

Market Conduct Annual Statement - 2024

Reporting Changes

The following is a summary of MCAS changes for the 2024 data year.

North Dakota will be added to MCAS reporting beginning with the 2024 data year.

Homeowners and Private Passenger Auto

The following clarifying change has been made to the first bullet point on the existing definition of lawsuit:

- “For non-claims related lawsuits, include only lawsuits brought by an applicant for insurance, a policyholder or claimant as a plaintiff against the reporting insurer as a defendant.”
 - Note: This clarifying definition was approved by the D Committee in May of 2024 and updated to the 2023 documents. Due to the late addition, we are noting it here to ensure there is awareness of the update.

Life

The following clarifying change has been made to the definition of Accelerated Underwriting:

- For this MCAS, data should be reported as Accelerated Underwriting when artificial intelligence and/or machine learning which utilizes, in whole or in part, Other Non-medical Third-party Data and/or FCRA Compliant Non-medical Third-party Data in the underwriting of life insurance is applied; including when that data is used in combination with Application Data or Medical Data.

New definitions:

- (New definitions were adopted by the MCAS Blanks (D) Working Group on 9-5-24)
- **Algorithm** - All of the following should be considered:
 - A clearly specified mathematical process for computation (NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers, AI Bulletin)
 - A set of rules that, if followed, will give a prescribed result (AI Bulletin)
 - A list of steps to finish a task (NAIC Glossary for Regulators of InsurTech)
 - A set of instructions that can be performed with or without a computer (NAIC Glossary for Regulators of InsurTech)

For example, the collection of steps to make a peanut butter and jelly sandwich could be considered as an algorithm. (NAIC Glossary for Regulators of InsurTech)

- **Artificial Intelligence (AI)** - refers to a branch of computer science that uses data processing systems that perform functions normally associated with human intelligence, such as reasoning, learning, and self-improvement, or the capability of a device to

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perform functions that are normally associated with human intelligence such as reasoning, learning, and self-improvement. This definition considers machine learning to be a subset of artificial intelligence. (AI Bulletin)

- **Big data** - refers to extremely large datasets analyzed computationally to infer laws (regressions, nonlinear relationships, and causal effects) to reveal relationships and dependencies or to perform predictions of outcomes and behaviors. (Casualty Actuarial and Statistical (C) Task Force Predictive Model White Paper)
- **Machine Learning** - Machine learning algorithms are a process or set of rules executed to solve an equation, e.g., a life insurance underwriter uses a set of rules to place an individual insured in a particular risk category. The 'learning' part of machine learning means that those programs change how they process data over time, much as humans change how they process data by learning. Machine learning often falls into two groups: supervised or unsupervised. The difference between the two is whether the program is directed to analyze patterns or is self-automated. (NAIC's Accelerated Underwriting in Life Insurance Educational Report)
- **Predictive Model** - refers to the mining of historic data using algorithms and/or machine learning to identify patterns and predict outcomes that can be used to make or support the making of decisions. (AI Bulletin)

New FAQ's:

- (New FAQ's were adopted by the MCAS Blanks (D) Working Group on 9-5-24)
- **Why is the term "big data" not included in the MCAS definition of Accelerated Underwriting?**

The term "big data" was used in the NAIC's Accelerated Underwriting (AU) Educational Report but was intentionally removed from the MCAS definition of Accelerated Underwriting for vagueness because it was an undefined term which could lead to inconsistency in MCAS reporting. The intent of the MCAS reporting is to exclude any processes intended solely to speed up or automate the underwriting process.

- **How would the company determine if its processes are considered accelerated underwriting?**

All three elements below must be present to meet the MCAS AUW reporting requirements:

- 1) AI/ML: Predictive models and machine learning algorithms are used to analyze applicant data. A model or algorithm prediction is used to limit or replace a human decision. If the data is run through a predictive model or machine learning algorithm, it is considered accelerated underwriting under the MCAS definition.

For example, if the data is run through an algorithm that will, at points in the process, choose from multiple possible decisions, it is considered accelerated underwriting under the MCAS definition. However, even if the data you use includes such data as criminal history, consumer credit or motor vehicle report data it would not be considered accelerated underwriting for MCAS reporting purposes *if* those data are used in stand-alone rules, such as

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declining coverage if there is a prior conviction of insurance fraud, a recent bankruptcy or multiple speeding violations.

- 2) Data: **FCRA Compliant non-medical third-party data** and/or **Other non-medical third-party data** is used, including if it is used in conjunction with **Application data** and/or **Medical data**. If only **Application data** and/or **Medical data** is used, it does not meet the definition.
 - 3) Decision: Life Insurance is underwritten by predicting an insurance outcome.
- **Can you provide examples of what would not be included as accelerated underwriting?**

For the purposes of MCAS reporting, AUW does not include:

- o Simply automating analysis of application and/or medical information. (does not meet elements #1 or #2, above)
- o Using insurance claims or motor vehicle violation data in a stand-alone underwriting rule such as declining coverage for a driving under the influence conviction. (does not meet element #1, above)
- o Use of medical data only in an algorithm. (does not meet element #2, above)

Life, Annuity, Disability Income, LPI, LTC, Private Flood, STLD, Travel and Other Health

The following bullet has been removed from the lawsuit definition:

- If one lawsuit seeks damages under two or more policies, count the number of policies involved as the number of lawsuits. For example, if one lawsuit seeks damages under three policies, count the action as three lawsuits.

Other Health

Delete duplicate data element

- Delete data element #71 – Schedule 3 – Claims Administration (Including Pharmacy) – “Number denied, rejected, or returned (in whole or in part) because maximum \$ limit exceeded.”

Pet

New line for the 2024 data year.

New definitions:

- o (New definitions were adopted by the MCAS Blanks (D) Working Group on 9-5-24)
- **Partial Payment** – A claim not paid in full for costs included within the terms of coverage of the insurance policy/certificate.
 - o Removal from a claim of charges for costs not covered in the policy – where there is full payment for costs covered in the policy – is not considered a partial payment.
 - o Do not report as a partial payment claims that are reduced by deductibles, copays, maximum benefit limits, or other limitations set by the insurance policy/certificate.

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- **Cancellations** – Includes all cancellations of the policies where the cancellation effective date is during the reporting year.
 - o These should be reported every time a policy cancels during the reporting period. (i.e., if a policy cancels for non-pay three times in a policy period and is reinstated each time; each cancellation should be counted.)

Exclude:

- o Policies cancelled for 're-write' purposes where there is no lapse in coverage.
- o Policies returned by the owner under the right to review or the free look provision.

Short-Term Limited Duration

New data element:

- Schedule 4 – Claims Administration: "Dollar Amount of Claims Paid During the Reporting Period."

Delete duplicate data elements

- Delete data element #64 – Schedule 2 – Policy/Certificate Administration – "Number of Covered Lives on Policies/Certificates Cancelled at the Initiation of the policyholder/certificate holder During the Period."
- Delete data element #69 – Schedule 2 – Policy/Certificate Administration – "Number of Lives on Policies/Certificates Cancelled Due to Non-Payment of Premium During the Period."

Travel

New data element:

- Schedule 4 – Underwriting: "Number of Policies/Certificates in Force During the Reporting Period."