



Fiscal Impact Statement

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| DATE SUBMITTED: | MARCH 1, 2021 |
| NAME OF INITIATIVE: | P/C RATE MODEL REVIEW STAFFING RESOURCES |
| REGULATOR/BUSINESS SPONSOR: | INTERNAL ADMINISTRATION (EX1) SUBCOMMITTEE |
| NAIC STAFF SUPPORT: | KRIS DEFRAIN, STATISTICAL AND ACTUARIAL SERVICES DIRECTOR |
| REQUESTED INITIATIVE START DATE: | JULY 1, 2021 |
| ANTICIPATED COMPLETION DATE: | ONGOING |
| TOTAL REVENUE EXPECTED (2021): | \$0 |
| (2022): | \$0 |
| TOTAL EXPENSE REQUESTED (2021): | \$167,999 |
| (2022): | \$339,678 |
| TOTAL CAPITAL REQUESTED (2021): | \$0 |
| (2022): | \$0 |

I. Executive Summary:

In early 2018, the NAIC Executive Committee adopted the recommendation of the Big Data (EX) Working Group requesting NAIC staff to take the following actions in support of state insurance regulators in the review of Property/Casualty (P/C) rate filings based on complex models:

1. Develop a training program for state insurance regulators to enhance their understanding and skills regarding the review of P/C rate filings based on complex models;
2. Set up a confidential shared database for state insurance regulators to share information about P/C rate filings/models; and
3. Provide technical assistance to individual state insurance departments in reviewing P/C rate filing models.

All three of the above charges have now been implemented and remain ongoing, as set forth below:

- With the assistance of an outside consultant retained by the NAIC, a multi-level training program has been developed and implemented for state insurance regulators.
- A Rate Review Support Services Agreement has been put in place to enable state insurance departments to (i) gain access to a shared database and (ii) request a rate filing model technical review from the NAIC. The Agreement includes confidentiality requirements.
- A confidential shared database has been created for state insurance regulators to use in sharing information about P/C rate filings/models.
- With the assistance of the outside consultant, a rate model technical review process has been developed and is being used by NAIC staff to support state insurance regulators.
- A P/C Rate Modeling Actuary was hired by the NAIC in mid-2020.

The NAIC currently has one FTE (P/C rate modeling actuary) and an outside consultant to provide technical reviews of rate filing models, and manage the shared database and regulator training program. When possible, these internal resources are supplemented by other existing NAIC actuary resources (Kris DeFrain and Eric King), but this support is limited due to existing workloads. NAIC senior management recognized at some point there would most likely be a need to begin adding internal subject matter expertise to help support the technical review process, the shared database, and the training program. Not knowing how many state insurance departments would initially utilize the NAIC's assistance regarding the technical review of P/C rate models, NAIC senior management opted to start with a small number of resources and then gradually increase internal resources as demand increased.

There are now 28 state insurance departments that have signed on to the Rate Review Support Services Agreement. Since mid-2020, the NAIC team, with assistance of the outside consultant, has reviewed 31 rate filings from 9 states. Each review generally takes up to two weeks to complete the initial review, with additional time required to conduct re-reviews (Note: state insurance department generally go through two to three rounds of objections, each of which involving company responses). The volume of requests has been steadily increasing, from five in the third quarter 2020 to 12 in the first quarter 2021, and it is anticipated this number will continue to grow as more states begin using the NAIC's review process. While most states would like the reviews turned around as quickly as possible, current NAIC staff capacity makes it difficult to keep up with demand in a timely manner. Moreover, there are currently an additional six states that are considering signing on to the Rate Review Support Services Agreement. Once signed on, it is anticipated these new states will further add to the increasing demand and strain staff capacity.

To handle the increase in technical model review requests and to support the training program and P/C modeling database, this fiscal requests funding for two full-time employees (FTEs) as follows:

- Actuarial Analyst – the analyst will perform the following responsibilities:
 - Retrieve pipeline documents and spreadsheet files
 - Create common directories for the team to access documents
 - Post documents to the shared model database
 - Carry out first-level review of filings against an appropriate technical checklist
 - Identify items overlooked from a pre-determined checklist
 - Construct an initial assessment draft report based on checklist items
- P/C Rate Modeling Actuary – the actuary will perform the following responsibilities:
 - Review initial assessment draft reports and actuarial content

- Identify actuarial content provided by the companies and comment on relevance to filings
- Draft technical reports
- Review companies' responses to objections for completeness against NAIC Technical Report Guidelines
- Identify any additional follow-up objections
- Complete final reports once all objections have a satisfactory response
- Participate in team peer reviews of work product
- Review modeling techniques to expand knowledge

It should also be noted once the two new FTEs are in place, they would replace the need for the current outside consultant. Additionally, although the focus is on P/C rating models at this time, membership may eventually expand the reviews to other P/C non-rating models (e.g., claims, fraud detection, marketing) and/or to other lines of business. This proposal does not include such an expansion, and additional resources may be requested in the event of such expansion.

II. Key Deliverables:

To ensure the NAIC's ability to keep pace with the demand for the P/C rating model reviews, it is necessary to hire the two positions as soon as possible in 2021. The hiring process is expected to begin following approval of the fiscal, with the positions on board no later than August 2021.

The hiring of these positions will allow the NAIC to terminate its reliance on an outside consultant, even while increasing the number of rate reviews from six per month to 14 per month. Ensuring the Rate Model Team is appropriately staffed will provide a greater number of reviews, which will benefit both the regulatory process and insurance companies having their products reviewed, which in turn improves product speed to market. Consumers would benefit from having a thorough review of the statistically technical models to determine any unfair discrimination or invalid modeling assumptions or processes.

III. Financial and Organizational Impact:

The total cost of the two Rate Model Team positions in 2021 is estimated to be \$167,999 in the following categories:

- Staff cost (salaries and benefits): Both positions are budgeted to start in July 2021, resulting in total staff costs of \$159,897 in 2021, with a full year of salaries and benefits to begin in 2022 at \$334,678.
- Professional training and dues: Given the expertise required by these positions, it is expected they will require ongoing professional training and will incur professional membership dues of \$5,000 each year.
- Phone and computer: With the assumption the NAIC's Central Office will enter its third phase of the reopening within the second half of 2021, both positions will require a phone as well as computer equipment to access the NAIC's systems, resulting in a one-time cost of \$3,102.
- Once both of the new FTEs are in place, the NAIC anticipates no longer needing the services of an outside consultant, thereby saving the NAIC approximately \$20,000 per month in consultant fees.

See **Attachment I** for the financial impact details.

IV. Risk Management Plan:

Until the positions have been hired, the Rate Model team will continue to utilize consultant(s) to assist with the rate model review. Even with consultants, there is a risk of not being able to assist regulators with rate reviews if resources are unavailable at the time of request.

There is also a risk that qualified candidates may be hard to find over the next few months. This risk will be mitigated by working with a consultant and allowing telecommuting for the two positions, thus broadening the candidate marketplace. In the event hiring takes longer than anticipated, consulting expenses will continue to be incurred, to ensure reviews continue to happen.

V. Security Impact:

These positions will need to maintain confidentiality of SERFF documents and companies' rate models. As such, they will be subject to the NAIC's confidentiality requirements. Otherwise, no security system risks are incurred with this request.

2021 Budget

P/C Rate Model Review Staffing Resources
Project Cost Analysis

Anticipated Start Date: July 2021
Anticipated Completion Date: Ongoing

| Description | 2021 Total | 2022 Budget | 2023 Budget |
|---------------------------------------|--------------------|--------------------|--------------------|
| Revenues: | | | |
| Total Revenues | 0 | 0 | 0 |
| Expenses: | | | |
| Salary and Benefits | 159,897 | 334,678 | 347,808 |
| Telephone/computer equipment | 3,102 | 0 | 0 |
| Professional training/certifications | 5,000 | 5,000 | 5,000 |
| Total Expenses | 167,999 | 339,678 | 352,808 |
| Revenues Over (Under) Expenses | (\$167,999) | (\$339,678) | (\$352,808) |