

Draft date: 11/13/2024

2024 Fall National Meeting  
Denver, Colorado

**THIRD-PARTY DATA AND MODELS (H) TASK FORCE**

Monday, November 18, 2024

2:30 – 3:30 p.m.

Gaylord Rockies Hotel—Aurora Ballroom B—Level 2

**ROLL CALL**

Michael Conway, Chair	Colorado	Michael T. Caljouw	Massachusetts
Michael Yaworsky, Vice Chair	Florida	Grace Arnold	Minnesota
Mark Fowler	Alabama	Chlora Lindley-Myers	Missouri
Lori K. Wing-Heier	Alaska	Scott Kipper	Nevada
Barbara D. Richardson	Arizona	D.J. Bettencourt	New Hampshire
Ricardo Lara	California	Adrienne A. Harris	New York
Andrew N. Mais	Connecticut	Jon Godfread	North Dakota
Gordon I. Ito	Hawaii	Judith L. French	Ohio
Dean L. Cameron	Idaho	Michael Humphreys	Pennsylvania
Ann Gillespie	Illinois	Elizabeth Kelleher Dwyer	Rhode Island
Doug Ommen	Iowa	Michael Wise	South Carolina
Vicki Schmidt	Kansas	Cassie Brown	Texas
Timothy J. Temple	Louisiana	Kevin Gaffney	Vermont
Robert L. Carey	Maine	Nathan Houdek	Wisconsin
Marie Grant	Maryland		

NAIC Support Staff: Kris DeFrain/Scott Sobel

**AGENDA**

1. Consider Adoption of its Sept. 11 and Summer National Meeting Minutes—*Commissioner Michael Conway (CO)* Attachment One
2. Hear Current State Solutions to Regulatory Issues with Third Parties —*Commissioner Michael Conway (CO)* Attachment Two
3. Hear a Presentation from the National Association of Mutual Insurance Companies (NAMIC) — *Lindsey Klarkowski (NAMIC)* Attachment Three
4. Discuss its Next Steps—*Commissioner Michael Conway (CO)*



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

Draft: 9/13/24

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

Third-Party Data and Models (H) Taks Force met Sept. 11, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair (FL); Mark Fowler represented by Charles Hale (AL); Lori K. Wing-Heier represented by Alex Romero (AK); 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); Joy Y. Hachette 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).

1. Heard Opening Comments

Commissioner Conway stated that the Task Force is continuing to have discussions about different regulatory models from which components could be incorporated into a regulatory structure for third parties pending whether the Task Force chooses to move in that direction. Conway then introduced the speaker, Christopher Hamer (EIOPA), and stated that after his presentation the Task Force will have a brief discussion about the next steps

2. Heard a Presentation about the Supervisory Review of and Requirements for Solvency II's Internal Models

Christopher Hamer (EIOPA) presented an overview of the European Union'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 Solvency II framework offers insurers two options for calculating their capital requirements: a standard formula or an Internal Model (IM). The choice of an Internal Model is subject to regulatory approval, requiring insurers to meet specific legal requirements to ensure adequate risk calculation. The European Insurance and Occupational Pensions Authority (EIOPA) plays a crucial role in this process, providing technical assistance and mediation if disagreements arise. At present, the Internal Model market in the EU is substantial, with 33 Group IMs and 147 Solo IMs across 19 NCAs, representing 53% of the market share, highlighting the widespread adoption of sophisticated risk modeling practices in the European insurance industry.

Hamer outlined the simplified lifecycle of an Internal Model, which includes the initial application process, approval by supervisory authorities, ongoing supervision and monitoring, management of changes to the model or risk profile, and continuous assessment of the model's appropriateness through validation and use testing. He pointed out that EIOPA's role extends beyond just regulatory oversight, also serving as a center of excellence for catastrophe modeling and data, providing crucial resources to European supervisors and insurers, including offering expertise and conducting studies, developing tools and data sets, enabling effective assessment, monitoring, and supervision of catastrophe risks, improving public awareness of catastrophe-related risks, and addressing the insurance protection gap. Regarding the regulation of third-party and vendor models, European supervisors are responsible for overseeing the full value chain, business model, and risk profile of insurers, who retain full 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 cat 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 way to build up a regulatory approach.

### 3. Other Matters Brought Before the Task Force

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

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## Draft Pending Adoption

Draft: 8/22/2024

Third-Party Data and Models (H) Task Force  
Chicago, Illinois  
August 13, 2024

The Third-Party Data and Models (H) Task Force met in Chicago, IL, Aug. 13. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair (FL); Lori K. Wing-Heier represented by Chelsy Maller (AK); Barbara D. Richardson (AZ); Ricardo Lara represented by Esteban Mendoza and Ken Allen (CA); Andrew N. Mais represented by George Bradner and Wanchin Chou (CT); Gordon I. Ito (HI); Doug Ommen represented by Jordan Esbrook (IA); Dean L. Cameron represented by Weston Trexler (ID); Ann Gillespie represented by Erica Weyhenmeyer (IL); Vicki Schmidt represented by Julie Holmes (KS); Timothy J. Temple represented by Tom Travis (LA); Kevin P. Beagan represented by Jackie Horigan (MA); Joy Y. Hatchette represented by Nour Benchaaboun (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 Colton Schulz (ND); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper represented by Brandon Rocchio and Gennady Stolyarov (NV); Adrienne A. Harris represented by Wayne Longmore (NY); Judith L. French represented by Tom Botsko and Matt Walsh (OH); Michael Humphreys represented by Jodi Frantz (PA); Elizabeth Kelleher Dwyer represented by Matt Gendron (RI); Michael Wise represented by Melissa Manning (SC); Cassie Brown represented by J'ne Byckovski, Rachel Hemphill, and Miriam Fisk (TX); Kevin Gaffney and Rosemary Raszka (VT); and Nathan Houdek represented by Andrea Davenport and Amy Malm (WI).

### 1. Adopted its July 30, July 19, July 10, and Spring National Meeting Minutes

Commissioner Conway said the Task Force met July 30 and July 10. The Task Force also conducted an e-vote that concluded July 19 to adopt its 2024–2025 work plan.

Commissioner Richardson made a motion, seconded by Trexler, to adopt the Task Force's July 30 (Attachment One); July 19 (Attachment Two); July 10 (Attachment Three); and Spring National Meeting (*see NAIC Proceedings – Spring 2024, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

### 2. Heard Presentations on Regulatory Decision-Making and the Use of Experts

Commissioner Conway stated the presentations are a continuation of the Task Force's discussion about potential risk-based approaches. Conway expressed his desire to hear industry and consumer perspectives, in addition to the regulatory perspectives heard thus far, and invited those who want to present to the Task Force to contact him.

#### A. Financial: Multistate Exams, Group Exams, and Audits

Malm presented on financial multistate exams, group exams, and audits. She said state coordination includes exams that are led by the domestic state. A coordination framework is in place for group exams. She contrasted that to market conduct exams, which are typically led by each licensed state and some coordination, where deemed appropriate.

She said in a financial group exam, a lead state is selected based on numerous parameters, such as premium volume or location. Other states participate if their legal entity is part of the group. The group exams are found to be efficient by state insurance regulators and insurers. She said regulators rely on experts to audit insurance companies. Insurers, with some exemptions for small companies, are required to have an independent audit. She said the auditor's report is used in financial exams too.

## Draft Pending Adoption

### B. Financial: P/C RBC CAT Approvals

Botsko and Chou presented on property/casualty (P/C) risk-based capital (RBC) catastrophe (CAT) approvals. Chou said recent updates in P/C RBC includes earthquake and hurricane charges. Wildfire and severe connective storms models are evolving, and use of a flood model is being discussed. The Property and Casualty Risk-Based Capital (E) Working Group will evaluate third-party CAT models and decide which will be allowed for use for P/C RBC. Models allowed to be used are documented in the RBC instructions. An insurer can also use its own independent catastrophe model if approved by the domestic regulator. The RBC instructions provide some guidance for the domestic regulator in deciding whether to approve an insurer's own model. Chou said each peril's model is typically initially implemented in RBC for information only, analyzed, and then adopted for use in the RBC formula in a subsequent year.

Amann said the Catastrophe Model Primer will be considered for adoption at the Fall National Meeting. It contains information for nontechnical readers on the development of CAT models and how CAT models are being used.

### C. Financial: Life and P/C Statements of Actuarial Opinion

Citarella, Hemphill, and Fisk presented on life and P/C Statements of Actuarial Opinion (SAOs), specifically about the use of the insurers' Appointed Actuaries as experts to aid state insurance regulators in their review of specific annual statement data. The definition of Appointed Actuary varies by line of business and is documented in the *Valuation Manual* for life and in the annual statement instructions for P/C. Actuarial task forces adopt required disclosures and statements. For life insurance, the state insurance commissioner has the power to require certain methods and assumptions or can require a company to use another actuary for its Appointed Actuary. For P/C, the commissioner can encourage the company to do so.

The Appointed Actuary is subject to professional actuarial standards of practice. Credentialed actuaries are subject to the Actuarial Board for Counseling and Discipline (ABCD). An actuary reported to the ABCD for not complying with standards or a code of conduct can face counseling on appropriate practice or the suspension or revocation of the actuary's credentials.

### D. Market Conduct: Advisory Organizations and Multistate Exams

Weyhenmeyer presented on market conduct for P/C advisory organizations and multistate exams. She said the Advisory Organization (D) Working Group is focused on market conduct examination of licensed national advisory organizations. Exams are on a five-year schedule and are generally performed following the Advisory Organizations Chapter in the *Market Regulation Handbook*.

The state of domicile typically takes on the role of the managing lead state. Other states have the ability to sign on as one of the lead states and help with the work. Remaining states can agree to participate, although the participating states do not take an active role in the examination process. At the end of the exam, the managing lead state and other lead states complete a report. The report is sent to all participating states, who can then voice comments or concerns. The participating states can then certify the final report, and they do tend to certify these reports in practice. Once all certifications are received, the managing lead state notifies the company, and each state posts the report to its website.

Differences between advisory organization exams and multistate exams conducted through the Market Actions (D) Working Group include the following: 1) multistate exams are not scheduled periodically but rather arise when an issue is identified; 2) a state insurance regulator who believes an issue impacts multiple jurisdictions will submit a Request for Review (RFR) to the Working Group; 3) if the Working Group votes to examine an issue, then a

## **Draft Pending Adoption**

volunteer state will be the managing lead state that will communicate with the company and coordinate the exam. The managing lead state does not need to be the domiciliary state nor the state that produced the RFR. Other states can sign on as supporting lead states or as participating states.

Commissioner Conway said the Task Force could decide to address the regulation of third-party models in a variety of different ways, predicated on the decisions to have a risk-based approach and the regulatory capacity for the departments, as well as the NAIC as a whole. He added that any decision should also be as efficient as possible for the third-party modeling companies and insurers using third-party models. He said following the decision about the general framework, the Task Force will build the regulatory framework.

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

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# Unknown / Missing Risk Classifications and Advisory Organizations

[www.insurance.pa.gov](http://www.insurance.pa.gov)

The Pennsylvania Insurance Department is a regulatory agency tasked with the oversight and enforcement of the insurance laws of the Commonwealth of Pennsylvania. The Department does not render legal opinions or legal advice to third parties and nothing in this presentation should be considered as such. The Department also does not offer official statements of policy and this presentation should not be so construed. This presentation is offered merely as guidance to the specific questions raised herein as a courtesy to the viewer. Should you have questions regarding the content of this presentation it is recommended that you seek the advice of legal counsel. This presentation is not to be published or circulated without the express written consent of the Department.



<b>Pending Personal Auto Filing</b>	
<b>Number of Residences Last Ten Years</b>	<b>Policy Tenure &lt; 12 Months</b>
0	0.94
1	0.97
2	0.99
3	1.05
Company System Problem	1.00
No Data Returned From Vendor	1.00
Vendor System Problem	0.94

## Pending

## Homeowner's Filing

	Other	Other	Other					Severe
Dwelling Age	Perils	Fire	Wind/Hail	Theft	Water	Liability	Hurricane	Thunderstorm
0	0.3843	0.4893	0.2785	0.8313	0.1762	0.8115	0.6960	0.4969
5	0.6427	0.5586	0.6315	0.8602	0.4582	0.8115	0.6960	0.7411
10	0.7648	0.6376	0.9928	0.8901	0.6841	0.8115	0.7381	0.9927
20	0.9207	0.8309	1.1381	0.9532	0.9317	0.9377	0.8942	1.0878
30	1.0296	1.0826	0.9219	1.0207	1.0126	1.0230	1.0000	0.9481
40	1.1157	1.4107	0.9219	1.0931	1.0086	1.0890	1.0000	0.9418
50	1.1878	1.4107	0.9219	1.1705	0.9628	1.1435	1.0000	0.9481
60	1.2504	1.4107	0.9219	1.2534	0.8979	1.1902	1.0000	0.9481
70	1.3610	1.4107	0.9219	1.3423	0.8262	1.2113	1.0000	0.9481
80	1.3319	1.4107	0.9219	1.4374	0.7541	1.2113	1.0000	0.9481
90	1.3319	1.4107	0.9219	1.4374	0.6850	1.2113	1.0000	0.9481
99	1.3319	1.4107	0.9219	1.4374	0.6850	1.2113	1.0000	0.9481
Unknown	1.3319	1.4107	0.9219	1.4374	0.6850	1.2113	1.0000	0.9481

**Pending**

**Homeowner's Filing**

Attachment Two

**Roof Age = 10 Years**

Roof Type	Other		Hurricane	Severe	
	Fire	Wind/Hail		Thunderstorm	Theft
Aluminum	1.5394	2.2904	1.0454	2.8304	1.2677
Asbestos	1.0000	2.2904	1.0000	2.8304	1.2677
Cloth	1.0000	2.2904	1.0000	2.8304	1.2677
Concrete Tile	1.0000	0.7962	0.8263	2.8304	1.0000
Composition Shingle	1.0000	2.2904	1.0000	2.8304	1.0000
Clay Tile	1.0000	0.7962	0.8263	2.8304	1.0000
Composition Over Wood	1.5394	2.2904	1.0000	2.8304	1.2677
Fiberglass Shingle	1.0000	2.2904	1.0000	2.8304	1.0000
Fiber Cement	1.0000	2.2904	1.0000	2.8304	1.2677
Resin Formed Shingle	1.5394	2.2904	1.0000	2.8304	1.2677
Foam	1.0000	1.8656	1.0000	5.1861	1.2677
Metal	1.5394	2.2904	1.0454	2.8304	1.0000
None	1.5394	2.2904	1.0000	2.8304	1.2677
Other	1.5394	2.2904	1.0000	2.8304	1.2677
Plastic	1.5394	2.2904	1.0000	2.8304	1.2677
Reinforced Plastic	1.5394	2.2904	1.0000	2.8304	1.2677
Slate	1.0000	2.2904	0.8263	2.8304	1.2677
Tar	1.0000	1.8656	0.8263	5.1861	1.2677
Unknown	1.5394	2.2904	1.0000	2.8304	1.2677
Wood Shake	1.5394	2.2904	1.0000	5.1861	1.2677
No Data	1.5394	2.2904	1.0000	2.8304	1.2677

# PA's Draft Regulation

- Ask the applicant / policyholder / insured for missing information when there is a no-hit from the third-party data vendor
- Don't rate on risk characteristics that can't possibly be provided
- If applicant / policyholder / insured does not respond, then (and only then) can the "unknown" or "missing" risk classification be used
- Does not apply to credit where the lack of credit history is deemed to be a risk classification

# Rating Organizations

- Issued licenses
- File loss costs, classification plans, rating rules, and (sometimes) policy forms for the members and subscribers to adopt
- ISO, AAIS, MSO, CMT, TNEDICCA, etc.

# Advisory Organizations

- Must register, but are not issued licenses
- Do not make product filings
- Assist insurers and rating organizations *“in rate making, by the collection and furnishing of loss or expense statistics, or by the submission of recommendations”* – 40 P.S. § 1190(b)
- Must agree to right of Department to examine
- ISS, IRI, Explore Info. Svc., etc.

- There are over 100 unique third-party vendors used by P&C insurers (per AI surveys)
- More data is being used than ever before
- Use of data is going to continue to increase and become even more complex with AI/IOT
- Validating third party data for accuracy and bias isn't always an option for insurers who contract with them due to proprietary reasons
- Many vendors are helping insurers classify risk

Should we be requiring third-party vendors to register as advisory organizations?

# Advisory Organizations

- *“If, after a hearing; the Commissioner finds that the furnishing of such information or assistance involves any act or practice which is unfair or unreasonable or otherwise inconsistent with the provisions of this Act he may issue a written order specifying in what respects such act or practice is unfair or unreasonable or otherwise inconsistent with the provisions of this Act and requiring the discontinuance of such act or practice.” - 40 P.S. § 1190(c)*
- *“No insurer which makes its own filings nor any rating organization shall support its filings by statistics or adopt rate making recommendations furnished to it by an advisory organization which has not complied with this section or with an order of the Commissioner involving such statistics or recommendations issued under subsection (c) of this section. If the Commissioner finds such insurer or rating organization to be in violation of this subsection he may issue an order requiring the discontinuance of such violation.” – 40 P.S. § 1190(d)*



# THIRD-PARTY DATA AND MODELS (H) TASK FORCE

*2024 FALL NATIONAL MEETING  
(DENVER)*

**Lindsey Klarkowski**

*Director of Data Science and Artificial Intelligence Policy*





## Project Step A.

- Determine how third-party vendors/models are being utilized and consider categorizing models by type [e.g., claims handling models, rate models (by hazard/peril, auto models), and underwriting models. Consider where regulators are already evaluating models.



# How is the Task Force defining “Third-Party Data and Model Vendor”?



# DEFINING “THIRD-PARTY” DATA AND MODEL VENDOR

**To proceed in selecting a framework without first defining the scope of “third-party data and model vendor” only results in:**

- **[1]** Not clearly identifying (or being able to identify) a consistent issue for which the Task Force is looking to correct with a regulatory framework; and
- **[2]** Picking a regulatory framework that creates solutions disjointed from the needs of the market



# DEFINING “THIRD-PARTY” DATA AND MODEL VENDOR

**The spectrum of third-party data and model vendors that insurers use is vast – what is the Task Force primarily concerned with?**

- Use of third-party vendors for everyday insurance functions:
  - Pricing, rating, loss costs, modeling, underwriting, claims adjustment, and settlement?
- All areas where an insurer may utilize any type of third-party data and model vendor:
  - Governmental entities, Back office operations, Google, IT Services, etc.?



# What Frameworks and Definitions Already Exist?



## NAIC Guidelines

- Third Party Administrators
- Advisory Organizations

## NAIC Working Group Defns

- Accel UW (A) WG
- PBM Reg Issues (B) WG
- Privacy Protections (H) WG

## Others?