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COMPLIANCE & ETHICS FORUM FOR LIFE INSURERS

HOT TOPICS Affecting Life Insurers

Guest Webinar by Locke Lord, LLP

February 9, 2016

CEFLI PREMIER PARTNERS

~ Leading the Way ~

Agenda

- CEFLI's Antitrust Policy.
- Review of Hot Topics in the Life Insurance Industry.
- Q & A.

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Presenters

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Discussion Topics

- FSAP Program Overview & NAIC Initiatives
- Enterprise Risk Management
- NAIC Corporate Governance Model Law & Annual Filing
- FIO Covered Agreement
- NAIC Principle-Based Reserving Update
- U.S. Proposal to Meet Global Capital Standard
- What Will Regulators Look at for Operational Risks
- California Insurance Commissioner's Proposal Re: Carbon Investments
- Emerging Life & Annuity Products
- Cybersecurity Update and Planning Your Cyber Compliance Plan

Changing Regulatory Landscape

- The financial crisis has driven many of the regulatory changes over the last few years. Globalization of the financial markets, Dodd Frank and the implementation of the Financial Sector Assessment Program (FSAP) has required the adoption of international standards when it comes to financial markets including banks, insurance companies, investment firms etc…
- Regulators today are much more focused on enterprise risk management, corporate governance, compliance, risk mitigation and the identification of potential prospective risks. The goal is to have companies implement the necessary processes and procedures to prevent potential failure.
- Well managed companies should have these processes in place and the regulatory initiatives should help companies implement these processes. It should not be merely a “compliance” exercise but compliance strategies within an organization are important in making sure the necessary processes and procedures are implemented.

FSAP PROGRAM OVERVIEW & NAIC INITIATIVES

FSAP Program Overview

The FSAP program and other international developments drive many of the changes in U.S. regulation of financial services

- The Financial Sector Assessment Program (FSAP), a joint International Monetary Fund (IMF) and World Bank program that assesses a country's financial system including insurance and each country's compliance with International Standards.
- Supported by experts from a range of national and international agencies and standard setting bodies, the FSAP has the following aims:
  - (i) to identify the strengths and vulnerabilities of a country's financial system;
  - (ii) to determine how key sources of risk are being managed;
  - (iii) to ascertain the financial sector's developmental and technical assistance needs and
  - (iv) to help prioritize policy responses.
- In order for the U.S. **insurance** sector to do well on the FSAP review regulators must adopt as much as possible the international standards as set by the IAIS.
- If U.S. insurance regulation does not implement IAIS standards, it may not be deemed "equivalent," which could have an impact on U.S. companies operating overseas.
- The U.S. just completed an FSAP review and the report will likely drive additional changes based on recommendations from the report which are currently being evaluated.

FSAP Program

NAIC Regulatory Initiatives

(Compliance requirements designed to help regulators identify insurer risks – some key initiatives)

Governance and Risk Management Initiatives

The guidance in these initiatives could be adapted to any company and scaled to any company based on size and complexity).

- ORSA Report (1st filing was due in 2015)
  - Model Law
  - Guidance Manual
- Corporate Governance Annual Filing (1st filing due June 1, 2016).
  - Model Law
  - Model Regulation
- Enterprise Risk Report (Form F) (1st filing was due in 2014)

ENTERPRISE RISK MANAGEMENT

ORSA Summary Report by Section
Section 1 outlines an ERM Framework

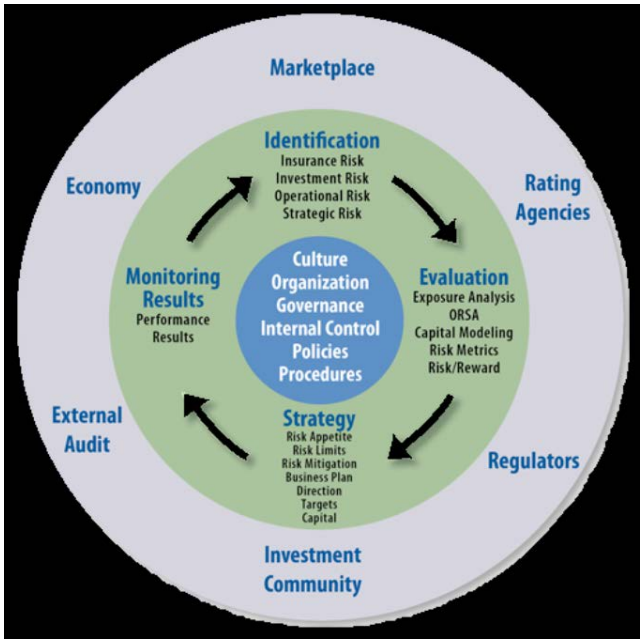
Section 1 Description of the Insurer's Risk Management Framework	• Risk culture and governance • Risk identification and prioritization • Risk appetite, tolerance, and limits • Risk management and controls • Risk reporting and communication
Section 2 Insurer's Assessment of Risk Exposure	• Primary Risk Assessment in normal and stressed environments • Risks exposures measured in quantitative and qualitative method • Impact of risks on financial statements and cash flows • Stress impact on risk capital and available capital • Model validation and model calibration factors for risk assessments
Section 3 Group Risk Capital and Prospective Solvency Assessment	• Definition of solvency and accounting or valuation regime • Business included and aggregation and diversification • Time horizon • Risks modeled and quantification method • Risk capital metric • Defined security standard

Applicability of an ERM Framework

- While the ORSA filing is only for companies writing $500 million of premium or more, the ERM framework outlined in Section 1 of the ORSA guidance manual, or something similar, should be utilized by any entity and tailored to the size and complexity of the entity. Most regulators, rating organizations, auditors and others will likely evaluate an enterprise's ERM framework by looking at these or similar key elements, and whether or not an entity is required to file an ORSA report, documenting this process will make it much easier for those who need to review.
- Compliance should be an aspect of ERM since the lack of an effective ERM framework could bring about compliance issues.

ERM for insurers = widespread impact

(an example based on an insurance company operation)



What is ERM for insurers?
(think of how this can apply to any size entity)

•Previously risk management only facilitated the identification of risks but did not provide satisfactory methods for measuring and managing risks or for determining related capital requirements to cover those risks.

•ERM involves the self assessment of all reasonably foreseeable and relevant material risks that an insurer faces and their interrelationships between risk management and capital allocation.

•Primary focus on the actions that an insurer takes to manage its risks on an ongoing basis and to manage those risks to ensure that the insurer stays within its risk tolerance.

•Rigorous enforcement of risk standards, policies and limits.

•ERM is an acknowledged practice and has become an established discipline, and a separately identified function, assuming a much greater role in many insurers everyday business practices.

What is ERM for insurers?

•ERM processes used today increasingly use internal models and sophisticated risk metrics to translate risk identification into management actions and capital needs.

•ERM provides a link between the ongoing **operational management of risk and longer term business goals and strategies.**

•Not one size fits all but ERM is based on the nature, scale and complexity of the organization.

•The objective of ERM is not to eliminate risk but rather to manage risks within a framework that includes self-imposed limits.

•Insurers should integrate their ERM framework into their overall Corporate Governance framework

(1) Risk Culture - (demonstrates the linkage between functions within an entity)

(2) Risk Identification & Prioritization

Risk Identification

•Develop a list of risks that represent a collective view of the company's overall risk exposures. Risk identification should occur at multiple levels in the organization

•Risk classifications generally include but are not limited to Market, Strategic, Operating, Life, P&C, etc. Risk identification and prioritization will be different for Life and P&C companies and will also be different depending on particular business and product strategy

•Sources of risk can be generated externally, internally, from legal, regulatory change, weather patterns, economic conditions, etc
.
•Focus is on major risks that are inherent to the Corporation and should include known and emerging risks

•The risk identification and assessment process should cover all major risk categories and all business units by using a common set of risk metrics

Risk Identification & Prioritization

Risk Prioritization: Once risks have been identified, risk prioritization should take place

•Prioritization is based on both quantitative and qualitative criteria and is used to guide the allocation of risk management and other internal resources

•For risks that are known, focus is on ongoing prioritization and on tactical assessment. Evaluate whether and how to accept, avoid, mitigate or offset risk

•For risks that are emerging, there should be an ongoing effort to identify, evaluate and develop plans to get in front of the risk and / or develop contingency response plan

•Risk correlations should be considered as well as risk diversification. In other words if risk A happens, will risk B also happen or will risk B offset risk A and provide a diversification benefit?

(3) Risk Appetite, Tolerance and Limits

Capital risk
- Material loss of capital
- Ratings downgrade

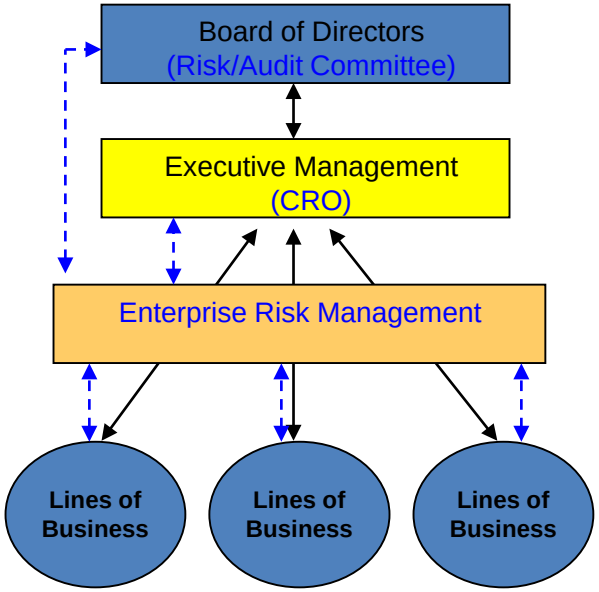
Earnings risk
- Income volatility
- Failure to meet plan
- Underperformance versus peers

Liquidity risk
- Extraordinary need for cash to fulfill liabilities
- Illiquidity of assets; market failure
- Poorly designed, inadequate liquidity facility

Franchise risk
- Damage to reputation
- Loss of customers and top-line revenue
- Loss of employees/talent/capabilities

The focus is on the aggregate level/amount of risk to be accepted by the enterprise

(4) Risk Management & Controls within the Organization



Board of Directors/ Board Risk Committee:
- Overall responsibility for monitoring risk-reward decision-making

Executive Management Team:
- Overall responsibility for risk-reward decisions

Enterprise Risk Management:
- Risk culture & governance
- Risk identification & prioritization
- Risk appetite & limits
- Risk management & controls
- Risk reporting & communication

Lines of Business:
- Creation and ongoing ownership of risk-taking
- Identification and underwriting of risk
- First line of defense in risk management
- Implementing corrective action and controls to address risks

(5) Risk Reporting and Communication

- The objectives of risk reporting are to provide key constituents with transparency into the risk management processes and facilitate active, informed decisions on risk taking and management.

- Communication is fundamental to successful implementation and functionality of a robust ERM process.

Risk Reporting and Communication

- Typically, risk reporting will occur on both regular and exception cycles; and will occur at all levels within the organization — Board, executive, and operating management
- Just like any other management process, risk reporting should act to ‘bring the process to life”, by providing clear scorecards on the performance of the risk management function
  - Reports do not need to be extensive; level of detail depends on audience; key is to communicate critical information
- In addition to reporting “up the chain of command”, there should be downward communication to provide feedback
- Education on risk and risk-management processes is often a key element in communicating to the Board and management
- In reporting to external parties, confidentiality is extremely important given the strategic importance of risk information

CORPORATE GOVERNANCE

Corporate Governance Model Law Development *(new)*

(applies to all insurers regardless of size)

- The NAIC Corporate Governance (E) Working Group developed a new model law to facilitate the annual collection of confidential information on insurers' **corporate governance practices**. After several years of studying issues related to the corporate governance of insurers including a review of existing requirements and international standards, the Working Group identified a need to collect and review corporate governance information of insurers in the period between onsite examinations.

Why a new model law for corporate governance?

- The development of an "Annual Reporting of Corporate Governance Practices of Insurers Model Act" will provide a means for regulators to get a better understanding of the governance practices of their domestic insurers. The development of this model law will also ensure the confidentiality of governance information collected from insurers and assist U.S. regulators in achieving greater consistency with international standards.

Corporate Governance Annual Disclosure
(first filing due June 1, 2016)

The CGAD must include a description of a company's:

- Governance framework and structure
- Policies and practices of the most senior governing entity and significant committees thereof
- Policies and practices for directing Senior Management
- Processes by which Board, its committees, and Senior Management oversee critical risk areas.

FIO AND A “COVERED AGREEMENT”

FIO COVERED AGREEMENT

- On January 19, 2016 the Department of Treasury issued a formal “Notice of Intent to Initiate Covered Agreement Negotiations with the European Union.
- Under Dodd Frank the Secretary of the Treasury and the United States Trade Representative (USTR) are authorized to jointly negotiate a “covered agreement” with one or more foreign governments, authorities, or regulatory entities.
- A covered agreement is a “written bilateral or multilateral agreement regarding prudential measures with respect to the business of insurance or reinsurance”.
- A covered agreement with the EU would level the regulatory playing field for U.S. based insurers and reinsurers operating in the EU.
- State insurance regulators will have a meaningful role during the covered agreement negotiating process.
- Not all states have adopted the revised credit for reinsurance model which allows reduced collateral.
- The NAIC will make adoption of the revised credit for reinsurance model an accreditation standard meaning that all states will need to adopt the model.

FIO COVERED AGREEMENT

- Background:
- Effective January 1, 2016 the EU will implement Solvency II that will subject an insurer to disadvantageous treatment if the insurer's country of domicile is not recognized by the EU as "equivalent" under the provisions of Solvency II. Through negotiating a covered agreement, Treasury and USTR will seek to ensure that U.S. insurers and reinsurers will be permitted to operate in the EU on the same regulatory terms as insurers and reinsurers in the EU or in jurisdictions deemed equivalent under Solvency II.

FIO COVERED AGREEMENT

- As stated the covered agreement negotiations with the EU will seek to address the following:

1. Obtain treatment of the U.S. insurance regulatory system by the EU as “equivalent” to allow for a level playing field for U.S. insurers and reinsurers operating in the EU;
2. Obtain recognition by the EU of the integrated state and federal insurance regulatory and oversight system in the United States, including with respect to group supervision;
3. Facilitate the exchange of confidential regulatory information between lead supervisors across national borders;
4. Afford nationally uniform treatment of EU based reinsurers operating in the United States, including with respect to collateral requirements;
5. Obtain permanent equivalent treatment for the solvency regime in the United States and applicable to insurance and reinsurance undertakings.

PRINCIPLE-BASED RESERVING UPDATE

PRINCIPLE-BASED RESERVING

Brief update:

- As of 12/31/16 the state count is approximately 70%
- For PBR to be effective need to reach both 75% of the states representing 75% of the premium volume.
- It is anticipated this level will be reached prior to 7/1/16 which will make PBR operative by 1/1/17.
- If PBR becomes operative by 1/1/17 companies have up to 3 years to implement PBR.
- PBR implementation will bring a new list of compliance issues from regulators.
- Since PBR is only prospective in nature the roll out will be slow.

U.S. PROPOSAL TO MEET GLOBAL CAPITAL STANDARD

U.S. PROPOSAL to MEET GLOBAL CAPITAL STANDARD

- Another on-going hot topic has been the development of an international capital standard (ICS). State regulators have been participating in this work through the NAIC and participate in various committees of the International Association of Insurance Supervisors (IAIS). The IAIS project is aimed at achieving a **group-wide** global capital standard to provide a comparable measure of capital across jurisdictions.
- The ICS is intended to apply to all Internationally Active Insurance Groups (IAIG's) and all Global Systemically Important Insurers (G-SIIs).
- States regulators want to make sure that the development of a ICS are appropriate for U.S. companies risks and the U.S. market and regulatory environment. Unlike other regulatory regimes the U.S. has legal entity capital requirements as a core element while other regulatory regimes look at group capital.
- Through the NAIC the state regulators have been actively exploring group capital concepts that would be appropriate for U.S. based IAIG's.
- Adding to the complexity are differences in accounting systems and valuation approaches among international jurisdictions.

U.S. PROPOSAL to MEET GLOBAL CAPITAL STANDARD (continued)

NAIC RECOMMENDATION

- The NAIC working group that has been working on a U.S. proposal made the following recommendation late in 2015 to charge the Financial Condition (E) Committee as follows:
  - *"Construct a U.S. group capital calculation using an RBC aggregation methodology; liaise as necessary with the ComFrame Development and Analysis (G) Working Group on international capital developments and consider group capital developments by the Federal Reserve Board, both of which may help inform the construction of a U.S. group capital calculation".*

The working group noted that this methodology is not intended to be an ICS but would be a useful group supervision tool for regulators and could provide a basis for compatibility with IAIS proposals.

The E Committee has on its agenda for its February 10th meeting a proposal to form a new Group Capital Calculation (E) Working Group.

U.S. PROPOSAL to MEET GLOBAL CAPITAL STANDARD

- Some of the challenges with the NAIC recommendation as noted by the NAIC working group:
- Scope and scalability: Would this approach cover all legal entities within the group, including the holding company in order to develop a capital assessment.
- Method for Including Non-RBC Filers and Non-insurance Entities: How would you aggregate the legal entity capital requirements from other jurisdictions as well as what to do with legal entities that have no existing capital requirements.
- U.S RBC is based on conservative statutory accounting. Should a group capital calculation be based on this level of conservative accounting or adjusted to reflect more of a going concern view rather than a “gone” concern point of view.
- Treatment of subordinated debt: Subordinated debt can sometimes be a form of capital such as surplus notes. How will this type of capital be treated.
- Eliminations to avoid double counting and other adjustments will need to be considered.
- Stress testing will need to be considered to complement a group capital calculation.

EVALUATING OPERATIONAL RISKS

WHAT MAY REGULATORS LOOK AT IN EVALUATING OPERATIONAL RISK?

- Guidance defines operational risk as the risk that operational problems, such as inadequate information systems, breaches in internal controls, lack of internal controls over financial reporting, fraud or unforeseen catastrophes will result in a disruption of business and financial loss. Operational risk can be more broadly viewed as the risk of a loss resulting from inadequate or failed processes, people and systems or from external events.
- Regulators are taking a closer look at operational risks and their potential to affect the solvency standing of insurers.
  - Regulators will want to know how the insurer is identifying and collecting data on all significant operational risks
  - Regulators will want to evaluate risk limits and tolerances set by the insurer
  - Regulators will want to evaluate the exposure under both stressed and normal conditions
  - Regulators will want to evaluate the effectiveness of risk mitigation strategies and controls
  - Regulators will want to determine if the insurer has quantified the amount of capital necessary to absorb unexpected operational losses under normal and stressed conditions.

WHAT MAY REGULATORS LOOK AT IN EVALUATING OPERATIONAL RISK?

- Other:
- Regulators are now looking more at the general exposure to climate change related risks including investment risks related to climate change as well as investment risks due to energy transition and carbon emissions.
- Regulators will also want to gain a better understanding of the insurers process to identify and address risks related to the use of vendors and outsourcing of critical functions including the use of MGA's and TPA's.
- Regulators are also interested in evaluating the process by which insurers address risks related to cost cutting and reducing expenses to achieve greater profitability (unintended consequences).

CALIFORNIA COMMISSIONER TO LOOK AT "CARBON" INVESTMENTS

CALIFORNIA INSURANCE COMMISSIONER TO LOOK AT INSURER'S CARBON INVESTMENTS (oil , gas, coal)

- On January 25, 2016, Commissioner Jones from California issued a statement asking ALL insurance companies doing business in California to voluntarily divest from their investments in thermal coal. This would include making no new investments, not renewing any existing investments and selling or withdrawing from existing investments in thermal coal.
- In addition he indicated that the California department will initiate a data call requiring all companies licensed in California that write $100 million in premium or more nationally to disclose detailed and specific information about their investments in the carbon economy including coal, oil and gas.
- This information will be made public.
- The California department will use this information to evaluate the potential financial risk to insurance companies posed by investments in the carbon economy.
- Visit the California department website for the full press release at insurance.ca.gov

EMERGING LIFE & ANNUITY PRODUCTS

Overview of Emerging Life & Annuity Products

- Changing Demand for Products
- Changing Demographics of Buyers
- Increased Regulatory Scrutiny
- Practical Compliance Issues

Impact of Low Interest Rates

- Typically, life insurers' products provide some guaranteed interest rate.
- Lower interest rates – Lower demand for life insurance products.
- Low interest rates have decreased insurers' profits on their investments so they need to be careful when the payouts on products occur.
- Innovation in products.

Buyer Demand Is Changing

- In 2014, consumers bought an estimated $47 Billion of Indexed Annuities – A 21 % Increase over the prior year. (BloombergBusiness "New Indexed Annuities Grab Market Share as Banks Jump In." January 29, 2015.)
- Increased popularity of "indexes created to reduce risk or target certain volatility levels…"
- "Growth in indexed annuities is coming as demand for traditional variable annuities slows."
- Iowa Insurance Commissioner Nick Gerhart "warned" about increased "misleading advertising" in annuity sales, especially where "high or uncapped rates of return on indexes" are advertised. "Uncapped" crediting strategies do not mean that there is unlimited growth potential.

Increased SEC Scrutiny of Banks' Products

- "Specialized indexes, including proprietary ones, accounted for about $3 billion in annuity sales in the third quarter last year, according to Wink's Sales & Market Report. (Chicago Tribune "Wall Street finds new ways to sell old, opaque products." January 21, 2016.)
- Banks are selling investments based upon proprietary indexes (e.g., JP Morgan Chase and Credit Suisse) similar to the proprietary indexed annuities.
- Banks' sale of these investments are largely outside of the oversight of the SEC and are not regulated by state insurance regulators.
- SEC reportedly is increasing its scrutiny, including "whether banks adequately describe the fees embedded in proprietary indexes."

Fixed Indexed Annuities With Volatility Control Options

- As of December 2015, approximately 25 FIA insurers were offering a Volatility Controlled Index FIA with an interest credit strategy. (insurancenewsnet.com "FIAs Heat Up With Volatility Control Options" December 8, 2015.)
- Interest crediting is linked to the performance of a volatility controlled index, which continually rebalances the more risky assets (*e.g.*, equities) with less risky assets (*e.g.*, cash or bonds).
- Policyholders do not invest directly in the index.
- Provides a level of protection against downturns in the market and provides potential investment growth tied to the performance of the index (equity market).

Changing Demographics of Life Insurance Buyers

- Millennials (born between 1982 and 2000) are less likely to buy life insurance. (lifehealthpro.com "How the life insurance industry will change in 2016. November 11, 2015.)
- 2015 LIMRA Secure Retirement Institute study indicated that 70% of Millennials "don't know how much they ought to be saving for retirement, and only four in 10 are putting aside at least 10 percent of their incomes."
- Insurers need to innovate and communicate with Millennials through technology.

Changing Demographics of Life Insurance Buyers

- Millennials like the latest digit technology (*e.g.*, on-demand insurance apps and automated financial advice (robo-advisors).)
- Greater risks of financial fraud, cyber breaches, and reputational harm from social media.
- Digital innovation results in the need for new product development & acquisitions and alliances with digital technology vendors.

Changing Demographics of Life Insurance Buyers

- Seniors and Baby Boomers (born 1946 to 1964) are living longer and facing new challenges. (lifehealthpro.com "How the life insurance industry will change in 2016. November 11, 2015.)
- More Baby Boomers are still working and are dealing with more stress and health issues than those Baby Boomers a decade ago causing a growing risk of chronic health problems.
- Life insurers are selling accelerated benefit riders for chronic illness that allow access to cash value to help pay for assisted living and similar home care, and longevity riders that provide a guaranteed income stream during retirement.

Changing Demographics Cause Regulatory Concerns

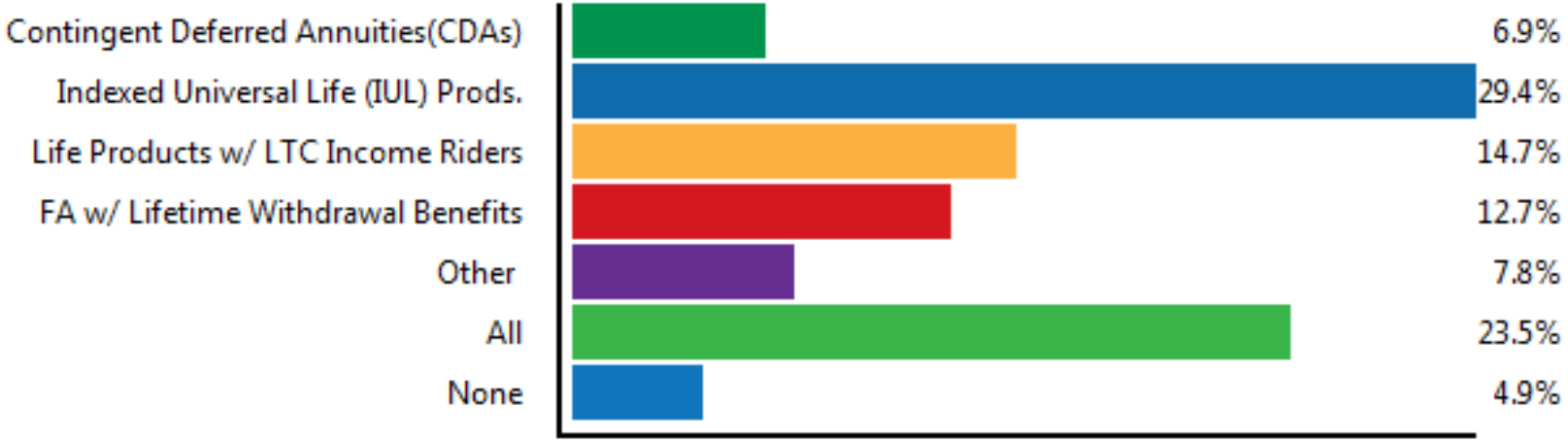
- Failure of Life Insurance Consumers to Plan for Living Longer and How they Will Afford Premiums in Their 90's.
- Increased Use of Technology By Millennials Causing Increased Financial Fraud and Privacy Breaches.
- New Life Insurance Products Designed for Seniors and Millennials Are Getting More Complex and Require More Disclosures.

New Products Causing Regulatory Concern

- Combining Life and Long Term Care Products
  - LTC Income Riders to Life Products and Annuities
- Contingent Deferred Annuities (CDA's)
  - NAIC clarified that Annuity Laws (*e.g.*, Advertisements Model Reg., Replacement Model Reg.) apply to CDA's even though registered CDA's are securities sold through FINRA licensed broker-dealers.
  - SERFF Filings Now Separate for CDA's, Fixed & Variable Annuities
- Fixed Annuities with Guaranteed Lifetime Withdrawal Benefits

Audience Question

- Which insurance products are raising the most red flags with insurance regulators?



New NAIC Indexed Universal Life Illustration Guidelines

- New Rules that "demonstrate the need to go beyond illustrations when determining a policy's value for a client." (InvestmentNews "New rules for indexed universal life insurance underscore due diligence concerns", February 3, 2016.)
- Under Actuarial Guideline 49, the maximum illustration rates across carriers will be determined consistently and more closely than they were previously.
- "Based on projections, AG 49 is expected to keep maximum illustrated interest rates below 7% annually."
- From 2010 to 2014, IUL sales have increased 148% to over $ 2 Billion in annualized premiums. IUL is 54% of all universal life premiums sold through 3Q 2015.

Implementation of AG 49

- AG 49 provisions dealing with currently payable scale methodology as well as “guardrails” further limiting the proposal went into effect September 1, 2015 and are meant to address the “unreasonably high assumptions in illustrations of the maximum rate of return on an IUL contract.”

- Requirements for standardized policy loan illustrations detailing information on policy loans and establishing additional standards will go into effect for all new business and in-force life insurance illustrations on policies sold on or after March 1, 2016.

Audience Question

- Is your company on track to meet with the March 1, 2016 Deadline for compliance with AG 49?

New Complex Life Products Raise Regulatory Concerns

- Insurance Regulators Want:
  - Increased IMO & Agent Training
  - Increased Consumer Education Prior to Final Sale
  - To Review CDA's & Complex Products under ORSA Model Act
  - To Enforce Compliance with AG 49

Practical Compliance Issues

- New products tied to newer indexes running afoul of Annuity Disclosure Model Regulation
  - Fixed Indexed Annuity Illustrations – If any index has not been in existence for at least 10 years, indexed returns for that index shall not be illustrated.
  - IIPRC Speed To Market for New Products - life insurance, annuities, disability income, and long-term care insurance to develop uniform product standards, affording a high level of protection to purchasers of asset protection insurance products.
    - 44 Member States representing over 70% of the premium volume nationwide. Six largest Compacting States according to premium volume: Texas, Pennsylvania, New Jersey, Illinois, Ohio, and Michigan.
- Product Withdrawals – Exams & Investigations
- Market Conduct Exams – Life Products & LTC Income Riders

CYBERSECURITY UPDATE AND PLANNING YOUR CYBER COMPLIANCE PLAN

"What happened to the good old days when people just breached contracts?"

Introduction

- Increasing frequency of breach
- Who’s doing it and why?

NAIC

- Roadmap for Cybersecurity Consumer Protections
- 12 Principles
- Investigation and Examination Efforts/Coordination
  - Annual Statement Supplement
  - Cybersecurity Task Force
  - Exams
- Coordination with other Regulators

Other Regulatory Activity

- Federal regulators
  - FIO
  - Department of Homeland Security
  - DOJ
- State AG's
- Other

Audience Question

- Who at your company has primary responsibility for creating the company's cybersecurity plan:

Creating a Plan

- What makes a successful plan?
  - Before, During and After Components
  - Buy In at all Levels of Company
  - Thoughtful and documented
  - Not static
  - “Crown Jewels”
  - Compliant with applicable privacy/security laws

Before an Incident

- Conduct a risk Assessment
- Strong IT system security
  - flexible and fast
  - White hat penetration experts
  - rules on byod
  - security measures around routine access
- Diligently monitored/Ability to know if there is an attack

Before an Incident

- Physical Security
- Training of Personnel
- Active monitoring by Board/CEO
- Relationships with vendors
- Purchase Cyberinsurance
- Develop Plan in case of attack

During an Incident – Execute the Plan for a Breach

- Alert necessary individuals
- Understand scope of breach asap
- Preserve evidence
- Minimize damage
- Document efforts to address
- Send required notifications
- Involve relevant law enforcement and intelligence agencies

After a Breach

- Make sure breach is repaired
- Analysis of response to incident
- Repair reputational harm
- Address law suits

Link to BNA Bloomberg Article on Cybersecurity Planning

- http://www.lockelord.com/newsandevents/news/2015/08/~/media/D22BDABC9C384747ACCD435CB829A1EA.ashx


DATA BREACH
REACTIVE DATA SECURITY
PREDICTIVE DATA SECURITY
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Questions?

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Paige Waters

- Paige is a Partner in Locke Lord LLP's Insurance Regulatory and Transactional Practice and frequently advises clients on insurance transactional and regulatory matters nationwide, including market conduct and financial exams, product and program development and implementation, and corporate governance and compliance issues.
- Paige is co-author of Chapter 96 General Principles and Introductory Matters Concerning Insured Insolvency and Bankruptcy and Chapter 14 Insurance Solvency Regulation, New Appleman on Insurance Law Edition. Prior to entering private practice, she was senior counsel of the Office of the Special Deputy Receiver, representing the Illinois Director of Insurance as the statutory receiver of insolvent insurers.

Elizabeth Tosaris

- Elizabeth Tosaris is a partner in Locke Lord LLP's Insurance Regulatory practice group and a leading regulatory and transactional lawyer. Recognized in Chambers USA 2015 for Insurance: Transactional and Regulatory, Elizabeth regularly assists insurers and other regulated entities on achieving compliance with insurance statutes and regulations.
- Among other things, Elizabeth advises clients on privacy, data protection and the electronic transaction of business, and has served as a resource on issues related to cybersecurity, and, in particular, creating and updating cybersecurity plans.

Al Bottalico, CFE, CPA

- Al Bottalico is an insurance specialist in the Los Angeles office of Locke Lord LLP and the former Deputy Commissioner for the Financial Surveillance Branch of the California Department of Insurance.
- With nearly 40 years of experience, Al works on all aspects of financial regulation and examination of insurance companies on a national basis, including statutory accounting, auditing and statutory requirements. He has been deeply involved with the National Association of Insurance Commissioners (NAIC) Solvency Modernization project since its inception, and worked closely on the creation of the ORSA Model Law, ORSA Guidance Manual, the Corporate Governance Model Act and amendments to the Model Holding Company Act.

We'd love to hear from you.

For any questions or comments regarding this presentation, please contact:

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