The NAIC/Industry Liaison Committee met in Miami, FL, Dec. 12, 2016. The following Liaison Committee members participated: Ted Nickel, Chair (WI); Julie Mix McPeak, Vice Chair (TN); Lori K. Wing-Heier represented by Anna Latham (AK); Jim L. Ridling (AL); Dave Jones represented by Jill Jacobi (CA); Stephen C. Taylor (DC); Karen Weldin Stewart represented by Frank Pyle (DE); Dean L. Cameron represented by Elaine Mellon (ID); Brian Maynard represented by Rob Roberts (KY); John D. Doak represented by Julie Meaders (OK); Todd E. Kiser represented by Tanji Northrup and Nancy Askerlund (UT); Jacqueline K. Cunningham represented by Don Beatty (VA); and Michael D. Riley (WV). Also participating were: Rich Robleto (FL); Karl Knable (IN); Mary Mealer (MO); Bruce R. Ramge (NE); Elizabeth Kelleher Dwyer (RI); and Doug Hartz (WA).

1. **Adopted its Summer National Meeting Minutes**

Commissioner Ridling made a motion, seconded by Ms. Latham, to adopt the Liaison Committee’s Aug. 28 minutes (see NAIC Proceedings – Summer 2016, NAIC/Industry Liaison Committee). The motion passed.

2. **Reaffirmed the Committee’s Mission Statement for 2017**

Commissioner Nickel said the next item on the agenda was to reaffirm the Liaison Committee’s mission statement for 2017. He asked if there were any objections from Liaison Committee members to reaffirming it. Hearing none, the Liaison Committee’s mission statement was reaffirmed for 2017.

3. **Discussed the VA’s Producer Examination Reimbursement Program**

Steve Kline (National Association of Insurance and Financial Advisors—NAIFA) gave a presentation on the U.S. Department of Veterans Affairs’ (VA) program to reimburse military veterans for the cost of taking the insurance producer licensing exam. He said 10 states currently participate in the program, and requested that additional state insurance departments consider participating in the program.

4. **Discussed the NAIFA Continuing Education Credit for Membership in a Professional Insurance Association Model Act**

Mr. Kline gave a presentation on proposed legislation drafted by NAIFA, titled the Continuing Education Credit for Membership in a Professional Insurance Association Model Act. He said the NAIFA model would allow financial advisors to receive continuing education (CE) credit for actively participating as a member of a professional insurance association, subject to the approval of the state insurance commissioner. He said state insurance departments would have the authority to determine how much credit is received, along with other implementation details. He said eight states currently have laws in place that are similar to the proposed legislation. He said the model needs some clarification, such as exactly how the CE credit would be granted.

Superintendent Dwyer expressed concern that the NAIFA model is not compatible with the current Rhode Island system for recording CE credit for producers. Mr. Kline clarified that the model requires active participation at association meetings, noting that an approved course for CE credit will already be approved at the meetings.

5. **Discussed the Process for NAIC Incorporation by Reference**

Industry presenters discussed the process for NAIC incorporation by reference. Bruce Ferguson (American Council of Life Insurers—ACLI) said state legislatures have delegated standard-setting authority to regulators in certain areas, noting that increasingly more substantive changes are being made through the process for incorporation by reference. He said appropriate administrative due process procedures need to be followed when changes are made. He said uniform notice needs to be given when changes are being made, and opportunities given for comment.

Neil Alldredge (National Association of Mutual Insurance Companies—NAMIC) said NAMIC approaches this issue with the goal of making state-based insurance regulation better, noting that the way incorporation by reference is used today is different, particularly regarding substance (technical changes versus substantive changes). He said most legislators do not know how it works, and NAMIC is, therefore, supportive of a third-party review process comprised of legislators. He said providing legislators with a list of pending changes would improve the current process.
Draft Pending Adoption

Nat Shapo (Katten Muchin Rosenman LLP) said NAMIC submitted a comment letter to the Governance Review (EX) Task Force regarding this issue. He said that, in most states, when administrative rules are amended, an external review is conducted by legislators before the rules go into effect. He said a lot of the NAIC work is in response to activities on the international front, particularly to the Financial Sector Assessment Program (FSAP) and the International Association of Insurance Supervisors’ (IAIS) Insurance Core Principles (ICPs), primarily regarding suitability and corporate governance. He said an example involves the Corporate Governance (EX) Working Group and the coming implementation of a corporate governance assessment methodology. He said the Working Group debated about how far requirements should go, and a policy decision was made that the models should not be prescriptive; i.e., that they should simply require a disclosure for informational purposes but no new corporate governance standards. However, a referral was made to the Financial Condition Examiners Handbook (E) Technical Group, and this group is being asked to possibly develop a new standard. He said this is a practical, current example of why this is a concern to some interested parties. Adam Kerns (American Insurance Association—AIA) said these protections benefit everyone, including regulators, legislators and the industry. He said that, without them, it reduces the legitimacy of the process and the legitimacy of the NAIC being in the process. He said the current process is turning into best practices and guidelines that are driving how insurers are regulated.

Deirdre Manna (Property Casualty Insurers Association of America—PCI) said the PCI has no intention of harming the valuable role that incorporation by reference has; however, providing clarification would enhance the system and strengthen the NAIC and its members.

Commissioner Ridling said the incorporation by reference process is not new in state law, noting that this will be the fourth industry discussion on this issue at the Governance Review (EX) Task Force meeting when the group meets here at the Fall National Meeting. He said industry presenters should, therefore, come ready to discuss specific practical applications. Mr. Alldredge responded that these issues, due to the subject matter and because it involves changes to state law, ought to be held to a higher standard and involve legislative review. He said many legislators do not know what is in the substance. Commissioner McPeak commented that some 40 state legislators are in attendance at the Fall National Meeting and are aware of the NAIC’s processes and do, in fact, know what is going on.

Ms. Jacobi said the referral on ICP 5, Supervisory Cooperation and Information Sharing, regarding corporate governance is not a referral about assessment of suitability, but about documentation of the assessment of suitability under state law. Mr. Shapo said his remarks were focused on the common assessment methodology for corporate governance. Ms. Jacobi replied that state insurance regulators have a process for exposing documents for public comment and conducting business in open session. Commissioner Ridling added that there are a number of states that have processes in place for informing legislators about the practical applications of changes to state laws.

Ms. Northrup said Utah’s process requires that the insurance department incorporate by a version or publication date. She said regulators either go through the legislative process or the administrative rules process to do this, and then explain the changes to the legislature. Mr. Shapo said this is unusual based on what he has seen.

6. Discussed the NAIC Retirement Security Initiative and Opportunities for Industry/Regulator Collaboration

Chelsea Crucitti (Insured Retirement Institute—IRI) expressed appreciation for the NAIC’s Retirement Security Initiative, spearheaded by Director John M. Huff (MO). She said Americans are woefully underprepared for retirement, noting that four out of 10 baby boomers have no retirement savings. She said that the NAIC initiative has been incredibly effective at increasing and improving consumer awareness, and the IRI presented Director Huff with its Championship of Retirement Award. She said regulators can continue to promote retirement awareness by participating in the IRT’s National Retirement Planning Week. She said this next year’s theme is “Rethink Retirement” and is scheduled for the week of April 3, 2017. She said the IRI has developed new social media templates to improve outreach this year.

7. Discussed Other Matters

Commissioner McPeak said that, at the request of industry representatives, NAIC staff have made materials from the now disbanded Commercial Lines (EX) Working Group accessible on the NAIC’s website, on the Speed to Market (EX) Task Force web page.

Having no further business, the NAIC/Industry Liaison Committee adjourned.
Technological Innovation and Regulation

Presented by:

Jigar Gandhi
Counsel
American Council of Life Insurers

Adam E. Kerns, JD, CPA
Assistant General Counsel
American Insurance Association

April 10, 2017
Overview

- Technological innovation is fundamentally changing the insurance industry
- New entrants to the insurance market will continue to disrupt the traditional value chains associated with insurance since its inception
- Incumbent insurers have an important role to play in the new world order and will help to drive innovation beyond just ideas to realistic application
- Regulatory sandbox solutions will provide the means to test new and innovative products and regulators should embrace this solution for all market participants
What is Insurtech?

- Use of technological innovations designed to increase savings and efficiency in current insurance processes
- Synonymous with the term “Fintech” in the banking industry
- Explores areas such as policy customization and data driven, on-demand underwriting
Technological Innovation

- New technologies affecting insurance
- Mobile technology and applications
- Artificial intelligence (AI), algorithms and robo-advice
- Smart contracts
- Blockchain/distributed ledgers technology (DLT)
Disruption or Partnership?

- Incumbent insurers partnering with innovators to re-think all areas of the value chain
- Distribution
- Claims
- Underwriting
- Underwriting continues to require large amounts of capital, making complete disruption of incumbent insurers unlikely
Regulatory Sandbox

- Fosters an innovative environment where a problem can be addressed in an experiential way, without consequences
- Goal of increasing creativity to produce unique and “out of the box” solutions to improve policyholder experience
- Exists globally more than in the U.S. but states starting to encourage more innovation
- Allows both entrepreneurs and incumbent insurers to “test” new products and ideas by relaxing some regulatory limitations and restrictions without placing risks on policyholders
Possible Guiding Principles

- Principle #1: Develop a more robust stock-taking of regulatory responses to technological innovation to ensure transparency. The industry must work together to ensure an appropriate balance between regulatory oversight and innovation so as to encourage continued technological enhancements for the benefit of the customer. Therefore, it would be helpful if the Task Force would document what different regulators are trying and planning to try with regard to innovation. This would also include tracking any innovative product or new market entrants that are unsupervised or supervised by a non-insurance regulator.
Principles (Cont’d)

- Principle #2: Begin a process to draft/document “common approaches” for promoting innovation in emerging and developed markets. This could provide overarching guidance to OECD members when addressing innovations and enabling their positive and stable growth. The Task Force could focus on obstacles, both regulatory and technological, which prevent innovation in insurance.

- Principle #3: Continuously document new technological innovations as the list of applicable ones to the insurance industry will continue to grow and evolve as this market continues to develop.
Technological Innovation and Regulation—Additional Comments

NAIC Industry Liaison Committee April 2017

David F. Snyder
Vice President
Technological Innovation and Regulation--Great Opportunities

- Consumers are demanding changes in service and products to meet their needs and expectations created by experiences from technological change in other industries
- Insurers in highly competitive markets have strong and legitimate incentives to meet changing consumer needs and expectations
- Technology can help insurers meet those needs and expectations
- Technology also helps incumbent insurers perform traditional functions more effectively and efficiently including risk identification, risk mitigation, risk based pricing, claims settlement and fraud fighting
- Technology can also help insurers pass on social benefits such as safer driving from UBI, evidence based medical treatment and improved building construction and community resilience
Technological Innovation and Regulation--Surmountable Challenges

- U.S. regulatory standards are time-tested and adaptable--able to flex so as to regulate effectively in an ever changing environment and in the face of new technology—"excessive, inadequate, unfairly discriminatory" standard is an example

- Important for consumer protection to allow incumbent insurers to adopt new technologies because they are already subject to solvency and other aspects of comprehensive state-based regulation with the focus on consumers

- Innovation through new entrants can add still more, but must be on a level playing field with incumbent insurers

- Failure to flex with the time might make both incumbent insurers and their regulators irrelevant in the future
Technological Innovation and Regulation—Exporting the Right Balance for Mutual Benefit

- If we get this right, the U.S. and our system of state-based regulation can be a global leader in supporting both innovation and sound regulation.

- Our lessons and approaches can then be applied to effectively address major shortfalls in insurance coverage in many other parts of the world.

- This, in turn, will help other countries develop and thereby promote global stability and democracy and at the same time, promote the interests of our companies and consumers.
TESTIMONY
NAIC Industry Liaison Committee
April 10, 2017

DEIRDRE MANNA
VP Political Engagement and Regulatory Affairs
Property Casualty Insurers Association of America

Introduction – Deirdre Manna, PCI

Background – Outline burden of data calls including data on number of types of data calls in different state

Outline Solution – Suggested data call principles

- Data calls should be limited to subjects within the regulators’ statutory authority and its core missions of balancing consumer protection (solvency/market conduct) with effective/efficient regulation
- Clearly identify the reasons for collecting the data
- Consult in advance with the statistical agents to understand what data insurers report in statutory financial reports, the format in which the data is reported, and what alternative data may be available
- Where applicable, provide clear plans for how the data will be aggregated and how its confidentiality will be protected
- Provide clear instructions, and where helpful, provide a “sample report” with proposed data fields populated to provide insurers with visual guidance on how to complete the response form
- Develop a timeline for the data call that is not in conflict with insurers’ existing financial statement and other relevant filing deadlines, and that recognizes a reasonable amount of time insurers will need to respond given existing resources
- Create an industry advisory group to assist with the establishment of the goals, the data call requirements, and to assist in the construction of the design specifications, especially for those data elements that are not currently being captured by insurers
  - If the data call generates a significant number of questions and concerns, consider reviewing, revising, and reissuing the data call and the associated instructions in consultation with the industry advisory group
  - Seek guidance from the industry advisory group during the aggregation phase of the project on scenarios involving conflicting data results, missing data fields, numeric values that are not reasonable based on the definition of the data element, etc., to avoid potentially incorrect conclusions based on faulty data
- Provide a method to resolve issues, maintain and make available to industry on an ongoing basis a list of issues and frequently asked questions and how they have been resolved
- Where possible, coordinate and standardize data calls on similar issues (e.g., catastrophe losses) across the states and with federal agencies