1. Consider Adoption of its 2024 Fall National Meeting Minutes

Attachment One

Director Barbara D. Richardson (AZ)

Draft: 12/4/24

Innovation, Cybersecurity, and Technology (H) Committee
Denver, Colorado
November 19, 2024

The Innovation, Cybersecurity, and Technology (H) Committee met in Denver, CO, Nov. 19, 2024. The following Committee members participated: Kevin Gaffney, Chair, and Rosemary Raszka (VT); Michael Conway, Co-Vice Chair (CO); Chlora Lindley-Myers, Co-Vice Chair, represented by Cynthia Amann (MO); Ricardo Lara represented by Ken Allen (CA); Karima M. Woods represented by Sharon Shipp (DC); Michael Yaworsky represented by Anoush Brangaccio (FL); Gordon I. Ito represented by Jerry Bump (HI); Ann Gillespie (IL); Marie Grant (MD); Jon Godfread and John Arnold (ND); Judith L. French represented by Daniel Bradford (OH); and Michael Humphreys and Shannen Logue (PA). Also participating were: Wanchin Chou and George Bradner (CT); Jake Martin (MI); Angela Hatchell (NC); Christian Citarella (NH); Elizabeth Kelleher Dwyer (RI); Cassie Brown (TX); and Scott A. White and Michael Peterson (VA).

1. <u>Adopted its Summer National Meeting Minutes</u>

Commissioner Conway made a motion, seconded by Commissioner Humphreys, to adopt the Committee's Aug. 15 (*see NAIC Proceedings – Summer 2024, Innovation, Cybersecurity, and Technology (H) Committee*) minutes. The motion passed unanimously.

2. <u>Adopted the Reports of its Working Groups</u>

   A. <u>Data Call Study Group</u>

Commissioner Godfread provided a presentation and an overview of the plans for the Data Call Study Group. The group will help regulators obtain more detailed and higher-quality data. In 2025, the group will review the three primary NAIC data collection systems from 2024 to identify challenges insurers face with data calls, including the Financial Data Repository (FDR), Market Conduct Annual Statement (MCAS), and regulatory data collections (RDC).

Commissioner Godfread said that improving the data call processes will help address data needs while minimizing the need for ad-hoc data calls. In phase 1 of the work, regulators will work with NAIC staff to conduct detailed inventories of data definitions and data called/stored by the NAIC with a later transition to receiving presentations from insurer representatives. The phase 1 membership will include regulators, drawing from across the NAIC's areas of expertise. In the later stages of phase 1, the group will broaden its membership, inviting more regulators to join and industry representatives as well.

In phase 2, the group will engineer solutions, assess staffing impact, train and support regulators, and transition to implementation. In phase 3, regulators will establish a data governance framework to address the process for revising the data model, data definition ownership, data update cadences, and data collection methods and will encourage feedback from stakeholders in identifying potential enhancements and innovations.

Peter Kochenburger (NAIC Consumer Representative) thanked Commissioner Godfread for his presentation and work on big data and AI but said he believes regulators should move on from discussing data definitions and urged regulators not to merely continue with years of study and education. Nancy Clark (Verisk) mentioned that her company has been working with regulators and data standardization to improve access and tools, and she asked

to be included as conversations progress. Clark said that her group has been working on a tool that she has shown to several meeting attendees that shows what Verisk is looking to have available to regulators to assist in their data calls.

B. Privacy Protections (H) Working Group

Director Dwyer discussed the Privacy Protections (H) Working Group's ongoing work to expose the chair draft of the *Privacy of Consumer Financial and Health Information Regulation* (#672) section by section. The Working Group went through the third-party section of Model #672 in two open meetings and then discussed the section further during a regulator-only meeting. The section was later released to the public but not through a formal comment period, allowing the public to see the document before it is exposed with a full comment period after more progress is made on the draft. The Working Group is currently working on Article 3, which includes four sections. Comments have been requested by Nov. 25. This is not a full 30-day comment period because there will be a longer comment period for the completed draft. This is to avoid prolonging the drafting process with repeated and extended comment periods.

Commissioner Godfread made a motion, seconded by Commissioner Conway, to adopt the Privacy Protection (H) Working Group's request to extend the deadline for completion of Model #672 until December 2025. The motion passed unanimously.

Commissioner Godfread thanked NAIC staff supporting this work, including Holly Weatherford, Jennifer Neuerburg, and Lois Alexander.

C. Cybersecurity (H) Working Group

Amann reported that the Cybersecurity (H) Working Group met Oct. 30, Oct. 8, and Sept. 4, Aug. 1, and May 29 to discuss the development of a cybersecurity event response notice portal that would allow regulators to centrally receive cybersecurity event responses that regulated entities submit in response to an event. This portal would be housed and maintained by the NAIC within its robust security environment. She said there are many discussions to be had on the topic, but the Working Group has had great engagement with regulators and the public about this idea. During the Working Group's Nov. 18 meeting, regulators adopted a motion to authorize the group to work with the NAIC to explore the creation of the portal. Amann asked that if the Committee has input, the Working Group would incorporate the feedback.

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

3. Adopted its 2025 Proposed Charges

Commissioner Gaffney said that since the charges were initially distributed, the posted document has been corrected, as the charges document had an extra data study group charge under the Big Data and Artificial Intelligence (H) Working Group. The data study group charge should fall under the H Committee only. Additionally, the SupTech/GovTech Roundtable is now listed as a Subgroup instead of a Roundtable to align with the NAIC's group naming conventions.

Commissioner Gaffney said regulators are shifting toward taking some additional steps to advance artificial intelligence (AI) discussions. Accordingly, to manage workloads, the Committee is disbanding two groups: the Technology, Innovation, and InsurTech (H) Working Group and the E-Commerce (H) Working Group. Commissioner Gaffney thanked the leaders of these groups.

Sarah Wood (Insurance Retirement Institute—IRI) commented that she hopes the industry will have the opportunity to raise matters previously given to the E-Commerce (H) Working Group as needs arise.

Amann made a motion, seconded by Commissioner Conway, to adopt the Committee's 2025 proposed charges (Attachment Four). The motion passed unanimously.

4. Heard a Presentation from FireBreak Risk on the Use of AI to Help Mitigate Wildfire Risk

Kate Stillwell (FireBreak Risk) discussed the concept of ember cast, a phenomenon responsible for 90% of home loss, according to firefighters. Ember cast is the occurrence of embers flying ahead of a fire, and home hardening attempts to address this phenomenon.

Stillwell showed an example of how various fence types impact house fires, which is further supported by academic research. Fire-hardened homes are 40% more likely to survive even if only partially hardened, according to researchers from the University of British Columbia and the University of California San Diego.

FireBreak Risk assists insurers by providing data to identify mitigated homes which supports mitigation discounts and offers insurance in previously uninsurable areas. Stillwell noted that many home hardening details can only be seen from an on-the-ground view which requires self-inspection given the scale of inspections needed. While some home hardening assessments can be viewed aerially or via satellite, many home hardening details, such as the wood under a deck or mesh on vents, cannot be seen via those mechanisms.

FireBreak Risk provides a self-inspection application that policyholders use to help them understand the most significant mitigation actions, and many of them can be done directly by the policyholder with relative ease. The application is AI-powered and helps compile data based on images of property attributes which insurers and policyholders can use to assess and mitigate risk. FireBreak Risk uses a combination of vendor AI models and internally developed models. Its technology can detect and categorize objects, rank risk level, and suggest images of features that could help reduce risk.

Property attributes are rated on a four-tier scale (poor, good, better, best). Working with insurers, FireBreak Risk maps attribute according to building standards to help assess risk. The company is an early-stage startup, but insurers are already using its models to mitigate risk. Stillwell closed by expressing a desire to work with regulators to strengthen the availability of insurance and protect consumers.

Commissioner Gaffney asked if FireBreak Risk has learned any lessons as they have developed and deployed its technology. He asked if any of the attributes that are considered change as part of the development process, for example. Stillwell said they learned that perfect cannot be the enemy of good. Insurance underwriters need to understand that compliance with home building standards can be difficult but that encouraging risk mitigation, even if gradual, can be meaningful. She also explained that carriers are not always prepared to assess every property attribute, but they do use the overall assessment rating to determine if homeowners and their property meet or exceed standards. FireBreak Risk initially thought that risk selection and underwriting profitability would drive insurer adoption, and then it realized that customer engagement is driving the company's business, as the

application allows insurers to interact with policyholders in a beneficial way leading to better engagement and increased use of the application.

Chou discussed the many wildfire modelers and asked if FireBreak Risk has worked with modelers to see if the modeler's data on risk is consistent with FireBreak's view of risk. Stillwell said that FireBreak Risk has engaged with modelers, including CoreLogic, to understand how FireBreak's data adapts and modifies when used by underwriters. FireBreak Risk looks for similar engagement with other modelers as well.

Bradner asked how Firebreak Risk verifies continued compliance in the assessed properties. Stillwell said that insurers drive that decision, and FireBreak recommends that insurers require a reinspection at the time of renewal and before the start of wildfire season, as many property attributes change over the course of the year. Bradner asked if there were plans to work on a flood-related application. Stillwell said that it would not be in 2025 until clients raise interest.

5. <u>Heard a Presentation from InsurTech Coalition Members on the Responsible Use of AI</u>

Jennifer Crutchfield (Clearcover) said that Clearcover is a private passenger auto (PPA) carrier operating in 19 states as a fully licensed insurance carrier that is also expanding to include a reciprocal exchange structure.

Crutchfield played a video showing the power of AI via its TerranceBot application, which the company refers to as Terry. The application helps claims representatives and adjusters through the claims process. Terry can summarize a claim, answer specific questions about a claim, and help draft correspondence with customers.

The company also has customer-facing generative AI capabilities through the recent launch of "DiSCoBot," which is short for Digital Statement Collection. Claims representatives sometimes need to collect extensive information, and DiSCoBot helps to automate the information-gathering process. DiSCoBot mimics the judgment of a claims representative and asks tailored questions as the process proceeds.

Before consumers interact with DiSCoBot, consumers are informed the application is AI-based and are given the opportunity to opt in. Clearcover reports a 73% opt-in rate. Clearcover works with a third party to test DiSCoBot for bias in addition to the company's own testing and monitoring. The company monitors for hallucination rates, robotic responses, and correct exit criteria among other attributes. The company also monitors for shifts or drifts in the model response. Crutchfield closed by saying that Clearcover understands that AI is a powerful tool and is committed to incorporating consumer feedback and improving transparency to build a trusted relationship with both consumers and regulators.

Scott Fischer (Lemonade) presented on Lemonade's AI governance. Fischer said that Lemonade started developing a governance framework by working with Tulsee Doshi, who was formerly with Google, and involves a cross-disciplinary group of employees including data scientists and compliance-oriented professionals.

The governance framework discussion started with a recognition that AI represents a new and more powerful suite of tools even beyond generalized linear models, allowing companies to assess and use data in new and complex ways, creating the need to operate with great responsibility. He said the governance framework is built to provide every user with equal opportunity and to lead the industry as a trusted insurance partner. Lemonade designed its framework to ensure consumers with similar risk profiles get similar access to products and the opportunity to claim losses, and it ensures that models adhere to policies and are held accountable. The framework was based on the National Institute of Standards and Technology (NIST) Framework.

Lemonade has an AI responsibility committee with broad and senior representatives from across the company, including the parent company's CEO. This committee establishes guidelines and principles, advises and reports to the company's board of directors, and oversees the company's AI working group, which implements what the AI responsibility committee has approved.

A key tenant of the framework includes a clear definition of what is in scope and, thus, what counts as a model. At Lemonade, the definition of a model includes models that are broader than intended in Lemonade's interpretation of the NAIC's *Model Bulletin on the Use of Artificial Intelligence Systems by Insurers*. Lemonade's governance starts by categorizing data into high, medium, and low sensitivity tiers. High-sensitivity data includes protected class information. Low-sensitivity data includes attributes of insured items or data that are easily verifiable with medium-sensitivity data. These categorizations drive the degree of oversight for each model. High-sensitivity models typically are those that impact a customer's ability to access insurance or claims. Low-sensitivity models predict attributes of pets or properties. Medium-sensitivity models are models with humans in the loop and include any model with telematics. Fischer said he believes all of this structure aligns well with Section 3 of the NAIC's model bulletin.

Lemonade has a model governance process that consists of a model governance checklist that calls on the company to explain the model, its data, intended uses, and other key pieces of information. The company has also created model cards to nimbly explain each model by describing the purpose and treatment, data sampled, features used, performance, and key figures specific to each model.

Commissioner Gaffney thanked the presenters and said he appreciated the comparison of their governance framework to the NAIC's model bulletin. Director Richardson asked Crutchfield about Clearcover's view of acceptable hallucination rates. Crutchfield said that Clearcover does not have an acceptable hallucination rate with even one hallucination causing a pause in the use of a given model. Crutchfield said that hallucinations occurred in training but have not occurred frequently since training.

Peterson asked about the human-in-the-loop concept and how Lemonade decides when to involve humans. Fischer said the decision is based on the use of risk and the sensitivity of the model. If the model is focused on verifying facts, such as dog breed and roof age, the need for a human may be less as opposed to a model related to claims. The assessment is based on the impact on consumers. Miguel Romero (NAIC) asked how Lemonade developed a metric threshold for any of the cited examples (hallucination rates, robotic response, correctness criteria, etc.). Crutchfield said she would have to get back to the Committee after consultation with the company's data scientists, but she knows a flag is raised with every instance related to the criteria. Fischer added that he would like the actuarial community to advance the discussion in setting objective thresholds for industry best practices. For instance, the New York State Department of Financial Services has issued a circular letter that calls for a disparate impact standard, but it is unclear what the specific threshold would be. Romero asked about the design of the model cards and decisions on what information to include. Fischer said that the company learned from best practices of other tech companies and drew on publicly available information in consultation with Doshi.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/H CMTE/2024_Fall/H-Minutes/Minutes-H-Cmte111924-Final.docx

2. Consider Adoption of the Third-Party Data and Models (H) Task Force 2024 Fall National Meeting Minutes

Attachment Two

Director Barbara D. Richardson (AZ)

Draft: 11/27/24

Third-Party Data and Models (H) Task Force
Denver, Colorado
November 18, 2024

The Third-Party Data and Models (H) Task Force met in Denver, CO, Nov. 18, 2024. The following Task Force members participated: Michael Conway, Chair (CO); Michael Yaworsky, Vice Chair, and Anoush Brangaccio (FL); Lori K. Wing-Heier (AK); Mark Fowler represented by Richard Fiore (AL); Barbara D. Richardson and Tom Zuppan (AZ); Ricardo Lara represented by Ken Allen, Esteban Mendoza, and Chandara Phanachone (CA); Andrew N. Mais represented by Wanchin Chou (CT); Gordon I. Ito represented by Jerry Bump and Kathleen Nakasone (HI); Doug Ommen (IA); Dean L. Cameron represented by Weston Trexler and Shannon Hohl (ID); Ann Gillespie and Shannon Whalen (IL); Vicki Schmidt represented by Julie Holmes (KS); Timothy J. Temple represented by Tom Travis and Caleb Malone (LA); Michael T. Caljouw represented by Jackie Horigan (MA); Marie Grant (MD); Robert L. Carey represented by Sandra Darby (ME); Grace Arnold represented by Phil Vigliaturo (MN); Chlora Lindley-Myers represented by Cynthia Amann (MO); Jon Godfread and John Arnold and Colton Schulz (ND); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper and Brandon Rocchio (NV); Adrienne A. Harris represented by Wayne Longmore (NY); Judith L. French represented by Dan Bradford and Matt Walsh (OH); Michael Humphreys and Shannen Logue (PA); Elizabeth Kelleher Dwyer and Beth Vollucci (RI); Michael Wise and Melissa Manning (SC); Cassie Brown and J'ne Byckovski (TX); Kevin Gaffney and Rosemary Raszka (VT); and Nathan Houdek and Andrea Davenport and Amy Malm (WI).

1. Adopted its Oct. 10, Sept. 11, and Summer National Meeting Minutes

The Task Force adopted its 2025 Proposed Charges by e-vote on Oct. 10. The Task Force met Sept. 11. During this meeting, it took the following action: 1) heard a presentation from the European Insurance and Occupational Pension Authority (EIOPA) on the supervisory review and requirements for Solvency II's initial models (IMs).

Brangaccio made a motion, seconded by Director Wing-Heier, to adopt the Task Force's Oct. 10 (Attachment One), Sept. 11 (Attachment Two) and Aug. 13 (*see NAIC Proceedings – Summer 2024, Third-Party Data and Models (H) Task Force*) minutes. The motion passed unanimously.

2. Heard a Presentation on Current State Solutions to Regulatory Issues With Third Parties

Chou reported that since early 2024, the Connecticut Insurance Department (CID) has asked each insurance company that has performed sophisticated modeling to submit a separate filing of the model(s). The CID's second approach is contracting out consultant actuaries with the Certified Specialist in Predictive Analytics (CSPA) designation in predictive modeling to help review the modeling work, which is then peer-reviewed by the CID to ensure consistency and improve the speed of review. The third approach is that the CID works with the NAIC to benefit from its predictive modeling review database. The CID has also begun to build a predictive modeling database to keep track of the modeling review work.

Byckovski reported that about four years ago, the Texas Department of Insurance (TDI) issued a commissioner's bulletin (#B-0036-20) to regulated entities and agents, reminding them that if a third party provided data, the regulated entity remains responsible for the accuracy of that data when used in rating, underwriting, and claims handling. The bulletin states that the TDI may pursue enforcement action against an insurer if the use of inaccurate third-party data harms policyholders. Like many states, the TDI licenses advisory organizations that can file

supplementary rating information for review. However, there is no mechanism for third-party vendors to submit filings with the TDI unless they are licensed as an advisory organization. Last year, the TDI amended filing requirements for property/casualty (P/C) rate filings and underwriting guidelines to address insurers' increasing use of third-party data and models, effective January 2024. Insurance companies are now required to include a description of how third-party data was used in rate making or underwriting, the name of the data vendor or source, a description of the data, such as a data dictionary, and a list of the rating variables and underwriting guidelines that reflect the use of that data. The requirements are similar for third-party models—filings must include a description of how the model output is used in setting rates and in underwriting, the name of the model vendor or source, the model name and version number, a description of the model, a description of the model input, and a list of the rating variables or underwriting guidelines that depend on that model's output.

Vigliaturo asked whether the framework for the TDI bulletin applies only to licensed third-party vendors or any third-party vendor. Byckovski responded that the bulletin holds regulated entities and agents responsible for faulty third-party data.

Commissioner Ommen asked whether filing entities include advisory organizations and entities other than the insurance companies. Byckovski responded that advisory organizations are expected to submit information on any third-party data used in the development of prospective loss costs or supplementary rating information, as well as any third-party models that might be blended into their supplementary rating information.

Darby reported that the Maine Bureau of Insurance (Bureau) has taken a similar approach to Texas and Connecticut. She noted that because the Bureau has not issued a bulletin, it has a temporary solution to the issues from data and models supplied by third parties. Third parties are sometimes treated as advisory organizations because they are just modeling telematics or one item of a rating algorithm, where the model(s) output resembles more of a categorization than actual rating factors. In this case, the Bureau has allowed third parties to file outside of the insurance company's filing so that it can perform a thorough review to ensure that requirements of Maine state law and review the model using the generalized linear model (GLM) checklist (if applicable). The Bureau always asks how a consumer can correct information if it is provided in error.

McKenney reported that the Pennsylvania Insurance Department (PID) is currently pre-vetting a draft regulation on unknown or missing risk classifications. By executive order from 1996, the PID pre-vets regulations with stakeholders before being published for the formal comment process. McKenney presented an example where rating factors are filed for the classification where the driver's age is unknown. Other examples include rating factors for unknown rating territories, marital status, years at the current residence, number of doors on a car, and number of years in business (in commercial lines). McKenney stated that this could be caused by the industry's increasing use of unregulated third-party vendors. The PID is not currently regulating third-party vendors and expressed concern about whether certain socio-economic group(s) may be missing from input databases used for modeling, resulting in unfair rate discrimination when differences in rates are based on something other than differences in expected losses and expenses.

McKenney showed examples where rating factors were assigned to an unknown risk classification category for: 1) the number of residences lived in within the prior 10 years, which may result in a 12% higher premium; 2) home dwelling age, which may result in 347% higher premium; and 3) roof type, which may result in 54% higher premium. The PID draft regulation states that if an insured characteristic is missing from a third-party vendor's database, the applicant should be asked for the missing characteristic(s). The applicant should not be rated on something that cannot be provided. Then, if the policyholder does not respond, it is okay to use unknown or missing categorization. In the PID draft regulation, lack of a credit history is generally regarded as a valid class of

risk. He then stated that while several states only have advisory organizations in their laws, others define rating and advisory organizations separately. Rating organizations are issued licenses, file loss costs, class plans, rating rules, and sometimes policy forms. McKenney concluded with the following points: 1) there are over 100 unique third-party vendors used by P/C insurers; 2) more data is being used than ever before; 3) the use of the data is going to continue to increase and become even more complex; 4) validating third-party data for accuracy and bias is often not happening because of proprietary concerns; and 5) vendors are helping insurers classify risks.

Dave Snyder (American Property Casualty Insurance Association—APCIA) expressed appreciation for Pennsylvania bringing forward the issue of regulating data and models provided by third parties. The APCIA has expressed concerns about unintended consequences for consumers, such as delaying binding, certain definitions in the draft rule, and the practicality of certain other elements of the rule. However, the APCIA looks forward to further discussions with the PID. In the meantime, the APCIA urges the Task Force to see what lessons can be learned from the PID.

Nick Krafft (New York State Department of Financial Services [DFS]) discussed Insurance Circular Letter No. 7 concerning the use of artificial intelligence (AI) and external data by insurers in their underwriting and pricing processes, which the New York DFS issued in July 2024. This circular letter explains the expectations of the DFS for appropriate risk management around the use of AI and external data, focusing on three areas: 1) fairness; 2) governance and risk management; and 3) transparency and disclosure. The New York DFS developed this guidance recognizing that, as with other new technologies, insurers will be reliant on third-party vendors to help develop and implement AI systems and often develop underlying models. These third-party issues are addressed in the risk management section, where guidance makes it explicit that insurers retain responsibility at all times. Consistent with the NAIC *Model Bulletin on the Use of Artificial Intelligence Systems by Insurers* (AI Model Bulletin), the circular letter states insurers are expected to develop written standards, policies, and procedures concerning their use of external data and AI systems sourced from third parties, which includes due diligence of the third party, ongoing monitoring, as well as termination of the relationship. The circular letter guidance provides that, whenever possible, insurers should seek audit rights and require cooperation by the third party with regulatory inquiries. The fairness section of the guidance addresses how insurers can use external data in AI to avoid discrimination, which involves assessing both inputs and outputs. External data from third parties should be evaluated to determine whether it is correlated or is a proxy for a protected class in a way that may result in unfair or unlawful discrimination. Regarding model outputs, insurers should undertake a comprehensive assessment to evaluate whether underwriting or pricing guidelines rely on AI or external data, which results in unfair or unlawful discrimination. The circular letter outlines the steps insurers should go through to undertake that analysis.

3. Heard a Presentation from NAMIC on Defining Third-Party Data and Model Vendor

Lindsey Klarkowski (National Association of Mutual Insurance Companies—NAMIC) stated that NAMIC appreciates the Task Force's work on the issue of third-party data and model vendor regulation. She noted that at the conclusion of the Sept. 11 meeting, the Task Force indicated that it was ready to start setting forth regulatory structures for consideration. NAMIC encouraged the Task Force to revisit the scope and definition of "third-party data and model vendors." NAMIC wishes to consider categorizing models by type as a necessary first step and must define the scope of third-party data and model vendors considered since insurers use a vast spectrum of third-party data and model vendors, considering their different structures, purposes, use cases, and levels of regulatory concern over the risk that may be involved. She stated that defining where the concerns lie for the Task Force and the problem it intends to solve can help the industry provide more meaningful and targeted feedback on how these relationships currently work and steps that could be taken to improve regulatory comfort.

Klarkowski urged the Task Force to: 1) determine whether it is the intent for all third-party vendors to be licensed with each department, which may create a significant enforcement burden on staff; 2) first review NAIC guidelines already in use, for example, Guideline 1090 (Registration and Regulation of Third-Party Administrators) and Guideline 1780 (Property and Casualty Model Rating Law), which includes a definition for advisory organizations; and 3) strive for consistency within the Accelerated Underwriting (A) Working Group, Pharmaceutical Benefit Management Regulatory Issues (B) Working Group, and Privacy Protections (H) Working Group.

Chou commented that the definition of third-party within the Accelerated Underwriting (A) Working Group, the Pharmaceutical Benefit Management Regulatory Issues (B) Working Group, and the Privacy Protections (H) Working Group only pertain to specific purposes of those work efforts, and noted that it is fair game for state insurance regulators to be concerned with regulating the whole industry, including third-party vendors and data governance practices.

Amann noted that Chapters 16, 29, and 30 of the Market Conduct Handbook go into great detail about exam standards regarding the use of external data and information collected outside of an application used in the rating of a policy, and there is a third-party questionnaire in the handbook.

Commissioner Yaworsky clarified that the Task Force is not interested in whether insurers use Google. There is less concern about the use of third parties in back-end operations or within the functioning of the company itself; rather, the concern is within the areas of rating, claims handling, settlements, and other things. Based on the wildly varying estimates of insurer damage from Hurricane Milton, it is important for the consumer's benefit to understand what AI systems are doing, how they are regulated, and that there are people who know how they work and who are making decisions.

Commissioner Ommen asked whether NAMIC had insights on how the Task Force should address whether unlicensed organizations should be filing submissions. Klarkowski responded that advisory organizations may not cover the totality of the concerns of the Task Force and urged it to determine which organizations are of concern.

Amann noted that the Catastrophe Insurance (C) Working Group finished its CAT Modeling Primer, which could be another useful source for defining third parties.

4. Discussed its Next Steps

Commissioner Conway stated that a survey will be issued to Task Force members to gather information about concerns arising from existing third-party models. There may be value in considering a two-step approach where the first step is to identify which risks in which markets and states are of most concern, and the second step is to determine how to develop a robust plan to develop a regulatory framework for third-party models, whether through insurers themselves or through another existing tool.

The Task Force will meet in December or shortly thereafter.

Having no further business, the Third-Party Data and Models (H) Task Force adjourned.

Member Meetings/H CMTE/2024_Fall/TF-thirdparty/Minutes thirdPartyDMTF FNM 111824.docx

3. Consider Adoption of its Task Force and Working Group Reports

Attachment Three

Director Barbara D. Richardson (AZ)

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

2025 Spring National Meeting
Indianapolis, Indiana

BIG DATA AND ARTIFICIAL INTELLIGENCE (H) WORKING GROUP
Tuesday, March 25, 2025
11:00 a.m. – 12:00 p.m.

Meeting Summary Report

The Big Data and Artificial Intelligence (H) Working Group met March 25, 2025. During this meeting, the Working Group:

1. Adopted its March 11 minutes. During this meeting, the Working Group took the following action:
   A. Adopted its 2024 Fall National Meeting minutes.
   B. Received an update on the health artificial intelligence (AI)/machine learning (ML) survey.
   C. Reviewed its 2025 charges, including those of the AI systems evaluation workstream.
   D. Discussed updates to the regulatory framework for the use of AI systems.
   E. Discussed a preview of its Spring National Meeting agenda.

2. Heard a presentation from Commissioner Michael Humphreys (PA) and Shannen Logue (PA) on the health AI/ML survey. The survey was conducted under the market examination authorities of 16 requesting states (CO, CT, IA, IL, LA, MD, MN, ND, NE, OK, OR, PA, VT, VA, WI, and WV) and completed by active insurers that either: 1) wrote business in one or more of the participating 16 states and had at least $250 million in countrywide earned premiums in 2023; or 2) held a significant market share in one or more of the participating states. The Working Group anticipates the full report will be available for the public in April.

3. Received an update from Commissioner Humphreys and Commissioner Doug Ommen (IA) on the regulatory framework for the use of AI systems. They outlined a road map for ensuring the responsible use of AI. The Working Group received input from state insurance regulators, consumer representatives, and industry representatives. It will continue to discuss evaluation tools, including a standardized self-assessment questionnaire, to help assess how AI is used within insurance companies.

4. 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.

4. Consider Adoption of its Revised Committee Charges

Attachment Four

Director Barbara D. Richardson (AZ)

Revised Committee Charges

1. The **Third-Party Data and Models (H)** ~~Task Force~~ <u>Working Group</u> will:
   A. Develop and propose a framework for the regulatory oversight of third-party data and predictive models.
   B. Monitor and report on state, federal, and international activities related to governmental oversight and regulation of third-party data and model vendors and their products and services. Provide recommendations to the Innovation, Cybersecurity, and Technology (H) Committee regarding responses to such activities.

5. Receive a Presentation by Travelers on the Responsible Use of Artificial Intelligence (AI)

Attachment Five

David McMichael (Travelers)

Travelers Responsible Artificial Intelligence Framework

People-Centric	Fair	Responsible	Trustworthy
Human Oversight and Judgment AI is designed to augment, enhance or replace the human decision-making process, subject to appropriate human oversight and judgment.	**Lawful** We follow the laws and regulations applicable to our business.	**Accountable** We adhere to Travelers' guidelines and policies and ensure AI advances our mission and purpose.	**Transparent** We provide appropriate disclosures to relevant stakeholders when we are using AI.
Privacy and Security We implement AI in a way that respects privacy and applies appropriate security controls.	**Fair Access** We provide fair access to our products and do not unlawfully discriminate based on legally protected characteristics.	**Governed** We ensure that appropriate governance exists for AI development, implementation and assessment.	**Explainable** We implement AI with the appropriate level of explainability for the use case and stakeholder.
Diverse Perspectives We solicit perspectives from people of diverse disciplines, experiences, and areas of our organization in the development, implementation and assessment of AI.	**Mindful of Potential Bias** We are mindful of potential bias throughout the AI lifecycle.	**Monitored** We monitor the AI ecosystem to ensure that AI models are functioning as intended.	**Proportional** In seeking to apply the appropriate solution for each use case, we are judicious in our use of AI, guided by our mission and purpose.