Global Insurance Supervision:
The Future (Re) Insurance Landscape: Different Perspectives, Inspiring Dialogue
Keynote Address by Commissioner Ted Nickel
“Scene Setting: Consumer Protection in the 21st Century”
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2:00-2:30 PM

Thank you for the opportunity to be here today. Consumer protection, along with solvency monitoring, is one of the two pillars of our regulatory framework in the U.S., and I’m happy to have the chance to discuss some global trends along with current and anticipated opportunities and challenges we are seeing in the U.S. as they relate to protecting policyholders. Innovation and technology, as well as consumer expectations, are rapidly reshaping the insurance marketplace and emerging companies are increasingly disrupting the status quo.

We face a tidal wave of change unlike anything we have experienced in the long history of insurance. This transformation is fueled by seismic shifts in technology, changing consumer demands and an ever expanding global market. Adding to this, we see life insurers grappling with low interest rates over a long period, more severe weather events impacting property insurers,

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a looming retirement and savings crisis, and a concerning trend of higher claims costs for auto insurers.

The challenge for supervisors is to balance critical consumer protections with the demand for innovation and the need for a stable, competitive and fair playing field. Policyholder needs and expectations, when considered with technological advancements, naturally lead to the introduction of new products, which of course is a good thing. In response, we must keep pace with changes so effective insurance regulation continues to provide necessary protections for policyholders and the industry. One important aspect is increased awareness of resources for consumers.

Resources for Consumers

Insurance companies know there is a reputational risk associated with non-compliance with consumer protection laws. A lack of confidence in a specific company or the industry as a whole can, in turn, have a detrimental impact on a company's ability to have sustained growth in the sector, leaving people underinsured. This is why consumer protection and strong market conduct standards are paramount to maintaining a vibrant insurance industry in our respective insurance markets.

One of the most important roles for us as regulators is to resolve concerns and empower consumers with information to make

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educated financial decisions. U.S. regulators have established toll-free hotlines, websites and special service units to handle complaints against insurers and producers. We created an online database where individuals can file a complaint, report suspected fraud and access information about insurers. Last year, state insurance departments handled two million inquiries and more than three hundred thousand formal complaints. Supervisors worked with claimants, policyholders and insurers to resolve disputes. The NAIC collects and aggregates state consumer complaint data and shares this with all regulators. This aggregated data serves as an effective early warning system to identify possible market conduct trends as well as possible solvency concerns. Often the sign of a financially struggling insurer is the slow payment or handling of claims.

State insurance departments also host seminars and publish brochures and buying guides. NAIC supplements state education efforts through our "Insure U" program which serves as a public education initiative for consumers and directs them to state resources.

InsurTech

As I mentioned, the insurance marketplace is in a constant state of flux due to dramatically changing demand and new products

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coming online to meet demand. It’s difficult to say which new products will enter the marketplace or when. We have seen recently how expectations and technology transform how consumers function - conducting banking transactions, purchasing airline tickets, reserving hotel rooms or even buying household goods and food. It should surprise no one these changes in consumer behavior will increasingly move into the insurance distribution channel. While how we purchase insurance will vary by line, we see many insurers enhancing their use of technology for marketing and product delivery to remain competitive.

As regulators, we have a desire for new technologies to come to market if they can improve the business of insurance by more accurately pricing risk, meeting policyholder needs with more efficiency or bringing insurance products to a broader segment of the population. But we must work hand in hand with companies. Statutes and regulations must be followed to ensure consumers are not harmed.

U.S. regulators have been reaching out to startups early in the process so companies understand the regulatory landscape and we can verify they are following laws and regulations. Some indispensable regulatory requirements include proper licensing and adherence to states’ unfair trade practice standards. U.S.

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regulators are mindful of innovations which will benefit consumers and markets. Thus we are learning where it may be helpful to be more open to changes embracing innovation.

We are exploring new approaches to enable and facilitate dialogue between regulators and innovators earlier in the development. There are numerous opportunities to collaborate for the benefit of the policyholder, including exploring “regulatory sandboxes” to lower barriers to market where appropriate. The goal is to allow new technologies to be evaluated by regulators earlier in the life cycle so products can be offered while still protecting consumers. We have a duty to fulfill our obligation to make sure insurance companies are able to meet their financial obligations through claims payment and ensure policyholders receive fair treatment. However, we don’t want to impede the development and availability of innovative products.

As an international community, regulators should work together to understand how various jurisdictions are developing and implementing sandboxes. We have much we can learn from one another in this area. We need to ensure innovation sandboxes don‘t create an environment of regulatory arbitrage. At the same time, if we see a successful result coming out of these well-regulated innovation laboratories in different countries, then we

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should explore how to fast-track pro-consumer innovations to other countries.

We have great challenges before us in keeping up with the rapid technology driven changes in the industry. For example telematics, using technology to measure driving behavior in underwriting, is driving change in the industry. Further, home insurers are using smart devices, like ones to detect water or gas leaks, to determine a home's risk and potentially limit losses after an event.

Seeing the business value, insurance companies aren't just giving discounts for those who use these devices. They are investing in the devices directly and through innovation labs. This investment increases efficiency, improves marketing, allows more accurate pricing, and helps consumers protect their assets. So while it is recognized these innovations can have great benefits, we as regulators need to make sure there are no unintended consequences leading to harm.

Big Data

Another way technology is revolutionizing the insurance industry is through the use of big data. Information is more readily available and insurers are finding unique ways to use it. As data becomes cheaper and easier to obtain, insurers are using analytic

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tools to assess risk and predict future losses. Companies are increasingly collecting nontraditional data to assist with ratemaking, underwriting, claim settlement and other insurance functions.

With emerging data use and predictive analytics, companies using complex models for marketing and pricing will further engage policyholders throughout the life of the insurance product. For example, companies will likely build stronger customer relationships by greater interaction with their customers for risk management purposes. Examples include insurers sending alerts about imminent severe weather with the potential to damage their property, or coaching consumers regarding health and lifestyle changes based upon feedback from “wearables.”

As more and more functions become automated, data collected electronically can lead to some amazing insights — provided it is stored in ways useful for analysis. Having a lot of information does not automatically mean an enterprise is able to effectively use the massive amount of data or convert it to useful information. But properly managed, this information can improve how an insurer does business. This can be beneficial for the insurer and its customers. It also has the potential to be disruptive and may not be in the best interest of the market broadly.

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Consumer and environmental organizations generally support pay-by-the-mile and usage-priced insurance, because these programs reduce the costs for those driving fewer miles. However, some believe the telematics-based auto insurance programs are not transparent, so they have no idea how the programs quantify risk or what they can do to lower the premium price. Policyholders benefit from greater transparency and proactive feedback to modify driving behavior to reduce costs. Some consumer advocates maintain telematics programs fail to achieve the critical loss mitigation role of insurance pricing because of the opaque nature of the scoring models.

For insurers, big data assists in mitigation and allows the company to more accurately price risks - in some cases down to the individual policyholder. However, there are concerns as pricing is done at a more granular level. Actuaries are considering whether reducing the size of the risk pool is indeed beneficial for the overall market. As insurers push for more accurate pricing through the segmentation of risks, there is the real possibility certain types of insurance would become unaffordable for a segment of the population. This may lead to an increase in residual markets or unintended discrimination.

We need to be mindful as we evaluate the increase in the number of risk classification factors used by insurers. NAIC is evaluating

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the use of models and predictive analytics to determine if any regulatory changes or enhancements need to be made while identifying the potential for harm. NAIC is gathering information to gain a clear understanding of what and how information is collected. We need to understand how it will be used by insurers and third parties. This review includes an evaluation of concerns and benefits for consumers, as well as the ability to ensure companies are following state statutes and regulations.

When properly managed, big data can improve how an insurer does business and benefits policyholders but as regulators we have an obligation to verify consumers are treated fairly. While innovations are allowing insurers to use data to price more accurately we have to be sure there are no rating factors used, either directly or as a proxy, which violate laws or unfairly harm consumers.

This is another area where regulators across the globe have an opportunity to share resources and best practices. To understand many of these new data driven rating models, we will need to call on non-traditional insurance skill sets such as data scientists and coding analysis. Our largest and most sophisticated state regulatory agencies in the U.S. are already struggling to keep up in this area. We‘ve been candidly told by some insurers their rating models are just too complicated to be understood by state regulators, and in some cases, even their own senior management. That something is “too complex“ does not give it a free pass from regulatory scrutiny, if anything based on history and experience, it should serve as a caution to regulators and companies alike. We continue to encourage companies to engage with their regulators in providing a transparent and open environment in which we can understand these developments. It is in everyone‘s best interests for regulators to be making informed decisions.

There are additional concerns about the sensitivity of information collected and, with recent security breaches, how this information is safeguarded. Maintenance of consumer privacy and the security of policyholder information are critical to confidence in insurers. This brings me to the next challenge we face when protecting those we serve - cybersecurity.

Cybersecurity

As consumer financial and health information is increasingly stored in electronic form, cybersecurity risks have become more significant. Insurance companies are particularly attractive targets for hackers, due to the amount and sensitivity of data they collect.

U.S. supervisors continue to focus on enhancing data security expectations. This will set best practices to ensure insurers and

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producers are adequately protecting the many kinds of highly sensitive consumer financial and health information they retain.

NAIC has a dedicated task force to coordinate our efforts to address cybersecurity issues. Our work to date includes regulatory guidance, financial examination protocols and, most relevant for today's discussion a new model law, the *Insurance Data Security Model Law*. This model law builds upon a few existing NAIC models addressing data privacy and protection. It establishes risk-based standards for data security, including oversight of third-party service providers, and establishes standards for investigation of and notification to the Commissioner of a cybersecurity event.

In addition to being responsible for their own cybersecurity, insurers are now underwriting commercial cybersecurity policies for others. The global market for cyber insurance purchased by businesses is growing – and quickly. Cybersecurity insurance is a relatively new product and collecting information regarding its penetration is vital to understanding the cyber insurance market. In 2015, the NAIC developed the *Cybersecurity and Identity Theft Coverage Supplement* for insurer financial statements to gather financial performance information about insurers writing cybersecurity coverage nationwide. The supplement requires separate reporting of both standalone policies and as part of a package policy. With this data, regulators are better able to report on the cyber insurance market and identify trends. This will inform us whether more tailored regulation is necessary.

Just as insurance sales in other sectors can drive best practices, this new segment should help set standards for policy coverage, steering policyholders to better protect the data they are responsible for. Again, we embrace the innovative and entrepreneurial spirit driving companies to create products such as cyber insurance to mitigate against new and developing risks. As a community of regulators, we must be vigilant in ensuring companies are disciplined in their underwriting and rating of cyber-insurance products. A major cyber-attack in any one of our countries would not only have a material financial and operational impact on their business and consumers, but it could raise systemic issues for the insurance sector more broadly.

Let me now pivot to another area where maintaining strong consumer protections are paramount, natural disasters.

Natural Disasters

Natural disasters are a fact of life. Just two weeks ago we saw one of the worst hurricane and flooding events in U.S. history strike Texas causing [loss of life -----] and [billions??] of dollars in damage - much of it flood related, not covered under most

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homeowners policies in the U.S. Unfortunately, as we saw with Hurricane Harvey, after periods of relative calm, consumers have a tendency to become complacent when substantial time has passed between catastrophes. However, when a major disaster strikes, as it just did in Texas, interest in insurance ticks up, especially when individuals find themselves uninsured or with insufficient coverage.

There are a number of perils we consider to have the potential for catastrophic loss: hurricanes, floods, wildfires, earthquakes, tornados, hail and wind – just to name a few. It’s too easy to underestimate the likelihood of becoming a victim or put off purchasing coverage.

There are a couple of important steps we can take to enhance the use of insurance starting with education. In the U.S., regulators use websites, provide schools with educational materials and in person meetings at local fairs and senior centers. The younger generation however, may not read often dry written materials on insurance. Consequently, in addition to leveraging social media platforms, we should be open to new ways to engage with consumers and tailor information in ways to make it interesting. Through events and materials, we communicate the need to purchase appropriate coverage, provide information on how to purchase, help consumers understand their policy, alert them

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what to look for in a company, as well as provide pre- and post-disaster information and assistance. Regulators will often go into disaster sites to provide assistance to help with filing claims, working with adjusters and preventing insurance fraud. We work with first responders and assist with communications about the role of insurance in recovery.

Insurance is an important mechanism allowing communities to rebuild following a catastrophic event. However, it is just one tool. Resilience planning should be integrated with other planning efforts in a community, such as land-use plans and hazard mitigation plans, to leverage efforts without duplication and ensure effective response and recovery. It is readily apparent communities cannot rebuild in the same places and in the same ways and expect different results. We are working with lawmakers to encourage improvements to building codes to minimize potential damage before a disaster occurs. Studies show every dollar spent on mitigation saves four dollars in future losses. I'm sure the cost/benefit ratio and net savings would be similar in Europe and elsewhere.

Retirement Security

Speaking of planning, there is another area U.S. regulators are working to protect consumers. As a growing proportion of the population is reaching retirement age, it is also living longer, increasing the risk of outliving retirement assets. This could result in a lower standard of living, reduced care or necessitating a return to employment. We've combined our efforts in this area with an initiative we call Retirement Security.

We are committed to enhancing retirement security through education, consumer protection and innovation. Retirement security encompasses a broad spectrum of financial tools, including insurance-related products and services such as life insurance and annuities, long-term care and the manner in which these products are marketed and sold.

As previously mentioned, education is the first and best resource for consumer protection. U.S. supervisors encourage purchasers to collect information, ask questions and check with their state insurance department before buying or changing policies. We are working to develop effective materials to help improve financial literacy. Through partnerships with other associations, we are working to enhance outreach to help consumers make informed financial decisions.

According to Consumer Reports, there is more than one billion dollars in unclaimed and lost life insurance benefits in the U.S. The NAIC created its Lost Life Policy Locator tool to help connect

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beneficiaries to lost policies and annuities. The tool has already helped many receive money owed from life insurance companies.

Our goal with these measures is to protect consumers and allow industry to develop products to meet their needs and better position individuals for retirement.

Conclusion

Consumer protection is not a trend and should always be the focus of our collective work. It's been our focus at the NAIC for 150 years and is the foundation of the work of U.S. insurance departments. The supervisor sets requirements for the conduct of the business to ensure customers are treated fairly, before a contract is entered into and through the point at which all obligations under a contract have been satisfied.

Together we face many of the same challenges and we look forward to working with our colleagues from around the world to share information/ideas and best practices with regard to all of these areas. We should all strive to continue to monitor industry developments to strike a proper balance between consumer protection and encouraging innovation.

Thank you very much for the opportunity to speak with you here today. If we have time, I'd be happy to take a few questions and then I will hand the baton over to my colleagues on the next panel

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who will focus on developments in this area in various parts of the parts of the world.

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