

Date: December 2, 2021

To: All NAIC Members and Interested Parties

From: Dean Cameron, Idaho Director of Insurance and 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 2022 NAIC Budget

In response to the Executive (EX) Committee's and Internal Administration (EX1) Subcommittee's request for comment on the NAIC's proposed 2022 budget, the NAIC received one comment letter on the proposed budget after it was released for public comment on October 27, 2021, from the National Association of Mutual Insurance Companies (NAMIC) (Attachment One). This memorandum summarizes the letter's comments and includes the NAIC's response to each comment.

A Public Hearing will be held December 7th to discuss these comments. Participation instructions for public hearing teleconference can be accessed at http://www.naic.org/about_budget.htm.

NAIC's Commitment to Innovation, Cybersecurity, and Technology

1. NAMIC noted the NAIC is focused on providing support to its members by modernizing its tools and systems by the largely implemented State Ahead initiatives and the focus on establishing State Ahead 2.0. NAMIC also noted approximately 50 percent of the NAIC's staff is in information technology or technical services with a request for two additional staff members for the cybersecurity team. NAMIC agreed that protection of the sensitive data collected from states and industry participants is a high priority.

NAIC Response: The NAIC appreciates NAMIC's support of the NAIC's focus on continuing to provide outstanding service to state regulators by updating its tools and systems in a thoughtful and systematic manner. The two new cybersecurity positions as well as two technology-related fiscals – one to expand the NAIC's State Based Systems platform to several new states and the other to lay the groundwork to modernize the Financial Data Repository system – are examples of the NAIC's commitment to make prudent investments in technology that are of benefit to state-based insurance regulation. The NAIC will continue to make additional investments in its systems over the coming years to ensure the systems provide a high level of value to regulators, industry and consumers in a secure manner.

Consider Initiatives that Streamline Existing Regulatory Tools

2. NAMIC highlighted NAIC's history of developing long-lasting model regulation and guidance with flexibility to be modified in response to changes in the insurance regulatory environment. NAMIC cited several instances of guidance brought forth decades before that have stood the test of time. However, NAMIC would like the NAIC to undertake an independent study to audit the current state of insurance regulations to identify opportunities to eliminate redundancies, resolve conflicting guidance, and gain efficiencies. The organization would also like the NAIC to consider making such a review an ongoing process. The reorganization of the Financial Analysis Handbook and Financial Condition Examiners Handbook, brought about from a systemic review of the pertinent regulation by the Risk-Focused Surveillance (E) Working Group between 2014 and 2018 was given as a positive example.

NAIC Response: NAMIC rightly notes that many companies are taking the opportunity, post-pandemic, to review their operations to determine the best path forward to doing business. The NAIC has begun its own review of internal operations, looking to preserve what worked well before the pandemic when staff worked collaboratively in the office and combine it with efficiencies gained during the pandemic as staff and regulators worked remotely. Turning attention to NAMIC's recommendation of an independent review of NAIC model laws and guidance, along with a methodology for ongoing evaluation as new model laws and guidance are considered and adopted, would fit well with the plans to develop State Ahead 2.0 in 2022.

Embrace Collaborative Work to Promote Transparency and Create Efficiencies

3. NAMIC recognizes the significant value provided by the NAIC to its members by providing an organized and coordinated approach to the many challenges that occurred during the pandemic. However, NAMIC cautions the NAIC to continue to be collaborative and transparent as it seeks to address difficult and sensitive subjects, especially those that could be considered outside the bounds of insurance supervision. The organization asks the NAIC and the members to give all parties – including stakeholders such as NAMIC – the opportunity to participate in a meaningful way. One such way would be for the association to perform analysis exercises more frequently in joint sessions, with the goal of creating efficiencies.

NAIC Response: The NAIC values NAMIC's thoughtful recommendation to work collaboratively, thereby promoting better transparency, developing deeper expertise, and utilizing regulators, industry, and staff more efficiently. The NAIC strives for transparency in its operations, budget process, and regulatory activities. Working collaboratively with stakeholders has long been a focus of the NAIC as well. One of the pillars of the State Ahead strategic plan was to put into place resources supporting a collaborative regulatory environment that fosters stable financial markets and reliable and affordable insurance products. As the members work in 2022 toward developing the next phase of the NAIC's long-term strategic plan, State Ahead 2.0, NAMIC's recommendation will be taken into account as collaboration and transparency continue to a high priority to the membership.

Concluding Comments

The NAIC takes a holistic approach to the development of its annual budget, which involves input from NAIC staff, NAIC officers, the Executive Committee, and all of the NAIC's members. To provide transparency to the public, the NAIC publishes a copy of its proposed budget on its website before the budget is approved and welcomes input and comments from interested parties, which are addressed in writing and in an open Public Hearing. This process ensures that 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, while minimizing the impact to industry where possible. The NAIC continuously seeks opportunities to reduce operating costs while providing world-class support to its members, regulators, interested parties, and insurance customers.



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November 19, 2021

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Re: NAMIC Comments – Proposed 2022 NAIC Budget

Dear Mr. Woody:

On behalf of the National Association of Mutual Insurance Companies (NAMIC),¹ thank you for the opportunity to provide comments regarding the Proposed 2022 NAIC Budget. NAMIC is a long supporter of the NAIC in its efforts to develop regulatory tools and guidance, as well as to develop model regulations that promote a strong and stable state-based regulatory system. Our comments today focus on three central themes that harmonize around the notion that a focused state-based regulatory system remains the best path toward regulatory modernization. Those themes include: (1) support for NAIC's commitment to innovation, cybersecurity, and technology; (2) consideration of initiatives that streamline existing regulatory tools; and (3) collaboration to promote transparency and create efficiencies.

Innovation, Cybersecurity, and Technology

All stakeholders have a responsibility to be good stewards of data governance. NAMIC commends the NAIC for their commitment in this area. As demonstrated by the largely implemented State Ahead initiatives and the additional investments that establish State Ahead 2.0, the NAIC is demonstrating their responsibility to support the states through the modernization of tools and technology to advance state insurance regulation. As noted in the budget, approximately 50% of NAIC staff is in the information technology group or in technical services, and two new cybersecurity full-time positions will be added to that count going forward. NAMIC shares the NAIC's view in making the protection of the sensitive data they collect from states and industry participants a high priority.

¹ The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of more than 1,500 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market. Through our advocacy programs NAMIC promotes 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.



In addition to the investments in State Ahead 2.0 and the addition of two new IT professionals, two technology-based fiscals are being proposed in the 2022 budget. This includes the modernization of the data collection tool that stores annual and quarterly financial statements and is leveraged by state financial analysts to conduct solvency reviews. This also includes significant investments in the State-Based System (SBS) to expand and transition to a new platform to improve the regulatory processes resulting in cost-savings for the states. NAMIC appreciates the support the NAIC provides to the states and continuous efforts to keep its systems and technology modernized for the future.

Consider Initiatives That Streamline Existing Regulatory Tools

The NAIC has an established track record for developing long-lasting model regulation and guidance. For example, the early stages of the development of the Insurance Holding Company System Regulatory Act dates back to 1966, and yet it was recently amended to incorporate the Group Capital Calculation in 2020. The Risk-Based Capital formula established its roots nearly 30 years ago and codification of statutory accounting was now 20 years ago. And while these regulations and guidance have stood the test of time, it is because the system that supports it is adaptable enough to continuously tweak, amend, and add to the regulations to respond to an evolving insurance regulatory environment.

However, what often gets overlooked when new regulations come online is a robust evaluation of what they are replacing or trying to improve upon. This results in years and layers of regulations piling-on top of other antiquated regulations. It is critical to regularly and systematically consider and eliminate the areas that have become redundant and/or conflicting with new or existing regulations. Not only could efficiencies be gained by going back to evaluate this situation, but a **process should be put in place to consider the question of duplication/inconsistency as a matter of course**. A concrete example of the NAIC systematically addressing redundancy in regulation occurred recently over a four-year time (2014-2018) when the Risk-Focused Surveillance (E) Working Group adopted a charge to “review existing examination and analysis procedures to identify and eliminate redundant efforts in collecting and reviewing insurer information for solvency monitoring purposes.” The result of this charge was a complete reorganization of the Financial Analysis Handbook and significant changes to the Financial Condition Examiners Handbook. The clarity gained through this deliberate process benefits regulators and insurers alike.

While we have certainly come a long way since the NAIC embarked upon the Solvency Modernization Initiative back in 2008; in fact, the aforementioned Holding Company Act has undergone three separate and significant amendment processes in that time, but what has not occurred in that time is a pause to take stock of everything that has changed. Again, NAMIC thinks now would be that appropriate time, given companies, regulators, and consumers are all currently doing a similar exercise themselves. Companies are looking throughout their operations at how they are going to do business going forward in a post-pandemic world. Regulators too are trying to navigate how best to do their jobs in an increasingly remote and technologically advanced world. Consumers as well are evaluating their choices and figuring out what they value, and we all know consumer demands are constantly evolving. Therefore, **NAMIC suggests the NAIC embark upon a similar initiative as SMI where all NAIC model acts, regulations, workstreams and guidance manuals are independently surveyed and reviewed**



to determine their utility and to promote regulatory efficiency as we navigate together the next set of challenges on the horizon.

Our members would certainly appreciate an effort to look at all the good work that the NAIC has accomplished over the years and juxtapose that against where we have come from. An audit of what was trying to be solved back then versus what has been implemented since, such as ORSA, CGAD, MAR, GCC, group supervision, etc. and include an assessment of what was accomplished and what could have been done differently. The NAIC has an opportunity, as it has amassed significant resources since the adoption of these tools. Understanding that the NAIC has an outsized liquid operating reserve that exceeds the recommended range, NAMIC thinks it would be prudent to use the savings (from the reduced spending due to the pandemic) to conduct an independent study. It would be a prudent use of the significant reserves amassed and an investment in a more cohesive and understandable set of regulatory tools for the next generation.

Embrace Collaborative Work to Promote Transparency and Create Efficiencies

The NAIC certainly demonstrated its value throughout the pandemic, as we witnessed the association respond with the urgency and agility that was needed. NAMIC members appreciated how organized and coordinated the NAIC and its members were. NAIC Immediate Past President, Director Ray Farmer, often said about his year as NAIC President, “2020 has not been the year we planned, but it is the year we got.” This epitomizes how adaptive the NAIC has become. As we have all learned, it is entirely impossible to foresee every challenge or obstacle around the corner.

NAMIC respectfully shares a note of caution, particularly as the NAIC ventures into conversations that include difficult and sensitive subjects outside the bounds of insurance supervision. **It is important for the NAIC to maintain the ability to be nimble while at the same time intentionally embracing a collaborative spirit and robust transparency.** NAMIC encourages the NAIC and its members to work together to find common ground and to be as inclusive as possible – including with stakeholders – to give everyone an opportunity to participate meaningfully.

Again, as we move toward a post-pandemic world, it presents a unique opportunity for organizations to take stock of where they are going. Given the speed the NAIC has grown in recent years, **analysis exercises should be more frequent and aimed at looking to create efficiencies.** The NAIC has committed itself in years past to restructuring and/or reducing the number of subgroups, working groups, and task forces. On the other hand, with each new evolving risk seems to come more specialized and technical groups producing an environment that creates silos, potentially resulting in inefficient methods to solving common problems. These barriers can be overcome through a more collaborative effort, one that brings together various groups to solve common problems. By combining certain groups or conducting business in joint sessions, for example, this can result in better transparency, development of deeper expertise, and more efficient use of regulators, industry, and NAIC staff time. Further, new issues eventually mature and short-term ad hoc efforts accomplish their discrete purposes. While as new issues emerge, there may be a need for a limited deep dive on an aspect of an issue, after some initial understanding is gained, it may be worth asking whether less splintering of attention and more focused effectiveness may be achieved by consolidating and or sunseting such narrow efforts.



www.namic.org

Conclusion

As always NAMIC appreciates the opportunity to provide comments on the NAIC's proposed budget. Being a strong supporter of the state-based system of insurance regulation, our intent is not to be critical but rather to offer constructive ideas, because NAMIC values the mission of the NAIC. NAMIC believes the NAIC is positioned very well and has an opportunity to make progress in a number of areas. NAMIC supports the commitments made to innovation, cybersecurity, and technology, and encourages NAIC leadership to consider streamlining existing regulatory tools and to embrace a more collaborative and transparent work environment.

Thank you for your consideration of these comments on this matter of importance to insurers and policyholders. NAMIC looks forward to the responses and discussions during the coming year.

A handwritten signature in black ink that reads "Jonathan Rodgers".

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies