



NAIC update: 2024
Fall National Meeting

Center for
**Regulatory
Strategy**
US

Table of contents

Introduction: Mile-high goals, and a promise of clearer views	1
Data management: Cyber, algorithms, and privacy protections	2
Investing and solvency matters	6
Focus on climate resilience and mitigation efforts	9
International insights and implementations	11
Looking forward	13
Endnotes	14
Contacts	16

Introduction: Mile-high goals, and a promise of clearer views

The National Association of Insurance Commissioners (NAIC) assembled just outside the mile-high city of Denver, Colorado, in November, in a meeting offering a clear and wide-ranging perspective on where state regulation has been—and where it is going.

The NAIC Fall National Meeting, which took place November 15–19, kept a tight focus on oversight at the state level and a firm hand on the continued work products of its various committees and task forces, with happy acknowledgments of acceptance of US capital calculation methodology in the international supervisory realm.

Several multi-year efforts came to fruition or were heralded during the fall meeting while other efforts on complex issues involving a range of stakeholders, such as a privacy protections model, earned more months of drafting and review.

The NAIC highlighted the expertise of state regulatory officials, honoring longtime colleagues and bidding farewell to Mike Kreidler, who retired after 24 years as Washington's insurance commissioner.

Additionally, Vermont Insurance Commissioner Kevin Gaffney, who had been very active on key workstreams and committees before the NAIC, announced his retirement.

The annual Ray Farmer Award for service went to Oklahoma Insurance Commissioner Glen Mulready and to Arkansas Insurance Commissioner Alan McClain. Andy Beal, the NAIC chief operating and legal officer, won the first award for excellence in regulatory service.

Outgoing NAIC President Andrew Mais praised the states' resilience in addressing issues, from the pandemic to severe climate events.

Let's dive in and review some of the big issues that were on the table in Denver.

Data management: Cyber, algorithms, and privacy protections

Evaluation and enforcement around the corner?

The Big Data and Artificial Intelligence Working Group continued to discuss with personal auto insurance industry members their use of artificial intelligence (AI) and the development of their internal governance and testing programs as the AI Model Bulletin guidance that was developed the year before is implemented in more states.¹

The NAIC appears to be focused on how the use of Generative AI in areas such as claims management and fraud detection could result in unfair or inaccurate outcomes based on data input and wants to see controls in place in the industry.

The group made clear that it is ready for next steps after the adoption of the AI Model Bulletin in December 2023, and it will move toward a deeper discussion on consumer outcomes in the year ahead, driven by analysis of the current framework against any AI shortcomings in treatment of and harm to consumers.

NAIC action resulting in regulatory guidance or disclosures could arise from this work, and there could be scrutiny of whether certain AI development practices could even be prohibited, according to the discussion at the session.² These practices will likely be discussed at the next meetings in the spring, in Indianapolis, and in the summer, in Minneapolis.

The Big Data and Artificial Intelligence Working Group announced it would shift its discussion on the current AI guidance and model construction to systems evaluations and consumer outcomes. By the end of the year, about 20 states had adopted the NAIC's 2023 AI guidance, with some states—for example, New York's Department of Financial Services (NYDFS) in its circular letter—fashioning their own rules of the road based on existing statutes or new legislation.³

Specifically, this new focus could lead to a gap analysis to see how the guidance performs when confronted with the potential harms of AI use. This gap analysis could lead to additional regulatory filings, more disclosures to consumers or regulators, or new rules potentially. It could also lead to new prohibitions in AI development or certain practices, according to discussions by regulators at the Denver meeting of the Big Data and AI Working Group, which reports to the Innovation, Cybersecurity, and Technology Committee.⁴

Additionally, the relatively new Third-Party Data and Models Task Force plans to enter its second year with a goal to propose and develop a new framework for the regulatory oversight of third-party data and predictive models. Despite a yearlong series of presentations on a variety of models, the task force has not identified which models or even which types of models it is targeting nor whether the framework will use existing regulatory tools or perhaps create a new model law or framework.

Interest and engagement on the subject was high at this meeting, with many perspectives shared, offered, and debated from a wide variety of treatment discussed and debated, demonstrating the high stakes of third-party oversight.

The chair of the task force, Colorado Insurance Commissioner Mike Conway, will survey task force members to find out which third-party models concern them the most. What is certain is that insurers remain responsible for the outcomes of third parties with whom they contract.

Going forward, Conway laid out a two-step approach: The group will be identifying 1) regulators' most concerning risks in their markets, and 2) tools already on hand for regulating those third-party models, whether it is through the insurers themselves or through some tool regulators might already have that could be developed "in a more robust way."

He pointed to the scope of presentations before the task force, such as those on current state solutions to issues with third parties, to highlight how different states have identified risks and issues in their market and how they are taking different approaches from regulatory standpoints in addressing them. "We really want to learn from what's happening but build structure around it," Conway said.

He continued, "That two-step approach will help us deal with the capacity concerns we all have, too. We know we can't regulate every third party—and to Commissioner [Michael] Yaworsky's point, we don't want to regulate every third party that's operating in our industry. We need to go about identifying what actually truly matters. So that's where we're going to start to have some conversations."

Conway said it might make sense to start looking at next steps to developing a regulatory approach to third-party models, but it would start with regulator-to-regulator conversations.

Florida Insurance Commissioner Yaworsky stated that regulators are not at all interested in whether insurers are using a certain vendor for back-end operations; rather, they are very concerned about and feel the need to be thoughtful on the pricing of premiums, ratings, loss costs, modeling, settlements, and the products of the vendors' operations.

Yaworsky said the gravity of models' used is almost difficult to measure. "That's why we have almost 200 people in this room right now," he said. He cited a real-world example in Florida where, for the past two hurricane events, most catastrophe modeling loss estimates prior to landfall have been "wildly inaccurate" into the tens of billions of dollars. "As we are using these tools, these technologies, it's incredibly important that everyone at the table understand them, how they are used," he urged.

The charges for the Third-Party Data and Models Task Force state outright that the goals are to develop and propose a framework for the regulatory oversight of third-party data and predictive models.⁵

Some state regulators described how they treat third-party agents and data and to what degree they hold them responsible. Texas, for example, has filing requirements as of January 1, 2024, and the state's insurance department will hold insurers responsible for even third-party faulty data.

A Pennsylvania regulator on the task force noted that the department isn't currently regulating third-party vendors but thinks we have to. The regulator expressed interest in risk classifications and pricing concerns when a higher rate is charged for someone because an unregulated third-party vendor didn't have them in its database. The increased use of third-party vendors by insurers has caught the interest of the department. This vendor system problem can cause rates to be higher if the vendor is not in a database, with customers paying 54% more, the Pennsylvania official said. The state has draft guidelines about how to communicate with policyholders and suggested that the policyholder could then be asked for any missing information when there is a no-hit from the third-party data vendor. Regulators also cautioned against the use of rating on risk characteristics that can't possibly be provided. This does not apply to credit where the lack of credit history is deemed to be a risk classification.

A NYDFS official, Nick Krafft, noted regulators are in the implementation phase of Circular Letter No. 7, as it is called, published in July 2024 on insurers' use of AI and external consumer data and information sources (ECDIS) in underwriting and pricing. Third-party issues are addressed head-on in the risk management section and in the life cycle of use of data, which includes due diligence of third-party termination. In the fairness section, when external data is sourced to third parties, there may turn out to be disparate impacts especially with nontraditional data, the official said. Basically, New York's AI-focused Circular Letter maintains the expectation that insurers conduct appropriate oversight over third-party vendors.⁶ This does not mean that insurers are expected to understand the detailed inner workings of AI, but rather should perform appropriate due diligence and oversight relative to the risks of the ECDIS or AI systems used by third-party vendors, and are ultimately responsible for the outcomes of that use, the circular letter states.

Industry weighed in with concerns about the direction of a future framework, with one representative from the National Association of Mutual Insurance Companies (NAMIC) expressing she had a "murky view" of what the task force was planning and hoped it would not be "disjointed" from the needs of the market, according to the NAMIC representative. Lindsey Klarkowski, director of data science and AI policy for NAMIC, said that unless and until the task force can define the scope of third-party data and model vendor, it would be premature for the industry to participate in any meaningful way on what any regulatory frameworks should look like. NAMIC shared its thoughts as part of a presentation to the task force.⁷

Industry representatives also suggested that the task force review NAIC guidelines already in place, such as those on third-party administrators and advisory organizations, and collaborate with other NAIC working groups to avoid overlap, with Iowa Insurance Commissioner Doug Ommen requesting ideas and fruitful discussion to narrow down considerations as to what type of third-party data and model vendors the task force is primarily concerned about and wishes to address or review in the coming year.⁸

Broader issues of equity in insurance pricing

One of the presentations that garnered a lot of interest at the fall meeting was one of the earliest. At the Special Committee on Race and Insurance's property casualty workstream, the District of Columbia Department of Securities, Insurance and Banking (DISB) presented and discussed its final report on the evaluation of unintentional bias in private passenger auto insurance.⁹

Since the draft was first published in May, DISB has clarified the definition of harm to the use of rating factors correlated with race that may result in members of a protected class paying higher premiums, particularly given the imperfection in rating classification systems.

The next steps include creating a balancing test to look at factors that are both correlated with losses and with race, and to conduct studies on the types and causes of claims by a breakout of DC drivers. Regulators also want to study the impact of the differential in various populations' driving infractions.

Commenters at the meeting pointed out that DC's demographics might not match other cities across the country, in advance of any results being applied by regulators in other jurisdictions.

Presentations from the industry focused on model testing and frameworks and analyzing the loss environment in finer geographic detail. There was also discussion of the use of statistical methods to remove the potential contribution of protected class information on the final variables used in algorithmic models.

Minimal portal, maximum efficacy

Robust discussions between industry and regulators on the creation of a NAIC portal that would be a repository for confidential cybersecurity events headlined the Cybersecurity Working Group session. The portal, once functional, is intended to bolster the current breach event notification process within the insurance sector. At first, it would be designed to be minimal, with flexibility for future expansion built in. Regulators indicated they would first be focused on disseminating cybersecurity event notices under the existing Insurance Data Security Model Law (#668) to create a uniform notification method for state regulators. The portal is expected to align with existing legislation in states that have adopted the model law.¹⁰

Michael Peterson, vice chair and a Virginia insurance regulator, described the plan for the portal's development earlier as having a two-pronged approach: 1) a portal where the testing of security and access controls would be tested and examined to ensure that stringent controls are in place, and 2) implementation and management involving the convergence of any future reporting laws and statutes.¹¹

The effort is similar to federal banking regulators' rules that require a banking organization to notify of any "computer security incident" that rises to the level of a "notification incident," as soon as possible and no later than 36 hours after the banking organization determines that a notification incident has occurred.

"At first, the effort will be narrowly scoped, said state regulators chairing the working group. However, the working group will get behind the effort because it is something that the states need to have as "we are behind the eight ball on cybersecurity now," according to Cynthia Aman, working group chair and a Missouri state insurance regulator. The implementation of the portal is meant to provide a repository of events to reduce regulatory reporting burdens on insurers.

"I think putting forth the tabletop exercise will answer a lot of questions for a lot of people," Amman said, further indicating that the job will be a Herculean task and will involve input from experts, but that the NAIC feels this will be a good project and stakeholders in the industry will "be pleasantly surprised in 2025."

Privacy protections draft model work reinvigorated

Under new Privacy Protections Working Group Chair Beth Kelleher Dwyer, Rhode Island's banking and insurance superintendent and incoming NAIC vice president, the long-running efforts to update or create a new model law will continue into 2025.

The NAIC wants to spend the time to get a privacy protections model that will be supported by state legislature and therefore has extended the time to draft and adopt revisions to the legacy Privacy of Consumer Financial and Health Information Regulation (Model #672) to 2025's fall national meeting.

Efforts to create a new model law were put on hold over a year ago; however, the new approach of updating a previous model and releasing portions of the draft in sections for public comment is now in process. When the entire draft model is ready for exposure, comments will be invited on all sections, Dwyer noted.

The NAIC also heard that federal privacy legislation is likely not going to progress in Congress in 2025, with concerns it might stifle innovation.

While the NAIC working group considers input, consumer representatives delivered a presentation on privacy principles centered on secure (and sometimes limited) collection, treatment, and access of nonpublic personal information from current and potential customers, and deletion of that information when it is no longer needed to process transactions.

Dwyer asked the consumer advocates whether there were any parts of the draft privacy protections model they felt did not meet the principles outlined. Harry Ting, a health care consumer advocate, did not identify any, but he voiced support for adjustments to the third-party service provider arrangements, or section 5, of the draft model.¹²

Investing and solvency matters

Monitoring offshore reinsurance/asset adequacy testing

The Risk-Based Capital Investment Risk and Evaluation Working Group (RBC IR&E) under the NAIC's parent Financial Condition Committee outlined work ahead in 2025 on a few fronts.¹³ Through engagement with the American Academy of Actuaries (Academy), the NAIC will continue to focus on collateralized loan obligations (CLOs) and residual tranches to develop a methodology for calculating CLOs' RBC. The interim factor for life insurers currently is set at 45%, as adopted by the working group earlier in 2024. A slight delay in data acquisition from rating agencies had also delayed the work of the Academy in addressing asset-backed securities (ABS) a bit, which attendees learned as part of the working group's update. However, with data in hand, the group is trying to determine comparable attributes that can be used to assign RBC factors based on those attributes. If the approach falls short, the NAIC will then revert to a modeling methodology for individual CLOs, according to Barlow, who chairs the working group.

Interested parties should continue to engage with the NAIC as the RBC IR&E Working Group is scheduled to receive an update from the Academy on the structured assets RBC project in February.

The group is collaborating closely with the NAIC's Securities Valuation Office (SVO) to evaluate available information, and updates are slated for the spring national meeting, but the earliest a proposed methodology is expected to be floated will be during the subsequent summer national meeting.¹⁴

In addition to this and another initiative of this solvency-focused working group and its work with the Academy in examining ABS within a portfolio, the group has initiated a review of bond funds. Following discussions with industry stakeholders, regulators on the working group have decided to concentrate on three fund types currently subject to different RBC charges or treatments in their RBC capital calculation: exchange-traded funds; US Securities and Exchange Commission (SEC) registered mutual funds; and private funds. The RBC IR&E Working Group's objective is to determine whether these funds possess similar or differing risk profiles and if they justify distinct treatments under different categories, according to Barlow. The work aims to identify principles that could extend whatever treatments it develops for these funds to other fund categories—work that will continue to unfold in 2025.

The NAIC took a big step toward fulfilling one of its 2024 priorities: reducing blind reliance on credit rating providers and modernizing the role of the SVO. After much discussion through the many meetings over prior months, the organization adopted amendments to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*. This gives state insurance regulators discretion over the designations given to securities that are otherwise considered filing exempt (FE) by the SVO.¹⁵ The now-amended manual allows state regulators to ask insurers to submit certain securities that otherwise are rated by credit rating agencies to undergo analysis by the SVO for individualized credit assessments. The NAIC has called this effort a backstop review of the credit rating agency evaluation sphere to make sure any FE securities that state regulators might want to evaluate themselves receive an NAIC risk designation commensurate with their perceived state regulatory risk.¹⁶

The authorizing procedures for the SVO's discretion over NAIC designations assigned through the FE process is effective January 1, 2026, but the date can be amended, if additional time is needed to implement the applicable technological enhancements.

The procedures will allow for a written summary of the investment office's analysis and its view of why it believes the credit rating providers' (CRPs) risk assessment is an unreasonable assessment of investment risk for regulatory purposes. Staff will be engaged as well as other authorized parties that have agreed to the confidentiality provisions required by the NAIC.

Regulators discussing the adoption of the measure at the executive/plenary meeting said that it is clear subgroup regulators will have authority over any challenge, and it ensures open dialogue between regulator and SVO. They reiterated that SVO is not a rating agency, and they are not relying on the SVO to provide all designations.¹⁷

Shortly after the fall meeting concluded, the NAIC released an request for proposal to hire a consultant to design and help implement a new due diligence framework overseeing the use of CRPs.¹⁸ This effort is part of its holistic investment framework for the oversight of insurer investments that grew out of an effort to scrutinize the shift in recent years in the life insurance industry toward more private equity ownership and more complex, private assets and offshore reinsurance transactions life insurance.¹⁹

Meanwhile, the NAIC's Center for Insurance Policy and Research forum hosted an exploration of insurers' short-term and long-term exposure risks associated with insurer commercial real estate investments and how the industry and regulators are addressing these challenges. The NAIC noted that the issue is on the Financial Condition Committee's radar.²⁰

One academic paper presented by researchers from Florida State University and St. John's University on the climate risk exposure of US life insurers' commercial mortgage loan portfolios found that the size of newly issued commercial mortgages by life insurers grew by 51% (\$56 billion) in the United States from 2012 to 2019.²¹ The significant holdings are vulnerable to both the physical and transitional risks of climate change and suggested regulators and policymakers examine if underwriting standards have changed due to flood insurance reforms and RBC risk charges. The paper called upon regulators to consider requiring insurers to provide more detailed geographical and financial data, perhaps using ZIP codes as a location proxy to prepare for and analyze the increasing risk of climate change impact in the life insurance sector.

Investing for good

In a special session on impact investing, then NAIC President Mais announced a "first of its kind" collateralized fund obligation that was designed to both do good—provide infrastructure investments that benefit communities as impact investing—and fit into the current state insurance solvency framework.

He explained the two-plus years of hard work that went into the collaboration among a coalition of regulators from five states, the life insurance industry, and philanthropic organizations. The goal was to use capital to make positive societal impacts on communities and the environment, and part of Mais' priority as a leader, as he noted, was to "mind the gap." The group had to define what it meant by impact investing—not only on behalf of clients and insurance companies, but using nonfinancial indicators that produce real improvement on society. The insurance industry was one of the first movers to mitigate the environment and adapt to help make a difference with capital, said Mais, describing what became known as "Project Moonshot."

"We collaborated, we coordinated, we shared our thoughts. We knew the goal we wanted to reach and we got there. I look forward to this being the start of so much more. We have an industry that can benefit from that need for investment," Mais said before turning the discussion of the particulars over to a representative of a global asset manager owned by a larger insurer.

The states involved in the coalition are California, Connecticut, Iowa, New York, and Wisconsin. According to a press release from the company, the goals of the investment are affordable housing, sustainable energy infrastructure for commercial real estate and resource efficiency, mitigating carbon emissions, and expanding access to affordable basic services by companies.

The presenters discussed how the investment had to meet certain criteria: Can it generate financial returns? Yes, they answered, for all. Can it be done at the market rate? Can it sit on Schedule D? Is it scalable? Can it be used for asset and liability management (ALM) purposes? And is it repeatable? The investment structure created was answered in the affirmative to all of these criteria, they said. It is a hypothetical asset-backed structure, which would aggregate that pool of investments, "drop them on their side," and create tranches, leading to an investment-grade note that all insurers require in their investments.

Coalition members championed the structure and the cause—the drive toward an inclusive transition to a sustainable economy covering as many Americans and individuals as possible with quantifiable results in affordable housing and health care and more. One coalition member observed that there is no state that does not advocate for this. A coalition member echoed the Connecticut regulator's sentiment that this investment is a catalyst to bring forth new ideas to our group of regulators, and thus its work on impact investing solutions based on collaborative efforts among regulators and the insurance industry is not done.²²

Focus on climate resilience and mitigation efforts

Dialogues and resolves

Resilience and expanded training initiatives were featured as tools for communities, including regulators, to help deal with the strain on the insurance markets with higher premiums, exposures to flooding, wildfires, and extreme heat.

Louisiana Insurance Commissioner Tim Temple underscored the sentiment expressed by many state regulators throughout the meeting: Fortified structures are the path to insurability and affordability.

"We must build more resilient homes," he explained during the Climate and Resiliency Task Force meeting.

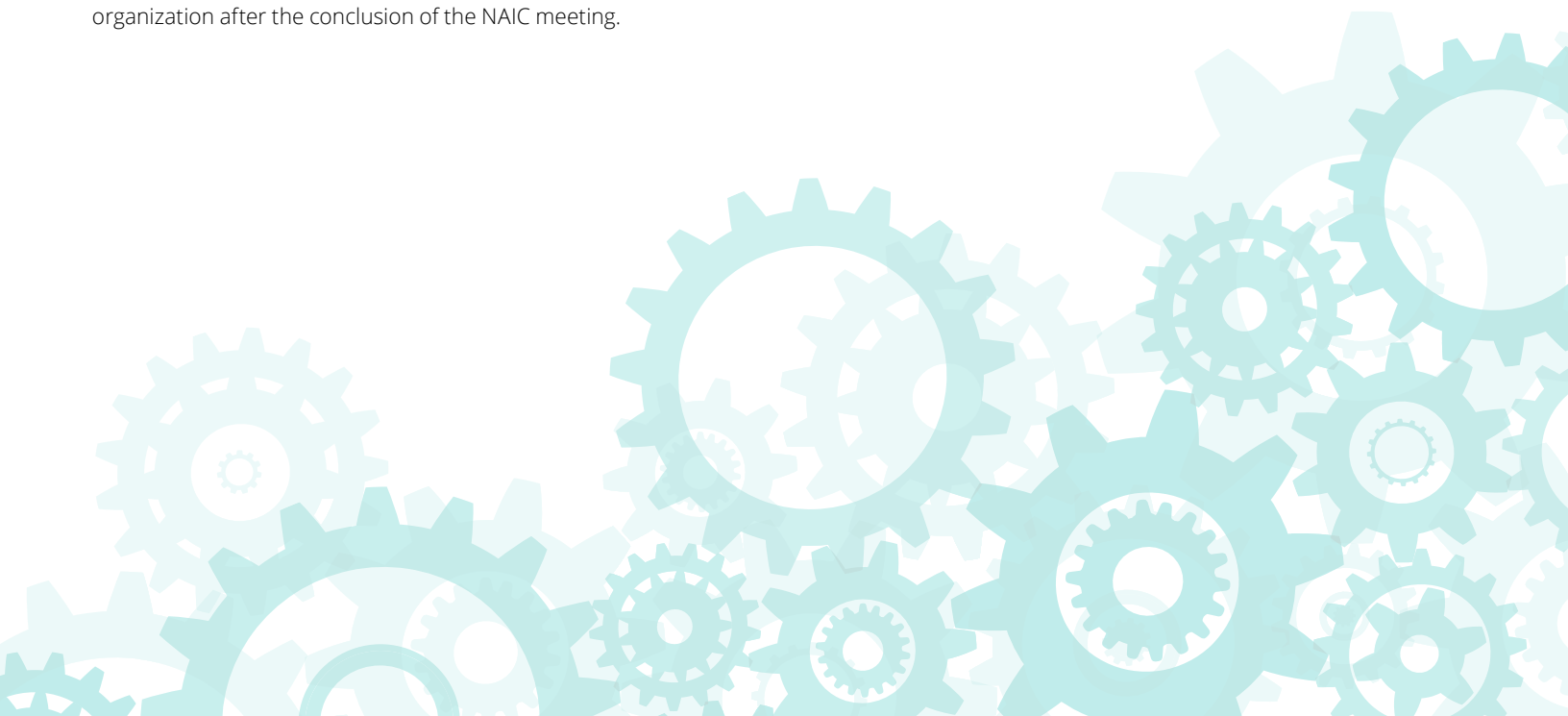
Both insurance markets and reinsurance markets are responding favorably to it, Temple said, discussing how rebuilding helps slow storm surge and wind speeds. If we make the communities insurable, we make them resilient, he added. Temple credited the Strengthen Alabama Homes Initiative for its precedent-setting work in fortification efforts and said Louisiana was drafting off Alabama's plan, which has allowed Louisiana to be more efficient in its approach. Other state insurance commissioners from different regions of the country also discussed initiatives for resilience programs they have based off the state program.²³

The NAIC meeting participants also pointed to the Strengthen Homes Program model act created by the National Council of Insurance Legislators (NCOIL) that was teed up to be adopted by that organization after the conclusion of the NAIC meeting.

Participants in the task force also described the devastation of wildfires and lessons learned. A Colorado state insurance regulator noted that there has been an issue of underinsurance in his state, which was revealed during the Marshall Fire in 2021. Other states and territories also voiced similar concerns. Colorado's Division of Insurance is in the midst of conducting a study with a third party to look at the issue of homes that stand after a fire but might need remediation due to ash and smoke. The Division aims to conduct a smoke, soot, and ash study for January 2026.²⁴

Colorado Deputy Commissioner for Property and Casualty Insurance Jason Lapham added that without remediation standards, consumers are left in the middle and don't know whether their homes are safe to live in. Meanwhile, people are moving more into high-risk areas where there might be nonrenewal of insurance later, others warned in discussions with the task force.

Federal efforts with reauthorization of the National Flood Insurance Program (NFIP) next spring and discussions at the Treasury regarding ongoing efforts on hurricanes were also spotlighted along with the affordability of flood insurance pricing.



Commissioner/state legislator dialogue

The “crisis in the property insurance market,” as it was termed by NAIC incoming President Elect and Virginia Insurance Commissioner Scott White, formed the focus of the commissioner/state legislator dialogue. He noted that the state insurance departments are getting many more calls from legislators and a lot more complaints, especially in the wake of those exposed to flood claims and perils. Many are not covered or covered fully by flood insurance, exposing protection gaps in the population, according to White.

Regulators and state legislators from states like Oklahoma discussed how the homeowners market in storm-vulnerable geographies are “always in some state of distress” and, with insurance coverage hikes and storms increasing, there is a need to communicate to policyholders the dynamics of what is happening in the market. One Oklahoma representative noted that their state does not have an availability issue but an affordability issue.

Virginia’s White noted that with 2020 being a record year for storms and claims activity—an inflection point—the NAIC formed an executive task force and ultimately adopted a climate resilience strategy.²⁵ The strategy’s pillars include monitoring financial solvency to better understand and assess potential solvency impacts, which includes embedding climate stress testing and climate scenario analysis into routine financial analysis, and testing and understanding how catastrophe models are used. Catastrophe modeling is an increasingly important tool in insurance solvency regulation, White noted. The collection of data to help close protection gaps is also key, he said, citing the work of the NAIC with its property and casualty market intelligence (PCMI) data call, the largest in the history of the NAIC. At the time of the Denver meeting, the NAIC reported that asking and addressing questions on the data received from insurers was still underway.²⁶

White said the NAIC is thinking of conducting more of these data calls in years to come, which will now and in the future “provide us with insights we don’t have today.”

Looking forward to the effects of climate on balance sheets, P&C insurers are also getting ready for filing disclosures that were adopted by the Financial Condition Committee at the August national meeting “on their climate-conditioned catastrophe exposure for hurricane and wildfire only in the catastrophe risk component of their RBC filings.” They went into effect at year-end 2024 but are due March 1, 2025. The NAIC suggested using resources from its Climate Scenario Resource Center in the preparation of these interrogatories.²⁷

International insights and implementations

In the Q&A session hosted by International Association of Insurance Supervisors (IAIS) Secretariat Jonathan Dixon, he began with the headline news topic of the week on the international front—acceptance of the international capital standard (ICS)—along with the US's approach. Dixon expressed the gratification shared by US regulators and industry attendees in the recent news that the organization had “crossed the finish line” in developing an ICS. The ICS approval includes the US-developed methodology, the aggregation method (AM) for capital calculation, which yields comparable outcomes to the ICS. Days before the fall meeting began, the IAIS had concluded that the US methodology “provides a basis for implementation of the ICS to produce comparable outcomes.”²⁸ Currently, there are a dozen US firms known as internationally active insurance groups (IAIGs) affected by the new ICS.²⁹

The IAIS made it official at the annual meeting in Cape Town in early December.³⁰

The ICS project, over a decade in development, “will make a big difference in terms of the strength of the global insurance sector, and the resilience of the sector and policyholder protection for the large amount of the global insurance sector covered by globally active insurance groups,” Dixon told Q&A.

The US method, AM, was developed by Federal Insurance Office, the Federal Reserve Board, and the NAIC and member states. Implementation will begin over the next couple of years with targeted jurisdictional assessments to the IAIS aiming to start in 2027.³¹ The IAIS will be assessing whether the implementation of the AM produces at least the same level of prudence as the ICS and similar triggers of supervisory intervention. The comparability assessment of the provisional AM highlighted some areas where work is needed during the implementation of the final AM to help with convergence of the standard, specifically treatment of interest rate risk and appropriate timing of supervisory intervention.

The global US life insurers under some scenarios had different results due to interest rate treatment versus results under the regular ICS. The triggers for supervisory intervention on group capital adequacy grounds did not seem as strict as the regular ICS.

In aggregation, group capital resources are the sum of the adjusted available capital (determined at the legal entity level) for the underlying entities plus any qualifying financial instruments. Group required capital is the sum of the scaled adjusted required capital for the underlying entities.³²



The next chapter will be a multi-year implementation process, which begins with honing an implementation methodology. Patience on the development has already been rewarded, just as it was back in October 2013 when the IAIS announced it would develop a risk-based global ICS in response to the request by the Financial Stability Board (FSB) to create a framework to oversee IAIGs.³³

Dixon noted that, aside from the ICS work, addressing protection gaps will be a key focus of the IAIS going forward, building on a previous call to action in a paper from the year prior. He noted the issue was taken up by IMF and World Bank at their meeting in Washington in late October. It was the first time an insurance topic was such a high-profile topic at their annual meetings, according to Dixon.

These issues of the growing challenge of insurance protection gaps and the urgency of taking actions to address them are certainly on the global policymaking agenda, he said.

He acknowledged that the IAIS also has important work ahead surveying some critical initiatives. These include updating its application paper on how insurers can support markets, with an intensive process on how to reflect the lessons that have been built up over the past 10 years since the last paper was published on the topic for the revised update.

Dixon, who has headed the IAIS since 2017 after serving as deputy executive officer at the Financial Services Board of South Africa, said that digital innovation will continue to be a focus of international supervisors, with a publication paper on AI expected to be exposed for consultation later in November. In fact, the it was published the day after the Q&A with Dixon.³⁴

The organization has also just finished the consultation process on operation resilience objectives and wants to develop a tool kit around relevant supervisory practices to put those principles into action, with a consultation on this topic expected for the first half of 2025.

Conduct and culture remains an important topic for the IAIS as well, and it seeks to publish that application paper on this, as well.

Dave Snyder, a policy vice president with the American Property Casualty Insurance Association (APCIA), urged the IAIS to be expansive in its exploration of insurance issues and further queried if the IAIS is engaged with others in the global sector outside of insurance to address underlying losses in the protection gaps.

Looking forward

The NAIC, formed in 1871, will hold its first national meeting of 2025 in Indianapolis, March 22–26, marking the beginning of North Dakota Insurance Commissioner Jon Godfread’s tenure as NAIC president. Expect to see the new leadership unveil its priorities for the year and prepare to further engage with Congress on topics such as the FIO’s role, NFIP reforms, and property insurance markets. While the winds of Washington may whip, ushering in new and perhaps dramatic changes in public policy from the new executive and legislative branches now in power, the steady ship that is the NAIC will maintain its focus. It will grow its expertise and resources around its Catastrophe Modeling Center of Excellence, advance its holistic solvency oversight framework initiatives, and explore technological innovations while protecting consumers against data breaches, bad actors, too-bare-boned disclosures, and bias that is unfairly discriminatory.³⁵ Solvency and consumer protection will remain central to the organization’s efforts, with efforts among its various groups, subgroups, and workstreams continuing apace on a bipartisan basis. Internationally, Team USA—however it may be constructed going forward in the new administration—will continue to work closely in the United States with the IAIS in crafting implementation methodologies for its homegrown AM methodology as the IAIS gets ready to welcome its new “common language for supervisory discussions of group solvency to enhance global convergence among group capital standards.”



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 Fall 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: SAPWG did not adopt any New SAP Concepts during the 2024 Fall National Meeting. SAPWG adopted the following SAP Clarification items as final during the 2024 Fall National Meeting or interim meetings.

Ref#	Title	Ins. type	Revisions adopted	F/S impact	Disclosure	Effective
2024-01	Statement of Statutory Accounting Principles (SSAP) No. 26—Bonds	P&C Life Health	<p>Adopted 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 registration status with the Securities and Exchange Commission (SEC).</p> <ul style="list-style-type: none">• The revision provides that SEC registration is a practical safe harbor.• When determining whether a debt security issued by a fund is an issuer credit obligation or an asset-backed security, analysis of the issuer's primary purpose for issuing debt securities is required:<ul style="list-style-type: none">• Raising equity capital – issuer credit obligation• Raising debt capital – analyze for classification as an asset-backed security <p>In addition, SAPWG adopted an updated issue paper to address debt securities issued by operating entities.</p>	Y	N	2025

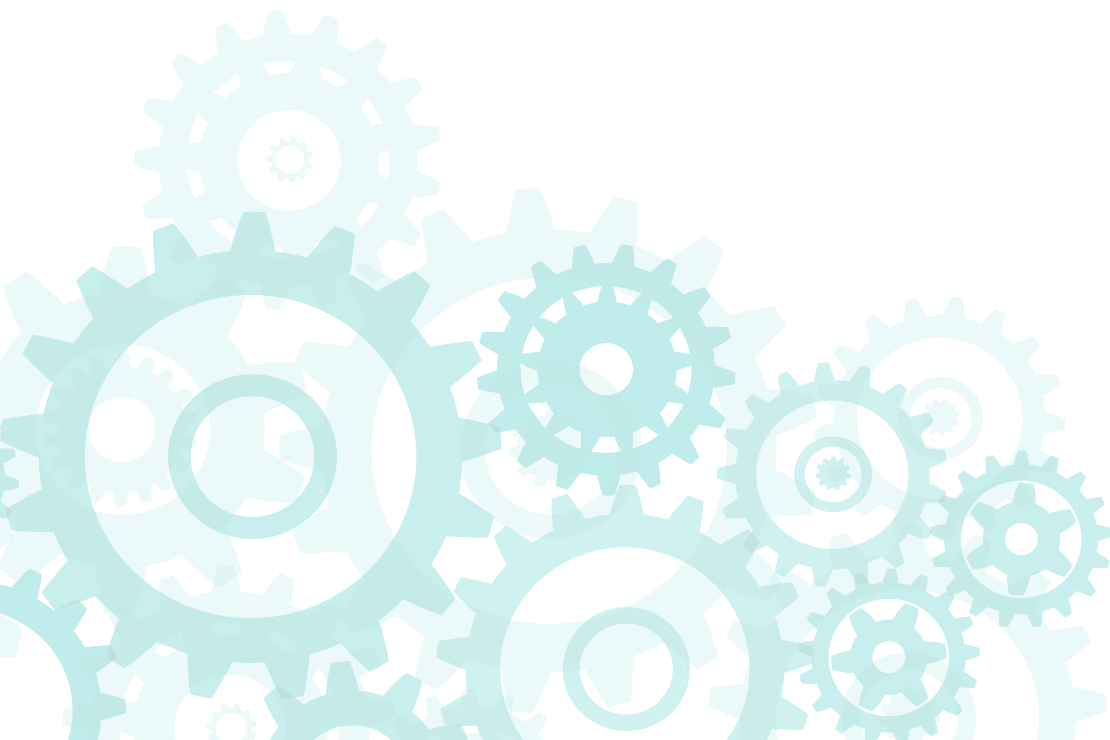
Ref#	Title	Ins. type	Revisions adopted	F/S impact	Disclosure	Effective
2019-21	SSAP No. 26—Bonds	P&C Life Health	<p>Adopted Interpretation 24-01 – <i>Principles-Based Bond Definition Implementation Questions & Answers</i>:</p> <ul style="list-style-type: none">• Instrument-specific guidance for:<ul style="list-style-type: none">• Substantive credit enhancement• Overcollateralization• Meaningful cash flows• Non-bond debt security admission• Hybrid instruments <p>SAPWG adopted an issue paper documenting the discussions and decisions resulting from the Principles-Based Bond Definition project.</p>	Y	N	2025
2024-18 2022-14	SSAP No. 48— Joint Ventures, Partnerships and Limited Liability Companies SSAP No. 93— Investments in Tax Credit Structures SSAP No. 94— State and Federal Tax Credits	P&C Life Health	<p>Adopted corrections to the SSAPs related to inconsistency between the statement's example journal entries and the accounting guidance clarifying that the example journal entries illustrate the proper accounting under the recently revised statements.</p> <p>SAPWG deferred action on the exposed draft issue paper that details the new SAP concepts adopted early this year. The issue paper also summarizes comments received and ultimate conclusions.</p>	Y	N	2025

Ref#	Title	Ins. type	Revisions adopted	F/S impact	Disclosure	Effective
2024-11	SSAP No. 101— Income Taxes	P&C Life Health	Adopted a revision to reject <i>ASU 2023-09, Improvements to Income Tax Disclosures</i> . Adopted a revision to remove the disclosure detailed in SSAP No. 101, paragraph 23.b., as this information is no longer relevant due to changes in the Internal Revenue Code.	N	N	2024
2024-17	SSAP No. 108— Derivatives Hedging Variable Annuity Guarantees	P&C Life Health	Adopted revisions to the definition of a clearly defined hedging strategy to align with revisions adopted by the Life Actuarial (A) Task Force into the <i>Valuation Manual</i> , chapter 21.	Y	N	2024
2024-19	Appendix D— Nonapplicable U.S. GAAP Pronouncements	P&C Life Health	Adopted a rejection of <i>ASU 2024-02, Codification Improvements</i> as not applicable to statutory accounting.	N	N	2024

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

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-20	SSAP No. 1— Accounting Policies, Risks & Uncertainties, and Other Disclosures	P&C Life Health	Proposed SAP Clarification Exposed proposed revisions to clarify the reporting of assets held under modified coinsurance and funds withheld reinsurance agreements in the following areas: <ul style="list-style-type: none"> • Restricted assets footnote disclosure • Annual statement interrogatories • Risk-based capital (RBC) reporting Changes could ultimately affect risk-based capital.	N	Y	TBD
2024-25	SSAP No. 16— Electronic Data Processing Equipment and Software	P&C Life Health	Proposed SAP Clarification Exposed revisions to correct GAAP references.	N	N	TBD
2024-26EP	SSAP No. 26— Bonds	P&C Life Health	Proposed SAP Clarification Exposed revisions to require disclosure of book/adjusted carrying values, fair values, excess of book/carrying values over fair value or fair value over book/adjusted carrying values by category and subcategory as reported in the Annual Statement Schedule D – Part 1, Section 1 and Section 2.	N	Y	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-24	SSAP No. 47— Uninsured Plans SSAP No. 54R— Individual and Group Accident and Health Contracts SSAP No. 66— Retrospectively Rated Contracts SSAP No. 84— Health Care and Government Insured Plan Receivables INT 05-05: Accounting for Revenues Under Medicare Part D Coverage	P&C Life Health	Proposed SAP Clarification Exposed INT 24-02: <i>Medicare Part D Prescription Payment Plans</i> and INT 05-05 to provide updated guidance for Medicare Part D prescription payment plans. The updated plan requires insurers to pay pharmacies the out-of-pocket costs at the point of sale and requires installment payments from the enrollees to the insurer reimbursing for the enrollee costs.	Y	N	TBD





Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-16	SSAP No. 86— Derivations	P&C Life Health	<p>Proposed New SAP Concept</p> <p>Previously developed to address accounting and reporting for debt securities with derivative components (Credit Repack Investments) that do not qualify as structured notes.</p> <ul style="list-style-type: none"> Special-purpose vehicle (SPV) acquires a debt security and a derivative. The SPV combines the cash flows of the debt and derivative and issues a repackaged debt security reflecting the combined cash flows. <p>Re-exposed:</p> <ul style="list-style-type: none"> Modified the original exposure that proposed to bifurcate the derivative from the bond. New exposure: <ul style="list-style-type: none"> Rejects bifurcation. Development of an annual statement blanks exposure to clarify that the sale of a security to a special purpose vehicle (SPV) that is subsequently acquired back from the SPV with a derivative wrapper (or other components) is reported as a disposal and acquisition. <p>The acquired derivative-wrapped security is then evaluated under SSAP No. 43—Asset-Backed Securities.</p>	Y	TBD	TBD
2024-23	SSAP No. 86— Derivatives	P&C Life Health	<p>Proposed SAP Clarification</p> <p>Exposed proposed revisions to SSAP No. 86 terminology for derivative financing premiums to be consistent with the annual statement.</p> <p>Also exposed revisions to clarify that derivative premium amortization is not captured as a realized gain or loss and is therefore not included in the interest maintenance reserve (IMR).</p>	Y	N	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-21	SSAP No. 97— Investments in Subsidiary, Controlled and Affiliated Entities	P&C Life Health	Proposed New SAP Concept This item exposes options and requests comments regarding investment subsidiaries: <ul style="list-style-type: none"> Accounting guidance Annual statement proposed revisions Referrals to Risk-Based Capital Working Groups for calculation of RBC of underlying assets in investment subsidiaries. 	Y	TBD	TBD
2024-22	SSAP No. 104— Share-Based Payments	P&C Life Health	Proposed SAP Clarification Exposed a proposed revision to adopt, with modification, <i>ASU 2024-01, Compensation—Stock Compensation (Topic 718), Scope Application of Profits Interest and Similar Awards</i> . Exposure provides guidance on determination of whether profits interest is within the scope of the SSAP.	Y	N	TBD

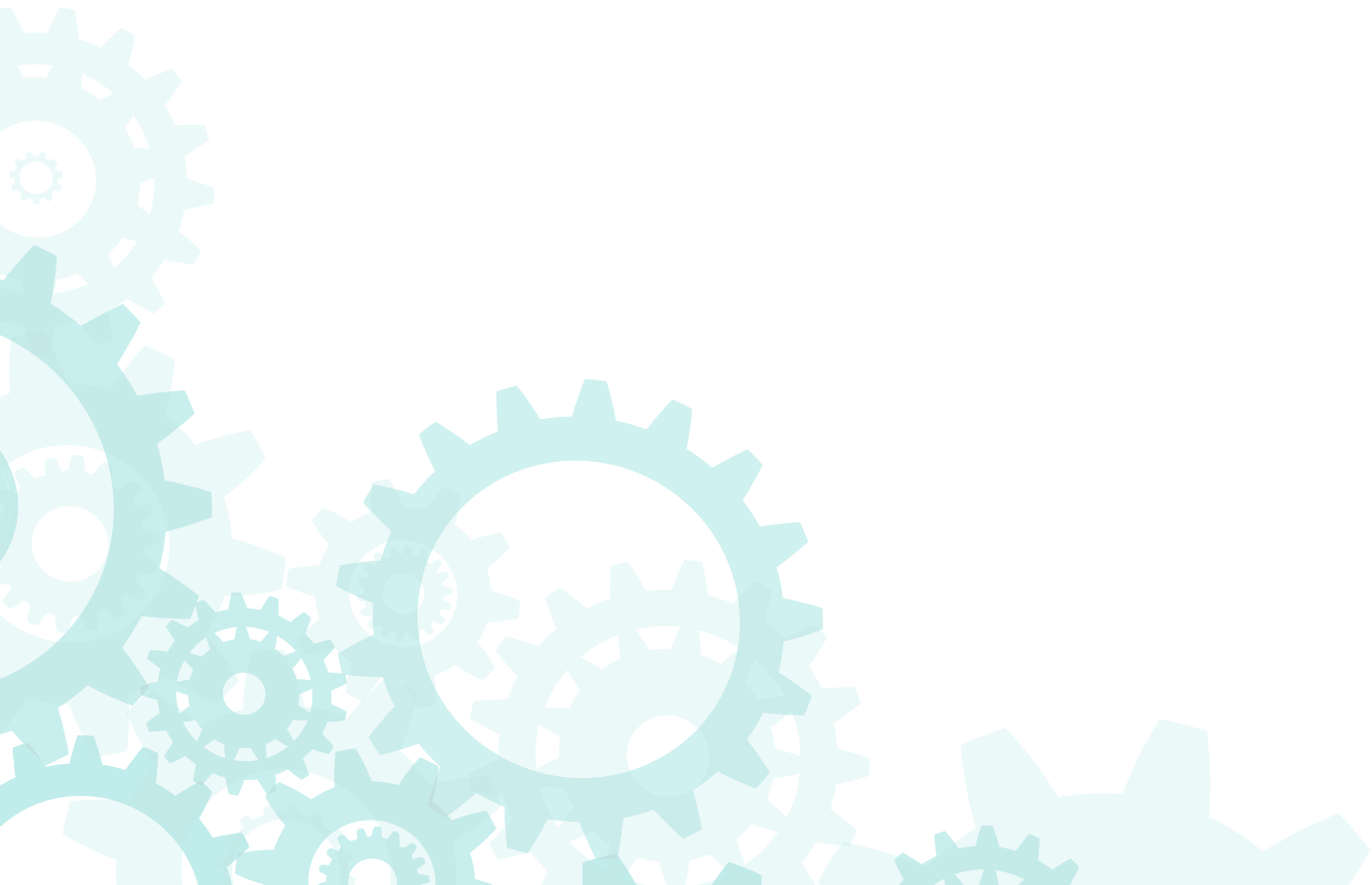
The SAPWG deferred action on the following items previously exposed.

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-12	SSAP No. 27—Off-Balance-Sheet and Credit Risk Disclosures	P&C Life Health	<p>Proposed SAP Clarification</p> <p>Exposed revisions to remove the reference to <i>FASB Statement No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk</i> for excluded items and explicitly list the exclusions within the SSAP.</p> <p>In addition, SAPWG exposed recommended annual statement changes to explicitly include the items for disclosure, including an example.</p>	Y	Y	TBD
2024-10	SSAP No. 56—Separate Accounts	P&C Life Health	<p>Proposed SAP Clarification</p> <p>Added this agenda item to:</p> <ul style="list-style-type: none"> Clarify and improve consistency for assets measured at book value (or some other method of measurement). Improve guidance for fund accumulation contracts (GICs), pension risk transfers (PRTs) and registered index-linked annuities (RILAs). <p>Working with the interest maintenance reserve (IMR) Ad Hoc Subgroup, revisions were developed for exposure as follows:</p> <ul style="list-style-type: none"> Measurement Method – Alternatives provided for SAPWG consideration. Transfers between the general account and the book-value separate account, including impacts to IMR. 	TBD	TBD	TBD
2023-31	SSAP No. 58—Mortgage Guaranty Insurance Appendix A-630—Mortgage Guaranty Insurance	PC	<p>Resulting from recent revisions to the Mortgage Guaranty Insurance Model Act (#630), SAPWG directed the development of revisions to SSAP No. 58 and Appendix A-630. The revisions to the model primarily relate to capital requirements.</p> <p>No exposure at this time.</p>	TBD	TBD	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-06 2024-05	SSAP No. 61R—Life, Deposit-Type, and Accident and Health Reinsurance Appendix A-791—Life and Health Reinsurance Agreements	Life Health	<p>Proposed SAP Clarification</p> <p>Re-exposed revisions to require risk transfer to be evaluated in the aggregate for contracts with interrelated contract features, such as experience refunds.</p> <p>Also exposed revisions to refer to <i>Appendix A-791, Life and Health Reinsurance Agreements</i>, 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.</p> <p>SAPWG also decided to evaluate and re-expose the following issue and noted that it will be addressed along with other Life and Health reinsurance open agenda items.</p> <p>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.</p> <p>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 that 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.?</p> <ul style="list-style-type: none"> • 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.” 	Y	N	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2024-15	SSAP No. 86— Derivatives	P&C Life Health	<p>Proposed SAP Clarification</p> <p>Interest-rate hedging derivatives that do not qualify as effective hedges but are utilized by industry for asset-liability management (ALM).</p> <p>Under consideration:</p> <ul style="list-style-type: none"> • Regulator support for a special accounting treatment for these “macro hedges” • Special criteria • Deferred losses (reported as assets), admissibility, and limitations • Amortization time frame <p>SAPWG exposed the agenda item with the above-noted considerations noting that further regulator and industry discussion will occur during the interim period.</p>	Y	TBD	TBD
2024-04	SSAP No. 103R—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	P&C Life Health	<p>Proposed SAP Clarification</p> <p>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.</p> <p>Newly exposed memo describing similarities and difference in securities lending and repurchase agreements.</p> <p>Considering to adopt, with modification, certain disclosures from <i>ASU 2023-06, Disclosure Improvements</i>, including the following:</p> <ul style="list-style-type: none"> • Accrued interest from repos and securities borrowing • Separate disclosure of significant (10% of admitted assets) reverse repos • Counterparty disclosures for repos and reverse repos that are significant (10% of adjusted capital and surplus) 	Y	TBD	TBD

Ref#	Title	Ins. type	Revisions exposed	F/S Impact	Disclosure	Effective
2023-24	Various SSAPs and INT 06-07: Definition of Phrase “Other Than Temporary Impairment”		<p>Earlier this year, SAPWG rejected <i>ASU 2016-13 Financial Instruments–Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (CECL)</i>.</p> <p>SAPWG documented the analysis supporting rejection in an issue paper and exposed for public comment.</p>	N	N	TBD



The SAPWG also provided the following updates on current projects.

Ref#	Title	Ins. type	Project updates	F/S Impact	Disclosure	Effective
2023-16 2023-28	Annual Statement Blanks and Instructions	P&C Life Health	<p>SAPWG previously adopted a recommendation for revisions to the Annual Statement Blank and Instructions to change to the reporting categories for <i>SSAP No. 48—Joint Ventures, Partnerships and Limited Liability Companies</i> entities and residual interests. Categories align with current language resulting from the Principles-Based Bond Definition Project.</p> <p>Exposed additional reporting lines for Schedule BA: Other Long-Term Invested Assets for collateral loans based on underlying collateral investments.</p> <p>Currently, investments in collateral loans are not included in the AVR or in RBC requirements. Updated exposure expands reporting lines for collateral loans providing more granularity and adds to the Asset Valuation Reserve and to the RBC requirements.</p>	N	N	TBD
2024-07	Annual Statement Blanks	P&C Life Health	Exposed revisions 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 funds withheld arrangement and would include a separate signifier for modified coinsurance assets. This schedule would be similar in structure to Schedule DL.	N	Y	TBD
	Update on the IMR Ad Hoc Subgroup	Life	<p>The IMR Ad Hoc Subgroup focused their efforts on the following:</p> <ul style="list-style-type: none"> Impact of reinsurance on IMR 	Y	TBD	TBD
	Statutory Accounting Principles – Issue Papers	P&C Life Health	<p>SAPWG directed the development of an agenda item to consider adding issue papers to Level 5 of Section V. Statutory Hierarchy in the Preamble of the <i>NAIC Accounting Practices and Procedures Manual</i>.</p> <p>Currently, issue papers are not considered to be authoritative as they are not updated after adoption.</p>	N	N	TBD
	Lloyd's Syndicates	P&C Life Health	<p>Lloyd's has submitted requests to remove several inactive syndicates from the NAIC Listing of Companies.</p> <p>Year-end reporting instructions may be made if determined to be required.</p>	TBD	TBD	TBD

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25. NAIC, "[NAIC adopts first National Climate Resilience Strategy for Insurance to close coverage gaps and improve recovery from natural disasters](#)," press release, April 5, 2024; NAIC, [National Climate Resilience Strategy for Insurance](#), March 2024.
26. NAIC, "[States issue property & casualty market intelligence data call covering over 80% of U.S. market](#)," press release, March 8, 2024.
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