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November 19, 2021

Commissioner Mike Kreidler, Chair
NAIC Market Information Systems Task Force
c/o Randy Helder – rhelder@naic.org
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: NAMIC comments – NAIC MISTF - MISRDWG Statement on AI

Dear Commissioner Kreidler and Members of the Task Force,

Please find included herein comments on behalf of the National Association of Mutual Insurance Companies' (hereinafter "NAMIC")[1] members regarding the draft of *The Market Information Systems Research and Development (D) Working Group Review of Artificial Intelligence Techniques in Market Analysis*. NAMIC understands that the Market Information Systems Task Force may adopt this paper during a conference call in lieu of meeting at the Fall National Meeting in San Diego. NAMIC is appreciative of the ability to provide comments and suggestions to the Task Force before potential adoption of the work product.

While the NAIC and state regulators continue to work through their own regulatory policies concerning artificial intelligence, machine learning, and predictive analytics for the insurance industry, it is incumbent upon the same parties to understand their limits and guidelines concerning usage of artificial intelligence in market analysis. However, while NAMIC supports reviewing steps and frameworks for regulating the industry in the cyber age, which can lead to efficiencies and cost-savings for all parties, we are concerned that the movement into this area might be premature given the regulatory review of industry current usage. While the dialogue can occur in some instances concurrently, thought should be given to duplicating effort before various workstreams have determined needs to fulfill their ultimate goals of industry oversight.

From the outset of the Executive Summary, the paper discusses that AI may not be suitable for data currently available to state insurance regulators, that some of the techniques may produce unclear interpretations, and the quantity of data currently utilized by regulators may not be sufficient for AI utilization. While we understand this to some extent is a strategic

[1]The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of more than 1,400 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

plan for future operations, it should not be a foregone conclusion seeking a means to the end. Consequently, we would urge the Task Force to only consider data accumulation from a regulatory need and perspective to fulfill their statutory requirements and provide consumer protection and market stability. Any accumulation past those goals can subject highly sensitive data to cyber-attacks and other incursions, which may in the end be an unnecessary risk based upon intended objectives.

Additionally, there appears to be a discussion concerning the "false positives" that AI can produce. This brings up an entirely different point concerning resources. If states are to carry out their regulatory mission, the issues created in early artificial intelligence usage by market analysis will most likely consume a great deal of resources and time to evaluate. There should possibly be more discussion concerning resources needed to adopt such architecture moving forward. Otherwise, there will be a significant disruption in regulatory- and industry-related operations.

It should also be mentioned that the cost of such a project undertaken now may be grossly outweighed or "[un]justified" by any benefits given the amount of data now needed to perform analysis. Further, there appears to be little to no discussion concerning the "superior[ity]" of implementing such processes given the current work regulators perform daily.

Another issue concerns what data will be used to create regulatory predictability of future outcomes and whether prior activities have any bearing on future conduct such as RIRS reporting. As the paper discusses, will this bring more scrutiny in an unfair manner that has no relation to future expected activity further eradicating corrective action taken by companies for regulatory findings?

In light of this project gaining any momentum, should a number of these areas be explored further? In many ways, the paper simply seems to be arguing for collection of transactional-level data, which might, although not certain, enhance analysis. It would seem that taking such a dramatic step forward would suggest a more certain outcome than simply the hopes of a few or mere speculation.

As to Recommendation 1, NAMIC supports the survey of data elements and achieving consistency in data definitional elements and other data accumulation criteria. Time should be taken to explore these early concepts that will control end results for decades to come.

As for Recommendation 2, NAMIC supports improving what processes currently exist so that there remains certainty and stability in the insurance marketplace. However, changes in current processes and analysis should be given extensive consideration for long-term ramifications and disruption for the industry, which must expend resources to comply with regulations.

As to Recommendation 3, NAMIC supports adoption by NAIC of cost-efficient and regulatory efficient modes of analysis that can have demonstrated useful outcomes and that do not create overburdensome analysis which must be continually ruled-out or overly corrected for unwarranted concern due to the process as opposed to actual concern.

As to Recommendation 4, NAMIC supports structured processes that can provide efficiency for regulators. However, there is concern that data mining unstructured data may especially in consumer complaint data not yield intended results other than excessive and unneeded time consumption for all parties. We would urge caution in moving to such areas unless absolutely necessary and demonstrated need shown such as in a continuum of regulatory responses.

As to Recommendation 5, large transactional amounts of data should not simply be collected for the sake of the activity. As has been discussed previously in various workstreams, transactional data creates more data to filter, more costs for compliance by regulators and industry, with unclear benefits that would warrant such collection especially on a routine basis. Additionally, the requests when not shown necessary to complete regulator work, exposes large sensitive data to breaches, cyber-attacks, and confidentiality protection gaps.

Consequently, NAMIC would respectfully suggest taking a more measured approach by potentially adopting Recommendations 1 and possibly 2 and exploring the depth and breadth of those goals before moving to further adoption in these other complex and overly consumptive concepts. A step-by-step process will allow the needed transparency and discussion to create a favorable end result for all parties.

In closing, NAMIC supports the NAIC and state regulators in their goals to be more innovative in use of technology to accomplish their required goals and regulatory activity. However, much of the expansive discussion contained in the paper should require more detailed discussion with additional input from all stakeholders to make the process workable from all perspectives. NAMIC thanks the task force for consideration of our thoughts, comments, and suggestions. NAMIC looks forward to working with the NAIC and state regulators to implement a fair and meaningful regulatory system that can meet the expectations of all parties involved and garner needed support for implementation of the same.

Sincerely,

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