

NAIC Summer National Meeting Spotlights Innovation and Insurtech

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In response to the accelerating pace of change, the NAIC's Summer National Meeting in Boston focused on innovation and insurtech. The different NAIC groups discussing these topics included the Big Data (EX) Working Group (Big Data WG), the Innovation and Technology (EX) Task Force (Innovation and Technology TF), and the Life Insurance and Annuities (A) Committee (Life and Annuity Committee). The Center for Insurance Policy and Research (CIPR) was also interested in the topic, offering a summer program titled, "Can Regulation Keep up with Innovation?"

During the Big Data WG meeting, Eric Sondergeld of Life Insurance Management Research Association (LIMRA) presented on the "Use of Data for the Underwriting of Life Insurance Products." According to LIMRA's study, over the past two to three years most life insurers have started or are planning to streamline or automate their underwriting processes. Because the presentation appeared to be an eye opener, members of the Big Data WG raised a number of questions, including:

- What consumer disclosures are made about the data sources used? The regulators discussed issuing a consumer alert explaining the changes in life insurance underwriting and the types of data being considered. The Big Data WG's chair, Iowa Commissioner Doug Ommen, favored this suggestion, and promised to consider the topic in the next Big Data WG call.
- Whether the predictive models used in the automated underwriting processes are tested outside the companies?
- Whether insurers are using data from wearable devices?

In addition to discussing LIMRA's presentation to the Big Data WG, the Innovation and Technology TF discussed its efforts to understand states' readiness to deal with innovators and innovative products and to publish the names of each state's innovation contact. The Innovation and Technology TF also sought information on the issues or barriers to innovation, noting three initial

issues – anti-rebating, notice of cancellation/renewal, and e-signature. The Innovation and Technology TF is forming a small group of regulators to compile information on what states and other U.S. and foreign regulators are doing with respect to innovation. As a first step, Paul Worthington of the U.K. Financial Conduct Authority (FCA) presented on the FCA’s innovation and technology efforts, including its sandbox.

The Life and Annuity Committee seeks to use technology to aid consumers and adopted a charge to “develop an online resource on life insurance, including the evaluation of existing content on the NAIC website, to be published digitally for the benefit of the public.” To reflect the new charge, the Life and Annuity Committee agreed to change the name of the Life Insurance Buyer’s Guide (A) Working Group to the Life Insurance Online Guide (A) Working Group.

Regulators, along with industry participants, continued the innovation discussion during the CIPR’s Summer Program “Can Regulation Keep up with Innovation?” The panel, moderated by NAIC CEO Mike Consedine, included Commissioner Ommen, former Iowa Commissioner Nick Gerhart, Vermont Commissioner Mike Pieciak, Professor Chester Spatt (an MIT economist), and Julie Sherlock from startup accelerator Boost. The topics discussed included:

- **Role of regulation:** Commissioner Ommen and former Commissioner Gerhart agreed that regulation must keep up with innovation, not be ahead of it. Commissioner Ommen noted that too many rules can stifle innovation. He and Commissioner Pieciak commented that regulators and innovators need to work together, and they encouraged industry participants to speak with them about their innovative ideas. In this regard, Commissioner Ommen noted that it is better to knock on a regulator’s door than vice versa.
- **Sandboxes:** Commissioner Ommen noted that innovators need to test their ideas with regulators, though others expressed concern that time spent in a sandbox might burn all of a startup’s capital with no guarantee of regulatory approval.
- **State-based system:** Commissioner Ommen stressed the advantages of the U.S. state-based system because individual states can be used as laboratories, though they can also act collectively through national standards. He offered principles-based reserving as an example. Other panelists commented, however, that differing state laws and regulations, and even differing interpretations of the same laws and regulations, can be confusing and difficult for innovators to navigate.
- **Big data use:** Mr. Consedine and Professor Spatt discussed who owns the data — the consumer, the insurer, or the third-party who collects it? Commissioner Ommen voiced concerns regarding over-segmentation through the use of data, particularly for life insurance where insureds may have little control over certain data points.

Innovation promises to be a hot topic for the foreseeable future and brings with it uncertainty. As the regulators noted, it is too difficult to know “what an insurance policy will look like in ten years.”

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