NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AI Risk Evaluation Supplement – Summary of Changes

To support stakeholder review of the updated document, NAIC staff drafted this summary of the most impactful changes including rationale where appropriate:

- Intent – This document was designed as a supplement to existing handbooks. During prior comment periods, feedback was received on the scope of the use of the document. Additional text was added to emphasize the document as a supplement. Accordingly, decisions on who will receive Supplement related inquiries are expected to be addressed relying on Handbook guidance and not via the Supplement which is now expressed in the Supplement.
- Instructions – During the pilot, companies often received several parts of the Supplement as part of the field test of the document. However, in practice, companies may receive more limited inquiries. An example of when a regulator may deem it appropriate to limit inquiry was added.
- Machine Learning – Added new guidance explaining Machine Learning and as an example GLMs and offering regulators the opportunity to limit inquiry after Exhibit A responses are received if the inquiring regulator deems it appropriate.
- Materiality – Added additional language to align the definition of materiality to the *Financial Condition Examiners Handbook* and to explain the use of the concept within the Supplement.
- Risk Assessment – Added additional language to explain the use of the concept within the Supplement. Regulators are focused on the consideration of inherent risk, which is the risk before the consideration of mitigating controls.
- Exhibit A:
    - Instructions are now organized via bullets to provide clarity.
    - Exhibit A is now clarified where regulators are seeking information on AI Systems vs AI Models.
    - Added guidance indicating that either the regulator will specify a materiality threshold for responding to Exhibit A related inquiries or will ask the company to specify the threshold the company used to scope its responses.
    - Revised columns to gather more information on the model types. This information is also now requested separately for AI Models that have a Direct Consumer Impact and then also for AI Models with Material Financial Impact. This will allow regulators to understand if a company's use of AI is limited to a specific type of AI which may thus limit further Supplement related inquiries.
    - There were several implied requests in the prior version of the Supplement. These are now explicitly listed. Most notably, regulators now ask for a Model Inventory.
- Exhibit B
    - Following feedback on the AIS Program vs Governance Framework related language, the Exhibit is now called clarified to focus on a company's AIS Program.
    - Instructions have also been clarified and questions posed have been updated leveraging feedback from the pilot.
    - Narrative Version
        - 2b. Added guidance for companies when responding to inquiries related to models with direct consumer impact.
        - 3d. (new) Added an inquiry about explainability and transparency.
    - Checklist Version
        - Added request to provide document name and page # when companies are responding to inquiries. This will allow regulators to connect the company responses to documents provided.

        - 3o. (new) Added question on materiality.
        - 3p. (new) Added question on how a company oversees third party models.
- Exhibit C
    - Instructions have been clarified.
    - Requested information has been updated leveraging feedback from the pilot.
    - Field 1 – Clarified to focus on AI Model
    - Field 2 – Moved from later in the Exhibit and now asks on the use case <u>and</u> <u>purpose</u> of a given model for which regulators are requesting information.
    - Field 3 – Added examples of model type responses
    - Field 4 – Added to the inquiry on how the model was developed
    - Field 7 & 8 – Split so now field 6 asks for model risks and field 7 asks for model limitations; added "(high, moderate, low, etc.)" to field 7.
- Exhibit D
    - Added a field to indicate the AI Models which rely on the data sets described within the company's response to Exhibit D which allows the deletion of a column which asked for the same information for each data field
    - Clarified the column asking for information on how the information is used
    - Added the statement in Regulator Instructions that "Regulators may also wish to customize this supplement for the line of business as some data types may or may not be pertinent based on the responding company's lines of business.", recognizing that "Ethnicity/Race" is requested on row #2.
    - Added the statement in Regulator Instructions that "Depending on responses received, a regulator may wish to ask for a data dictionary to gain a more complete understanding of a data used for a given model."
- Definitions
    - Added a definition for agentic AI
    - Added a definition for AI Model leveraging the NIST/WH Executive Order language
    - Added a definition for AIS Program leveraging language from the AI Model Bulletin
    - Removed "Degree of Potential Harm to Consumers"
    - Added a definition for "Direct Consumer Impact"
    - Added a definition for GLMs
    - Clarified the definition of inherent risk to better align with the *Financial Condition Examiners Handbook*
    - Added a definition for materiality. Corresponding changes to Exhibit A result in a dynamic where a company may be asked to complete Exhibit A responses based on a materiality threshold the company specifies but also that it discloses to regulators
    - Added a definition for "Material Financial Impact"
    - Added a definition for third parties leveraging the language in the Third Party Registration Framework, as appropriate.
    - Reordered the operations related definitions provided.

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