

NAIC Evaluates Insurer's Use of Variable Annuity Captives, Price Optimization, and Big Data

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At the National Association of Insurance Commissioners (NAIC) Fall National Meeting, regulators and consumer representatives continued to seek transparency on insurers' use of annuity captive reinsurance transactions (VA captives), big data, and price optimization. Regulators and consumer representatives are seeking to better understand why insurers use variable annuity captives and how big data and price optimization is used.

Working groups within the NAIC continued to discuss the use of variable annuity captives. At the NAIC Center for Insurance Policy and Research's Regulation of Captives panel, panelists discussed the structure of VA captives. One panel relayed the concerns raised by the federal government as to the use of captives and noted that the Financial Stability Oversight Council's 2014 Annual Report identified variable annuity captive reinsurance transactions as priorities for state regulators to address. The Variable Annuities (E) Working Group (VAWG) was charged with addressing VA captives and received Oliver Wyman's report on why insurers engage in captive reinsurance transactions and ideas for improving the current AG43 and C3 Phase II Frameworks. Oliver Wyman was engaged to perform a quantitative impact study (QIS) to assess the efficacy and potential impact of its recommendations. In addition, the VAWG is seeking new disclosures in the financial statement blanks as to the valuation of the variable annuity and fixed annuity guarantees, how those guarantees can change in volatile market conditions, and how insurers manage those obligations.

Additionally, at the fall meeting, the Property and Casualty Insurance (C) Committee adopted the Casualty Actuarial and Statistical (C) Task Force's Price Optimization White Paper. The white paper seeks to provide information to state regulators on the potential benefits and drawbacks of using price optimization as states consider their regulatory responses to using price optimization in ratemaking. Finally, at the Market Regulation and Consumer Affairs (D) Committee meeting, Center for Economic Justice consumer representative Birny Birnbaum requested that the committee study insurer's use of big data as necessary to protect consumers. This request echoes similar requests Mr. Birnbaum made in the context of price optimization to the Casualty Actuarial and Statistical (C) Task Force.