

THIRDPARTY DATA AND MODEL TASK FORCE

Third Party Data and Models (H) Task Force Nov 18, 2024 Minutes

Third Party Data and Models (H) Task Force Sep 2024, Minutes (Attachment One)

Draft Pending Adoption

Draft: 11/27/24

Third-Party Data and Models (H) Task Force
Denver, Colorado
November 18, 2024

The Third-Party Data and Models (H) Task Force met in Denver, CO, Nov. 18, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair, and Anoush Brangaccio (FL); Lori K. Wing-Heier (AK); Mark Fowler represented by Richard Fiore (AL)

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use of third-party data and models, effective January 2024. Insurance companies are now required to include a description of how third-party data was used in rate making or underwriting, the name of the data vendor or source, a description of the data, such as a data dictionary, and a list of the rating variables and underwriting guidelines that reflect the use of that data. The requirements are similar for third-party models—filings must include a description of how the model output is used in setting rates and in underwriting, the name of the model vendor or source, the model name and version number, a description of the model, a description of the model input, and a list of the rating variables or underwriting guidelines that depend on that model's output.

Vigliaturo asked whether the framework for the TDI bulletin applies only to licensed third-party vendors or any third-party vendor. Byckovski responded that the bulletin holds regulated entities and agents responsible for faulty third-party data.

Commissioner Ommen asked whether filing entities include advisory organizations and entities other than the insurance companies. Byckovski responded that advisory organizations are expected to submit information on any third-party data used in the development of prospective loss costs or supplementary rating information, as well as any third-party models that might be blended into their supplementary rating information.

Darby reported that the Maine Bureau of Insurance (Bureau) has taken a similar approach to the TDI Bulletin. The Bureau is currently reviewing the TDI Bulletin and expects to issue a bulletin in the next few months. The Bureau is currently reviewing the TDI Bulletin and expects to issue a bulletin in the next few months.

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Dave Snyder (American Property Casualty Insurance Association—APCIA) expressed appreciation for Pennsylvania bringing forward the issue of regulating data and models provided by third parties. The APCIA has expressed concerns about unintended consequences for consumers, such as delaying binding, certain definitions in the draft rule, and the practicality of certain other elements of the rule. However, the APCIA looks forward to further discussions with the PID. In the meantime, the APCIA urges the Task Force to see what lessons can be learned from the PID.

Nick Krafft (New York State Department of Financial Services [DFS]) discussed Insurance Circular Letter No. 7 concerning the use of artificial intelligence (AI) and external data by insurers in their underwriting and pricing processes, which the New York DFS issued in July 2024. r9l.(f)2.7 (3r28 (a)-3.3 4/1 0 TC -5.5sw 0.)-1.6 (IA)0[.001 Tc 062 TTw 2.9

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Working Group

Draft: 10/15/24

Third-Party Data and Models (H) Task Force
Virtual Meeting
September 11, 2024

The Third-Party Data and Models (H) Task Force met Sept. 11, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair (FL); Lori K. Wing-Heier represented by Alex Romero (AK); Mark Fowler represented by Charles Hale (AL); Barbara D. Richardson (AZ); Ricardo Lara represented by Esteban Mendoza (CA); Andrew N. Mais represented by George Bradner (CT); Gordon I. Ito represented by Lance Hirano (HI); Doug Ommen (IA); Dean L. Cameron (ID); Vicki Schmidt represented by Julie Holmes (KS); Timothy J. Temple represented by Tom Travis (LA); Kevin P. Beagan represented by Jackie Horigan (MA); Marie Grant represented by Raymond Guzman (MD); Robert L. Carey represented by Sandra Darby (ME); Grace Arnold represented by Phil Vigliaturo (MN); Chlora Lindley-Myers represented by Cynthia Amann (MO); Jon Godfread represented by Ross Hartley (ND); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper represented by Gennady Stolyarov II (NV); Judith L. French represented by Matt Walsh (OH); Michael Humphreys (PA); Elizabeth Kelleher Dwyer (RI); Cassie Brown represented by J'ne Byckovski (TX); Kevin Gaffney (VT); and Nathan Houdek represented by Andrea Davenport (WI)., and stated that after his presentation, the

Task Force would have a brief discussion about its next steps.

2. Heard a Presentation from the EIOPA on the Supervisory Review and Requirements for Solvency II's Internal

Models

Hamer presented an overview of the European Union's (EU's) risk-based framework for insurance supervision, with a particular emphasis on data and models, and provided insights into the Solvency II framework and its implementation across EU member states.

the simplified lifecycle of an IM, which includes the initial application process, approval by
priorities, ongoing supervision and monitoring, management of changes to the model or risk profile,

responsibility for meeting all supervisory requirements, such that the use of third-party models or data does not exempt undertakings from internal model requirements. These undertakings must ensure that supervisors can discharge their duties over outsourced activities, including aspects of operational resilience, business continuity, and outsourcing management.

In the context of catastrophe modeling, many internal models incorporate intellectual property from specialized catastrophe model vendors. Some insurers obtain direct licenses and develop models to fit their specific risk profile, while others procure certain aspects of calculations as a service from third parties, such as brokers. Under the Solvency II framework, brokers and model vendor providers are considered part of the critical outsourcing chain. This classification extends supervisory powers to include rights for onsite inspections along the entire outsourcing chain. It also requires the development of exit plans to ensure orderly oversight of prudential supervision in case of changes in outsourcing arrangements.

Commissioner Conway then invited discussion and feedback from interested parties to help influence the development of a regulatory approach.

Having no further business, the Third-Party Data and Models (H) Task Force adjourned.

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