

Draft Pending Adoption

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Innovation and Technology (EX) Task Force
Orlando, Florida
April 8, 2019

The Innovation and Technology (EX) Task Force met in Orlando, FL, April 8, 2019. The following Task Force members participated: Jon Godfread, Chair (ND); Keith Schraad, Vice Chair (AZ); Lori K. Wing-Heier (AK); Jim L. Ridling represented by Jerry Workman (AL); Allen W. Kerr represented by Letty Hardee (AR); Ricardo Lara (CA); Michael Conway represented by Peg Brown (CO); Andrew N. Mais represented by George Bradner (CT); Stephen C. Taylor (DC); Trinidad Navarro (DE); David Altmaier represented by Sandra Starnes (FL); Doug Ommen (IA); Dean L. Cameron represented by Pamela Murray (ID); Robert H. Muriel represented by Erica Weyhenmeyer (IL); Vicki Schmidt (KS); Nancy G. Atkins represented by Patrick O'Connor (KY); James J. Donelon represented by Rich Piazza (LA); Gary Anderson (MA); Al Redmer Jr. represented by Paula Keen (MD); Anita G. Fox represented by Chad Arnold (MI); Steve Kelley represented by Phillip Vigliaturo and Tammy Lohmann (MN); Chlora Lindley-Myers and Cynthia Amann (MO); Bruce R. Ramge (NE); John Elias represented by James Fox (NH); Marlene Caride (NJ); Barbara D. Richardson (NV); Mike Causey represented by Fred Fuller (NC); Jillian Froment and Amanda Baird (OH); Glen Mulready (OK); Andrew Stolfi represented by TK Keen (OR); Jessica Altman represented by Alison Beam (PA); Elizabeth Kelleher Dwyer (RI); Raymond G. Farmer (SC); Larry Deiter (SD); Julie Mix McPeak and Lorrie Brouse (TN); Kent Sullivan represented by Leah Gillum (TX); Todd E. Kiser (UT); Scott A. White represented by Vicki Ayers (VA); Michael S. Pieciak represented by Christina Rouleau (VT); Mike Kreidler represented by Lichiou Lee (WA); Mark Afable represented by Nathan Houdek (WI); and James A. Dodrill represented by Erin K. Hunter (WV).

1. Adopted its 2018 Fall National Meeting Minutes

Commissioner Godfread asked if there was any discussion regarding the Task Force's 2018 Fall National Meeting minutes. He said the attendee for Vermont noted in the minutes is in error and will be corrected in addition to an amendment made to the second paragraph from the bottom on page 3, changing the wording from "at least four states" to "approximately 44 states" in the sentence regarding how many states currently permit notices of cancellation to be provided electronically as opposed to mail or some other form of physical delivery.

Mr. Bradner made a motion, seconded by Director Farmer, to adopt the Task Force's Nov. 17, 2018 minutes, as amended (Attachment One). The motion passed unanimously.

2. Adopted the Reports of its Working Groups

a. Big Data (EX) Working Group

Commissioner Ommen said the Big Data (EX) Working Group met April 6 and, in addition to adopting its Feb. 25, minutes, it heard a recommendation from NAIC management to: 1) hire a technical staff resource to provide technical support for state insurance regulators in the review of actuarial models; 2) develop a tool for state insurance departments to share information on model reviews; and 3) develop a training and education program.

Commissioner Ommen said the Working Group also received an update from the Casualty Actuarial and Statistical (C) Task Force. He said the Task Force exposed a draft white paper regarding best practices for the review of predictive models and analytics filed by insurers to justify rates, as well as the development of state guidance for rate filings that are based on complex predictive models. He said the Working Group is currently reviewing comments and suggestions for additions and revisions to the white paper.

Commissioner Ommen said the Working Group also adopted a motion to request the Life Insurance and Annuities (A) Committee—through an existing working group or by appointment of a new working group, and in collaboration with the ongoing work of the Experience Reporting (A) Subgroup—to study the use of external data and data analytics in accelerated life underwriting and draft and propose appropriate state guidance or best practices. He also said the Working Group agreed to study the use of big data in insurer claim practices such as claim valuation and antifraud efforts. Commissioner Ommen made

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a motion, seconded by Director Schraad, to adopt the report of the Big Data (EX) Working Group (Attachment Two). The motion passed unanimously.

b. Speed to Market (EX) Working Group

Commissioner Godfread said the Speed to Market (EX) Working Group, chaired by Superintendent John G. Franchini (NM), had not met yet this year; therefore, no report on its activities will be provided at this meeting.

3. Heard an Update on Cybersecurity Initiatives and the Implementation of Model #668

Director Farmer provided an update on cybersecurity initiatives. He said the states are making progress in adopting the *Insurance Data Security Model Law* (#668) in addition to the New York regulation. He said four states have adopted something similar to Model #668, with Mississippi having just passed a law based on the NAIC model last week. He said there are an additional four states that have introduced insurance data security legislation during the 2019 legislative year. He cautioned the states considering legislation to be wary of suggestions to exempt health insurers, noting that there were significant compromises in that area in 2014 when these efforts began.

Director Farmer said he was honored to host a cybersecurity tabletop exercise in collaboration with the U.S Department of the Treasury that included the Federal Bureau of Investigation (FBI) and about 50 state insurance regulators, insurance companies and other participants, mainly targeting small and regional companies. He said he participated in tabletop exercises at the national level before and noticed large companies have a good understanding of cyber risk and what they need to be doing in that area; however, there is concern about small and regional companies having the necessary resources and ability to respond to cyber risk and breaches. He said it was productive and helpful, but the main takeaway was that several smaller companies said they really had not paid attention to cyber risk until the South Carolina law was enacted. He said this was instructive on several fronts, but specifically noting these smaller companies will not likely dedicate the resources and will not pay attention until it is brought to their attention through the passing and implementation of the model. He said the plan is to have one more tabletop exercise similar to this one, probably in the Midwest, later this year or the beginning of 2020. He said, at that point, the NAIC will develop a template to be used by other states and other zones to have this tool to use to further educate the industry and others on cyber related issues.

Superintendent Dwyer said a lot of the issues that will be brought forward in the process of introducing Model #668 in state legislatures have already been addressed and discussed by the Cybersecurity (EX) Working Group when it existed, and she would be happy to share the background and reasoning behind the language. Commissioner Godfread noted that Superintendent Dwyer and Director Farmer were instrumental in drafting the model; and, in addition, the NAIC has legal resources to assist with questions or needed information as this process continues.

Commissioner Godfread said there continues to be robust discussion on Capitol Hill regarding cybersecurity, data breaches and privacy standards. He said that while no new legislative proposals have been released yet this U.S. Congress, it is anticipated that such proposals will be moving forward, and he will keep the Task Force updated as the discussions continue.

4. Heard an Update on Task Force Activities and Deliverables

Commissioner Godfread asked Denise Matthews (NAIC) to provide an update on the activities of the Task Force since it was created in 2017.

a. Heard an Update on Task Force Activities to Date

Ms. Matthews provided an update on the accomplishments of the Task Force relative to its charges since its inception in 2017. She reviewed the work done to learn about and network more closely with stakeholders in this space, including accelerators, incubators, venture capitalists, and many innovators be they startups or incumbent insurers. She noted the activities and opportunities in 2017 and 2018 and reported on the presentations and activities of the Task Force during national meetings and the NAIC/NIPR Insurance Summit. She said this activity tied closely to the first charge.

Ms. Matthews also talked about the second charge related to developing regulatory guidance, white papers or other recommendations, as appropriate, noting the Task Force's work around anti-rebating, cancellation and renewal notices, and e-

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signature, as well as efforts to identify other impediments to innovation. She said the Big Data (EX) Working Group was actively involved in several specific proposals, and the NAIC Center for Insurance Policy and Research (CIPR) will be working on an InsurTech policy paper in the upcoming months, basing it on much of the work and activities of the Task Force.

Ms. Matthews also said the Task Force has been actively suggesting assignments to other committees related to innovation and technology, including the work of the Property and Casualty Insurance (C) Committee on autonomous vehicles and surplus lines and the Producer Licensing (D) Task Force related to the role of chatbots and artificial intelligence (AI) in the distribution of insurance and the regulatory supervision of those technologies.

Commissioner Godfreed requested that state insurance regulators and interested parties facing these issues bring the specific problems forward to the small group. He said that would help the Task Force develop guidance.

b. Heard an Update on Recent Activity Related to Blockchain

Director Schraad provided an update on activities to date regarding monitoring developments in the blockchain area. He said blockchain is an exciting topic and provides the opportunity to potentially reduce regulatory friction and bring about transparency to insurance transactions. He said the NAIC has been active in providing information to its membership on blockchain since the early days, starting in about 2016 focusing on technology through CIPR events and has been active with several organizations in this space to figure out how it might impact insurance and insurance regulation. He said there have been several meetings and phone calls with The Institutes' RiskBlock Alliance, and about seven states are currently a part of that process to determine good use cases for the technology, such as premium tax collection, and a number of discussions have been held with the American Association of Insurance Services (AAIS), which is partnering with IBM.

Director Schraad said he and Andrew J. Beal (NAIC) served on a panel for the Silicon Valley Insurance Accelerator in January, providing an opportunity to talk about the regulatory environment as it relates to technology and hear from some of the startups pursuing blockchain initiatives. He said several states are looking at use cases individually, such as Arizona Vermont. Additionally, he said this topic will be covered at NAIC/NIPR Insurance Summit in June, and the CIPR will be holding a symposium on blockchain to drill down deeper on this topic. He also recommended some online resources that do a great job of explaining blockchain.

c. Heard an Update on Activities from the Innovation and Technology Small Group on Anti-Rebating, Cancellation/Renewal and E-Signature Issues

Commissioner Godfreed provided an update on the activities of the small volunteer group of states working on issues identified as potential obstacles to innovation. He said the group met in October 2018, December 2018 and then again in January 2019. During its meeting in December 2018, the group heard specific information on the regulatory process related to one company's efforts to get a rewards program approved in the states. He said, in January 2019, the group discussed that situation further, including another specific example. He said this sparked a theoretical debate on the purpose of the anti-rebating laws and if they are still needed. He said the Task Force's meeting at the NAIC/NIPR Insurance Summit will focus on that question, and he invited stakeholders to participate by sending written comments to Ms. Matthews by April 30 and indicating their interest in presenting during that meeting.

Last, Commissioner Godfreed said that while a lot of time has been spent discussing the anti-rebating issue, the cancellation and renewal discussion has continued, as well, mostly focused on the "on-demand" product. He said North Dakota has implemented some exception language related to allowing on-demand coverage for drone liability, event cancellation and travel. He also reminded those interested in learning more about this on a state by state basis to contact the Innovation and Technology state contact posted on the NAIC's website.

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5. Heard a Presentation on Innovation and Regulatory Challenges

Kevin Gregson (Plug and Play Tech Center—Plug and Play) provided information on Plug and Play and its mission. He said Plug and Play accelerates and invests in startups, match makes between startups and corporations, provides flexible co-working space, and hosts major industry events daily. He noted the technology trends Plug and Play is tracking, including AI and chatbots, automated underwriting, blockchain, claim efficiency, customer loyalty, telematics and cyber risk. He reviewed barriers to entry and game changers.

Mr. Gregson provided insights related to how startups view insurance regulation. He provided information on a survey Plug and Play conducted with its startups, noting that 85% of companies with a consumer-directed, market-facing business model, data services or companies engaged in consumer related data such as digital managing general agents, indicated that they were spending material money and resources on regulatory issues. Those not as concerned with regulatory issues were businesses engaged in mid-office or back office activities that are not customer facing, but largely engaged in streamlining processes or enabling more effective analytics or data ingestion. Mr. Gregson said 76% of the respondents indicated more dialogue and interaction with the NAIC, and state insurance regulators would be of value. He said Plug and Play would be happy to facilitate that type of dialogue and provide their resources and forums to encourage more constructive engagement between state insurance regulators and entrepreneurs.

Commissioner Kiser asked if the startups considered themselves to be over-regulated and noted that there are examples of startups having a lack of understanding regarding the exposure they are taking on. Mr. Gregson said he would not characterize it as thinking they are “over-regulated” but more a situation where they have to spend considerable resources working through regulatory issues.

Commissioner Godfreed indicated more interaction with the state insurance regulators may be helpful. Commissioner Lara said technology that would simplify things like forms and contracts should be encouraged, and startups should sit down with state insurance regulators to understand each other’s roles. Commissioner Ommen said the Iowa staff offer guidance to startups regarding early steps in the process. He suggested that resisting a more formalized process might be in their best interests. Commissioner Godfreed said state variations actually provide flexibility as the states can be laboratories of democracy and offer options. Mr. Gregson said some of the perception from startups regarding the complexity of the state-based system comes from many having come from banking, where regulation is more centralized.

6. Heard Presentations from Guest Innovators

a. Markel Corporation

Scott Whitehead (Markel Digital) gave a presentation on Markel Digital’s InsurTech engagement. He said Markel Digital seeks to solve for insurance gaps not create them. He talked about why Markel Digital created a separate unit for this purpose and then explained Markel Digital’s partnership with Verifly Insurance Services (Verifly) to offer an episodic general liability policy. He said based on the growth of contingent workers, and, in particular, the “gig economy,” sole proprietors, new ventures and micro-businesses should all carry general liability coverage, but many do not. In partnering with Verifly, Markel Digital can fill this gap. Mr. Whitehead provided an overview of the coverage enhancements, pricing approach, underwriting considerations, and the benefits to the insured, including showing what the app looks like on a mobile device. He reviewed the early statistics related to the product and the filing process, noting that the administrative burden of canceling at any time has been significantly reduced as a result of the technology.

b. AAIS

Robin Westcott (AAIS) provided an overview of the AAIS smart contract project using the AAIS’ open Insurance Data Link (openIDL) in partnership with IBM. She and Truman Esmond (AAIS) provided an overview of the platform and shared smart contract examples, including a data call drafted/issued, data submitted, consent to a data call and a report issued. Ms. Westcott said the AAIS would like to see the NAIC consider readdressing the NAIC *Statistical Handbook of Data Available to Insurance Regulators*, as well as use openIDL for a data call and explore additional uses for it. She said state insurance regulators should begin with thinking about what insights and questions they need the data to provide and answer as a first step in using this new platform for data calls.

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7. Discussed 2019 InsurTech Events

Ms. Matthews provided a brief update on the events and various opportunities that are planned for members of the Task Force and state insurance regulators throughout the rest of 2019, starting with the CIPR event at the Spring National Meeting on blockchain, as well as events at Plug and Play, the NAIC/NIPR Insurance Summit, InsureTech Connect, and Innovation and Technology (EX) Task Force meetings.

Having no further business, the Innovation and Technology (EX) Task Force adjourned.

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