Market Information Systems (D) Task Force
Virtual Meeting
June 16, 2022

The Market Information Systems (D) Task Force met June 16, 2022. The following Task Force members participated: Michael Conway, Chair (CO); Dana Popish Severinghaus, Vice Chair (IL); Evan G. Daniels represented by Maria Ailor (AZ); Ricardo Lara represented by Pam O’Connell (CA); Andrew N. Mais represented by Kurt Swan (CT); Vicki Schmidt represented by Tate Flott (KS); Sharon P. Clark represented by Ron Kreiter (KY); James J. Donelon represented by Jeff Zewe (LA); Chlora Lindley-Myers represented by Jo LeDuc and Brent Kabler (MO); Marlene Caride represented by Ralph Boeckman (NJ); Judith L. French represented by Rodney Beetch (OH); Cassie Brown represented by Rachel Cloyd (TX); Nathan Houdek represented by Rebecca Rebholz (WI); and Allan L. McVey represented by Jeannie Tincher (WV). Also participating was: Erica Weyhenmeyer (IL).

1. **Adopted its March 25 Minutes**

The Task Force met March 25 and took the following action: 1) considered the Market Information Systems Research and Development (D) Working Group’s report on incorporating artificial intelligence (AI) abilities in the NAIC market information systems (MIS); and 2) adopted the MIS Data Analysis Metrics and Recommendations for 2020.

Mr. Flott made a motion, seconded by Director Severinghaus, to adopt the Task Force’s March 25 minutes (Attachment XX). The motion passed unanimously.

2. **Adopted AI Recommendations**

Commissioner Conway said the five recommendations in the report are broken down between the first two, which address making improvements to the current MIS data, and the final three, which address moving forward with incorporating AI in the MIS. He said state insurance regulators have supported industry use of AI because of its benefits; if state insurance regulators are comfortable with industry use of AI, they should move forward with determining the best ways to use AI for insurance regulation as well. He said he supports moving forward with all five recommendations in the report.

Ms. O’Connell agreed and said state insurance regulators should be working hard to keep pace with industry. Commissioner Conway also expressed concern that if state insurance regulators do not move forward collaboratively with exploring AI through the NAIC, they risk a lack of uniformity and consistency as larger states pursue AI and smaller states without the resources do not. He noted that Texas is using AI in reviewing form filings.

Ms. Cloyd confirmed that Texas uses machine learning (ML)/AI techniques in reviewing property/casualty (P/C) form filings. She said Texas in not opposed to AI, but its biggest concern is the unknown time, money, and resource cost if the Task Force commits to all five of the recommendations. She suggested adopting only the first two recommendations and then getting feedback on whether the NAIC systems are capable of effectively using some type of AI. If so, a proof of concept could be developed.

Mr. Kabler said he does not think the cost of incorporating AI in the MIS would necessarily be that expensive. He said there are plenty of modules in the marketplace. For example, he said SAS has software that will perform many sophisticated analytical techniques. He said if it becomes too expensive, the Task Force could pull back or readjust...
its ambitions. Commissioner Conway suggested an amendment to recommendations 4 and 5 to assess the cost prior to incorporating AI.

Birny Birnbaum (Center for Economic Justice—CEJ) said the MIS is still working within a 20th century regulatory framework regarding the use and analysis of data. He said the recommendations do not move the framework much further along. He said recommendation 5 should be the highest priority. He noted that industry has aggressively used AI and predictive models for 30 years; they did so without any cost-benefit analysis because the benefits were obvious. He said the application of advanced analytics to more granular data will dramatically improve the ability of state insurance regulators to address issues in a timely and effective manner. He said AI requires granular data, and the current summary data in the MIS is not useful for AI. He said AI analytics is not very expensive once you have the data; it just requires the right skillset. He said he was not aware of any cost-benefit analysis being done on any NAIC data collection initiative. He noted that AI techniques would reduce costs for state insurance regulators because the collection of granular data reduces the need for other collection activities, and state insurance regulators would spend less time identifying issues. He said the qualitative benefits outweigh any potential costs.

Andrew Pauley (National Association of Mutual Insurance Companies—NAMIC) said if the Task Force adopts the recommendations, there will be pressure to move quickly on them; yet, the state insurance regulators are still looking into the industry usage of AI and establishing guardrails for industry. He said the report itself noted that incorporating AI would result in pursuing false positives that will not only be costly for the state insurance regulators and industry but could also result in missing real issues. He also cautioned that the accumulation of granular data will result in confidentiality and cybersecurity concerns. He said the accumulation of transactional data without proper guardrails is a concern. He said these types of concerns require a cost-benefit analysis. Commissioner Conway noted that Colorado passed a law to regulate insurers’ use of big data algorithms, which was fought aggressively by NAMIC. He said he could not accept NAMIC now saying that state insurance regulators should not use AI due to not having guardrails in place. He asked Mr. Pauley how AI has benefited industry. Mr. Pauley said industry and state insurance regulators have two different datasets. He said the industry has benefited consumers through timely responses, matching rates to risk, claims triaging, and combatting fraud. However, the incorporation of AI to regulate industry has not yet been shown to be superior to the current analytical tools. Mr. Pauley said the five recommendations are too broad and do not have discernible goals; the ramifications of adopting them should be considered. He said AI is evolving quickly, and the broad recommendations may be obsolete in a year, so he recommended a more deliberate step-by-step approach.

Commissioner Conway said the possibility of false positives is not concerning. Any new process would have false positives, and this would improve as market analysts learn more. He said one of the benefits of ML is that the tools would improve as time goes on and more data and results are input.

Director Severinghaus said the conversation is getting into the details, and she suggested that the Task Force first decide whether to adopt the recommendations and then develop the details and scope after the recommendations are adopted. Commissioner Conway agreed. Ms. Weyhenmeyer suggested adopting the recommendations as they are and asking the Market Information Systems Research and Development (D) Working Group to come up with recommendations for implementation. Commissioner Conway agreed and said he would like to adopt the recommendations and ask the Working Group to put together a work plan that includes an analysis of costs for recommendations 4 and 5.

Ms. Cloyd said she believes it is possible that some Task Force members may be in favor of the first two recommendations but not the last three recommendations. By splitting the vote, the Task Force could at least adopt a portion of the recommendations.
Commissioner Conway said he does not believe adopting recommendations 1 and 2 on their own would fulfill the charge to develop recommendations for the incorporation of AI into the MIS.

Mr. Birnbaum said state insurance regulators lag behind all financial service regulators in the use of AI for analysis. He said by voting only for the first two recommendations, the Task Force would be saying it is okay with that.

Ms. Cloyd made a motion, seconded by Ms. LeDuc, to first vote on recommendations 1 and 2 and then vote on recommendations 3 through 5. A roll call vote was taken. Texas voted in favor of the motion. Arizona, California, Connecticut, Illinois, Kansas, Kentucky, Louisiana, Missouri, New Jersey, Ohio, Wisconsin, and West Virginia voted against the motion. The motion failed 12 to 1. After the vote, the chair voted no.

Director Severinghaus made a motion, seconded by Ms. LeDuc, to adopt all five recommendations (Attachment XX). The motion passed with Texas dissenting.

3. Received an Update on MIS Projects and USER Forms

Chris Witt (NAIC) said the Market Conduct Annual Statement (MCAS) data collection due date was April 30, and the Health line of business is still due June 30.

Mr. Witt said Uniform System Enhancement Request (USER) Form 10071 is to enhance iSite+ reports using visualization and adding data analytics, and USER Form 10047 is to add data by group code. He said the group code data is only accessible in the Tableau dashboards. He said USER Form 10055 is to provide ad hoc data access to state insurance regulators. He said this is being provided through a tool called Snowflake, and the NAIC Information Technology (IT) Department is working with several states to open access to data.

Mr. Witt said the next large project is separating the MCAS and Financial Data Repository (FDR) systems. He said now that the MCAS has grown so much, it is requiring much more maintenance. The separation will allow the FDR to be modernized, and it will be easier to add new lines of business and features to the MCAS system.

Having no further business, the Market Information Systems (D) Task Force adjourned.