

NATIONAL COUNCIL OF INSURANCE LEGISLATORS
LIFE INSURANCE & FINANCIAL PLANNING COMMITTEE MEETING MINUTES
PHOENIX, AZ - THURSDAY, NOVEMBER 16, 2017
12:00 P.M.-1:00 P.M.

The National Council of Insurance Legislators (NCOIL) Life Insurance & Financial Planning Committee met at the Sheraton Grand Phoenix Hotel in downtown Arizona on Thursday, November 16, 2017 at 12:00 pm.

Vice Chair, Representative Richard Smith of Georgia presided.

Other members of the Committee present were:

Sen. Jason Rapert, AR	Sen. Jerry Klein, ND
Sen. Travis Holdman, IN	Asm. Will Barclay, NY
Rep. Joseph Fischer, KY	Asw. Pamela Hunter, NY
Rep. Jim Gooch, KY	Sen. James Seward, NY
Rep. Steve Riggs, KY	Sen. Bob Hackett, OH
Rep. Michael Webber, MI	Rep. Marguerite Quinn, PA
Rep. Lois Delmore, ND	Rep. Bill Botzow, VT
Rep. George Keiser, ND	

Other legislators present were:

Rep. Bryon Short, DE	Asm. Andrew Garbarino, NY
Rep. Rick Billinger, KS	Rep. Leiws Moore, OK
Asm. Kevin Cahill, NY	Rep. Tom Oliverson, TX

Also in Attendance Were:

Commissioner Tom Considine, NCOIL CEO
Paul Penna, Executive Director, NCOIL Support Services, LLC
Will Melofchik, Legislative Director, NCOIL Support Services, LLC

MINUTES

Upon a Motion made and seconded, the Committee unanimously approved the minutes from its July 15, 2017 Committee meeting in Chicago, Illinois.

THE NEW NORMAL: INNOVATIVE TRENDS SHAPING THE LIFE INSURANCE AGENCY

Rep. Smith, introduced Hal Schwartz, Co-founder and COO of Quilt. Mr. Schwartz explained a bit about Quilt and its business model and how it relates to the technology evolution that is going on in the Insurance Industry today. He stated that Quilt's focus was that of a simple platform for people who would prefer to purchase a traditional insurance product digitally. Quilt has a number of products, but primarily offers life and renter's insurance with the hope of moving into pet, travel and ancillary products. Quilt simplifies the insurance purchase, as well as the insurance product, and the process of educating clients on the cost of insurance. Their target audience are those in the age range of 25 to 40. Mr. Schwartz described their product as an innovative way to get life insurance

through a “selfie” process. He stated that this would allow a buyer to get a quote on life insurance by viewing different aspects of someone’s face to determine their age, BMI, smoking, actual health, age, etc. He stated that it was their opinion, in the coming years, to expect to see this kind of information taken digitally as opposed to the collection of blood, cheek swabs, etc. He stated that the information gathered digitally include items like credit score, accident records, Facebook associations and telematics records among others. He added that if you know someone’s telematics score, you are more likely to be able to judge whether or not they are more likely to have a car accident.

Mr. Schwartz stated that the biggest movement over the next five years will be the integration of live data to the historical data sets. He stated that technology can now record blood pressure and heart beats, and they are working on glucose levels without a finger prick. This will help provide the data that will determine specific risk because one will be able to move customers to what they call the “Sweet Spot” which is “Simplified with Digital and an Expanded Digital” approval processes for the sale of product which is better for the customer because of timeliness and better for the carrier because of the cost of providing the quote and coverage. He further stated that the industry would get to a point where they would be able to deliver a reduced price for those individuals who maintain a healthy life style as compared to those who do not. This would all be done by tracking live data. This would also help provide proof for those who are in an underserved market.

Rep. Smith inquired as to how regulation has impacted this model. Mr. Schwartz stated that the carriers work with the regulators on these matters and that they work with a company called “Lumico” which developed a digital underwriting program that has been approved by 44 state insurance commissions and by which the regulator understands the dynamics of going to a digital era. If a consumer does not meet certain criteria, he/she would then have to go in person to have a medical examination.

Senator Seward asked what type of insurance this data relates to. Mr. Schwartz responded by stating that this data was put together for life insurance. However, they do the same thing for P&C. Senator Seward stated that in the area of P&C, it would be different. NCOIL, and most states, enacted laws of how credit scores can be used in pricing a policy. Data would need to be used in a fair way. In the area of P&C, credit and addresses are used.

Rep. Botzow inquired about the types of data that would be available - How would the collection of data be acquired and kept secure? Will this be with permission of the individual? Will the individual be able to make corrections if it is wrong? Where does this fit in with data privacy laws that are extensive but different throughout the states? This is very personal information that is being collected and how does the company guard against vulnerabilities?

Mr. Schwartz, responded by stating that one of his primary focuses is on data security and privacy aspects. He went on to say that, to be very clear, they are an agency and not a carrier. The carriers that Quilt works with are required by state law, just as they are, to maintain high security levels. He stated that all the same permissions that are required on paper are still required only digitally. He went on to say that data is already available through publicly available resources, PHI transfer agreements, or it is available through

different sources like Lexus Nexus or data brokers. He did say that there are some areas where permissions are questionable like twitter and Instagram postings. He stated that the question on correction is interesting because all the federal laws in regard to financial reporting and health care records would build in correction capabilities that can be done through an electronic system. The states should look at such items as how it relates to the Twitter and Facebook environment because those items are not included in the laws. Today, there is no way of correcting Twitter or Facebook.

Rep. Smith introduced John Mangan of the American Council of Life Insurers (ACLI). Mr. Mangan reported on what is being done at ACLI in regards to innovation and technology, noting that underwriting and analytics are two of the areas ACLI is looking at. Consumers are demanding a different approach, as they are expecting to be able to obtain products in an easy manner. ACLI thinks that data analytics can be very helpful in achieving better access. He further stated that ACLI felt that it would help reduce the cost of distribution and potentially increase the number of people who are ultimately covered. He stated that ACLI is looking to work with states that would allow them to work with their regulators in a program such as "Regulatory Sandboxes." This is a way for the states to allow technology companies and insurers to experiment with new processes in a safe environment before going to market.

The States of Illinois and Wisconsin have put together programs for ACLI to begin to do this. They are working with their regulators to ensure that they can test new processes before they go to market. They would still have to meet all the given requirements in any state before going live. Members are also pushing for all laws and regulations that exist to be looked at to determine where they can find areas that are creating barriers and to work with the states and the regulators.

Rep. Keiser, stated that he received a fax offering to sell him life insurance and the thought occurred to him, especially with the use of big data, that insurance is state based and state regulated. However, there are people selling insurance over the internet and crossing state lines. He questioned what can be done about the "race to the bottom" as to managing requirements of selling insurance across state lines.

Mr. Mangan stated that ACLI is experimenting with several activities in the aforementioned "sandboxes" and that if something is not protective of consumers, and if it were not supplying the education and the information to the consumers to make an informed choice, then it would not go to market. Mr. Mangan stated that they are in collaboration with legislators and regulators to ensure that whatever ideas are explored, ACLI would be able to implement them in a way that is fair to consumers and that it does meet all of the standards that are in place with the laws everyone supports.

Rep. Keiser stated the laws vary from state to state. It could be conceivable to end up having all life insurance being sold from one state. What preventative measures is the ACLI implementing to prevent that from happening? Mr. Mangan responded by stating that the current system is preventive of that since it has 50 state regulators and in order to do business in that state the product would have to be approved. If approved in one state, the product would have to go to all states individually to have it approved. If a

practice or a product becomes so well accepted, then perhaps it would become the subject of an interstate standard. Until then, each state will still have jurisdiction.

Professor Kochenburger stated that one of the values of state based regulation is that products/services must comply with the laws in the state which the product is being offered. He said that states would always be allowed to protect their constituents. Professor Kochenburger stated that Big Data is an absolute benefit and is already here but that there are obvious concerns - citing that some vendors look at social media and correlate it with risk and that risk classifications need constant monitoring. He used the example of someone who moves frequently, such as military personnel, noting that they should not be penalized for it. He noted that staff cannot evaluate the risk without bringing in individuals who can evaluate the data and determine the risk in the underwriting models. He further noted that in today's day and age, individuals with the expertise to evaluate the data are needed. Actuaries alone are no longer sufficient to evaluate the sophisticated nature of these underwriting models and that data scientists, computer scientists and statisticians with this kind of expertise are heavily valued in this today's market. Prof. Kochenburger closed by stating that State legislators play a very important role in this arena by deciding what types of information can and cannot be collected.

UPDATE ON INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION (IIPRC)

Rep. Richard Smith Introduced Ms. Karen Schutter, Executive Director, IIPRC. Ms. Schutter reported that their annual legislative meeting would be held via conference call on November 27, 2017 and not during the NAIC meeting. Ms. Schutter went on to say that the US Treasury Department's Finance report of financial systems discusses economic opportunities for assets management in insurance and does discuss the state-based product approval and speed to market approval. There is also a section which discusses the Compact as part of its recommendation to increase consumer choice and decrease cost for both insurers and consumers.

INTRODUCTION OF LIFE INSURER NOTIFICATION BEFORE AN ADVERSE CHANGE IN NON-GUARANTEED ELEMENTS OF EXISTING POLICY

Asw. Pamela Hunter stated that in NY, the Department of Financial Services has proposed Insurance regulation 210, The Life Insurance and Annuity Non-Guaranteed Element Regulation and that this new regulation requires life insurers to notify DFS at least 120 days before an adverse change and non-guaranteed elements of an existing policy is made. Some of the specifics relative to this regulation starting in March 2018 state that the insurers must now notify consumers at least 60 days prior to an adverse change in premiums. Certain life insurers significantly increase the cost on older life insurance policies due to decreased profitability stemming from low interest rates and in some cases, adverse mortality experience. DFS drafted the regulation in response to these concerns raised by consumer groups that some insurers have not been implementing these increases in accordance with DFS-approved policy provisions and the relevant provision in accordance of the NY insurance law. In addition to notifying DFS, the final regulation required life insurers to notify consumers at least 60 days prior to an adverse change and non-guaranteed elements of an in-force life insurance or annuity policy. The new rule was

adopted by DFS to take into consideration comments that were submitted by the insurance industry during two common periods. This new regulation codifies a process that DFS has preferred. She stated that she is in support of this regulation and recommends the committee consider looking into this issue for further discussion and perhaps even the development of a model law.

Rep. Richard Smith then introduced Michael Kreiter of the Life Insurance Settlement Association. Mr. Kreiter stated that he wanted to follow up on a trend that has developed around the country regarding large cost of increases for certain segments of policy holders. He said that the costs of insurance is a non-guaranteed element and that as a result of these increases, which are large and unjustified, a number of class action law suits are pending and they have seen a large number of consumer complaints around the country. He went on to say that considering these issues, the Life Insurance Settlement Association supports these efforts to curb these practices and respectfully encourages NCOIL to develop a model law so that policy holders are protected. He stated that since 2015, there have been a documented number of insurance increases ranging from 2% to 200% and, in some cases, up to as much as 500%. This is happening to those who have dutifully paid their premium and are suddenly hit with an increase which, many times, they do not understand. The motivation, he stated in the letter he distributed, lies with the carriers to increase their profit margins. He stated that they applaud the actions taken by the DFS. He also noted that profit margin cannot be an experience factor as a way of seeking to increase these non-guaranteed elements. The Life Insurance Settlement Association believes that improvements can be made and that NCOIL can bring it into the spotlight and develop a model law that builds upon NY's efforts and that would effectively protect policy holders around the country.

ADJOURNMENT

There being no additional business the Life Insurance and Financial Committee meeting was adjourned at 1:00 p.m.