2025 insurance regulatory outlook

Center *for* Regulatory Strategy US

Message from the Deloitte Center for Regulatory Strategy

Insurers will likely encounter no shortage of challenges, heightened risk, and perhaps record-breaking loss events in the year ahead, events beyond the control of the White House or the state houses.[1] Agile management of unexpected events will be required not only by boards but by regulators. Historically, greater risk and change has stabilized the industry, fostering more cooperation between the insurance industry, state regulators, and standard-setting organizations to safeguard Americans.[2] As the sector takes on the challenges of 2025, this broad cooperation will likely be called upon again.

Even so, state and federal regulators are expected to remain vigilant in overseeing insurers' responses to domestic, geopolitical, and market challenges, while enforcing compliance and safety through public warnings, enforcement, or even new congressional legislation, if necessary. The new Republican majority in Congress could consider hearings on artificial intelligence (AI) applications, the cybersecurity market's coverage capacity, the intersection of mortgage markets and insurance coverage, and insurers' sales practices, but these will likely be prompted by unforeseen events that affect a broad constituency of people or national security. Insurance costs and events often evoke populist responses from policymakers, as they unite against loss and market disruption.

Simultaneously, tougher compliance demands in critical sectors where rigorous governance is required, such as at the intersection of national security and cybersecurity, could prompt decisive enforcement actions or deeper regulatory scrutiny in the event of any significant cyber breaches or attacks that trigger massive cyber insurance market coverages.[3]

Collaboration between the states and the industry has often shaped governing principles that are then developed into state laws and regulations. Insurers can tackle these challenges and opportunities through higher levels of engagement and collaboration with regulators and lawmakers. For our *2025 insurance regulatory outlook*, we've identified the key areas in which increased collaboration may occur.

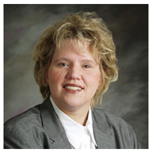
- Managing data amid innovation and threats
- Safeguarding and improving solvency
- Focusing on customer-centric regulation
- Tackling climate change risk and resilience challenges

We aim for our outlook to help inform your firm through the upcoming regulatory changes and challenges this year, however they unfold. We are ready to provide guidance and insight throughout and at critical junctures as structural changes and risks on multiple fronts emerge, evolve, and grow.

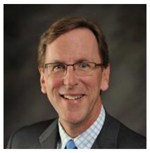
This is a time for insurers to remain vigilant and engaged as new frameworks and models develop at the state level. Federal agencies will likely maintain continued interested in the interconnectedness between insurance and adjacent markets, such as mortgage, housing, and finance. The rapid evolution in markets, technological advancements, and climate conditions will necessitate the involvement of all stakeholders to facilitate market solvency and safeguard consumers from current and emerging threats.

Sincerely,

Tim Cercelle
Principal
Deloitte & Touche LLP



Irena Gecas-McCarthy
Principal
Deloitte & Touche LLP



Jim Eckenrode
Managing Director
Deloitte Services LP

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How the US election might affect insurers

With the new Trump administration and congressional control by the president's party, federal agencies may halt or reduce enforcing existing rules and creating new ones (as is standard in an administration change), potentially focusing on market growth and innovation without enshrining language safeguarding equity and consumer protection. However, insurers should anticipate continued federal interest in pocketbook, populist, and national security issues such as homeowners insurance cost, cybersecurity, AI innovation support, and perhaps some interest in foreign ownership of US firms and offshore reinsurance activity. Tax relief is likely as the 2017 Tax Cuts and Jobs Act, signed by Trump, is up for extension and has support from the Republican party.[4]

Federal agency forecast

Although courts might ultimately decide the fate of rules such as the Department of Labor's fiduciary rule, the new administration will likely not prioritize or maintain any posture of continuing to defend or keep it. The Securities and Exchange Commission's (SEC) climate disclosure rule will die on the vine.[5] However, insurers must still comply with state disclosure regimes and adhere to international standards, especially with large European reinsurers holding a substantial part of the US reinsurance market.

At the Treasury Department, the Federal Insurance Office (FIO)—will likely continue initiatives and discussions with the Department of Homeland Security's Cybersecurity and Infrastructure Security Agency (CISA) related to the cyber insurance market and a potential federal backstop, as well as data analysis of homeowners markets. It will likely continue to examine data, monitor offshore reinsurance, and analyze the effects of weather-related catastrophes on the homeowners insurance market.[6]

The Financial Stability Oversight Council (FSOC), chaired by new Treasury Secretary Scott Bessent, will likely appoint a Republican as the voting member with insurance expertise, rather than go forward with the previous administration's choice of Hawaii Insurance Commissioner Gordon Ito. Though insurance designations for systemic risk will no longer be relevant given that insurers had their systemic risk designations lifted in the last decade, monitoring financial stability through housing, mortgage, and homeowners insurance in areas hit by severe weather and flooding is likely to continue. The Federal Reserve Board chair, who may stay on in the new administration until his term expires, also serves on the FSOC, and was appointed by President Trump during his first administration.

Navigating the year ahead: Expect a strengthened consumer focus at the state level

While Congress might still scrutinize insurance coverage for populations hard-hit by extreme weather and wildfires on behalf of their members' represented constituents, insurers remain largely regulated by the states under the exemptions of the McCarran–Ferguson Act.[7] State insurance departments' consumer protection and capital requirement expectations of insurance companies could firm up due to the differences between federal and state policy. This could be accompanied by expansion of AI scrutiny and enforcement under state unfair discrimination statutes and scrutiny of consumer outcomes as some key states toughen their current stances more than a year past the adoption of the state AI guidance and more than half a year or more into the establishment of some state regulations and guidance.[8]

Former Montana Insurance (and state auditor) Commissioner Troy Downing was elected to his first term in the US House as a member of the majority Republican Party; he could bring industry insight and a market-based approach to insurance issues scrutinized by Congress.

11,000 strong

As such, insurers should turn more attention to the activities of key states for regulatory innovation such as California, New York, Washington, Oregon, Connecticut, Colorado, and others that may pave the way for more stringent guidelines and oversight if they perceive a deficit of oversight at the federal level. As with the first Trump administration, state insurance commissioners—and state governments themselves—are expected to assert their role in consumer protection in annuity sales, disclosures, and claims oversight, and in capital and solvency controls monitoring.[9] They will likely do this in conjunction with the infrastructure of the National Association of Insurance Commissioners (NAIC), incorporating and bolstering its existing model laws, guidelines, and ongoing plans to create a holistic solvency framework.

"The effectiveness of the US state-based insurance regulatory framework in safeguarding consumers and ensuring market solvency is rooted in states' ability both to act collectively when needed on national issues and to adapt and innovate to unique local circumstances and market conditions," the NAIC officers stated on November 7, after the US presidential election.[10] In the announcement, they reminded the industry that across the nation almost 11,000 insurance regulators "are supporting efforts to both expand coverage and lower risk, making coverage more attainable for consumers and markets more stable."

However, the vigor of the states' actions to fill any perceived voids in regulation could create more of a patchwork system of guidelines and rules on everything from privacy to AI, despite guidelines and models that exist or will be adopted by the NAIC.

Remaining vigilant and attentive to the dynamic government oversight changes requires continuous monitoring of states' activity as well as agency and congressional initiatives. Insurers should be aware that unforeseen or untimely risks from both nature and humans, such as extreme and unexpected weather or from more complex data use may increase. They should strive to collaborate with regulators and internal teams to promote compliance in consumer protection and solvency, aiming to thrive during these changes.

Managing data amid innovation and threats

Collaborative industry-regulator risk management and resilience strategies are expected to continue to address vulnerabilities, even as enhanced technology brings change in real time to regulators holding playbooks that might not be keeping pace with the latest technological advancements.

States may persevere under the rules and guidelines that they have in place by beginning to, or increasing enforcement of new guidelines in areas like cybersecurity governance, while continuing to enforce existing rules on claims management and annuity sales. For technical rules, like AI system testing, regulators will closely monitor compliance efforts as these new regulations and legislation emerge at the state and federal levels.

Regulatory and supervisory expectations

AI and third-party model framework development

The use of nontraditional sources of information and the use of AI in underwriting and claims that may result in discrimination has prompted new state rules and guidelines in recent years. Now, states could flex their authority in the year ahead as Generative AI (GenAI) technology advances. States could begin market conduct inquiries into the insurance industry, although a new federal government that potentially seeks to diminish the scope of US regulatory agency oversight may decide to stand down from operations such as the Federal Trade Commission's enforcement sweeps in fall 2024's Operation AI Comply under the Biden administration.[11]

A framework for the enforcement of AI by insurance companies is now actively being developed by the states.[12] The NAIC is shifting to a discussion on "consumer outcomes." Specifically, the NAIC's Big Data Working Group is planning to follow up on the *AI Model Bulletin* (19 states have adopted) with a gap analysis to see how this framework holds up against potential harm from the use of AI. Deficiencies could potentially be addressed by any or all of the following:

1. Additional regulatory filings
2. Disclosures to consumers or regulators
3. Whether certain AI development practices may be required or prohibited

A separate NAIC group, the Third-Party Data and Models Task Force, enters its second year with plans to develop and propose a framework for the regulatory oversight of third-party data and predictive models.[13] It has not identified which models or even which types of models it is targeting. The chair of the task force, Colorado Insurance Commissioner Mike Conway, is expected to survey task force members to find out which third-party models concern them the most. What is certain is that insurers/licensees are responsible for the outcomes of third parties. There are indications, based on the fall NAIC meeting sessions, that the potential to regulate some third-party vendors is on the table for 2025 development, and enforcement-oriented scrutiny of third-party use for AI could become an emphasis of some insurance departments.

The NAIC's new AI Systems Evaluation Working Group has announced it plans, through its training collaboration forum committee structure, to move forward on insurers' AI systems market conduct evaluation through 2025 and 2026.[14]

The organization, through remarks by Iowa Insurance Commissioner Doug Ommen, briefed stakeholders November 12 on a plan to develop new regulatory tools or guidance to assist state regulators in evaluating insurers' and licensed entities' AI systems and programs.[15] This plan's implementation will follow the current phase of identifying existing tools, resources, materials, and training. The NAIC plan also anticipates a coordinated effort to develop enforcement tools for AI use.

The NAIC's member regulators are seeking information about the necessary tools and resources to begin enforcing the AI Bulletin adopted in late 2023. In the long term, the NAIC aims to integrate the overall supervisory AI regulatory framework into either the existing *Market Regulation Exam Handbook* or potentially create a stand-alone AI conduct handbook for state use. According to the timeline, discussions on the market regulation process and recommendations for updates to the Market Regulation and Consumer Affairs Committee are scheduled for 2025, with support for implementing the newly developed proposals extending into 2026 and beyond.

Indeed, many states have already begun incorporating these AI usage guidelines and regulations into their market conduct examinations, so firms should expect the potential for increased regulatory questioning during this initial phase of oversight, followed by possible market conduct enforcement activity later in the year.

Insurers can likely expect more activity from New York, Colorado, and Connecticut—states that have more rigorous rules that go beyond the 2023 *NAIC Model Bulletin: Use of Artificial Intelligence Systems by Insurers,* adopted by almost 20 states so far.[16] More jurisdictions will likely join them in requiring a certain threshold of AI outcomes testing, as well as a robust governance structure. Notably, Colorado has extended the deadline to meet quantitative testing requirements for AI bias to year end due to ongoing development of its rule.[17] The District of Columbia may push further on its 2024 study of unintentional bias in passenger auto underwriting.[18]

Still, other states could pass legislation on AI use by businesses, scoping insurers and potentially giving more authority and oversight to officials beyond state insurance departments.[19]

On the federal level, Congress could consider examining AI applications (to foster growth and innovation and prevent fraud) to keep a human in the loop for oversight, but the outlook for federal AI legislation is unclear.[20] It could also address existing state laws or rule mandates for AI use to provide a more streamlined approach to a flurry of state activity.[21] Now, the work the Treasury will undertake will likely comport with national security interests and fostering innovation for market purposes rather than consumer guardrails.[22]

Insurers' use of third-party providers will also come under more scrutiny as the NAIC and the Third-Party Data and Models Task Force prepares a framework for the regulatory oversight of third-party data and predictive models.[23] Such a model or guidance for oversight could require state legislative changes for implementation, or it could be softened into guidance.[24]

Despite the lack of regulation in place governing third-party models, insurers will increasingly be expected to answer state regulators' queries on how their external and internal models work and be able to explain outcomes even if they do not understand the algorithms used. As the New York Department of Financial Services (NYDFS) stated in its circular letter on the use of AI systems and external consumer data and information sources last summer, there is an "expectation that insurers conduct appropriate oversight over third-party vendors."[25] However, insurers might find some respite from the necessity of having to thoroughly explain how these third-party models work. State regulators—including the NYDFS—have indicated they are interested in outcomes or results rather than the intricacies of the models themselves. These outcomes may be vigorously scrutinized in some instances.

This year will mark the first such examination, however informal, through Colorado's examination of life insurer's AI governance framework, as both regulators and industry begin to ascend a learning curve—in Colorado's case, the life insurers' governance framework designed to identify and prevent AI bias.[26]

Cyber risk

The FIO has been working extensively to examine such a federal response to catastrophic cyber risk. The US market is the world's largest, yet it "has pulled back from covering catastrophic cyber incidents," the agency has warned.[27] Ongoing collaboration with the CISA at the Department of Homeland Security and the Office of the National Cyber Director (ONCD) at the White House will continue, if not accelerate, in 2025.[28] This exploratory work could result in a tangible proposal, as government and the reinsurance industry work to reduce the economic impact of a cyber incidents through both private insurance and a federal insurance backstop.

On the state cybersecurity regulatory front, New York is one jurisdiction poised to actively enforce stringent cybersecurity oversight regulations for insurers, covering governance, encryption, incident response, and continuity management. These requirements, part of the amended 23 NYCRR 500, took effect on November 1, 2024, a year after their proposal.[29]

Why firms should take notice

AI and third-party model framework development

Testing AI for underwriting and coverage denials is evolving, with some states requiring principles-based approaches. Companies should be able to demonstrate fair and nondiscriminatory internal processes and show ongoing progress in adopting and vetting AI technology within their governance and testing protocols. They must also quickly address any unjustified or discriminatory outcomes from models.

Though discussions on quantitative testing protocols for AI use are challenging, and enforcement will likely involve a period of adaptation and negotiation between departments and insurers, insurers may find that a well-crafted protocol that aligns with state laws on unfair discrimination and is dynamic and able to expand to further rules on quantitative testing is now essential.[30]

Data security

Although larger insurers will likely have had to develop a more robust cybersecurity framework by now, New York and other regulators may expect plans for remediating material inadequacies.

The NAIC is moving forward with its proposed cybersecurity event portal. The confidential cybersecurity event repository "is aimed at enhancing the cybersecurity event notification process within the US insurance sector," the NAIC stated.[31] In the early stages, state regulators intend for the portal to be focused on facilitating notices among states of cyber event notices with a uniform notification method on cyber breach events.

A proposal for a potential federal backstop solution for catastrophic cyber incidents could emerge this year.[32] Although enabling legislation would be necessary, last year's discussions about public-private partnerships and cyber exclusions have set the stage for further exploration of a federal response.[33] But first, any federal insurance response to catastrophic cyber risk will call for the in-depth involvement of federal and state officials and private industry.

Legislation must be carefully crafted to allow the federal government to absorb some monetary losses with commercial property & casualty (P&C) insurers in the event of a catastrophic event, perhaps similar to the structure of the Terrorism Risk Insurance Act.[34]

How firms should respond

AI and third-party model framework development

State regulators will want to see that insurers are actively designing and updating their governance oversight structures for compliance with expectations in cyber disclosure and AI.[35]

Engaging extensively with regulators, federal officials, and lawmakers on issues like bias testing and data protocols might be demanding in terms of time, but it can ultimately benefit insurers long term. Insurers should involve data scientists and risk managers in their conversations with states and the NAIC to help shape effective policies. Additionally, insurers should continue to champion their unique model to prevent overbroad or duplicative legislation from Congress or the states that are inappropriately applied to the industry or create unintended hampering of the market and other consequences.[36]

Data security

While New York and other states do not mandate a specific standard or framework, firms should be prepared to deliver a thorough cybersecurity risk assessment.[37] External frameworks like the National Institute of Standards and Technology (NIST) Cybersecurity Framework can effectively meet these requirements, regulators have noted.[38]

New York-based companies that are encountering difficulties in compliance may use the NYDFS portal to self-report. By demonstrating substantial adherence to sections of the regulation, they can work toward obtaining their *Certification of Material Compliance*.[39]

The NYDFS will likely be a source of further guidance and enforcement as threats evolve. The NYDFS issued guidance in mid-October to assist firms in managing cybersecurity risks associated with the use of AI, detailing actions and policies that need to be in place to identify and mitigate risk from ever more sophisticated AI-enabled attacks.[40]

Insurers doing business in New York are expected to annually update and test their business continuity and disaster response plans with key staff and backup systems; scrupulously manage third-party systems and vendors; and train all personnel. These expectations will likely become an industry standard, as other states may follow New York's lead.[41]

Regulators are prepared to act and collect steep fines and will publicize alleged shortcomings in compliance of existing rules not only going forward but retrospectively. New York regulators have made cyber hygiene a priority. They also proactively warn about emerging threats and expect ongoing vigilance, so staying attentive to their communications is vital.[42]

Safeguarding and improving solvency

The NAIC leadership is heavily focused on solvency, with those in key roles fluent in financial supervision at the state and federal levels. The federal government could continue to be actively involved in monitoring the financial stability of the insurance industry and its effect on other financial markets through the FIO with a seasoned director, Steven Seitz, who has served across several administrations.

Regulatory and supervisory expectations

Structural change in the life insurance industry has been marked by a "material, observable shift" in investment strategies toward more private assets, more structured securities, and more complex assets.[43] The NAIC is now working on a multilayered approach to enhance oversight and scrutiny of these more complex and sometimes opaque investments through a new governance structure for due diligence and assessment of credit rating functions and other industry-wide analytics. Among the NAIC's plans this year will be to establish a new governance structure or framework for the organization's Securities Valuation Office (SVO), which could be the key in the effort to enhance transparency and guardrails for solvency.

These initiatives, kick-started in 2022 with the adoption of *Regulatory Considerations Applicable (But Not Exclusive) to Private Equity (PE) Owned Insurers*, might be realized this year in the form of a new solvency framework for the NAIC's long-term securities oversight vision, which includes more transparency and more scrutiny of offshore investments for capital adequacy.

An outside consultant will likely be hired in 2025 to help design and implement a "strong due diligence program to oversee the industry's use of credit rating providers."[44]

As part of these broader solvency oversight efforts, the NAIC's Structured Securities Group and other working groups will continue analyzing the credit risks of collateralized loan obligations (CLOs) owned by state-regulated insurance companies. The organization will continue work on the financial modeling of these debt-backed structured securities to better capture their risk.

State solvency regulators' stated goals are to reduce perceived risk-based capital (RBC) arbitrage and address the tail risk in structured finance tranches, and it will continue as part of a multi-year project.[45] This work is expected to gain further momentum in 2025 and could result in increased RBC charges for CLOs for year-end 2025.[46]

The NAIC has also been prioritizing reducing the organization's so-called "blind reliance" on credit rating agencies and will further address policies to analyze investment risk, such as increasing the NAIC's designation authority over securities.[47] Workstreams under the Financial Condition Committee will continue to advance interrelated initiatives focused on asset risk and credit risk in 2024.[48]

The NAIC is capping off years of ongoing efforts to enhance solvency oversight through greater transparency, as well as refine RBC charges for an array of complex investments and securities key to a business, that must ultimately be able to pay policyholders over a long-term basis. NAIC designation authority over securities is due to increase as part of the effort to decrease the SVO's dependence on the ratings from external agencies.[49]

Concerns over the growth of asset-intensive reinsurance that is transferring risk to firms in countries where reserve requirements might be lower and inadequate in a stress scenario underlie many NAIC activities already.[50] In the short term, state life insurance actuaries will demand greater transparency on the reserves ceded offshore and the risk-based capital retained given the increase in private equity ownership of life insurers.[51]

The FSOC has repeatedly emphasized this bears attention out of concern for the failure of one or more offshore reinsurers utilized by US life insurers. It is unclear if this scrutiny will continue from the FSOC in 2025 under Bessent, but it will from states and the NAIC, according to the FSOC's final annual report under the Biden administration in December, in which it urged that "state insurance authorities and the NAIC consider concentrations of risk and counterparty exposure to affiliated offshore entities."[52]

The NAIC plans to determine if actuarial guideline analysis should be comprehensive or limited, factoring in the size and impact of reinsurance treaties, and will decide whether to assess the risk of firms less reliant on aggressive asset returns to sustain reserves. With these considerations underway, a new actuarial guideline adopted for asset adequacy testing of reserves could go into effect at year-end 2025, becoming more prescriptive by 2026.[53]

A common capital language emerges

The International Association of Insurance Supervisors' (IAIS) flagship capital standard is now ready for implementation after five years of monitoring results and more than 12 years since the Financial Stability Board prompted its development.[54] The new common language of the Insurance Capital Standard (ICS) will be used to scrutinize internationally active insurance groups by evaluating valuation and qualifying capital resources.[55] Starting this year, it will serve as the quantitative component of the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame).[56]

The long-anticipated decision by the IAIS's Executive Committee in mid-November to accept the US version of the ICS—the homegrown Aggregation Method (AM)—as a standard yielding comparable outcomes to the ICS can enable states to align their insurance capital calculations with the new global standards.[57]

The Treasury Department, Federal Reserve Board of Governors (FRB), state regulators, and NAIC (collectively known as TEAM USA) determined the IAIS-developed ICS did not fit well with the state-based supervisory regime or the US insurance market.[58] The US capital calculation methodology more appropriately reflects underlying risks, TEAM USA had repeatedly stressed on the international stage.[59] Early stages of implementation of the ICS and the AM will be closely monitored by the IAIS global insurance supervisors, spurring increased engagement with global firms as well as with the NAIC and regulators stateside.[60]

The NAIC stated that "collaboration and coordination will continue" with global supervisors and the IAIS to adapt the ICS to each jurisdiction and develop an appropriate implementation assessment framework. As work transitions into implementation, the NAIC will work domestically on its approach to the AM as the US implementation of the ICS.[61] The IAIS pointed to some areas—specifically treatment of interest rate risk and timing of supervisory intervention—where it would like to see more convergence between the AM and the standard ICS during the implementation process.

Expect some heavy lifting from TEAM USA. The IAIS noted in its release during the annual conference in December, "In using the Final AM as its implementation of the ICS, the US commits to addressing those areas in appropriate ways, which will be reviewed during the IAIS ICS implementation assessment process."[62]

Why firms should take notice

The NAIC will play a crucial role this year in continuing to shape financial solvency oversight, in particular in scrutinizing the processes that could jeopardize or compromise the consistency and uniformity of the US solvency framework. In particular, insurers should watch closely the NAIC's actions with respect to future capital requirements in asset-intensive reinsurance transactions and the use of credit ratings for securities. Insurers' balance sheets will be affected down the line, perhaps sooner than they had anticipated.

Specifically, the activity of the NAIC's Financial Condition Committee and its task forces and working groups will persist into 2025, likely with a focus on monitoring RBC formulas, addressing regulatory redundancy concerns, and cooperating with state and federal regulators on international group capital matters.

Insurers should remain attentive to the FIO's continued concern about the increasing shift of reinsurance business to Bermuda, Barbados, and the Cayman Islands in recent years. The FIO continues to be vigilant in its analysis of potential heightened credit risk for the life sector.[63]

Congress and policymakers remain concerned that life insurers are adding more risk to their balance sheets by moving toward PE-intensive investments and ownership.[64] These concerns might mount and result in more questions and attempts to gain transparency into the balance sheets of companies—and perhaps to beef them up. This ongoing inflow of PE money into the industry is "likely to drive further M&A activity as they acquire life and annuity insurers in a bid to grow books of business and, in some cases, take balanced risks to extract a greater degree of return from underlying assets," as we noted in our 2024 outlook.[65]

Bessent has a hedgefund background and so is comfortable in the sector, but he also may be able to see vulnerabilities in the reinsurance and investing arenas that bear monitoring.[66]

If state regulators suspect these issues may be examined by their federal counterparts at the FSOC, they may be forced to, with committee work through the NAIC, accelerate action themselves with maintaining high levels of RBC for some structured security investments and more rigorous asset adequacy testing of life insurance reserves.[67]

How firms should respond

A modern solvency approach will be a large undertaking, with high stakes for insurance investments. The framework, once deployed, could change oversight protocols and affect the capital amounts insurers need to keep on hand. Construction of the modernized securities oversight framework, beginning in 2025 under the auspices of a consultant, will demand the engagement of many stakeholders.

This project should serve as an opportunity for insurers, particularly life insurers, to help demonstrate their internal solvency oversight mechanisms are up to standard. Insurers should also anticipate a potential need for more capital requirements and disclosures from regulators down the road for certain structured securities and other investment products viewed by the NAIC as more risky than traditional investments.[68] Offshore reinsurance asset adequacy will likely remain in states' sights throughout the year.[69]

The life insurance industry can help shape the outcomes through its advocacy for a disclosure-based approach, rather than one that requires additional analysis and testing of asset adequacy. However, insurers should prepare for the potential of increased testing and a potential new framework for investment oversight.[70]

Global insurance firms headquartered in the United States should also work closely with TEAM USA supervisors and the NAIC in their work adjusting the concerns of the IAIS on interest rate risk and regulatory intervention timing issues during the ICS implementation assessment process.[71]

Insurers should have medium- to long-term capital planning in place for the AM implementation and be ready to work and collaborate with regulators on their framework and results. Insurers should be well underway in their review of capital needs and the processes for determining them. Larger multinational insurers subject to these new capital standards should prepare to learn the common language for capital standards, as it has arrived stateside.[72]

Focusing on customer-centric regulation

Under new NAIC President (North Dakota Insurance Commissioner) Jon Godfread, the state standard-setting organization's focus will likely prioritize promoting innovation in insurance and enhancing industry dialogue to improve market service. Any attempts to introduce federal oversight in areas such as property casualty insurance, financial stability and solvency, or annuity sales will probably encounter strong resistance from Godfread. The newly-reelected North Dakota insurance commissioner has expressed his dedication as "the work of being a champion of our state-based regulatory framework and safeguard[ing] the interests of our citizens."[73] The states under Godfread's leadership are expected to continue to experiment as they craft guidelines and models that address insurance-specific use concerns in their jurisdictions.

Regulatory and supervisory expectations

Regulators will be paying close attention to insurance companies' sales practices for a number of products, including annuities, even as courts continue to weigh the applicability of a sweeping new rule. While customer-centric experiences have contributed to the popularity of embedded insurance (distributing insurance policies bundled into another product at the point of sale), and partnerships expand between insurers and other industries, regulators will be monitoring sales practices for noncompliance.[74]

The US Department of Labor (DOL) under the new administration will likely drop a legal pursuit to uphold the 2024 fiduciary rule, which was stayed by two federal district courts in Texas last summer.[75] The rule was set to go into effect September 23rd, 2024 before industry groups successfully pushed for a stay, which was appealed that same month.[76] As the case made its way through the courts, the potential outcome of fiduciary standard oversight governing fixed annuities in employment retirement plans remained uncertain anyway and will likely disappear.[77]

Even without the quick resolution of the case, which sweeps in non-securities investment fixed annuity products, sales practices for the sale of variable annuities will continue to come under scrutiny from state and federal regulators or agencies.

The Financial Industry Regulatory Authority (FINRA) will likely continue to actively enforce violations of the SEC's Regulation Best Interest (Reg BI), expecting a certain standard of conduct for broker-dealers and sales professionals when they recommend or sell to retail customers securities or investment strategies, including those involving variable annuities.[78]

While the SEC had been keeping a close eye on disclosure violations of Reg BI in sales of investment products to retail customers—reminding the market there is no "implied consent"—its enforcement pattern could slow during the next year with staff turnover and new priorities.[79] However, insurers can still expect annuity sales enforcement as it might take some time to dismantle enforcement infrastructure and agency practices.

Instead, state enforcement of various best interest standards under the NAIC's widely adopted Suitability in Annuity Transactions Model Regulation (#275), which was created to prevent abusive and predatory practices by life insurance and annuity producers, will probably be wielded as necessary.[80]

The vast majority of states have adopted the Suitability in Annuity Transactions Model Regulation, after more than four years, state authority is primed to protect retirement annuity buyers.[81] The NAIC Life and Annuity Committee is offering guidance in draft form on insurers' obligations under the safe harbor provisions in the model act, which would recognize that insurers' compliance under comparable standards satisfies compliance with the state suitability regulations. However, the committee warned insurers that nothing in the safe harbor language would limit the insurance commissioner's ability to investigate and enforce the provisions of this regulation.[82]

State insurance departments will likely keep up their ongoing enforcement of auto insurance claims disclosures, overcharges, and notifications to consumers, although exams and fines tend to be smaller and more narrowly defined than in the multi-state conduct exams of years past. States may focus their enforcement on one area for an extended period of time, something NY insurers experienced with vehicle registration information.[83] We expect that trend is likely to continue.

Regulators will also seek to educate consumers about spiking rates, and attempt to prevent coverage lapses and market coverage shortages due to weather, while addressing questions from consumers.[84] Nationwide, the 2023 weighted average premium rate for owner-occupied homeowners insurance increased by 11.3%. In total, 25 states saw an effective rate change of at least 10% in 2023, compared to only six states in 2022.[85] The highest effective rate changes were in heavily climate-impacted states.[86]

New privacy protections model could be adopted

Insurers can expect a new privacy protections model law draft from the NAIC in 2025, if progress continues at the same rate. Whether it comes up for adoption by the NAIC plenary in the second half of the year is not clear, but the potential for a revised path forward exists by year end after a multi-year period of pauses and restarts.[87]

The NAIC could then send the privacy data framework of required disclosures, information-sharing and retention, and opt-out requirements to state legislatures for adoption likely in spring 2026. This will only occur if the final model is palatable to a wide range of stakeholders, as previous concerns with state legislative adoption hampered the first attempt at a privacy model in 2023.[88]

The NAIC will continue to address such concerns. As an example, the most recent draft in progress is more expansive and modernizes its oversight of the handling and sharing of consumer data and information.[89] Meanwhile, the refashioned Privacy of Consumer Information Act draft expands into and addresses third-party arrangements, access, correction, and deletion of nonpublic personal information, the sale of nonpublic personal Information, and the use and disclosure of sensitive personal information.[90]

Consumer advocates will continue to push for stricter controls around protection of nonpublic consumer information, governance and physical data security practices to protect nonpublic personal data from unauthorized access, destruction, use, modification, or disclosure. Rapid breach notification systems will be expected to be in place. The full slate of consumer privacy protections will likely be enshrined in some form in an NAIC model law in 2025.[91]

NAIC leadership is expected to align with previous leadership priorities on financial transparency and disclosure while supporting innovation and growth within the industry.[92] On February 14, 2025, the NAIC announced its 2025 roadmap of initiatives: “Securing Tomorrow: Advancing State-Based Regulation.”[93]

However, the process could still hit roadblocks and the privacy model draft’s scope could be tempered amid leadership changes and stakeholder feedback. Industry representatives remain concerned that “a geographically and politically diverse group of 20 states, which represent more than half of the population in our country, have now enacted comprehensive privacy laws,” as one large insurance industry organization put it.[94] This group advised the Privacy Protections Working Group (PPWG) to not propose requirements and industry burdens that are dramatically different and harsher than the privacy mandates established for other industries.

Why firms should take notice

Insurers should anticipate more interest in compliance, more mature privacy governance (even without a model act), and greater market conduct activity from state and federal regulators. Specific focus areas include annuity sales from life insurers and disclosures, and timeliness in claims and other responses from private passenger auto insurers. Regulators will want to find ways to mitigate steep rate increases and market withdrawals through agreements and potential legislation permitting reductions in premiums for safety actions such as usage-based insurance and landscape and dwelling fortification against climate perils.[95]

How firms should respond

Firms should participate in the development of the model act from the PPWG to make sure that the final product is well-tailored to the insurance industry and allows insurers to market to consumers with transparent disclosures to prevent future issues.[96] Even before such a model is adopted and implemented, insurers should review their data retention and deletion protocols and modernize their data safety systems so they can respond nimbly and avoid changes in compressed time frames.

Early stakeholder engagement tends to bring tangible results when a model law is being drafted. Thus, it is paramount to track new compliance frameworks and provide well-supported input to help regulators fashion the best outcomes for the insurance industry and its stakeholders, including firms and consumers.

Insurers are wise to keep abreast of emerging guidelines and rules but should not lose sight of the central compliance issue of timeliness when responding to policyholders during the claims process. Ascertaining that your firm has a sound compliance foundation with efforts to strengthen and remediate as needed will remain crucial to withstanding regulatory scrutiny.[97]

NAIC leadership is expected to align with previous leadership priorities on financial transparency and disclosure while supporting innovation and growth within the industry.


60%
75%
45%
80%
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Tackling climate change risk and resilience challenges

Shaping policymaker priorities are jurisdictional climate risk events and threats, augmented by the prevalence of catastrophic weather in major areas of the United States on an ever-heating globe, which in 2024 recorded its warmest July on record. Congressional and stakeholder pressure is due to intensify for a national solution to the economics of billions of dollars of property losses and the threat of insolvency and lack of private and federal funding.

Regulatory expectations

Catastrophic, more frequent, and deadly flooding as well as sustained, powerful hurricanes and windstorms continue to surpass records and cause billions in economic and insured damages.[98] Last July was the warmest July on record for the globe in the National Oceanic and Atmospheric Association's (NOAA) 175-year record, breaking the longest-record warm global temperature streak on modern record.[99]

Jurisdictions and regions such as California, the nation's largest state insurance market, the Southeast and Atlantic and Gulf coastal areas, and affected Western states will continue to prioritize maintaining and expanding insurance coverage, though at an increased cost for homeowners' policies in the wildfire-prone areas, by seeking a more streamlined review of rate hikes. However, market and regulatory tensions among stakeholders will likely persist. The insurance market and the state will strive to find a balance that allows for coverage without triggering further coverage withdrawals from the market. Industry, consumer advocates, and policy officials will continue to engage for interim solutions.

New or revised state legislation could emerge to address the growing wildfire risk to homeowners and the growth of California's FAIR Plan, the residual market for basic coverage that can't otherwise be obtained through the traditional insurance market.[100] The Colorado FAIR Plan, formed in 2023, could be followed by others if extreme weather and natural catastrophes continue to repeatedly ravage certain regions of the country.

As coverage challenges continue to challenge the state insurance market, look for burgeoning efforts to use forward-looking data modeling to better anticipate losses and set prices. For example, the California Insurance Department is seeking to create a forward-looking, publicly available wildfire risk model to predict future wildfire losses, likely forthcoming in April.[101] This effort will be one of the department's myriad strategies in building safer communities and expanding access to insurance coverage.[102] Meanwhile, legislative efforts to consider easing premiums to reflect homeowners' wildfire mitigation measures could well reemerge, possibly with altered language and parameters.[103]

Education and mitigation effort will take center stage

The NAIC and individual states are expected to ramp up prioritizing mitigation and similar efforts to address the accessibility and affordability of homeowners insurance with escalating premiums as homes continue to get hit hard by weather. The NAIC has warned that "the mix of elevated risks and elevated costs due to inflation" are now being felt directly by policyholders, with the P&C industry recording underwriting losses of $24.9 billion in 2022 and $21.2 billion in 2023; the organization listed a series of ongoing perils threatening multibillions of dollars in economic losses, resulting in higher rates and fewer coverage options for policyholders.[104]

There is not enough uptake in vulnerable areas, either. Nearly a quarter million US properties have repeated flood claims through the National Flood Insurance Program, with fewer than one in four properties treated for risk mitigations like floodproofing or structure elevation.[105]

We see insurers playing a key part in educating consumers and their own state regulators, especially in dialogues and conversations regarding potential premium reductions to reflect reduced structural risk through resilience and mitigation efforts.[106] There will be renewed vigor to educate and reach consumers, perhaps in efforts similar to the Colorado Division of Insurance's series of in-person stakeholder meetings to get input from consumers on homeowners insurance premiums, and mitigate the effects of wildfires via structural change to homes and land.

The NAIC will continue to maintain a dashboard of risk mitigation programs to serve as a resource for state regulators to establish their own mitigation programs, a tool that will likely become more prominent as regions once thought safer from such perils are increasingly less so. The NAIC will also act as a forum for presentations on efforts and programs such as the Strengthen Alabama Homes Program and California and Minnesota's incentive programs for homes that meet a certain standard of fortification or hardening against damage from storms and wildfire.[107] The NAIC also has spotlighted efforts such as Kentucky's Department of Insurance grant program for homeowners in the state who fortify their homes to standards, as well as the Louisiana Fortify Homes Program, which offers up to $10,000 in grants for homeowners who strengthen their roofs against wind damage from hurricanes.[108] States will continue to emphasize this hardening approach and bolster or seek to initiate such programs that alleviate costs by reducing potential damage.

In fact, the National Council of Insurance Legislators adopted a model in late fall based on Alabama's vaunted roof and home fortification program known as the Strengthen Homes Program Model Act. This model allows for grants and premium discounts or rate reductions on coverage if construction to mitigate catastrophic windstorm damage is actuarially justifiable and there is "credible evidence" of cost savings that can be attributed to the improved construction. The program fortifications must meet or exceed the "fortified roof" standard of the Insurance Institute for Business & Home Safety, according to the model that was created to be introduced in individual state legislatures in 2025.[109]

Smaller-scale climate resilience action items will also increase this year.[110] These will include climate modeling that potentially includes a need for increases in P&C insurers' risk-based capital. With these changes, state regulators will likely pivot to new forward-looking catastrophe modeling versus the traditional use of historical data.[111]

Ongoing focus from economic policy officials about the intersection of the homeowners insurance and residential mortgage markets could blossom into action items for the new administration, particularly in the area of housing affordability,[112] and these steps could begin this year.[113]

Insurers should expect scrutiny of their practices from NAIC, the FIO, and perhaps the Republican Congress as well. While there are other causes of high property premiums beside climate, such as the cost of construction materials, underlying home values, the cost and availability of labor, and the impact of litigation, perils continue to cause tens of billions of dollars of losses each year.[114]

More data calls may be on the horizon

Firms might face the prospect of more property insurance data calls on climate-related themes in the coming year.

Current FIO Director Seitz, in underscoring concern that "it is increasingly difficult for homeowners and consumers to find and afford homeowners insurance," noted that "our partnership with NAIC and state regulators on data collection is an important initiative for the American public, insurers, and state regulators."[115] The Trump Treasury will need to address weather, economic, and insurance costs to markets and consumers.

The 2024 homeowners data call (undertaken by the NAIC with anonymized data shared with the FIO) is being used to analyze key risk metrics such as premiums, claims frequency, nonrenewal rates, and loss ratios.[116] The FIO is using this data to conduct a nationwide assessment of homeowners' climate-related insurance risk.[117] In 2025, the FIO could present its analysis with suggested action items for the sector.[118]

As coverage challenges continue to challenge the state insurance market, look for burgeoning efforts to use forward looking data modeling to better anticipate losses and set prices.

Why firms should take notice

Insurers can expect state insurance commissioners in some jurisdictions to initiate coverage denial moratoria on coverage in vulnerable areas, such as those affected by wildfire. Just this past September, California issued a mandatory one-year moratorium to preserve residential insurance coverage for policyholders affected by wildfires in major Southern California counties under the authority of a state-issued bulletin.[119] California Insurance Commissioner Ricardo Lara stands ready to enforce the state's inaugural catastrophe modeling and rate regulation to increase wildfire coverage in distressed areas.[120] Lara announced in December that major insurance companies are now required to increase the writing of comprehensive policies in these areas to reach no less than 85% of their statewide market share.

Over four years ago, the NYDFS provided guidance on handling financial risks from climate change. It is anticipated that after years of discussions and capacity-building, the state will now demand more advanced management processes and implementation, particularly from larger companies. Initially, insurers were asked to understand the risk and develop a strong governance system. Now, it is possible that the NYDFS could move beyond monitoring to mandating action in areas where it perceives a lack of substantial progress from insurers.[121]

Going forward, state regulators may increase requests and pressure on P&C insurers to furnish and explain data. The NAIC and the states will be building upon their collective efforts on climate in 2025, perhaps through future partnerships. The FIO is using the data shared by the NAIC to conduct a nationwide analysis of climate-related insurance risk to consumers across the United States for owner-occupied homeowners multiperil insurance policies from 2018–2022. This analysis will likely accompany suggested action items for the sector and could herald an era of more data collection initiatives from the P&C industry to get further precision.[122]

Insurance companies should also closely monitor potential congressional action on addressing climate risk and extreme weather, even as the fate of the SEC's March 2024 landmark climate rule will likely be shelved, as greenhouse gas emissions are not an issue in the Trump administration.[123] The NAIC has urged members of Congress to help homeowners by "supporting any of the myriad mitigation and risk reduction bills pending" that have been before them, and pass the Disaster Mitigation and Tax Parity Act. The act was first introduced in 2023, which excludes from gross income any qualified catastrophe mitigation payment made under a state-based catastrophe loss mitigation program.[124] Insurers can advocate before Congress to give tax relief to homeowners participating in state-provided disaster mitigation grants in efforts to better withstand storms and other perils.

How firms should respond

Insurers should be ready to answer any questions from state regulators on their climate risks, from transition to physical, in broad terms, and with a plan for more detailed data and disclosures across their businesses.

Governance in managing climate risk must be an ongoing pursuit, and those in board and management roles should be ready to show they are taking the challenges of climate risk seriously.[125] Regulators are actively monitoring their engagement and efforts, and will expect increased proficiency in managing financial risk from climate this year.[126]

Firms should also be prepared to adapt to a rapidly changing environment on the ground and in Washington.[127] They should not only continue to advocate for their positions based on their own property data, but also be prepared to submit it in some form to federal agencies for review or analysis as interest increases in a potential federal role in monitoring and providing potential oversight amid rising climate-related financial risk and affordability concerns.[128]

Insurers should also heed the NAIC's recent move of adopting an RBC disclosure requirement for climate risk perils. This requirement serves to assist state regulators in discussions with insurers that face higher risk. It scopes in the impact of climate-related risks on the modeled losses for the perils of hurricane and wildfire and will be effective for year-end 2024, 2025, and 2026 reporting. The NAIC assured the industry that the intent of the disclosures is for informational purposes only and not to determine a new risk-based catastrophe charge.[129] Insurers should monitor any new initiatives on RBC for climate risks, though there is disagreement on whether the RBC is the appropriate tool.[130] Future modeling work may occur.

In New York, regulators will continue to call upon insurers to adequately prepare to identify, assess, and manage climate risks and challenges. Insurers should take measures relating to the four pillars of governance, risk management, strategy, and metrics and targets in the NAIC's climate-related financial disclosure reports. The NYDFS called out shortcomings in progress for the risk management, strategy, metrics and target climate disclosure pillars. It noted that insurers did not show the same consistent level of progress but lauded the implementation of guidance expectations.[131]

Life insurers overall seem to be further along in addressing climate-related risks than do P&C insurers, according to the NYDFS.[132] It attributed this to life insurers' long-term business strategy for their assets and liabilities, which can extend past 50 years. While P&C insurers have made progress, 13% of them are in the "yet to start" category even as the physical manifestations of climate change.[133]

Internationally, the IAIS will be working on its fourth consultation on climate risk, which is set to include updates on disclosure-related requests and material, macroprudential considerations and supervisory cooperation.[134] Comments were due in late October, allowing work to advance this year on drafting the document. Insurer feedback and participation during this process will help create a more comprehensive oversight plan for regulators to evaluate climate-related risks among insurers and their markets. Insurers should embrace the ongoing implementation of the plan with the IAIS as it seeks to provide a broader platform for sharing climate disclosure regimes, thus allowing supervisors to learn and build upon real-world industry experience.[135]

The IAIS is also suggesting that insurance supervisors should consider interdependencies between climate-related risks, such as physical and transition risks, and the effects of delays in transition, such as the severity and frequency of physical risk events leading to bigger economic losses from weather-related events.[136]

The road ahead

The coming year will continue to bring rapid technological growth and increasing risks. Insurers will need to quickly adapt, utilizing available resources and tools. The local, federal, and global community will closely observe how the US insurance market handles these pressures under existing and nascent compliance frameworks.

Insurers should prioritize their continued focus on collaboration and engagement with stakeholders in the insurance regulatory sphere while expanding and fortifying their compliance frameworks in concert with guidance from state, federal, and international regulators.

The impact of insurance on communities will likely remain a priority in the coming months and years and will require a collective effort. Insurers would do well to embrace and amplify their partnerships in the policy world as well in markets, accepting and helping to shape the regulatory guardrails, to ensure their business oversights frameworks meet current, growing, and emerging challenges.

The impact of insurance on communities will likely remain a priority in the coming months and years and will require a collective effort.

Contacts

Joe DeSantis
US Insurance leader
Partner | Deloitte & Touche LLP
jdesantis@deloitte.com

Gaurav Kumar
Principal | Deloitte & Touche LLP
gukumar@deloitte.com

Tim Cercelle
Managing Director | Deloitte & Touche LLP
tcercelle@deloitte.com

Craig Friedman
Managing Director | Deloitte & Touche LLP
crfriedman@deloitte.com

Josh Martin
Managing Director | Deloitte & Touche LLP
joshmartin@deloitte.com

Contributors

John Tittle
Senior Manager | Deloitte & Touche LLP
johntittle@deloitte.com

Menahil Rauf
Consultant | Deloitte & Touche LLP
merauf@deloitte.com

Deloitte Center for Regulatory Strategy, US

Irena Gecas-McCarthy
FSI Director, Deloitte Center for Regulatory Strategy, US
Principal | Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Jim Eckenrode
Deloitte Center for Financial Services/Deloitte Center for Regulatory Strategy, US
Managing Director | Deloitte Services LP
jeckenrode@deloitte.com

Liz Festa
Lead Research Specialist | Deloitte Services LP
lfesta@deloitte.com

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