National Meeting.
  - C. Ensure appropriate consumer protections are in place with the implementation of the use of "designated home state" by providing any recommendations on state business practices by the Summer National Meeting.
  - D. Review and update, as needed, the NAIC's uniform adjuster licensing applications. Provide any recommended updates to the Producer Licensing (D) Task Force by June 1.
3. The **Producer Licensing Uniformity (D) Working Group** will:
  - A. Work closely with state producer licensing directors and exam vendors to ensure: 1) the states achieve full compliance with the standards in order to achieve greater uniformity; and 2) the exams test the qualifications for an entry-level position as a producer.
  - B. Provide oversight and ongoing updates, as needed, to the *State Licensing Handbook* by the Fall National Meeting.
  - C. Monitor and assess the state implementation of the Uniform Licensing Standards and update the standards, as needed, by the Fall National Meeting.
  - D. Review and update, as needed, the NAIC's uniform producer licensing applications and uniform appointment form. Provide any recommended updates to the Producer Licensing (D) Task Force by June 1.

**PRODUCER LICENSING (D) TASK FORCE** *(continued)*

4. The **Uniform Education (D) Working Group** will:
  - A. Update, as needed, the reciprocity guidelines, the uniform application forms for continuing education providers, and the process for state review and approval of courses. Provide any recommended updates to the Producer Licensing (D) Task Force by the Fall National Meeting.
  - B. Coordinate with NAIC parent committees, task forces and/or working groups to review and provide recommendations, as necessary, on pre-licensing education and continuing education requirements that are included in NAIC model acts, regulations and/or standards.

NAIC Support Staff: Timothy D. Mullen/Greg Welker

## FINANCIAL CONDITION (E) COMMITTEE

The mission of the Financial Condition (E) Committee is to be the central forum and coordinator of solvency-related considerations of the NAIC relating to accounting practices and procedures; blanks; valuation of securities; the Insurance Regulatory Information System (IRIS); financial analysis and solvency; multistate examinations and examiner training; and issues concerning insurer insolvencies and insolvency guarantees. In addition, the Committee interacts with the technical task forces.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Financial Condition (E) Committee** will:
  - A. Monitor all of the changes to the annual/quarterly financial statement blanks and instructions, risk-based capital (RBC) formulas, *Financial Condition Examiners Handbook*, *Accounting Practices and Procedures Manual* (AP&P Manual), *Financial Analysis Handbook*, *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual), NAIC model laws, NAIC accreditation standards, and other NAIC publications.
  - B. Appoint and oversee the activities of the following: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Long-Term Care Insurance (B/E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; and Valuation of Securities (E) Task Force.
  - C. Recommend salary rate adjustments for examiners.
  - D. Oversee a process to address financial issues that may compromise the consistency and uniformity of the U.S. solvency framework, referring valuation and other issues to the appropriate committees as needed.
  - E. Use the Risk-Focused Surveillance (E) Working Group to address specific industry concerns regarding regulatory redundancy and review any issues industry subsequently escalates to the Committee.
2. The **Financial Analysis (E) Working Group** will:
  - A. Analyze nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; determine if appropriate action is being taken.
  - B. Interact with domiciliary regulators and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and action(s).
  - C. Support, encourage, promote and coordinate multistate efforts in addressing solvency problems, including identifying adverse industry trends.
  - D. Increase information-sharing and coordination between state regulators and federal authorities, including through representation of state regulators in national bodies with responsibilities for system-wide oversight.
3. The **Group Capital Calculation (E) Working Group** will:
  - A. Construct a U.S. group capital calculation using a risk-based capital (RBC) aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation. Field Test a Beta version that does not consider stress tests by the 2018 Fall National Meeting.
4. The **Group Solvency Issues (E) Working Group** will:
  - A. Continue to develop potential enhancements to the current regulatory solvency system as it relates to group-solvency-related issues.
  - B. Critically review and provide input and drafting to the International Association of Insurance Supervisors (IAIS), Insurance Groups Working Group or on other IAIS papers dealing with group supervision issues.
  - C. Continually review and monitor the effectiveness of the *Insurance Holding Company System Regulatory Act* (#440) and the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450), and consider revisions as necessary to maintain effective oversight of insurance groups.

**FINANCIAL CONDITION (E) COMMITTEE** *(continued)*

5. The **ORSA Implementation (E) Subgroup** of the Group Solvency Issues (E) Working Group will:
  - A. Continue to provide and enhance an enterprise risk management (ERM) education program for regulators in support of the Own Risk and Solvency Assessment (ORSA) implementation.
  - B. Continually review and monitor the effectiveness of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) and its corresponding *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual*; consider revisions as necessary.
6. The **Mortgage Guaranty Insurance (E) Working Group** will:
  - A. Develop changes to the *Mortgage Guaranty Insurance Model Act* (#630) and other areas of solvency regulation of mortgage guaranty insurers. Oversee the work of the consultant on testing and finalization of proposed capital model by the 2018 Summer National Meeting and finalize the model by the 2018 Fall National Meeting.
7. The **NAIC/AICPA (E) Working Group** will:
  - A. Continually review the *Annual Financial Reporting Model Regulation* (#205) and its corresponding implementation guide; revise as appropriate.
  - B. Address financial solvency issues by working with the American Institute of Certified Public Accountants (AICPA) and responding to AICPA exposure drafts.
  - C. Monitor the federal Sarbanes-Oxley Act, as well as rules and regulations promulgated by the U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB) and other financial services regulatory entities.
  - D. Review annually the premium threshold amount included in Section 16 of Model #205, with the general intent that those insurers subject to the Section 16 requirements would capture at least approximately 90% of industry premium and/or in response to any future regulatory or market developments.
8. The **National Treatment and Coordination (E) Working Group** will:
  - A. Increase utilization and implementation of the *Company Licensing Best Practices Handbook*.
  - B. Encourage synergies between corporate changes/amendments and rate and form filing review and approval to improve efficiency.
  - C. Continue to monitor the usage and make necessary enhancements to the Form A Database.
  - D. Develop and maintain educational courses in the existing NAIC Insurance Regulator Professional Designation Program for company licensing regulators. Complete by the 2018 Summer National Meeting.
9. The **Biographical Third-Party Review (E) Subgroup** of the National Treatment and Coordination (E) Working Group will:
  - A. Increase the uniformity of the third-party vendors that prepare background investigative reports to those state insurance departments that require them. Reduce the inefficiency of applications by developing procedures and approval processes.
  - B. Monitor the ongoing adherence of background investigation reports and third-party vendors.
  - C. Encourage uniformity of requirements in relation to individuals' fitness and propriety and the company's responsibility in notifying state insurance departments of concerns or changes to key individuals.
10. The **Company Licensing Transactions (E) Subgroup** of the National Treatment and Coordination (E) Working Group will:
  - A. Continue to reduce state-specific requirements and streamline the Uniform Certificate of Authority Application (UCAA) process.
  - B. Continue to enhance all electronic tools relating to the UCAA to increase its usage by the industry and state insurance regulators.

**FINANCIAL CONDITION (E) COMMITTEE** *(continued)*

11. The **Risk-Focused Surveillance (E) Working Group** will:
- A. Continually review the effectiveness of risk-focused surveillance and develop enhancements to processes as necessary.
  - B. Consider specific regulatory redundancy issues provided by interested parties and provide recommendations to other NAIC committee groups as needed.
  - C. Oversee and monitor the Peer Review Program to encourage consistent and effective risk-focused surveillance processes.
  - D. Oversee and monitor the development of enhancements to the financial analysis process that further incorporate risk-focused concepts and a review of prospective solvency risks.
  - E. Consider recommendations to the Financial Regulation Standards and Accreditation (F) Committee for the purpose of evaluating the suitability of insurance department staffing in relation to the necessary skillsets.
  - F. Continually maintain and update standardized job descriptions/requirements for common solvency monitoring positions to assist insurance departments in attracting and maintaining suitable staff.
  - G. Review the *Financial Condition Examiners Handbook* salary and per diem guidelines to determine the applicability, value and use to the states; consider alternative approaches based on current financial solvency responsibilities.
12. The **Risk-Limiting Contracts (E) Working Group** will:
- A. Develop regulatory guidance on how to evaluate risk transfer as it pertains to reinsurance contracts with risk-limiting features and evaluate how to enhance current actuarial/accounting practices used to monitor a company's financial strength. Complete by the 2018 Fall National Meeting.
13. The **Valuation Analysis (E) Working Group** will:
- A. Respond to states in a confidential forum regarding questions and issues arising during the course of annual principle-based reserving (PBR) reviews or PBR examination and which also may include consideration of asset adequacy analysis questions and issues.
  - B. Work with NAIC resources to assist in prioritizing and responding to issues and questions regarding PBR and asset adequacy analysis including actuarial guidelines or other requirements making use of or relating to PBR such as *Actuarial Guideline XXXVIII—The Application of the Valuation of Life Insurance Policies Model Regulation* (AG 38), *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued Under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation* (AG 48), and the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).
  - C. Develop and implement a plan with NAIC resources to identify outliers/concerns regarding PBR/asset adequacy analysis.
  - D. Refer questions/issues as appropriate to the Life Actuarial (A) Task Force that may require consideration of changes/interpretations to be provided in the *Valuation Manual*.
  - E. Assist NAIC resources in development of a standard asset/liability model portfolio used to calibrate company principle-based reserving (PBR) models.
  - F. Make referrals as appropriate to the Financial Analysis (E) Working Group.
  - G. Perform other work to carry out the Valuation Analysis (E) Working Group procedures.
14. The **Variable Annuities Issues (E) Working Group** will:
- A. Oversee the NAIC's efforts to study and address, as appropriate, regulatory issues resulting in variable annuity captive reinsurance transactions. Complete by the 2018 Fall National Meeting.
  - B. Develop a model guideline that represents narrowly defined statutory language the states may use in removing the limitations that may exist within their investment statutes that may otherwise limit the extent of hedges an insurer may use in its risk management. Complete by the 2018 Fall National Meeting.
  - C. Consider proposed changes to the statutory framework designed to reduce the level and volatility of the non-economic aspect of current reserve and risk-based capital (RBC) requirements and refer to the C-3 Phase II/AG 43 (E/A) Subgroup once overall policy decisions are made and finalization of actual proposed changes are ready for consideration. Complete by the 2018 Fall National Meeting.

NAIC Support Staff: Dan Daveline

## ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE

The mission of the Accounting Practices and Procedures (E) Task Force is to identify, investigate and develop solutions to accounting problems with the ultimate goal of guiding insurers in properly accounting for various aspects of their operations; modify the *Accounting Practices and Procedures Manual* (AP&P Manual) to reflect changes necessitated by task force action; and study innovative insurer accounting practices that affect the ability of state insurance regulators to determine the true financial condition of insurers.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Accounting Practices and Procedures (E) Task Force** will:
  - A. Oversee the activities of the Blanks (E) Working Group and the Statutory Accounting Principles (E) Working Group.
2. The **Blanks (E) Working Group** will:
  - A. Consider improvements and revisions to the various annual/quarterly statement blanks to:
    1. Conform these blanks to changes made in other areas of the NAIC to promote uniformity in reporting of financial information by insurers;
    2. Develop reporting formats for other entities subject to the jurisdiction of state insurance departments;
    3. Conform the various NAIC blanks and instructions to adopted NAIC policy; and
    4. Oversee the development of additional reporting formats within the existing annual financial statements as needs are identified.
  - B. Continue to monitor state filing checklists to maintain current filing requirements.
  - C. Continue to monitor and improve the quality of financial data filed by insurance companies by recommending improved or additional language for the *Annual Statement Instructions*.
  - D. Continue to monitor and review all proposals necessary for the implementation of statutory accounting guidance to ensure proper implementation of any action taken by the Accounting Practices and Procedures (E) Task Force affecting annual financial statements and/or instructions.
  - E. Continue to coordinate with other task forces of the NAIC to ensure proper implementation of reporting and instructions changes as proposed by these task forces.
  - F. Coordinate with the Life Actuarial (A) Task Force to use any special reports developed and avoid duplication of reporting.
  - G. Review requests for investment schedule blanks and instructions changes in connection with the work being performed by the Investment Risk-Based Capital (E) Working Group. The Subgroup will review for technical changes and/or clarifications to the blanks and instructions.
  - H. Review changes requested by the Valuation of Securities (E) Task Force relating to its work on other invested assets reporting for technical consistency within the investment reporting schedules and instructions.



**ACCOUNTING PRACTICES AND PROCEDURES (E) TASK FORCE** (*continued*)

3. The **Statutory Accounting Principles (E) Working Group** will:
- A. Maintain codified statutory accounting principles by providing periodic updates to the guidance that address new statutory issues and new generally accepted accounting principles (GAAP) pronouncements. Provide authoritative responses to questions of application and clarifications for existing statutory accounting principles. Report all actions and provide updates to the Accounting Practices and Procedures (E) Task Force.
  - B. At the discretion of the Working Group chair, develop comments on exposed GAAP and International Financial Reporting Standards (IFRS) pronouncements affecting financial accounting and reporting. Any comments are subject to review and approval by the chairs of the Accounting Practices and Procedures (E) Task Force and the Financial Condition (E) Committee.
  - C. Coordinate with the Life Actuarial (A) Task Force on changes to the *Accounting Practices and Procedures Manual* (AP&P Manual) related to the *Valuation Manual* VM-A, Requirements, and VM-C, Actuarial Guidelines, as well as other *Valuation Manual* requirements. This process will include the receipt of periodic reports on changes to the *Valuation Manual* on items that require coordination.
  - D. Obtain, analyze and review information on permitted practices, prescribed practices or other accounting treatments suggesting that issues or trends occurring within the industry may compromise the consistency and uniformity of statutory accounting, including, but not limited to, activities conducted by insurers for which there is currently no statutory accounting guidance or where the states have prescribed statutory accounting that differs from the guidance issued by the NAIC. Use this information to consider possible changes to statutory accounting.
  - E. Develop specific statutory accounting guidance for certain limited derivative contracts hedging variable annuity guarantees, subject to fluctuations as a result of interest rate sensitivity, reserved for in accordance with *Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43). This guidance shall place an emphasis on reducing non-economic surplus volatility for these specific hedges in situations where strong risk-management is in place, with safeguards to ensure appropriate financial statement presentation and disclosures, sufficient transparency, and regulatory oversight. This charge shall be a high priority, with the earliest effective date feasible that allows for adequate development of guidance and related reporting schedules. Complete by the 2018 Fall National Meeting
  - F. Consider whether current or future changes to reserves resulting from implementation of the Variable Annuities Framework for Change will be reported in the annual financial statement as a “change in basis.” Complete by the 2018 Fall National Meeting

NAIC Support Staff: Robin Marcotte

## CAPITAL ADEQUACY (E) TASK FORCE

The mission of the Capital Adequacy (E) Task Force is to evaluate and recommend appropriate refinements to capital requirements for all types of insurers.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Capital Adequacy (E) Task Force** will:
  - A. Evaluate emerging “risk” issues for referral to the risk-based capital (RBC) working groups/subgroups for certain issues involving more than one RBC formula. Monitor emerging and existing risks relative to their consistent or divergent treatment in the three RBC formulas.
  - B. Review and evaluate company submissions for the schedule and corresponding adjustment to total adjusted capital (TAC). Determine whether asset charges for the forms of “other security” used by insurers, as required by the proposed Term and Universal Life Insurance Reserve Financing Model Regulation, should be developed or otherwise accounted for in the shortfall calculation and address deferred issues with consolidation presentation. Complete by the 2018 Summer National Meeting.
  - C. Review and evaluate company submissions for the Primary Security Shortfall schedule and corresponding adjustment to authorized control level. Complete by the 2018 Summer National Meeting.
2. The **Health Risk-Based Capital (E) Working Group, Life Risk-Based Capital (E) Working Group and Property and Casualty Risk-Based Capital (E) Working Group** will:
  - A. Evaluate refinements to the existing NAIC risk-based capital (RBC) formulas implemented in the prior year. Forward the final version of the structure of the current year life, property/casualty (P/C), health and fraternal RBC formulas to the Financial Condition (E) Committee by June.
  - B. Consider improvements and revisions to the various RBC blanks to: 1) conform the RBC blanks to changes made in other areas of the NAIC to promote uniformity; and 2) oversee the development of additional reporting formats within the existing RBC blanks as needs are identified. Any proposal that affects the RBC structure must be adopted no later than April 30 in the year of the change, and adopted changes will be forwarded to the Financial Condition (E) Committee by the next scheduled meeting or conference call. Any adoptions made to the annual financial statement blanks or statutory accounting principles that affect an RBC change adopted by April 30 and results in an amended change may be considered by July 30 for those exceptions where the Capital Adequacy (E) Task Force votes to pursue by super-majority (two-thirds) consent of members present, no later than June 30 for the current reporting year.
  - C. Monitor changes in accounting and reporting requirements resulting from the adoption and continuing maintenance of the revised *Accounting Practices and Procedures Manual* (AP&P Manual) to ensure that model laws, publications, formulas, analysis tools, etc., supported by the Task Force continue to meet regulatory objectives.
  - D. Review the effectiveness of the NAIC’s RBC policies and procedures as they affect the accuracy, audit ability, timeliness of reporting access to RBC results and comparability between the RBC formulas. Report on data quality problems in the prior year RBC filings at the summer and fall national meetings.
3. The **Investment Risk-Based Capital (E) Working Group** will:
  - A. Evaluate relevant historical data and apply defined statistical safety levels over appropriate time horizons in developing recommendations for revisions to the current asset risk structure and factors in each of the risk-based capital (RBC) formulas and delivering those recommendations to the Capital Adequacy (E) Task Force. Complete by the 2018 Fall National Meeting.

**CAPITAL ADEQUACY (E) TASK FORCE** (*continued*)

4. The **Life Risk-Based Capital (E) Working Group** will:
  - A. Evaluate risk-based capital (RBC) in light of principle-based reserving (PBR). Consider changes to RBC needed because of the changes in reserve values, including the “right-sizing” of reserves, margins in the reserves, any expected increase in reserve volatility, the overall desired level of solvency measurement and other issues. Complete by the 2018 Fall National Meeting.
  - B. Consider a total balance sheet approach (e.g., total asset requirement (TAR) type calculation and then subtracting out the PBR reserves) and application of stress scenarios. These charges should include appropriate consideration of International Association of Insurance Supervisors’ (IAIS) Insurance Core Principles (ICPs). Complete by the 2018 Fall National Meeting.
5. The **Operational Risk (E) Subgroup** will:
  - A. Evaluate options for developing an operational risk charge in each of the risk-based capital (RBC) formulas and provide a recommendation to the Capital Adequacy (E) Task Force as to treatment of operational risk in the RBC formulas. Complete by the 2018 Summer National Meeting.
6. The **C-3 Phase II/AG 43 (E/A) Subgroup** of the Life Risk-Based Capital (E) Working Group and the Life Actuarial (A) Task Force will:
  - A. Evaluate the overall effectiveness of the C-3 Phase II and *Actuarial Guideline XLIII—CARVM for Variable Annuities* (AG 43) methodologies used to evaluate the market risk component of risk-based capital (RBC) by conducting an in-depth analysis of the models, modeling assumptions, processes, supporting documentation and results of a sample of companies writing variable annuities with guarantees, and to make recommendations to the Capital Adequacy (E) Task Force or the Life Actuarial (A) Task Force on any changes to the methodologies to improve their overall effectiveness. Complete by the 2018 Fall National Meeting.
  - B. Develop and recommend changes to C-3 Phase II and AG 43 that implement, for 2018 adoption, the Variable Annuities Framework for Change. Complete by the 2018 Fall National Meeting.
7. The **Longevity Risk (A/E) Subgroup** of the Life Actuarial (A) Task Force and the Life Risk-Based Capital (E) Working Group will:
  - A. Provide recommendations for recognizing longevity risk in statutory reserves and/or risk-based capital (RBC), as appropriate.
8. The **Catastrophe Risk (E) Subgroup** of the Property and Casualty Risk-Based Capital (E) Working Group will:
  - A. Recalculate the premium risk factors on an ex-catastrophe basis, if needed.
  - B. Continue to update the U.S. and non-U.S catastrophe event list.
  - C. Continue to evaluate the need for exemption criteria for insurers with minimal risk.
  - D. Evaluate the risk-based capital (RBC) results inclusive of a catastrophe risk charge.
  - E. Refine instructions for the catastrophe risk charge.
  - F. Continue to evaluate any necessary refinements to the catastrophe risk formula.
  - G. Evaluate other catastrophe risks for possible inclusion in the charge.

NAIC Support Staff: Jane Barr

## LONG-TERM CARE INSURANCE (B/E) TASK FORCE

### Ongoing Support of NAIC Programs, Products or Services

1. The **Long-Term Care Insurance (B/E) Task Force** of the Health Insurance and Managed Care (B) Committee and Financial Condition (E) Committee will:
  - A. Coordinate all aspects of the NAIC's work regarding the long-term care insurance (LTCI) market. In addition to coordinating all current B and E Committee projects, the Task Force should pursue the following general objectives:
    1. To more rigorously assess the financial solvency of LTCI writers. Complete by the 2018 Spring National Meeting.
    2. To evaluate the sufficiency of current financial reporting and actuarial valuation standards. Complete by the 2018 Fall National Meeting.
    3. To assess state activities regarding the regulatory considerations on rate increase requests on blocks and to identify common elements for achieving greater transparency and predictability. Complete by the 2018 Fall National Meeting.
    4. To coordinate state actions aimed at revising state guaranty fund laws. Complete by the 2018 Spring National Meeting.
    5. To monitor the development of regulatory policy regarding short duration LTCI policies. Complete by the 2018 Fall National Meeting.
    6. To consider product innovations and the development of potential state and federal solutions for stabilizing the LTCI market. Complete by the 2018 Fall National Meeting.
    7. To provide periodic reports to the B and E Committees, and the Executive (EX) Committee, regarding key issues and progress toward the general objectives set forth above. Conduct meetings in regulator-to-regulator session, as appropriate. Complete by the 2018 Fall National Meeting.

NAIC Support Staff: Dan Daveline/Jolie Matthews

## EXAMINATION OVERSIGHT (E) TASK FORCE

The mission of the Examination Oversight (E) Task Force is to monitor, develop and implement tools for the risk-focused surveillance process. For financial examinations and analysis, this includes maintenance of the *Financial Condition Examiners Handbook* and the *Financial Analysis Handbook* to provide guidance to examiners and analysts using a risk-focused approach to solvency regulation and to encourage effective communication and coordination between examiners, analysts and other regulators. In addition, the mission of the Task Force is to: monitor and refine regulatory tools of the risk-focused surveillance process, including Financial Analysis Solvency Tools (FAST) such as company profiles and the FAST ratio scoring system; oversee the Analyst Team Project; oversee financial examiner and analyst use of electronic software tools; monitor the progress of coordination efforts among the states in conducting examinations and the sharing of information necessary to solvency monitoring; establish procedures for the flow of information between the states about troubled companies; maintain an effective approach to the review of information technology (IT) general controls; and monitor the timeliness of financial examinations.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Examination Oversight (E) Task Force** will:
  - A. Accomplish its mission using the following groups:
    1. Electronic Workpaper (E) Working Group.
    2. Financial Analysis Handbook (E) Working Group.
    3. Financial Analysis Research and Development (E) Working Group.
    4. Financial Examiners Coordination (E) Working Group.
    5. Financial Examiners Handbook (E) Technical Group.
    6. IT Examination (E) Working Group.
2. The **Electronic Workpaper (E) Working Group** will:
  - A. Monitor and support the state insurance departments in using electronic workpaper software tools to conduct and document solvency monitoring activities.
  - B. Provide ongoing oversight to the NAIC's Electronic Workpaper Hosting Project.
  - C. Develop a framework to meet the long-term needs of regulators in using electronic workpapers to conduct and document solvency monitoring activities.
3. The **Financial Analysis Handbook (E) Working Group** will:
  - A. Provide ongoing maintenance and enhancements to the *Financial Analysis Handbook* and related applications for changes to the NAIC annual/quarterly financial statement blanks, and enhancements developed to assist in risk-focused analysis and monitoring the financial coordination of insurance companies and groups, as well as coordinate and analyze input received from other state regulators.
  - B. Coordinate with the Financial Examiners Handbook (E) Technical Group and the Risk-Focused Surveillance (E) Working Group, as appropriate, to develop and maintain guidance in order to provide effective solvency monitoring.
  - C. Continue incorporating enhancements that encourage the coordination of analysis activities with regard to holding company groups.
  - D. In compliance with the framework developed by the PBR Review (EX) Working Group:
    1. Continue to provide advice to regulators, identifying and judging risk, establishing appropriate procedures, identifying frequency of model reviews, and documenting best practices. Address all risks, financial and non-financial—e.g., enterprise risk management (ERM), board, corporate governance and the Own Risk and Solvency Assessment (ORSA).
    2. Continue to adjust the *Financial Analysis Handbook* based upon any recommendations as requested from the Life Actuarial (A) Task Force to incorporate principle-based reserving (PBR) changes.

**EXAMINATION OVERSIGHT (E) TASK FORCE** (*continued*)

4. The **Financial Analysis Research and Development (E) Working Group** will:
  - A. Provide ongoing development maintenance and enhancements to the automated financial solvency tools developed to assist in conducting risk-focused analysis and monitoring the financial condition of insurance companies and groups. Prioritize and perform analysis to ensure that the tools remain reliable and accurate.
  - B. Continue to consider changes to the current financial analysis solvency tools for life insurance companies for consideration of risk with reserve liabilities as affected by principle-based reserving (PBR) standards based upon any recommendations as requested from the Life Actuarial (A) Task Force; make appropriate enhancements as necessary.
  
5. The **Financial Examiners Coordination (E) Working Group** will:
  - A. Develop enhancements that encourage the coordination of examination activities with regard to holding company groups.
  - B. Promote coordination by assisting and advising domiciliary regulators and exam coordinating states as to what might be the most appropriate regulatory strategies, methods and actions regarding financial examinations of holding company groups.
  - C. Facilitate communication among regulators regarding common practices and issues arising from coordinating examination efforts.
  - D. Provide ongoing maintenance and enhancements to the Financial Examination Electronic Tracking System (FEETS). The Working Group also will provide reports to the Examination Oversight (E) Task Force regarding usage of FEETS, including examination and coordination statistics.
  
6. The **Financial Examiners Handbook (E) Technical Group** will:
  - A. Continually review the *Financial Condition Examiners Handbook* and revise, as appropriate.
  - B. Coordinate with the Risk-Focused Surveillance (E) Working Group to monitor the implementation of the risk-assessment process by developing additional guidance and exhibits within the *Financial Condition Examiners Handbook*, including consideration of potential redundancies affected by the examination process, corporate governance and other guidance as needed to assist examiners in completing financial condition examinations.
  - C. Coordinate with the Financial Analysis Handbook (E) Working Group and the Risk-Focused Surveillance (E) Working Group, as appropriate, to develop and maintain guidance in order to provide effective solvency monitoring.
  - D. Coordinate with the IT Examination (E) Working Group and the Financial Examiners Coordination (E) Working Group to maintain specialized areas of guidance within the *Financial Condition Examiners Handbook* related to the charges of these specific working groups.
  - E. In compliance with the framework developed by the PBR Review (EX) Working Group:
    1. Continue to provide advice to regulators, identifying and judging risk, building repositories, evaluating controls, determining the extent of data quality testing (by actuaries and examiners), identifying frequency of model reviews and documenting best practices. Address all risks, financial and non-financial—e.g., enterprise risk management (ERM), board, corporate governance and the Own Risk and Solvency Assessment (ORSA).
    2. Continue to adjust the *Financial Condition Examiners Handbook* based upon any recommendations as requested from the Life Actuarial (A) Task Force to incorporate principle-based reserving (PBR) changes.
  
7. The **IT Examination (E) Working Group** will:
  - A. Continually review and revise, as needed, the “General Information Technology Review” and “Exhibit C—Evaluation of Controls in Information Systems” sections of the *Financial Condition Examiners Handbook*.
  - B. Assist in the development of regulatory oversight policy with respect to cybersecurity examination issues as requested by the Cybersecurity (EX) Task Force.

NAIC Support Staff: Miguel Romero

## RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE

The mission of the Receivership and Insolvency (E) Task Force shall be administrative and substantive as it relates to issues concerning insurer insolvencies and insolvency guarantees. Such duties include, without limitation, monitoring the effectiveness and performance of state administration of receiverships and the state guaranty fund system; coordinating cooperation and communication among regulators, receivers and guaranty funds; monitoring ongoing receiverships and reporting on such receiverships to NAIC members; developing and providing educational and training programs in the area of insurer insolvencies and insolvency guarantees to regulators, professionals and consumers; developing and monitoring relevant model laws, guidelines and products; and providing resources for regulators and professionals to promote efficient operations of receiverships and guaranty funds.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Receivership and Insolvency (E) Task Force** will:
  - A. Monitor and promote efficient operations of receiverships and guaranty funds.
  - B. Monitor and promote state adoption of receivership related model acts and regulations.
  - C. Provide input and comments to the International Association of Insurance Supervisors (IAIS) or other related groups on issues regarding international resolution authority.
  - D. Monitor, review and provide input on federal rulemaking and studies related to insurance receivership.
  - E. Provide ongoing maintenance and enhancements to the *Receiver's Handbook for Insurance Company Insolvencies* and the Global Receivership Information Database (GRID).
  - F. Monitor the work of other NAIC committees, task forces and working groups to identify and address any issues that affect receivership law and/or regulatory guidance.
  - G. Perform additional work as directed by the Financial Condition (E) Committee and/or received through referral by other groups.
  - H. Monitor Federal Home Loan Bank (FHLB) legislation pending in and enacted by the states, and the impact on insurance companies in those states.
2. The **Receivership Financial Analysis (E) Working Group** will:
  - A. Monitor nationally significant insurers/groups within receivership to support, encourage, promote and coordinate multistate efforts in addressing problems. This will include interacting with the Financial Analysis (E) Working Group, domiciliary regulators and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and/or action(s) with regard to the receiverships.
3. The **Receivership Model Law (E) Working Group** will:
  - A. Review and provide recommendations on any issues identified that may affect receivership model laws—for example, any issues that arise as a result of market conditions, insurer insolvencies, federal rulemaking and studies, international resolution initiatives or as a result of the work performed by other NAIC committees, task forces and/or working groups.
  - B. Monitor, and provide recommendations for possible enhancements to the U.S. receivership regime and states' receivership laws and practices based on, international supervisory and advisory developments regarding recovery, resolution, receivership and liquidation, including, but not limited to, the Financial Stability Board's (FSB) *Key Attributes of Effective Resolution Regimes for Financial Institutions (KA)* and *Assessment Methodology (AM)*, the International Association of Insurance Supervisor's (IAIS) Insurance Core Principles (ICPs) and Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) materials (particularly ICP 10 and ICP 12 and related ComFrame). Complete by the 2018 Fall National Meeting.
  - C. Continue to evaluate and consider the changing marketplace of long-term care insurance (LTCI) products and the potential impact on receivership laws and practices, including drafting amendments to the *Life and Health Insurance Guaranty Association Model Act (#520)* to address issues arising in connection with the insolvency of long-term care (LTC) insurers. Complete by the 2018 Spring National Meeting.

**RECEIVERSHIP AND INSOLVENCY (E) TASK FORCE *(continued)***

4. The **Receivership Large Deductible Workers Compensation (E) Working Group** will:
  - A. Study states' receivership laws and practices regarding receivership of insurers with significant books of large deductible workers' compensation business, and evaluate the need for a model act/rule, or amendments to existing models, that governs the rights and duties of the various parties regarding large deductible business in insolvencies, including, but not limited to, consideration of a provision that expressly permits the collection of large deductibles from insureds during an insolvency proceeding. Provide any other recommendations for possible enhancements to the U.S. receivership regime based on this study. Complete by the 2018 Fall National Meeting.

NAIC Support Staff: Jane Koenigsman



## REINSURANCE (E) TASK FORCE

The mission of the Reinsurance (E) Task Force is to monitor and coordinate activities and areas of interest, which overlap to some extent the charges of other NAIC groups—specifically, the International Insurance Relations (G) Committee.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Reinsurance (E) Task Force** will:
  - A. Provide a forum for the consideration of reinsurance-related issues of public policy.
  - B. Oversee the activities of the Reinsurance Financial Analysis (E) Working Group.
  - C. Oversee the activities of the Qualified Jurisdiction (E) Working Group.
  - D. Monitor the implementation of the 2011 and 2016 revisions to the *Credit for Reinsurance Model Law* (#785), the 2011 revisions to the *Credit for Reinsurance Model Regulation* (#786) and the *Term and Universal Life Insurance Reserve Financing Model Regulation* (#787).
  - E. Communicate and coordinate with the Federal Insurance Office (FIO) and other federal authorities on matters pertaining to reinsurance.
  - F. Consider any other issues related to the revised Model #785, Model #786 and Model #787.
  - G. Monitor the development of international principles, standards and guidance with respect to reinsurance. This includes, but is not limited to, monitoring the activities of various groups within the International Association of Insurance Supervisors (IAIS), including the Reinsurance and Other Forms of Risk Transfer Subcommittee, the Reinsurance Mutual Recognition Subgroup and the Reinsurance Transparency Group.
  - H. Consider the impact of reinsurance-related federal legislation, including, but not limited to, the federal Nonadmitted and Reinsurance Reform Act (NRRA) and the Federal Insurance Office (FIO) Act, and coordinate any appropriate NAIC action.
  - I. Consider the impact of reinsurance-related international agreements, including the Bilateral Agreement Between the European Union and U.S. on Prudential Measures Regarding Insurance and Reinsurance (covered agreement). Complete by the 2019 Spring National Meeting.
2. The **Reinsurance Financial Analysis (E) Working Group** will:
  - A. Operate in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings and operate in open session when discussing certified reinsurance topics and policy issues, such as amendments to the Uniform Application for Certified Reinsurers.
  - B. Provide advisory support and assistance to states in the review of reinsurance collateral reduction applications. Such a process with respect to the review of applications for reinsurance collateral reduction and qualified jurisdictions should strengthen state regulation and prevent regulatory arbitrage.
  - C. Provide a forum for discussion among NAIC jurisdictions of reinsurance issues related to specific companies, entities or individuals.
  - D. Support, encourage, promote and coordinate multistate efforts in addressing issues related to certified reinsurers, including, but not limited to, multi-state recognition of certified reinsurers.
  - E. Provide analytical expertise and support to the states with respect to certified reinsurers and applicants for certification.
  - F. Interact with domiciliary regulators of ceding insurers and certifying states to assist and advise on the most appropriate regulatory strategies, methods and actions with respect to certified reinsurers.
  - G. Provide guidance and expertise on regulatory policy and practices with respect to certified reinsurers.
  - H. Provide advisory support with respect to issues related to the determination of qualified jurisdictions.
  - I. Monitor the public passporting website and provide recommendations to the Task Force if amendments are required.
3. The **Qualified Jurisdiction (E) Working Group** will:
  - A. Develop and maintain the NAIC List of Qualified Jurisdictions in accordance with the *Process for Developing and Maintaining the NAIC List of Qualified Jurisdictions*.

NAIC Support Staff: Jake Stultz/Dan Schelp

## **RISK RETENTION GROUP (E) TASK FORCE**

The mission of the Risk Retention Group (E) Task Force is to stay apprised of the work of other NAIC groups as it relates to financial solvency regulation and the NAIC Financial Regulation Standards and Accreditation Program. The Task Force may make referrals to the Financial Regulation Standards and Accreditation (F) Committee and/or other NAIC groups, as deemed appropriate.

### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Risk Retention Group (E) Task Force** will:
  - A. Monitor and evaluate the work of other NAIC committees, task forces and working groups related to risk retention groups (RRGs). Specifically, if any of these changes affect the NAIC Financial Regulation and Accreditation Standards Program, assess whether and/or how the changes should apply to RRGs and their affiliates.
  - B. Monitor and analyze federal actions, including any U.S. Government Accountability Office (GAO) reports. Consider any action necessary as a result of federal activity.

NAIC Support Staff: Becky Meyer

## VALUATION OF SECURITIES (E) TASK FORCE

The mission of the Valuation of Securities (E) Task Force is to provide regulatory leadership and expertise to establish and maintain all aspects of the NAIC's credit assessment process for insurer-owned securities, as well as produce insightful and actionable research and analysis regarding insurer investments.

### Ongoing Support of NAIC Programs, Products or Services

1. The **Valuation of Securities (E) Task Force** will:
  - A. Review and monitor the operations of the NAIC Securities Valuation Office (SVO) and the NAIC Structured Securities Group (SSG) to ensure they continue to reflect regulatory objectives.
  - B. Maintain and revise the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* (P&P Manual) to provide solutions to investment-related regulatory issues for existing or anticipated investments.
  - C. Monitor changes in accounting and reporting requirements resulting from the continuing maintenance of the *Accounting Practices and Procedures Manual*, as well as financial statement blanks and instructions, to ensure that the P&P Manual continues to reflect regulatory needs and objectives.
  - D. Consider whether improvements should be suggested to the measurement, reporting and evaluation of invested assets by the NAIC as the result of: 1) newly identified types of invested assets; 2) newly identified investment risks within existing invested asset types; or 3) elevated concerns regarding previously identified investment risks.
  - E. Identify potential improvements to the credit filing process, including formats and electronic system enhancements.
  - F. Provide effective direction to the NAIC's mortgage-backed securities modeling firms and consultants.
  - G. Coordinate with other NAIC working groups and task forces—including, but not limited to, the Capital Adequacy (E) Task Force, the Investment Risk-Based Capital (E) Working Group, the Statutory Accounting Principles (E) Working Group and the Blanks (E) Working Group—to formulate recommendations and to make referrals to such other NAIC regulator groups to ensure expertise relative to investments, or the purpose and objective of guidance in the P&P Manual, is reflective in the guidance of such other groups and that the expertise of such other NAIC regulatory groups and the objectives of their guidance is reflected in the P&P Manual.
  - H. Study the impact to the different areas of the NAIC, and to the state-based insurance regulatory structure, of modifying the existing NAIC credit assessment framework by changing the NAIC designations and NAIC designation categories, as well as the impact of adopting asset-category-specific credit assessment frameworks. Complete by the 2018 Spring National Meeting.

NAIC Support Staff: Charles Therriault/Robert Carcano

## **FINANCIAL REGULATION STANDARDS AND ACCREDITATION (F) COMMITTEE**

The mission of the Financial Regulation Standards and Accreditation (F) Committee shall be both administrative and substantive as they relate to administration and enforcement of the NAIC Financial Regulation Standards and Accreditation Program, including, without limitation, consideration of standards and revisions of standards for accreditation; interpretation of standards; evaluation and interpretation of the states' laws and regulations, as well as departments' practices, procedures and organizations as they relate to compliance with standards; examination of members for compliance with standards; development and oversight of procedures for the examination of members for compliance with standards; selection of qualified individuals to examine members for compliance with standards; and the determination of whether to accredit members.

### **Ongoing Support of NAIC Programs, Products or Services**

1. The **Financial Regulation Standards and Accreditation (F) Committee** will:
  - A. Maintain and strengthen the NAIC Financial Regulation Standards and Accreditation Program.
  - B. Assist the states, as requested and as appropriate, in implementing laws, practices and procedures, and with obtaining personnel required for compliance with the standards.
  - C. Conduct a yearly review of accredited jurisdictions.
  - D. Consider new model laws, new practices and procedures, and amendments to existing model laws and practices and procedures required for accreditation and determine timing and appropriateness of addition of such new model laws, new practices and procedures, and amendments.
  - E. Render advisory opinions and interpretations of model laws required for accreditation and on substantial similarity of state laws.
  - F. Review existing standards for effectiveness and relevancy and make recommendations for change, if appropriate.
  - G. Produce, maintain and update the NAIC *Accreditation Program Manual* to provide guidance to state insurance regulators regarding the official standards, policies and procedures of the program.
  - H. Maintain and update the "Financial Regulation Standards and Accreditation Program" pamphlet.
  - I. Perform enhanced pre-accreditation review services, including, but not limited to, additional staff support, increased participation, enhanced report recommendations and informal feedback.
  - J. As the various work products are adopted by the Principle-Based Reserving Implementation (EX) Task Force, the Executive (EX) Committee and the Plenary, consider them for inclusion in the Part A and Part B Accreditation Standards.

NAIC Support Staff: Julie L. Garber/Becky Meyer

## INTERNATIONAL INSURANCE RELATIONS (G) COMMITTEE

The mission of the International Insurance Relations (G) Committee is to coordinate NAIC participation in international discussions on and development of insurance regulatory and supervisory standards and to promote international cooperation. The Committee also coordinates on international insurance matters with the U.S. federal government, including the U.S. Department of the Treasury (Treasury Department), the Federal Reserve Board (FRB), the Office of the U.S. Trade Representative (USTR), the U.S. Department of Commerce and other federal agencies. In addition, the Committee provides an open forum for NAIC communication with U.S. interested parties and stakeholders on international insurance matters.

### Ongoing Support of NAIC Programs, Products or Services

1. The **International Insurance Relations (G) Committee** will:
  - A. Monitor and assess international activities at forums like the International Association of Insurance Supervisors (IAIS), the Financial Stability Board (FSB), the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), among others, that affect U.S. insurance regulation, U.S insurance consumers and the U.S. insurance industry.
  - B. Develop NAIC policy on international activities, coordinating as necessary with other NAIC committees, task forces and working groups, and communicating key international developments to those NAIC groups.
  - C. Support and facilitate the participation of state insurance regulators and the NAIC in relevant IAIS, FSB, OECD and similar workstreams.
  - D. Coordinate state efforts to assist in achieving U.S. international trade objectives through reviewing relevant materials, developing input, and providing assistance and expertise on insurance matters to the Office of the U.S. Trade Representative (USTR) and/or other federal entities.
  - E. Coordinate and facilitate state efforts to participate in key bilateral and multilateral dialogues, conferences and training opportunities with international regulators and international organizations, both directly and in coordination with the federal government, as appropriate.
  - F. Strengthen international regulatory systems and relationships by interacting with international regulators and sharing U.S. supervisory best practices, including conducting an International Fellows Program and educational (technical assistance) seminars to provide an understanding of the U.S. state-based system of insurance regulation.
  - G. Coordinate the NAIC's participation in the IMF/World Bank Financial Sector Assessment Program (FSAP).
2. The **ComFrame Development and Analysis (G) Working Group** will:
  - A. Provide ongoing technical review and expedited strategic input on the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), as well as international group capital developments.
  - B. Facilitate the input and participation of U.S. state insurance regulators in the International Association of Insurance Supervisors (IAIS) field-testing process.
  - C. Monitor and provide technical input to and through relevant NAIC committees, task forces and working groups on any consideration of implementing ComFrame in the U.S. at the state or federal level, including as it relates to capital.
  - D. Coordinate and liaise, as appropriate, with relevant NAIC committees, federal agencies such as the Federal Reserve Board (FRB) and the U.S. Department of the Treasury (Treasury Department), interested parties, and stakeholders

NAIC Support Staff: Ryan Workman/Ethan Sonnichsen

## **APPENDIX 1**

### **NAIC/CONSUMER LIAISON COMMITTEE**

The mission of the NAIC/Consumer Liaison Committee is to assist the NAIC in its mission to support state insurance regulation by providing consumer views on insurance regulatory issues. The Liaison Committee provides a forum for ongoing dialogue between NAIC members and NAIC consumer representatives. The Liaison Committee's activities in 2018 will be closely aligned with the priorities of the NAIC Consumer Board of Trustees.

NAIC Support Staff: Lois E. Alexander

### **NAIC/AMERICAN INDIAN AND ALASKA NATIVE LIAISON COMMITTEE**

The mission of the NAIC/American Indian and Alaska Native Liaison Committee is to provide a forum for ongoing dialogue between NAIC members and the American Indian and Alaska Native communities concerning insurance issues of common interest. Specifically, the Liaison Committee will provide a forum for an exchange of information and views on issues surrounding the availability of insurance for American Indian and Alaska Native consumers and tribal interests, an opportunity for American Indian and Alaska Native groups to bring insurance consumer protection issues to the attention of NAIC members, and a dialogue on best practices for dealing with insurance issues unique to sovereign tribal nations.

NAIC Support Staff: Lois E. Alexander

### **NAIC/INDUSTRY LIAISON COMMITTEE**

The mission of the NAIC/Industry Liaison Committee is to meet at least twice a year to discuss issues of common interest to state insurance regulators and insurance industry representatives.

NAIC Support Staff: Mark Sagat and Chara Bradstreet

### **NAIC/STATE GOVERNMENT LIAISON COMMITTEE**

The mission of the NAIC/State Government Liaison Committee is to discuss issues of common interest to state insurance regulators and state officials.

NAIC Support Staff: Mark Sagat and Chara Bradstreet

**APPENDIX 2**  
**NAIC AUDIT COMMITTEE**  
**Committee Charter**

1. The **Audit Committee** will:
  - A. Provide continuous audit oversight, including:
    1. Provide an open avenue of communication between the independent auditor and the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee.
    2. Confirm and ensure the independence of the independent auditor.
    3. Inquire of management and the independent auditor about significant risks or exposures and assess the steps management has taken to minimize such risk.
    4. Consider and review with the independent auditor:
      - a. Significant findings during the year, including the status of previous audit recommendations.
      - b. Any difficulties encountered in the course of audit work, including any restrictions on the scope of activities or access to required information.
      - c. The adequacy of internal controls, including computerized information system controls and security, as documented in the Statement on Auditing Standards (SAS) 115 letter from the independent auditor.
      - d. Related findings and recommendations of the independent auditor with management's responses, as documented in the SAS 114 letter from the independent auditor.
    5. Meet periodically with the independent auditor in separate executive sessions to discuss any matters the Committee believes should be discussed privately with the Committee.
    6. Report periodically to the Executive (EX) Committee and Internal Administration (EX1) Subcommittee on significant results of the foregoing activities.
    7. Instruct the independent auditor that the Executive (EX) Committee and Internal Administration (EX1) Subcommittee are the auditor's clients.
  - B. Provide continuous oversight of reporting policies, including:
    1. Advise financial management and the independent auditor that they are expected to provide a timely analysis of significant current financial reporting issues and practices.
    2. Inquire as to the auditor's independent qualitative judgments about the appropriateness, not just the acceptability, of the accounting principles and the clarity of the financial disclosure practices.
    3. Inquire as to the auditor's views about whether management's choices of accounting principles are conservative, moderate or aggressive from the perspective of income, asset and liability recognition, and whether those principles are common practices or are minority practices.
    4. Inquire as to the auditor's views about how choices of accounting principles and disclosure practices may affect NAIC members, the insurance industry, and public views and attitudes.
  - C. Provide continuous oversight of financial management, including:
    1. Review the monthly consolidated financial statements and receive regular reports from executive management on the financial operations of the association.
    2. Meet prior to, or at, each national meeting, or more frequently as circumstances require. The Committee may ask members of management or others to attend meetings and provide pertinent information, as necessary.
    3. Report on significant results of the foregoing activities to the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee on a regular basis.
  - D. Conduct scheduled audit activities, including:
    1. Recommend the selection of the independent auditor for approval by the Executive (EX) Committee and the Internal Administration (EX1) Subcommittee, approve the compensation of the independent auditor, and review and approve the discharge of the independent auditor.
    2. Review annually the audit scope and plan of the independent auditor with management and the independent auditor, including:
      - a. The independent auditor's audit of the financial statements, accompanying footnotes and its report thereon.
      - b. Any significant changes required in the independent auditor's audit plans.
      - c. Any difficulties or disputes with management encountered during the course of the year under audit.
      - d. Other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards (GAAS).
    3. Review and approve needs-based funding allocations, as needed.
    4. Review and update the Committee charter, on at least an annual basis.

**APPENDIX 2 (continued)**  
**NAIC AUDIT COMMITTEE**

- E. Conduct other activities when necessary, including:
1. Arrange for the independent auditor to be available to the full Executive (EX) Committee and the Internal Administration (EX1) Subcommittee, as needed.
  2. Review and approve requests for any management consulting engagement to be performed by the independent auditor, and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.
  3. Conduct and/or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel and other professionals to assist in the conduct of any investigation.
  4. Ensure members of the Committee receive the appropriate orientation to the Committee and receive a copy of the policy manual.

NAIC Support Staff: Jim Woody





## **2018 Proposed Budget Executive Summary**

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate their regulatory oversight activities. NAIC staff supports these efforts and represents the collective domestic and international views of state insurance regulators. NAIC members, together with the central resources of the association, form the national system of state-based insurance regulation in the U.S. NAIC members are elected or appointed state government officials who, along with their departments and staff, regulate the conduct of insurance companies and agents/brokers in their respective jurisdictions.

The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient, and cost-effective manner, consistent with the wishes of its members to:

- Protect the public interest;
- Promote competitive markets;
- Facilitate the fair and equitable treatment of insurance consumers;
- Promote the reliability, solvency, and financial solidity of insurance entities; and
- Support and improve state regulation of insurance.

The NAIC's annual budget supports valuable services and benefits provided to state insurance regulators, insurance consumers, and the insurance industry. The annual budget is developed with the goal of enabling the membership to accomplish its key strategic priorities. The proposed 2018 budget maintains the NAIC's commitment and support of technology advancements as well as the continuing modernization of insurance regulation in areas such as innovation, cybersecurity, and international standard-setting.

The NAIC offers state insurance regulators a variety of programs, products, and services such as financial solvency and market regulatory training; publications, data, and information systems; accreditation reviews; and many other services to assist them in achieving their fundamental insurance regulatory goals in a timely and cost-effective manner. The NAIC has served as a data collector for the states for statutory financial statements, Market Conduct Annual Statements (MCAS) and complaints data for many years but recently has expanded its services to include regulators' ad-hoc data collection needs, such as disaster reporting and mortality experience data collection from life insurers to assist regulators with the transition to principle-based reserving (PBR). As part of this expanded service, the NAIC is utilizing new technologies to develop the appropriate systems for collecting various regulatory data sets in a timely and cost-effective manner. Member states can thereby reduce costs by leveraging NAIC technology solutions, regulatory tools, and staff resources. Without this significant cost savings, many systems would be cost-prohibitive for the states to implement on their own. Without membership in the NAIC, the amount of state funding required to provide or access similar type of services and data

the NAIC provides — often at no extra charge — would far exceed what a state pays in member dues to the NAIC.

The NAIC provides valuable information through multiple strategies and channels to assist consumers in making informed decisions on insurance matters. The NAIC uses public service announcements (PSAs) to educate consumers on important insurance issues. The second phase of Rita Moreno's highly successful consumer campaign was launched with a TV PSA "Just Keep Moving," which reflects the star's upbeat approach to life. Coupled with the campaign's first phase, the "Life Unscripted" radio PSA, Ms. Moreno encourages seniors to learn more about insurance-related issues. NAIC resources address four core insurance areas for consumers: home, auto, health, and life. These consumer education efforts are enhanced with news releases, consumer alerts, radio media tours, the consumer-focused website [InsureUonline.org](http://InsureUonline.org), and mobile applications such as WreckCheck and myHOMEScr.APP.book. The NAIC hosts a consumer hotline to help consumers contact their state insurance departments for assistance. In addition, the NAIC conducts national media relations efforts while providing each member's public information office with toolkits and information to complement these consumer outreach efforts. In late 2016, the NAIC deployed the Life Insurance Policy Locator, a system designed to assist consumers in locating life insurance policies after the death of the policy owner when the consumer has little or no documentation or information regarding the policy.

NAIC products and services create valuable efficiencies and significant cost savings for insurers in addition to benefits to state regulators. NAIC web-based systems automate, standardize, and streamline regulatory processes by transmitting data and facilitating regulatory transactions between insurers, consumers, and state insurance regulators. These systems include, among others, the System for Electronic Rate & Form Filing (SERFF), which processed 574,519 transactions in 2016; the VISION System, which allows insurers to file their securities electronically with the NAIC's Securities Valuation Office; the Automated Valuation Service (AVS+), which gives users the ability to complete regulatory filings quickly and easily; Online Premium Tax for Insurance (OPT<sub>ins</sub>), which gives users the ability to file state premium tax filings and processed 69,617 transactions in 2016 with another 67,400 through the first six months of 2017; and State Based Systems (SBS), which currently has 28 states in service with another state preparing for implementation in 2018. The NAIC is committed to maintaining and enhancing these systems to provide high-quality service to all stakeholders. By 2018, a successful business intelligence tool piloted in 2017 will be available for use allowing users to discover value in data that was not attainable before. In addition, the proposed 2018 budget includes several fiscals to update, enhance, and continue to improve the NAIC's technology solutions. The focus of many of these fiscals is a continuing effort to enhance security and technology by taking advantage of cloud-based solutions.

In addition to technology solutions, the NAIC is focused on modernizing the insurance regulatory regime in an increasingly global marketplace. Areas of focus include but are not limited to:

- Principle-Based Reserving (PBR)
- Group capital
- Regulator training
- Long-term care insurance
- Retirement Security
- Variable annuities
- International standard-setting
- Health insurance reform
- Cybersecurity
- Flood insurance
- Systemic risk
- Innovation

## **The Budget Process**

Each year a zero-based budget proposal is developed by each NAIC department. Each department projects its current-year results and builds its proposal for the coming year, carefully focusing on variances between the current year's budget and projected results, and anticipated needs for the coming year. This process includes a review of all projects, products, programs, services, committee charges, and technology initiatives in light of the NAIC's mission and the membership's strategic priorities. The NAIC continually looks for ways to reduce its cost structure. For example, in 2017, a self-funded health plan was implemented, assisting with the management of health insurance costs while continuing to provide a valuable benefit to its staff. NAIC senior management reviews each department budget in detail with its division director to make adjustments according to the strategic and financial needs of the association and ultimately consolidates all requests into one budget.

Following the extensive development and internal review process, the proposed budget is presented to the NAIC Officers, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee, and the full NAIC membership before being released for public review and comment. A public hearing is held to receive public comments before final consideration and adoption by the NAIC Executive (EX) Committee and Plenary.

## **2017 Projections**

Based on actual operating results (before adding investment income) through June 30, 2017, projections indicate a net negative operating margin of \$1.2 million compared to a budgeted net negative operating margin of \$4.5 million, an improvement of \$3.4 million. Including projected 2017 investment income, the NAIC projects an increase in net assets of \$6.5 million. Additional information regarding 2017 projected variances is included throughout the detailed footnotes of the budget proposal.

## **2018 Proposed Budget, including Fiscal Impact Statements**

The proposed 2018 NAIC operating budget (before adding investment income) reflects revenues of \$103.1 million and expenses of \$106.4 million, which represent a 4.2% and a 2.8% increase, respectively, from the 2017 budget, resulting in \$3.3 million in projected expenses over revenues. Viewed in relation to the 2017 projected totals, the 2018 proposal represents an operating revenue increase of 1.6% and operating expense increase of 3.7%. Additional information about the 2018 proposed budget is included throughout the detailed footnotes of the budget proposal.

The 2018 proposed budget includes \$3.2 million in investment income from the NAIC's Long-Term Investment Portfolio. Investment income is composed of interest earned and dividends received – investment gains and losses are not projected nor included in the proposed budget.

Combining budgeted results from operations with budgeted investment income, the proposed 2018 budget has a reduction in net assets of \$0.1 million.

## **Fiscal Impact Statements**

A fiscal impact statement (fiscal) is prepared for new or existing NAIC initiatives with revenue, expense, or capital impacts of \$100,000 or more either in the current budget or within the following few years' budgets or requires more than 1,150 internal technical resources to accomplish. Each fiscal includes a detailed description of the initiative; the impact on key stakeholders and the NAIC's internal operations; and an assessment of the risks. The 2018 proposed budget includes eight fiscals as follows:

- 1. Enterprise Web Security Framework** – This initiative sets out to establish a modern enterprise web security framework for the organization. The framework will enhance the security of existing applications, offer additional functionality for modern web applications developed by NAIC/NIPR,

and improve customer experience across the organization's applications. Today, enterprise applications use authentication with limited functionality. This fiscal proposes a token-based strategy which has a number of key benefits. First, it allows developers to deploy code without being concerned about dependencies that can lead to application issues. Performance will be improved due to reduced network traffic and the resulting simplified web security architecture will make applications easier to support. It also allows the organization to take advantage of greater security controls, such as multi-factor authentication and risk-based access. By using machine learning to define and control access policies based on user behavior, the organization can make better access decisions in real time. The security framework will be utilized by both the NAIC and NIPR. The fiscal includes NAIC net operating expenses of \$260,400.

2. **Consumer Information Source (CIS) Redesign** – The current CIS is the NAIC's primary tool for providing access to insurance company information through the NAIC website including aggregate closed confirmed customer complaint data, key financial data, company licensing, and lost life insurance policies. This initiative to rewrite the CIS platform will enhance the type of data available to consumers, improve the display of the data, and augment the search capabilities, resulting in a more customer-driven experience. The CIS portal will better integrate with state insurance department websites to create a national system for the release of public information while directing consumers to the appropriate state insurance department. In addition to the improvements in data provided and displayed, the redesigned application will meet recently upgraded cybersecurity standards for web-based applications. The fiscal includes operating expenses of \$214,100 and is budgeted to utilize 8,325 internal technical resource hours.
3. **Data De-Identification** – As part of the organization's security policy compliance, this initiative provides the capability to centrally manage data de-identification and to use a shared database of de-identified personally identifiable information (PII) across the organization during development and testing of applications. This initiative includes the procurement, implementation, and rollout of an enterprise data-masking tool to de-identify any PII data. Without this centralized approach, each department would use a different approach to masking PII, making it difficult for various third parties and stakeholders to effectively interact with NAIC and NIPR systems. The fiscal includes net operating expenses of \$138,500.
4. **Financial Analysis Tools Redesign** – This fiscal is the first step in an initiative to provide significant work efficiencies for regulators and NAIC staff using Financial Data Repository (FDR) data and tools as well as NAIC staff developing and maintaining the various FDR applications. Streamlining business processes and using modern technology will provide efficiencies as well as enhance functionality of the analytical tool set. As the initial step, the project will redesign the foremost automated analysis tool, the Financial Profile Report. The NAIC's selected business intelligence tool will be utilized to significantly reduce hours needed to develop the system's user interface while greatly enhancing capabilities for regulators to drill down on data, obtain related information, and have analysis results prepared and flagged upon entry into the tool. The fiscal includes operating expenses of \$156,900 and is budgeted to utilize 4,000 internal technical resource hours.
5. **Online Fraud Reporting System (OFRS) Redesign** – OFRS provides a process for consumers, industry, and regulators to report alleged fraudulent activities to state insurance departments, primarily through the facilitation of data from the National Insurance Crime Bureau. This initiative will enhance the submission and display of alleged and confirmed fraudulent actions and address outstanding enhancement requests, such as improved search capabilities and the use of attachments. OFRS will replace outdated software and meet NAIC's enhanced cybersecurity

standards. The fiscal requests \$7,500 in expense, and is anticipated to use 4,225 internal technical hours.

6. **OPT<sup>ins</sup> Redesign** – The Online Premium Tax for Insurance (OPT<sup>ins</sup>) application provides users the ability to file state premium tax, surplus lines, and other state-specific filings. This fiscal proposes to rewrite the system in the Cloud, thus replacing outdated technology and improving the system’s scalability, performance and ability to deliver new features. By moving the system to the Cloud, the improved scalability and performance is expected to reduce future operating costs. In addition to improving the application, the initiative will contribute to the NAIC’s cloud knowledge and capabilities and will influence the timing of future cloud projects. The fiscal requests \$1,000 in expense, along with 9,600 internal technical hours, and \$510,000 in capital consulting across 2018 and 2019.
7. **VISION – Phase II** – This enhancement to the NAIC’s securities filing system, VISION, will provide additional security identifiers and improved data on business relationships. This information will significantly enhance the NAIC’s ability to properly identify securities and relationships and fulfills a directive from the Blanks (E) Working Group to add these additional identifiers to NAIC systems. The NAIC currently licenses two data feeds that include the necessary information; this fiscal requests funding to incorporate the licensed data into VISION so it can be effectively utilized by SVO analysts in performing investment credit analysis. The fiscal requests \$16,700 in expense, along with 8,900 internal technical hours, and \$594,000 in capital consulting across 2018 and 2019.
8. **SERFF Pricing and Policy Restructure** – The SERFF system will be 20 years old in 2018, with the same pricing structure in place for the last 17 years. Under the current price structure SERFF customers can purchase prepaid blocks with per-transaction prices ranging from \$6 to \$10, and these blocks do not expire nor can they be refunded. For customers who do not want to purchase transactions in advance, they have the option to pay \$15 per transaction within the system, with a monthly volume discount if usage exceeds 150 transactions. This fiscal will reduce the number of tiers to streamline the manual effort involved with the management of the prepaid blocks, with the goal of automating the pricing structure in the future once the SERFF system moves to the Cloud. The new policy will facilitate the ability for customers to utilize prepaid blocks in a timely fashion, by encouraging them to purchase only what they need for the immediate future and will allow for the disposition of unused prepaid block balances. At the request of the membership, the pricing change is designed to be revenue neutral over the next three years with a revenue loss of \$500 over three years (\$70,900 loss in 2018). It is anticipated that nearly 85% of current SERFF customers will experience no change or a reduction in fees paid compared to the current structure. In addition to the reduction in 2018 revenues, the fiscal includes \$9,900 in expense to implement the policy changes.

Additional information about the above new initiatives is included in the various Fiscal tabs of the budget proposal.

#### **Other 2018 Considerations**

The budget proposal includes all known activities anticipated to occur in 2018. However, situations may arise during the course of 2018 that require additional funding. In such an event, a funding request is prepared and presented to the Executive (EX) Committee and Internal Administration (EX1) Subcommittee for consideration. Funding for any approved project comes from the Regulatory Modernization and Initiatives Fund, established in 2005 to manage requests that arise following the adoption and implementation of an annual budget. The Fund is based on 1.5% of the NAIC’s projected consolidated net assets as of December 31, 2018, or \$1.9 million with the inclusion of fiscal impacts.


### **NAIC Operating Reserve**

The NAIC's operating reserve is designed to ensure the financial stability of the NAIC in the event of emerging business risks and uncertainties and to absorb new priority initiatives pursued by NAIC membership. The association's reserve status is of paramount consideration in the budgeting process, as is strong and prudent financial management of the NAIC's assets. In early 2015, an independent financial advisory firm with experience supporting nonprofit associations and performing operating reserve analysis conducted a comprehensive review of the NAIC's operating reserve policy. In July 2015, the Executive (EX) Committee and Internal Administration (EX1) Subcommittee approved a report from the advisory firm which revised the NAIC's liquid operating reserve from a target range of 80% to 91% to a target range of 83.4% to 108.2%. This change was the result of a comprehensive review of current and future identified risks and comparisons to comparable organizations. This report recognized the increased level of uncertainty facing the NAIC and anticipated future investments would be required to enhance the association's information technology and technical infrastructure, an expectation that is borne out by many elements of the 2018 budget.

Based upon 2017 projected results the liquid reserve is projected to be 97.3% at December 31, 2017. Including the proposed 2018 fiscals, the liquid reserve at the end of December 31, 2018, is projected to be 99.5%. The liquid reserve at the end of 2016 based on audited financial results was 90.4%.


### **Conclusion**

The NAIC appreciates the opportunity to present this 2018 budget proposal and believes it provides a comprehensive review of the NAIC's business and financial operations for the current and upcoming fiscal year. A summary of the 2018 budget proposal's key components is included in the appendix. Please feel free to contact Jim Woody, Chief Financial Officer, at (816) 783-8015, or Carol Thompson, Senior Controller, at (816) 783-8038, should you have any questions or need additional information.





**NAIC**  
National Association of Insurance Commissioners

# Proposed 2018 Budget





**NAIC**  
National Association of Insurance Commissioners

- Proposed 2018 Budget Highlights
- Proposed 2018 Budget Compared to 2017 Budget and 2017 Projection
- Revenue Analysis
- Expense Analysis
- Proposed Fiscal Impact Statements
- Liquid Operating Reserve Ratio



**Proposed 2018 Operating Revenues increase 4.2% compared to 2017 Budget and 1.6% compared to 2017 Projection**



- Proposed 2018 budget reflects changes in a number of areas:
  - Increased database filing fee caps for individual company and groups by 2.2%
  - Contractual price increases in Insurance Data Products
  - Prices of some SVO services have been increased
  - Several new product categories of SVO services
  - Increases in administrative services and license fees due to increase in NIPR's revenues
  - SERFF prices will be restructured, reducing the number of tiers and reducing the Pay As You Go transaction fee



**Proposed 2018 Expenses increase 2.8% compared to 2017 Budget and 3.7% compared to 2017 Projection**


- Salaries, taxes, and benefits compose the largest share of 2018 budget at 60.8% of total operating expense. The 2018 salary budget is \$2.6M higher than the 2017 budget primarily due to the annual increase in salary budget, as well as an increase in employee benefit costs.
- Professional services is the next largest item at 10.3%. The 2018 budget is lower than the 2017 budget and projection due to completion of several projects.
- Computer Hardware and Software Maintenance expenses increased by \$0.8M compared to the 2017 budget due to full-year costs of equipment and software maintenance renewals on several large-dollar assets which have reached the end of their three-year warranty period.
- Depreciation and Amortization decreased by \$0.8M compared to the 2017 budget due to leveraging a highly virtualized infrastructure.





**2017 Budget/Projection versus Proposed 2018 Budget**  
(dollars in millions)



	2017 Budget	2017 Projection	Change - 2017 Budget vs 2017 Projection	Proposed 2018 Budget	Change - 2018 Budget vs 2017 Budget	Change - 2018 Budget vs 2017 Projection
Operating Revenue	\$99.0	\$101.5	\$2.5	\$103.1	\$4.2	\$1.7
Operating Expense	103.5	102.6	(0.9)	106.4	2.9	3.8
Operating Revenues Over/(Under) Expenses	(4.5)	(1.2)	3.4	(3.3)	1.3	(2.1)
Investment Income	2.9	7.6	4.7	3.2	0.2	(4.5)
Net Revenues Over/(Under) Expenses	(\$1.6)	\$6.5	\$8.1	(\$0.1)	\$1.5	(\$6.6)

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- 2017 Projection is Expected to Exceed 2017 Budget by \$8.1M:**
- Operating Revenues \$2.5M higher than budget:
    - Database fees are \$0.2M higher than budget due to higher-than-budgeted insurance premium growth
    - Publications and Insurance Data Products are \$0.2M higher than budget primarily due to revision of several contracts to include the sale of additional data, addition of a new FSP vendor, and overall higher redistribution royalties
    - Valuation Services revenue is \$1.0M higher than budget principally due to revenue generated by 2017 structured securities third-party dataset sales exceeding budget
    - Administrative Services revenues are \$1.2M higher than budget due to higher-than-budgeted revenues generated by NIPR



**2017 Projection is Expected to Exceed 2017 Budget by \$8.1M (cont.):**

- **Operating Expenses \$0.9M less than budget:**
  - Salaries and benefits are \$0.5M under budget due to open positions
  - Professional Services are \$0.4M over budget driven by increased SBS implementation costs
  - Computer Services are \$0.3M under budget due to security data feed cost adjustments for prior periods
  - Travel expenses are under budget by \$0.5M due to fewer-than-budgeted number of trips
  - Computer Hardware and Software Maintenance is under budget by \$0.1M due to delays in the purchase of technology solutions
  - National Meetings, NAIC Events, and Interim Meetings is over budget by \$0.1M due to additional meetings scheduled for late 2017
  - Other expense is under budget by \$0.1M due to favorable collections during 2017
- **Investment income currently exceeds budget by \$4.7M primarily due to unrealized gains in the Investment Portfolio partially offset by an underrun in dividend income**
  - NAIC does not budget investment gains or losses as it would be “predicting” the market. Actual results through June 30 could be significantly impacted by financial market performance during the last six months of 2017



**Actual 2016 – Proposed 2018 Budget Revenue Composition**  
(dollars in millions)

	2016 Actual	2016 Composite Mix	2017 Budget	2017 Budget Composite Mix	2017 Projection	2017 Projection Composite Mix	2018 Proposed Budget	2018 Composite Mix
Database Fees	\$26.7	27.4%	\$28.6	28.9%	\$28.7	28.3%	\$29.1	28.3%
Valuation Services	27.2	27.9%	25.8	26.1%	26.8	26.4%	27.1	26.2%
Publications and Insurance Data Products	15.0	15.4%	15.2	15.4%	15.4	15.2%	15.6	15.1%
Administrative Services and License Fees	14.3	14.7%	14.3	14.5%	15.5	15.3%	15.9	15.5%
Transaction Filing Fees	9.1	9.5%	10.2	10.4%	10.3	10.0%	10.3	10.0%
Member Assessments	2.1	2.2%	2.1	2.1%	2.1	2.1%	2.1	2.0%
National Meetings, NAIC Events, and Interim Meetings	2.4	2.5%	2.3	2.3%	2.3	2.3%	2.5	2.5%
Education and Training	0.4	0.4%	0.4	0.4%	0.4	0.4%	0.4	0.4%
Other	0.1	0.1%	0.1	0.1%	0.0	0.0%	0.1	0.0%
<b>TOTAL OPERATING REVENUES</b>	<b>\$97.3</b>	<b>100.0%</b>	<b>\$99.0</b>	<b>100.0%</b>	<b>\$101.5</b>	<b>100.0%</b>	<b>\$103.1</b>	<b>100.0%</b>



**Revenue Change – 2017 Budget/2017 Projection/2018 Proposed Budget**  
(dollars in millions)

	Proposed 2018 Budget to 2017 Budget	Proposed 2018 Budget to 2017 Projection
Database Fees	\$0.6	\$0.4
Valuation Services	1.2	0.3
Publications and Insurance Data Products	0.4	0.2
Administrative Services and License Fees	1.6	0.5
Transaction Filing Fees	0.1	0.1
Member Assessments	0.0	0.0
National Meetings, NAIC Events, and Interim Meetings	0.3	0.2
Education and Training	0.0	0.0
Other	0.0	0.0
<b>TOTAL OPERATING REVENUES</b>	<b>4.2</b>	<b>1.7</b>
Investment Income	0.2	(4.5)
<b>TOTAL REVENUES</b>	<b>\$4.4</b>	<b>(\$2.8)</b>



**Proposed 2018 Operating Revenue Budget Highlights:**

- Proposed 2018 Operating Revenue budgeted at \$103.1M, \$4.2M (4.2%) higher than 2017 budget and \$1.7M (1.6%) higher than 2017 projection
  - 2018 Database Filing Fees revenue budget is \$0.6M higher than 2017 budget – revenue growth is due to expected increase in premiums and CPI-U increase in filing fee group and individual caps
  - Valuation Services are \$1.2M higher than 2017 budget – due to higher level of dataset sales to financial institutions and price increases for security designation services and previously unbilled products
  - Publications and Insurance Data Products revenues are \$0.4M higher than 2017 budget – primarily due to contractual price increases and increased product sales to third parties
  - Administrative Services and License Fees revenue is \$1.6M higher than 2017 budget – driven by increased NIPR revenue
  - National Meetings, NAIC Events, and Interim Meetings are \$0.3M higher than 2017 budget – due to a return to normal registration levels for the NAIC Fall National Meeting



**Actual 2016 – Proposed 2018 Budget Expense Composition**  
(dollars in millions)

	2016 Actual	2016 Composite Mix	2017 Budget	2017 Budget Composite Mix	2017 Projection	2017 Projection Composite Mix	2018 Proposed Budget	2018 Composite Mix
Salaries, Taxes, and Benefits	\$60.5	60.7%	\$62.1	60.0%	\$61.6	60.0%	\$64.7	60.8%
Professional Services	12.1	12.1%	11.6	11.2%	12.0	11.7%	11.0	10.3%
Travel	4.3	4.3%	5.5	5.3%	5.0	4.8%	5.3	5.0%
Depreciation and Amortization	5.1	5.1%	5.2	5.0%	5.2	5.0%	4.4	4.2%
Computer Hardware and Software Maintenance	3.1	3.1%	3.7	3.6%	3.6	3.5%	4.5	4.3%
Occupancy and Rental	4.1	4.2%	4.3	4.1%	4.4	4.3%	4.5	4.2%
Administrative and Operational	3.2	3.3%	3.1	3.0%	3.1	3.0%	3.2	3.0%
Computer Services	3.0	3.0%	3.3	3.2%	3.0	3.0%	3.6	3.4%
National Meetings, NAIC Events, and Interim Meetings	2.7	2.7%	2.9	2.8%	3.0	3.0%	3.2	3.0%
Grant and Zone	1.4	1.4%	1.6	1.5%	1.6	1.6%	1.9	1.8%
Education and Training	0.1	0.1%	0.2	0.2%	0.1	0.2%	0.1	0.1%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$99.6</b>	<b>100.0%</b>	<b>\$103.5</b>	<b>100.0%</b>	<b>\$102.6</b>	<b>100.0%</b>	<b>\$106.4</b>	<b>100.0%</b>



**Expense Change – Proposed 2018 Budget/2017 Budget/2017 Projection**  
(dollars in millions)

	Proposed 2018 Budget to 2017 Budget	Proposed 2018 Budget to 2017 Projection
Salaries, Taxes, and Benefits	\$2.6	\$3.1
Professional Services	(0.6)	(1.0)
Travel	(0.2)	0.3
Depreciation and Amortization	(0.8)	(0.7)
Computer Hardware and Software Maintenance	0.8	0.8
Occupancy and Rental	0.2	0.1
Administrative and Operational	0.1	0.2
Computer Services	0.2	0.5
National Meetings, NAIC Events, and Interim Meetings	0.3	0.2
Grant and Zone	0.4	0.3
Education and Training	(0.1)	0.0
<b>TOTAL OPERATING EXPENSES</b>	<b>\$2.9</b>	<b>\$3.8</b>

### Proposed 2018 Operating Expense Budget Highlights:


- Proposed merit salary increase of 2.9% in 2018 is higher than budgeted in 2017 but remains under the local and national salary surveys
  - No increase in the staffing levels – remains the same as 2016 and 2017 at 490.5
- 2018 Benefits expense over 2017 budget by \$1.1M – driven by increased level of participation in retirement plans and increased cost of health coverage
- Professional Services budget is \$0.6M below 2017 budget – due to completion of several large projects
- Depreciation and Amortization is below 2017 budget by \$0.8M – due to a lower level of capital spending in 2018 and the complete write-off of assets acquired in prior years
- Computer Hardware and Software Maintenance \$0.8M over 2017 budget – due to equipment and software maintenance renewals on several large-dollar assets which have reached the end of their three-year warranty period
- National Meetings, NAIC Events, and Interim Meetings expense above 2017 budget by \$0.3M – cost based on national meeting location
- Grant and Zone expense remain unchanged at \$20K per Member in 2018 but Zones will have a higher level of technical training

### Proposed 2018 Fiscal Impact Statements

(dollars in thousands)

Initiative	2018 Revenue	2018 Expense	Net Impact on 2018 Budget	2018 Capital
Enterprise Web Security Framework		\$260.4	(\$260.4)	
Consumer Information Source (CIS) Redesign		214.1	(214.1)	
Data De-Identification		138.5	(138.5)	
Financial Analysis Tools Redesign		156.9	(156.9)	
Online Fraud Reporting System (OFRS) Redesign		7.5	(7.5)	
OPT/ins Redesign		1.0	(1.0)	\$315.1
VISION – Phase II		16.7	(16.7)	450.5
SERFF Pricing and Policy Restructure	(\$70.9)	9.9	(80.8)	
<b>Total Fiscal Impact Statements</b>	<b>(70.9)</b>	<b>805.0</b>	<b>(875.9)</b>	<b>765.6</b>
Proposed 2018 Budget Before Fiscals	103,219.5	105,632.4	2,413.0	490.6
Proposed 2018 Budget After Fiscals and Before Investment Income	103,148.6	106,437.4	(3,288.8)	1,256.2
Investment Income	3,176.8		3,176.8	
<b>Proposed 2018 Budget After Fiscals and Investment Income</b>	<b>\$106,325.4</b>	<b>\$106,437.4</b>	<b>(\$112.0)</b>	<b>\$1,256.2</b>



**NAIC**  
National Association of Insurance Commissioners

**Liquid Operating Reserve Ratio (including proposed fiscals):**

- Actual Reserve Ratio at 12/31/12: 82.2%
- Actual Reserve Ratio at 12/31/13: 106.0%
- Actual Reserve Ratio at 12/31/14: 100.7%
- Actual Reserve Ratio at 12/31/15: 84.7%
- Actual Reserve Ratio at 12/31/16: 90.4%
- Projected Reserve Ratio at 12/31/17: 97.3%
- Proposed 2018 Reserve Ratio at 12/31/18: 99.5%



**Date:** November 16, 2017

**To:** All NAIC Members and Interested Parties

**From:** Julie Mix McPeak, NAIC President-Elect  
Michael Consedine, NAIC Chief Executive Officer  
Andy Beal, NAIC Chief Operating Officer and Chief Legal Officer  
Jim Woody, NAIC Chief Financial Officer

**Re:** Summary of Comments on the Proposed 2018 NAIC Budget

In response to the Executive (EX) Committee's and Internal Administration (EX1) Subcommittee's request for comment on the NAIC's proposed 2018 budget, the NAIC received several comment letters both before and after the proposed budget was released for public comment on October 11, 2017. Prior to the release of the proposed budget, two letters were received – one from the Center for Economic Justice (CEJ) (**Attachment One**) and one from NAIC Consumer Representatives (**Attachment Two**). After the proposed budget was released, two more letters were received – one from the American Council of Life Insurers (ACLI) (**Attachment Three**) and one from the National Association of Mutual Insurance Companies (NAMIC) (**Attachment Four**). This memorandum summarizes their collective comments and includes the NAIC's response to each comment.

A Public Hearing will be held November 21 to discuss these comments. The full text of each letter is attached and instructions for participating in the public hearing teleconference can be accessed at [http://www.naic.org/about\\_budget.htm](http://www.naic.org/about_budget.htm).

### **Level of Accumulated Surplus**

1. ACLI noted the level of Net Assets in the proposed 2018 budget document reflects an increase in Net Assets while the proposed 2017 budget document reflected a decreasing level of Net Assets. ACLI also noted the level of Net Assets has increased significantly since 2011.

**NAIC Response:** ACLI's observations are correct; however, the NAIC does not believe total Net Assets is the appropriate metric to use to judge the financial health of a nonprofit entity.

To address ACLI's observation between the two budget proposals, the majority of the increase in Net Assets between the budget proposals is due to unrealized gains in the NAIC's Long Term Investment Portfolio supplemented by slightly higher results from operations, a portion of which is due to higher-than-projected/budgeted revenues from the NAIC's affiliate NIPR. Financial markets have been strong during the past few years resulting in unexpected investment income



and thus an increase in the NAIC's Net Assets. However, the majority of recorded investment income is a mark-to-market or paper-only increase. While the mark-to-market accounting requirement increases the value of a security at a given point in time, it does not ensure the adjusted value of the security will be retained. Just as market values are subject to volatility which is beyond NAIC's control, so is the amount of investment income recorded to Net Assets.

During the past several years, particularly in 2013, the NAIC has benefited from financial returns generated by the investment portfolio, but incurred a loss in 2015. Since the end of 2011, over 75% of the change in the association's net assets is due to investment income. Financial markets have been positive since 2009, the longest expansion in modern history without a correction of 20% or more, but it is impossible to predict how long the expansion will continue. The NAIC will continue to prudentially manage its investment portfolio in order for it to provide a buffer against financial risk.

At the same time, the NAIC continues to focus on its cost structure as demonstrated by below-market salary increases in 2017 and 2018, the transition to a self-funded health care program in 2017, and continued monitoring of external services used by the NAIC to ensure they are competitively priced and provide significant value. In addition, over the next several years the NAIC will be migrating many of its applications to a cloud environment. Although this transition will most likely reduce operating costs in the long run, there will be migration and redesign costs during the next few years that need to be funded.

The NAIC believes the best metric to use to monitor the financial health of a nonprofit organization is its liquid operating reserve ratio. This metric is calculated by dividing liquid Net Assets (Net Assets minus net fixed assets) by next year's projected expense. This methodology ensures the organization is able to meet its financial obligations in times of financial distress. The NAIC's operating reserve is monitored closely by the Executive (EX) Committee and Internal Administration (EX1) Subcommittee to ensure the association carefully manages its financial resources while achieving the strategic and operational objectives of the organization.

To ensure the NAIC is maintaining an appropriate balance between operating risk and financial resources, the association regularly commissions an independent review of the NAIC's operating risks and environment to determine an appropriate liquid operating reserve ratio for the association. The last review was undertaken in 2015 and was approved by the Executive (EX) Committee in July 2015; previous reviews were undertaken in 2005 and 2011. The firm conducting the 2011 review stated the regulation of global and national insurance companies had become increasingly complex, thereby resulting in a higher level of uncertainty and increased business risk. The July 2015 review noted risks and uncertainties are continuing to grow, resulting in a recommended target rate of 83.4% to 108.2%. The projected liquid operating reserve ratio at the end of 2018 based on the proposed 2018 budget and 2017 financial projection is 99.5%, well within the recommended range and 6.5% lower than the liquid operating reserve ratio at the end of 2013 of 106.0%. For comparison purposes, the liquid operating reserve ratio at the end of 2011 when the NAIC's Net Assets were \$69.6 million was 65.8%, which is significantly below the approved liquid operating reserve ratio.

NAIC management will continue to closely monitor the liquid operating reserve ratio and will make appropriate adjustments in subsequent budgets to maintain the association within the approved liquid operating reserve ratio range.



## **Securities Valuation Office (SVO) Fees**

2. ACLI expressed concern with items in the proposed 2018 budget related to the Securities Valuation Office (SVO). Specifically ACLI requested additional information about the new revenue category Add Issue and requested the name of the product category Incomplete Filings be renamed Expired Information Requests to more appropriately describe this item. In addition, the ACLI expressed the desire to partner with the SVO in several areas – improving the functionality of the VISION platform and investigating the possibility of changing the SVO’s fee structure in subsequent years.

**NAIC Response:** Since ACLI raised several points in its comments about the SVO, each item is separately addressed below.

*Add Issue* - Many of the companies that file with the SVO issue multiple securities with each security identified as separate investments with a unique security identifier such as CUSIP. While the issuing entity may be the same, each of these securities has its own legal agreement or terms making it a different investment with different risks that must be analyzed. For this reason each security receives its own NAIC Designation based upon its unique investment characteristics and position within the capital structure of the issuing entity. SVO analysts must consider these characteristics when reviewing these issues and separately update the NAIC Designation for each specific security in NAIC systems once they have completed their analysis. There are a large number of additional issue securities filed with the SVO over the course of the year, which is estimated to be 1,123 in 2018, and the fee proposed of \$125 covers only a portion of the additional work effort required when the SVO analysts review these additional securities. Therefore, given the level of effort required to analyze the securities and update systems, the NAIC believes this fee is appropriate and should be billed in 2018.

*Incomplete Filings* - The SVO will develop a more detailed description for Incomplete Filings as requested by the ACLI. There are two situations when a filing is considered to be an incomplete filing. The first is an Expired Information Request, where the SVO has requested additional information from the insurer to perform an investment analysis and the additional required information was not provided within the 45-day parameter (upon request, this parameter can be extended another 45 days). The second is a Rejected Filing, where the filing itself was sufficiently deficient after a review of all, if any, submitted documents and determined that an Information Request would not be warranted. These two filing scenarios make up a small number of the overall filings, estimated to be 303 filings in 2018. However, each of these filing scenarios requires SVO staff to expend time and effort on a filing submitted by an insurer that was insufficient to perform the required analysis. This nominal fee of \$250 can be avoided if insurers provide the SVO with the information necessary to complete its analysis.

*VISION platform* - The VISION - Phase II project, expanding the number of security identifiers available to the system, is an improvement that will increase functionality for both the industry and the NAIC. The lack of the International Securities Identification Numbers (ISIN) in VISION has been cited numerous times over the past several years as a recurring source of “false positive” reporting exceptions identified when the insurer’s financial statements are compared to NAIC data. NAIC management appreciates the ACLI’s input and support for ongoing enhancements to the SVO’s infrastructure and processes as these improvements are beneficial to

all parties. Potential future platform enhancements will be documented within the NAIC's guidelines for prioritization and approval.

*Structure of SVO fee model* - NAIC management is interested in working with the ACLI to better understand its proposal to improve the equitable distribution of the fees to fund the SVO's operations and systems, and to reduce the disincentive from the current "first to file" rule. Additional information and analysis is required before a determination can be made regarding the appropriate course of action but the SVO is always interested in considering policies, processes, and procedures which can improve the workflow and efficiency of the office.

## **Fiscals**

### **Financial Analysis Tool Redesign**

3. NAMIC supports the NAIC's proposal to redesign the financial analysis tools and make regulation more efficient and expressed its appreciation for significant strides made by the NAIC, in large part through the work of the Risk-Focused Surveillance Working Group, to improve the Financial Analysis Handbook. NAMIC believes the update will enhance communications between analysts and examiners, resulting in a more efficient review process.

**NAIC Response:** The NAIC appreciates NAMIC's comments and will continue work to make all aspects of regulation more efficient and effective. The NAIC's objective is to identify opportunities to reengineer existing products and services to enhance the usefulness and timeliness of the reports using more modern tools. Ultimately the goal is to spend more time analyzing data and making decisions and less time compiling and validating data.

### **Enterprise Web Security Framework/Data De-Identification**

4. NAMIC views these projects as critical components to updating and modernizing the NAIC's security framework. NAMIC supports the NAIC's efforts to enhance and maintain a secure environment but wonders what additional projects are currently contemplated, especially in regards to the data de-identification fiscal.

**NAIC Response:** The NAIC began building a comprehensive internal security team in early 2015 to address the rapidly growing threat of a cybersecurity breach. Through this effort the NAIC has added dedicated staff; updated security policies and procedures; implemented a number of diagnostic systems and tools; and undergone several security audits. While making great strides during the past few years, the effort to improve cybersecurity is ongoing and requires constant diligence and investment.

The Enterprise Web Security Framework fiscal will enhance the NAIC cybersecurity environment for web and cloud-based applications by moving to a multi-factor authentication framework at the application level. This fiscal will also allow the NAIC and its affiliate NIPR to enhance the security of cloud-based applications as they are developed and deployed. In addition to multi-factor authentication, this framework will also allow the NAIC to use social logins and risk-based access controls which could further expand the usage of NAIC/NIPR applications.

The Data De-Identification fiscal is focused on increasing the level of security around personally identifiable information (PII) by removing this data in all non-production environments through the use of a data-masking tool. An enterprise-wide solution will be used to mask all PII data residing in all non-production data stores, ranging from databases to flat files, to ensure a consistent approach to de-identifying this information and reducing the number of staff with access to this data. This tool is currently slated for internal purposes only.

### **Consumer Information Services (CIS) Redesign**

5. NAMIC understands the limitations of the current CIS system but would like additional information regarding the NAIC's vision of the system's purpose and function. NAMIC also suggested the redesign of the system should include input from real consumers, as well as regulators, industry, and NAIC funded consumer representatives.

**NAIC Response:** The NAIC appreciates NAMIC's comments and the recognition of the need for the CIS system to be improved through the use of current technology. The CIS redesign will focus on functionality through the creation of a more intuitive and mobile-friendly user interface. Utilization of the NAIC enterprise business intelligence tools will provide a better visual display of data; the incorporation of standards from the Americans with Disabilities Act (ADA); and improved company search capabilities. In addition, CIS will be designed as a cloud-ready application in preparation of the NAIC's move to the Cloud.

To ensure CIS remains focused on the insurance consumer, the NAIC will hold two regulator focus groups to receive guidance from state experts addressing consumer assistance issues. Based upon these experts' daily interaction with consumers, future enhancements to CIS will be designed to respond to the concerns and questions of consumers. It is anticipated the development of metrics to monitor the use of CIS will be a part of the focus group discussions.

In order to mitigate the risk of not addressing all interests, feedback will also be gathered from a diverse population of users and the NAIC welcomes additional input from industry and consumers.

### **VISION - Phase II**

6. NAMIC questioned the benefit of enhancing the VISION platform given the \$594,000 cost.

**NAIC Response:** VISION is an automated web-based platform that enables the insurance industry to file security investments with the NAIC. The first phase of the VISION platform was implemented in September 2016, replacing the Integrated Securities Information System.

The SVO currently receives approximately 250,000 securities from insurers and relies upon valid security identifiers, such as International Securities Identification Numbers (ISIN), in its databases to properly identify and process these securities. The SVO currently rejects a large number of securities because the security identifier is not valid in VISION. This results in insurers having to report these securities as either an exception when compared to the NAIC database or take a potentially significantly higher risk-based capital charge because the SVO could not assign the security an NAIC designation. The VISION - Phase II fiscal greatly expands the number of security identifiers available to NAIC systems. This will help reduce the number

of false positive reporting exceptions identified on insurer's financial statements, reducing the expenditure of resources by insurers, regulators, and NAIC staff to resolve these exceptions. This enhancement will also reduce the number of rejected filings, thus alleviating the burden of a significantly higher risk-based capital charge because the SVO could not assign the security an NAIC designation. The data included in this project is a critical cornerstone for future NAIC enhancements to regulatory reporting on investments.

## Other

### Technical Resource to Assist States with Review of Complex Models

7. The CEJ requested funding estimated at \$500,000 be included in the 2018 budget for NAIC technical resources to assist states with the review of complex models used by insurance companies for pricing, fraud detection, claims settlement, marketing, and other purposes identified by the states. In addition, the CEJ requested a process be implemented to regularly report to the Big Data (EX) Working Group and Executive (EX) Committee.

**NAIC Response:** The very nature of the insurance business is rapidly changing, driven by technological advancements and socio-economic trends. To stay abreast of these changes, the NAIC established the Innovation and Technology (EX) Task Force, which oversees the Big Data (EX) Working Group, the Cybersecurity (EX) Working Group, and the Speed To Market (EX) Working Group. These groups meet on a regular basis to address their charges. In addition, a major focus of the 2017 Insurance Summit was insurance innovation and emerging technology. NAIC members have participated in InsurTech and insurance innovation forums over the past year to increase their understanding of the new insurance products and services coming to market.

The NAIC believes it is premature to pursue the addition of technical resources before the Big Data (EX) Working Group has completed its work and is in a position to make specific recommendations. Also, the NAIC is in the process of developing a three-year strategic plan titled "State Ahead." There are currently three main themes to the plan, which closely align with the overall mission of the NAIC. The three themes are:

1. Safe and sound markets;
2. Consumer protection and education; and
3. Superior member services and resources.

It is possible some of the recommendations mentioned in the CEJ letter may be included as elements of the strategic plan. Once the strategic plan is finalized and the Big Data (EX) Working Group recommendations are approved through the committee approval process, the NAIC will take the steps necessary to implement these recommendations in a timely manner.

### International Travel Funds for Consumer Participation

8. Several NAIC consumer representatives requested funding of \$20,000 for international consumer participation and attendance at IAIS and other meetings where insurance supervisory standards and policy matters are discussed. These representatives cited the success attained by NAIC increasing the level of consumer stakeholder input into IAIS meetings as the basis for the funding request.

**NAIC Response:** The NAIC values the contribution of the NAIC Consumer Representatives at NAIC national meetings as well as their participation in IAIS meetings when appropriate. The proposed 2018 budget includes funding of \$126,000 for domestic and \$10,000 for international consumer representative travel, a total increase of nearly \$10,000 over the 2017 budget. Since the majority of IAIS meetings are not open to the public and interested parties are only allowed to participate if invited to do so, the NAIC believes the proposed funding level will adequately meet the travel requirements of consumer representatives. As demonstrated in 2017 by the nearly \$7,000 increase in international travel, NAIC will consider requests for additional funding on a case-by-case basis, provided specific IAIS issues or other stakeholder meetings require participation beyond the current proposed budget. In addition, the NAIC will continue to encourage the IAIS to allow greater participation from consumer representatives during its meetings and calls. The NAIC appreciates the many accomplishments achieved during 2017 and encourages consumer representatives to continue to engage with the IAIS and other international entities through the submission of formal comment letters and white papers, as well as participation in conference calls.

### **Concluding Comments**

NAIC leadership, as well as NAIC senior management, appreciates the opportunity to publicly present the proposed 2018 NAIC budget and respond to questions and/or comments raised by interested parties. State insurance regulators, supported by the NAIC, are committed to protecting policyholders as well as ensuring the financial solvency of the insurance industry in a cost-effective and financially prudent manner. The NAIC continuously seeks opportunities to reduce operating costs while providing world-class support to its members, regulators, interested parties, and insurance customers.



September 10, 2017

Commissioner Ted Nickel, NAIC President  
Commissioner Julie Mix McPeak, NAIC President-Elect  
Superintendent Eric Cioppa, NAIC Vice President  
Director Ray Farmer, NAIC Secretary-Treasurer  
Michael Consedine, NAIC CEO  
Andy Beal, NAIC COO  
Jim Woody, NAIC CFO

Re: **2018 Budget for NAIC Technical Resource to Assist States with Review of Complex Models Used by Insurers for Underwriting, Rating and Claims Settlement**

Dear Commissioners and Messrs. Consedine, Beal and Woody

The Big Data Working Group currently has a charge to propose a mechanism for a NAIC technical resource to assist states in their review of complex models used in underwriting, rating and claims.<sup>1</sup> To date, the Big Data WG has not fulfilled the charge and will not until after the 2018 NAIC budget has been adopted. We have great concern that the slow progress of the Big Data WG – which will not be helped by the departure of the current working group chair – will delay the necessary budgeting for what has become an essential need of NAIC members of the NAIC in an era of insurers’ use of Big Data.

***We ask the NAIC leadership to include in the 2018 NAIC budget an amount sufficient for and dedicated to the creation of the NAIC technical resource to assist the states in review of complex models.*** Specifically, we recommend a budget item sufficient for the NAIC to provide technical assistance to states’ regarding complex models used by insurers for pricing, fraud detection, claims settlement, marketing and other purposes identified by the states comprised of:

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<sup>1</sup> Propose a mechanism to provide resources and allow states to share resources to facilitate states’ ability to conduct technical analysis of and data collection related to states’ review of complex models used by insurers for underwriting, rating and claims. Such mechanism shall respect and in no way limit states’ regulatory authority.

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NAIC Technical Resources to Assist States in Review of Complex Models  
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1. An actuary experienced with new and emerging property-casualty pricing models and modeling software;
2. A data scientist experienced with data mining and predictive analytics of large data sets;
3. An economist or statistician experienced with economic and statistical models and testing of data sets and data models ;
4. Data storage and processing capability and computer hardware and software to support the work of the additional staff; and
5. An existing or new NAIC staff member to serve as the primary contact with the states to accept, coordinate and organize the above resources for states' request for technical assistance related to complex models.

NAIC management is in the best position to cost out this technical resource, but we expect the necessary funding will be at least \$500,000.

To provide additional context and justification for our recommendation, we offer the following.

The complex model being reviewed by a state might be a personal auto pricing model with assistance sought by the state's filing reviewer or an accelerated life underwriting model or automated claims settlement model with assistance sought by market regulation staff. Activities the NAIC resource / staff may provide in response to a specific request by a state might include:

1. Answering questions and performing research to answer questions about modeling software and models used by insurers;
2. Answering questions and performing research to answer questions about accuracy and completeness of data and data sources used by the insurer;
3. Review of a model's specification for specific issues of concern identified by the requesting state;
4. Receiving a copy of a data set used by the insurer to develop the model and the specifications of the insurer's model and then replicating/verifying the insurer's or company's model and results;
5. Adding variables to the model in item 4 for prohibited factors to evaluate whether any of the variables in the insurer's model are proxies for prohibited factors or to evaluate the impact of removing correlation of proposed model variables and prohibited factors;
6. Analyzing distributional impacts of concern to state, including requests from the state legislature.

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Stated simply, the NAIC resource to assist states in the states' analysis and review of complex models should be modeled after the NAIC resources developed to assist the states' with the implementation and operation of principles-based reserving.

While the variety and scope of states' requests for technical assistance related to complex models may be broad, the following prohibitions should be clearly understood to apply to the NAIC staff designated as this technical resource.

1. NAIC technical resource staff will not accept and will not respond to any request for a regulatory opinion, including, but not limited to requests regarding a model's compliance with state law.
2. NAIC technical resource staff will not initiate contact with or respond to an inquiry from any insurer or company whose model for which a state has asked NAIC staff for assistance. The state is responsible for requesting information from and communicating with an insurer or company.
3. NAIC technical resource staff will provide the results of any review – the answers to the questions posed by a state to the NAIC staff – only to the state requesting the assistance. If a state wants to share information with another state, such disclosure is the state's decision consistent with the state's responsibility to comply with requirements regarding sharing of non-public information with other regulators.

This recommendation is consistent with, and will provide timely resources to operationalize, whatever recommendation is made by the Big Data WG and adopted by the NAIC. Our recommendation also emphasizes important safeguards to ensure the NAIC resources do not infringe upon state regulatory authority. Most important, the proposed NAIC resources will provide badly-needed assistance to states facing a new, complex and resource-intensive challenge of insurers' growing use of Big Data.

As part of our recommendation for 2018 budgeting for NAIC resources to provide technical assistance to states regarding complex models, we suggest that NAIC report to the Big Data Working Group and Executive Committee on the activities of these NAIC resources as frequently as requested but no less frequently than at each national meeting in the two years following creation of the resource. The report of activity regarding NAIC technical assistance to states related to complex models should be prepared in a manner for public disclosure and be presented at public meetings.



CEJ Recommendation for Funding in 2018 NAIC Budget:  
NAIC Technical Resources to Assist States in Review of Complex Models  
September 10, 2017  
Page 4

Thank you for your consideration. If we can provide any additional information, please let us know.

Sincerely,



Birny Birnbaum

Director

September 12, 2017

Commissioner Ted Nickel, NAIC President  
Commissioner Julie Mix McPeak, NAIC President-Elect  
Superintendent Eric Cioppa, NAIC Vice President  
Director Ray Farmer, NAIC Secretary-Treasurer  
Michael Consedine, NAIC CEO  
Andy Beal, NAIC COO  
Jim Woody, NAIC CFO

**Re: Consumer Participation in International Insurance Supervisory Standard Setting and Policy Discussions – 2017 Accomplishments and 2018 Budget and Procedures**

Dear Commissioners and Messrs. Consedine, Beal and Woody

We thank the NAIC for your efforts over the years to promote consumer participation in international insurance supervisory standard setting and policy discussions. Your efforts have succeeded.

For many years, participation in discussions regarding international insurance supervisory principles and standards at the IAIS excluded consumer stakeholders because of the IAIS pay-to-play observer fees of around \$20,000 a year per stakeholder organization. As a result, consumer stakeholders were unable to meaningfully participate in IAIS activities – even when an IAIS meeting was held in the United States.

The NAIC first convinced the IAIS to waive the observer fee for consumer stakeholders and then provided funding for NAIC consumer representatives to participate in IAIS meetings and events. The NAIC also took a leadership role at the IAIS to remove the pay-to-play observer status and allow all interested stakeholders to access IAIS consultations and activities. Although the IAIS stakeholder engagement procedures changed a few years ago to close most committee and working group meetings to stakeholders, the improvement in consumer stakeholder participation – as a direct result of NAIC leadership and support – has been striking. In the space of just a few years, consumer participation at the IAIS has gone from non-existent to the following as of September 2017:

Consumer Participation in International Insurance Supervisory Standard Setting and Policy Discussions – 2017  
Accomplishments and 2018 Budget and Procedures  
September 12, 2017  
Page 2

- An IAIS stakeholder engagement policy that specifically recognizes and values consumer stakeholder participation.
- NAIC consumer representative participation in IAIS events and meetings, including, in 2017 alone:
  - Birny Birnbaum (Center for Economic Justice) providing written comments on the IAIS stakeholder engagement plan;
  - At the invitation of the Market Conduct Working Group, Birny attending the April 2017 working group meeting and making a presentation on insurers' increasing use of big data;
  - Birny and Peter Kochenburger (University of Connecticut) attending the June 2017 Global Seminar and both presenting as members of panel sessions;
  - Birny preparing detailed comments to both the NAIC and the IAIS on proposed revisions to the IAIS ICPs 1, 2, 18 and 19;
  - At the invitation of the Market Conduct Working Group, Birny attending the September 2017 working group meeting to discuss proposed revisions to ICPs 18 (Intermediaries) and 19 (Conduct of Business) and to participate in working group discussions of work plan related to insurers' increasing use of digital technology.
  - Birny, Brenda Cude (University of Georgia) and Sonja Larkin-Thorne (Consumer Advocate) attending the IAIS Annual Conference with Birny and Brenda making presentations as part of panel sessions.
- NAIC consumer representative participation in IAIS stakeholder meetings held in connection with NAIC national meetings and in several stakeholder conference calls.
- IAIS staff reaching out to NAIC consumer representatives to help identify and network with other consumer stakeholders.

This list of activities and accomplishments demonstrates the significant improvement in consumer stakeholder participation at the IAIS in just a few years – thanks to NAIC leadership and financial.

It is important to acknowledge both the NAIC and the consumer representatives for the accomplishments in 2017. The NAIC agreed to more than double the 2017-budgeted amount for IAIS consumer participation travel from about \$6,171 to nearly \$13,000 in response to the greater-than-anticipated opportunities for IAIS consumer participation. In addition to the significant time commitments by NAIC consumer representatives for travel and preparation and presentation of written and oral comments, CEJ provided financial support beyond that of the NAIC to allow Birny to participate in and present at the IAIS Global Seminar.

While progress has been made, the job of institutionalizing consumer participation at the NAIC is not finished and the need for NAIC support of consumer participation at the NAIC continues. In addition to maintaining current activity, areas for further improvement and participation include:

Consumer Participation in International Insurance Supervisory Standard Setting and Policy Discussions – 2017  
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- Improved NAIC consumer representative participation in IAIS events and working group meetings – attendance by more NAIC consumer representatives at major events and/or attendance at additional meetings and events. While participation via teleconference or videoconference is important and feasible, a consumer stakeholder’s effectiveness in this type of engagement will be enhanced if the IAIS members already know and have a relationship with the consumer stakeholders.
- Convincing the IAIS to formalize consumer participation through a consumer stakeholder advisory committee and through IAIS financial support for consumer participation
- NAIC consumer representative participation on a broader set of issues at the IAIS, including financial inclusion/microinsurance and macroprudential surveillance, among other issues.
- Participation in events not sponsored directly by the IAIS or the NAIC but at which insurance supervisory standards and policies are discussed by NAIC and IAIS members, such as the annual Global Insurance Supervision conference or insurance capital standard meetings organized by the Federal Reserve Board or Federal Insurance Office.

We note that the budgeted amount for IAIS participation has fluctuated since the first year of support in 2013:

2013	\$10,000
2014	\$40,000
2015	\$40,000
2016	\$6,171
2017	\$6,171 (supplemented by an additional \$6,747 in August 2017 for a total of about \$13,000)

Based on the documented success of NAIC support for consumer participation in international insurance supervisory discussions and based on documented opportunities and need, we ask the NAIC to

1. budget \$20,000 in 2018 for international consumer participation; and
2. allow participation in events not directly sponsored by the IAIS or the NAIC if
  - a. the event is directed at international insurance supervision or standard setting and involves substantial participation by NAIC or IAIS members; and
  - b. NAIC international consumer representatives, relevant NAIC staff and NAIC officers agree that participation in such an event is consistent with the purpose of the NAIC international consumer participation program and is an effective use of the NAIC international consumer participation funds.

Consumer Participation in International Insurance Supervisory Standard Setting and Policy Discussions – 2017  
Accomplishments and 2018 Budget and Procedures  
September 12, 2017  
Page 4

Thank you for your consideration.

Sincerely,

Birny Birnbaum, Center for Economic Justice and NAIC Consumer Representative

Brenda Cude, NAIC Consumer Representative

Peter Kochenburger, NAIC Consumer Representative

cc

Eric Thompson, NAIC

Lois Alexander, NAIC



November 10, 2017

The Honorable Julie Mix McPeak  
NAIC President-Elect  
National Association of Insurance Commissioners  
2301 McGee Street, Suite 800  
Kansas City, MO 64108

**RE: NAIC's Proposed Budget for 2018**

Dear Commissioner McPeak:

The American Council of Life Insurers ("ACLI")<sup>1</sup> appreciates this opportunity to comment on the NAIC's 2018 Budget Proposal.

There are two issues of importance that we would like to address in this letter. The first relates to the amount of NAIC's unrestricted net assets (accumulated surplus), while the second relates to Securities Valuation Office ("SVO") fees.

**NAIC's Accumulated Surplus**

In the 2017 Budget Proposal, the accumulated surplus had taken on a downward trend since the end of 2014, as follows:

2014 Ending Balance (actual) - \$119.7 million  
2015 Ending Balance (actual) - \$114.4 million (a decrease of \$5.3 million)  
2016 Ending Balance (projected) - \$112.6 million (a decrease of \$1.8 million)  
2017 Ending Balance (budgeted) - \$112.4 million (a decrease of \$0.2 million)

We were glad to see this trend towards lower surpluses, since the vast majority of those funds are generated from our member companies.

However, in the 2018 Budget Proposal, the accumulated surplus has taken on an upward trend since the end of 2015, as follows:

2015 Ending Balance (actual) - \$114.4 million  
2016 Ending Balance (actual) - \$119.3 million (an increase of \$4.9 million)  
2017 Ending Balance (projected) - \$125.8 million (an increase of \$6.5 million)  
2018 Ending Balance (budgeted) - \$125.6 million (a decrease of \$0.2 million)

---

<sup>1</sup> The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 290 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing 94 percent of industry assets, 93 percent of life insurance premiums, and 97 percent of annuity considerations in the United States. Learn more at [www.acli.com](http://www.acli.com).

This upward trend of the accumulated surplus remains very troublesome, especially since the accumulated surplus at the end of 2011, which was just six years ago, was only \$69.6 million. With a projected surplus of \$125.8 million at the end of 2017, that amounts to an 81-percent increase since the end of 2011.

While some of the increase is attributable to higher-than-projected investment income, some of it is a result of higher fees. For example, database fees revenues have increased from \$26.7 million in 2016 (actual) to \$28.7 million in 2017 (projected) to \$29.1 million in 2018 (budgeted), and administrative service and license fees revenues have increased from \$14.3 million in 2016 (actual) to \$15.5 million in 2017 (projected) to \$15.9 million in 2018 (budgeted).

We urge the NAIC to reduce its accumulated surplus to a more justifiable level, one that is appropriate for an organization that has a captive revenue source and predictable revenue stream year after year. One year's worth of total operating expenses is more than sufficient for this purpose, which equates to \$106.4 million if we use the amount of total operating expenses that are budgeted for 2018.

In order to reduce the \$125.8 million surplus that is projected at the end of 2017 to the aforementioned targeted amount of \$106.4 million, net operating losses (that exceed the amount of investment income) should be generated in 2018 and beyond. These net operating losses should be achieved specifically by reducing the amount of fees that are collected from the insurance industry.

#### **Securities Valuation Office (“SVO”) Fees**

ACLI continues to be concerned about the impact to our industry of new and additional fees in this low interest rate environment, and would like to share its concerns about certain items that are reflected in the SVO section of the 2018 Budget. Through conversations held during the exposure period for the 2017 Budget, we gained comfort in hearing that the implementation of the new VISION system by the SVO would not cause the industry's fees to increase in 2017. However, we now see that there are new or increased fees for “Add Issues” and “Incomplete Filings” in the 2018 Budget.

Through various conversations with SVO leadership, ACLI is seeking to better understand the basis for the “Add Issues” fee of \$125, as \$137,000 in such fees are in the 2018 Budget. If this fee is a reflection of additional analysis required due to a limitation of the new version of VISION, then ACLI believes that industry should not be asked to pay higher fees to support the continuance of a system issue internal to the SVO.

Regarding “Incomplete Filings” (\$75,750 in such fees are in the 2018 Budget), ACLI understands the NAIC's assessment of fees on companies that create additional work for its analysts by intentionally submitting incomplete supporting documentation for filings. However, we have asked the SVO that these be referred to as “Expired Information Requests” rather than “Incomplete Filings”, since an “Incomplete Filing” represents a work in progress as an ongoing and substantive dialogue may be occurring, while an “Expired Information Request” correctly portrays the process as having run its course without the company's response. This change in title would address ACLI's concerns about this being a de facto fee increase, because as it is currently titled, it is not based on objective criteria and therefore can be arbitrarily imposed on industry.

From various conversations with SVO leadership, ACLI has a new appreciation for a couple of issues which both industry and the SVO would like to work together to find a mutually beneficial resolution:

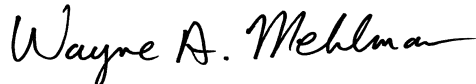
- SVO's VISION system is not yet functioning at its full potential and that making improvements to the SVO's infrastructure and processes require additional funding. ACLI believes that such improvements would likely result in benefits to both industry and the SVO, and if so, industry would be supportive;
- An issue with any new fee is its method of allocation and perceived fairness across the industry. If new fees are allocated similarly to the allocation of current fees, the same minority of companies will continue to bear a disproportionate share of the fee burden. A move to "per holding" methodology of billing companies for what they hold rather than only one firm paying for all investors on a given deal would eliminate the "first to file" disincentive that is inherent in a system where one, and only one, firm is billed and that billing is directly linked to who files first.

Considering our broadly supportive stance, ACLI offers that through the partnership we have developed with the SVO, would like to work on these improvements together with the SVO during 2018 to foster agreement as to shared objectives, mutual benefits and long-term partnership. To that end, we ask the NAIC to take a step back in the process instead of adding the burden of additional fees on our industry without any perceived benefit in return. These improvements will require additional resources to enable the SVO to update their current systems and infrastructure, some to just effectively administer current and future mandates. Such resources should be appropriately allocated from the accumulated surplus noted in the first part of this letter.

While ACLI supports any initiative when a mutually beneficial outcome results, we respectfully request that the new "Add Issue" fee be removed from the 2018 Budget and the "Incomplete Filings" title be changed to "Expired Information Requests." We look forward to working with the SVO on this new holistic approach to SVO fees for 2019.

Thank you again for the opportunity to comment on the 2018 Budget Proposal. If you have any questions, please feel free to contact me at (202) 624-2135.

Sincerely,



Wayne Mehlman  
Senior Counsel, Insurance Regulation

cc: Members of the NAIC Internal Administration (EX1) Subcommittee  
Ted Nickel, NAIC President  
Jim Woody, NAIC Chief Financial Officer





November 10, 2017

Jim Woody  
Chief Financial Officer  
National Association of Insurance Commissioners  
VIA Email Transmission: [jwoody@naic.org](mailto:jwoody@naic.org)

RE: NAMIC Comments – NAIC Proposed 2018 Budget

Dear Mr. Woody:

The following comments are submitted on behalf of the member companies of the National Association of Mutual Insurance Companies regarding the NAIC's proposed 2018 budget.

NAMIC is the largest property/casualty insurance trade association in the country, with more than 1,400 member companies representing 39 percent of the total market. NAMIC supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies serve more than 170 million policyholders and write more than \$230 billion in annual premiums. Our members account for 54 percent of homeowners, 43 percent of automobile, and 32 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

NAMIC has participated in the NAIC budget approval process for many years in recognition of the important role of the NAIC and consistent with our strong support of a reformed and modernized state-based regulatory system. One area where we have regularly raised concern is in regard to the growth of the NAIC's operating reserve. For the 2018 budget, we are pleased to recognize that while the NAIC's total assets have continued to grow, leadership has apparently made a concerted effort to move the reserve level towards a more appropriate level given the NAIC's unique business model. For several years now, without factoring in investment gains, the NAIC has operated at a slight deficit. It is projecting a loss for 2017 and is budgeting for a loss in 2018. We commend the NAIC for its commitment to operate at a deficit while attaining strategic and operational objectives for the organization. NAMIC members are mindful of the funds raised by the NAIC and we recognize the effort NAIC has taken to reduce the rapid growth of the organization. Regarding the substance of the budget, we do have a few comments and questions related to the Fiscal Impact Initiatives.



First off, the NAIC has NAMIC's full support regarding the fiscal, Financial Analysis Tools Redesign. The NAIC, through the Risk-Focused Surveillance Working Group, has made significant strides recently to improve the Financial Analysis Handbook, the handbook that insurance regulators use to monitor companies in between the Financial Examination cycle. The financial analysis function, which is part of the overall risk-focused surveillance paradigm, is a valuable tool that regulators rely on to monitor the solvency of companies they regulate. By updating the analysis function, by way of modernizing the Financial Analysis Handbook, this will foster better communication between analysts and examiners resulting in a better planning and coordinating process. This will make for a more efficient financial analysis/examination cycle. We support this initiative and recognize the NAIC for their effort in trying to make regulation more efficient.

Next, we direct your attention to the Enterprise Web Security Framework Fiscal and the Data De-Identification Fiscal. We view these projects as critical components to updating and modernizing the security functions at the NAIC. The NAIC is in a unique position in developing regulations, model laws and exam standards around cybersecurity for the insurance industry while operating in a world where there are constant cyber threats. We support the NAIC in updating these security features but we question what type of projects might the NAIC be pondering once they have implemented these fiscals, particularly the Data De-Identification Fiscal. We are asking because at the Summer National Meeting in Philadelphia, the NAIC presented to the Risk-Based Capital groups the idea of sharing RBC data from insurers with outside actuaries. Is the Data De-Identification Fiscal a tool the NAIC would use to achieve the goal of sharing RBC data? If not, what types of projects do you have in mind?

Regarding the Consumer Information Source (CIS) Redesign Fiscal, we recognize the limitations of the existing system and therefore understand the premise that improvements are necessary, but we would be interested in attaining a better understanding of the organization's vision for the system's purpose and function. It would be interesting to see some metrics regarding consumer use of the system (while recognizing that system limitations would tend to keep utilization down) as well as projections for potential use following redesign. We believe it is important to consider what is intended and expected for the system to be of value, either directly or indirectly, to actual consumers, as opposed to those who may take on the role of representing consumers. To that end, we would suggest that the design project involve input from real consumers, perhaps drawn from the public in the manner typically used for marketing focus groups, in addition to regulators, industry and NAIC funded consumer representatives.



Finally, the VISION – Phase II Fiscal has raised a few concerns from our members. While we understand there are thousands of securities that the NAIC cannot validate or receive through the new VISION framework, we question the benefit that will be gained considering the high capital cost (\$594,000) of the project.

Thank you for your consideration of these comments on this matter of importance to NAMIC member companies and their policyholders.

Sincerely,

A handwritten signature in black ink that reads "Michelle Rogers" followed by a long horizontal flourish.

Michelle Rogers  
Assistant Vice President, International and Regulatory Affairs  
National Association of Mutual Insurance Companies

**Report of the  
Life Insurance and Annuities (A) Committee**

The Life Insurance and Annuities (A) Committee met Dec. 4. During this meeting, the Committee:

1. Adopted its Oct. 13 minutes, which included the following action:
  - a. Adopted its Summer National Meeting minutes.
  - b. Adopted its 2018 proposed charges.
  - c. Adopted the Life Actuarial (A) Task Force's 2018 proposed charges.
  - d. Adopted the 2018 Generally Recognized Expense Tables (GRET).
2. Adopted the report of the Annuity Suitability (A) Working Group, which included the following action:
  - a. Adopted its Summer National Meeting minutes.
  - b. Reviewed and discussed an initial Working Group chair draft of proposed revisions to the *Suitability in Annuity Transactions Model Regulation (#275)* incorporating a best interest standard of care into the model's existing suitability standards.
  - c. Heard initial comments, including their concerns, on the draft revisions to Model #275 from stakeholders, including state insurance regulators, consumers, insurers, agents and brokers, and other industry representatives.
  - d. Exposed the draft revisions to Model #275 for a public comment period ending Jan. 22, 2018. The Working Group plans to meet via conference call prior to the 2018 Spring National Meeting, with a goal of having a draft of proposed revisions to Model #275 for consideration by the Life Insurance and Annuities (A) Committee at the 2018 Spring National Meeting.
3. Adopted the report of the Life Insurance Buyer's Guide (A) Working Group, which included the following action:
  - a. Adopted its Nov. 20 and Nov. 6 minutes, which included the following action:
    1. Continued to work on a short guide and requested comments by Dec. 15 on using the document currently on Insure U, "10 Things to Know Before Buying Life Insurance," as a starting point.
    2. Agreed to review an expanded outline for the online tool provided by Birny Birnbaum (Center for Economic Justice—CEJ) and asked for written comments by Dec. 31.
4. Adopted the report of the Life Insurance Illustration Issues (A) Working Group, which included the following action:
  - a. Adopted its Nov. 16, Oct. 19 and Sept. 14 minutes, during which it took the following action:
    1. Continued making progress in the development of a one- to two-page consumer-oriented policy overview document to achieve its charge to improve the understandability of the life insurance policy summaries already required by Section 7B of the *Life Insurance Illustrations Model Regulation (#582)* and Section 5A(2) of the *Life Insurance Disclosure Model Regulation (#580)*.
    2. Made progress on the elements to include for term and whole life and planned to next develop the elements to include for universal life policies.
    3. Continued to make progress on a draft policy overview template that will serve as an example of a policy overview document that meets the requirements of the model.
5. Adopted the report of the Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group, which included the following action:
  - a. Adopted its Nov. 1, Oct. 17 and Sept. 7 minutes, during which it took the following action:
    1. Adopted a final "CONSUMER ALERT! Be Skeptical About 'Free Meal' Seminars; Question Credentials of Insurance and Financial Services Experts."
    2. Adopted a recommendation to the Life Insurance and Annuities (A) Committee that, based on the results of the survey sent to NAIC members and the NAIC's model law review criteria, there does not appear to be a national issue such that revisions to the *Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities (#278)* are warranted.
    3. Adopted a recommendation to the Life Insurance and Annuities (A) Committee that states that have not enacted Model #278 should be encouraged to do so.
    4. Adopted a recommendation to the Life Insurance and Annuities (A) Committee that the insurer and producer bulletin, which predates Model #278, does not need to be revised.

- b. Adopted the “CONSUMER ALERT! Be Skeptical About ‘Free Meal’ Seminars; Question Credentials of Insurance and Financial Services Experts.”
  - c. Adopted the recommendation that no revisions to Model #278 are warranted.
  - d. Adopted the recommendation that states that have not enacted model #278 should be encouraged to do so.
  - e. Adopted the recommendation that the insurer and producer bulletin, which predates Model #278, does not need to be revised.
  - f. Adopted a motion to disband the Working Group and amend the Committee’s 2018 proposed charges accordingly.
6. Adopted the report of the Life Actuarial (A) Task Force, which included the following action:
- a. Adopted its Nov. 9, Nov. 2, Oct. 19, Oct. 5, Sept. 28, Sept. 21, Sept. 14 and Aug. 24 minutes, which included the following action:
    - 1. Adopted its Summer National Meeting minutes.
    - 2. Adopted its 2018 proposed charges.
    - 3. Adopted the 2018 Generally Recognized Expense Tables (GRET).
    - 4. Adopted the VM-20, Requirements for Principle-Based Reserves for Life Products, investment spread tables for June 30, 2017, and Sept. 30, 2017.
    - 5. Agreed to forward a response to the Reinsurance (E) Task Force referral indicating that no modifications to the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)* are necessary.
    - 6. Adopted amendments to the 2018 edition of the *Valuation Manual* for 2019 implementation.
    - 7. Exposed edits to VM-50, Experience Reporting Requirements, to reflect the NAIC serving as the experience data collection agent on behalf of the states.
  - b. Adopted the reports of its subgroups and working groups, and heard various reports and updates and exposed various items for comment.
7. Heard an update on the NAIC Life Insurance Policy Locator Service (LIPLS). Since its launch in November 2016, the policy locator service has matched 8,210 beneficiaries with lost or misplaced life insurance policies or annuities totaling \$92.5 million.

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*Adopted by the Life Insurance and Annuities (A) Committee, Oct 13, 2017  
Adopted by the Life Actuarial (A) Task Force, Sept 14, 2017*

**2018 Generally Recognized Expense Table (GRET)**

**TABLE 1  
PROPOSED 2018 GRET FACTORS, based on average of 2015/2016 data**

Distribution Channel	Acquisition			Maintenance per Policy	Companies Included*	Average 1st Year Premium per Policy Issued During Year	Average Face Amount (\$000) per Policy Issued During Year
	Per Policy	Per Face Amount (\$000)	Per Premium				
<b>Independent</b>	\$ 156	\$ 0.90	39%	\$ 47	125	\$ 3,522	\$ 190
<b>Career</b>	238	1.30	59	71	74	1,994	189
<b>Direct</b>	211	1.20	53	63	21	2,523	167
<b>Niche</b>	137	0.80	34	41	26	588	19
<b>Other*</b>	141	0.80	35	42	124	960	39
<b>Total</b>					370		

\*Those companies who are included in the “Other” category are those companies that did not respond to this year’s survey or that of prior years. The unit factors decreased due to the removal of eleven higher cost companies.

**TABLE 2  
CURRENT (2017) FACTORS, based on average of 2014/2015 data**

Distribution Channel	Acquisition			Maintenance per Policy	Companies Included
	Per Policy	Per Face Amount (\$000)	Per Premium		
<b>Independent</b>	\$ 154	\$ 0.80	38%	\$ 46	128
<b>Career</b>	233	1.30	58	70	74
<b>Direct</b>	198	1.10	50	60	21
<b>Niche</b>	128	0.70	32	38	23
<b>Other</b>	155	0.90	39	47	135
<b>Total</b>					381

## Appendix A -- Distribution Channels

The following is a description of distribution channels used in the development of recommended 2018 GRET values:

1. **Independent** – Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.
2. **Career** – Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.
3. **Direct Marketing**– Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet or other media. No direct field compensation is involved.
4. **Niche Marketers** – Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.
5. **Other** – Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years' surveys confirmed an "other" categorization (see below), values for the "other" category are given in the tables in this memo. It was also included to indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

**Appendix B – Unit Expense Seeds**

The expense seeds used in the 2014 and prior GRETS were differentiated between branch office and all other categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.

The unit expense seeds used in the 2017 GRET and the 2018 GRET recommendation were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study.

**2006-2010 (average) CLICE studies:**

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
Term – Weighted Average	\$ 149	\$ 0.62	37.9%	\$ 58
Unweighted Average	\$ 237	\$ 0.80	56.8%	\$ 76
Median	\$ 196	\$ 0.59	38.1%	\$ 64
Perm – Weighted Average	\$ 167	\$ 1.43	41.7%	\$ 56
Unweighted Average	\$ 303	\$ 1.57	49.4%	\$ 70
Median	\$ 158	\$ 1.30	41.1%	\$ 67

**Current unit expense seeds:**

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	\$ 200	\$ 1.10	50%	\$ 60





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**TO:** Reggie Mazyck, NAIC  
**FROM:** Dale Hall, Managing Director of Research, Society of Actuaries (SOA)  
Leon Langlitz, Chair, SOA Committee on Life Insurance Company Expenses  
**DATE:** July 25, 2017  
**RE:** 2018 Generally Recognized Expense Table (GRET) – SOA analysis

As in previous years, the Society of Actuaries expresses its thanks to NAIC staff for their help and responsiveness in providing Annual Statement expense and unit data for our 2018 GRET analysis for use with individual life insurance sales illustrations. Our analysis is based on expense and expense related information reported on companies' 2015 and 2016 Annual Statements. This analysis has been completed to assist the Life Actuarial Task Force (LATF) in its consideration of potential revisions to the GRET that could become effective for calendar year 2018. This memo describes our analysis and resulting findings.

NAIC staff provided Annual Statement data for life insurance companies for calendar years 2015 and 2016. This included data from 750 companies in 2015 and 730 companies in 2016. The primary reason for the lower number of companies in 2016 is that some companies had not submitted their data to the NAIC by the date the data extract was provided to us. Note that this relatively small difference in number of companies between years is consistent with prior experience with this data. Because we subsequently excluded certain companies' experience because of an outlier exclusion test, the absence of these late reporting companies is not expected to significantly affect the results. Of the total companies, 370 passed the outlier exclusion tests and were included as a base for the GRET factors (381 companies passed similar tests last year).

### **Approach Used**

The methodology we followed for calculating recommended GRET factors based on this data is similar in broad outline to that followed the last two years -- see our memo dated July 30, 2015 for a description of those changes.

To calculate updated GRET factors, the average of the factors from the two most recent years (2015 and 2016 for those with data available for both years) of Annual Statement data was used. For each company an actual to expected ratio was calculated. Unit expense seed factors (the seeds for all distribution channel categories are the same), as given in Appendix B, were used to compute total expected expenses. Thus, these seed factors were



used to implicitly allocate expenses between acquisition and maintenance expenses, as well as among the three acquisition expense factors (on a direct of ceded reinsurance basis).

Companies were categorized by their reported distribution channel (four categories were used, described in Appendix A of this memo). There remain a significant number of companies for which no distribution channel was available, as no responses to our annual surveys have been received from those companies. The characteristics of these companies vary significantly, including companies not currently writing new business or whose major line of business is not individual life insurance. We welcome advice and assistance from LATF in future years to increase the response rate to our annual surveys of companies that submit Annual Statements in order to reduce the number of companies in the “Other” category.

Prior to 2014, when responding to the survey if a company indicated that they used multiple channels to distribute their individual life sales, the percentage weights provided to us were applied to that company’s reported results in the tabulations of each of the distribution channel’s unit expense results. This approach was not used in this analysis (or last two year’s) because: (1) as fewer channel types were used, it was expected that fewer companies would have multiple channels as currently defined and (2) an insufficient number of multiple distribution responses were provided in this year’s survey to result in a sufficiently different outcome. We intend to continue surveying the companies in future years to enable enhancement of this multiple distribution channel information.

Companies were excluded from the analysis if (1) their actual to expected ratios were considered outliers, often due to low business volume, (2) the average first year and single premium per policy was more than \$40,000, (3) they are known reinsurance companies or (4) companies were not in both years of the data supplied by the NAIC. To derive the overall GRET factors, the unweighted average of the remaining companies’ actual-to-expected ratios for each respective category was calculated. The resulting factors were rounded, as shown in Table 1.

### **The Recommendation**

Employing the above methodology results in the proposed 2018 GRET values shown in Table 1. To facilitate comparisons, the current 2017 GRET factors are shown in Table 2.



Further characteristics of the type of companies represented in each category are included in the last two columns in Table 1, including the average premium per policy issued and the average face amount (\$000s) per policy issued.

**TABLE 1**  
**PROPOSED 2018 GRET FACTORS, based on average of 2015/2016 data**

Distribution Channel	Acquisition			Maintenance per Policy	Companies Included*	Average 1st Year Premium per Policy Issued During Year	Average Face Amount (\$000) per Policy Issued During Year
	Per Policy	Per Face Amount (\$000)	Per Premium				
<b>Independent</b>	\$ 156	\$ 0.90	39%	\$ 47	125	\$ 3,522	\$ 190
<b>Career</b>	238	1.30	59	71	74	1,994	189
<b>Direct</b>	211	1.20	53	63	21	2,523	167
<b>Niche</b>	137	0.80	34	41	26	588	19
<b>Other*</b>	141	0.80	35	42	124	960	39
<b>Total</b>					370		

\*Those companies who are included in the “Other” category are those companies that did not respond to this year’s survey or that of prior years. The unit factors decreased due to the removal of eleven higher cost companies.

**TABLE 2**  
**CURRENT (2017) FACTORS, based on average of 2014/2015 data**

Distribution Channel	Acquisition			Maintenance per Policy	Companies Included
	Per Policy	Per Face Amount (\$000)	Per Premium		
<b>Independent</b>	\$ 154	\$ 0.80	38%	\$ 46	128
<b>Career</b>	233	1.30	58	70	74
<b>Direct</b>	198	1.10	50	60	21
<b>Niche</b>	128	0.70	32	38	23
<b>Other</b>	155	0.90	39	47	135
<b>Total</b>					381



In previous recommendations, an effort was made to reduce volatility in the GRET factors from year-to-year by limiting the change in GRET factors between years to about ten percent of the prior value. The changes from the 2017 GRET were reviewed to ensure that a significant change was not made in this year's GRET recommendation. Only the Direct distribution channel category experienced a change greater than five percent from the corresponding 2017 GRET values for Acquisition per Policy expenses; primarily due to the change in the relatively small number of companies in this category.

### **Usage of the GRET**

Also asked in this year's survey, responded to by companies' Annual Statement correspondent, was a question regarding whether the 2016 GRET table was used by the company. Last year, 26% of the responders indicated that the company used the GRET for sales illustration purposes, with similar percentage results by size of company; this contrasted with about 25% in the prior year. This year, 30% of responding companies indicated that they used the GRET in 2016 for sales illustration purposes, with similar results for each of the distribution channels with a significant number of responders. We believe that, in addition, the variation in the results over the last three years in GRET use is in large part due to the relatively small sample size and different responders in these two surveys.

We hope LATF finds this information helpful and sufficient for consideration of a potential update to the GRET. If you require further analysis or have questions, please contact Dale Hall at 847-273-8835.

Kindest personal regards,

Dale Hall  
Managing Director of Research  
Society of Actuaries

Leon Langlitz  
Chair, SOA Committee on Life  
Insurance Company Expenses



## Appendix A -- Distribution Channels

The following is a description of distribution channels used in the development of recommended 2018 GRET values:

1. **Independent** – Business written by a company that markets its insurance policies through an independent insurance agent or insurance broker not primarily affiliated with any one insurance company. These agencies or agents are not employed by the company and operate without an exclusive distribution contract with the company. These include most PPGA arrangements.
2. **Career** – Business written by a company that markets insurance and investment products through a sales force primarily affiliated with one insurance company. These companies recruit, finance, train, and often house financial professionals who are typically referred to as career agents or multi-line exclusive agents.
3. **Direct Marketing**– Business written by a company that markets its own insurance policies direct to the consumer through methods such as direct mail, print media, broadcast media, telemarketing, retail centers and kiosks, internet or other media. No direct field compensation is involved.
4. **Niche Marketers** – Business written by home service, pre-need, or final expense insurance companies as well as niche-market companies selling small face amount life products through a variety of distribution channels.
5. **Other** – Companies surveyed were only provided with the four options described above. Nonetheless since there were many companies for which we did not receive a response (or whose response in past years’ surveys confirmed an “other” categorization (see below), values for the “other” category are given in the tables in this memo. It was also included to indicate how many life insurance companies with no response (to this survey and prior surveys) and to indicate whether their exclusion has introduced a bias into the resulting values.

## Appendix B – Unit Expense Seeds

The expense seeds used in the 2014 and prior GRETs were differentiated between branch office and all other categories, due to the results of a relatively old study that had indicated that branch office acquisition cost expressed on a per Face Amount basis was about double that of other distribution channels. Due to the elimination of the branch office category in the 2015 GRET, non-differentiated unit expense seeds have been used in the current and immediately prior studies.



The unit expense seeds used in the 2017 GRET and the 2018 GRET recommendation were based on the average of the 2006 through 2010 Annual SOA expense studies. These studies differentiated unit expenses by type of individual life insurance policy (term and permanent coverages). As neither the GRET nor the Annual Statement data provided differentiates between these two types of coverage, the unit expense seed was derived by judgment based this information. The following shows the averages derived from the Annual SOA studies and the seeds used in this study.

**2006-2010 (average) CLICE studies:**

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
Term – Weighted Average	\$ 149	\$ 0.62	37.9%	\$ 58
Unweighted Average	\$ 237	\$ 0.80	56.8%	\$ 76
Median	\$ 196	\$ 0.59	38.1%	\$ 64
Perm – Weighted Average	\$ 167	\$ 1.43	41.7%	\$ 56
Unweighted Average	\$ 303	\$ 1.57	49.4%	\$ 70
Median	\$ 158	\$ 1.30	41.1%	\$ 67

**Current unit expense seeds:**

	Acquisition/ Policy	Acquisition/ Face Amount	Acquisition/ Premium	Maintenance/ Policy
All distribution channels	\$ 200	\$ 1.10	50%	\$ 60

*Adopted by the Life Insurance and Annuities (A) Committee, Dec. 4, 2017*

*Adopted by Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group, Nov. 1, 2017*

## CONSUMER ALERT!

### BE SKEPTICAL ABOUT “FREE MEAL” SEMINARS QUESTION CREDENTIALS OF INSURANCE AND FINANCIAL SERVICES EXPERTS

Have you received an invitation or seen an ad offering you a free lunch or dinner at a nice restaurant if you attend a seminar about financial, retirement, or estate planning?

Has an insurance or financial professional contacted you recently to set up a time to meet?

Before you accept any invitation about financial, retirement or estate planning, the [Insert Name of State Department of Insurance] wants you to know that many insurance and financial firms reach out to middle-aged and older adults or host free meal seminars. The goal often is to sell you an insurance or financial product or service. The invitation or individual who contacted you may clearly state that nothing will be sold, and only advice will be offered. But there’s a chance you’ll be encouraged to buy something either during or after an event or meeting.

To protect yourself, the [Insert Name of State Department of Insurance] would like to encourage you to follow these suggestions:

- **Be skeptical about “free meal” seminars.** The offer of free meals, door prizes, and/or free advice may lead you to attend a seminar when you wouldn’t otherwise. Some invitations make you feel it’s urgent to register due to “limited space.” A nice restaurant, an expensive meal, and a well-dressed presenter may be impressive, but it doesn’t mean that what they’re selling is right for you.

There is *always* a purpose to a “free” seminar, even those advertised as unbiased and educational. When federal regulators examined firms that offered free lunch seminars, they found that **every** seminar was a sales presentation. You should know that if you put personal information on a registration form, that information likely will be used to market products or services to you.

- **Do your homework before you attend a seminar or meet with an insurance or financial expert.** Contact the [Insert Name of State Department of Insurance] to verify that the person is licensed to sell the product. Ask if there have been complaints or enforcement actions against this person.
- **Review credentials closely.** Individuals selling insurance and financial products may advertise their credentials to gain the trust of clients. Some credentials suggest a certain expertise to provide insurance and financial advice that may or may not exist. As an example, an expert who is “certified” or “accredited” or one who claims expertise in retirement planning or senior issues *sounds* qualified to help you but may or may not be.

Before you attend a free seminar or meet with an insurance or financial expert, find out how they earned their credentials. Two ways to do this are to conduct an online search or contact the [Insert Name of State Department of Insurance]. Some professional credentials require a difficult study program and a series of extensive exams. Other credentials require much less to earn them. In the worst cases, anyone who pays a fee could earn certain credentials. Individuals with those credentials may not have any special experience or expertise.

- **Does this product or service make sense for you?** Always be sure you understand what’s being sold.

Insurance and financial products can be complicated even for the most informed consumer. Don’t hesitate to ask questions, especially if you don’t understand something. You should be able to explain a product in your own words to someone (other than the salesperson) in a way that makes sense to both of you.

It’s rare that one product or service will meet the financial needs and goals of everyone attending a seminar. Be cautious about any promises that one product can meet all of your financial needs. The product must be right for you, your lifestyle, your financial goals, and your tolerance for risk. If the presenter doesn’t know your personal financial situation, he/she can’t know if a product is right for you.

- **Never make a final decision at a seminar.** If you attend a seminar, you may be exposed to high pressure tactics, frightening stories about people who don't have enough money to live on in retirement, and promises of unrealistic financial returns.

Decide **before** you go that you won't give out any personal information, sign any documents, or make any decisions while you're there. Leave your checkbook at home and consider getting a second opinion.

- **Report suspected scams to the [Insert Name of State Department of Insurance].** *Anyone* can find themselves the victim of a financial scam so don't let fear, embarrassment, or uncertainty keep you from asking for help. Your report will help prevent others from becoming victims too.

### **The [Insert Name of State Department of Insurance] Is Here to Help**

As a consumer protection agency, the [Insert Name of State Department of Insurance] may be able to help if you believe an insurance agent or company has misled you or sold you a product that isn't right for you.

To file a complaint, please visit our website at [Insert Website Address] or send a written complaint and any supporting documents to:

[Name of State Department of Insurance]  
[Address]  
[City, State Zip Code]  
[Applicable Telephone Numbers / Fax Numbers]  
[Applicable Email Addresses]

For more information about buying insurance, please visit [Insert State Department of Insurance Website Address] or call [Insert Telephone Number].

**[Drafting Note:** State insurance departments who wish to provide additional references to consumers can insert the following sentence with links to specific information where they feel it would be most applicable:

For more information about [Insert Name of State] laws and rules regarding the use of professional designations or offering free meals to market insurance services, please refer to [Insert State References].

### **Other Important Contacts**

**[Drafting Note:** States can modify this alert where necessary to reference the appropriate names and phone numbers of the securities and/or other regulatory agencies that a consumer should contact for licensing and complaint information.]



## PROJECT HISTORY

### CONSUMER ALERT! BE SKEPTICAL ABOUT “FREE MEAL” SEMINARS QUESTION CREDENTIALS OF INSURANCE AND FINANCIAL SERVICES EXPERTS.

#### 1. Description of the Project, Issues Addressed, etc.

The Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group was charged with considering updates to the NAIC Consumer Alert from 2008, “Seniors Beware—Consumer Alert—Question the Credentials of ‘Senior Specialists’ Beware of ‘Free Lunch’ Seminars.” The Consumer Alert was updated and renamed the “CONSUMER ALERT! Be Skeptical About ‘Free Meal’ Seminars; Question Credentials of Insurance and Financial Services Experts.”

#### 2. Name of Group Responsible for Drafting and States Participating

The Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group of the Life Insurance and Annuities (A) Committee was responsible for the Consumer Alert.

##### States Participating:

Michelle Rafeld, Chair	Ohio
Michael Conway/Jason Lapham	Colorado
Greg Thomas	Florida
Elaine Mellon	Idaho
James. J. Donelon	Louisiana
Matt Holman	Nebraska
Richard Blackwell	Oregon
Matt Gendron/Sarah Neil	Rhode Island
Tanji Northrup	Utah
Richard Wicka	Wisconsin

#### 3. Project Authorized by What Charge and Date First Given to the Group

The Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group was charged in 2017 to “review and revise, as necessary, the *Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities* (#278), as well as the producer and insurer bulletin and the NAIC Consumer Alert, “Seniors Beware—Consumer Alert—Question the Credentials of ‘Senior Specialists’ Beware of ‘Free Lunch’ Seminars.” The Working Group started with updating the Consumer Alert, based on feedback from Working Group members and interested state insurance regulators regarding the influx of invitations to free meal seminars insurance departments reported seeing.

#### 4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated.

The Working Group met via conference call nine times in 2017. Revised drafts of the Consumer Alert were posted on the Working Group’s website. Comments on the revised drafts were received orally on the conference calls and in writing and posted on the Working Group’s website. In addition to Working Group members, interested state insurance regulators from California, Illinois, Kansas, New Hampshire and South Carolina regularly participated. The following consumer representatives participated: Birny Birnbaum (Center for Economic Justice—CEJ); Brenda J. Cude (University of Georgia); and Karrol Kitt (University of Texas—Austin). Representatives from the following interested parties also participated: American Council of Life Insurers (ACLI); American College of Financial Services; American Equity Investment Life Holding Company; American Fraternal Alliance (AFA); Bankers Life and Casualty Company; Ernst & Young; GHR Consulting LLC; Eversheds Sutherland LLP; Faegre Baker Daniels LLP; Global National Financial Group; Greenberg Traurig LLP; Lincoln Heritage Life Insurance Company (LHLIC); McGuireWoods LLP; Mutual of Omaha; National Association of Insurance and Financial Advisors (NAIFA); OneAmerica Financial Partners Inc; Prudential Financial Inc.; United American Insurance Company; and Voya Financial.

**5. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited).**

The Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group met nine times via conference call between Jan. 10, 2017, and Nov. 1, 2017. There were several drafts considered from state insurance regulators and consumer and industry representatives. Each draft was circulated for comment from interested parties and posted on the NAIC website. Throughout the drafting process, the Working Group received and discussed comments from various interest groups and organizations. The Promoting Appropriate Sales Practices in Life Insurance and Annuities (A) Working Group adopted a final draft via conference call on Nov 1, 2017. The Life Insurance and Annuities (A) Committee adopted the Consumer Alert at its meeting at the Fall National Meeting on Dec. 4, 2017.

**6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response).**

The goal of the Working Group was to create a one-page, consumer-friendly document that would catch consumers' attention. The Working Group agreed that the revised alert should have a slightly different focus to reflect the current marketplace. The revised Consumer Alert focuses more on free meal seminars and does not focus exclusively on seniors. These adjustments were made because current free meal invitations target younger consumers, often reached via email, who may be starting to think about retirement planning.

There were discussions as to how to set the correct tone so that consumers would not be needlessly alarmed, but would understand that free lunch seminars are marketing opportunities for the individuals putting on the seminars and that it is important for consumers to exercise due diligence before purchasing an insurance product.

**7. Any Other Important Information (e.g., amending an accreditation standard).**

None.

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**Report of the  
Health Insurance and Managed Care (B) Committee**

The Health Insurance and Managed Care (B) Committee met Dec. 3, 2017. During this meeting, the Committee:

1. Heard an update from the Center on Health Insurance Reforms (CHIR) on its work related to the federal Affordable Care Act (ACA). The update included information on the CHIR's ongoing work, which is being conducted with funding from the Commonwealth Fund and the Robert Wood Johnson Foundation (RWJF). This CHIR is focusing on state responses to federal action or inaction and mapping state actions as reflected in the following CHIR blog posts: "States Step Up to Protect Consumers in Wake of Cuts to ACA Cost-Sharing Reduction Payments" and "State-Based Marketplaces Push Ahead, Despite Federal Resistance." The CHIR also is mapping out state options that may be used to respond to potential federal rule changes in light of the Trump administration's Executive Order 12866 concerning short-term, limited duration health plans and association health plans (AHPs). The CHIR currently is conducting a 10-state review of state regulation of short-term plans, with a 50-state review to come in the near future.
2. Discussed the Trump administration's Executive Order 12866 and its potential impact on individual market stability.
3. Adopted its Nov. 9 and Oct. 12 minutes, which included the following action:
  - a. Adopted its 2018 proposed charges and its task forces' 2018 proposed charges.
  - b. Heard an update from the CHIR on its work related to the ACA. The update included information about a recently released report, "Stepping into the Breach: State Options to Protect Consumers and Stabilize Markets in the Wake of Federal Changes to the Affordable Care Act."
  - c. Heard a briefing on the findings and conclusions outlined in the CHIR issue brief, "Balance Billing by Health Care Providers: Assessing Consumer Protections Across the States."
4. Adopted its Summer National Meeting minutes.
5. Adopted the following subgroup, working group and task force reports: Consumer Information (B) Subgroup; CO-OP Solvency and Receivership (B) Subgroup; Medical Loss Ratio Quality Improvement Activities (B) Subgroup; Health Care Reform Regulatory Alternatives (B) Working Group, including its Oct. 30 minutes; Health Actuarial (B) Task Force; Regulatory Framework (B) Task Force; and Senior Issues (B) Task Force.
6. Adopted the revisions to the *Health Carrier Prescription Drug Benefit Management Model Act* (#22).
7. Adopted the report of the Long-Term Care Insurance (B/E) Task Force, including its Nov. 8 minutes and its 2018 proposed charges. Refer to the Financial Condition (E) Committee report for details.
8. Adopted the Health Actuarial (B) Task Force's request for an extension of model law development for the *Health Insurance Reserves Model Regulation* (#10) concerning revisions to reflect appropriate long-term care insurance (LTCI) reserving standards.
9. Heard an update on efforts to develop a "Pharmacy 101" education course to increase state insurance regulators' understanding of the pharmaceutical industry and prescription drug benefit management, including pharmaceutical benefit managers' (PBMs) role in the process. NAIC staff have received information and specific suggestions for topics to include in the course and experts to speak on those topics. NAIC staff will continue to work on the project and update the Committee in January 2018.

**Report of the  
Property and Casualty Insurance (C) Committee**

The Property and Insurance (C) Committee met Dec. 3, 2017. During this meeting, the Committee:

1. Adopted its Nov. 9 minutes, which included the following action:
  - a. Adopted its Summer National Meeting minutes.
  - b. Adopted its 2018 proposed charges.
  - c. Heard an update on the reauthorization of the National Flood Insurance Program.
  - d. Heard updates, including regulatory response and issues, related to recent catastrophes in California, Florida, South Carolina and Texas.
  - e. Heard updates on the status of the Public Adjuster (C/D) Working Group, the Terrorism Insurance Implementation (C) Working Group and the Transparency and Readability of Consumer Information (C) Working Group.
2. Adopted the following task force and working group reports: Casualty Actuarial and Statistical (C) Task Force; Surplus Lines (C) Task Force; Title Insurance (C) Task Force; Workers' Compensation (C) Task Force; Advisory Organization Examination Oversight (C) Working Group; Auto Insurance (C/D) Working Group; Catastrophe Insurance (C) Working Group; Climate Change and Global Warming (C) Working Group; Creditor-Placed Insurance Model Act Review (C) Working Group; Medical Professional Liability (C) Working Group; Public Adjuster (C/D) Working Group; Sharing Economy (C) Working Group; Terrorism Insurance Implementation (C) Working Group; Transparency and Readability of Consumer Information (C) Working Group; and Travel Insurance (C) Working Group.
3. Heard a presentation from the Federal Emergency Management Agency (FEMA) regarding the National Flood Insurance Program (NFIP), including losses resulting from recent hurricanes and reforms being made to the flood policy.
4. Heard updates from Puerto Rico and the U.S. Virgin Islands on recent hurricanes, including recovery and regulatory response.
5. Heard a presentation from the Property Casualty Insurers Association of America (PCI) on ways to modernize the regulation of commercial lines.
6. Heard a presentation from States Title on how predictive analytics can benefit underwriting for title insurance and other products.
7. Recognized Howard Goldblatt (Coalition Against Insurance Fraud) for his many years of service in fighting insurance fraud and Paula Pallozzi (RI) for earning the Dineen Award.

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## Catastrophic Event/Emergency Measures Regulatory Guidelines

### **Section A. Emergency Powers during a Catastrophic Event/State of Emergency; effect upon insurance policies; rules.**

- (1). The \_\_\_\_\_ (insert: Insurance Commissioner/Director/Superintendent or Department/Division of Insurance) may issue rules or promulgate regulations to take effect upon the declaration of a state of emergency, as declared by the President or Governor, that address any of the following or other matters related to the catastrophe/disaster or emergency<sup>1</sup> for insurance policies issued in this state:
  - (a) Reporting requirements for claims related to the emergency including the effective date such reporting and emergency measures take effect, geographic location(s) impacted, and the specific date/time when the emergency measures expires (unless re-issued) ;
  - (b) Grace periods for payment of insurance premiums and performance of other duties by policyholders (other than the duty to mitigate); and/or
  - (c) Temporary postponement of cancellations and nonrenewals of insurance policies (unless requested by policyholders).
- (2). Subdivisions 1(a), (b) and (c) above apply to all insurance policies, regardless of the line of insurance, issued by insurers licensed in this state, and if the state deems necessary, non-admitted surplus lines insurers, to all policyholders displaced or inaccessible as a result of the catastrophe or state of emergency. The emergency rules or regulations may require the insurer to make reasonable efforts to contact the policyholder, through methods not limited to traditional contact by telephone and including public outreach through social media and traditional media, and provide the accommodations requested by the policyholder, within the limits of accommodations detailed in the rules or regulation, upon confirmation that the policyholder has been displaced or inaccessible by the catastrophe or state of emergency.

**Drafting note: States may wish to consider an alternative trigger for declaration of catastrophe as deemed appropriate, such as commissioner discretion if claims exceed a certain trigger, i.e., 500 claims. RI's statutory trigger is "a nationally recognized catastrophe loss index provider".**

### **Section B. Emergency Measures**

- (1). The \_\_\_\_\_ (insert: Insurance Commissioner/Director/Superintendent) may utilize the declaration of a state of emergency by the President or Governor for purposes of the declaration of emergency measures pursuant to \_\_\_\_\_ (insert Statutory reference granting DOI emergency powers)
- (2). When a state of emergency is declared, the (insert: Insurance Commissioner/Director/Superintendent) may require an insurer licensed in this state and, if the state deems necessary, non-admitted surplus lines insurers to take any of the following actions:
  - (a) Allow grace periods for the payment of insurance premiums for policyholders displaced by the state of emergency for a time period established by the Department. For purposes of this section, displaced includes circumstances where a policyholder may be inaccessible as a result of the catastrophe or emergency;
    - (i) The Department may establish the time period indicated above by considering the severity of the emergency and the number and severity of claims.

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<sup>1</sup> Your governor may already have broad statutory authority as part of his/her emergency powers. For consistency purposes, you may want to review your existing statutes to make use of the definitions already included in your statutes.

*Adopted by Property and Casualty Insurance (C) Committee, Aug. 8, 2017*

- (ii) The Department may order a maximum grace period of 90 days by bulletin or emergency rule. This requirement does not prevent the Department from amending this regulation during the grace period to establish a longer grace period.
  - (iii) At the end of the grace period insurers may bill policyholders for the premium accumulated during the grace period as long as the insurer has notified the policyholder that premium will accumulate during the grace period. Insurers may not impose additional interest, penalty or other charges during the grace period.
  - (iv) Insurers may treat nonpayment of accumulated premium in the same manner as nonpayment of premium under the policy as long as the insurer has notified the policyholder that the premium will be due upon expiration of the grace period or at whatever longer interval is established by the insurer.
- (b) Suspend performance of other duties under the policy for policyholders displaced or inaccessible by the catastrophic event or emergency.
- (i) The policyholders' duty under the policy to mitigate damages may not be excused. Policyholders may be afforded sufficient time to effectuate the repairs or reconstruction to the dwelling or property and to recognize any extraordinary circumstances that may exist such as engaging a contractor or construction workers, obtaining materials, and otherwise undertake to accomplish the necessary repairs or reconstruction.
  - (ii) The policyholders' duty to provide information and cooperate with the insurers' investigation of the claim may not be excused.
  - (iii) The Department may determine what duties will be suspended by consideration of the severity of the emergency and the number and severity of claims in (state name).
  - (iv) The Department may notify insurers of the exact duties for a specific emergency by issuance of a bulletin or industry alert. (Sample alert or bulletin attached)
- (c) Suspend cancellations and non-renewals of insurance policies for policyholders displaced or inaccessible by the emergency for a time period established by the Department
- (i) The Department may establish the time period by taking into consideration the severity of the emergency and the number and severity of claims.
  - (ii) The Department may order a maximum period of 90 days by bulletin.
  - (iii) This requirement does not prevent the Department from moving to amend this regulation to establish a longer grace period
  - (iv) This provision will apply to non-renewals or cancellations that were sent out prior to the state of emergency, but which have not yet become effective on the date of the emergency."
- (d) Waive any time restrictions on prescription medication refills and authorize payment to pharmacies for a 30-day supply, unless limited by a physician or statute, of any prescription medication, regardless of the date upon which the prescription medication had most recently been filled by a pharmacist; and waive any restrictions on the time frame for the replacement of durable medical equipment or supplies, eyeglasses, and dentures.
- (e) The (insert: Insurance Commissioner/Director/Superintendent) may exempt an insurer from compliance with this provision upon the written request of the insurer if the (insert: Insurance Commissioner/Director/Superintendent) determines that compliance with this provision may be reasonably expected to result in said insurer being subject to undue hardship, impairment, or insolvency
- (f) The Department may establish additional emergency measures depending upon the circumstances of the event.

**Report of the  
Market Regulation and Consumer Affairs (D) Committee**

The Market Regulation and Consumer Affairs (D) Committee met Dec. 4, 2017. During this meeting, the Committee:

1. Adopted its Nov. 16 meeting minutes, which included the following action:
  - a. Adopted its Summer National Meeting minutes.
  - b. Adopted its 2018 proposed charges.
  - c. Adopted revisions to Chapter 2—Continuum of Regulatory Responses of the *Market Regulation Handbook*.
  - d. Adopted a reference document titled, “Reference Guidance for Closing Continuum Actions” for inclusion in the *Market Regulation Handbook*.
  - e. Adopted updates to Chapter 19—Conducting the Life and Annuity Examination of the *Market Regulation Handbook*.
- 2.. Adopted the reports of its task forces and working groups: Antifraud (D) Task Force; Market Information Systems (D) Task Force; Producer Licensing (D) Task Force; Market Regulation Certification (D) Working Group; Market Conduct Examination Standards (D) Working Group; Market Actions (D) Working Group; Market Analysis Procedures (D) Working Group; Market Conduct Annual Statement (D) Working Group; Pre-Dispute Mandatory Arbitration Clauses (D) Working Group; Auto Insurance (C/D) Study Group; and Public Adjuster (C/D) Working Group.

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## **Report of the Financial Condition (E) Committee**

The Financial Condition (E) Committee met Dec. 4, 2017. During this meeting, the Committee:

1. Adopted its Summer National Meeting minutes.
2. Adopted its Nov. 9 minutes, which included the following action:
  - a) Adopted a request for extension from the Mortgage Guaranty Insurance (E) Working Group.
  - b) Adopted its 2018 proposed charges.
  - c) Continued discussions on the Interim Investment Detail project.
3. Adopted the reports of the following task forces and working groups: Accounting Practices and Procedures (E) Task Force; Capital Adequacy (E) Task Force; Examination Oversight (E) Task Force; Long-Term Care Insurance (B/E) Task Force; Receivership and Insolvency (E) Task Force; Reinsurance (E) Task Force; Risk Retention Group (E) Task Force; Valuation of Securities (E) Task Force; Group Capital Calculation (E) Working Group; Group Solvency Issues (E) Working Group; Mortgage Guaranty Insurance (E) Working Group; National Treatment and Coordination (E) Working Group; Risk-Focused Surveillance (E) Working Group; and Variable Annuities Issues (E) Working Group.
4. Approved the regulatory objective of a technical project from the Valuation of Securities (E) Task Force. The technical project requires changes to NAIC systems as it relates to certain types of securities.
5. Adopted proposed salary updates to the *Financial Condition Examiners Handbook*.
6. Adopted proposed changes to the *Life and Health Insurance Guaranty Association Model Act* (#520). Among other things, the changes: a) expand the long-term care (LTC) assessment base; b) clarify that the “Moody’s Limitation” is not intended to apply to LTC benefits; c) clarify that the guaranty associations have the authority to file for premium rate increases.

**Note:** Items adopted within the Financial Condition (E) Committee’s task force and working group reports that are considered technical, non-controversial and not significant by NAIC standards (i.e., they do not include model laws, model regulations, model guidelines or items considered to be controversial) will be considered for adoption by the Executive (EX) Committee and Plenary through the Financial Condition (E) Committee’s technical changes report process. Pursuant to this process, which was adopted by the NAIC in 2009, a listing of the various technical changes will be sent to the NAIC members shortly after completion of the Summer National Meeting, and the members will have 10 days to comment with respect to those items. If no objections are received with respect to a particular item, the technical changes will be considered adopted by the NAIC membership and effective immediately.

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**Report of the  
Financial Regulation Standards and Accreditation (F) Committee**

The Financial Regulation Standards and Accreditation (F) Committee met Dec. 1, 2017. The meeting was held in regulator-to-regulator session pursuant to paragraph 7 (consideration of individual state insurance department's compliance with NAIC financial regulation standards) of the NAIC Policy Statement on Open Meetings. During this meeting, the Committee discussed state-specific accreditation issues and voted to award continued accreditation to the insurance departments of Alaska, Missouri and Texas.

The Financial Regulation Standards and Accreditation (F) Committee met Dec. 2, 2017. During this meeting, the Committee:

1. Adopted its Summer National Meeting minutes.
2. Adopted its Sept. 1 minutes, which included the following action:
  - a. Exposed a referral from the Reinsurance (E) Task Force regarding significant elements for the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)* as a possible addition to the Part A: Laws and Regulations accreditation standard.
3. Adopted the *Corporate Governance Annual Disclosure Model Act (#305)* and the *Corporate Governance Annual Disclosure Model Regulation (#306)* as a new accreditation standard. Model #305 and Model #306 require an insurer (or group of insurers) to provide a confidential disclosure regarding its corporate governance practices to the lead state and/or domestic regulator annually by June 1. The accreditation standard will become effective Jan. 1, 2020.
4. Discussed the 2014 revisions to the *Insurance Holding Company System Regulatory Act (#440)* as an update to the Part A: Holding Company Systems accreditation standard. The 2014 revisions to Model #440 are applicable only to a designated state that acts as a group-wide supervisor of an internationally active insurance group. The Committee voted to defer action at this time and will discuss further via conference call.
5. Discussed Model #787 for possible inclusion into the Part A: Laws and Regulations accreditation standard. The Committee voted to defer action at this time and will discuss further at the 2018 Spring National Meeting.

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Adopted by the Financial Regulation Standards and Accreditation (F) Committee – Aug. 6, 2017



To: Director John M. Huff (MO), Chair of Financial Regulation Standards and Accreditation (F) Committee  
From: Commissioner Susan Donegan (VT), Chair of Corporate Governance (E) Working Group  
Date: Nov. 17, 2014  
Re: Recommendation for Part A Accreditation Standards and Guidelines for revisions to the Annual Financial Reporting Model Regulation (#205)

## Executive Summary

On August 19, 2014, the NAIC Executive Committee and Plenary adopted revisions to the *Annual Financial Reporting Model Regulation* (Model #205) to incorporate an internal audit function requirement for large insurers into the regulation. The revisions require individual insurers writing more than \$500 million or insurance groups writing more than \$1 billion in annual premium to maintain an internal audit function providing independent, objective and reasonable assurance to the audit committee and insurer management regarding the insurer's governance, risk management and internal controls. The function is required to be organizationally independent from management and required to report at least annually to the audit committee on the results of internal audit activities.

### **A statement and explanation of how the potential standard is directly related to solvency surveillance and why the proposal should be included in the standards:**

An internal audit function is generally considered to be a key component of an effective internal control framework. International standards recognize the importance of an internal audit function within ICP 8 – Risk Management and Internal Controls. After studying the need for an internal audit function requirement within U.S. insurance regulation, the Corporate Governance (E) Working Group determined that the best way to implement an internal audit requirement would be to place the requirement within the NAIC's existing Model #205. This model already includes a requirement for insurers to receive an annual financial statement audit, as well as requirements related to audit committees and internal controls over financial reporting. In addition, Model #205 is already recognized as critical to solvency surveillance and required for accreditation through the existing Part A standards.

### **A statement as to why ultimate adoption by every jurisdiction may be desirable:**

As Model #205 is already part of the Part A accreditation requirements and has been adopted in some form by every jurisdiction, the internal audit revisions should also be adopted by every jurisdiction to ensure uniformity and consistency in requirements for U.S. insurers. In addition, uniform adoption across jurisdictions will assist the U.S. in meeting international standards and ensure a standard level of protection to policyholders of large insurers across the U.S.

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**A statement as to the number of jurisdictions that have adopted and implemented the proposal or a similar proposal and their experience to date:**

While all states have adopted Model #205 in some format, the Working Group is not yet aware of any states that have adopted the internal audit function revisions. As these revisions were only recently adopted by the NAIC, the Working Group expects jurisdictions to begin taking action to incorporate the revisions beginning in 2015.

**A statement as to the provisions needed to meet the minimum requirements of the standard. That is, whether a state would be required to have “substantially similar” language or rather a regulatory framework. If it is being proposed that “substantially similar” language be required, the referring committee, task force or working group shall recommend those items that should be considered significant elements:**

The Working Group recommends that the provisions be modified as follows (see tracked changes) to require incorporation of the internal audit function requirement into the existing significant elements:

11. CPA Audits

State statute or regulation should contain a requirement for annual audits of domestic insurance companies by independent certified accountants that is substantially similar to the NAIC’s *Annual Financial Reporting Model Regulation* (#205).

[No changes proposed to existing elements a – n]

- o. Includes requirements for conduct of the insurer in connection with the preparation of certain reports and documents similar to Section 156.
- p. Includes requirements related to management’s report of internal control over financial reporting similar to Section 167.
- q. Includes requirements related to the establishment and maintenance of an internal audit function similar to Section 15.

**An estimate of the cost for insurance companies to comply with the proposal and the impact on state insurance departments to enforce it, if reasonably quantifiable:**

The Working Group notes that all publicly-held insurers are already required to maintain an internal audit function through stock exchange listing requirements. In addition, it is a standard industry best practice for large insurers to maintain internal audit functions of their own volition. Therefore, the Working Group has concluded that the costs for companies to meet the new requirements are nominal, given existing practices in this area. As far as the impact on state departments to enforce this requirement, the internal audit functions of insurers are already reviewed as part of each full-scope financial condition examination. Therefore, enforcement of the new requirement would be a simple addition to the existing work plan in this area.

**Additional information:**

None deemed necessary.

**Report of the  
International Insurance Relations (G) Committee**

The International Insurance Relations (G) Committee met Dec. 2, 2017. During this meeting, the Committee:

1. Adopted its Nov. 13, Sept. 29, Sept. 28, Aug. 24 and Summer National Meeting minutes, which included the following action:
  - a. Approved submission of NAIC comments on International Association of Insurance Supervisors (IAIS) revised Insurance Core Principle (ICP) 1, Objectives, Powers and Responsibilities of the Supervisor; ICP 2, Supervisor; ICP 18, Intermediaries; and ICP 19, Conduct of Business.
  - b. Discussed draft NAIC comments on IAIS revised ICP 24, Macroprudential Surveillance.
  - c. Approved submission of NAIC comments on IAIS revised ICP 24.
  - d. Adopted its 2018 proposed charges.
  - e. Heard an Update on IAIS committee meetings, including developments on the global insurance capital standard (ICS).
  - f. Adopted its working group reports.
  - g. Heard an update on the Organisation for Economic Co-operation and Development (OECD).
  - h. Heard an update on regional supervisory cooperation activities.
  - i. Heard an update on the IAIS.
  - j. Heard an update on regional supervisory cooperation activities.
2. Heard an update on work at the IAIS:
  - a. With regard to standard-setting, the IAIS recently adopted ICP 13, Reinsurance and Other Forms of Risk Transfer; ICP 18; and ICP 19. The IAIS endorsed and published revised versions of ICP 1; ICP 2; ICP 3, Information Sharing and Confidentiality Requirements; ICP 9, Supervisory Review and Reporting; ICP 10, Preventive Measures, Corrective Measures and Sanctions; ICP 12, Exit from the Market and Resolution; and ICP 25, Supervisory Cooperation and Coordination. It also adopted an application paper on group corporate governance and an application paper on the regulation and supervision of mutuals, cooperatives and community-based organizations in increasing access to insurance markets. The IAIS also recently reached agreement on issues related to the implementation of ICS version 2.0 but has a number of outstanding issues and ongoing work planned for the development of version 2.0. The IAIS currently has out for public consultation draft revised ICP 15, Investment; ICP 16, Enterprise Risk Management for Solvency Purposes; and portions of ICP 8, Risk Management and Internal Controls; as well as the Common Framework of the Supervision of Internationally Active Insurance Groups (ComFrame) material integrated within these ICPs.
  - b. With regard to financial stability, the Financial Stability Board (FSB) issued a statement on Nov. 21 on the identification of global systemically important insurers (G-SIIs), but did not publish a new list of G-SIIs for 2017. The IAIS Systemic Risk Assessment Task Force continues its work on an activities-based approach to systemic risk assessment and aims to launch an interim public consultation before the end of 2017.
  - c. With regard to implementation of standards, various workstreams of the IAIS Implementation Committee were discussed, including revisions to the Coordinated Implementation Framework and approaches to enhancing the IAIS assessment program. An update on the IAIS Multilateral Memorandum of Understanding (MMoU) was also provided, and there has been a significant increase in the amount of applications, including from U.S. states.
3. Adopted the reports of its working groups. The report from the ComFrame Development and Analysis (G) Working Group addressed the current status and upcoming work on the IAIS development of its global insurance capital standard (ICS), as well as the planned consultation process on ComFrame material. The report from the International Regulatory Cooperation (G) Working Group included an update on the NAIC International Fellows Program and a recommended proposal to the Committee to allow international regulators who are not participating in the full fellows program to attend the one week of training in Kansas City, MO.
4. Heard an update on the OECD, including a preview of the upcoming December meeting of the Insurance and Private Pensions Committee (IPPC) in Paris, including a roundtable on the institutional structure of insurance regulation and supervision.

5. Heard an update on regional supervisory cooperation activities. For the Asia region, in September, the NAIC jointly hosted with Thailand's Office of Insurance Commission (OIC) and the OECD a roundtable on insurance and retirement saving issues. The NAIC held its fourth annual Asia-Pacific International Forum in Honolulu before the Fall National Meeting. For Europe, in September, Commissioner Ted Nickel (WI) and NAIC CEO Michael F. Consedine participated in the Global Insurance Supervision Conference in Frankfurt, Germany. In addition, state insurance regulators continue to maintain good relationships with our European counterparts at the European Insurance and Occupational Pensions Authority (EIOPA) and the European Commission, as well as various European Union (EU) member state jurisdictions, and communicate directly with them on a regular basis. For the Latin American region, earlier this year the NAIC recently participated in a conference of the Association of Latin American Insurance Supervisors (ASSAL) in Montevideo, Uruguay. Following up on the memorandum of understanding on regulatory cooperation between the NAIC and Argentina's National Superintendence of Insurance signed at the Summer National Meeting, NAIC staff visited Buenos Aires, Argentina, to begin identifying Argentina's capacity needs and to help develop a more bespoke technical assistance program for them.

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Date: 11/29/17

## State Implementation Reporting of NAIC-Adopted Model Laws and Regulations

### Life Insurance and Annuities (A) Committee

- Amendments to the *Separate Accounts Funding Guaranteed Minimum Benefits Under Group Contract Model Regulation (#200)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2016 Fall National Meeting. NAIC staff are not aware of any state activity regarding this model.
- Amendments to the *Annuity Disclosure Model Regulation (#245)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2015 Spring National Meeting. NAIC staff are not aware of any state activity regarding this model.
- Amendments to the *Suitability in Annuity Transactions Model Regulation (#275)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2015 Spring National Meeting. Seven states have adopted the 2015 amendments.
- Amendments to the *Advertisements of Life Insurance and Annuities Model Regulation (#570)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2015 Spring National Meeting. NAIC staff are not aware of any state activity regarding this model.
- Amendments to the *Life Insurance and Annuities Replacement Model Regulation (#613)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2015 Spring National Meeting. NAIC staff are not aware of any state activity regarding this model.
- Amendments to the *Synthetic Guaranteed Investment Contracts Model Regulation (#695)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2015 Spring National Meeting. NAIC staff are not aware of any state activity regarding this model.
- Amendments to the *Standard Nonforfeiture Law for Individual Deferred Annuities (#805)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2017 Summer National Meeting. NAIC staff are not aware of any state activity regarding this model.

### Health Insurance and Managed Care (B) Committee

- Amendments to the *Health Insurance Reserves Model Regulation (#10)*—There have been no updates to state implementations of these amendments.
- Amendments to the *Individual Market Health Insurance Coverage Model Regulation (#26)* (*falls under the September 2008 federal law exemption to the Executive (EX) Committee approval requirement*)—These revisions were adopted by the Executive (EX) Committee and Plenary via conference call in December 2014. NAIC staff are not aware of any state activity regarding this model.
- Amendments to the *Health Benefit Plan Network Access and Adequacy Model Act (#74)* (*falls under the September 2008 federal law exemption to the Executive (EX) Committee approval requirement*)—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2015 Fall National Meeting. Two states have adopted the model's provisions, three states have enacted parts of the model, and 10 states have adopted provisions equivalent to the revised model's provisions. Most of the state activity in 2017 relates to so-called "surprise bills," situations where consumers received a bill from a non-network provider related to health care services received in an in-network facility.
- Amendments to the *Small Group Market Health Insurance Coverage Model Regulation (#126)* (*falls under the September 2008 federal law exemption to the Executive (EX) Committee approval requirement*)—These revisions were adopted by the Executive (EX) Committee and Plenary via conference call in December 2014. NAIC staff are not aware of any state activity regarding this model.

- Amendments to the *Long-Term Care Insurance Model Act (#640)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2016 Fall National Meeting. Due to the recent adoption of the revisions, NAIC staff are not aware of any state activity related to this model.
- Amendments to the *Long-Term Care Insurance Model Regulation (#641)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2014 Summer National Meeting. It appears that three states have enacted the revisions to this model. NAIC staff are not aware of any additional state activity related to this model.
- Amendments to the *Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act (#651)*—These revisions were for consistency with the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) and were adopted by the Executive (EX) Committee and Plenary at the 2016 Summer National Meeting. NAIC staff are not aware of any state activity regarding this model. In February 2017, the Senior Issues (B) Task Force distributed a frequently asked questions (FAQ) document proving implementation guidance for the MACRA revisions.

### **Market Regulation and Consumer Affairs (D) Committee**

- Amendments to the *Privacy of Consumer Financial and Health Information Regulation (#672)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2017 Spring National Meeting. NAIC staff are not aware of any state activity regarding the amended model.

### **Financial Condition (E) Committee**

- Amendments to the *Corporate Governance Annual Disclosure Model Act (#305)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2014 Fall National Meeting. It appears 19 states have enacted laws consistent with provisions of the model.
- Amendments to the *Corporate Governance Annual Disclosure Model Regulation (#306)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2014 Fall National Meeting. It appears 11 states have enacted laws consistent with provisions of the model.
- Amendments to the *Insurance Holding Company System Regulatory Act (#440)*—These revisions were adopted by the Executive (EX) Committee and Plenary via conference call in December 2014. It appears 23 states have enacted laws consistent with provisions of the model.
- Amendments to the *Life and Health Insurance Guaranty Association Model Act (#520)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2016 Fall National Meeting. NAIC staff are not aware of any state activity regarding this model.
- Amendments to the *Credit for Reinsurance Model Law (#785)*—These revisions were adopted by the Executive (EX) Committee and Plenary via conference call in November 2011. It appears that 41 states have enacted laws consistent with provisions of the model. Additional revisions to this model were adopted by the Executive (EX) Committee and Plenary via conference call in January 2016. It appears that 13 states have enacted laws consistent with provisions of the model, with an additional state planning to consider enacting the 2016 revisions.
- Amendments to the *Term and Universal Life Insurance Reserve Financing Model Regulation (#787)*—These revisions were adopted by the Executive (EX) Committee and Plenary at the 2016 Fall National Meeting. NAIC staff are not aware of any state activity regarding this model.

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