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AMERICAN ACADEMY *of* ACTUARIES

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February 11, 2022

Honorable Grace Arnold, Vice Chair  
Accelerated Underwriting (A) Working Group  
National Association of Insurance Commissioners (NAIC)

Dear Commissioner Arnold:

The Life Underwriting and Risk Classification Work Group of the American Academy of Actuaries<sup>1</sup> monitors public policy developments regarding underwriting and risk classification for life insurance and annuities. The work group has reviewed the Ad Hoc Drafting Subgroup exposure draft of January 25, 2022, and is pleased to provide the following comments related to the changes between the November 8, 2021, draft and the most recent draft.

**Comment related to footnote 6**

- The work group appreciates the change to footnote 6 that references Actuarial Standard of Practice No. 12, (ASOP No. 12).
- However, the wording of the bullet referencing the footnote is unclear because ASOP No. 12 would not permit an actuary to use data in the manner described.
- Life insurance underwriting is a process to select and classify applicants into risk pools. Data used for underwriting should anticipate the risk of loss. Nontraditional data can be an indicator of consumer behavior that may be related to risk of loss.
- The work group suggests replacing the bullet with “In accordance with ASOP No. 12, an actuary needs to demonstrate that a relationship between a risk characteristic and an expected outcome exists. This standard applies for any data used, traditional or non-traditional.”

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<sup>1</sup> The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

## **Comment related to Recommendations**

Recommendations (page 4)

This section pertains to the bulk of our previously applied comments<sup>2</sup> and applies to providers in the marketplace.

- In general, the points in this section are sound concepts.
- The first four bullets include aspirational goals and actuaries work hard to reach those. Some may be challenging to implement from a practical standpoint. The NAIC's working group could expand upon the bullets related to predictive models to guide the industry in producing acceptable demonstrations of desired outcomes when using data and predictive models.
- The last four bullets are consistent with existing requirements, with the exception of the reference to rate reviews in the final bullet, which are not part of existing regulatory requirements for life insurance.

Recommendations section (begins on page 6)

This section could be complete with only the first paragraph and the bottom two paragraphs, which provide the general recommendations to regulators, insurers, and vendors. The bulleted lists in the middle indicate they are related to regulators' and form reviewers' current responsibilities, but they do not accurately reflect those responsibilities.

- The section related to examiners appears to be similar to what is done today in market conduct exams. Today, market conduct exams assess compliance with underwriting practices and guidelines, but this is not part of any initial submission of policy forms.
  - The exception is the reference to "initial submission of policy rates." Policy rates are not filed or reviewed for life insurance.
  - Is confirming the proper use of the data elements intended to be beyond existing techniques?
  - Life insurance companies are required to provide adverse action letters. The Fair Credit Reporting Act (FCRA) requires data to be provided to the applicant and a subsequent opportunity to correct erroneous data. Is the second bullet intended to expand upon adverse action letters?
  - An examiner's request for information about source data would need to be kept confidential to avoid limiting the ability of companies to use proprietary data.
- The section related to form and rate reviewers would be new requirements.
  - This appears to be a large expansion of the authority for form reviewers. There are no rate reviews for life insurance.
  - Filings are public information.
  - Underwriting guidelines are not currently filed for life insurance.

The work group is ready to support your efforts to refine this paper and recommends an extended comment period to provide a more robust and nuanced review.

If you have any questions or would like further dialogue on these topics, please contact Khloe Greenwood, the Academy's life policy analyst, at [greenwood@actuary.org](mailto:greenwood@actuary.org).

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<sup>2</sup> "In general, we believe the recommendations contained in the paper are sound concepts. However, we note that some of the recommendations may be challenging to implement from a practical standpoint and others may require more detail to assure that they support the working group's charge related to the use of external data and data analytics in accelerated life underwriting."

Sincerely,

Sue Bartholf, MAAA, FSA  
Chairperson, Life Underwriting and Risk Classification Work Group  
American Academy of Actuaries