NAIC update: 2024 Spring National Meeting

Center *for* Regulatory Strategy US

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Introduction: Insurance can do well by doing good

The National Association of Insurance Commissioners (NAIC) Spring National Meeting in Phoenix, Arizona, March 15–18 saw gears locking into place for the organization and state regulators on setting out their 2024 agenda and implementing it.[1] Underpinning the forward motion was the mantra stated by NAIC President Andrew N. Mais: "Insurance can do well by doing good."

As steering wheels rotated on driverless cars while effortlessly cruising Phoenix's open road grid, the Kansas City, Missouri, standard-setting group met in crowded rooms where participants watched for any shifts or changes in state regulation plans.[2] The NAIC stayed at the wheel, navigating toward a future in which it is just as cognizant of the far-reaching implications and potential impacts of advanced artificial intelligence (AI) technology as it is of those in vulnerable or historically underrepresented groups.

One of the foremost administrative tasks of the past year—the selection of a new CEO for the standard-setter for state-based insurance regulation—was accomplished with the selection of Gary Anderson, the then Massachusetts insurance commissioner and longtime chair of the International Insurance Relations (G) Committee, as the new NAIC CEO. Anderson began his new role as CEO on May 1 under a new leadership structure implemented by the NAIC.[3]

"I have been fortunate to serve the Massachusetts insurance-buying public under three governors: Gov. Deval Patrick, Gov. Charlie Baker, and now Gov. Maura Healey," Anderson said to the assembled attendees and his fellow commissioners during the meeting of the 153-year-old organization. "Throughout my career in public service, I have been rewarded with valuable experiences, new and lasting connections, and opportunities to contribute to a greater good. I am excited to embark on the next adventure as CEO of the NAIC, supporting the state-based system of insurance regulation. Thank you to the NAIC Members for the trust and faith you have placed in me."[4]

The opening session of the meeting began with a public announcement that followed nearly a year of diligent leadership by Acting CEO Andy Beal and was a highlight for the state insurance commissioners, NAIC staff, and hundreds of stakeholders who met in Phoenix in March. Anderson got emotional as he took on his new role, while his fellow insurance commissioners praised and greeted him warmly.

The first national meeting of the year quickly engaged and delivered during its many sessions and subgroup meetings on recently released 2024 Strategic Priorities: climate risks/natural catastrophes and resilience; financial solvency oversight and transparency; the marketing of insurance products with a strong eye on health insurance; the areas of race and insurance, financial inclusion, and addressing protection gaps; and use of artificial intelligence and data use in cyber risk. The adoption at the Executive-Plenary session of the NAIC's first-ever NAIC National Climate Resilience Strategy for Insurance demonstrated a commitment to multiple priority items.[5]

Mais took opportunities throughout the spring meeting to underscore the nature of the integrated approach in the insurance ecosystem, including how the NAIC and regulators should work collaboratively when possible to help resolve complex and multifaceted issues. The goal would be an economy in which insurance could be much more broadly available to all populations in an affordable fashion for the betterment of society, under the vision laid out by Mais.

According to Mais, who is also the insurance commissioner of Connecticut, the broader insurance community has the ongoing chance and the responsibility to collaborate to act equitably as it delivers protection products to consumers and works to help address protection gaps among groups. Households that are underserved or exposed to significant weather events and climate risk should be able to access insurance protection products so they are able to bounce back from accidents, as well as casualty events including disasters, and securely save for their families and for their own retirement, Mais stressed.

"We are fortunate. We have a chance to go home each day knowing we made a difference. Everyone sees the headlines. Not everyone gets a chance to help. We do," Mais remarked in his address to attendees during the NAIC's opening session. The organization's spring meeting had registered almost 1,600 in-person attendees and 1,100 virtually.

Discussions and progress on pressing issues currently affecting regulatory, life, and property and casualty (P&C) industries centered on expanding inclusion throughout the industry; managing solvency and consumer protection at a critical time, given rapidly changing investment practices over the past decade; accelerating climate risk change; and, finally, both data risk and data governance in an age of explosive AI innovation and cybercrime incidents.

Mind the gap: DEI themes highlighted throughout spring sessions

Diversity, equity, and inclusion (DEI) concerns were woven throughout various sessions at the spring meeting, as regulators endeavored to make the marketplace more inclusive in a challenging economic environment for many.

A DEI leadership breakfast engaged attendees with a presentation from Dr. Leroy (Lee) Nunery II on the role of insurance in closing wealth gaps. The Center for Insurance Policy and Research hosted a panel the following day titled "Insurance to Improve Quality of Life: Understanding and Addressing Barriers to the Financial Inclusion of Insurance," that dove into how the insurance ecosystem—regulators, researchers, industry, and consultants—can play their part on reducing barriers and sharing best practices.

"I want to know what I can do … It is an issue that has to be addressed holistically. It has to be addressed by all of us," Mais said at the outset of the panel session, which also featured industry payers, CIPR, NAIC consumer advocate Brenda Cude, and Deloitte US Insurance leader Karl Hersch, who shared ideas on the use of innovative technology to reduce inhibitors to increasing financial literacy to close protection gaps. Education as a role and conduit to greater knowledge of how insurance can protect was highlighted by participants. Hersch emphasized findings from several recent research reports, including Deloitte's *Financial inclusion and the underserved life insurance market*, and a forthcoming report on homeowners' insurance in sharing how Deloitte thinks about financial inclusion.[6]

"As regulators, it is our responsibility to help industry do well. Our responsibility is to consumers—to have all the protection they need as affordably and easily as possible. Bring more people into the tent as employees, as regulators, and, of course, as consumers. Ensure a thriving insurance marketplace. The answer is in collaboration. We are not going to close this gap overnight. We are under no illusions. Not just one step—but we do need to take each of those steps—as an organization, as regulators, as a society, day by day," Mais stated during the opening session of the spring meeting.

The events' themes carried through sessions on climate and consumer topics, where there exist challenges in the availability and affordability of property insurance.

The NAIC's inaugural multistate market intelligence climate property data call is designed to shed light on the affordability and availability of property coverage for consumers with its collection and analysis of granular financial information. The NAIC is targeting the latter part of the year to look at those results with a focus on what those results might show and the impact on underserved communities, according to comments from Vermont Insurance Commissioner Kevin Gaffney.

Gaffney spoke during the Special Committee (EX) on Race and Insurance meeting, which highlighted the group's workstreams in different lines of insurance and discussed previous conversations among regulators of "minding the gaps" as workplans were reviewed.[7]

Various group and committees such as those working on innovation and technology are examining impacts on underserved communities of color through the lens of actuarial, legal, consumer-focused work, which also includes looking into residual markets and assessing financial structures such as premium financing and structured settlements.

Barriers to life insurance involving criminal history are also a focus for the life insurance workstream of the Special Committee, with issues raised on this specific barrier on social media spurring more research and the planning of a future panel discussion on the problem convicted felons have accessing life insurance. State regulators noted that federal financial services overseers had been "paying attention" to the issue as well.

Regulators are also keeping their eyes on the sale of annuity products to ensure that consumers are aware of potential product risks and also to ensure that benefits are not overpromised in marketing materials. For example, the Indexed Universal Life (IUL) Illustration (A) Subgroup members are actively reviewing company illustrations for IUL and other life and annuity products for compliance under existing state laws and also to identify any consumer or regulatory concerns arising that might be emerging or revealed as they are sold. This could potentially lead to recommendations for new or revised rules.[8] The Life Insurance and Annuities (A) Committee will be updated with summaries or key recommendations for compliance actions, regulators indicated during the session.

The NAIC spring meeting also featured presentations and discussions about what it means for an algorithm to harm people, as well as how bias can be statistical or systemic and can extend mistrust of models. A graphic demonstrated the pathways in which AI unfairness might occur, from input to lack of human oversight, three test biases, and examples of categories revealing bias.

A presentation on a survey of research activities conducted by the American Academy of Actuaries (the Academy) and the Society of Actuaries (SOA) related to Big Data AI fairness, bias, and governance was led by Dorothy Andrews, NAIC senior behavioral data scientist and actuary, during the meeting of the Big Data and AI Working Group.[9] Andrews also chairs the Academy's Data Science and Analytics Committee and has done research into auto insurance ratings and social justice issues. An exploration of evaluating bias analysis itself was also on the table for regulators, consumer advocates, and industry stakeholders.

The New Avenues in Insurance Careers Foundation [NAIC Foundation], which was launched and incorporated in 2022 to financially support the education of students pursuing insurance careers, is now looking to obtain tax-exempt status and exploring programs with colleges. In February, as Mais noted, the Foundation announced that it had awarded its first scholarship to a student at Troy University in Alabama.

Solvency: Reinforcing industry capital for long-haul mileage

The NAIC is continuing to forge ahead with managing future oversight of investment risk.

As Mais noted in his remarks, "It's a time of ongoing uncertainty and changing investment strategies, and, at a time like this, insurer financial oversight and transparency are even more important."

The refrain throughout meetings, and now in NAIC documents on strategic priorities, has been to avert the NAIC's Securities Valuation Office (SVO) from "blind reliance on credit rating providers (CRPs)" to a "robust due diligence framework" through the ongoing initiative to modernize the role of the SVO and, in tandem, rework investment and securities oversight functions through the creation of a holistic framework.[10]

Other initiatives underway to increase transparency are moving to the forefront of the NAIC's work, as it strives to get fine-tuned assessments of structured securities holdings and measurements of cash flow. It is also seeking a more modernized Economic Scenario Generator and continuing to implement the Asset Adequacy Testing framework for these purposes. At issue is the VOS Task Force's role in assessing insurers' ability to pay claims as part of regulators' overall need to assess insurers' nonpayment risk.

Likewise, discussion continued on the revised proposed Purposes & Procedures Manual Amendment authorizing the procedures for the SVO's discretion over NAIC designations assigned through the Filing Exemption (FE) process. No final proposal was released, but comments and staff recommendations were shared. Regulators on the task force stressed that NAIC designations are not ratings themselves. Attendees heard from VOS Task Force readers that credit ratings provide a valuable service and that the NAIC has no intention of displacing or competing with them.

However, NAIC stakeholders in attendance were reminded that the use of credit rating provider ratings is not allowed unconditionally. State regulators stressed that the SVO should be empowered to take action through a well-defined process when necessary. Regulators assured attendees the SVO has no intention of reviewing every rating by a credit rating agency, and the SVO is not a regulator but instead is assigned responsibilities by the VOS Task Force. The concept of an independent third party that might be set up to help resolve issues was discussed and deemed to be potentially very challenging to insurers, especially if it were to apply to discrete securities. Such a construct would be beyond the scope of the SVO modernization work, some industry representatives argued in security oversight committee sessions.

The proposed holistic framework as previously introduced by the parent Financial Condition (E) Committee, which was exposed for comments as the Framework for Regulation of Insurer Investments, includes the recommendation that the NAIC hire an outside consultant to first design and help implement a new process with quantitative and qualitative parameters. Under this process, the NAIC plans to develop a strong due diligence program over the ongoing use of CRPs.

Regulators and the NAIC have been discussing a request for proposal (RFP) in the near future that would appropriately tailor work and be able to meet the purpose of developing analytical and performance criteria to map credit rating agencies to NAIC designations to measure credit risk meaningfully and consistently. NAIC designations lead to capital requirements for insurer investments under the NAIC in its risk-based capital (RBC) formula.

"The objective is to eliminate blind reliance on CRPs while maintaining responsible use of the invaluable service they can provide," Financial Condition Committee Chair and Wisconsin Insurance Commissioner Nathan Houdek stated. He also emphasized the state regulators' desire to move forward quickly to hire a consultant to help develop the due diligence framework's important initial piece of the overall holistic framework.

Regulators acknowledged that the insurance industry wants to see coordination by the NAIC on its various solvency initiatives, such as on the modeling of collateralized loan obligations (CLOs), and other such initiatives that would be included as part of any future framework. However, as one regulator noted during an open session dealing with ongoing supervisory work on CLO analysis and the application of new RBC factors: "It's not done until it's done."

Industry groups representing the life insurance and alternative investment and private equity capital arenas weighed in on the concept of an RFP and framework, discussing in depth the need for coordination across NAIC working groups as they tackle the holistic solvency oversight project.[11]

Overall, stakeholders agreed with the concept of a new solvency framework, although some mentioned that difficulties could arise in choosing the appropriate framework for comparison and the scope of SVO's enhanced role. "We think the reliability and steadiness of the framework essentially depends on a steady assignment of roles and duties and the calculation of credit risk and capital charges," said one representative from the annuity and asset management industry, summarizing and highlighting similar worries expressed by other representatives from the insurance industry.

"The NAIC should be moving toward a more, not less, consistency in those processes, which means that the rating agencies should continue to be the primary arbiters of credit risk with regulators and the SVO performing very important oversight and analytical roles," one industry representative (and former regulator) said.

One example raised by industry representatives is the solvency monitoring work on residual tranches already underway in several working groups. The goal would be to reach an understanding of the broad impact of all those different work groups at a holistic level.

Another example of ongoing regulatory work that would be folded into a broader framework of solvency review is CLO modeling and the accompanying formulation of interim and future RBC charges, which was repeatedly discussed across various E Committee groups and workstreams.

Stakeholders were repeatedly informed by state regulators that they are seeking a reasonably conservative RBC factor, and multiple discussions and studies have led some to support the 45% interim factor that an investment working group has already established.

"It is a tough hill to climb to support something that is less than the 45% charge we currently have. We will make every effort to do what we can to get us to a point to where we could potentially adopt something for year end," noted Philip Barlow, chair of the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBC IR&E) and associate commissioner for the District of Columbia Department of Insurance, Securities & Banking (DISB). "We are limited to only factor changes, not a structural change for this year," Barlow reminded stakeholders.

Barlow also noted that regulators have already delayed the implementation of the interim RBC factor already at the request of industry. He said that the analysis that has been circulated in an industry-generated CLO report already makes a good case for justifying the 45% RBC factor on its own.

The longtime life insurance actuary and head of the RBC IR&E Working Group further told industry representatives assembled at the meeting that the RBC factor in and of itself is just a "blunt tool."

"It does not need to be precise for everything but needs to be reasonably conservative. But there is no intent to punish any type of investments. I don't think that we would consider another deferral of the implementation of the 45% [factor]," Barlow said.

Later in the spring, the RBC IR&E Working Group exposed for comment a proposal and an NAIC response presentation that would consider adjustments to lower the interim RBC charge to 30% for some CLO investments, a subject that continues to be widely debated among stakeholders.[12] The working group wants to know by the end of June which assets would get a lower 30% RBC factor even though all other residual tranches and interests of the CLOs would have to comply with a 45% factor.[13]

Annuity products undergoing scrutiny

Regulators in the Valuation Manual (VM) subgroup of the Life Actuarial (A) Task Force are planning a field test beginning in July to make sure that statutory reserves in the proposed reserve and capital frameworks for non-variable annuities are sufficiently matched with their risks, including adverse conditions and anticipated experience. The field test serves the proposed VM22 framework, which would be the requirements for the non-variable annuities framework. However, if participation is not sufficient for the field test given how it could affect the reserves insurers might have to hold under the proposed framework, state regulators might request some of their domiciles to participate and provide results to the NAIC, according to the field test request and survey memo.[14]

According to a note on the proposed field test, the results will "inform decisions related to the proposed fixed annuity principle-based reserving (PBR) methodology. Key outstanding items the field test aims to resolve are the stochastic exclusion ratio test threshold, reinvestment guardrail mix, and the impact of the proposed standard projection amount (SPA) assumptions."[15]

Regulators said they anticipate the effective date for new reserve requirements would be January 1, 2026.[16]

NAIC's inaugural climate strategy sticks its landing

The groundbreaking adoption at the Executive (EX) Committee and Plenary session of the NAIC's first-ever *NAIC National Climate Resilience Strategy for Insurance* occurred rather quietly even as it demonstrated a commitment to multiple priority items, from the organization's aim to help close insurance coverage gaps to keeping pace with risks via catastrophe modeling to monitor insurers' solvency. The strategy first was proposed at the fall national meeting and received comments from stakeholders in the interim months before its debut as a newly adopted strategy document.[17]

"The goal of the strategy is to drive faster and more effective risk reduction by state insurance regulators to ensure that insurance continues to be available and reliable as a crucial backbone to communities facing climate risks," according to the NAIC.

The strategy outlines its goals simply, but the magnitude of the work and its potential reach is considerable, according to statements from those involved in crafting it. In a statement, Alaska Director Lori K. Wing-Heier, who co-chaired the NAIC's Climate and Resiliency Task Force with California Insurance Commissioner Ricardo Lara in 2023 when the strategy was developed, remarked, "Our property markets and the consumers we work to protect are under pressure. This strategy document brings together many of our existing workstreams, focuses our work on pre-disaster risk mitigation, and will provide important coordination among US state regulators," Wing-Heier added.

The strategy outlines the following intentions:

- Collect data to help identify and close protection gaps
- Create a blueprint for the future of flood insurance
- Leverage the recently created NAIC Catastrophe Modeling Center of Excellence
- Create new resilience tools
- Advocate for pre-disaster mitigation funding
- Improve solvency tools, such as scenario analysis

The property insurance data collection efforts kicked off with an announcement shortly before the Spring National Meeting of the collaborative and inaugural state-led Property & Casualty Market Intelligence Data Call (PCMI) to collect and analyze ZIP code-level data related to homeowners insurance.[18] The Federal Insurance Office (FIO) at the US Treasury Department had initially announced a proposed data call, but a solution was reached to combine analysis efforts of data collected by the NAIC. When the effort was formally announced on March 8, the Treasury stated that FIO will be closely coordinating with the NAIC, in which the NAIC will share granular information with FIO, and will use this data to conduct a nationwide assessment of climate-related financial risks to consumers.[19]

The participating states do not comprise a comprehensive list, but they are considered to be more than 80% of the US property insurance market by premium volume and involve more than 400 property insurers. Letters were sent March 8, 2024, to insurers, and data was due June 6 from participating insurance companies.

Mais publicly thanked Arkansas Insurance Commissioner Alan McClain and the Property and Casualty Insurance (C) Committee for their leadership in developing this data call, highlighting the backing of NAIC leadership on the data call.

Pre-disaster mitigation work is also a major element of the strategy and has been widely discussed at NAIC sessions through showcasing examples of ongoing work and programs in various jurisdictions.

Mais has noted in discussing the importance of property damage mitigation efforts that the state-led effort, the *California Safer from Wildfires* framework, provides premium incentives for reducing wildfire risk through home hardening.[20]

Additionally, the *Strengthen Alabama Homes* program, featured in discussions at the Fall National Meeting, provides grants to homeowners to retrofit properties to mitigate wind damage based on the Insurance Institute for Business and Home Safety Fortified standard.[21] Minnesota has passed a law requiring incentives for homes that are fortified to a certain standard, while other states are considering passing similar laws, according to the NAIC.[22]

A proposal that is aimed at sharpening solvency tools in an age of growing climate change events and risk underwent heated discussion during the Joint Meeting of Catastrophe Risk (E) Subgroup and Property and Casualty Risk-Based Capital (E) Working Group.[23]

Regulators have expressed interest in catastrophe modeling products that adjust frequency and severity of hurricanes and wildfires through 2040 or 2050, showing potential changes in RBC. Regulators have stated that this information could be useful for state regulators holding conversations with insurers that are at increased risk for these types of catastrophes decades into the future. However, insurance industry representatives expressed concern that the interest in the RBC in conjunction with the climate scenario analysis could be used to develop an additional RBC charge, which they said would be inappropriate at this time. They did not see the point in comparing potential RBC data for losses out to 2040 and 2050. Some commenters noted that situations could change in as little as a five-year period, which might not take into account company mitigation actions, and are used for internal risk assessment purposes as part of a larger performance scenario approach.

At this point, the NAIC indicated there is no desire to require reporting companies to hold capital up to specific levels, and it will continue to discuss the potential time frame to collect information in the RBC formula based on what will be considered by the state insurance regulators going forward.

Technology, artificial intelligence, and data: Use and ongoing developments

The NAIC is rising to meet the challenges posed by ongoing and emerging issues in a fast-paced technology environment with the formation of new committee work to consider guardrails and monitoring. These workstreams debuted during the Spring National Meeting, signifying that the NAIC is not resting on its laurels after the December adoption of the AI Model Bulletin, which almost a dozen states had adopted by late April. The NAIC quickly responded to related AI and data oversight concerns by developing groups to meet other regulatory challenges and concerns as the use of AI expands exponentially.[24]

a) Tech collaboration forums launched

Innovation, Cybersecurity, and Technology (H) Committee Chair and Maryland Insurance Commissioner Kathleen Birrane, who has recently announced her plans to rejoin the private sector, said the group identified two other areas that are very important to collaborate on after completing work on algorithmic bias, which resulted in the late 2023 NAIC bulletin guidance for the use of AI. These two collaboration forums will be centered on data standardization and the development of tools for regulators as they evaluate and work with AI and algorithm-driven systems.

North Dakota Insurance Commissioner and NAIC President-Elect Jon Godfread, who was selected to chair the group, said data standardization work will be an ongoing, long process, critical to reaching the next step in how to collect, analyze, and utilize data in this industry.

"We're at the peeling-off-the-label-of-the-onion [stage] before we can get into that, and so this is the starting process of that. I encourage you to stay engaged, get engaged. It'll be an ongoing, long process to get to whatever we get to, but it's a critical foundational step to move to the next," Godfread said, speaking from his experience in North Dakota with a data standardization pilot project on blockchain data collection.

Iowa Insurance Commissioner Doug Ommen will chair the collaboration forum on tool development for AI. He plans to come to the parent (H) committee for potential recommendations on how to move forward on this work and has already met with representatives of other letter committees to align some of the work to bring it together in a comprehensive way.

b) Welcoming the new third-party models task force

The NAIC kicked off its first meeting of the newly created Third-Party Data and Models (H) Task Force, with a charge to develop and propose a framework for the regulatory oversight of third-party data and predictive models.

Colorado Insurance Commissioner Mike Conway discussed a workplan that could result in a regulatory apparatus that oversees third-party modelers in their various forms.

The goal of the task force will include monitoring and reporting on state, federal, and international activities related to governmental oversight and regulation of third-party data and model vendors and their products and services, indicating the NAIC is going to keep pace with other oversight efforts by agencies with regard to third-party data modelers. The task force will base its recommendations on the Innovation, Cybersecurity, and Technology (H) Committee's activities.

If it does its work correctly, Conway said, including its fact-finding and monitoring, it will be able to see what ideas are developing on regulating third parties. The goal is to get the task force work completed in two years, he said. In the second year, the plan is to be "drafting out some sort of model," according to Colorado's insurance commissioner. "Then, obviously, the H Committee would, if it approves of the model that we draft, take it up to plenary and so forth," Conway said.

The new task force's initial workplan stems from conversations surrounding whether state insurance departments should be regulating third-party modeling firms and companies and how that regulation should take place, with a number of states having divergent opinions, regulators noted at the inaugural group meeting.

c) Privacy protections model law drafting gets another day in the sun

Get ready! It's now time for a revival of the consumer privacy protections model law draft—but in a new version? After being inactive more than half a year, consumer privacy oversight with a potential new model law is back for consideration.

Mais mentioned consumer privacy expectations in his opening remarks as part and parcel of data use by insurers when highlighting AI usage and cyber risk among the NAIC's top priorities for the year. "Data use must be responsibly balanced, with consumer privacy expectations," Mais stressed.

Indiana Insurance Commissioner and new Privacy Protections (H) Working Group Chair Amy Beard told attendees at the Innovation, Cybersecurity, and Technology (H) Committee meeting that although work has paused on drafting Consumer Protections Privacy Model Law #674, the public continues to show strong interest in privacy-related discussions, and the NAIC is charting a course toward creating a consensus-driven model law.[25]

State regulators recently met in a regulator-only session on March 8 where they received a review of the NAIC privacy model history, a review of the NAIC work done on consumer privacy protections over the past several years, and the overall national privacy protections oversight landscape. Beard said that the working group will begin holding open calls with subject matter experts starting in April to enhance discussion of the issues to be considered by the working group drafts. After a general course of action is charted, the working group will schedule open calls to allow for industry and co input on the model, according to Beard. This process will be aided by an issue matrix, created by the NAIC legal team, which is intended to aggregate the thoughts the working group collects from subject matter experts, to compare with elements of the last model exposure draft from 2023, as well as against the older NAIC Insurance Information and Privacy Protection Model Acts #670 and #692 and any other drafts they deem relevant.

The new matrix "will be used as a tool by the working group to understand the central issues and provisions in the model," Beard told the full H Committee. The "working group intends to move forward with a focus on consensus building among members, industry, consumer groups, and fellow regulators as well as focus on transparency," she said.

By May, the newly reconstituted working group had met and began work on a way forward by posing questions on whether its members wanted to continue work on the existing draft NAIC Privacy Model Law; to revise one or both of the existing, older model laws; or to consider an option provided by the insurance industry.[26] The working group also had created a matrix of core privacy issues and had begun hearing from experts.[27]

Conclusion: Moving the agenda forward in a new era

A new NAIC president is at the helm, and a new NAIC CEO is in the wings, ready to make his mark. With many regulatory needs to address this is not the time to take a breath; rather, it's time to support the transition and push the agenda forward.

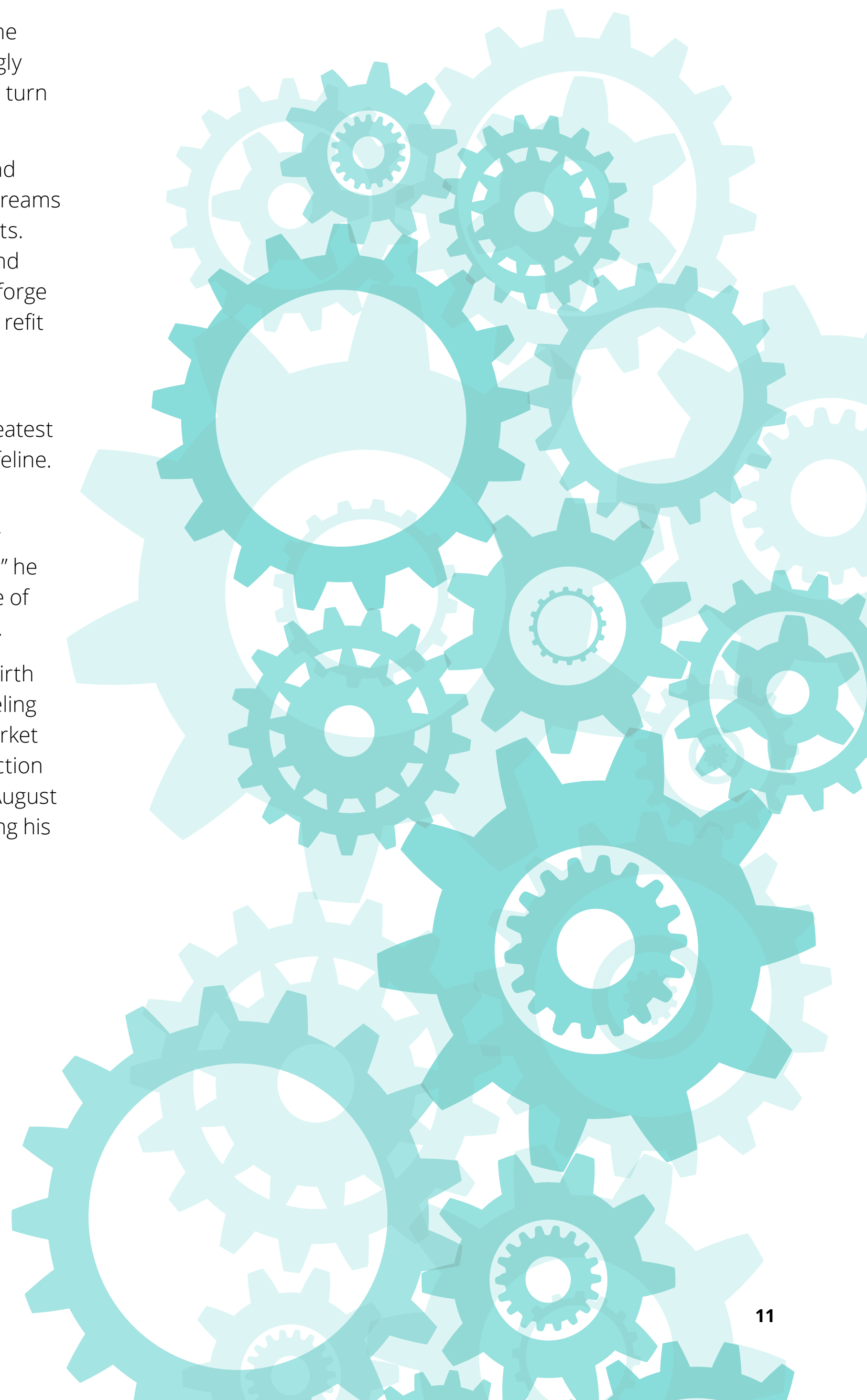
The NAIC Spring National Meeting was aspirational, a nod to the future, while underscoring the human element as AI increasingly appears to take the wheel. Regulators and NAIC staff strove to turn data into faces.

Data will be collected and analyzed, reviewed, and shared—and perhaps the cycle will be repeated through the various workstreams in property insurance, investments, and reserve measurements. However, regulators want to tell a story with these numbers and information even as they encourage industry to innovate and forge paths forward, but they'll be there to craft, tailor, and resize or refit guardrails for this innovation, they emphasized.

Mais told attendees, "The data on gaps represents more than numbers. Each statistic is an individual facing some of life's greatest risks. Access means opportunity and stronger footing. It is a lifeline. For so many, it is hope."

"We should ensure that the path is bordered by the necessary guardrails but also that it is smooth and points straight ahead," he stated, as he continued to steer the way forward for the future of insurance regulation and the greater US insurance ecosystem.

Expect further discussion on key items, from the potential rebirth of the privacy protections model, reports on third-party modeling oversight initiatives, and homeowners' property insurance market intelligence data call updates, to progress on closing US protection gaps at the Summer National Meeting, being held in Chicago August 12–15, 2024, all under the helm of Anderson, who will be leading his first national meeting in the City of Broad Shoulders soon.



NAIC accounting update

This section of the National Association of Insurance Commissioners (NAIC) update focuses on accounting and reporting changes discussed, adopted, or exposed by the Statutory Accounting Principles (E) Working Group (SAPWG), the Accounting Practices and Procedures (E) Task Force, and the Financial Condition (E) Committee during the 2024 Spring National Meeting. New Statutory Accounting Principles (SAP) Concepts (formerly known as *substantive changes*), which are changes in accounting principles or method of applying the principles, have explicit effective dates as documented below. All SAP Clarifications (formerly known as *nonsubstantive changes*), which are changes that clarify existing accounting principles, are effective upon adoption, unless otherwise noted.

Statutory Accounting Principles (E) Working Group

Current developments: The SAPWG adopted the following new SAP Concepts during the 2024 Spring National Meeting.

Ref#	Title	Sector	Revisions adopted	F/S impact[28]	Disclosure	Effective
2022-14	**SSAP No. 93—Low Income Housing Tax Credit Property Investments** **SSAP No. 94R—Transferable and Non-Transferable State Tax Credits**	P&C Life Health	Relates to the New Market Tax Credits (NMTC) Program established by Congress in December 2000. • FASB adopted guidance to permit the use of the proportional amortization method for all tax credit programs and tax investment structures. Adopted new SAP concepts in SSAP No. 93 expanding the scope to other qualifying tax equity investments. The SSAP was also renamed to *SSAP No. 93R—Investments in Tax Credit Structures.* Effective: **January 1, 2025** SSAP No. 94R was revised with new SAP concepts and renamed ***SSAP No. 94R—State and Federal Tax Credits*** to include both federal and state tax credits. Effective: **January 1, 2025, with early adoption permitted** As a result of these revisions, the annual statement blanks and instructions are being modified. In addition, risk-based capital will also be updated. Also affects the annual statement blanks and risk-based capital.	Y	Y	2025

Ref#	Title	Sector	Revisions adopted	F/S impact[28]	Disclosure	Effective

2019-21	**SSAP No. 21R—Other Admitted Assets**	P&C
		Life
		Health
			This item relates to the principles-based bond definition. Adopted revisions as follows:
			• Revises accounting and reporting requirements for:
			  • Debt securities that do not meet the updated definition of bonds.
			    · Initially reported at acquisition at cost, including brokerage and other related fees on *Schedule BA: Other Long-Term Invested Assets.*
			    · Subsequently reported at the lower of amortized cost or fair value, with changes recorded as unrealized gains or losses.
			  • Measurement of residual interests in such securities.
			    · Effective yield method with a cap on income of cash received. Carrying value may not accrete above the consideration paid.
			    · Practical expedient—Cost Recovery Method—distributions received reduce the book-adjusted carrying value prior to the recognition of interest income.
			Effective: **January 1, 2025, with early adoption permitted**
				Y	N	2025

Current developments: The SAPWG adopted the following SAP Clarification items as final during the 2024 Spring National Meeting or interim meetings.

Ref#	Title	Ins. type	Revisions adopted	F/S impact	Disclosure	Effective
2023-24	**Various SSAPs and INT 06-07: Definition of Phrase "Other Than Temporary Impairment"**	P&C Life Health	Rejection of *ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* (CECL). Effective date: **December 31, 2023**. Although adopted in 2024, the Working Group applied a retroactive effective date to ensure rejection applies to 2023 financial statements.	N	N	2023
2023-28	**SSAP No. 21R—Other Admitted Assets**	P&C Life Health	Adopted a data-capture disclosure for year-end 2024: Total amount of collateral loans, and the collateral loans admitted and nonadmitted, by qualifying collateral type. Also, exposed additional reporting lines for *Schedule BA: Other Long-Term Invested Assets.* • Currently, investments in collateral loans are not included in the AVR or in RBC requirements. The Working Group requests comment on whether collateral loans should be added to the Asset Valuation Reserve and to the risk-based capital requirements.	N	Y	TBD

Ref#	Title	Ins. type	Revisions adopted	F/S impact	Disclosure	Effective

None	**SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance**	Life
		Health
			Due to a 2023 liquidation order of a US-based life reinsurer, the Working Group exposed *INT 23-04T: Scottish Re Life Reinsurance Liquidation Questions.*
			• Apply paragraph 58 of SSAP No. 61R for recaptures and commutations.
			• Reinsurance recoverable evaluated for impairment under paragraph 42 of SSAP No. 61R rather than having a valuation allowance set up for potentially uncollectable amounts.
			• Reporting of receivables:
			    · Receivable for paid claims existing prior to the cancellation of the reinsurance contract—Line 16.1 – Amounts Recoverable from Reinsurers.
			    · Other amounts receivable from the reinsurer's estate—Line 25 – Write-in for Other Than Invested Assets.
			    · Amounts owed to the reinsurer—Line 9.3 – Other Amounts Payable on Reinsurance.
			• Admission:
			    · Secured by assets in an *Appendix A-785 – Credit for Reinsurance* compliant trust; or
			    · Paid claims prior to contract cancellation.
			Follow existing disclosure requirements and provide sufficient information to understand the nature and impact of the reinsurer liquidation.
			Effective date: **December 31, 2023**. Although adopted in 2024, the Working Group applied a retroactive effective date to ensure the interpretation applies to 2023 financial statements.
				Y	Y	2023

Ref#	Title	Ins. type	Revisions adopted	F/S impact	Disclosure	Effective
2023-30	**SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities**	P&C Life Health	Adopted revisions to clarify application of the admissibility requirements for downstream noninsurance holding companies. • Audit required unless it meets the look-through criteria.	Y	N	2024
2023-29	**Annual Statement Instructions**	Life	Adopted recommended annual statement instruction revisions for the Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR) on preferred stock to be consistent with *SSAP No. 32R—Preferred Stock.* • Removed the annual statement instruction guidance that directed all preferred stock to be allocated between IMR/AVR based on NAIC designation. • Clarified the annual statement instructions that realized capital gains and losses for redeemable preferred stock are included in AVR if the NAIC designation was 4-6 during the holding period (i.e., no change in AVR instructions for redeemable preferred stock). • Clarified the annual statement instructions that perpetual preferred stock is like other equity investments (including common stock; mandatory convertible preferred stocks, regardless of whether redeemable or perpetual; and SVO-identified preferred stock ETFs) and that all realized capital gains and losses are included in AVR.	Y	N	2024
2023-25 2023-27	**Appendix D—Nonapplicable GAAP Pronouncements**	P&C Life Health	Exposed rejections of the following FASB Accounting Standards Updates as not applicable to statutory accounting: • *ASU 2023-03, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022, EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock.* • *ASU 2023-04, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121,* which amends SEC paragraphs from the Accounting Standards Codification for the issuance of *SEC Staff Accounting Bulletin (SAB) 121.*	N	N	2024

The SAPWG exposed the following items for written comments by interested parties:

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-09	**SSAP No. 2R—Cash, Cash Equivalents, Drafts, and Short-Term Investments**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to clarify that asset-backed securities, mortgage loans, and other *Schedule BA: Other Long-Term Invested Assets* are not included within the scope of SSAP No. 2R and are not permitted to be reported as cash equivalents or short-term investments.	Y	N	TBD
2023-26	**SSAP No. 15—Debt and Holding Company Obligations** **SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to adopt, with modification, certain disclosures from ***ASU 2023-06, Disclosure Improvements***, including the following: • Unused commitments and lines of credit, disaggregated by short term and long term; • Accrued interest from repurchase agreements and securities borrowing; • Separate disclosure of significant (10% of admitted assets) reverse repurchase agreements; and • Counterparty disclosures for repurchase agreements and reverse repurchase agreements that are significant (10% of adjusted capital and surplus).	N	Y	TBD
2024-02	**SSAP No. 19—Furniture, Fixtures, Equipment, and Leasehold Improvements** **SSAP No. 73—Health Care Delivery Assets and Leasehold Improvements in Health Care Facilities**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to adopt, with modification, the leasehold improvement guidance from *ASU 2023-01, Leases (Topic 842), Common Control Arrangements,* modified to align with existing guidance. • Leasehold improvements between entities under common control shall be amortized over the useful life instead of a shorter period. Rejects the practical expedient for private companies and not-for-profit entities.	N	Y	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-03	**SSAP No. 20—Nonadmitted Assets**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to clarify that directly held crypto assets are nonadmitted assets for statutory accounting and to adopt the definition of crypto assets from *ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60), Accounting for and Disclosure of Crypto Assets.*	Y	N	TBD
2022-12	**SSAP No. 25—Affiliates and Other Related Parties** **SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance** **SSAP No. 62R—Property and Casualty Reinsurance** **SSAP No. 63—Underwriting Pools**	P&C Life Health	**Proposed SAP Clarification** This agenda item proposes to nullify *INT 03-02: Modification to an Existing Intercompany Pooling Arrangement,* which requires transferred assets and liabilities among affiliates in conjunction with the execution of a new reinsurance agreement(s) that substantively modifies the existing intercompany pooling arrangement to be valued at book value for assets and statutory value for liabilities. Exposed revisions to SSAP No. 25 and SSAP No. 63 to incorporate the guidance of INT 03-02 noting no analogous use of this provision. Added a disclosure to identify the statement value and fair value of assets received or transferred.	Y	Y	TBD
2024-01	**SSAP No. 26R—Bonds**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to clarify the guidance for debt securities issued by funds allowing them to be classified as issuer credit obligations if the fund represents an operating entity regardless of SEC registration status. Requests for comments and clarification to address interpretations that the revised guidance would permit feeder funds (and other structures that raise debt capital) to be classified as issuer credit obligations. Proposed effective date: **January 1, 2025**	Y	N	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-08	**SSAP No. 26R—Bonds** **SSAP No. 21R—Other Admitted Assets** **SSAP No. 30R—Unaffiliated Common Stock** **SSAP No. 32R—Preferred Stock** **SSAP No. 43R—Loan-Backed and Structured Securities** **SSAP No. 48—Joint Ventures, Partnerships, and Limited Liability Companies**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to the SSAPs to reference SSAP No. 21R for definition of and accounting and reporting for residual interests.	Y	N	TBD
2024-12	**SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to remove the reference to FASB Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk* for excluded items and explicitly list the exclusions within the SSAP. In addition, the Working Group exposed recommended annual statement changes to explicitly include the items for disclosure, including an example.	Y	Y	TBD
2024-10	**SSAP No. 56—Separate Accounts**	P&C Life Health	**Proposed SAP Clarification** Added this agenda item to clarify and improve consistency for assets measured at book value (or some other method of measurement). The Working Group also intends to improve guidance for fund accumulation contracts, pension risk transfers (PRTs), and registered index-linked annuities (RILAs). No exposed revisions.	TBD	TBD	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-06	**SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance**	Life Health	**Proposed SAP Clarification** Exposed revisions to require risk transfer to be evaluated in the aggregate for contracts with interrelated contract features, such as experience refunds. Also exposed revisions to refer to *Appendix A-791, Life and Health Reinsurance Agreements*, paragraph 6 when reinsurance agreements also combine a yearly renewable-term contract to ensure the entirety of the agreement must be evaluated for risk transfer.	Y	N	TBD
2024-11	**SSAP No. 101—Income Taxes**	P&C Life Health	**Proposed SAP Clarification** Exposed revisions to adopt, with modification, *ASU 2023-09, Improvements to Income Tax Disclosures.* • Consistent with the ASU, delete the disclosure of the cumulative amount of each type of temporary difference in paragraph 23.b. • Incorporate other disclosures for private companies regarding effective tax rate reconciliation.	N	Y	TBD
2024-04	**SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities**	P&C Life Health	**Proposed SAP Clarification** Exposed the agenda item and directed NAIC staff to work with industry in determining current application/interpretation differences on the reporting of securities lending collateral and repurchase agreement collateral for possible consistency revisions.	Y	TBD	TBD
2024-13	**SSAP No. 107—Risk-Sharing Provisions of the Affordable Care Act**	Health	**Proposed SAP Clarification** Exposed revisions to remove disclosures for the expired transitional reinsurance and risk corridors programs.	N	Y	TBD

<table>
<tr><th>Ref#</th><th>Title</th><th>Ins. type</th><th>Revisions exposed</th><th>F/S Impact</th><th>Disclosure</th><th>Effective</th></tr>
<tr><td>2024-05</td><td>Appendix A-791 Life and Health Reinsurance Agreements</td><td>Life
Health</td><td>At the request of the Valuation Analysis (E) Working Group, exposed a deletion of a sentence to the question/answer section of Section 2.c related to reimbursement to the reinsurer for negative experience.

Question/Answer – If group term life business is reinsured under a YRT reinsurance agreement (which includes risk-limiting features such as with an experience refund provision which offsets refunds against current and/or prior years' losses (i.e., a "loss carryforward" provision), under what circumstances would any provisions of the reinsurance agreement be considered "unreasonable provisions which allow the reinsurer to reduce its risk under the agreement" thereby violating subsection 2.c?
The following sentence in the answer to the above question is being misinterpreted.
"Unlike individual life insurance where reserves held by the ceding insurer reflect a statutorily prescribed valuation premium above which reinsurance premium rates would be considered unreasonable, group term life has no such guide."
Appears to provide a safe harbor even though a principles-based reserving provides that prudent mortality can be either higher or lower than Commissioner's Standard Ordinary Rates.</td><td>Y</td><td>N</td><td>TBD</td></tr>
</table>

The SAPWG also provided the following updates on current projects.

Ref#	Title	Ins. type	Revisions adopted	F/S Impact	Disclosure	Effective
2023-31	**SSAP No. 58—Mortgage Guaranty Insurance** **Appendix A-630 Mortgage Guaranty Insurance**	PC	Resulting from recent revisions to the Mortgage Guaranty Insurance Model Act (#630), the Working Group directed the development of revisions to SSAP No. 58 and *Appendix A-630*. The revisions to the model primarily relate to capital requirements. No exposure at this time.	TBD	TBD	TBD
	Accounting Practices and Procedures Manual (AP&P Manual) Editorial Revisions	P&C Life Health	Exposed editorial revisions to remove the "Revised" and "R," which were previously intended to identify a substantively revised SSAP, from SSAP titles and SSAP references within the AP&P Manual.	N	N	TBD
2024-07	***Annual Statement Blanks***	P&C Life Health	Exposed a project that proposed to add a new part to the reinsurance Schedule S in the Life/Fraternal and Health annual statement blanks and Schedule F in the Property/Casualty and Title annual statement blanks, which would include all assets held under a fund's withheld arrangement and would include a separate signifier for modified co-insurance assets. This schedule would be similar in structure to Schedule DL.	N	Y	TBD
	Update on the IMR Ad Hoc Subgroup	Life	The IMR Ad Hoc Subgroup focused its efforts on the following: • How IMR affects actuarial calculations • Definition and purpose of IMR • Impact of derivatives on IMR • Impact of reinsurance on IMR Future discussions will focus on the derivatives affecting IMR. • Concepts for how companies determine effectiveness for these "economically effective" derivatives that do not qualify as "accounting effective" under *SSAP No. 86—Derivatives* as well as the concepts reporting entities have used in determining the amortization time frame for IMR generated from derivative gains/losses.	Y	TBD	TBD

Endnotes

1. National Association of Insurance Commissioners (NAIC), 2024 Spring National Meeting schedule, March 15–18, 2024; NAIC, National Meetings homepage, accessed May 16, 2024.
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3. NAIC, "Gary Anderson marks 'Day One' as NAIC CEO under new leadership structure," press release, May 1, 2024.
4. NAIC, "NAIC announces Gary Anderson as CEO," press release, March 16, 2024.
5. NAIC, "NAIC launches foundation ," press release, April 6, 2022.
6. NAIC, Executive (EX) Committee and Plenary meeting materials—attachment one, 2024 Spring National meeting, March 18, 2024.
7. Puneet Kakar, "Financial inclusion and the underserved life insurance market, part two," Deloitte Insights, September 15, 2021.
8. NAIC, Special (EX) Committee on Race and Insurance, accessed April 25, 2024.
9. NAIC, "Life Insurance and Annuities (A) Committee March 17, 2024, minutes," accessed April 25, 2024.
10. NAIC, Big Data and Artificial Intelligence (H) Working Group meeting materials, 2024 Spring National Meeting, March 16, 2024.
11. NAIC, "Valuation of Securities (E) Task Force March 16, 2024, minutes," VOS Task Force meeting minutes, accessed April 25, 2024.
12. NAIC, "Financial Condition (E) Committee March 18, 2024, minutes," accessed May 18, 2024.
13. NAIC, NAIC Structured Securities Group, "IRE RBC Note," accessed May 22, 2024; NAIC, Risk-Based Capital Investment Risk and Evaluation (E) Working Group exposure drafts, accessed May 22, 2024.
14. NAIC, Risk-Based Capital Investment Risk and Evaluation (E) Working Group exposure drafts, accessed May 22, 2024.
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17. NAIC, "Life Insurance and Annuities (A) Committee March 17, 2024, minutes," accessed May 18, 2024.
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22. Insurance Institute for Business and Home Safety homepage, accessed April 25, 2024; Strengthen Alabama Homes homepage, accessed April 25, 2024.
23. NAIC, "NAIC adopts first National Climate Resilience Strategy for Insurance," April 5, 2024.
24. NAIC, "Joint meeting of the Property and Casualty Risk-Based Capital (E) Working Group and Catastrophe Risk (E) Subgroup," 2024 Spring National Meeting, March 17, 2024.
25. NAIC, "NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers," December 2, 2023.

26. NAIC, Insurance Consumer Privacy Protection Model Law #674 exposure draft, 2023 Privacy Protections Working Group, January 31, 2023.

27. NAIC, Privacy Protections (H) Working Group, accessed May 22, 2024.

28. NAIC, "Core Privacy Issues Quick Look – as of 5/6/2024," accessed May 22, 2024.

29. Financial statement impact

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