

#MoSummit2016



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

*Looking Over  
the Insurance Horizon*



**2016 Director's  
Regulatory Summit**

# Disclaimer

*This presentation is intended to provide a general educational overview of insurance regulatory topics. The materials contained herein are not intended nor should they be construed to provide specific legal or regulatory guidance. The content of this presentation and any related discussion represents the views and perspectives of the speaker(s) and do not in any way constitute official interpretations or opinions of the Missouri Department of Insurance. Legal or regulatory counsel should always be consulted to review specific questions or issues of regulatory compliance.*



# Panelists

Becky Meyer, NAIC

Eric Nordman, NAIC

Moderated by:

Leslie Nehring, Missouri DIFP



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Overview of Recent Model Laws

- Required for Accreditation:
  - Corporate Governance
    - Including changes to Model Audit Rule
  - Own Risk and Solvency Assessment (ORSA)
  - Credit for Reinsurance
  - Holding Company Systems
- Other:
  - Cybersecurity

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Effective Dates

Effective in  
your state

Effective for  
accreditation

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Corporate Governance

## Corporate Governance Annual Disclosure Model Act (#305) and Model Regulation (#306)

- Regulatory Objective and Purpose
  - Annual consideration of changes in corporate governance practices and enhanced investigation through the financial examination process
  - Signifies importance of understanding/assessing governance practices
- Prompted by Financial Sector Assessment Program (FSAP) review

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration



# Corporate Governance

- Annual collection of information on company governance practices (new filing)
  - Applicable to all U.S. Insurers
  - Disclosure filed annually to domestic or lead state
  - Flexibility in level at which information is to be provided
    - Ultimate parent, holding company or insurer
  - Encourages referencing information provided in other filings

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Corporate Governance

- Model Regulation outlines instructions for disclosure
  - Corporate Governance Framework & Structure
  - Board of Directors Policies & Practices
  - Management Policies & Practices
  - Oversight of Critical Risk Areas

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Corporate Governance

- Model Audit Rule (#205)
  - Revised to incorporate internal audit requirement for large insurers
    - Insurer > \$500 million in premium
    - Groups > \$1 billion in premium
  - Internal audit function must provide independent assurance
    - Areas of assurance
    - Reporting requirements

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Corporate Governance

- Commissioner authority to correct corporate governance deficiencies
  - Existing element of the Hazardous Financial Condition Model Regulation (#385)
  - Required for Accreditation Jan. 1, 2017



# ORSA

## Risk Management and Own Risk and Solvency Assessment (#505)

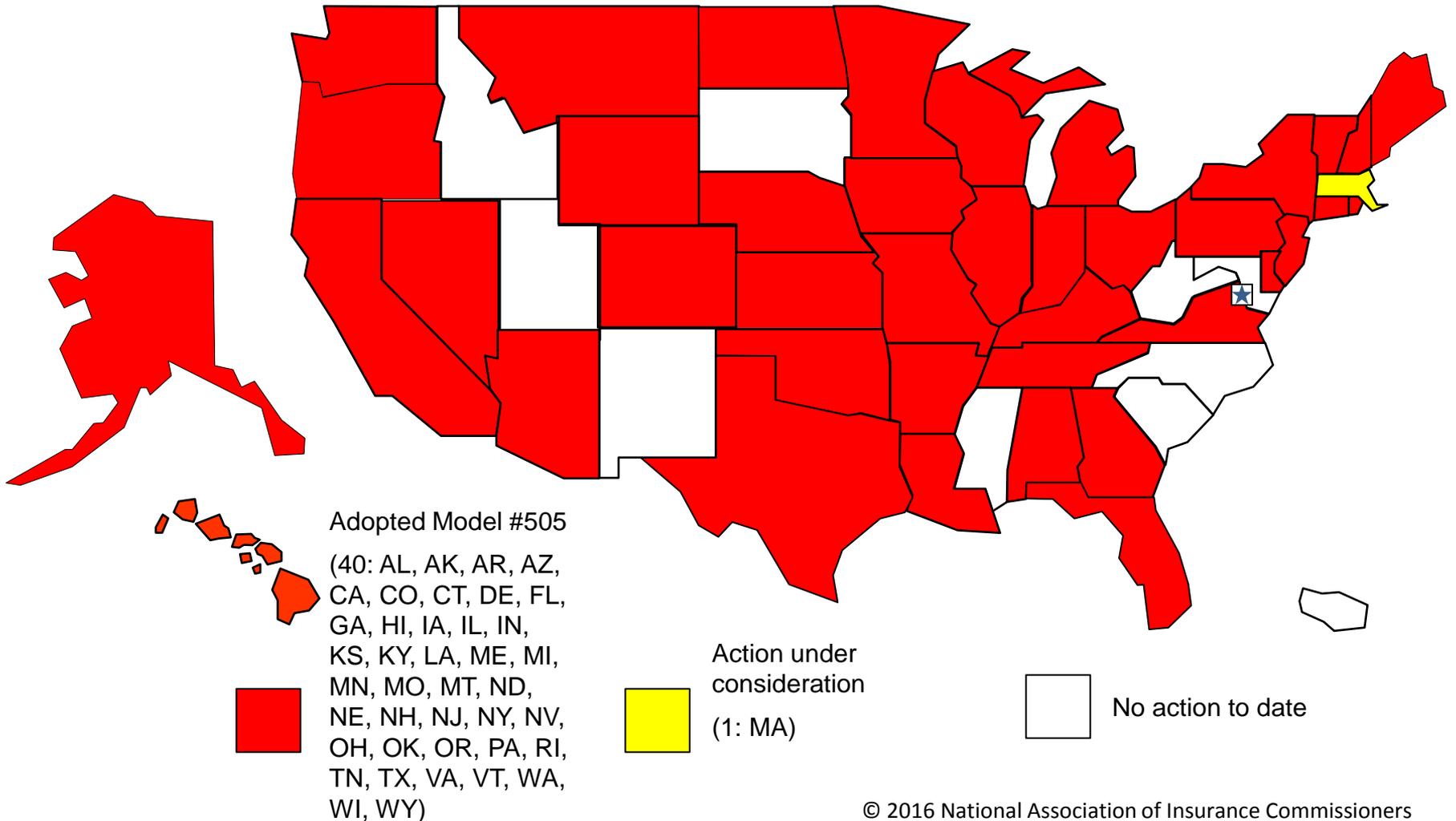
- Regulatory Objective and Purpose
  - Foster an effective level of ERM at insurers
  - Provide a group-level perspective on risk and capital as a supplement to the existing legal entity view

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

Implementation of Model Act #505  
Risk Management and Own Risk and Solvency Assessment Model Act  
[status as of August 31, 2016]



© 2016 National Association of Insurance Commissioners

This map represents state action or pending state action addressing the topic of the model. This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of the model or whether a state meets any applicable accreditation standards.

# ORSA

- 3 Core Requirements on Insurer
  - Maintain a risk management framework
  - Complete an Own Risk and Solvency Assessment (ORSA)
  - File an ORSA Summary Report with the Insurance Commissioner annually
- Exempts:
  - Insurers < \$500 million premium
  - Groups < \$1 billion premium

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# ORSA

- Guidance manual provides details of what is included in ORSA report
- All insurance legal entities within the group must be represented
- 40 states adopted as of Aug. 31, 2016
- Required for accreditation Jan. 1, 2018



# Credit for Reinsurance

## 2011 Revisions to Credit for Reinsurance Model Law and Model Regulation

- Regulatory Objective and Purpose
  - Reduce the prior reinsurance collateral requirements for non-U.S. licensed reinsurers that are licensed and domiciled in qualified jurisdictions

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Credit for Reinsurance

- Previous requirement of 100% collateral
- Changes increase consumer protection:
  - Increased scrutiny to certified reinsurers
  - Review of effective supervision by the Qualified Jurisdiction (E) Working Group
  - Passporting (allowing reliance by other states) requires increased financial analysis by the Reinsurance Financial Analysis (E) Working Group

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Credit for Reinsurance

- Establishes certification process for collateral reduction
- Certifying state evaluates a reinsurer
  - Assigns rating to determine collateral requirement
  - Rating driven by:
    - Financial strength ratings
    - Business practices
    - Effective domestic supervision
- Passporting – recognize certification granted by another NAIC accredited state

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration



# XXX/AXXX Credit for Reinsurance

- Concerns with captive regulation
  - Inconsistent among states (handling of transactions)
  - Lack of transparency (do not file public statements)
- Create new uniform national standard to establish requirements regarding the reinsurance of XXX/AXXX life insurance policies

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# XXX/AXXX Credit for Reinsurance

- New Model Regulation in development
  - Outlines requirements for reinsurance of XXX/AXXX policies
  - Anticipate full adoption by NAIC this fall
  - Referred to accreditation committee following adoption

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Holding Company Systems

## Insurance Holding Company System Model Regulatory Act (#440) and Regulation (#450)

- Regulatory Objective and Purpose
  - Establishes a framework for Group-Wide Supervision within the state based system of regulation
  - Provides authority for the supervisory review process for insurance groups in addition to the authority provided under states' examination laws

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Holding Company Systems

- 2010 Revisions
  - Enterprise Risk Report (Form F)
    - Completed by Ultimate Controlling Person (UCP)
  - Supervisory Colleges
    - Holding companies with international operations
    - Authority to initiate and/or participate

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Holding Company Systems

- 2010 Revisions (continued)
  - Form A involving more than one state
  - Divestiture of controlling interest
  - Financial statements of UCP required with registration statement
  - Statement by Board of Directors on corporate governance
  - Approval of affiliated transactions
  - Access to books and records for examination
  - Confidentiality

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Holding Company Systems

- 2014 Revisions
  - Group-wide supervision of Internationally Active Insurance Groups
    - Authority to act as group-wide supervisor
    - Factors to determine group-wide supervisor
    - Role of group-wide supervisor

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Holding Company Systems

- 2010 Revisions
  - All states adopted Model Law
  - Few states still working to adopt Model Regulation
  - Required for accreditation Jan. 1, 2016
- 2014 Revisions
  - 14 states adopted as of Aug. 31, 2016

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Cybersecurity

- Model Law Under Development
  - Principles for Effective Cybersecurity Insurance Regulatory Guidance (Adopted April 16, 2015)
  - Roadmap for Cybersecurity Consumer Protections (Adopted December 17, 2015)
  - First Draft March 2, 2016
    - Extensive Comment Period and 2-Day Meeting
  - Second & Current Draft August 17, 2016
    - Comments assembled and awaiting conference call

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Consumer Expectations

- Consumers expect business/government will:
  - Protect the information they provide
  - Provide information on what is collected
  - Tell them who has access to their information
  - Provide access to your privacy policy
  - Receive notification if there is a breach
  - Be informed about remediation efforts
  - Be provided assistance with steps to take to protect themselves from identity theft or fraud

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Managing Business Risks

- Sound cybersecurity hygiene
- Develop a sound cybersecurity framework
  - Identify
  - Protect
  - Detect
  - Respond
  - Recover

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Managing Business Risks

- Identify
  - Know what personally identifiable information (PII) you collect and why
  - Assess threats to the information you maintain
  - Understand how PII can be accessed
  - Develop a written plan of action and practice it

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Managing Business Risks

- Protect
  - Limit network access as much as possible
  - Build in redundancy to systems
  - Implement strong user name and password controls
  - Update software frequently (automated updates when possible)
  - Encrypt data whenever possible
  - Train your employees
  - Consider purchase of cybersecurity insurance

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Managing Business Risks

- Detect
  - Monitor networks for threats
  - Look for anomalies or unauthorized users
  - Understand impact of a potential threat
  - Consider joining an information sharing and analysis center



# Managing Business Risks

- Detect
  - Monitor networks for threats
  - Look for anomalies or unauthorized users
  - Understand impact of a potential threat
  - Consider joining an information sharing and analysis center



# Managing Business Risks

- Recover
  - Restore data systems and data
  - Help impacted consumers
  - Update your response plan from lessons learned in its execution
  - Train your employees on lessons learned



# Underwriting Cyber Insurance

- Overview of cyber insurance coverages
  - Liability for security or privacy breaches
  - Costs associated with a privacy breach
  - Costs associated with restoring business assets
  - Business interruption and extra expense
  - Liability associated with libel, slander or copyright infringement
  - Expenses related to cyber extortion or terrorism
  - Coverage for expenses related to regulatory compliance

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Underwriting Cyber Insurance

- Other considerations when purchasing a cybersecurity insurance policy
  - Expert assistance to review your security program
  - Expert assistance in evaluation of an attack
    - Threat actor identification
    - Identification and assistance evaluating state notification and remediation laws
  - Expert assistance in managing consumer notice and remediation efforts

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Underwriting Cyber Insurance

- Importance of Risk Management
  - Insurers will evaluate the adequacy of the businesses' cyber risk management
  - Evaluation of the disaster response plan
    - Networks
    - Website
    - Physical assets
    - Intellectual property
  - Employees access data systems
  - Antivirus and anti-malware software
  - Frequency of system and software updates
  - Performance of firewalls

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Info. Collected by Regulators

- Cybersecurity and Identify Theft Insurance Coverage Supplement
- Information filed April 1 each year
- First data collection April 1, 2016 for 2015 data year
- Initial results:
  - Roughly \$500 M Stand-Alone Policies
  - Approximately \$1 B in Package Policy Premiums

© 2016 National Association of Insurance Commissioners



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration

# Contact Information

Becky Meyer [bmeyer@naic.org](mailto:bmeyer@naic.org)

Eric Nordman [enordman@naic.org](mailto:enordman@naic.org)



Any  
questions



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration



#MoSummit2016



**DIFP**  
Department of Insurance,  
Financial Institutions &  
Professional Registration