

Various NAIC Groups Discuss a Cornucopia of Life and Annuity Topics

December 18, 2018

At the NAIC Fall 2018 National Meeting, various groups within the NAIC discussed a cornucopia of topics that impact the life and annuity industry. The overflowing topics varied, ranging from data usage to the standard of care. Not only were the abundant topics discussed by the Life Insurance and Annuities (A) Committee ((A) Committee) and its various working groups, but also by the Innovation and Technology (EX) Task Force (Innovation TF) and its Big Data (EX) Working Group (Big Data WG).

(A) Committee and Its Working Groups

The (A) Committee and its four working groups have been busily addressing a bounty of topics, including:

- **Annuity Disclosure (A) Working Group (Annuity Disclosure WG)** – whether the Annuity Disclosure Model Regulation (#245) (Annuity Disclosure Model) should be revised to allow illustrations of index accounts that credit interest based on the change in an index that has not been in existence for 10 years. The Annuity Disclosure WG had not been able to reach a consensus on proposed changes to the Annuity Disclosure Model, and without further extension of its charge, work on revisions to the illustration provisions of the Annuity Disclosure Model would cease. The Annuity Disclosure WG sought an extension of its charge and sought to form a small drafting group that would develop draft language for review and discussion by the Annuity Disclosure WG.

During its November 16 meeting, the (A) Committee agreed to an extension of the Annuity Disclosure WG's charge.

- **Annuity Suitability (A) Working Group (Suitability WG)** – development of revisions to the Suitability in Annuity Transactions Model Regulation (#275) (Suitability Model). The Suitability WG was the only (A) Committee WG to meet at the NAIC Fall 2018 National Meeting. At its meeting, the Suitability WG agreed to a number of revisions to the Suitability Model, which remains a work in progress.

At the (A) Committee November 16 meeting, the Suitability WG sought to hand over, and the (A) Committee agreed to take, the Suitability Model. The (A) Committee agreed to expose the Suitability Model and to receive comments until February 15,, 2019. The (A) Committee recognized that the Suitability Model has not been finalized by the Suitability WG, but felt it was important to gain plentiful comments from those who had not been part of the Suitability WG. This would also allow the NAIC to use the exposed draft in potential discussions with the SEC and the DOL.

- **Life Insurance Illustration Issues (A) Working Group (Life Illustrations WG)** – increasing consumer understanding of the life insurance narrative summaries required by Section 7B of the Life Insurance Illustrations Model Regulation (#582) and the policy summaries required by Section 5A(2) of Model #580. As part of this work, the Life Illustrations WG has been discussing the use of a policy overview document that would accompany all life insurance policies along with the Buyer’s Guide.
- **Life Online Guide (A) Working Group** – development of an online resource for consumers to evaluate life insurance. Under discussion is whether the online tool would include tools to help consumers decide what type of life insurance to buy and how much.

In addition, at its November 16 meeting, the (A) Committee discussed whether Actuarial Guideline 49 (AG 49) should be revisited in light of recent developments in index universal life insurance products. Mike Yanacheak, actuarial administrator from Iowa, noted that the abundant use of multipliers in determining the index interest credited are a “relatively recent innovation in index UL.” Multipliers were not prevalent at the time AG 49 was created. Mr. Yanacheak noted AG 49 sets forth:

- A maximum for Index UL illustrated rates
- Limits on loan illustrations

Michael Boerner from Texas and chair of Life Actuarial (A) Task Force (LATF), confirmed that revisiting AG 49 is within the scope of LATF’s current charges, and noted that the IUL Illustration (A) Subgroup is prepared to do the work. Consumer representative Birny Birnbaum expressed support for LATF’s inquiry into AG 49 and told the (A) Committee that “companies are developing products to game AG 49 and illustrate unreasonable returns to obliterate the risk return relationship consumers

are facing in the market.” James Regalbuto, deputy superintendent for life insurance at the New York Department of Financial Services, also expressed support for this work and noted it is a “matter that requires urgency” because “products are being grossly over illustrated.” The (A) Committee agreed to add this charge to LATF.

Innovation TF and Big Data WG

The Innovation TF and Big Data WG have been addressing a feast of different innovations being implemented by life insurers and different regulations that have an impact on life insurers’ ability to innovate.

Innovation TF

Jon Godfread, North Dakota Insurance Commissioner and vice chair of the Innovation TF, reported on a review of state law regarding anti-rebating laws, cancellations, renewals, and e-signatures. He noted that while the laws are generally consistent, interpretations vary by state. In particular, Mr. Godfread suggested that as innovation continues, more gray areas will arise, particularly with respect to anti-rebating. Regulators discussed whether items provided to consumers that help reduce risk should really be viewed as an inducement that is not permitted under the anti-rebating laws. Regulators noted that wearables may help keep consumers healthier and reduce risk. Mr. Godfread noted the difficulty is the need to prove whether the item given to the consumer actually mitigates risk. He noted that this a roadblock to innovation.

The Innovation TF continued to hear from innovators and has also been seeking contacts at the various states who can be contacted by those with questions on innovation. The contacts will be listed as part of the NAIC’s new “InsurTech, Innovation & Technology” website located at https://www.naic.org/index_innovation_technology.htm. The website also will contain materials on artificial intelligence, autonomous vehicles, big data, blockchain, cybersecurity and the internet of things.

Big Data WG

The Big Data WG continued its discussion on the use of big data in life insurance underwriting and raised a cornucopia of questions:

- Do regulators have the tools to evaluate the legality and appropriateness of the use of data in life underwriting and to evaluate the models being used?
- Have the models being used and the data used in the models been appropriately validated? In other words, are the models really predictive?

- Should vendors who provide data be subject to regulation?
- Should vendors who are developing the models be subject to regulation?
- Are the models developed by vendors the same for the different insurers using the vendors' models?

Doug Ommen, Commissioner of Iowa and the chair of the Big Data WG, noted that the Big Data WG needed to continue to understand what is happening and develop best practices.

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