



Memo

To: Commissioner Laura Cali Robison (OR), Chair, NAIC Big Data (EX) Working Group
cc: Tim Mullen, NAIC Director of Market Regulation
From: Tricia Matson and Dave Heppen, RRC
Date: July 28, 2017
Subject: RRC Response to the NAIC Big Data (EX) Working Group regarding the *Shared Resource – Complex Models Proposal*

Risk & Regulatory Consulting (“RRC” or “we”) supports the efforts of the Big Data (EX) Working Group (“BDWG”) to create a mechanism that increases the resources available to states for the review and collection of data related to complex ratemaking models for property and casualty insurance coverages. We also support the conceptual framework proposed for the mechanism, consisting of a Predictive Analytics Team (“PAT”) and a Predictive Analytics Working Group (“PAWG”). We have reviewed the proposal and offer the following comments for your consideration. We would be glad to answer any questions, and we appreciate the opportunity to offer our comments.

Model Definition

The proposal refers in several instances to “models”. RRC recommends that the proposal specify the types of models to be included within the PAT’s purview, as “model” can be interpreted in numerous fashions, not all of which may be relevant to the BDWG.

Checklist

The proposal recommends the development of a checklist by the PAWG, consisting of data elements required to be included in each personal lines rate filing. The State is expected to review each filing against the checklist to determine whether all required data elements have been included. We recommend that the checklist be kept straightforward and principles-based in order to maximize its applicability and to minimize the burden on this aspect of the states’ reviews.

State Review

The proposal notes that the State will conduct its review in parallel with the PAT *on the initial assumption that the model is statistically valid and appropriate*. RRC recommends deleting the italicized language from the proposal, as it potentially suggests that the State should not be considering the statistical validity of the model, which is inconsistent with the goal that the “mechanism shall respect and in no way limit states’ regulatory authority”. RRC believes it is sufficient to say that the State will conduct its review in parallel with the PAT rather than waiting for the PAT to complete its review and issue a report.

Role of PAWG

RRC suggests that the BDWG consider adding to the role of PAWG one of an advisor, working collaboratively with state insurance regulators, responding to issues and questions, and recommending requirements and interpretations. This would be similar to the approach being used for reviewing complex Principle-Based Reserve (PBR) models, which will involve an expert group at the NAIC tasked with assisting in the evaluation of models combined with the Valuation Analysis Working Group acting in an advisory role.