

Innovation Whack-a-Mole

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Like a game of whack-a-mole, new or existing NAIC groups are being tasked to consider the various regulatory issues that are popping up from insurance innovation. The NAIC's activities over the summer relevant to life insurers are outlined below.

Big Data, Artificial Intelligence, and Underwriting

- The Big Data (EX) Working Group reviewed the use of data to identify potentially fraudulent claims and raised concern that some data points, such as where a consumer lives, may be suspect and potentially biased.
- The Casualty Actuarial and Statistical (C) Task Force continues to work on its “Best Practices for Regulatory Review of Predictive Analytics” white paper, which hammers out 16 best practices for the regulatory review of predictive models. Those applicable to life insurance products include the need for regulators to determine:
 - That the individual input characteristics to a predictive model are related to the expected loss or differences in risk. Each input characteristic should have an intuitive or demonstrable actual relationship to expected loss or risk.
 - That the data used as input to the predictive model is accurate, including a clear understanding how missing values, erroneous values, and outliers are handled.
 - For refreshing a predictive model, whether sufficient validation is performed to ensure the model is still a good fit.
- The new Artificial Intelligence (EX) Working Group sprang up to “study the development of artificial intelligence, its use in the insurance sector, and its impact on consumer protection and privacy, marketplace dynamics, and the state-based insurance regulatory framework.” This working group has an initial goal of developing guiding principles for regulators and making other recommendations to the Innovation and Technology (EX) Task Force (Innovation TF).

- The new Accelerated Underwriting (A) Working Group jumped up to “[c]onsider the use of external data and data analytics in accelerated life underwriting, including consideration of the ongoing work of the Life Actuarial (A) Task Force on the issue and, if appropriate, drafting guidance for the states.”

Big Data and Privacy

The Market Regulation and Consumer Affairs (D) Committee is reviewing state insurance privacy protections regarding the collection, use, and disclosure of information and considering whether the NAIC Insurance Information and Privacy Protection Model Act (#670) and the Privacy of Consumer Financial and Health Information Model Regulation (#672) need to be hit with revisions.

Chatbots

The Producer Licensing (D) Task Force is investigating the use of chatbots giving automated investment advice to consumers and intends to bang out a white paper on the topic. Potential issues include data input, algorithms, output of recommendations, choice architecture, and how the display of information may affect consumer choice.

Sandboxes

With Arizona, Kentucky, Utah, Vermont, and Wyoming having enacted regulatory sandboxes; Michigan making an innovation hotline available; and New York, North Carolina, and South Carolina introducing legislation to enact regulatory sandboxes, the Innovation TF continues to consider the role of sandboxes in fostering insurance innovation. For the benefit of the recurring discussions, the Innovation TF will better define the sandbox concept.

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