Draft date: 8/3/24

2024 Summer National Meeting
Chicago, Illinois

THIRD-P

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Michael Conway, Chair	Colorado	Kevin P. Beagan	Massachusetts
Michael Yaworsky, Vice Chair	Florida	Grace Arnold	Minnesota
Mark Fowler	Alabama	Chlora Lindley-Myers	Missouri
Lori K. Wing-Heier	Alaska	Scott Kipper	

C. Actuarial Statements of Actuarial Opinion —*Christian Citarella (NH); Rachel Hemphill (TX) and Miriam Fisk (TX)*
D. Market Conduct: Advisory Organization vs. Multistate Examinations—*Erica Weyhenmeyer (IL)*

3. Discuss Any Other Matters Brought Before the Task Force —*Commissioner Michael Conway (CO)*

4. Adjournment—*Commissioner Michael Conway (CO)*

Attachment K v
Third-Party Data and

The market conduct approach relies on judgment decisions throughout the process, whether by the analyst, supervisor, or other decision-maker. Market conduct regulators are encouraged to select the most appropriate, cost-efficient, timely, and least intrusive option. Consideration is given to the

Draft: 7/19/24

Third-Party Data and Models (H) Task Force
E-Vote
July 19, 2024

The Third-Party Data and Models (H) Task Force conducted an e-vote that concluded July 19, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Mark Fowler (AL); Lori K. Wing-Heier (AK); Barbara D. Richardson (AZ); Ricardo Lara represented by Esteban Mendoza (CA); Andrew N. Mais (CT); Dean L. Cameron (ID); Ann Gillespie (IL); Vicki Schmidt represented by Julie Holmes (KS); Kevin P. Beagan represented by Jackie Horigan (MA); Joy Y. Hachette represented by Mary Kwei (MD).

Draft: 7/24/2024

Third-Party Data and Models (H) Task Force
Virtual Meeting
July 10, 2024

The Third-Party Data and Models (H) Task Force met July 10, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair (FL); Mark Fowler and Charles Hale

Commissioner Conway said the breadth of the framework and whether to apply a risk-based approach will be part of the conversations and are inherently built into the questions that are in the work plan. He added that these will be topics in the next two meetings, as the Task Force will hear presentations on risk-based frameworks and how these frameworks may include regulators working together and/or with experts to make decisions.

Peter Ko

provided by a third-party model is used as input into an insurer's model. Bell said one third-party vendor files rate models directly in the System for Electronic Rates & Forms Filing (SERFF), while another third-party never submits a filing directly, rather, the insurer submits the third-party's model for approval for use by that individual insurer. Hale said the latter produces logistic problems. Commissioner Conway responded that Section B of the work plan may be broad enough to encompass those questions. He added that the intention was to keep the questions at a high level and then add questions or new items as they arise, especially as the framework is developed in 2025. He asked Commissioner Fowler to assess Section B after the meeting and submit any proposed modifications if more detail is needed.

Chou said insurers often spend 18 months in the development of one model, using an army of data scientists. He said the models are more complex and much more difficult to explain to stakeholders than what existed 30 years ago. He said the Task Force needs to evaluate the talent and resources available to the state. He said for rate models, states can rely on the NAIC Rate Model Review team for some assistance, but the resources still do not come close to the insurers' resources. He said the other issue is a need for consistency. He said catastrophe models are usually high severity, low frequency, and use simulation, while other rating models use more homogenous data and are low severity, high frequency. He summarized that modeling many years ago was simpler (e.g., Excel file), and the state had the resources for proper review; now, the modeling is much more complex, yet state resources (except for the addition of the NAIC rate model review team) have not changed.

Commissioner Conway said the Task Force will consider adoption of the work plan via email after allowing some time for Commissioner Fowler to decide whether to submit any proposed changes.

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

SharePoint/NAIC Support Staff Hub/Committees/H CMTE/2024_Summer/TF/3rdParty/Minutes_3rdPartyDMTF 7.10.24.docx

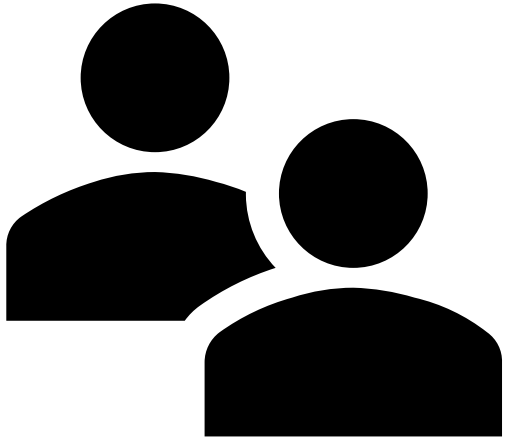
The structure and processes of the FCHLPM are designed to protect the proprietary intellectual property of the CAT models. A team of experts representing each of the scientific disciplines conducts on-site audits. In 2005, the Florida legislature passed a law exempting the FCHLPM from Florida public records and public meetings laws for trade secret information. The FCHLPM has authorized a team of professional experts to travel to Florida to review and evaluate the models for compliance with the standards. The FCHLPM reviews each model independently and

MISSIONERS

Audit/Assurance Requirements

- Annual Financial Reporting Model Regulation (NAIC #205) requires:
  - Annual submission of financial statements audited by a qualified CPA firm
  - Reporting on the effectiveness of internal controls
    - Requirement dependent on company size (i.e., annual premium volume)
  - Establishment of an audit committee and internal audit function
    - Requirements dependent on company size (i.e., annual premium volume)
- Audits based on statutory accounting rules promulgated by the NAIC
  - Other comprehensive basis of accounting recognized by AICPA
- CPA firm conducting the annual audit required to provide access to full audi t workpapers to financial examiners
  - Workpapers utilized to gain efficiencies in conducting financial examinations

Questions



Antitrust Notice

- This meeting is for the purpose of promoting a general exchange of information pertinent to reporting and regulatory issues which affect the insurance industry. It is not intended to be a forum for the discussion of specific company issues or results, nor for the exchange of information related to any company's pricing, underwriting, reserving, claims development or similar issues which could impact competition among the participating companies. The statements in this presentation are our own and do not reflect opinions of either department of insurance.

- Generally, the U.S. antitrust laws prohibit anticompetitive agreements among competitors concerning price and other terms and conditions of competition, including agreements between competitors to engage in price-fixing, bid-rigging and customer or market allocation, and group boycotts. In particular, the discussion of competitively sensitive subjects, such as comments about current pricing or future pricing plans or about decisions to participate or not participate in certain markets, might be interpreted as evidence of an anticompetitive objective, even though the intent of the parties was entirely legitimate. Accordingly, all participants at this meeting shall exercise due care in order to avoid inadvertent discussion of competitively sensitive topics and potentially ambiguous statements.

Agenda

1. Recent Updates – CAT Models by Peril
   a. Maturity - EQ & Hurricane
   b. Evolving – Wildfire & SCS
   c. Flood Model
2. CAT Model Regulation
   a. RBC and Financial Solvency
   b. Rate Regulation - ASOP 39
   c. CAT vs. GLM – Roofing/Overhanging
3. Independent Model Review – RBC Instruction

Regulatory Policy – DOI Perspective

As the NAIC puts it, “The public wants two things from insurance regulators:
They want solvent insurers who are financially able to make good on the promises they have made, and
they want insurers to treat policyholders and claimants fairly.
All regulatory functions will fall under either solvency regulation or market regulation to meet these two objectives.”

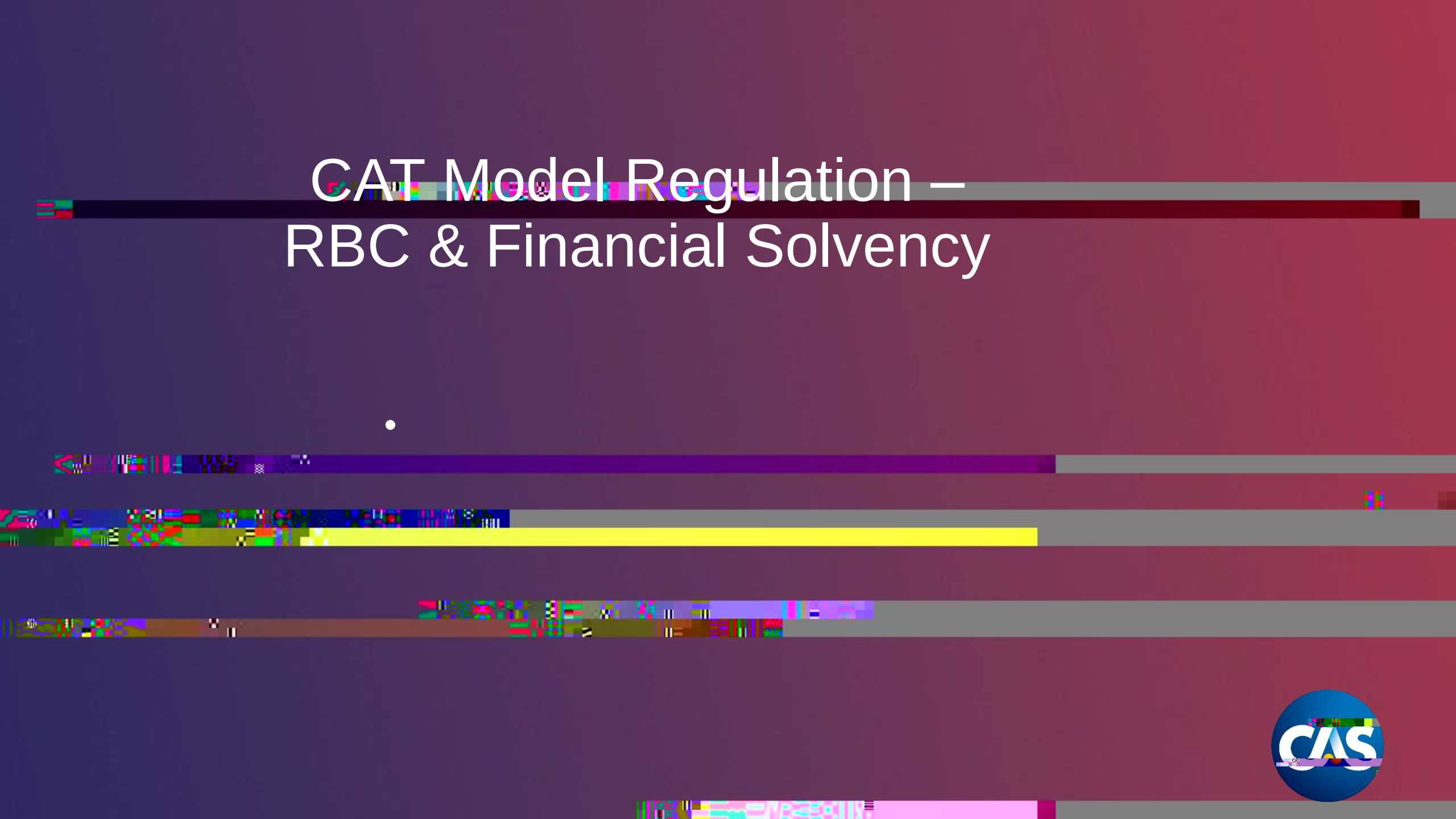
Recent Updates – CAT Models by Peril
EQ & Hurricane

- Hurricane Andrew – 1992
- Maturity
- FL Hurricane Commission

Recent Updates – CAT Models by Peril
Emerging Perils

- Wildfire – Informational Only
- Severe Convective Storms
- Flood Insurance Markets

CAT Model Regulation – RBC & Financial Solvency



CAT Model Regulation – Rate Filings and CAT Loads

- CAT Model Considerations
  - ASOP 39
  - Historical Data
  - CAT Models Evaluation

CAT Model Regulation – CAT vs. GLM Challenges

- CAT Models & Catastrophes
  - Low Frequency and High Severity
  - Data Governance and Model Application
- Predictive Models & AI
  - High Frequency and Low Severity

Independent Model Review

Questions?

What is a Statement of Actuarial Opinion?

- Statement of Actuarial Opinion: The opinion of an appointed actuary regarding the adequacy of reserves, required annually, included with the Annual Statement
- Opinion requirements:
  - Life, A&H, or Fraternal: VM-30 Section 3.A
  - P&C: Annual statement instructions
  - Title: Annual statement instructions
  - Health: Annual statement instructions

Opinion – Related Reports/Filings

- Life
  - Actuarial Memorandum:

What is an Appointed Actuary? (Life)

As defined in Valuation Manual VM-01, an appointed actuary means a qualified actuary who:

- Is appointed by the board of directors, or its equivalent, or by a committee of the board, by Dec. 31 of the calendar year for which the opinion is rendered.
- Is a member of the Academy.
- Is familiar with the valuation requirements applicable to life and health insurance.
- Has not been found by the insurance commissioner (or if so found has subsequently been reinstated as a qualified actuary) following appropriate notice and hearing to have:
  -

What is a Qualified Actuary? (Life)

The term “qualified actuary” means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the Academy qualification standards for actuaries signing such statements and who meets the requirements specified in the Valuation Manual. (Standard Valuation Law (SVL)/Model #820 definition.)

What is an Appointed Actuary? (P&C)

- “Appointed Actuary” is a Qualified Actuary (or individual otherwise approved by the domiciliary commissioner) appointed by the Board of Directors
-

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Actuarial Professional Standards

- The appointed actuary must follow Actuarial Standards of Practice (ASOPs)
- Credentialed actuaries are subject to the Academy's Actuarial Board for Counseling and Discipline (ABCD), which oversees adherence to ASOPs and the actuarial code of professional conduct.

Valuation Manual, VM-30 Section 1.A.3:

> The AOM requirements shall be applied in a manner that allows the appointed actuary to use his or her professional judgment in performing the actuarial analysis and developing the actuarial opinion and supporting actuarial memoranda, conforming to relevant ASOPs

P&C Opinion instructions, paragraph 1:

> The Actuarial Opinion and the supporting Actuarial Report and workpapers should be consistent with the appropriate ASOPs , including, but not limited to, ASOP No. 23, ASOP No. 36, ASOP No. 41 and ASOP No. 43, as

Key ASOPs

Certain ASOPs include further requirements for what the actuary must do and/or disclose.

- Life:
  - ASOP 22, Statements of Actuarial Opinion Based on Asset Adequacy Analysis for Life Insurance, Annuity, or Health Insurance Reserves and Other Liabilities
- P&C:
  - ASOP 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves
  - ASOP 43, Property/Casualty Unpaid Claim Estimates

Required Disclosures, ASOP 22 (Life)

Required Disclosures, ASOP 36 and 43 (P&C

Opinion (ASOP 36)

- the materiality standard and its basis
- whether there are significant risks and uncertainties that could result in material adverse deviation and the quantitative and qualitative factors underlying risks and uncertainties that the actuary considered when assessing the risk of material adverse deviation;
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Commissioner Methods/Assumptions (Life)

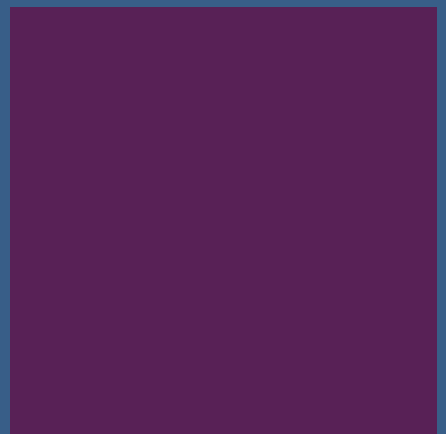
The commissioner may specify methods of analysis and assumptions where they deem necessary for an acceptable opinion.

Valuation Manual, VM30 Section 3

“However, a

Commissioner May Engage New Actuary (Life

Further, the commissioner may engage a new actuary at the company's expense, where a memorandum is not provided or the commissioner determines the memorandum is unacceptable.



The Working Group's Main Purpose:

THE ADVISORY ORGANIZATION (D) WORKING GROUP'S PURPOSE AND CURRENT CHARGES ARE FOCUSED ON THE EXAMINATION OF LICENSED NATIONAL ADVISORY ORGANIZATIONS.

FINALIZING AN EXAM

WHAT IS AN ADVISORY ORGANIZATION?

MARKET ACTIONS (D) WORKING GROUP

Multistate Examinations/Collaborative Actions:

- ™Issues of potential multi-jurisdictional impact may be identified in a number of ways including but not limited to:
  - ™ Individual state market analysis processes.
  - ™ Results of individual states' exams.
  - ™ MAWG National Analysis and MCAS Outlier processes.
  - ™ Commissioner -level concern formally communicated to the Market Regulation and Consumer Affairs (D) Committee or NAIC staff.
- ™When a regulator believes an issue impacts multiple jurisdictions, that regulator completes a Request for Review (RFR).
- ™MAWG members vote on the RFR for Multi-state examination.
  - ™A Managing Lead State volunteers to take overall responsibility for facilitating communication and coordinating activities.
  - ™States have the choice to sign on as a supporting Lead State or a as a participating state.

QUESTIONS?

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Rebecca Nichols –Vice Chair

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