

**INNOVATION, CYBERSECURITY, AND TECHNOLOGY (H) COMMITTEE**

Innovation, Cybersecurity, and Technology (H) Committee March 26, 2025, Minutes

Big Data and Artificial Intelligence (H) Working Group March 25, 2025, Minutes (Attachment One)

Big Data and Artificial Intelligence (H) Working Group March 11, 2025, Minutes (Attachment One-A)

Cybersecurity (H) Working Group Feb. 20, 2025, Minutes (Attachment Two)

## Draft Pending Adoption

Draft: 4/9/2025

Innovation, Cybersecurity, and Technology (H) Committee  
Indianapolis, Indiana  
March 26, 2025

The Innovation, Cybersecurity, and Technology (H) Committee met in Indianapolis, IN, March 26, 2025. The following Committee members participated: Barbara D. Richardson, Chair (AZ); Karima M. Woods, Co-Vice Chair (DC); Michael Yaworsky, Co-Vice Chair (FL); Michael Conway (CO); Trinidad Navarro represented by Stephen Taylor (DE); Jerry Bump (HI); Doug Ommen (IA); Marie Grant (MD); Angela L. Nelson represented by Jo A. LeDuc and Cynthia Amann (MO); Mike Chaney represented by Andy Case (MS); James E. Brown (MT); Jon Godfread and Colton Schulz (ND); Judith L. French (OH); Michael Humphreys, David Buono, and Shannen Logue (PA); and Elizabeth Kelleher Dwyer (RI). Also participating were: George Bradner, Kristin Fabian, and Wanchin Chou (CT); Eric Dunning (NE); Carter Lawrence (TN); and Eric Lowe (VA).

### 1. Adopted its 2024 Fall National Meeting Minutes

Commissioner Conway made a motion, seconded by Commissioner Brown, to adopt the Committee's Nov. 19, 2024, minutes (*see NAIC Proceedings – Fall 2024, Innovation, Cybersecurity, and Technology (H) Committee*). The motion passed unanimously.

### 2. Adopted the Third-Party Data and Models (H) Task Force's 2024 Fall National Meeting Minutes

Director Dwyer made a motion, seconded by Commissioner Yaworsky, to adopt the Third-Party Data and Models (H) Task Force's Nov. 18, 2024, minutes (*see NAIC Proceedings – Fall 2024, Innovation, Cybersecurity, and Technology (H) Committee*). The motion passed unanimously.

### 3. Adopted the Reports of its Task Force and Working Groups

#### A. Big Data and Artificial Intelligence (H) Working Group

Commissioner Humphreys provided the report on the Big Data and Artificial Intelligence (H) Working Group's 2025 meetings and plans.

Commissioner Humphreys said that the Working Group met March 25 and adopted its March 11 minutes. During its March 11 meeting, the Working Group took the following action: 1) adopted its 2024 Fall National Meeting minutes; 2) received an update on the health artificial intelligence (AI)/machine learning (ML) survey; 3) reviewed its 2025 charges, including those of the AI Systems Evaluation Workstream; 4) discussed updates to the regulatory framework for the use of AI systems; and 5) discussed a preview of its Spring National Meeting agenda.

During its March 25 meeting, the Working Group also heard a presentation on the preliminary results from the health AI/ML survey. The health AI/ML survey continues the series of AI surveys issued by regulators, with previous surveys covering life, auto, and homeowners lines of business. The full report of the health AI survey is anticipated to be issued in April. The health AI survey specifically focused on major medical and student health plans, with 93 companies surveyed by 16 participating states. High-level findings show that 83% of the respondents actively use AI, with another 9% planning implementation. The increased utilization compared to past surveys is attributed to the recency of this health AI/ML survey.

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Commissioner Humphreys next spoke about the Working Group's efforts to look at the creation of risk evaluation tools that could include changes to market and financial exams, Market Conduct Annual Statement (MCAS) data submissions, development of evaluation metrics, guidance, and tools on regulator expectations on the use of AI. The Working Group has been leading discussions to consider what the regulatory framework might look like in the future, given the use of AI in the insurance industry.

The Working Group also heard a presentation from NAIC staff on how missing data is treated and its implications in ratemaking. The discussion covered examples of situations where missing data can arise and how it may be treated in ratemaking. It was noted that a "missing" or an "unknown" category may not satisfy Actuarial Standard of Practice (ASOP) 12, *Risk Classification (for All Practice Areas)*, as a valid risk characteristic since it may represent a heterogeneous group of risks. Including such categories may result in biased rating plan factors.

Director Richardson commented that the Working Group's presentation during its meeting included a mention of a possible self-audit questionnaire. The tool may benefit regulators as a tool to be used during exams and may also be a tool companies can use to help with their risk-benefit analysis as they integrate AI into their processes. Such tools could add to those already available to regulators via NAIC exam handbooks. Tools could be developed leveraging risk-focused concepts already built into many NAIC processes.

Director Richardson asked for public input, for example, on whether there is a desired means or existing format companies should use to provide governance information to regulators. Director Richardson drew a comparison to the Own Risk and Solvency Assessment (ORSA) and Corporate Governance Annual Disclosure reports as possible templates to be leveraged.

Peter Kochenburger (NAIC Consumer Representative) asked for clarification on the possibility that new exam tools could be driven by risk-focused analysis and whether that included consideration of risk to policyholders. Director Richardson responded that regulators already evaluate company operations based on risk, which includes consideration of controls to mitigate risk, and acknowledged that the consideration of risk includes a consideration of risk to policyholders.

Dave Snyder (American Property Casualty Insurance Association—APCIA) thanked the Committee for the opportunity to give input on the discussion and asked about how the regulatory discussion on AI would proceed and how industry could give input. Director Richardson noted that the Working Group will ultimately drive initial discussions. Commissioner Humphreys noted that there would be more opportunities for input as the Working Group's deliberations continue. Miguel Romero (NAIC) noted that industry members should consider how they want to provide information to regulators on their use of AI, as that sort of input may help inform future discussions at the working group level.

### B. Cybersecurity (H) Working Group

Amann gave an update on the Cybersecurity (H) Working Group's work. She said that the Cybersecurity (H) Working Group met Feb. 20. During this meeting, the Working Group heard a presentation from Cowbell, a leader in cyber insurance for small and medium-sized enterprises. The presentation provided an overview of the cyber risk landscape, insurance market, coverages, and effective risk management practices for small and medium-sized enterprises in the healthcare and financial services industry.

Amann reported that the Working Group also met March 13 and discussed its work plan for 2025, which includes several projects for the year. The first project is to identify key data elements related to both cybersecurity and cyber insurance. She said that cyber coverage is reported in several places in the annual statement, quarterly statements, and cyber blank. The Working Group will evaluate all information reported to ensure the information reported fully meets regulatory needs. She said the Working Group would collaborate with the Casualty Actuarial

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and Statistical (C) Task Force and the Statistical Data (C) Working Group on data-related discussions. The Working Group will also continue with discussions to study the feasibility of creating a centralized portal to receive cybersecurity incident notifications at the NAIC. The Working Group believes a notification portal will help to streamline the reporting process and effectively solve the one-to-many problems the industry has reporting cyber security events to regulators.

Amann closed by mentioning that the Working Group will also be working to build and facilitate NAIC cybersecurity tabletop exercises as a way to address a referral asking the Working Group to comment on the way regulators review for compliance with the *Insurance Data Security Model Law* (#668) and create cybersecurity training for regulators.

### C. Privacy Protections (H) Working Group

Director Dwyer provided an update on the Privacy Protections (H) Working Group's ongoing work to develop an updated draft of the *Privacy of Consumer Financial and Health Information Regulation* (#672).

She said that following the 2024 Fall National Meeting, the Privacy Protections (H) Drafting Group met Dec. 19, 2024, in open session and heard comments on Article III, Section 6—Access, Correction, and Deletion of Nonpublic Personal Information, Section 7—Sale of Nonpublic Personal Information, and Section 8—Use and Disclosure of Sensitive Personal Information of Model #672.

The Working Group also met Jan. 17, 2025, in regulator-to-regulator session, pursuant to paragraph 6 (consultations with NAIC staff members related to NAIC technical guidance) of the NAIC Policy Statement on Open Meetings, to discuss Article III and next steps for drafting. As a result of these meetings, the Working Group released a revised Article III, which can be found on the Working Group's web page under "Exposures." Comments are not being requested on Article III at this time. There will be a public comment period following the next exposure of the complete revised draft of Model #672.

The Privacy Protections (H) Drafting Group met Feb. 28 in open session and heard comments on Article IV, Section 9—Initial Privacy Notice to Consumers Required; Section 10—Annual Privacy Notice to Customers Required; Section 11—Information to be Included in Privacy Notices; Section 12—Form of Opt Notice to Consumers and Opt Out Methods; Section 13—Revised Privacy Notices; Section 14—Privacy Notices to Group Policyholders; and Section 15—Delivery of Model #672.

Director Dwyer said the Working Group did not meet at the Spring National Meeting; however, the Drafting Group continues to make steady progress revising Model #672 section-by-section and will continue to hold open and regulator-only meetings as needed. The Drafting Group will submit the full revised draft of Model #672 to the Working Group for consideration and exposure once the section-by-section review is complete.

### D. SupTech/GovTech (H) Subgroup

Bradner provided an overview of the SupTech/GovTech (H) Subgroup's work. He said he would co-chair the Subgroup with Lori Dreaver Munn (AZ) in 2025. The Subgroup operated informally last year but is now formally structured as a Subgroup of the Committee. The Subgroup now has charges and a public page on the NAIC's website. Bradner also said that because the Subgroup's focus is on educational discussions, it anticipates generally meeting in regulator-only settings. To make sure that this work proceeds in a way that serves the NAIC's members, the Subgroup is going to survey regulators to understand both opportunities for solutions and pain points so that any solutions explored are responsive to member needs. The Subgroup is hoping to move quickly enough to meet in April.

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### E. Third-Party Data and Models (H) Task Force

Commissioner Conway provided a report on the work of the Third-Party Data and Models (H) Task Force. He said that going forward, Jason Lapham (CO) will serve as the chair and noted that the Committee is converting the Task Force into a working group. He said the soon-to-be Working Group anticipates meeting soon after the Spring National Meeting once it has time to discuss the results of a regulator survey to obtain input on its work.

### F. Data Call Study Group

Schulz provided an overview of the plans for the Data Call Study Group in 2025. He said the Data Call Study Group is first creating an inventory of the various data elements collected by the NAIC/regulators and their definitions. NAIC staff are currently generating an extensive index of the data elements captured in statutory financial statement filings along with definition references to NAIC publications. As the study group's chair, Schulz is organizing some volunteer regulators to begin a similar index of data elements and definitions from prior state data calls. NAIC staff and study group members will next finalize an index and definitions for additional NAIC data sets, including the MCAS data elements. Once the indexing work is completed, the Data Call Study Group will meet in regulator-only sessions (because specific data calls or company-specific data may be discussed) to compare the existing data elements to express regulator needs and identify any gaps. Upon completion of this gap identification work, the study group will bring in industry representatives from key insurers and trade associations to review the regulators' list of data element gaps and their definitions and provide comments. The Data Call Study Group will finalize its list of needed data elements and definitions, after which this work will move to operationalizing this data collection.

Schulz concluded his report by reminding meeting attendees that the purpose of the study group is to help drive discussions to reduce the number of ad hoc data calls requested by different states at different times using inconsistent definitions and promote more consistency in those ad hoc data calls while improving regulators' data in terms of elements collected, timeliness, and consistency.

Director French made a motion, seconded by Commissioner Grant, to adopt the report of the Big Data and Artificial Intelligence (H) Working Group (Attachment One), Cybersecurity (H) Working Group (Attachment Two), and Privacy Protections (H) Working Group. The motion passed unanimously.

### 4. Adopted its Revised Charges

Director Richardson said that consistent with several other changes to NAIC groups, the Committee intends to convert the Third-Party Data and Models (H) Task Force into a working group. She said no changes would be made to the work, which continues to be a priority. Director Richardson also thanked Colorado and Florida for continuing to serve in leadership roles to guide the work going forward.

Commissioner Yaworsky said this was a good decision to make, given the technical focus of the work.

Commissioner Conway made a motion, seconded by Commissioner Yaworsky, to adopt The Committee's revised charges, including converting the Third-Party Data and Models (H) Task Force into a working group. The motion passed unanimously.

### 5. Heard a Presentation from Travelers on the Responsible Use of AI

David McMichael (Travelers) said that Travelers' Responsible Use of AI Framework is built around four pillars: people-centricity, fairness, responsibility, and trustworthiness. Those pillars are supported by 12 principles:

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human oversight, privacy and security, diverse perspectives, lawful use, fair access, bias mitigation, accountability, governance, monitoring, transparency, explainability, and proportionality.

McMichael emphasized the importance of human oversight, especially in decisions directly impacting customers. He detailed the collaborative process between modelers and technology teams for ongoing monitoring and implementation.

Regarding the *Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers* (AI Model Bulletin), McMichael said Travelers likes the principles-based and risk-based perspectives the AI Model Bulletin takes. He said this allows for the proper balance between effective use of resources and effective risk mitigation. He said he also appreciated the adoption of the AI Model Bulletin by 24 states, which ensures regulatory consistency. Lastly, he said he liked that the AI Model Bulletin leveraged existing authority.

McMichael closed with comments on Travelers' model governance processes. He said that the company conducts comprehensive reviews of its models, running them through a multidisciplinary process that includes, as appropriate, peer legal, actuarial, and data science assessments that span the entire model life cycle. He said the company's model governance is embodied in its model risk management (MRM) framework. There are also several critical elements of the model risk management framework, including: 1) a document called Travelers Modeling Guidelines, which provides overall guidance throughout the model life cycle to the practitioners; 2) a risk assessment tool used to evaluate the risk level of each model; 3) a model checklist that specifies the required risk mitigation controls based on the risk level of the model; and 4) the official inventory of the models.

Chou thanked Travelers for presenting to the Committee. Chou noted that financial exams do already include procedures to review enterprise risk management (ERM) programs. Chou also noted that Actuarial Standards of Practice (ASOPs), including ASOPs No. 38 – Catastrophe Modeling (For All Practice Areas) and No. 56 – Modeling, are also relevant resources.

Director Richardson asked about the factors that drive decisions to have humans in the loop with Travelers' use of AI. McMichael said that the company thinks about how closely coupled the decision is to the customer impact and that whenever there is a direct impact on customers, for instance, related to pricing or underwriting decisions, humans are involved in the review process.

Eric Ellsworth (NAIC Consumer Representative) then asked if McMichael could comment on the company's processes for integration testing. McMichael said that testing is a part of the model implementation process from the outset and starts with an understanding of the need for a model, the quality of the data, and then a detailed evaluation of model performance at a variable-by-variable level. The company continues with testing post-implementation. Ellsworth then asked who owns the outputs. McMichael said it depends on the model but that it is usually a collaboration of sorts among several teams. He also stated that there is always a single point of contact for each model, but several people may be involved in addressing concerns.

Commissioner Yaworsky thanked McMichael for the thoughtful presentation. Director Richardson also thanked McMichael for the presentation and Travelers' willingness to put so much information about its use of AI on its website.

### 6. Heard an Update on Federal Activities

Shana Oppenheim (NAIC) gave a federal update on the areas of cybersecurity, regulatory harmonization, cyber insurance, data privacy, and AI. Oppenheim suggested that the more state regulators make progress in key areas, the better she is able to argue against federal pre-emption on key areas of regulatory interest.

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Oppenheim noted that there is political will to take action, but the rest of President Trump's political priorities are focused on tax cuts and federal government reforms, so there may not be political will to take action soon.

Regarding cybersecurity, Oppenheim noted that President Trump has nominated Sean Plankey to lead the Cybersecurity and Infrastructure Security Agency (CISA), signaling a shift in focus toward risk reduction and addressing threats from China. Plankey, a former cybersecurity official and U.S. Cyber Command veteran, has advocated for stronger cybersecurity measures, including stricter "Know Your Customer" (KYC) rules for cloud providers and enhanced critical infrastructure protections. His nomination follows Republican criticism that the CISA has overreached, with some pushing for downsizing or eliminating the agency. Oppenheim also noted that the Office of Personnel Management is investigating whether cuts by the Department of Government Efficiency (DOGE) have created cybersecurity vulnerabilities, particularly concerning unauthorized access to government networks.

Regarding cybersecurity and regulatory harmonization, Oppenheim said that lawmakers continue to push for harmonization of cybersecurity regulations to ease compliance burdens. A recent House Committee on Homeland Security hearing underscored the growing challenge of fragmented cyber incident reporting requirements. Witnesses urged the Office of the National Cyber Director (ONCD) to lead efforts in streamlining these mandates to prevent the diversion of resources away from security priorities. The House-passed Continuing Resolution includes a \$4.3 million cut to CISA operations while extending the National Cybersecurity Protection System (NCPS) through September 2025. Meanwhile, DOGE's abrupt termination of key contracts has dismantled CISA red teams and reduced funding for critical cyber threat-sharing initiatives, raising national security concerns. Congress is also reviewing the effectiveness of the 2022 Cyber Incident Reporting for Critical Infrastructure Act (CIRCIA), with lawmakers emphasizing the need to simplify compliance while maintaining security efficacy. Witnesses expressed concern over the SEC's cyber disclosure rule, arguing it may undermine national security.

Regarding cyber insurance and legislative developments, Oppenheim noted that cyber insurance has gained congressional attention, with Rep. Eric Swalwell (D-CA) exploring credentialed third-party cybersecurity contractors to aid small and medium-sized businesses in active cyber defense. Further, the Insurance Cybersecurity Act of 2025 has been reintroduced by Sen. John Hickenlooper (D-CO). The bill mandates that the National Telecommunications and Information Administration (NTIA) establishes a working group on cyber insurance to provide guidance for issuers, customers, and state insurance regulators regarding coverage evaluation.

Regarding data privacy and oversight, Oppenheim said that the House Committee on Energy and Commerce chair Rep. Brett Guthrie (R-KY) is drafting a new bipartisan data privacy bill following opposition to previous legislative efforts. The Committee also released a request for information (RFI), with comments due April 7, on these topics. Ranking Member Rep. Maxine Waters (D-CA) has also requested a U.S. Government Accountability Office (GAO) study on the impact of AI on the insurance industry, particularly in underwriting, claims processing, and risk assessment. The study will examine AI's effects on pricing, availability, and claims handling, especially in climate-related disasters. Additionally, it will evaluate regulatory oversight and data transparency issues. Lastly, Oppenheim stated that AI's role in cybersecurity remains a Senate priority, with CISA warning of AI-enabled zero-day vulnerabilities capable of widespread disruption at low cost. Hearings on AI's implications for cyber defense are expected to continue in the Senate Armed Services Cybersecurity Subcommittee.

Oppenheim concluded by saying that as cybersecurity threats evolve, federal policymakers are balancing regulatory simplification with security imperatives. The intersection of cyber insurance, data privacy, and AI-driven risk assessment continues to draw congressional attention, underscoring the importance of engagement from state insurance regulators in these ongoing discussions.

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Kochenburger asked if any of the federal legislative efforts include the possibility of federal pre-emption. Oppenheim said that some legislative bills had pre-emption language, but they often included carve-outs for Gramm-Leach-Bliley Act (GLBA)-compliant parties and that, regardless, those bills did not pass and have not been reconsidered.

Having no further business, the Innovation, Cybersecurity, and Technology (H) Committee adjourned.

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Big Data and Artificial Intelligence (H) Working Group  
Indianapolis, Indiana  
March 25, 2025

The Big Data and Artificial Intelligence (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met March 25, 2025. The following Working Group members participated: Michael Humphreys, Chair, Shannen Logue, and Michael McKenney (PA); Doug Ommen, Co-Vice Chair (IA); Mary Block, Co-Vice Chair (VT); Molly Nollette and Sharon Comstock (AK); Mark Fowler (AL); Tom Zuppan, Barbara D. Richardson, and Lori Munn (AZ); Ken Allen (CA); Michael Conway (CO); George Bradner and Wanchin Chou (CT); Karima M. Woods (DC); Richie Frederick and Nicole Crockett (FL); Weston Trexler (ID); Julie Rachford and Joanna Coll (IL); Holly W. Lambert and Jake Vermeulen (IN); Shawn Boggs (KY); Nathan Strebeck (LA); Caleb Huntington (MA); Marie Grant (MD); Sandra Darby (ME); Jeff Hayden and Kevin Dyke (MI); Phil Vigliaturo (MN); Jo A. LeDuc (MO); Tracy Biehn (NC); Colton Schulz (ND); Connie Van Slyke (NE); Christian Citarella (NH); Alexia Emmermann and Gennady Stolyarov (NV); Kevin Yan (NY); Matt Walsh (OH); Teresa Green (OK); Elizabeth Kelleher Dwyer and Matthew Gendron (RI); Andreea Savu (SC); Travis Jordan and Frank Marnell (SD); Emily Marsh (TN); Rachel Cloyd and Randall Evans (TX); Eric Lowe (VA); Bryon Welch (WA); Nathan Houdek, Timothy Cornelius, and Lauren Van Buren (WI); Lela D. Ladd (WY). Also participating were: Peter Fuimaono (AS); Trinidad Navarro (DE); Vanessa DeJesus (NM); and Tregenza Roach (VI).

1. Adopted its March 11 Minutes

Commissioner Humphreys said the Working Group met March 11. During this meeting, the Working Group took the following action: 1) adopted its 2024 Fall National Meeting minutes; 2) received an update on the health artificial intelligence (AI)/machine learning (ML) survey; 3) reviewed its 2025 charges, including AI systems evaluation; 4) discussed updates to the Regulatory Framework for the Use of AI Systems; and 5) discussed a preview of its Spring National Meeting agenda.

Commissioner Ommen made a motion, seconded by Commissioner Fowler, to adopt the Working Group's March 11 minutes (Attachment One-A). The motion passed unanimously.

2. Heard a Brief Presentation on the Health AI/ML Survey

Commissioner Humphreys provided an update on the status of the health AI/ML survey and highlighted some key findings. He stated that the Working Group completed the collection of data earlier this month and is currently drafting the report that will include all the survey results. He thanked the insurance companies and consumer advocate groups that provided insights on the questions and structure of the survey. He confirmed that as with the other surveys, the goals for collecting data on the use of AI in health insurance were driven by the Working Group's need to understand how companies are using AI across the insurance product life cycle and in insurance operations.

He stated that the survey was restricted to comprehensive major medical and student health insurance, recognizing that future surveys may address other health product lines under the Working Group's authority and that the questions also focused on understanding how third-party data and models are deployed, how governance frameworks are structured, and how well company governance frameworks align with the NAIC *Model Bulletin on the Use of Algorithms, Predictive Models, and Artificial Intelligence Systems by Insurers*.

Commissioner Humphreys said that 93 companies met the criteria and submitted responses to the survey. Seventy-eight companies (83%) are actively using AI in their insurance operations, while another eight companies (9%) are either planning or exploring the use of AI in their operations. He compared the adoption rate of AI in health insurance (92%) to the 88% reported in the auto survey, 70% in the home survey, and 58% in the life survey. Of the companies that have not adopted AI, most companies indicated they had no compelling reason for non-adoption. The second most common reason for non-adoption was a lack of sufficient resources, good information technology (IT) systems, and/or data. Further, he stated that strategic operations were reported as the top area using AI, followed by utilization/severity/quality management, fraud detection, and sales/marketing. Companies also indicated that their AI governance committees provide guidance for AI usage to internal business areas to help achieve short- and long-term objectives.

Logue stated that ensemble models were the most common types of machine learning techniques. Large language models were among the top three techniques given their explosive growth in usage in insurance and other industries, and decision trees and clustering were also widely used. She said a vast majority of companies appear to be developing their own models using third-party components, which can include algorithms developed by third parties as well as third-party insurance scores and other data elements. Further, 80-82% of companies are documenting their AI processes for accuracy and reliability. A good number of companies are testing their models for model drift and bias, and companies are documenting their models for unfair discrimination. She reported that few companies are inferring protected class characteristics, since few protected class inference methods exist, and some companies in the focus group sessions expressed concerns regarding the accuracy of existing methods.

Regarding AI governance, Logue reported that over 90% of the companies surveyed have developed AI governance principles that align well with the NAIC AI principles. However, compliance drops when it comes to specific practices, such as allowing health insurance applicants to contest adverse underwriting decisions, maintaining logs of those contested decisions, and disclosing AI/ML use to providers or physicians. There is especially low activity disclosing to providers or physicians how and when AI is used by the insurer or a third-party vendor.

Regarding human involvement, Logue reported that 98% of companies said fewer than half of their AI processes are used for automation, 85% said the same for augmentation, and 70% for supporting decision-making. Commissioner Humphreys closed by stating that the plan is to give a more detailed report at the Summer National Meeting, which will be after the full report has been published on the NAIC website.

Commissioner Conway commented that there is a big difference between the data on testing for unfair discrimination versus being able to infer race. He asked whether there was any insight into what was driving that difference. He added that the Colorado Division of Insurance believes that race can be inferred. Trexler asked whether the report would provide more details about the use of AI in utilization, severity, quality management, and fraud detection. Commissioner Humphreys confirmed that the report would provide more details.

### 3. Received an Update on the Regulatory Framework for the Use of AI Systems

Commissioner Ommen said that the Working Group is looking forward to receiving input as the AI systems evaluation work plan is being developed and encouraged the membership to contribute to the discussion.

Commissioner Humphreys said that the AI Principles were adopted five years ago, and the Working Group has worked through AI/ML surveys of four major insurance lines of business. While that was in process, the Working Group issued the NAIC AI model bulletin roughly two years ago, and at this point, there are 24 states that have either adopted the bulletin or pursued legislation, and four additional states have adopted related activity. He identified this as the first pillar, with the second being transparency. The focus, he said, should be on clarifying

what kind of information is shared, where and when AI is being used—whether in operations or consumer-facing initiatives—and when consumers and other stakeholders, such as providers, should be informed of that usage.

The third pillar involves guidelines, oversight, and possibly prohibited practices. The Working Group has heard from consumer groups about the importance of having a human in the loop, for example, in health insurance prior authorization. In other words, should it be required that prior to an adverse decision, it should be reviewed by a human being rather than moving the process faster.

Logue said the fourth pillar will be a constant process where, as the technology advances, the Working Group will need to constantly assess where the missing gaps are. Then she provided more information on the second pillar by stating that several states have already started to explore how to do evaluations on AI systems from the financial and market conduct sides. The Working Group pulled those states together and started to have discussions on how they are assessing the risk that comes along with the use of AI by an insurance company. She noted that one of the concerns voiced by insurance companies is having to answer different questions from each state, so the Working Group wants to provide regulators with an efficient and standardized data collection tool that they can use in their investigations and examinations to assess and evaluate risk, along with providing the guidance needed to align with regulator expectations and information needed from the Market Conduct Annual Statement (MCAS). The Working Group recognizes the need to coordinate across different NAIC groups to develop and review enforcement tools and guidelines. One of these tools is to create a self-audit questionnaire to help understand what is expected from insurance companies.

Logue provided more information on the third pillar by confirming that the Working Group recognizes the need to collaborate across all NAIC committees and working groups in developing governance by identifying best practices and guidance on AI testing, model training, drift detection, identifying adverse consumer outcomes, and risk classification, based on the primary things the Working Group has heard. The Working Group is looking into transparency around AI use and data disclosures, including the extent of human involvement in certain decisions, the rationale behind those decisions, and the availability of an appeals process. AI complaint tracking would also be beneficial to help understand where there may be consumer harm.

Commissioner Humphreys noted that Pennsylvania is one of the states asking questions at the front end of financial exams now, and the Working Group wants to talk to a couple of other states to achieve a more uniform approach to discuss publicly. The Working Group wants to build out the transparency and accountability pieces, which may require an additional bulletin or new general model legislation.

Commissioner Ommen stated, in reference to the AI Systems Regulatory Framework Roadmap, that Iowa adopted its model bulletin recently, has been working within its teams to develop a program of interaction with insurance companies, and found the four-pillar road map to be helpful.

Chou commented that regulation for third-party models and data transparency and consistency under the governance standard are important for better AI governance. Trexler commented that developing standardized tools is useful for states that have limited resources. LeDuc hoped that the Working Group would establish a regular reporting structure to provide an update so that subject matter experts (SMEs) could help guide the conversation. Commissioner Humphreys confirmed this would be the case.

Eric Ellsworth (Consumers' Checkbook) said he appreciates the focus on governance and accountability and commented on areas that impact consumers, especially in health insurance, that have to do with process automation, such as prior authorization, claims adjudication, and other processes. He flagged important issues for regulators to consider as insurers operationalize models and automate processes, such as managing multiple sources of truth. He cited an example when an insurer uses prior authorization service, there are three sources of

truth about the medical necessity rules: one in the document, one in its claims engine, and one in prior authorization, and he questioned whether these databases are kept in sync and what the recourse is. He also noted that there are data quality issues throughout health data sets that are at risk as processes become more automated and encouraged the Working Group to consider these issues in developing governance.

Peter Kochenburger (Southern University Law Center—SULC) asked whether insurance consumers are better informed and better protected specifically in this area now than they were when the AI Principles were adopted in 2020. He noted that there has yet to be a specific guideline, such that consumers are in the same position as they were four or five years ago in regard to transparency, consumer protections, rights in questioning information, recourse, and how their information is shared.

Commissioner Humphreys disagreed with Kochenburger by noting that the bulletin, where it has been adopted by the states, reminds insurance companies that consumers have rights under existing insurance laws and regulations. Humphreys agreed with Kochenburger that regulation should be developed faster and in uniformity, especially about transparency, treatment, and disclosures.

Kochenburger additionally noted that the federal government announced that it is considering a preemptive federal rule on data privacy and perhaps on the use of AI. Block noted that there is a separate but related NAIC workstream on consumer data privacy that is working to develop guidelines on consumer rights for the sale of that data. Miguel Romero (NAIC) noted that there is a federal update in scope for the Innovation, Cybersecurity, and Technology (H) Committee agenda on March 26.

Brian Bayerle (American Council of Life Insurers—ACLI) appreciated the proposed regulatory framework road map and how that might guide the work plan. He noted that the overall steps seem reasonable and stressed that it is imperative to focus on its charge to monitor and promote the model bulletin implementation which should include an assessment of the effectiveness of the bulletin by collecting lessons learned from both the industry and regulators before contemplating what tools or additional requirements may be necessary.

Commissioner Humphreys agreed that the Working Group should track the implementation of the model bulletin but disagreed that an assessment of its effectiveness has to come first because important conversations need to continue while the Working Group learns the lessons at the same time.

Scott Harrison (American InsurTech Council—AITC) commented that the process laid out is coherent and risk-based and aligns with what the industry and stakeholders need in terms of guidance. He said the AITC looks forward to participating in further discussions.

Lucy Culp (Leukemia & Lymphoma Society—LLS) requested more information on how the Working Group is approaching the application of the framework across different lines of business and if different lines of insurance will be handled separately. Commissioner Humphreys responded that there will be some elements that will be uniform across lines, such as governance, market conduct, and financial reporting, but there may be differences in MCAS reporting, exam processes, disclosures, financial reporting, and prohibited practices for different lines of business. Logue added that the Working Group recognizes the different model use applications and different risks of adverse consumer outcomes. Culp asked how the work would intersect with the regulatory framework on prior authorization. Commissioner Humphreys responded that as the Working Group starts to build out the process, it will work with groups that have processes that are also in play in the AI space, and Pennsylvania will join the prior authorization drafting group if allowed.

Armand Glick (Utah Insurance Fraud Division) commented that AI is evolving rapidly in insurance fraud detection nationwide, and its effectiveness relies on the quality and availability of data collected by insurers. For example, insurance companies often collect photographs during the claims process, but many strip important metadata by resizing images, converting them to PDFs, or making other changes. This limits the ability of AI to detect fraud, such as identifying duplicate images across claims or spotting forged documents based on metadata like the author or the software used. He asked whether the Working Group has considered model regulations or requirements for insurers to preserve original documents and metadata for use by fraud divisions and regulators and whether this issue falls within the group's scope or would be better suited to the Antifraud (D) Task Force. Commissioner Humphreys responded that the Working Group would work with the Task Force, as its involvement would be important in shaping the next steps.

David Snyder (American Property Casualty Insurance Association—APCIA) commented that state regulators' active involvement has been crucial in preventing harmful state legislation and curbing certain federal activities. He said the APCIA urges regulators to remain actively engaged on the issue and thanked them for their efforts. He added that it is important to preserve key definitions in the bulletin, such as adverse consumer outcomes, and adhere to its core principles. He noted that the bulletin recognizes the value of flexibility among carriers and urged that this approach be maintained moving forward.

He added that another key element of the bulletin is that it recognizes that existing legal standards apply to AI and that existing regulatory processes, such as consumer complaint processes, should be used when issues arrive, just as they are in other contexts. He stressed the importance of upholding these standards and processes.

Finally, he noted a shared interest in developing a more standardized regulatory approach to implementing the bulletin. He closed by praising regulators for their collaborative and transparent work, adding that their leadership has positioned the insurance sector ahead of nearly every other industry, which has been critical in fending off unfavorable legislation.

Commissioner Humphreys responded that the Working Group has additional points to consider as it moves forward and aims to accelerate progress while working collaboratively and publicly. The Working Group will continue to develop each pillar to facilitate public conversations on those topics.

#### 4. Heard a Presentation on the Treatment of Missing Data and Implications in Rate Making

Kevin Burke (NAIC) presented the reasons missing data can arise and the issues it could cause in rate making. The issue of missing data has become more prevalent, as data used in models reviewed by the Casualty Actuarial and Statistical (C) Task Force includes missing values, such as in aerial imagery purchased from third-party vendors, where the number of square feet may be missing 30% of the time.

He stated that the actuarial community has been behind other statistical fields in handling missing data. In actuarial work, missing data often appears in generalized linear models for credit-based insurance scores, particularly in the form of "thin hits" and "no hits" from credit-based insurance score providers. These categories can result from various factors, such as the age of policyholders, religious beliefs, and other reasons. Typically, rates are determined by averaging credits and surcharges from individuals with credit scores. However, the use of missing data in these models is a decision made by the company and can lead to biased results. He gave the example of roof conditions identified via aerial imagery, noting that missing data, in this case, may not comply with Actuarial Standard of Practice (ASOP) No. 12 on Risk Classification, which requires data to be objective and practical.

Commissioner Humphreys summarized by asking if two identical houses in the same neighborhood across from each other—one with complete credit score information and the other without—might be rated differently, and whether that situation is unfair. Burke confirmed that this situation would be unfair.

Having no further discussion, the Big Data and Artificial Intelligence (H) Working Group adjourned.

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Big Data and Artificial Intelligence (H) Working Group  
Virtual Meeting  
March 11, 2025

The Big Data and Artificial Intelligence (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met March 11, 2025. The following Working Group members participated: Michael Humphreys, Chair, and Shannen Logue (PA); Doug Ommen, Co-Vice Chair, Daniel Mathis, and Amanda Theisen (IA); Mary Block, Co-Vice Chair (VT); Alex Romero and Molly Nollette (AK); John Buono and Stacy Farris (AL); Tom Zuppan and Barbara D. Richardson (AZ); Ken Allen (CA); Jason Lapham (CO); Wanchin Chou (CT); Paul Walker (FL); Weston Trexler (ID); Jennifer Niles (IL); Jake Vermeulen (IN); Patrick Smith and Lori Cunningham (KY); Nathan Strebeck (LA); Caleb Huntington (MA); Marie Grant (MD); Sandra Darby (ME); Jeff Hayden (MI); Jacqueline Olson and Phil Vigliaturo (MN); Cynthia Amann (MO); Tracy Biehn (NC); Colton Schulz (ND); Connie Van Slyke (NE); Christian Citarella and Gregory Arce (NH); Gennady Stolyarov (NV); Adrienne A. Harris and Kevin Yan (NY); Matt Walsh (OH); Andreea Savu (SC); Travis Jordan (SD); Carter Lawrence and Emily Marsh (TN); J'ne Elizabeth Byckovski and Rachel Cloyd (TX); Michael Peterson (VA); Bryon Welch (WA); Timothy Cornelius and Lauren Van Buren (WI); Joylynn Fix (WV); and Lela D. Ladd (WY).

1. Adopted its 2024 Fall National Meeting Minutes

Block made a motion, seconded by Ladd, to adopt the Working Group's Nov. 17, 2024, minutes (*see NAIC Proceedings – Fall 2024, Innovation, Cybersecurity, and Technology (H) Committee, Attachment One*). The motion passed unanimously.

2. Received an Update on the Health AI/ML Survey

Logue thanked the insurance companies that responded to the health artificial intelligence (AI)/machine learning (ML) survey. She stated that the Working Group anticipates having a more detailed summary at the 2025 Spring National Meeting and that the full report should be available in April. She thanked consumer advocates for providing us with their areas of concern.

Logue provided an update on the follow-up private passenger auto (PPA) AI survey interviews. She stated that the Working Group met with a handful of companies with a national footprint and asked them about changes in their use of AI within their operations, how they are currently using AI, how they are engaging with third-party vendors, and the status of developing their governance practices. She then presented a summary of the responses with the caveat that it consisted of a small sample size, in which she noted that 64% had changed their use of AI in their operations. She said 56% of respondents changed their use of AI in marketing, 0% changed their use for underwriting, 28% changed their use in general operations, and 18% changed their use in telematics. Logue said that 91% of respondents advised that the *NAIC Model Bulletin on the Use of Artificial Intelligence Systems by Insurers* (AI Model Bulletin) was helpful, 91% conduct regular audits to measure and validate the performance of their models, and 82% measure outcomes for unfair discrimination. She said 50% of insurers were able to validate that their marketing models do not inadvertently exclude certain cohorts. Logue stated that 72% responded that they require vendors to demonstrate that they have tested their models prior to use, and 46% independently test vendor models. However, no companies responded that they use third-party data to test for unfair discrimination, data, and algorithmic outcomes.

Further, Logue stated that the company responses to the governance questions spanned the spectrum, from companies that had documented their framework well to companies whose governance was still conceptual. Regarding compliance, several companies responded that they had fully inventoried their models and training data, but others had not. Some companies established criteria for ranking risk, but others were looking for guidance from regulators. Similarly, the responses to whether model drift and adverse outcomes were tested ranged from applying sophisticated methods to minimal testing, if any, with some companies looking for more guidance from regulators. Transparency disclosures and human-in-the-loop practices also varied greatly by company, along with assessing the risk of actual vendor-supplied AI systems.

Logue stated that emerging opportunities for regulators include: 1) establishing authority to hold third parties accountable or perhaps establish a national list of approved vendors that have been vetted; 2) providing guidance on transparency disclosures, allowing for consumer recourse; 3) providing uniform standards on governance practices; 4) providing guidance on governance, including how to test for adverse outcomes and standardized practices on allowable data elements and when human involvement is required to mitigate adverse impact to consumers; and 5) providing guidance on systems evaluations, including objective and specific questions consistent across lines of business and states, perhaps incorporating questions into annual statement filings, market conduct examinations, and/or financial examination reporting, and standardized questions based on model type.

Chou stated that regulators having authority over a regulated entity enhances consistency and improves efficiencies compared to waiting until an insurance company adopts a third-party model for subsequent review.

Earnest Collins (Regulatory Compliance and Examination [RCE] Consultants) asked what tools and automated processes are being used to help evaluate and regulate the different types of models and data processing. Logue replied that different companies use different tools, so there is not one solution out there to help with AI governance, how models are tested for drift, or how frequently models need to be tested. Collins followed up by asking what types of tools regulators will use to evaluate AI systems. Humphreys responded that discussing this topic is part of the Working Group's next steps.

Chou asked whether regulators have the right people and processes for proper review and recommended that regulators work with data scientists to help review models.

### 3. Reviewed its 2025 Charges, Including AI Systems Evaluation

Commissioner Humphreys stated that the NAIC adopted its Principles on AI and the AI Model Bulletin in 2023. The Working Group views the AI Model Bulletin as a reminder for insurers that existing laws, including consumer protections, apply. It explained regulator expectations of the responsible use of AI. Commissioner Humphreys stated that now is the time for the Working Group to provide additional recommendations, requirements, or guardrails to build on for the continued use of the AI regulation going forward.

Commissioner Ommen stated that the Working Group's charges include AI systems evaluation and gathering information about existing tools and resources available for regulating AI, assembling subject matter experts (SMEs) to develop new regulatory tools that many states are now using, and making this information readily available across the NAIC.

Peter Kochenburger (Southern University Law Center—SULC) clarified that this work effort is to essentially identify existing tools rather than develop specific consumer protections and does not seem to provide any new or additional protections for consumers than the last four years.



Commissioner Ommen clarified that this workstream does not have to do with developing model laws or changing the laws; it simply develops the regulatory tools in order to monitor and evaluate whether companies are operating their business consistent with the AI Model Bulletin's guidance. The purpose of this workstream is to bring together and share the tools being developed in the states in order to carry out those consumer protections.

Kochenburger commented that there is not another Innovation, Cybersecurity, and Technology (H) Committee group that is working on developing any new regulations, bulletins, model laws, or amending current laws to provide those rights, but it is heartening to hear that some states are looking to develop or have developed specific protections.

Birny Birnbaum (Center for Economic Justice—CEJ) noted three points. First, He said that in Logue's overview, there were comments from the industry about asking regulators to provide oversight of third-party vendors. He questioned why they are not required to be licensed when they are performing the same activities as the companies that are already licensed as advisory organizations. Next, Birnbaum said the NAIC Principles on AI included a requirement for companies to take actions to avoid proxy discrimination, yet the AI Model Bulletin does not mention proxy discrimination. He questioned whether the NAIC anticipates implementing the NAIC Principles on AI in that regard. Lastly, he said that Logue's overview stated that companies span across the spectrum in terms of governance. He asked whether there are numbers on that. He also asked how long regulators anticipate giving companies to comply with requirements that are already the law.

Commissioner Humphreys stated that the Third-Party Data and Models (H) Working Group is looking into the issues Birnbaum noted and that the Big Data and Artificial Intelligence (H) Working Group will have more opportunities for discussion at the Spring National Meeting.

#### 4. Discussed Updates to the Regulatory Framework for the Use of AI Systems

Commissioner Humphreys said that regulators do not have a percentage of companies that have effective governance programs because of the small number of companies interviewed, but regulators want to build out a more continuous review process, whether through exams or analysis filings, as possibly the next step of discussions where regulators want feedback. In addition, regulators want future conversations and feedback on financial and market exam approaches and analyses that need to be done. Governance could consist of prohibited modeling practices, prohibited data elements, and disclosures both on the regulatory and the consumer side. California, Texas, and other states have either recently passed laws or have legislation pending that would provide additional regulation in the AI space. Humphreys urged state regulators to contribute feedback on the next steps to provide further clarity and guidance on disclosures to ensure consistency across the states.

Ladd asked if there has been any discussion on AI vocabulary definitions and gave an example of where the definition of "labor" in Wyoming was redefined as "services" in order to avoid depreciation.

Miguel Romero (NAIC) responded that the AI Model Bulletin includes several definitions to help clarify regulators' intentions, but as part of the drafting process, it is anticipated there will be further discussions on definitions.

Birnbaum questioned whether the issue is not about definitions but rather about the use of AI to circumvent regulatory or statutory intent and suggested that an AI tool is needed for regulators to identify actions by insurance companies to subvert regulatory or statutory intent.

Commissioner Humphreys noted a question from Wayne Turner (National Health Law Program—NHLP) regarding whether the Working Group plans to conduct a second health AI/ML survey on non-major medical plans. Commissioner Humphreys said the Working Group will wrap up the first health study and then will look at how

the landscape has changed. He said the Working Group will then regroup and determine what its next steps are. Logue confirmed that the group will compile the report on the first health AI survey and then decide whether to continue the surveys.

Chou noted that he could help direct those interested in vendors providing AI tools that could help.

Eric Ellsworth (Checkbook Health) commented that he is looking forward to the AI strategy roadmap and clearer oversight of third parties. He also noted that data-sharing arrangements can cause implementation confusion. He gave the example that in prior authorization, there may be cases where there is a set of claims processing rules in the insurer's claims engine but a different set of rules in the prior authorization platform and wondered if this will be under review by the Working Group.

Commissioner Humphreys responded that those are the market conduct issues that the Working Group will be considering incorporating into an examination analysis.

#### 5. Discussed a Preview of its Spring National Meeting Agenda

Commissioner Humphreys stated that the Working Group will be able to go into greater depth on the health AI/ML survey. He said the Working Group will be close to completing the report at the Spring National Meeting and will be able to talk through some of the results. Commissioner Humphreys said the Working Group will have a full discussion on how to narrow the next steps on the regulatory framework and build that out. He said the agenda will also include a brief presentation on the implications of missing data.

Having no further discussion, the Big Data and Artificial Intelligence (H) Working Group adjourned.

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Cybersecurity (H) Working Group  
Virtual Meeting  
February 20, 2025

The Cybersecurity (H) Working Group of the Innovation, Cybersecurity, and Technology (H) Committee met Feb. 20, 2025. The following Working Group members participated: Cynthia Amann, Chair (MO); Michael Peterson, Vice Chair (VA); Julia Jette (AK); Chris Erwin (AR); Bud Leiner (AZ); Jennifer Bender (CA); Wanchin Chou (CT); Tim Li (DE); Elizabeth Nunes and Matt Kilgallen (GA); Lance Hirano (HI); Daniel Mathis and Travis Grassel (IA); C.J. Metcalf (IL); Shane Mead (KS); Katie Callahan (MD); Jeff Hayden (MI); Bubba Aguirre and T.J. Patton (MN); Troy Smith (MT); Tracy Biehn (NC); Colton Schulz (ND); Martin Swanson (NE); Christian Citarella (NH); Gille Ann Rabbin (NY); Don Layson and Matt Walsh (OH); Sebastian Conforto (PA); Rebecca Rebholz (WI); and Lela D. Ladd (WY).

1. Adopted its 2024 Fall National Meeting Minutes

Mead suggested correcting “liability” to “reliability” on page 4 of the Working Group’s Nov. 18, 2024, draft minutes.

Schulz made a motion, seconded by Mead, to adopt the Working Group’s corrected Nov. 18, 2024, (*see NAIC Proceedings – Fall 2024, Innovation, Cybersecurity, and Technology (H) Committee, Attachment Three*) minutes. The motion passed unanimously.

2. Heard a Presentation from Cowbell on Exploring the Cyber Insurance Market, Coverages, and Effective Risk Management Practices

Emma Werth (Cowbell Cyber Inc.—Cowbell) and Matthieu Chan Tsin (Cowbell) delivered an informational presentation providing an overview of the cyber risk landscape, insurance market, coverages, and effective risk management practices for small and medium-sized enterprises in the healthcare and financial services industry. Cowbell was created in 2019. Unlike other cybersecurity or cyber insurance providers, it focuses on small and medium-sized enterprises, and 90% of its market is based in the U.S.

Chan Tsin described that one of the more common challenges across the small and medium-sized enterprise landscape is getting business owners to understand they are potential victims of cybercrime or cyberattacks. To do this, he advised taking a view that is broader than one business at a time. Some recent reports have shown that over half of U.S. small and medium-sized enterprises do not have any cybersecurity measures, and over 40% with fewer than 50 employees have no cybersecurity budget. Chan Tsin suggested that many businesses Cowbell insures start with what he would call “cybersecurity on the cheap,” meaning they rely on open source or free solutions. These small and medium-sized enterprises play a crucial role in the U.S. economy in terms of financial contribution but also in the form of data. They are not equipped to prevent cybercrimes since they are broadly connected to larger networks through vendor services or data-sharing agreements.

Healthcare and financial services are specifically targeted because they are both part of the U.S. critical infrastructure and hold sensitive information, including financial, health, and other private identifiers. Neither sector can afford to be offline or not render services on a daily basis, as some cyberattacks targeting these sectors have had very real physical consequences, like when hospitals are unable to provide life-saving care. An internal analysis of claims data found that many claims are triggered through social engineering, using manipulative techniques against high-pressure working environments and overburdened staff to gain access to internal systems

and information. These exposures caused by phishing campaigns have resulted in fines to U.S. healthcare providers. Ransomware attacks often result in the exposure of highly sensitive and personal information, including patient medical details and images of patients pre- and post-surgery. Deep and dark web sources, as well as some open-source repositories, have been found to include data from several U.S. healthcare organizations. Similarly, Chan Tsin explained that ransomware attacks have long been one of the most significant threats to financial institutions. Ransomware attacks often cause significant downtime, exposure of critical customer and business information, and financial penalties. Ransomware attacks against technology providers upon which financial organizations rely can have negative repercussions. Chan Tsin highlighted a December 2023 incident where 60 U.S. credit unions faced outages after a ransomware attack targeted cloud services provider Ongoing Operations. He explained that threat actors seek to disrupt the financial sector of nations they deem adversarial to their own nation's policies, as observed during recent conflicts like those of Russia and Ukraine, as well as Israel and Hamas.

Chan Tsin showed that in reviewing Cowbell's claims data from 2024, data breaches and third-party events lead the way in causing a claim in healthcare. This is in part due to the reliance of the healthcare industry on third-party vendors or clients who may not do what they need to protect their networks appropriately. Finance and insurance claims show data breaches as the number one cause of claims. He said that when looking at what prompts Russian-affiliated groups to target or attack healthcare and financial services in the U.S., it can usually be described as having one of three purposes: 1) active measures or operations aiming to impact other nations' policies; 2) strategic deterrence or advanced operations aimed to level Russian military capabilities with those of western capabilities; and 3) providing easy money. Chan Tsin said these actors are part of the play by the Russians to counter what they see as an overwhelming military superiority from the U.S. He said we must view it as not just stealing money but also spreading their network and positioning themselves to take down capabilities that would be needed if conflict were to ever happen.

Chan Tsin explained that Cowbell's data shows the highest losses are associated with the healthcare, manufacturing, and professional services Industries. He further explained that while data recovery costs are typically 5%–20% of claims losses, they are not ever as expensive as the original incident response to events, typically accounting for 30%–60% of claims losses.

Werth explained that cyber insurance is currently in its second year of what is considered a soft market, where a competitive environment demands coverage differentiation in terms of coverage availability and form language. She described that ease of business has grown to be a key part of cyber business, almost as important as having critical vendor partnerships in place to enhance the experience offered to the policyholder. Cowbell provides a panel of professionals who are guaranteed to assist an insured as soon as they think they have something that may turn into a claim.

Werth explained that the healthcare industry is seen as a high-hazard and heavily targeted industry, as it is highly regulated and susceptible to business interruption and aggregation risk. Exposures typically include ransomware, data breaches, and privacy concerns. Werth said financial services are similarly highly regulated but are seen as low-hazard because claims in this industry are typically a matter of frequency over severity. Exposures typically include cybercrime risk, data breach, and privacy concerns. For healthcare, it is typically their network infrastructure or patching concerns that make them an underwriting challenge.

Werth introduced common cyber insurance coverages and explained that they are often split into two categories: first-party coverage and third-party coverage. First-party coverage would be for cybercrime, business interruption, ransom payment, and forensic investigation costs. Third-party coverage would be for cyber liability (i.e., providing protection from financial losses due to lawsuits from vendors or clients and regulatory fines and penalties caused by various network security events.)

Werth described common sublimits and explained that they are the maximum an insurer will pay for coverage-related expenses within a policy. Within the cyber insurance market, common sublimits include cybercrime and post-remediation costs, as well as limits relating to investigating and quantifying financial losses from a cyber incident. The insurance community manages its exposure to systemic and catastrophic risk through policy exclusions. Werth said that some common cyber exclusions include bodily injury, property damage, and cyber war, including the use of a computer system against another computer system under the control of a sovereign state to cause a major detrimental impact on their essential service or defense.

Chan Tsin then discussed mitigations best suited to protect the small and medium-sized enterprises in the U.S. He explained that some good news from Cowbell's data analysis is that most compromises are not created because of a dedicated attack specifically targeting the victim(s). Chan Tsin added that the attacks against small and medium-sized enterprises attempt to compromise as many victims as possible; therefore, they are very broad and not the most sophisticated. Cowbell describes its Level 1 risk management strategies as cybersecurity awareness training, multi-factor authentication (MFA), and system updates and patches. Chan Tsin said an overwhelming majority of compromises can be tied to user error. He said a recent study of 600 policyholders identified that when a company can show employees complete the minimum training, the rate of compromise decreased by 50%.

Chan Tsin explained that Level 2 risk management strategies focus on system backups and network segmentation of the insured. He clarified that backups should be stored offsite and/or offline to protect them from being compromised and should be conducted at least monthly. He expressed that proper backups give the breach coach options and power when negotiating a ransom. Chan Tsin explained that dividing larger networks into smaller sub-networks using firewalls, for example, could help enhance the resilience of the business.

He explained that Cowbell's Level 3 risk management strategies would be considered more sophisticated and tend to be more expensive to implement. These strategies include Managed Detection and Response (MDR) services and Digital Forensics & Incident Response (DFIR) playbooks. Broadly, the industry has seen great success with MDR at endpoints to increase the speed of response and recovery while lowering the cost. DFIR playbooks must outline clear procedures for identifying, containing, and mitigating threats, as well as how evidence will be preserved. Chan Tsin emphasized the importance of practicing the DFIR playbooks through tabletop exercises, which helps to ensure companies understand what they would do if they were to get hit by a cyberattack and get everyone on board.

Werth provided an evolution of cyber insurance and underwriting from the 1990s through policies changing in response to cyber threats throughout the 2000s and 2010s and concluded with the present. She said cyber insurance is a growing market and an important component of a comprehensive risk management strategy. She introduced Cowbell Factors, explaining that every Cowbell Factor is a rating that contributes to the evaluation of an organization's cyber risk profile and, therefore, appropriate insurance coverage. Cowbell Factors apply continuous observation to map evolving cyber threats, using more than 1,000 data points and risk signals from a variety of sources. Werth said this system allows an underwriter to get a holistic view of the data in addition to the paper application. She added that from the underwriting perspective, in a nutshell, the top four key controls would be MFA, employee training, patch cadence, and backup hygiene (where they aren't backing up the problem, too). Cowbell's underwriting team will also provide consultative services to increase risk management efforts for loss prevention.

Werth concluded by briefly describing Cowbell's view on pricing healthcare and financial services. She said healthcare is viewed as a high risk, with hospitals presenting the highest risk given the exposure, and financial services have the potential to be a high-risk exposure. She said financial advice firms are viewed as a lower risk

than insurance companies. She said other risk factors typically include revenue, security controls and compliance, and the insured's record count.

Amann expressed appreciation for the presentation and, in recognition of the time passed, reminded the Working Group of the interim call scheduled for March 13, during which the Working Group would discuss its proposed 2025 work plan, the cybersecurity and cyber insurance data wish-list, and the referral from the Chief Financial Regulator Forum.

Amann also asked Cowbell to opine whether a purchaser would understand the interplay of the sublimit and coverage within the policy or if something similar to a declarations sheet for cyber would be necessary. Werth explained that there is still a disparity in the small and medium-sized enterprise market space, but it is lessening. She suggested that a proficient broker would be critical. She added that a broker who is much more proficient in management liability is probably not as proficient in cyber.

Stephen Packard (Unaffiliated) inquired about the ethical oversight of paying ransom and how it is reported. Chan Tsin and Werth explained that there would never be a ransom paid that was not first approved by the Office of Foreign Assets Control (OFAC). Additionally, they explained that Europe has an existing insurance sector, but it is not seeing the level of ransomware observed in the U.S. They said that it is much more about the targeted entities themselves and the fact that U.S. companies have a lot more money.

Grassel expressed support for the work being done by Cowbell and across the country, explaining that cybersecurity is bigger than just insurance and protecting American consumers.

Having no further business, the Cybersecurity (H) Working Group adjourned.

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