



*Update on the AIA's Innovation Initiative
&
Design Principles for
U.S. State-Based Regulatory Sandbox*

*American Insurance Association presentation to the
NAIC Spring National Meeting, March 26, 2018*



Update to AIA's December Presentation

Headlines:

- InsurTech investment continues to grow
- AIA gave a presentation to Spring Meeting of the National Conference of Insurance Legislators (NCOIL)
- Four states have introduced regulatory sandbox bills in 2018 (thus far)
- Initial design principles for U.S. state-based regulatory sandbox

InsurTech continues to grow rapidly

Willis Towers Watson Quarterly InsurTech Briefing – Q4 2017

- 2017 InsurTech investment = \$2.3 billion, a 36% increase year over year
- Senior level insurance executives = 76% believe their company is moderately to extremely at risk of disruption
- As a result, incumbent insurers have become big InsurTech investors
- Majority of new investments are focused on enhancing the current value chain and not on market “disruption” or producer disintermediation



NCOIL presentation

- AIA's proposed ***Insurance Innovation Regulatory Variance or Waiver Act*** presented to lawmakers at a general session of the NCOIL Spring Meeting
- General consensus:
 - The innovation issue is critical to the future of the insurance industry
 - Actively promoting insurance innovation is a discussion in which lawmakers and NCOIL should be engaged

Legislative activity

To date, no State has adopted a regulatory sandbox, but a number of states appear to be competing to see who will gain first mover's advantage

- 2018 legislation has been introduced in four states – AZ, HI, IL & MA
- These bills do not reflect a uniform approach, but all include some form of regulatory variances and waivers
- Another three states have existing laws that may provide state insurance regulator sufficient flexibility to establish a sandbox – FL, IA, MO

Design principles: U.S. state-based sandbox

A successful State-based regulatory sandbox will require:

- Reasonable degree of regulatory flexibility
 - ✓ *AIA's Insurance Innovation Regulatory Variance or Waiver Act*
- Regulator focus on maintaining consumer protection and risk mitigation
- Clear protections for trade secrets
- Measures designed to maintain a level playing field



U.S. state-based regulatory sandbox

PURPOSE

To provide a supervised environment where insurance firms, working in a collaborative relationship with regulators, can test innovative new products, services and technologies

GUIDING PRINCIPLES FOR REGULATORS

- Promote insurance innovations that will benefit personal or business consumers
- Engage proactively with companies testing and implementing insurance innovations
- Establish appropriate consumer protections
- Preserve financial stability and oversight of the insurance industry



U.S. state-based regulatory sandbox

SCOPE

New products, services, technologies and applicants that:

- Offer a good prospect of identifiable benefit to businesses or consumers
- Do not readily fit into existing regulatory framework, making it difficult or costly to get innovation to market
- Have identified any potential consumer risks and proposed mitigation steps
- Will benefit from testing in a live environment



U.S. state-based regulatory sandbox

ELIGIBILITY

- Licensees and companies that have partnered with licensees
- New or innovative insurance offerings/services in the state's market place
- Multistate offerings/services should be considered for participation if:
 - Other participating states have adopted a regulatory sandbox and applicant has applied in those states
 - Participating supervisors willing to enter into collaborative supervision agreement for the testing period
- Insurance offerings intended to be deployed on a broader scale upon exit from the sandbox
- Applicants invested appropriate resources to understand & address state laws and regulations

U.S. state-based regulatory sandbox

CONSUMER SAFEGUARDS

Potential consumer protection “guardrails” that may be employed by the supervisor include:

- Limits on duration of a pilot test
- Defined size range for consumer test pool
- Reasonable consumer disclosures

U.S. state-based regulatory sandbox

SANDBOX SUPERVISION PROCESS

- Regularly scheduled communications between licensee and supervisor
- Progress reports and relevant data supplied to supervisor at key mileposts
- Consumer feedback and complaints shared with supervisor
- Regulator has authority to terminate sandbox participation
 - Not producing and not likely to produce identifiable benefits to consumers
 - Failure to maintain a culture of compliance
 - Failure to fulfill the terms of insurance contracts issued under the auspices of the sandbox
 - Failure to abide by terms, conditions or limitations of any variance, waiver or no-action letter

U.S. state-based regulatory sandbox

MAINTAIN LEVEL PLAYING FIELD

Prohibit relief from certain essential laws and regulations, including laws governing:

- Solvency and investments
- Licensing and certificates of authority
- Participation in residual markets and guaranty funds
- Application of taxes and fees
- Any other law or regulation the regulator deems ineligible for relief

U.S. state-based regulatory sandbox

MAINTAIN LEVEL PLAYING FIELD

Transparency

- Publishing certain information at the time the regulator receives an application for relief and at such time as any relief is granted
- Requiring annual report from regulator to the Legislature as a vehicle for informing lawmakers as to the extent and results of using this legislative grant of authority



U.S. state-based regulatory sandbox

APPLICATION PROCESS

- Confidentiality with respect to business plans and trade secrets is critical
- Detailed testing plans with defined mileposts
- Clearly defined exit and transition plans
- Assessment and reasonable mitigation of foreseeable risks